

ASSIREVI
Associazione Italiana Revisori Contabili

Al Presidente

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

12 November 2014

Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

Dear Sirs,

Assirevi is the association of Italian audit firms. Its member firms represent the majority of the audit firms under the oversight of CONSOB (*Commissione Nazionale per le Società e la Borsa*) and are responsible for the audit of almost all of the companies listed on the Italian stock exchange. Assirevi promotes technical research in the field of auditing and accounting and publishes technical guidelines for its members. It collaborates with Governmental bodies, CONSOB, the Italian accounting profession and other bodies in the development of auditing and accounting standards.

Assirevi is pleased to submit its comments on the Exposure Draft "*Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*" issued by IESBA on August 2014.

Our detailed comments are set out in the attached document.

Should you wish to discuss our comments, please do not hesitate to contact us.

Yours faithfully,



Mario Boella
Chairman of Assirevi

COMMENTS ON THE IESBA EXPOSURE DRAFT

Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

(August 2014)

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?**

Assirevi believes that the changes made to paragraph 290.148 will help the audit firm, and more generally, the reader, to identify the threats of familiarity and self-interest created by long association.

In addition, Assirevi believes that there are enough safeguards set out under paragraph 290.149A to manage the threats to independence of the audit team created by long association.

No further safeguards emerged that could be added to those already provided by this paragraph during the course of Assirevi's analysis of the document.

- 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)?**
- 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?**

In general, Assirevi agrees with the overall approach of the IESBA to address the threats resulting from long association between an auditor and the audit client, other than a Public Interest Entity ("PIE").

However, this new approach should take more account of the characteristics of the audit firm. The specific nature and difficulties that audit firms - especially small and medium-sized ones - could be faced with when implementing the safeguards set out under paragraph 290.149A should be carefully considered. More specifically, we refer to the rotation of the individuals on the audit team and the change of roles within the audit team.

With respect to the factors set out under paragraph 290.148B, Assirevi believes that "*the extent to which the individual has the ability to influence the outcome of the audit, for example by making key decisions*" should be the main element used to decide whether the threats of familiarity and self-interest related to the long association exist or not. If such threats are believed to exist, the significance of the threat should then be assessed in light of the other factors indicated in paragraph 290.148B.

For greater clarity, the comments above refer only to the rotation system relating to audit engagements performed on entities which are not Public Interest Entities.

With respect to audit engagements on PIEs our comments are detailed below.

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?**
- 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?**

Assirevi believes that certain aspects of the new approach proposed by the IESBA with reference to the rotation system (key audit partners rotation and team audit rotation) relating to the audit of PIEs should be reconsidered in light of recent reforms that have been approved regarding regulatory audits in the EU. In the European legislation (Regulation n. 537/2014 of the European Parliament and of the Council of 16 April 2014) measures were specifically introduced to manage the threats resulting from the long association that are more restrictive than those being considered by the IESBA with the present consultation.

We note that under these new requirements, commencing 2016, member states of the European Union (hereinafter “**EU Countries**”) will be required to implement mandatory rotation of audit firms and rotation of the key audit partners, measures that have existed for a number of years in Italy, when auditing PIEs.

The European regulation requires that an audit firm will have to rotate after a maximum of 10 years as auditor and then comply with a 4-year cooling-off period (See article 17, para. 3, Regulation n. 537/2014). In addition, the key audit partners will have to rotate after 7 years and may take no further part in the audit engagement of a PIE for the following three years (See article 17, para. 7.1, Regulation n. 537/2014).

Furthermore, the European legislation introduces a specific requirement for audit firms to establish a gradual rotation mechanism with regard to the most senior personnel involved in the statutory audit of PIEs (See article 17, para. 7.3, Regulation n. 537/2014).

The overlap of the above mentioned European rotation requirements with the new rules proposed with the present consultation (i.e. a five years cooling-off period for KAPs and the rotation of the audit team) could create a disparity between auditors working in EU Countries and auditors working in others countries around the world. The non-EU auditors should be solely compliant with the Code of Ethics. Instead the EU auditors should observe at the same time the provisions of the European regulation (specifically the audit firm rotation) and the new rules of the Code of Ethics.

The same situation could arise in a number of non-EU countries (including India and some nations of South America) which recently introduced mandatory firm rotation with rotation periods much shorter than 10 years.

We believe that overlaying the proposed provisions of the IESBA on existing regimes such as those that require mandatory firm rotation and/or have shorter “time-on” and cooling-off periods for partners could create implementation difficulties for audit firms that are obligated to comply with both local requirements and the IESBA requirements.

