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Subject: Submission to the IESBA on Exposure Draft 'Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client'

Dear Ken,

Thank you for the opportunity to provide the International Ethics Board for Accountants (IESBA) with comments on its Exposure Draft (ED) 'Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client'. I have considered the ED, as well as the accompanying Explanatory Memorandum (EM).

My response reflects my position as a consultant to a number of Australian audit practices, and audited organisations of all sizes. This submission has benefited with input from discussions with key Australian constituents.

In particular I appreciated the opportunity to be a participant at the Accounting Professional & Ethical Standards Board (APESB)'s Sydney Roundtable on 21 October 2014 where the ED was extensively discussed and was attended by representatives of the APESB and various Australian audit firms. I note that at the Sydney Roundtable and Melbourne Roundtable, most participants did not support the ED.

I do not support the ED as it will effectively discriminate against firms that have less than 4 audit partners in their office, and also those firms that audit companies in specialised industries (i.e. banking and mining in particular) where specialist audit expertise is required (i.e. 4 specialist audit partners). Given that the IESBA is a global ethics standards setter, mandating a 5 year cooling off period that is a requirement in Canada, the UK and the USA, without regard to the impact this will have in other smaller audit markets, is regrettable.

From an Australian perspective, the Corporations Act requires a cooling off period of 2 years for the Engagement Partner (EP) and the Review Partner (RP – EQCR), once they have completed a 5 year term as an EP or RP. Australian companies will be less inclined to appoint audit firms where there will be a mandatory audit firm rotation which in the Australian context for listed companies, for all practical purposes with a rolling partner scheduled rotation, is 8 years where there are less than 4 audit partners.

Given that Australia follows the requirements of the IESBA's Code of Ethics for Professional Accountants (Code), the more stringent of the Code's and Corporations' Act requirements will apply, unless the Australian ethics standards setter (APESB) exempts the 5 year cooling off period for EPs. Even then, the global audit firms (Forum of Firms) will be required to comply with the Code, whereas non Forum of Firms could defer to local APESB regulatory requirements, if there were differences between the IESBA and APESB requirements, which I would support.

The Rationale for the changes (page 6-7 of the ED) notes that the issues are 'finely balanced', 'has taken into account the potential implementation costs', and 'has also listened to concerns regarding the effect so the proposed amendments on the availability of resources, and on the small and medium practices (SMP) community'. However there is no discussion on what is a clear outcome of this proposal, and that is the detrimental impact it will have on less than 4 office audit partners who are being forced into audit firm rotation.

It is ironic that the Rationale in the ED states that the proposals 'provide a reasonable and robust response to regulatory changes being implemented to regulate the independence of audit firms in some parts of the world, specifically mandatory tendering and audit firm rotation', when the proposals effectively lead to audit firm rotation of audit firms that have less than 4 audit partners in their local office. Given that IESBA's tacit opposition to audit firm rotation, this decision deserves further explanation.

My comments on the relevant Request for Comments are attached (Appendix 1).

Should you require any further information or explanation, please contact me at wally2088@hotmail.com

Yours Sincerely

Keith Reilly

Financial Reporting Consultant

Appendix 1

IESBA Request for Specific Comments

Rotation of KAPs on PIEs

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?

Response:

No. I do not agree with a 5 year cooling off period. This proposal mandates forced audit firm rotation for those audit offices that have less than 4 audit partners. The IESBA should consider an audit firm rotation policy if it believes that there are perceptions as to the tenure of auditors, and not discriminate against just smaller audit firms. If the IESBA stays with this proposal, I believe that the APESB should consider exempting non Forum of Firms auditors.

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?

Response:

No.

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?

Response:

No.

Impact Analysis

14. Do respondents agree with the analysis of the impact of the proposed changes?

Response:

No. The IESBA should acknowledge that it is requiring audit firm rotation where an audit office has less than 4 audit partners, and justify why this does not apply to larger (i.e. more than 4 audit partner) audit firms.

In the light of the analysis, are there any other operational or implementation costs that the IESBA should consider?

Response:

Yes. This proposal is audit firm rotation by stealth on less than 4 audit partner offices.

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the following general questions:

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

Response:

As detailed earlier in the covering letter and my responses to the Specific Comments, this will reduce the competitiveness of SMPs and drive them out of the audit market.

- (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.

Response:

This audit firm rotation proposal will reduce the choice that Preparers have in the audit market. I see no benefit to Users, and am not aware of any evidence from Regulators in the ED, as to why audit firm rotation is required for audit offices that have less than 4 audit partners.