11 November 2014

International Ethics Standards Board for Accountants
6th Floor
529 Fifth Avenue
NEW YORK NY 10017
UNITED STATES OF AMERICA
Attn: Mr Ken Siong, Technical Director

By email: kensiong@ethicsboard.org

Dear Sirs & Madams,

Submission on Exposure Draft *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*

Nexia International is a global accounting and consulting network ranking 10th in the world in size in terms of annual turnover of its member firms. Nexia International's independent member firms employ over 20,000 people in over 100 countries.

The independent member firms of Nexia International service clients from small to medium enterprises, large private company groups, not-for-profit entities, publicly-listed entities, and other public interest entities that include market leaders in many sectors of business.

Executive Summary

Nexia International is opposed to the proposal to extend the cooling-off period for Audit Engagement Partners, primarily for the following reasons:

- In our view, the proposal places an unreasonable burden on the resources available to small and mid-sized firms. Such firms have only a limited number of Audit Partners with the qualifications, industry knowledge and technical expertise to serve as an Audit Partner on a particular engagement. These limitations are particularly sensitive for audits of public interest entities in specialized industries (e.g., financial services, natural resources), where audit expertise and specialized knowledge is required. For small and mid-sized firms, a longer cooling off period inhibits the firm's ability to have the most qualified individual act as Engagement Partner, which does not serve the public interest.

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- Furthermore, the personnel constraints caused by lengthening the cooling-off period would inevitably force some small and mid-sized firms to discontinue performing audits of public interest entities. Currently, many public interest entities have only a small number of audit firms to choose from. We are concerned that this further concentration of audits of PIEs will have a detrimental impact on competition among audit firms as small and mid-size firms struggle to adequately resource those engagements, and this consequence would be detrimental to the public interest.

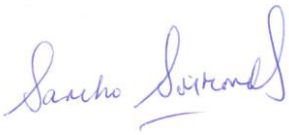
- The existing five-year cooling off period has been in existence for only two audit cycles. This is too short a time to provide any evidence that the mandatory five-year cooling off period has or has not improved audit quality. We believe the Board should allow adequate time for the current rules to be in place and evaluated.

We support the objective of exploring ways to improve audit quality. However, in our opinion, extending the cooling-off period to five years is not the right solution, and the proposal lacks clear evidence to support that assertion.

Our comments on the relevant Request or Comments are included in the attached Appendix.

Should you wish to discuss any aspects of our submission, please contact Mohammed Yaqoob, Nexia International Audit Director at myaqoob@nexia.com .

Yours faithfully



Sancho Simmonds
Chair
Nexia International Audit Committee

Appendix
IESBA Request for Specific 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. However, we believe that the proposal should acknowledge that potential threats caused by long association may be mitigated by the size of the fees generated from the client, both in nominal terms and as a percentage of the firm's total revenue. For example, paragraph 290.148A states that "a self-interest threat may be created as a result of an individual's concern about losing a longstanding client of the firm". However, a self-interest threat may be insignificant if the revenue generated by that client is not significant to either the engagement partner's portfolio or the audit firm as a whole.
Therefore, we suggest that the factors identified in paragraph 290.148B make reference to the size of the fees generated by the client as a factor to consider in assessing the significance of the self-review threat.

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)?*

No. In our opinion, the potential self-interest threats posed by junior members of an audit team are not significant and the proposed General Provisions should not be extended to all members of the audit team. Any potential threats caused by long association of audit staff is reduced through the planning, monitoring and review processes undertaken by more senior audit personnel, including the engagement partner and review partner.

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?*

As indicated at Q2, we do not agree with the proposal to extend cooling-off to all individuals on the audit team.

However, if the IESBA proceeds with the proposals, we recommend that the firm should determine an appropriate time-out period rather than a period being mandated by the IESBA.

Rotation of KAPs on PIEs

4. *Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?*

Yes.

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. For the reason set out in pages 1 and 2 of this submission, we do not support a five year cooling-off period for Engagement Partners. Furthermore, in many cases a five year cooling-off period would amount to mandatory audit firm rotation as firms are unable to adequately manage the cost and logistics of assigning a suitable replacement engagement partner for that period of time.

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?

We do not agree with extending the cooling off period for all PIEs to five years. For the reasons set out in pages 1 and 2 of this submission, extending the cooling off period restricts the ability of small and mid-sized firms to perform audits of entities subject to these rules, which is ultimately detrimental to audit quality and will cause some firms to exit the marketplace. These results would not serve, and in fact would be detrimental to, the public interest.
If however the Board does adopt a five-year cooling off period, the detrimental effects would be mitigated if they applied only to audits of listed entities and not audits of PIEs.

