



International Ethics Standards Board for  
Accountants (IESBA)

Submitted via the IESBA website and via  
e-mail to: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

10 November 2014

Ref: WPS/PEC/AKI/HBL/NRO/HBU/PCO

Dear Mr Siong,

**Re: FEE comments on the IESBA Exposure Draft, Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client**

FEE<sup>1</sup>, the Federation of European Accountants, is pleased to provide you with its comments regarding the IESBA Exposure Draft on the “Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client” (referred to below as the “Exposure Draft” (ED)).

As a general comment, we would like to emphasise the strategic importance of consistency between these proposed provisions and the new EU audit legislation as far as possible.

The European Union (EU) Regulation No 537/2014 on specific requirements regarding statutory audit of public-interest entities states that “[...] the Key Audit Partners (KAP) responsible for carrying out a statutory audit shall cease their participation in the statutory audit of the audited entity not later than seven years from the date of their appointment. They shall not participate again in the statutory audit of the audited entity before three years have elapsed following that cessation. [...]”<sup>2</sup>.

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<sup>1</sup> FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 47 professional institutes of accountants and auditors from 36 European countries, including all of the 28 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 800.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

<sup>2</sup> Article 17 of the Regulation (EU) No 537/2014 accessible at:

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=EN>

Furthermore, the Regulation requires the statutory auditor or the audit firm to “establish an appropriate gradual rotation mechanism with regard to the most senior personnel involved in the statutory audit [...].”

As IESBA is aware, this new EU legislation has also introduced audit firm rotation for statutory audit of public interest entities which will become mandatory in the 31 jurisdictions of the European Economic Area. Apparently, this requirement is regarded as an alternative measure to address the familiarity threat to an auditor’s independence that may arise from long association with an audit client.

Instead of seeking to strengthen existing provisions on internal rotation only, IESBA should take these recent European developments into account by taking a holistic approach based on an analysis of the interaction of the different approaches that exist to mitigate the familiarity threat (e.g. mandatory firm rotation, KAP rotation, and rotation of engagement partners and senior personnel). In this respect, FEE would also expect this analysis to address the impact on audit quality that an overly complex system of internal and external rotation requirements may have; this issue has not sufficiently been emphasised in the impact assessment of the ED.

**Stringent rules might be better tackled by laws and regulation rather than by an ethical code**

As explained above, the EU perspective is strategic for IESBA now that the final provisions on such matters have to be implemented in the EU by mid-2016. Some flexibility in the Code is necessary to take into account the different systems in place to achieve the appropriate mix of safeguards.

A high level international Code of Ethics should have the objective of striving for the application of high level ethical principles at an international level, as opposed to a Code representing another layer of requirements that may not always be appropriate or compatible with national or regional requirements.

**Clear and simple provisions are the best way forward**

Finally, we would like to draw IESBA’s attention to the fact that the implementation of a different length of cooling-off period depending on the category of the KAPs involved is difficult to monitor in practice. For example, if a KAP were to be appointed as the engagement partner one year prior to the expiry of the seven years, the cooling-off period would be five years for this engagement partner, which does not seem to be reasonable.

### **Small and Medium Practices (SMPs)**

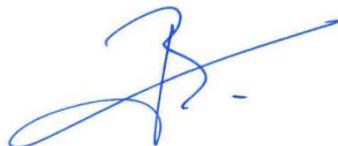
Even if, in our view, the same rules should apply to all auditors of PIEs including SMPs, IESBA should seek to assess, in particular, the potential impact on SMPs that perform audits of PIEs, and ensure not to disadvantage this group. With regard to the proposed cooling-off period for instance, five years is likely to be excessively restrictive and SMPs may even find it impossible to comply with such rotation plans because they have a smaller number of partners to draw upon.

For further information on this FEE letter, please contact Noémi Robert on +32 2 285 40 80 or via email at [noemi.robert@fee.be](mailto:noemi.robert@fee.be) from the FEE team.

Yours sincerely,



André Kilesse  
President



Olivier Boutellis-Taft  
Chief Executive

**Appendix - Request for Specific Comments in the IESBA Exposure Draft: “Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client”**

**General Provisions**

**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?**

We agree that the proposed enhancements to the general provisions in paragraph 290.148 are useful additions, though we do not believe that they merit an amendment to the Code by themselves. We refer to our specific comments regarding the effective date.

