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Submitted electronically to [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Mr K Siong  
IESBA Technical Director  
International Ethics Standards Board for Accountants (IESBA)  
529 Fifth Avenue, 6th Floor  
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Dear Ken,

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

The Independent Regulatory Board for Auditors (IRBA) is the audit regulator and national auditing and ethics standard setter in South Africa. Its statutory Committee for Auditor Ethics (CFAE) is responsible for prescribing standards of professional competence, ethics and conduct of registered auditors. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa.

The IRBA adopted Parts A and B of the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (the Code). It was prescribed in 2010 as the *Code of Professional Conduct for Registered Auditors* (the IRBA Code), in South Africa with certain additional national requirements. The IRBA Code together with its *Rules Regarding Improper Conduct* provides the basis for disciplinary action against registered auditors. Consequently, the IESBA's Proposed Changes to Certain Provisions of the Code Addressing Long Association of Personnel with an Audit or Assurance Client that might result in possible amendments to Parts A and B is of particular interest to the IRBA.

We appreciate this opportunity to comment on the IESBA Proposed Changes to Certain Provisions of the Code Addressing Long Association of Personnel with an Audit or Assurance Clients.

Our comments are presented in the following sections:

- General comments;
- Request for specific comments and responses; and
- Request for general comments and responses.

If you have any questions or would like to discuss any specific comments, please contact Imran Vanker/ Saadiya Adam on: +27 87 940 8838/ +27 87 940 8870 or at [ivanker@irba.co.za](mailto:ivanker@irba.co.za) / [sadam@irba.co.za](mailto:sadam@irba.co.za) .

Yours faithfully

***Signed electronically***

**Imran Vanker**  
**Director: Standards**

**Saadiya Adam**  
**Professional Manager: Ethics**

## 1. General comments

- 1.1. The IRBA generally supports the proposed amendments to the provisions on long association with an audit or assurance client, as the independence of registered auditors will be strengthened.
- 1.2. While the proposed amendments to the IESBA Code of Conduct for Professional Accountants have been drafted in the context of professional accountants, our responses are provided in the context of registered auditors who perform audits, reviews and provide other assurance services and who are required to consider their long association with audit or assurance clients.

## 2. Request for Specific Comments and Responses

### *Question 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?*

- 2.1. We agree with the enhancements made to the general provisions to establish a more robust framework applicable to all audit clients, and to provide more guidance for identifying and evaluating threats to independence created by long association and applying appropriate safeguards. We believe that the examples of safeguards provided are sufficient.
- 2.2. In respect of paragraph 290.148B, we suggest retaining the example “The structure of the firm” as it remains relevant as the overarching indicator. We agree with the IESBA inclusion of the additional indicators, especially:
  - The overall length of the individual’s relationship with the client; and
  - The extent to which the individual has the ability to influence the outcome of the audit.
- 2.3. The threats from long association are not limited to the impact of the individual’s objectivity. Depending on the role of the individual, they may have a significant influence on all of the other members of the engagement team. In order to incorporate this threat, we suggest amending 290.148B as follows: “The extent to which the individual has the ability to influence the outcome of the audit, for example by making key decisions and directing or influencing other members of the engagement team.”
- 2.4. Paragraph 290.148C mentions that two or more factors may increase or reduce the significance of the threat, however, the example provided only mentions the increasing of the threat. It would be useful to include an example where two or more factors reduce the significance of a threat.

### *Question 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)?*

- 2.5. We welcome the IESBA's concerns that any member of the audit team, not just the senior personnel, could be associated with the audit client long enough to create threats to independence, depending on the nature of the roles that they perform. We agree that the general provisions should apply to evaluating the potential threats created with respect to all individuals on the audit team, on all audit and assurance engagements. We support the proposed change to replace references to "senior personnel" with "personnel."
- 2.6. While larger audit firms with a high staff complement may argue that the association of staff other than the senior personnel is for a limited time period, this is not the case for all audit firms. Small and medium sized firms with few staff may have the same personnel on the audit for longer than others.

### *Question 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?*

- 2.7. We agree that an audit firm may decide that the threat to independence is so significant that rotation of an individual is a necessary safeguard; the firm should determine an appropriate period during which the individual shall not participate in the audit engagement or exert direct influence on the outcome of the audit engagement. We recommend that the proposed amendment clarify that in those circumstances the firm should consider the requirements applicable to the public interest entities cooling-off period (i.e. two to five years).
- 2.8. If a guideline of a cooling-off period is not suggested, registered auditors may make use of unsuitable lengths of time, e.g. less than a year.
- 2.9. Registered auditors in South African have raised the issue that the Code should not remove judgement from the audit firm in this situation. This judgement would include a consideration by the auditor of all safeguards, and if he or she thinks that rotation is necessary, he or she will make the correct decision and apply the appropriate period that will be best suited to the engagement. It has been suggested that this situation would be the exception rather than the norm.

### *Rotation of KAPs on PIEs*

#### *Question 4*

*Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?*

- 2.10. We would not object to a shorter period. The South African Companies Act, 2008, (Act No. 71 of 2008) section 92 already provides for a shorter period, as it requires the individual engagement partner on an audit to rotate after five years. This is followed by a two year cooling-off period.
- 2.11. We therefore do not foresee a decrease in audit quality with the reduction of the engagement period from seven to five years in South Africa.

#### *Question 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?*

- 2.12. We agree with the IESBA's concerns to strengthen independence requirements, especially relating to long association of senior personnel with the audit client. We also agree that the increase in the cooling-off period from two to five years will help strengthen independence of the engagement partner.
- 2.13. The purpose of the cooling-off period is to encourage a "fresh look" at the financial statements and the audit approach being employed, as well as new influence by a new engagement partner over all the members of the audit team. A period of longer than two years cooling-off is necessary to ensure that this achieved.
- 2.14. However, from responses received, registered auditors in South Africa do not support this proposed amendment. As mentioned in question 4, the South African Companies Act, 2008 section 92 has a rotation requirement for the engagement partner after five years on the audit followed by a two year cooling-off period. Under these circumstances, registered auditors asked that the IFAC Code cater for the consideration of local laws. The allowance of some flexibility will protect against unintended consequences in certain jurisdictions that also have local legislation that address auditor rotation requirements.

#### *Question 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?*

- 2.15. We support the IESBA's proposal that the requirements should apply to the audits of all PIEs. There has previously been no distinction or ranking between the different categories of PIEs in the IFAC Code, and we suggest that all PIEs are continued to be treated uniformly.

#### *Question 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?*

- 2.16. We agree that the cooling-off period should remain at two years for the EQCR and other KAPs on the audit of PIEs.

#### *Question 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?*

- 2.17. We agree with this proposed amendment. We agree that the 7 year period should be counted consecutively from the start of the initial engagement, regardless if there has been a break-in rotation. Thus, if an audit partner serves as engagement partner for 6 of the 7 years, missing one, at the end of the 7 year period from initial engagement, he or she will be required to rotate.

- 2.18. We suggest that an example be included to illustrate this scenario to eliminate any confusion. This will also have to be considered in the transitional provisions.
- 2.19. We agree that there may be confusion with the application of a proportional cooling-off period based on the number of years on the audit. The application of such a scheme may be considered to be too complicated, with different period rotation schedules being kept for different engagements, and would present challenges to a regulator.
- 2.20. However, respondents from registered auditors in South Africa supported an approach of proportionate cooling-off period. They suggest that it would be better suited for the South Africa environment due to stricter rotation requirements of section 92 the Companies Act, 2008 (Act No.71 of 2008) ( as explained in 2.14 above)

#### *Question 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?*

- 2.21. We agree that it is appropriate to reiterate the general provisions, however we believe that the wording of 290.150D could be strengthened.

#### *Question 10*

*After two years of the five-year period cooling-off period has elapsed, should an engagement partner be permitted to undertake a limited consultation role with the audit team and audit client?*

- 2.22. The engagement partner should not be permitted to undertake any consultation during the five year period. To fully utilise the benefits during the cooling-off period, it is imperative that the engagement partner have minimal contact with the client and engagement team.
- 2.23. We find it hard to reason why, after two years, the engagement partner should be required to consult with the audit team or the client. If in the first two years, when consultation was necessary, the audit team and client found an alternative, then similarly that alternative could be available for the five year period.
- 2.24. In the rare circumstances, when a consultation is required in respect of a speciality field in which the previous engagement partner can provide valuable service to the team, the incumbent engagement partner needs to setup safeguards which can reduce threats to independence to an acceptable level.
- 2.25. It is important that the firm plan the rotation of engagement partners in an effective way taking into account any specialism that may be needed at the end of an “on-period” of a particular partner. An effective and well thought through rotation plan should be able to address the need for an engagement partner serving a cooling-off period to not be required to advise the audit team during that time.
- 2.26. We recommend that the IESBA clarify what is meant by “significant and frequent interaction” mentioned in paragraph 290.150B.

#### *Question 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?*

- 2.27. We agree with the restrictions to be reasonable and can help to reduce the familiarity and self-interest threats caused by long association with the client.
- 2.28. We believe that no activities should be permitted by the engagement partner during the five year cooling-off period or by any other key audit partner during the two year cooling-off period.

#### *Question 12*

*Do respondents agree that the firm should not apply the provision in paragraph 290.151 and 290.152 without the concurrence of TCWG?*

- 2.29. We agree that the firm should discuss with those charged with governance (TCWG) the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threats created.

#### *Section 291*

##### *Question 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”?*

- 2.30. We agree with the corresponding changes to section 291 and that the provisions relating to audit clients that are public interest entities should not be applicable to other assurance engagements.
- 2.31. We agree with the distinction between recurring and non-recurring other assurance engagements. Due to the broad nature of other assurance engagements, certain engagement may be over a limited time period while others may be requested annually.

#### *Impact Analysis*

##### *Question 14*

*Do respondents agree with the analysis of the proposed changes? In the light of the analysis, are there any other operational or implementation costs that the IESBA should consider?*

- 2.32. We agree that the enhancements to the general provisions will improve audit quality and generally enhance confidence in auditing. It will also have a positive impact for clients and investors in that it significantly clarifies the auditor’s general obligations and considerations that they should make when approaching audit work.
- 2.33. Increasing the cooling-off period for engagement partners will have a positive impact on audit quality as it will reduce the familiarity and self-interest threat for engagement partners and address perception concerns expressed by stakeholders regarding independence.

### **3. Request for General Comments and Responses**

#### *(a) SMP*

3.1. We have received responses from SMPs expressing concerns that the proposed amendments will add a strain on the limited resources available to small and medium sized practices. In particular, they were concerned about:

3.1.1. The cooling-off period of five years for engagement partners; and

3.1.2. The engagement partner 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.

#### *(b) Preparers (Including SME's) and users (including regulators)*

3.2. Without maintenance of appropriate documentation and rotation schedules, it will be difficult for an inspector (of a regulator) to ascertain during inspections if the proposed rotation requirements have been implemented. These schedules will have to be assessed and updated at least annually.

#### *(c) Developing Nations*

3.3. No comment.

#### *(d) Translations*

3.4. No comment.

#### *(e) Effective Dates*

3.5. We do not foresee a problem with the effective implementation for audits of financial statements for years beginning on or after 15 December 2017.. Where multiple amendments to the IESBA Code have been considered in one calendar year, we suggest that the Board coordinate the effective dates of the amendments and have one effective date.