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. In our opinion, a two year cooling-off period appropriately balances the need to bring 'fresh eyes' to an audit with the costs associated with doing so.

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. Refer to detailed comments above.

Furthermore, the proposal is unreasonable in cases where an engagement partner may have been appointed for only a short time and departs for reasons such as secondment, temporary transfer, illness, family medical leave, or other personal reasons.

This is particularly onerous on small and mid-tier audit firms. The fact that an engagement partner has served in the role of a KAP other than in the engagement partner role, particularly in a semi-formal or ad-hoc role, is likely to be impracticable to track for compliance. The fact that "the model is easier to apply" should not be in itself a reason to impose an otherwise burdensome requirement.

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. We concur with the inclusion of additional application guidance.

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?

Yes, subject to our response at Q5.

It is generally recognised that small and mid-size audit firms do not have the depth of expertise in comparison to large multinational audit firms. Restricting the ability of audit teams to discuss technical or industry matters with the previous engagement partner during the cooling-off period has the potential to reduce audit quality with little or no demonstrable benefit.

Furthermore, due to the proposed limitations on consultation, some SMPs would ultimately decide they do not have sufficient technical expertise to perform audits of certain listed entities and PIEs, making those firms less competitive and leading to further concentration of the Large Firms in the audit services market. Such a further restriction on audit competition does not serve the public interest.

We believe that an engagement partner should be permitted to undertake a limited consultation role during the cooling-off period where that individual possesses specialist technical or industry knowledge. For example, we believe that it would be inappropriate and counter-productive to enhancing audit quality if a partner with demonstrable technical or industry expertise (e.g., a member or former member of a national accounting or auditing standard setting body, or a key advisor to a peak industry body or professional association, etc.) was prohibited from being consulted on matters relevant to that expertise.

This is especially relevant for small and mid-tier audit firms, where it is very likely that an engagement partner also serves, in a different capacity, as the firm's internal technical partner or subject matter expert.
Partners in Nexia International member firms pride themselves on being accessible and trusted advisors to our clients. Clients are best served if they are able to consult with a partner that possesses experiences, insights, knowledge and expertise notwithstanding that those "issues, transactions and events" may be similar to those that were considered during the period the partner was the engagement partner. In our opinion, it would harm, more than enhance, audit quality if those partners with key experiences, knowledge and insights were precluded from sharing their knowledge because a transaction or event was too similar to an issue or transaction that had occurred previously.

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?*

No. For the reasons identified above, we do not agree with the imposition of additional restrictions on the activities that can be performed during the cooling-off period.

12. *Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?*

For the reasons identified above, we do not agree with the proposals.

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"?*

We disagree with the proposal. If a change to the cooling-off period is to be adopted, it should only apply to audit engagements [of financial reports] of a recurring nature, not all 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?

In our opinion, consideration of the potential impacts of the proposals has been understated by the IESBA.
Large audit firms have sufficient audit partners to easily adopt and apply the IESBA's proposals without undue cost or effort. However, some smaller and mid-size audit practices already must deal with the additional cost and administrative burden of seconding the assistance of audit partners from other offices in order to comply with the current auditor rotation rules.
Adding to this cost and complexity will be a significant burden to those firms and, in some cases, may effectively lead to audit firm rotation.
In our opinion, such an outcome is not in the best interest of the public or the clients we serve.
In our opinion, the IESBA should carefully consider the impact of the proposed changes on audit firms outside the global networks of large firms and the potential consequences on competition in local markets.

The IESBA should adopt a principle-based approach, as opposed to a rule-based approach. The former will necessarily involve the Audit Committee of the audit client or other bodies charged with corporate governance, but the advantage of involving such other independent-minded parties will lend a more workable, inclusive and holistic approach to a clearly important topic for practitioners, standard setters and the general public.

The IESBA should also consider an element of scalability in its proposals, as it must acknowledge the differing dynamics and available resources of larger international audit firms vis a vis small and mid-tier audit firms.

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the following general questions:

(a) ***Small and Medium Practices (SMPs)*** *–The IESBA invites comments regarding the impact of the proposed changes for SMPs.*

As discussed above, the impact of the proposed changes on SMPs are significant and has the potential to:

- **effectively introduce mandatory audit firm rotation for many SMPs;**
- **force SMPs out of the audit market for PIEs, thereby concentrating the audit of PIEs to the large audit firms and reducing competition in the audit services market. In our opinion, reducing the choice of audit firms for PIEs has the potential to inhibit, rather than enhance, audit quality;**
- **potentially reduce audit quality in the SMP sector by imposing overly stringent prohibitions on consultations with internal experts during the cooling-off period.**