

November 12, 2014

International Ethics Standards Board for Accountants (IESBA)

529 Fifth Avenue, 6th Floor

New York, NY USA 10017

Via IESBA website: www.ethicsboard.org

Dear International Ethics Standard Board for Accountants:

The Auditing Standards Committee of the Auditing Section of the American Accounting Association is pleased to provide comments on the Exposure Draft of Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client.

The views expressed in this letter are those of the members of the Auditing Standards Committee and do not reflect an official position of the American Accounting Association. In addition, the comments reflect the overall consensus view of the Committee, not necessarily the views of every individual member.

We hope that our attached comments and suggestions are helpful and will be of assistance to the Board. If you have any questions about our input, please feel free to contact our committee chair, Urton Anderson, or subcommittee lead, Willie E. Gist, for any follow-up.

Respectfully submitted,

Auditing Standards Committee

Auditing Section – American Accounting Association

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Comment on ED of IESBA

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

General Comment

The consensus of the AAA Auditing Standards Committee (we) is that there is a need to improve the balance between the familiarity treat that comes by long association with the client and the need to maintain appropriate knowledge and experience to support audit quality. As a basis for the proposal, IESBA evaluates whether the current time-on/time-off period of 7/2 remains appropriate to address the treat of long association for key audit partners (KAPs) of a public interest entity (PIE). **We agree with the IESBA of the need to propose changes to increase the cooling-off period for KAPs of PIEs**, after-all, under the current Code of Ethics an individual can serve as a KAP for up to 14 out of 16 consecutive years assuming that the KAP returned to the audit after the cooling-off period. While the long association relative to the short time-off period may have a positive impact on audit effectiveness due to auditor learning and knowledge, there is the potential negative impact because of the risk of familiarity threat (such as complacency and reduced professional skepticism) that increases with length of time as KAP.

The IESBA considers the significance of the familiarity threat by long association to be greater for engagement partner (EP) than for other KAPs, like the engagement quality control review partner (EQCR), and we concur. This is reasonable given that the EQCR, for instance, does not meet the client, nor does s/he participate in the engagement or make decisions for the engagement team. Therefore, **we are in agreement with the proposal of IESBA to extend the cooling-off period to five years for the engagement partner on the audit of PIEs**. The extension of the cooling off period from 2 to 5 years is likely to reduce the familiarity threat to an acceptable level and, as discussed by IESBA, provide an effective fresh look by the incoming partner and truly remove the influence of the outgoing partner. The IESBA also considered 3 years as not making any significant difference, and 4 years was not used by many jurisdictions and would lead to greater implementation challenges. The time-on/time-out period of 7/5 would replace the current 7/2 for EPs of PIE audits, resulting in EPs serving up to 14 out of 19 consecutive years rather than the current 14 out of 16 consecutive years. Since EQCR and other KAPs on the audits of PIEs do not pose as much a familiarity threat as EPs, **we agree that the cooling –off period should remain at 2 years (time-on/time-off period of 7/2)**. While there is greater regulatory oversight of publicly listed companies, we agree with IESBA that there is little justification for distinguishing between listed companies and other PIEs as they are all entities of public interest. (Referencing: **Request for Specific Comments #5, #6 and #7 on Rotation of KAPs on PIEs**)

Disagreement with Specific Provision of Paragraph 290.150A; and Specific Suggestion

The AAA Auditing Standards Committee does not agree with the proposal that the engagement partner (EP) 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. (Referencing: **Request for Specific Comment #8 on Rotation of KAPs on PIEs, and Code Paragraph 290.150A**) The proposal that the KAP who serves any time as EP be required to cool-off for a period of five years, while easy to apply, does not appear to be reasonable, fair or appropriate, especially when considering that other KAP have a two year cooling-off period. It would seem, for instance, that a EP serving a client say for 3 or 4 years or less would not pose as much of a familiarity threat to independence as one serving the full time-on period of seven years. Perhaps the IESBA should consider a three year time-out for four years as EP; and 2 year time-out for KAP serving as EP for three years or less. Therefore, for EP the time-on/time-off tier approach would be as follows:

5 – 7/5 serve min 10 out of consecutive 15 years max of 14 out of consecutive 19 years

4/3 serve 8 out of consecutive 11 years

< 4/2 serve min 2 out of consecutive 4 years max 6 out of consecutive 8 years

Such tier consideration would appear to be consistent with balancing the familiarity threat and the need to maintain knowledge and experience to support audit quality. This may not be so difficult or costly to implement. Given start-up costs, including cost associated with auditor learning, it would seem advantageous for firms to run the full seven year time-on period. Firms will appropriately evaluate the cost of having EP serving a shorter time period on audit effectiveness and changing of EP. For those instances where firms are not able to run the full time-on period or for whatever reason (like illness of EP) decide to replace EP before completion of the seven year period, then the tiered approach would apply. With this system, KAP serving as EP for less than four years will have the same cooling-off period as other KAP.

With respect to Paragraph 290.150B, we agree with the proposed changes to restrictions placed on activities of KAP during the time-off period – to ensure that the outgoing partner cannot influence the incoming partner or the ongoing audit during the cooling-off period. (Referencing: **Request for Specific Comments #10 and #11 on Rotation of KAPs and PIEs, and Code Paragraph 290.250B**)

Impact Analysis

As discussed above under **Disagreement with Specific Provision of Paragraph 290.150A**, while the proposal with respect to EP serving for part of the seven-year period was chosen by IESBA as being the least complex option, there may be other options not too difficult or costly to implement and which are reasonable and equitable. We believe that a tiered approach as

outlined above, or some version of it, is one such option. (**Referencing: Request for Specific Comment #14 on Impact Analysis**)