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To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (Grant Thornton) appreciates the opportunity to comment on the August 2014, Exposure Draft: Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client (ED), approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

Grant Thornton is a non-practicing, non-trading international umbrella organization and does not deliver services in its own name. Representative Grant Thornton member firms have contributed to and collaborated on this comment letter with the public interest as their overriding concern.

We are supportive of the IESBA's continuing efforts to set high quality ethical standards for the accounting profession and this will assist the IESBA with its mission to serve the public interest. We agree that familiarity poses a threat to auditor independence and therefore to audit quality. We acknowledge the concern of many stakeholders, including the investor community and regulators, that a two year cooling- off period for the engagement partner is not perceived to be a sufficient safeguard and independence, objectivity, and professional scepticism are critical to stakeholder's confidence in the profession.

Request for Specific Comment

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?*

Grant Thornton is supportive of the proposed enhancements to the general provisions in paragraph 290.148 and believes the proposals will provide more useful guidance for identifying and evaluating familiarity and self-interest threats. We believe the safeguards being proposed are adequate to ensure the integrity of audits. Training can be an effective safeguard and we

recommend including training surrounding professional scepticism and the fundamental principles be considered.

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 believe the general provisions should apply to the evaluation of potential threats created by the long association of all individuals on the audit team to help enhance the objectivity, independence and professional scepticism of all members of the audit team; which will strengthen the existing framework and help improve overall audit quality.

Furthermore, we believe the Board's proposal will ensure that the threats created by the long association of audit firm personnel with an audit client are appropriately addressed on all audit engagements.

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 if a firm decides to rotate an individual off an audit engagement as a necessary safeguard to eliminate or reduce a familiarity or self-interest threat, then the firm should be required to determine an appropriate time-out period based on the significance of the threats given rise to the rotation. The time-out period should not be mandated and should be based on the specific facts and circumstances of the situation.

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 with the time-on period remaining at seven years for KAPs on the audit of PIEs. The seven year time-on period allows KAPs to obtain a comprehensive understanding of the client's business, industry operations, and key risks. Accumulating this in-depth knowledge of the client we believe enhances overall audit quality.

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?*

Although we support extending the cooling-off period, Grant Thornton is not supportive of extending it to five-years. Rather, we would be supportive of a three year cooling-off period.

The current proposal to extend the cooling-off period to five years is far more extensive than the current rules in place for many jurisdictions, including in the European Union. We believe if the Board proceeds with its current proposal to adopt a five year cooling –off period, the effect of the varying cooling-off periods around the globe will create a complex framework to manage

rotation requirements. A cooling-off period of five years will be an added challenge in global adoption and implementation of the Code.

Furthermore, extending the cooling-off period to five years may also reduce audit quality, particularly in relation to specialist industries or in smaller firms that have a smaller pool of partners to draw from and, as a result, less experienced auditors may be rotated on. Such a consequence would be contrary to the policy underlying the proposed changes.

We also believe the extension of the cooling-off period to five years could have an adverse effect on the ability of small and medium size practitioners to adhere to these requirements as their resources are limited and their audit clients will need to look to larger firms to provide audit services. This will result in the small and medium size practitioners exiting the PIE audit market and it is likely only a few of the larger firms will remain in this market. This will reduce competition and increase costs, particularly for small and medium size PIEs.

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 for the engagement partner should apply 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?*

As noted above, Grant Thornton is not supportive of a five year cooling-off period for the engagement partner. Instead, we believe that a three year cooling-off period is sufficient for all KAPs.

If the Board requires a cooling-off period of five years, we agree that the cooling-off period for the EQCR and other KAPs on the audit of a PIE should remain at two years because other KAPs, although they have significant roles in the group audit, these partners generally do not have the same exposure to management or relationships with management that the engagement partner has. Accordingly, serving in these roles give rise to a lesser familiarity or self-interest threat from long association with a client.