In addition, some amendments are ambiguous and we would like to bring to your attention some areas where further clarification would be needed:

- a. Paragraph 290.148 does not include any safeguards, these are in paragraph 290.149;
- b. The self-interest threat in the last paragraph of 290.148A does not necessarily arise from ‘long association’ matters;
- c. In paragraph 290.148B, the role of the responsible professional accountant should be referred to in the identification of any (potential) threat;
- d. The potential impact of the factors included in paragraph 290.148B (b) relating to the audit client is not clear;
- e. In paragraph 290.149A, the impact of ‘changing the role of the individual on the audit team’ is unclear. In addition, we have doubts that this safeguard will be effective, given the fact that the level of familiarity with the client will not change as a result of the application of this safeguard. Finally, in the same paragraph, it is unclear whether the actions referred to in the third and fourth bullet have to be performed permanently. The meaning of ‘including’ in the 4th bullet is also unclear.

**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)?**

In principle, familiarity threats could arise for any member of the staff, the general provisions might therefore be applicable to all individuals of the audit team. That being said, it should be recognised that the more junior the member of the staff, the less likely there is a significant threat.

**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?**

We agree that an appropriate time-out period should be determined and believe that it is already current good practice. A certain minimum length of this period could be indicated by the Code of Ethics, for instance two years.

**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?**

In general, we support the time-on period to be seven years, the main reason being that it is in compliance with the EU legislation currently in place. Any specified limit is arbitrary, but we are not aware of any evidence that would suggest that there have been specific issues with the application of the seven year maximum rotation period in the EU since the transposition of the 2006 Statutory Audit Directive. The overruling general principle to go below seven years in case of any threat detected should be possible.

**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?**

We see the rationale behind the existing two year cooling off period in the importance to scope out at least one complete audit cycle. That being said, we understand that there is a perception that this is too short and, on those grounds, we accept that an increase for the engagement partner (the key threat) on a PIE audit, could be made.

On the other hand, we would like to point out that a five year period deviates from other legislation and in our case from the EU legislation. We refer to our comment included in the covering letter. IESBA should strive towards the application of high level ethical principles at an international level, as opposed to a Code representing another layer of requirements that may not always be appropriate or compatible with national or regional requirements.

In addition, for Small and Medium Practices (SMPs) in particular, five years is likely to be excessively restrictive and they may even find it impossible to comply with such rotation plans because they have a smaller number of partners to draw upon. In our opinion, a shorter minimum cooling-off period, say two or three years, would be sufficient, the overruling principle being still applicable for those constituencies that want to go further.

**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?**

We refer to our response to Question 5 regarding the concerns raised about the proposed duration of the cooling-off period.

Generally speaking, in our view, the extension is addressing a perception threat, and perception threats are particularly important in respect of PIE audits by their nature, we therefore support that the proposals apply to the audits of all PIEs.

**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?**

As noted above, we understand the rationale for the current two year period and believe this is also appropriate for those partners where there is a lesser potential impact of the familiarity threat.

However, we would like to point out that having different periods for different individuals makes the requirements complex. As referred to in the covering letter, the new EU legislation has set the cooling-off period for KAPs at three years<sup>3</sup> and this provision will be applicable as from mid-2016.

**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?**

We are not convinced that this requirement is necessary. This proposal is rules-based and likely to be excessive in many circumstances. As included in the covering letter, a high level international Code of Ethics should have the objective of striving for the application of high level ethical principles at an international level, as opposed to a Code representing another layer of requirements that may not always be appropriate or compatible with national or regional requirements.

According to page 11 of the explanatory memorandum, the only reason provided for this rule would be that 'this model is easier to apply'. In our opinion, this rule may prove to be too stringent in cases where another KAP has to step in for exceptional circumstances just for one year. It might also be a significant burden for small firms with a limited number of partners able to take on the job.

