

IESBA Technical Director
Mr. Ken Siong

By e-mail: kensiong@ethicsboard.org

4 May 2016

Re: FSR – danske revisorer comments on the IESBA Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client

Dear Mr. Siong

The Ethics Committee of FSR - danske revisorer is pleased to comment on the IESBA Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client.

In our response to IESBA *Exposure Draft, Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client* dated 10 November 2014, we presented the following general comments:

“Our main concern is that we find it ill advised to introduce special and stricter rotation requirements for the cooling-off of engagement partners”.

Although IESBA has somehow taken the audit reform in the EU into account, we believe that a holistic approach should be taken based on an analysis of the interaction of the different approaches that exist to mitigate the familiarity threat, as well as the impact on audit quality that an overly complex system of internal and external rotation requirements may have.

We prefer a strategic discussion to take place on the role of the EQCR. The IAASB has released its *Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits (the ITC)* and we prefer the potential familiarity threat posed with the role of the EQCR to be dealt with as a revision of ISQC 1. The consideration of a cooling-off period for the EQCR should be carefully assessed, taking into account the differences between the role of engagement partners and EQCR across jurisdictions and only after the discussion on ISQC 1.

Further, the implementation of a different length of cooling-off period depending on the category of the Key Audit Partners (KAPs) involved is difficult to monitor in practice, adding more complexity to an already complex area. Such complex requirements could lead to inadvertent violations from professionals.

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Furthermore, the two subsets of PIEs, i.e. listed versus non-listed, are not aligned with the applicable European framework. Differentiation between PIEs may solely be acceptable with respect to the size of the entity, but not on whether they are listed or not.

Side 2

We refer to our specific comments below.

Kind regards
Lars Kiertzner
Chief Consultant, State Authorized Public Accountant
FSR – danske revisorer

Request for Specific Comments

Cooling-Off Period for the EQCR on the Audit of a PIE

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 entities) 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
 - (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?
 - (c) If not, what alternative proposal might better address the need for this balance?

The EQCR is not encompassed by the cooling-off requirements applicable to Key Audit Partners (KAPs) in the EU legislation.

We prefer a strategic discussion on the role of the EQCR. The IAASB has released its ITC. We prefer the potential familiarity threat posed with the role of the EQCR to be dealt with as a revision of the ISQC 1 in the context of this ITC. The consideration of a cooling-off period for the EQCR should be assessed, taking into account the differences between the role of engagement partners and EQCR across jurisdictions and only after the discussion on ISQC 1.

Regarding the proposed distinction between listed and non-listed PIEs we would like to stress 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, adding more complexity to an already complex area. In addition, these two subsets of PIEs are not aligned with the European framework. Differentiation between PIEs may solely be acceptable with respect to the size of the entity, but not on whether they are listed or not.

On the other hand the proposed amendment would imply, regardless of the category of the entity, shorter cooling-off periods for "EU" KAPs in comparison with the EQCR.

Jurisdictional Safeguards

Side 4

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

Having in mind that we are not supportive of an extension of a five-year cooling off period, we think that this approach represents an improvement: It allows avoiding setting another layer of requirements, especially in the EU where the current cooling off period for key audit partners (KAPs) is set to three years.

The introduction of jurisdictional safeguards represents a rule-based approach, adding more complexity to this area and therefore deviating from the overall purpose that should be improving the understandability and usability of the Code. 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.

Service in a Combination of Roles during the Seven-year Time-on Period

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?

We refer to our response to question 2. However, as stated in the Explanatory Memorandum, IESBA did not include joint audits in the proposal as it would add unnecessary complexity, while acknowledging that it "could lead to inconsistency in application of the alternative provision in the EU". We are of the view that the reduction in complexity does not outweigh the inconsistency that it creates and therefore joint audit should be mentioned as a condition if the jurisdictional safeguards are to be maintained.

Service in a Combination of Roles during the Seven-year Time-on Period

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)?

Although we understand the underlying reasoning, we are not convinced that this requirement is necessary. This proposal is rule-based and likely to be excessive in many circumstances. 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.