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 do not agree with the proposal that the engagement partner should be required to cool-off for five years if any time has been served as the engagement partner during the seven year period as a KAP. This proposal seems very inflexible and impractical in the current audit environment. Audit practitioners are becoming more global in today's technology-driven, diverse cultural and alternative working environments. There could be severe consequences

where a KAP needs to step into the engagement partner role temporarily to cover a short term absence of the engagement partner; such situations could include maternity leave, long service leave, long term illness leave, temporary overseas market placement for global expansion, and other market transfers and absences.

This change will be seen as a step backwards in an effort to embrace cultural change both in the workplace and alternative working environments to enhance marketplace employment. The inflexibility of such a requirement will force many current workers to reconsider allowable absences for the sake of maintaining profitable engagements or forgo such engagements altogether. Furthermore, this proposal will be onerous to monitor.

In the most extreme situation, an individual could have served as engagement partner for a year and then moved to another KAP role for the next six years. Despite not having maintained the close relationship that results from the engagement partner role, a requirement for the individual nonetheless to cool off for five years would treat them as if they had; in our view this would be excessive.

Therefore, we are suggesting the Board considers a specific period of time that an individual needs to have served as an engagement partner before being required to rotate off the engagement (e.g. 3 years) for the full cooling- off period.

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, the proposed changes to section 290.150C and 290.150D are 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 believe these provisions will remind firms that they must constantly evaluate the threats of long association with a client for all members of the audit engagement team, not just KAPs, regardless of their length of time on the audit engagement.

However, we believe it would be helpful if the Board were to provide examples of situations and considerations referenced in paragraphs 290.150C and 290.150D to help clarify the guidance in these paragraphs.

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 do not believe an engagement partner should be permitted to undertake a limited consultation role with the audit team or the client after two years of the (proposed) five –year cooling period has elapsed. Having such a carve-out would contradict the argument for extending the cooling- off period from two years to five years and, we believe, would confuse stakeholders. If the Board believes that the self-interest and familiarity threats would have

diminished sufficiently after two years to allow the engagement partner to consult with the audit team and the client, then there appears to be no basis for nor any added benefit from extending the cooling-off period beyond the current two year period. We also believe the proposed carve-out ignores investor concerns about their perception of auditor independence.

Therefore, in order to convey a consistent message to stakeholders and have a Code of Ethics that promotes greater consistency which will lead to increased public confidence, we recommend the Board removes this proposal from paragraph 290.150B.

We are supportive of allowing the rotated engagement partner to answer questions during the cooling-off period that pertain to the prior year's audit, provided the questions are limited to work undertaken or conclusions reached in the previous year and where such information either remains relevant to the current audit or to a review of the quality of the audit in the prior year.

Furthermore, if the KAP is designated as a firm specialist/industry leader, we are supportive of allowing them to provide generic guidance to the audit team regarding current legislation, industry trends and the like, but not its effect on the particular audit.

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 additional restrictions being proposed by the Board on activities that can be performed by a KAP during the cooling -off period. We believe restrictions on activities during the cooling-off period will ensure that the rotated partner will not appear to be able to influence the incoming partner or the audit engagement team while in a time-out period.

However as discussed above, if the KAP is designated as a firm specialist or industry leader, we are supportive of allowing them to provide generic guidance to the audit team regarding current legislation, industry trends and the like, but not its effect on the particular audit.

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

We agree that the firm should not apply the provisions in paragraphs 290.151 without the concurrence of TCWG. However, the provisions in paragraph 290.152 are transitional provisions pertaining to when a company becomes a PIE. The provision provides guidance as to the length of time a KAP may remain in that role once an entity becomes a PIE. As there is no subjectivity involved in determining this length of time, we do not believe discussions with TCWG should be required, but should be at the discretion of the auditor whether or not to discuss the matter with 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"?*

Yes, we agree with the corresponding changes to Section 291 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?*

We agree with the analysis of the impact of the proposed changes.

