



National Association of State Boards of Accountancy

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November 12, 2014

International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York 10017

Attention: Ken Siong, IESBA Technical Director

kensiong@ethicsboard.org

Re: August 2014 Exposure Draft on Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

Dear Members and Staff of the International Ethics Standards Board for Accountants:

We appreciate the opportunity to offer comments on the Exposure Draft referred to above. The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories. In furtherance of that objective, we offer the following comments on the Exposure Draft. Our comments are structured around the Exposure Draft's general structure of the request for specific comments.

General Provisions

We support the general provisions outlined in paragraphs 290.148 and 290.149. With respect to any staff below a key audit partner (KAP), we recognize that such staff may be responsible for identifying issues that are eventually decided upon by the KAP. Further, junior staff usually move into more senior staff positions, and they may grow into decision making positions where they are familiar with a client. Hence, we believe that the general provisions should apply to the evaluation of potential familiarity threats that may exist for all individuals on the audit team.

We also believe that paragraph 290.149A needs greater clarity in the context of its impact on firms that do not audit public interest entities. In particular, we would like some clarity about whether peer review performed under peer review standards, would be equivalent to an external quality review. Consider the following fact pattern. Assume that a small CPA firm has a long standing relationship with a private company and it has audited the company for many years. Also, assume the audit is regularly selected and evaluated as part of a peer review conducted in accordance with published peer review standards every three years, and the audit firm passes the peer review. Would this meet the criteria of an external quality review? It would be very helpful to clarify this for accounting firms that do not audit public interest entities.

Rotation of Key Audit Partners on Public Interest Entities

We are supportive of the changes that would extend the cooling-off period for the engagement partner on the audit of a public interest entity to five years. We also support the same cooling-off period for the Engagement Quality Review Partner (EQCR) or concurring review partner. Both the engagement partner and the EQCR partner are key decision makers on the audit engagement and it is in the public interest that they should be

subject to the same rotation requirements for public interest entities. We believe that it is not in the public interest to allow a shorter two year cooling-off period for a key audit partner in an EQCR or concurring partner role.

We are also supportive of the proposed guidance in paragraph 290.150B that allows a former engagement partner to move into a consultative role in the audit firm when the partner consults with various engagement teams on technical or industry-specific issues. We believe that it is appropriate for a former engagement partner to provide consultation to the audit team after the partner has been away for two years, provided that such consultation is focused on issues, transactions or events that were not previously considered by that individual in the course of acting as an engagement partner.

We are also supportive of the narrow exceptions outlined in paragraphs 290.151 and 290.152. While these exceptions allow a key audit partner to remain on the audit of a public interest entity more than seven years, we believe that the circumstances are sufficiently narrow, that with the concurrence of those charged with governance, the public interest is served.

Section 291

We are supportive of the corresponding changes to Section 291. We recognized that many other assurance engagements may not be of a recurring nature, and therefore the familiarity and self-interest threats are likely to be most significant in recurring engagements. Therefore, it is appropriate to limit the provisions of Section 291 to recurring assurance engagements.

Impact Analysis

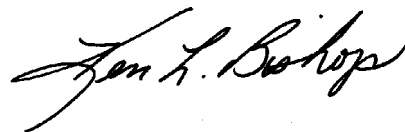
We are concerned about the impact of the general provisions on small audit firms that work in small markets. Many of these firms may have difficulty engaging a competitor to perform an external quality review. Consequently, we believe that it is important to clarify how a regular external peer review of an engagement, conducted in accordance with published peer review standards, could serve as an external quality review. Nevertheless, we also concluded that general provisions are in the public interest and they will improve audit quality.

Thank you for the opportunity to comment on the Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

Sincerely,



Walter C. Davenport, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO