



IESBA Exposure Draft

Long Association of Personnel (Including Partner Rotation) with an Audit Client

Due date: 12th November 2014

Question	Response	Comments
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?	Yes Other safeguards	Other reviews on the engagement including sustainability reviews by an independent team could mitigate potential threats
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)?	Yes	Other audit team members with long experience and close association with the client can also be easily compromised
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?	Yes	There is need for a firm to have a policy on this, guided by the provisions of the Code
Rotation of KAPS and PIEs		
4. Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?	Yes	This is reasonable to manage the risk involved for 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?	No	I consider 2 years to be adequate with adequate controls in the firm and compliance with ISQC1.



		Possibly with regular reviews by the IFAC member bodies and other regulators like independent audit regulators, PCAOB and others there would be adequate mitigation to support the two year cooling off period. For example ISQC1 self assessments by firms and confirmation of compliance to member bodies annually would mitigate potential threats
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?	Yes	As this would be a policy of the firm to be applied for all PIEs. Any exceptions could affect the quality of the audits and should be discouraged
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?	Yes	Two years of no contact with client and audit teams on an engagement is long enough to mitigate potential threats. Other safeguards could be considered to reduce potential risks after the two years, for instance the independent partner reviews on the engagement
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?	No	Justification as in 7 above
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	



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?	No	It is better not to get involved at all during the cooling off period. Possibly two years cooling off period is better than five years, as long as there are adequate safeguards
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?	Yes	Possibly consultation on complex Issues in the industry the client operates and preferably get concurrence from the independent partner and/or industry specialist if any
12. Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?	Yes	This is necessary as this would be a variation from the requirements of the IFAC Code and firm policy, and their concurrence is necessary
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	The over familiarity threat is higher in recurring assurance engagements
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?	Yes	There would be additional costs where reviews need to be done for new partners on PIEs where such reviews will be done by member bodies, thus not a direct cost for IFAC. This would be the case in medium size and small firms which may not have in place audit quality reviews
General Comments		



(a) <i>Small and Medium Practices (SMPs)</i> –The IESBA invites comments regarding the impact of the proposed changes for SMPs.		SMPs whose practices may not have enough personnel to allow the required partner rotations, this may imply considering merger with other firms or recruiting and inducting a new partner(s) in their firm
(b) <i>Preparers (including SMEs) and users (including Regulators)</i> – The IESBA invites comments on the proposed changes from preparers, particularly with respect to the practical impacts of the proposed changes, and users.		It is expected there is value addition with the proposed changes in addition to mitigating the threats for both preparers and users
(c) <i>Developing Nations</i> – 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.		Ability of medium and small firms to recruit and train or induct senior personnel and/or partners to or even merge to implement the changes by the effective date. Thorough understanding of the code might also be lacking in some jurisdictions, and IFAC and member bodies may need to do some training on the Code and also conduct reviews for compliance as the new changes are implemented
(d) <i>Translations</i> – 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.		Translation costs and possible change in interpretation during the translation. There may be need for training by IFAC and member bodies on the Code
(e) <i>Effective date</i> – 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?		For the big firms the systems and processes in place may not require substantial changes. However, for the medium and small firms this may be



		necessary, thus the implementation date could be a challenge for some. There may be need for some flexibility in exceptional cases.

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