Request for General Comments

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

We support the proposed provisions to the IESBA Code of Ethics and believe that continuing to set high quality ethical standards for the accounting profession will assist the IESBA with its mission to serve the public interest. However, we would request the Board to reconsider their position on mandatory partner rotation for small and medium practices (SMPs). Our concerns in this area focus on the practicalities of implementation, the additional risk attached to the audit if inexperienced partners need to be deployed to an audit to satisfy a rotation requirement, and the additional cost to the audit.

SMPs have a limited pool of key audit partners (KAPs) that have proficiency in specific industries, which in part is driven by the firm's geographic location. A small firm with only a few partners that audits small PIEs may not have adequate resources to accommodate the partner rotation requirements.

Requiring smaller firm practices to implement the partner rotation requirements will have an impact on audit quality because partners will be required to learn new industries in order to satisfy the partner rotation requirements. This is not beneficial for the partner, the audit practice, or the company. Industry specific knowledge takes time to accumulate and affords partners and firms a competitive advantage in their market. One can argue that alternatives to

requiring partners to gain industry specific knowledge can include relocating resources to meet the partner rotation requirements. However, we believe this option is not feasible due to quality of life issues that will be created for partners that will be required to relocate.

Alternatively, firms that have regional offices that are in semi-remote and remote areas that involve very specialised industries, are currently flying partners in during the cooling-off period to complete and sign the audit opinion.

This partner may not always be the most skilled in the specialised industry, but this a measure used to satisfy the partner rotation requirements. The viability of these types of arrangements is difficult to manage and will not be sustainable in many cases.

In summary, we believe that requiring smaller firm practices to adopt partner rotation requirements for their PIE audit clients will damage these firms by putting them at a competitive disadvantage, reducing competition and increasing cost. It may have the effect of forcing mandatory **firm** rotation on them, or requiring them to exit the PIE audit market.

We acknowledge that the Board has granted a limited exception to SMPs as referenced in the current guidance in the Code (paragraph 290.155):

"When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review."

However there are many jurisdictions that do not have an appropriate regulator or the regulator has not established alternative safeguards for partner rotation. In these jurisdictions, smaller firms do not have an option not to comply with the partner rotation requirements in the Code, which presents difficulties for them, as discussed above.

Therefore we are encouraging the Board to consider enhancing the guidance in paragraph 290.153 of the proposal to address these situations by implementing alternative safeguards to address the threats arising from long association with the audit client, such as:

- Regular, independent internal quality control reviews of the audit engagement,
- Regular, external independent quality control reviews of the audit engagement performed by the local professional regulatory body. This option would be paid for by the firm requesting the review, and
- Regular rotation of the engagement quality control review partner.

The review performed by the EQCR is to "provide an independent and fresh review of the audit evidence to ensure that the evidence supports the opinion to be issued[1]". We believe this option provides a fresh perspective on the audit, however is not as onerous as having to relocate the engagement partner because the review by the EQCR is capable of being performed remotely from the engagement team and the client.

e) *Effective Date—The IESBA proposes that the effective date for the changes will not be less than 12 months after issuance of the final changes. Earlier application would be permitted. The IESBA welcomes comment on whether this minimum period would be sufficient to support effective implementation of the changes.*

Due to the significant changes in varying jurisdictions that will need to occur in order to comply with the proposed requirements, we are requesting the Board consider an effective date for the changes to be 18 months after the issuance of the final changes.

Other comments

We would ask the board to consider issuing guidance and examples to address situations where a partner served a PIE audit client as a KAP for prior years at an accounting firm and then becomes employed by a new firm. Under the current Code and in the current proposal, there is no guidance on how those prior years would carry over and count in determining the partner service period at the new firm. Grant Thornton believes that the key factor is association between an individual and a client, rather than between the audit firm and a client. Such guidance and examples are critical to ensure that the familiarity threat arising from the prior period of association with an audit client is properly considered when a partner joins a new firm. Similar considerations are relevant when two firms merge or otherwise combine.

Grant Thornton would like to thank the IESBA for this opportunity to comment. As always, we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. My contact information is below.

Sincerely,

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[1] Siham Chakir, "The impact of Quality Review Partner characteristics on Audit Quality", 2013, page 12