

International Ethics Standards Board
for Accountants (IESBA)
Attention Mr. K. Siong

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Submitted via email to kensiong@ethicsboard.org

Date	Re
[..] November 2014	ED Proposed Changes to Cer- tain Provisions of the Code Ad- dressing the Long Association of Personnel with an Audit or Assur- ance Client

Dear Mr. Siong,

The NBA welcomes the opportunity to comment on 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” (ED). This ED has our special attention because, as you are aware of, the European Union introduced new requirements in this area. Furthermore we recently revised the Dutch rules related to long association of personnel ourselves.

As a member of the Federation of European Accountants (FEE) we align with the comments FEE provided you. We would like to make three comments in addition.

1. The EU – as well as the Netherlands prior to the EU legislation - introduced audit firm rotation for statutory audit of public interest entities as an additional safeguard to address the familiarity threat to an auditor’s independence that arises from long association with an audit client. We understand the demand for audit firm rotation. We realize there are pros and cons. It is highly desirable if IESBA, as the standard-setter for the global profession, would determine its position on (mandatory) audit firm rotation and take a clear stand.

The following comments refer to the rotation provisions for key audit partners on PIE’s (paragraph with title ‘Audit Clients that are Public Interest Entities’ [290.150A and further).

2. Paragraph 290.150C states that there may be situations where a firm, based on an evaluation of threats in accordance with the general provisions, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years. We agree. However we recommend to (rewrite and) relocate this provision to the very beginning of this paragraph. By that amendment the general overruling principle of the conceptual framework approach is more emphasized, and it is more clear that the requirement to rotate after seven years has the character of a non-rebuttable presumption resulting from that same general principle.

3. In the case of audit engagements, it is in the public interest and, therefore required by the Code, that members of the audit teams are independent of audit clients (290.4). Members of the audit team are (a) all members of the engagement team for the audit engagement and (b) all others within a firm who can directly influence the outcome of the audit engagement. The definition of audit team in the Code gives three examples of the latter category, among these category (b) (i)¹.

During the cooling off period a rotated key audit partner shall not participate in the audit engagement or exert direct influence on the outcome of the audit engagement (290.149B). We agree. The Provisions 290.150A and 290.150B specify certain roles and activities that a rotated individual shall not undertake during the cooling off period. We recognize the roles and activities indicated in the definition of audit team in category (b)(ii) and b(iii). We assume that 290.150B also covers the individuals mentioned in category (b)(1). However we are not sure, in particular due to the fact that two categories are explicitly mentioned and one not, and the specification of a few other roles and activities. We call for clarification.

For further information on this letter, please contact Jan Thijs Drupsteen via email at j.th.drupsteen@nba.nl.

Yours sincerely,

NBA, the Netherlands Institute of Chartered Accountants,

Peter Eimers
Chair of the Dutch Assurance and Ethics
Standard Setting Board

¹ Definition of 'audit team', category (b)(i): "Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent)."