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International Ethics Standards Board for Accountants (IESBA)

Email: kensiong@ethicsboard.org

Dear Sir

SAICA SUBMISSION ON THE IESBA's EXPOSURE DRAFT, PROPOSED CHANGES TO CERTAIN PROVISIONS OF THE CODE ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN AUDIT OR ASSURANCE CLIENT

In response to your request for comments on the *IESBA's Exposure Draft, Proposed Changes to Certain Provisions of the Code Addressing the Long Association of personnel with an Audit or Assurance client,* attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

Juanita Steenekamp (CA (SA))
Project Director – Governance and Non-IFRS Reporting

RESPONSE TO REQUEST FOR SPECIFIC COMMENTS

General Provisions

1. Do the proposed enhancements to the general provisions in paragraph 290.148 provide more useful guidance for identifying and evaluating familiarity and self-interest threats created by long association? Are there any other safeguards that should be considered?

   Response:
   Yes, we do believe that the general provision in paragraph 290.148 provides useful guidance however; the IESBA should clarify the applicability of the examples given in the paragraph at firm level or partner level. For example:

   - Paragraph 290.148A currently states that *"A self-interest threat may be created as a result of an individual's concern about losing a longstanding client of the firm or a desire to maintain a close personal relationship with a member of senior management or those charged with governance.*"

     We propose that this paragraph be rephrased to state that" *A* ***familiarity threat*** *or self-interest threat may be created as a result of a* ***firm or key engagement partner*** ~~*an individual's concern*~~ *losing a longstanding client* ~~*of the firm*~~ *or a desire to maintain a close personal relationship with a member of senior management or those charged with governance."*

     The example provided of "*a desire to maintain a close personal relationship with a member of senior management or those charged with governance"* with the client is given as a self-interest threat in paragraph 290.148A.

     We also propose that the following example of a self-interest threat be included to provide clarity in this paragraph:

     "A self-interest threat may be created by an individual's hesitancy to overturn a decision previously reached, so as not to call into question the prior judgement".

   - It should be noted that the threats from long association are not limited to the impact on that individual's objectivity. Due to the role of an engagement partner, they have a significant influence on all of the other members of the engagement team. In order to incorporate this threat, we would suggest amending 290.148B as follows under point A, bullet 5 which currently states that "*The extent to which the individual has the ability to influence the outcome of the audit, for example by making key decisions"; "*

     We therefore recommend the following proposed wording: "*The extent to which the individual has the ability to influence the outcome of the audit, for example by making key decisions and directing or influencing other members of the engagement team."*

2. Should the General Provisions apply to the evaluation of potential threats created by the long association of all individuals on the audit team (not just senior personnel)?

   Response:
   No, in South Africa, we are of the view that there is sufficient change in the engagement teams, other than the engagement partner, because of the composition of the teams. These are made up of trainee accountants that serve articles for three years and managers that either become partners (who are then covered by the long association restrictions), or they would find other employment. Furthermore, manager and trainees interact with those responsible for the financial statements under audit at a level that does not unduly influence them through a long-term relationship. We therefore propose that there is no need to extend the provisions of long association to staff that is hierarchically below the engagement partner and any KAP as the threats of familiarity and self-interest do not seem to be present. This threat, if it is perceived, can be dealt with in the normal way of assessing independence of members of the audit team. Firms should be encouraged to develop their own policies for this threat, bearing in mind that these policies need to cover independence in mind and in appearance.

3. If a firm decides that rotation of an individual is a necessary safeguard, do respondents agree that the firm should be required to determine an appropriate time-out period?

   Response:
   We do believe that it is appropriate for the firm to be required to determine an appropriate time-out period. Rotation of an individual is necessary so as to eliminate threats to independence of mind and in appearance. Once the firm identifies that an individual is required to rotate in order to eliminate a threat to independence or reduce it to an acceptable level we are of the view that a firm can deal with these threats in the normal way of identifying threats to independence and provide safeguard that eliminate the threats or reduce them to an acceptable level.

Rotation of KAPs on PIEs

4. Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?

   Response:
   Yes, we agree with the time-on period remaining at seven (7) years for KAPs on the audit of PIEs.

5. Do respondents agree with the proposal to extend the cooling-off period to five years for the engagement partner on the audit of PIEs? If not, why not, and what alternatives, if any, could be considered?

   Response:
   No, we do not agree with changing the cooling off period to five years. That is not practical for many audit firms – even the larger mid-tier firms. In South Africa the risk will be that partners who would not normally be listed entity audit partners will have to be accredited with the JSE to meet the rotation requirements within the firm. The risk to audit quality is then even greater than the long-association. We are also of the view that IFAC should not be making their requirements any stricter than the EU. We are also of the view that there is no defensible

theoretical or evidential basis whatsoever that suggests that a longer cooling-off period would increase audit independence.

