



MALAYSIAN INSTITUTE
OF ACCOUNTANTS



12 November 2014

Dr. Stavros B. Thomadakis
IESBA Chair
The International Ethics Standards Board for Accountants
The International Federation of Accountants
545 5th Avenue, 14th Floor
New York, NY 10017

Dear Sir,

Comments on the Exposure Draft entitled “Proposed Changes to Certain Provisions of the Code Addressing Long Association of Personnel with an Audit or Assurance Client”

The Malaysian Institute of Accountants (the Institute) appreciates the opportunity to provide comments on the Exposure Draft titled “Proposed Changes to Certain Provisions of the Code Addressing Long Association of Personnel with an Audit or Assurance Client”. We applaud the IESBA’s effort in strengthening the Code of Ethics (the Code).

In general, we noted that the focus of the exposure draft places strong emphasis on the familiarity threat in terms of relationship with client management. We believe that although already highlighted under paragraphs 290.148A and 291.137A respectively of the Code, more attention should be accorded to these areas, i.e. familiarity threats that arise from the audit engagements, audit client’s operations and financial statements, when deciding both the time-on and cooling-off period under this Exposure Draft. We therefore strongly suggest the IESBA enlarge the scope of this Exposure Draft to cover all the relevant familiarity threats. Please see below the Institute’s responses on specific questions.

Specific Comments:

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 believe the proposed enhancements in paragraph 290.148 provide useful guidance.

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)?

We recognize that any member of the audit team who is associated with the audit client for a long period of time will create a threat to independence. The Institute believes that the proposed general provisions would strengthen the independence of professional accountants in public practice.

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 period during which the individual shall not participate in the audit engagement or exert any influence on the outcome of the audit engagement.

The term "direct influence" is used in paragraphs 290.149B and 290.150B. We are of the view that the rotated engagement partner should not exert any influence on the outcome of the audit engagement.

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?

In Malaysia, the time-on period has been shortened to five years for KAPs and EQCRs on the audit of PIEs and the cooling-off period is two years.

If the cooling-off period for the engagement partner on the audit of PIEs is set at five years, a seven-year time-on period for the engagement partner on the audit of PIEs is reasonable.

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?

If the time-on period is set at seven years for KAPs on the audit of PIEs, a five-year cooling period is appropriate.

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 that the extended cooling-off period applies to the audits of all PIEs.

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?

The explanatory memorandum of the exposure draft indicates that the focus places substantially on the familiarity threat in terms of relationship with client management. We believe that the scope of review should be wider as mentioned in our general comments above.

EQCR:

We recognise that the EQCR does not participate in the engagement and may not have much contact with the audit client. However, a familiarity threat in terms of familiarity with operations and the engagement itself, such as being too familiar with the numbers or operations of the audit client, should be taken into consideration.

Other KAPs:

We believe that other KAPs may have significant influence on the outcome of the audit engagement, especially an audit partner responsible for a significant subsidiary who is deemed to be a KAP for the group audit and may have significant influence on the outcome of the group audit (in the case where the holding company can be just an investment holding company). In such circumstances, the audit partner of the significant subsidiary may have contact with group management as would the engagement partner. We therefore suggest such other KAPs apply the same cooling-off requirement that is imposed on 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 served any time as the engagement partner during the seven year period as a KAP?

We agree with the proposal that the engagement partner be required to cool-off for five years after any time is served as the engagement partner during a seven-year period, irrespective of the total length of time served as an engagement partner. We believe an extension of the cooling-off period can be messy and complex.

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 agree with the new provisions contained in 290.150C and 290.150D. However, we believe that the conclusion should not be merely based on the firm's evaluation without a benchmark. A reasonable third party test should be included in these provisions.

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 agree with the proposal.

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 with the proposed additional restrictions placed on activities that can be performed by a 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?

Due to departure from the application of rotation requirements, we agree that both paragraphs 290.151 and 290.152 shall apply with the concurrence of TCWG.

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 with the corresponding changes to Section 291.

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 do not have further comment on the analysis of the impact of the proposed changes.

We trust the above would be helpful to the IESBA. The Malaysian Institute of Accountants looks forward to strengthening the dialogue between both organizations.

Yours faithfully,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

A handwritten signature in black ink, consisting of a stylized 'J' followed by a horizontal line and a small dot.

JOHAN IDRIS
President