Furthermore we note that the duration of the rotation period is purely a conventional choice, aimed to implement a clear mechanism, easy to apply and appropriate to manage the long association risk.

Accordingly, in our opinion, with reference to paragraph 290.150A-290.153, it would appear to be reasonable that the IESBA introduces some form of distinction between:

- auditors of PIEs required by local and/or European legislation to comply with the audit firm rotation, KAPs rotation and most senior personnel rotation; and
- auditors of PIEs not required by local legislation to comply with specific rotation provisions.

The answers below are given in order to provide a contribution to the analyses set out herein. In any case, this is without prejudice to the main comment above regarding the exemption from the application of paragraph 290.150A-290.153 for auditors of PIEs required by local and/or European legislation to comply with more restrictive rotation duties.

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?

Subject to the considerations made with respect to the answers to questions 4 and 5, Assirevi would like to point out how the provision of a 5-year cooling-off period for all parties involved in the audit activities of a PIE could create certain risks to the quality of the audit.

The auditors - especially the small and medium-sized ones firms - could have difficulties in finding partners, managers or team members within their organisational structures who have the necessary training and professional skills to carry out an audit engagement with a PIE in accordance with the new rotation system imposed by the Code of Ethics. This would clearly have direct effects on the quality of the audit activities provided by the auditor.

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?

For the same reasons provided as an answer to no. 6 above, Assirevi believes that the cooling-off period for the EQCR and the other KAPs should not be extended to 5 years, but left at 2 years. More specifically, Assirevi agrees with the considerations that led the IESBA not to also propose a time-extension to the EQCR (or the other KAPs). We agree with the approach of this consultation whereby the EQCR does not take part in the engagement and does not make decisions for the engagement team. Therefore the threat of familiarity created by the long association with the audit client is less significant with respect to the EQCR compared to that created by the engagement partner.

- 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?**

Assirevi does not agree with IESBA's proposal regarding the application of the five-year cooling-off period for KAPs who assumed the role of engagement partner for a limited period of time, and consequently also just for one year.

The IESBA approach should take more account of the *ratio* of the provisions aimed to face the long association risks and of the number of years that the individual actually performed the role of engagement partner.

We point out that the proposal of a five years cooling-off period for KAPs, unrelated to the actual time he or she has served as engagement partner, could create excessive restrictions to manage the rotation of the engagement partners, especially for small and medium audit firms.

- 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?**

With reference to the provisions contained in paragraphs 290.150C and 290.150D, Assirevi believes that it is necessary to clarify the exceptional nature of the situations to which said provisions refer. Basically, from reading said paragraphs, it is not clear that when a PIE is audited, the General Provisions in addition to the specific requirements provided for the KAPs may only apply in exceptional cases where there is a significant threat that cannot be managed by solely rotating the KAPs provided for the audit engagements of the PIEs.

In addition, with regard to paragraph 290.150D, it is important to specify that the long association risks provided for the members of the audit team who are not the KAPs should only involve individuals who have the ability to influence the outcome of the audit, for example by making key decisions.

- 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?**

Assirevi agrees with the provisions of paragraph 290.150B.

However the formulation of question no. 10 is not clear in view of the contents of paragraph 290.150B. Basically, the question refers to the option for the engagement partner to take on a limited consultation role with respect to the audit team after two years of the cooling-off period, while in paragraph 290.150B, this individual is expected to take on a role of "primary responsibility in the consultation with a firm on a technical or industry specific issue" at the end of the aforementioned two years.

- 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?**

Assirevi agrees with the additional restrictions imposed with reference to the involvement of a former KAP during the cooling-off period.

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

Assirevi agrees with the proposal of obtaining concurrence of Those Charged with Governance (TCWG) in the circumstances described in paragraphs 290.151 and 290.152.

However, with reference to paragraph 290.152, Assirevi hopes that, in view of the specific nature and the significant changes that acquisition of the status of PIE means for the audit client, the concurrence of TCWG should take the form of a communication and discussion only with TCWG and not necessarily a requirement for prior approval. This approach is aimed to facilitate the continuity and regularity in carrying out audit activities during the change in status from non-PIE to PIE that can be a delicate moment in the life of a company.

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”?

Assirevi agrees that the provisions should be limited to assurance engagements “of a recurring nature”.

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?

While Assirevi appreciates the analysis relating to the impacts of the proposed changes, it would like to note the fact that said analysis does not appear to consider the new European rules and those of a number of countries that have recently implemented new requirements that go beyond those of the IESBA.

Milan, 12 November 2014