



Tel: +1 212 885 8000  
Fax: +1 212 697 5076  
@: bdo@bdointernational.com  
www.bdointernational.com

BDO International Limited  
Contact:  
100 Park Avenue  
New York, NY 10017-5001  
United States of America

November 14<sup>th</sup>, 2014

Mr. Ken Siong  
IESBA Technical Director  
International Ethics Standards Board for Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

*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,

BDO International Limited<sup>1</sup> (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) August 2014 Exposure Draft - Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client. Overall, we are supportive of the proposed changes to the Code and believe they will help to address stakeholder concerns, specifically with respect to public interest entities.

The following are our responses to the request for specific comments posed in the Explanatory Memorandum.

#### 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?**

We agree that the additional guidance will be useful for identifying and evaluating familiarity and self-interest threats created by long association. We do believe that 290.148C does not seem necessary given the introductory wording in 290.148B.

- 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)?**

Familiarity and self interest threats caused by long association can arise at all levels so the general principles should apply to all individuals on the audit team. However, in practice we believe that the likelihood of a junior member of the audit team, particularly in a non-decision making capacity, causing such a threat is remote.

---

<sup>1</sup> BDO International Limited is a UK company limited by guarantee. It is the governing entity of the international BDO network of independent member firms ('the BDO network'). Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels. Each of BDO International Limited, Brussels Worldwide Services BVBA and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA and/or the member firms of the BDO network. BDO is the brand name for the BDO network and for each of the BDO member firms.

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?**

We agree that the firm should be required to determine an appropriate time-out period in this circumstance.

#### **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?**

We agree and are not aware of any particular problems with having a seven year time-on period.

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?**

We appreciate that the perception issues around familiarity and self-interest threats are heightened for PIE audit clients. Therefore, we agree that a longer cooling off period for the engagement partner is an appropriate safeguard.

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?**

We agree, but recognise this could pose significant logistical problems for smaller audit firms that audit PIEs that are not listed.

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?**

We agree with keeping a two year cooling off period.

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?**

We agree with this proposal.

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?**

We think that these additional provisions are useful reminders. We would suggest moving 290.150D to the end of the section so that all KAP provisions are together.

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?**

We believe that a consultation role should be permissible in the circumstances described in 290.150B, where the previous engagement partner's primary responsibility is to be consulted on technical or industry specific issues. For example, an ex-engagement partner becoming the head of the charities sector in the firm.

We also believe that a two year period where consultation is not permitted is sufficient to mitigate any potential threats to a reasonable level. This is consistent with other ethical codes, such as that in the UK.

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?

We agree that the activities which the KAP is permitted to undertake once he/she has rotated off the client should only be limited to providing factual answers on historical issues for when they were the engagement partner where it is relevant to the audit. In addition, we agree that under no circumstances should the KAP conduct any activity that would exert direct influence on the outcome of the audit engagement.

It is important that the former KAP has sufficient distance from the client's management during the cooling off period to ensure that the familiarity threat is eliminated or reduced to an acceptable level.

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

From a perception point of view, we agree that the firm should obtain concurrence of TCWG for the provisions in paragraphs 290.151 and 290.152 to be applied. It may be useful to provide the following additional examples of exceptions in paragraph 290.151:

- a substantial change has recently been made or will soon be made to the nature or structure of the audited entity's business; or
- there are unexpected changes in the senior management of the audited entity.

#### 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"?

We agree that these provisions should be limited to recurring assurance engagements.

#### 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?

We agree with the analysis of the impact of the proposed changes. We also agree with the potential issues for smaller firms caused by the increased cooling off period, but recognize that this has the greatest impact on the perceived threats to independence.

\*\*\*\*\*

We appreciate the opportunity to comment on the Exposure Draft and hope that our comments and suggestions will be helpful to you in your deliberations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,  
BDO International Limited

Wayne Kolins  
Global Head of Audit and Accounting