

Mr Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
545 Fifth Avenue  
New York, NY 10017

12 November 2014

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

Dear Mr Siong,

On behalf of RSM International Limited, a global network of independent accounting and consulting firms, we are pleased to have the opportunity to respond to your Exposure Draft on the Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client.

Overall we recognise that stakeholders have raised concerns with regard to the long association of personnel with an audit and assurance client, particularly with respect to Public Interest Entities. The IESBA acknowledges in the Rationale for the Proposed Changes that the issues at stake are finely balanced and we agree that change is needed to address the concerns of stakeholders. The costs of discarded accumulated knowledge about the client's business and those of implementation are substantial, and therefore the right balance has to be found.

Most importantly we support extending the cooling-off period from two to five years to signal to stakeholders the value the profession places on being, and being seen to be, independent from audit and assurance clients. We consider that the IESBA has achieved a significant step forward with the measures proposed within the Exposure Draft. We commend the IESBA for the considerable amount of work that has been done on this area.

**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?**



Yes, we agree with the general provisions of paragraph 290.148 and do not propose any further safeguards.

**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)?**

No, because it is the KAP who has the overall responsibility for the assignment of the audit team members and is responsible for audit decisions made during the audit. In addition audit decisions or judgments made by junior personnel would be reviewed and approved by the KAP. As such, the KAP's professional judgment and the firm's policies and procedures are sufficient for assessing whether familiarity of more junior audit team members poses a threat to independence and it is not necessary to specific requirements such as this in the Code.

**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?**

Yes, if the firm has decided that rotation of an individual is a necessary safeguard then the firm should determine an appropriate period during which the individual should not participate in the engagement. There are numerous facts and circumstances that would lead to a significant risk of familiarity and accordingly flexibility is needed. Indeed, should the facts and circumstances change during the time out period the duration of the time out period could be increased or decreased in response.

**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?**

Yes.

**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?**

Yes. As stated in the background to the proposals, stakeholders have expressed concern about the length of the current cooling-off period at two years. It is important that these standards are perceived to provide strong protections to reduce threats to independence. Five years provides a greater degree of protection, particularly if there could be extended hand-over procedures at the start and end of the cooling-off period.

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

Yes. We see no good reason for limiting these amendments to Listed Companies and not applying to other PIEs because all are entities of public interest.

**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?**

Yes, for the reasons given in the explanatory memorandum.

**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?**

No. We do not agree that applying a proportionate method to calculate an appropriate cooling-off period is too complex because the underlying principles are in fact very simple. It does not make sense that by serving as the Engagement Partner for one year, an EQCR coming to the end of their sixth year as an EQCR needs a five year cooling off period, when another EQCR coming to the end of seven years as EQCR only has a two year cooling off period. An alternative and simple scheme could be:

Time served at Audit Engagement Partner in addition to another KAP role (years)	Cooling off period (years)
6 to 7	5
4 to 5	4
2 to 3	3
Nil	2

**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?**

Yes.

**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?**

Yes, under the circumstances and restrictions required by paragraph 290.150B. However, the Code should require that such consultations are fully documented.

**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?**

In principle we agree with placing additional restrictions on the activities that can be performed by the KAP during the cooling-off period. However, we consider that it is difficult to support a total ban on providing certain non-assurance services because in some cases there is little evidence that those services could or do impact the provision of audit services in anyway. In any case, we believe that if non-assurance services are provided by a KAP following the provision of assurance services by the KAP, then the cooling-off period for that KAP should not begin until delivery of those non-assurance services have been completed.

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

Yes, the concurrence of TCWG is necessary and TCWG may wish to disclose the reasons for the extension within the financial statements or provide that information to stakeholders by some other means.

**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”?**

Yes, we agree with the corresponding changes to Section 290 and that the provisions should be limited to assurance engagements “of a recurring nature”.

**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?**

Yes, except for the impact analysis with respect to Engagement Partner for Part of the Seven-Year Period for the reasons given above.

**Request for General Comments**

In addition to the request for specific comments above, the IESBA is also seeking comments on the following general questions:

(a) Small and Medium Practices (SMPs) –The IESBA invites comments regarding the impact of the proposed changes for SMPs.

(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.

(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.

(d) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.

(e) Effective date – Recognizing that the proposed changes are substantive, would the proposal require firms to make significant changes to their systems or processes to enable them to properly implement the requirements? If so, do the proposed effective date and transitional provision provide sufficient time to make such changes?

**We have no comments on these questions.**

We would be pleased to discuss our comments further with members of the IESBA or its staff. If you wish to do so, please contact Robert Dohrer (tel: +44 207 601 1080; email: robert.dohrer@rsmi.com).

Yours sincerely



**Robert Dohrer**  
**Global Leader - Quality and Risk**  
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