

November 6, 2014

Ken Siong, IESBA Technical Director  
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International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
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Via website: ifac.org  
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Re: IESBA Exposure Draft – *Proposed Change to Certain Provisions of the Code Addressing Long Association of Personnel with an Audit or Assurance Client*

Dear Mr. Siong,

The Professional Ethics Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide comments on the proposed revisions to the Code of Ethics for Professional Accountants. The PICPA is a professional association of more than 22,000 professionals working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is a cross-section of our membership, with practitioners from large, regional, and small public accounting firms, members serving in business and industry, and accounting educators.

Our response to the questions in the exposure document are included below.

#### 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: The proposed enhancements provide excellent guidance for identifying and evaluating familiarity and self-interest threats; however, an underlying premise of the guidance is that the risk of such threats are measured in terms of time. A measure of effectiveness of time is but one indicator of potential threats. Care must be given to ensure that risks that occur before the time limits proposed are also identified and handled by the firm.

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. The basic premise is that time is the primary factor in analysis of risk. The individuals involved in the entire process; auditors, senior personnel, the management team of the client, and those charged with governance, provide a general framework that provides reasonable assurance that changing all individuals in the process on the audit team would not be helpful. Additionally, the loss of key talent by a mandatory rotation of all personnel may, in fact, reduce the quality of the audit. Finally, please note that we question time as being a reasonable measure of effectiveness. A suggested alternative approach would be to require an organization to review the process for evaluating familiarity and self-interest

threats, and affirmatively assert that such risks have been addressed within the time frame in the proposed standards, rather than requiring mandatory rotation.

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: Absolutely. We believe this is the preferable approach to the problems associated with such risks.

#### Rotation of key audit partners (KAPs) on Public Interest Entities (PIEs)

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

Response: Using time as a measure of effectiveness is problematic. A suggested alternative approach would be to require an auditor and those charged with governance to review the process for evaluating familiarity and self-interest threats, and affirmatively assert that such risks have been addressed within the time frame in the proposed standards, rather than requiring mandatory rotation.

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: See previous comment.

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: See previous comment.

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: See above comments.

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: See above comments.

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: The new provisions are helpful, subject again to the concern that time is being used as a measure of effectiveness. Such controls should be applied at all times, regardless of time. See above comments.

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: The concept behind this proposal is sound; however, the concern about time as the measure of effectiveness is problematic.

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: Inherent in the proposed changes is the concern about “trust” in the audit process. As such, the KAP may or may not be able to provide “corporate” memory, which would be invaluable in many circumstances to understanding the nature of the workflow and the audit results. The concern relating to inappropriate influence would always exist for those organizations intent upon “circumventing” the intent behind the standards. Additionally, prohibiting the consultation with an individual who has acted as an engagement partner who becomes an individual whose primary responsibility is to be consulted within a firm on a technical or industry specific issue is onerous, unnecessary, and potentially inimical to audit quality.

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

Response: The question is a double negative. As such, to be clear, those charged with governance should always be consulted. The strength of the control is enhanced with external controls reviewing the potential changes.

#### Section 291

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: No. The intent is to mitigate risks. The frequency of the assurance engagements is but one factor in the overall analysis of the assessment of the risks.

Thank you for the opportunity to provide our comments related to the proposed revisions to the Code of Ethics for Professional Accountants. Feel free to contact me at (717) 228-1711 or the PICPA Staff Liaison, Allison Henry, at (215) 972-6187 with any questions regarding our comments.

Sincerely,



Francis X. Ryan, CPA  
Chair, PICPA Professional Ethics Committee

cc: Lisa Snyder, Director AICPA Ethics Division  
Allison Henry, CPA, PICPA Staff Liaison