Furthermore, consideration should be given where local jurisdiction limits an engagement partner's ability to serve a client for less than seven years. The Code should permit a proportionately shorter cooling-off period, as long as the combination of the time-on and time-off would yield an adequate limitation on overall time served.

Such legislation is applicable in South Africa, Argentina, Mexico, China, Brazil and Australia. This would then avoid unintended consequences of an overly strict application of a standard that would not be in the public interest as it affects resourcing, expertise, knowledge, etc., and negatively impact audit quality.

6. If the cooling-off period is extended to five years for the engagement partner, do respondents agree that the requirement should apply to the audits of all PIEs?

   Response:
   Yes, the concept of public interest is already clearly defined in section 290. 25. To permit a subgroup of these entities to not being required to apply the restrictions regarding long association is not practicable and we suggest all PIEs should be included in the restrictions imposed by the provisions regarding long association.

7. Do respondents agree with the cooling-off period remaining at two years for the EQCR and other KAPs on the audit of PIEs? If not, do respondents consider that the longer cooling-off period (or a different cooling-off period) should also apply to the EQCR and/or other KAPs?

   Response:
   Yes, we support the proposal to keep the cooling off period at two years for the EQCR and other KAPs, however it the period is extended we would request that the cooling off period is kept the same for all KAPs.

8. Do respondents agree with the proposal that the engagement partner be required to cool-off for five years if he or she has served any time as the engagement partner during the seven year period as a KAP?

   Response:
   As mentioned in question 5 we do not support the five year cooling off period.
   Should the IESBA decide to increase the cooling off period to five years, we believe that the proposed five year cooling off period should allow for a proportionate reduction where the KAP was not involved for the full seven year period.

9. Are the new provisions contained in 290.150C and 290.150D helpful for reminding the firm that the principles in the General Provisions must always be applied, in addition to the specific requirements for KAPs on the audits of PIEs?

Response:
Yes, we do believe that the new provisions contained in 290.150C and 290.150D are helpful for reminding the firm that the principles in the General Provisions must always be applied, in addition to the specific requirements for KAPs on the audits of PIEs.

10. After two years of the five-year cooling-off period has elapsed, should an engagement partner be permitted to undertake a limited consultation role with the audit team and audit client?

Response:
Yes, we agree that the previous engagement partner can undertake a limited consultation role with the audit team and audit client. We do however need to re-iterate that we do not support the five year cooling-off period.

11. Do respondents agree with the additional restrictions placed on activities that can be performed by a KAP during the cooling-off period? If not, what interaction between the former KAP and the audit team or audit client should be permitted and why?

Response:
No, we do not agree with any additional restrictions placed on the engagement partner during cooling off period.
We believe that the code should distinguish between KAPs who audit significant subsidiaries and those that are specialists in their respective fields (technical experts, subject matter experts). A significant subsidiary being one that has a significant influence on the financial results of the holding company. The more stringent rotation requirements are most needed in respect of KAPs that audits a significant subsidiary and to a much lesser extent with respect to a partner that provides specialist services.

12. Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?

Response:
Yes, we do agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG.

13. Do respondents agree with the corresponding changes to Section 291? In particular, do respondents agree that given the differences between audit and other assurance engagements, the provisions should be limited to assurance engagements "of a recurring nature"?

Response:
Yes, we agree

Impact Analysis

14. Do respondents agree with the analysis of the impact of the proposed changes? In the light of the analysis, are there any other operational or implementation costs that the IESBA should consider?

Response:
Yes, we agree but we would also like to inform the IESBA of the impact of local legislation which have not been considered where the engagement partner is required to rotate after five years and the effect thereof will be that three engagement partners would be required within a period of ten years.

Request for General Comments
In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

(a) *SMPs*—the IESBA invites comments regarding the impact of the proposed changes for SMPs, especially the changes regarding management responsibilities.

Response:
There could be significant cost implications for SMPs if the cooling-off period is extended to five years.

(b) *Preparers (including SMEs), and users (including regulators)*—The IESBA invites comments on the proposed changes from preparers (particularly with respect to the practical impacts of the proposed changes), and users.
Response:
None

(c) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposed changes, in particular, on any foreseeable difficulties in applying them in a developing nation environment.
Response:
None

(d) *Translations*—recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcome comment on potential translation issues respondents may note in reviewing the proposed changes.
Response:
None

(e) *Effective Date*—The IESBA proposes that the effective date for the changes will not be less than 12 months after issuance of the final changes. Earlier application would be permitted. The IESBA welcomes comment on whether this minimum period would be sufficient to support effective implementation of the changes.
Response:
None