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<sup>3</sup> According to article 17 of the Regulation, key audit partners will have to rotate after a maximum of seven years with a cooling-off period of three years. This rotation requirement is broadly in line with the 2006 Statutory Audit Directive (2006/43/EC), except for the cooling-off period which was of two years under the 2006 Statutory Audit Directive

**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?**

Even though the proposed provisions included in paragraphs 290.150C and 290.150D are merely reminders of general requirements, we believe they are useful.

As already stated in our response to question 1 with regard to another paragraph of the Code, the role of the responsible professional accountant should be referred to in paragraph 290.150C in identifying any potential threat.

**Question 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?**

FEE is not in favour of allowing the engagement partner to undertake a consultation role after two years: the long association may affect the objectivity of the advice given.

In addition, this ‘limited consultation role after two years’ provision is considered as an unnecessary complication: if the audit firm has managed without the partner being involved in a consultation role on the relevant entity for two years as required, an additional three years would not seem to cause undue further hardship. Please note that this comment is subject to the fact that FEE is not supportive of an extension of a five year cooling off period. We refer to our response to question 5.

**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?**

In our view, the KAP should not be involved in any role or activity that would exert influence on the audit during the cooling-off period. Contacts with the audit team should be restricted to inquiries into matters that occurred and were dealt with by the KAP during his ‘on-period’.

The explanatory memorandum on page 11 specifies that the KAP should have limited contacts with the client during the cooling-off period: we would suggest an addition of “no or” limited contact. We also believe that a complete prohibition is necessary on providing non-audit services where this would involve ‘significant or frequent interaction with senior management or those charged with governance’.

We note that paragraph 290.150B proposes referring to ‘direct’ influence on the audit: this seems to be too narrow as the key issue is the significance of the influence, not how it arises.

**Question12: Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?**

While informing those charged with governance could not be considered by itself a safeguard, we agree that concurrence should be obtained, as the use of exceptional overrides could have an impact on perception, which is a matter of importance to the PIE, as well as the audit firm. It may however be added that these provisions only apply where such an extension is not prohibited by legislation.

**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”?**

Engagements dealt with by section 291 are of a diverse nature and this approach seems adequate. We are not sure about the relevance of the limitation to assurance engagements of a “recurring nature” though: as soon as a service is provided during a long period for the same client and client personnel, the risk of familiarity might arise. That risk will then need to be evaluated to see whether adequate safeguards are in place or not.

**Impact Analysis**

**Question 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 have no doubt that these changes will support the perceived independence, but we are not sure about the real impact that these changes will have on audit quality and on familiarity and self-interest threats. Any initiative with stricter rules will always have an effect on perception, for a short period and until the next time.

As referred to in the covering letter, new EU legislation has introduced audit firm rotation for statutory audit of public interest entities which will become mandatory in the 31 jurisdictions of the European Economic Area. Instead of seeking to strengthen existing provisions on internal rotation only, IESBA should take these recent European developments into account by taking a holistic approach based on an analysis of the interaction of the different approaches that exist to mitigate the familiarity threat (e.g. mandatory firm rotation, KAP rotation, and rotation of engagement partners and senior personnel). In this respect, FEE would also expect this analysis to address the impact on audit quality that an overly complex system of internal and external rotation requirements may have; this issue has not sufficiently been emphasised in the impact assessment of the ED.

### **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.

In our view, the same rules should apply to SMPs. The public cannot accept different levels of independence that would depend on the size of a practice.

Having said that, IESBA should seek to assess, in particular, the potential impact on SMPs that perform audits of PIEs, and ensure not to disadvantage this group. For instance, with regard to the proposed cooling-off period, five years is likely to be excessively restrictive and they may even find it impossible to comply with such rotation plans because they have a smaller number of partners to draw upon.

**(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.

FEE has nothing to report on this specific question.

**(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.

FEE has nothing to report on this specific question.

**(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.

FEE has nothing to report on this specific question.

**(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?**

In general, FEE believes that the proposed effective date and transitional provisions are reasonable. However, some of the proposed changes could have a significant impact on smaller firms, smaller offices of large firms and firms carrying out specialised audits. Therefore since, in our view, there is no evidence of a need for an urgent change, and the proposed changes do not merit a change to the Code by themselves, they should be incorporated with other changes, perhaps with the current project about the structure of the Code. An extended, publicised implementation period would mean that no transitional provisions are then necessary.