

IFAC  
International Ethics Standards Board  
for Accountants (IESBA)

Submitted via the IESBA website

Stockholm 12 November 2014

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

FAR, the Institute for the Accountancy Profession in Sweden has been invited to comment on the exposure draft *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*.

### **FAR's comments**

FAR welcomes this opportunity to comment on the exposure draft. FAR agrees with most of the proposed changes. As a general comment, FAR would like to point out that the proposed changes do not correspond well to the new EU audit legislation that will be implemented in European jurisdictions in 2016. While FAR does recognize that the IESBA must be aware of this fact and has given it due consideration, FAR considers it unfortunate that the application of the Code would be rendered more complicated in European jurisdictions with the adoption of the proposed changes since EU-legislation must also be applied.

FAR has the following comments on the specific questions posed by the IESBA.

#### *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, FAR believes that the enhancements provide more useful guidance. In this context it might be mentioned that FAR finds that the meaning of “changing the role of the individual on the audit team” in paragraph 290.149A is unclear.

*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, FAR does not find that it should include all individuals on the audit team.

*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, FAR believes that the firm should set up rules about the length of a time-out period. In FAR's opinion a minimum of two years should be applied.

*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, FAR finds that seven years is appropriate as a time-on period. This said, it should be noted that the firm-rotation rules with a time-on period of ... to ... years (optional for each national jurisdiction) that are currently being implemented in the European Union will create discrepancies between firm-rotation according to EU-legislation and KAP-rotation according to the Code.

*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?*

The new EU legislation states that the cooling-off period for an engagement partner is three years. According to FAR, three years is an appropriate period.

*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?*

Yes.

*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?*

FAR does not agree with that EQCR and KAPs should have the same cooling-off period. The EQCR, at least in Europe, does not have the kind of association with the client that there should be any need for a cooling-off period. But if a cooling-off period must apply for the EQCR, it should not exceed two years.

*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?*

FAR does not find such a requirement necessary. A recommendation to adjust the cool-off period appropriately, according to how long time the engagement partner has served as a KAP would be sufficient.

*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?*

FAR finds that the provisions fulfil this purpose.

*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?*

FAR does not find that a division of the cooling-off period is a good idea. If five years is to be the cooling-off period, no consultations should be permitted during this time.

*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 FAR's opinion, during a cooling-off period, the KAP should not be involved with the client in any way. A cooling-off period should actually be a 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?*

Yes, it seems reasonable to discuss such matters with those charged with governance.

#### *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, FAR agrees on both points.

#### *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?*

As mentioned above the European Union is implementing new legislation demanding audit firms to rotate after a number of years (the exact number is to be decided by each the Member State individually). This has not been considered in the impact analysis.

#### *Request for General Comments*

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

One concern regarding the impact for SMPs would be that because of a more limited number of partners at an SMP, the proposed changes might entail firm rotation rather than rotation of the engagement partner. But the rules might also be beneficial for SMPs on the whole, as there could be an increase in opportunities as more engagements are made available by mandatory rotation.

*(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.*

No opinion.

*(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.*

No opinion.

*(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.*

For the moment, no opinion.

*(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 provisions provide sufficient time to make such changes?*

FAR believes that the effective date, 15 December 2017 is appropriate.

FAR

A handwritten signature in blue ink, appearing to read 'Jan-Hugo Nihlén'.

Jan-Hugo Nihlén  
Chairman, FAR Ethics Policy Group