

Ref#: 560099

9 May 2016

International Ethics Standards Board for Accountants (IESBA)

Email: kensiong@ethicsboard.org

Dear Sir

SAICA SUBMISSION ON THE IESBA's EXPOSURE DRAFT, LIMITED RE-EXPOSURE OF PROPOSED CHANGES TO THE CODE ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN AUDIT CLIENT

The South African Institute of Chartered Accountants ("SAICA") is the foremost accountancy body in South Africa and one of the leading institutes in the world. It plays an influential role in a highly dynamic business sector. SAICA currently has 39 983 members of which 32 184 are resident in South Africa and 7 799 are international members.

The objectives of SAICA include the preservation of professional independence of members and SAICA insist upon a high standard of professional behaviour on the part of members, associates and students.

SAICA is an IFAC member body and have adopted the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* as the SAICA Code of Professional Conduct for all members, associates and trainees.

In response to your request for comments on the **Proposed Revisions Pertaining to the Long Association of Personnel with an Audit Client**, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

Juanita Steenekamp (CA (SA))
Project Director – Governance and Non-IFRS Reporting

QUESTIONS ASKED

RESPONSE TO 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 **(If not, what alternative proposal might better address the need for this balance?)**

SAICA agrees that the balance is addressed in an appropriate way and takes the vital factors of "public interest" and a firm's capacity into account. The concept of a "fresh look" is really at the substance of the issue and the concern of regulators and legislators is adequately addressed by the proposed cooling-off period of five years. It also addresses the issue of perceived lack of independence of the firm.

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

SAICA is of the view that there are a limited number of people with the requisite skills. This would lead to an increase in demand for EQCR skills and an increase in their resultant salaries.

Affordability issues for the smaller firm will increase and lead to negative pressures and competition to retain the work. The risk of the role is also increasing which may well exacerbate the problem. With tighter and increased legislative and regulatory demands, sourcing these skills will become even more difficult and the resultant impact on the smaller firms will mean less likelihood of them servicing PIE's and a decline in their current work. On the positive side, it may give rise to external experienced consultants filling the gap where smaller firms co-source these skills as a collective.

Jurisdictional Safeguards

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?

Yes, SAICA supports the proposals. The provisions are positive when aligning legislative requirements for rotation of the professional accountant with the requirements of the Code. A mismatch in those periods may lead to confusion and introduces unnecessary difficulties in complying with the law and the Code.

In South Africa, the Companies Act, 2008 (Act No 71 of 2008) Chapter 3 Part C section 92 deals with the rotation of auditors and this together with our strong regulator IRBA the proposed provision will allow some reprieve. In our view this is a practical approach given the scarcity of experience and skills in the market discussed above.

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?**

The code will now require an EQCR cooling off period of a maximum of five years and a minimum of at least three years, which is stricter than the current situation. This means it will impact the status quo but SAICA believes it is in the public interest to ensure an EQCR provides a fresh look, and the independence of mind required to carry out the role effectively.

Please do note that in South Africa, the rotation of the auditor is mandatory for certain entities to rotate every five years, with a cooling off period for two years.

The proposals will have an impact on non-mandated entities to a three years cool-off period which is longer than the mandated cool-off of 2 years, which in SA specifically could lead to confusion and unwillingness to comply.

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)?

In SAICA's view the rules are logical and speak to the need for a fresh look and the avoidance of familiarity.

The "two out of the last three years" condition recognises correctly that the recent service as EP/EQCR in combination with acting as KAP over a period of seven years is more likely to be of relevance in assessing the severity of the threats mentioned. The "four years or more" requirement would seem to be appropriate when assessing the effectiveness of safeguards to reduce identified threats to an acceptable level or eliminate the threats identified all together. That requirement will most likely reduce a threat to objectivity to an acceptable level.

Request for General Comments

96. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

(a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposals subject to re-exposure for SMPs.

In our view, there will be significant cost implications for SMPs, even if the cool-off period is increased by only one year.

- (b) Preparers (including SMEs) and users (including Those Charged with Governance and Regulators) – The IESBA invites comments on the proposals subject to re-exposure from preparers, particularly with respect to the practical impact of those proposals, and users.

The standard is in the public interest. It will increase costs and effort but given the current PIE scandals, the standard setters need to do and to be seen to be actively protecting the public.

Comment on FAQ in the appendix staff publication:

Perhaps reconsider the example given in Q3 which attempts to define a situation where the engagement partner is not the person who signs the audit report, this may only happen in rare situation, so this fact should be highlighted if the example is included. The reason for the suggested removal is the current ISA standards in principle do not encourage or endorsing such behaviour on the contrary:

A few examples of current standards to illustrate the point are given below:

1. ISA 220 Para 15 (b) - The engagement partner shall take responsibility or: the auditor's report being appropriate in the circumstances.
2. ISA 220 Para 17 - On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.
3. ISA 220 Para 7 (a) defines the engagement partner as - The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm.
4. ISQC 1 Para 29 (b) is very conclusive - The firm shall establish policies and procedures designed to provide it with reasonable assurance...Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

In our view, users and Those Charged with Governance would prefer that firms should appoint an accountable engagement partner in terms local legislation.

- 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 proposals subject to re-exposure, and in particular on any foreseeable difficulties in applying them in their environment.

No comment

(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 proposals subject to re-exposure.

No comment