



IESBA – LIMITED RE-EXPOSURE ED 2016 – LONG ASSOCIATION

Nexia International's submission on Exposure Draft *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*

9 May 2016

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 and Madams,

Submission on Exposure Draft *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit 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.

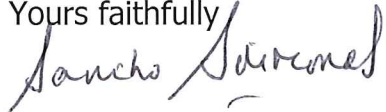
Executive Summary

We support the objective of exploring ways to improve audit quality. However, in our opinion, extending the cooling-off period is not the right solution and the proposal lacks clear evidence to support that assertion. Instead, we believe that IESBA should consider other means that would more directly improve audit quality such as through improving auditor competency, consultation requirements and education.

Our comments on the Exposure Draft 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

A handwritten signature in black ink that reads "Sancho Simmonds". The signature is written in a cursive style with a prominent flourish at the end.

Sancho Simmonds

Chair

Nexia International Audit Committee

Appendix

IESBA Request for Specific Comments

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?*

If not, what alternative proposal might better address the need for this balance?

Nexia International agreed with the 2014 ED that the cooling-off period should remain at two years for the EQCR on the audit of PIEs.

We are concerned that despite many respondents to the 2014 ED citing no evidence of a need for change, IESBA has not produced evidence of such need as part of its 2016 re-exposure nor has the Board addressed the concern that extending the cooling-off period for the EQCR to five years would be a significant burden for SMP firms and put further strain on specialist resources, thus harming audit quality.

Consequently, we remain of the view that the cooling-off period for EQCR should remain two years.

Nevertheless, we would be prepared to accept the cooling-off periods being extended to three years for both the Engagement Partner and EQCR for non-listed PIEs if the IESBA could demonstrate a causal link between the current duration periods of Engagement Partner and EQCR rotation and audit quality failures.

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?*

We commend the IESBA for recognising that jurisdictional legislative or regulatory requirements ("Jurisdictional Safeguards") exist. We generally

support the proposal that the cooling-off period for EPs and EQCRs should be reduced where Jurisdictional Safeguards referred to in paragraph 290.150D exist.

However, in our opinion, where Jurisdictional Safeguards exist, they should override, or take precedence over, the requirements of the Code. That is, we propose that the Code applies except where Jurisdictional Safeguards exist, in which case the local requirements would apply. We believe that local jurisdictions are best placed to assess and determine their own requirements relating to time-on and cooling-off periods. Such an approach would provide safeguards within the Code where jurisdictional safeguards do not exist, but give primacy to legislative or regulatory requirements in those jurisdictions where they do exist.

To illustrate for one jurisdiction - the current jurisdictional safeguards in Australia overlaid with the requirements of the Code would result in the following rotation outcomes:

	Current AUS requirements		2016 Re-proposal outcome	
	Listed PIE	Non-Listed PIE	Listed PIE	Non-Listed PIE
EP	5/2	7/2	5/3	7/5
EQCR	5/2	7/2	5/3	7/3
Other KAPs	5/2	7/2	5/2	7/2

Based on the 2016 ED proposals, the overlay of legislative requirements would result in the cooling-off period extending from two years to three years for listed PIEs.

However, we remain concerned that the proposal results in a significant extension of the cooling-off period for non-listed PIEs when compared with the current requirements of the Code. We are also concerned that the onerous requirements relating to non-listed PIEs may encourage some firms to reassess whether those entities are PIEs.

3. 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)

We have no concerns regarding the proposal.

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

As we submitted on the Board’s 2014 ED, we are concerned that the proposals may have a negative impact on audit firms, particularly smaller audit firms which have fewer audit personnel available to them. The change in the cooling-off period for engagement partners was recognized by IESBA as being the change which overall will have the greatest impact.

Although an improvement to the 2014 ED, in our view, the proposals continue to place an unreasonable burden on smaller and mid-tier firms that have less than five audit partners in an individual office.

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

- **effectively introduce mandatory audit firm rotation for practices with less than four audit partners;**
- **force SMPs out of the audit market for PIEs, thereby concentrating the audit of PIEs to the Big 4 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 reduce, rather than enhance, audit quality.**