



# Grant Thornton

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## Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (Grant Thornton) appreciates the opportunity to comment on the February 2016, Exposure Draft (ED) Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client, approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

Grant Thornton is a non-practicing, non-trading international umbrella organization and does not deliver services in its own name. Representative Grant Thornton member firms have contributed to and collaborated on this comment letter with the public interest as their overriding concern.

We support the Board's proposals and believe they will enable IFAC in its mission to serve the public interest and allow the Board to achieve its objective of strengthening the IESBA Code (the Code) by continuing to set high-quality standards that will enhance the profession.

### General Comments

Grant Thornton supports IFAC's mission to serve the public interest and the Board's objective to strengthen the Code by putting forth a framework that addresses threats associated with the long association of personnel with an audit/assurance client. We believe professional accountants aspire to have a code of ethics that promotes greater consistency which will lead to increased public confidence in the accounting profession.

However we do not believe the Board should bifurcate the partner rotation requirements between listed PIEs and non-listed PIEs. This approach undermines the application of the Code to all PIEs and can have an adverse impact and hamper convergence of international and national ethical standards, which is not in the public interest.

We believe the current definition of PIE in the extant Code is appropriate and the Board should not make a distinction between listed and non-listed PIEs.

## Request for Specific Comment

### *Proposed Revisions to the Conceptual Framework*

1. *Do respondents agree that the IESBA's proposal in paragraphs 290.150A and 290.150B regarding the cooling-off period for the EQCR for audits of PIEs (i.e., five years with respect to listed entities and three years with respect to PIEs other than listed reflects an appropriate balance in the public interest between:*

*(a) Addressing the need for a robust safeguard to ensure a "fresh look" given the important role of the EQCR on the audit engagement and the EQCR's familiarity with the audit issues; and*

Grant Thornton is supportive of the Board's objective to create high quality international standards however, we believe a two year cooling-off period was appropriate for EQCRs. Although EQCRs have significant roles in the group audit, these partners generally do not have the same influence on the audit, exposure to management or relationships with management that the EP has. Accordingly, serving in these roles give rise to a lesser familiarity or self-interest threat from long association with the client.

Respondents to the last exposure draft were very supportive of the cooling-off period remaining at two years for the EQCR. It is not clear to us why the Board would move from a two year to a five year cooling off period for the EQCR, especially in light of the overwhelming support by respondents for the Board's original recommendation of two years. The standards being proposed by the Board should provide a principles based framework that is lucid and user friendly and not complex.

*(b) Having regard to the practical consequences of implementation given the large numbers of small entities defined as PIEs around the world and the generally more limited availability of individuals able to serve in an EQCR role?*

As stated above, we do not support the Board's proposal to bifurcate the partner rotation requirements between listed and non-listed PIEs or to extend the EQCR's cooling-off period from two years to three years for non-listed PIEs and to five years for listed PIEs.

Furthermore, the Board recognizes that many national jurisdictions' definition of a PIE includes small, non-listed entities that are audited by smaller firms. Although we don't support bifurcating the requirements, having recognized the practical consequences and intricacies with the partner rotation requirements as they apply to the EQCR, why hasn't the Board taken the same view for EPs on small, non-listed PIEs and lessen the time-out

period to three years in accordance with the proposal for the time-out period of the EQCR?

A five year cooling-off period for EPs auditing small, non-listed PIEs has an adverse impact on the ability of small and medium size practitioners to adhere to these requirements as their resources are limited and their audit clients may need to look at larger firms to provide audit services. This can result in the small and medium size practitioners potentially exiting the PIE audit market, and it is likely only a few of the larger firms will remain in the market. This will reduce competition and increase costs, particularly for small and medium size PIEs. We believe a three year cooling-off period is more appropriate.

2. *Do respondents support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D?*

Grant Thornton supports the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D.

3. *If so, do respondents agree with the conditions specified in subparagraphs 290.150D (a) and (b)? If not, why not, and what other conditions, if any should be specified?*

Grant Thornton agrees with the conditions specified in subparagraphs 290.150D (a) and (b).

4. *Do respondents agree with the proposed principle “for either (a) four or more years or (b) at least two out of the last three years” to be used in determining whether the longer cooling-off period applies when a partner has served in a combination of roles, including that of EP or EQCR, during the seven-year time-on period (paragraphs 290.150A and 290.150B)?*

Grant Thornton agrees with the Board’s proposed principle regarding “four or more years” to be used in determining whether the longer cooling-off period should apply when a partner has served in a combination of roles, including that of EP or EQCR during the seven-year time-on period.

However, we do not support the proposed principle of “at least two out of the last three years” be used in determining whether the longer cooling-off period should apply when a partner has served in a combination of roles, including that of EP or EQCR during the seven-year time-on period.

We do not believe serving two of the last three years as an EP, EQCR, or any combination thereof, increases the familiarity and self-interest threat that can arise from a KAP’s long association with an audit or assurance client. We agree that familiarity poses a threat to auditor independence and therefore to audit quality. We also acknowledge the concern of many stakeholders, including the regulators, in developing partner rotation requirements

that are sufficient to safeguard independence, objectivity, and professional scepticism. However, the Board's proposal creates a complex framework that adds complexity in implementation to an already complex area.

Therefore, we are encouraging the Board to eliminate this provision from the proposal.

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Grant Thornton would like to thank the IESBA for this opportunity to comment. As always we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek at [gina.maldonado-rodek@gti.gt.com](mailto:gina.maldonado-rodek@gti.gt.com).

Sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive style with a large, prominent 'K' and 'S'.

**Kenneth C. Sharp**

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