Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 5th Avenue, 6th Floor
New York 10017

May 8, 2016

Re: IESBA - Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client

Dear Mr Siong

Introduction

We[1] appreciate the opportunity to comment on the IESBA's Limited Exposure Draft (ED) of "**Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client"**

Principal comments

We do not believe that the Board has made a persuasive case for aligning the cooling off period, even for listed entity audits, with that of the audit engagement partner.

We have concerns that the proposals will limit the ability of a firm to allocate the best resources (with the right skills and experience) to an audit, which will have a detrimental impact on the application of the fundamental principles of professional competence and due care and a consequent threat to audit quality. We believe that the proposals focus overly on the fundamental principle of objectivity to the potential detriment of the wider application of other fundamental principles and, therefore, may impact the broader application of the Code.

Furthermore, when we reflect on the revisions as a whole, taking into account the decisions that the Board has made in relation to other relevant provisions, we have an overriding concern that the proposals are too complex. This complexity heightens the risk that the firm or professional accountant will either not understand the requirements in a given situation or may inadvertently fail to comply with the provisions in the Code. This will be particularly the case where an individual performs a variety of roles over a seven year time-on period, when their involvement in an audit is

[1] This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

PricewaterhouseCoopers International Limited
1 Embankment Place
London WC2N 6RH
T: +44 (0)20 7583 5000 / F: +44 (0)20 7822 4652

not continuous or where the requirements established in local regulations differ from those in the Code.

The Board recognises this complexity in its impact assessment in the ED (paragraph 88), as well as the practical challenges it will create. We believe the associated risks are not insignificant and warrant further consideration.

Overall, we do not believe that the possible consequences of the proposals noted above are in the public interest and we strongly recommend that the Board considers ways in which they can be modified to respond to them. We hope that the comments below will help.

Contact

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Aya Larsen (at aya.larsen@de.pwc.com), or me, at richard.g.sexton@uk.pwc.com.

Yours sincerely

Richard G. Sexton
Vice Chairman, Global Assurance

Appendix 1 – Response to questions

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?

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

No. We do not agree with this proposal and we do not believe that the Board has made a persuasive case for aligning the cooling off period, even for listed entity audits, with that of the audit engagement partner. As noted above, we also have concerns about the complexity of the overall proposals and believe that they could also have a detrimental effect on application of the fundamental principles of professional competence and due care, and consequently audit quality.

In our response to the original ED, we concurred with the Board, as did many other respondents, that there should be no change for other KAPs and that the cooling-off period should remain at two years for the EQCR (and other KAPs) on the audit of PIEs. The audit engagement partner is most at risk from the threat of over-familiarity because of the nature of their role as the key ultimate decision-maker in the audit and there is no other KAP that shares this role. That threat will be addressed by the increase in the cooling off period for the audit engagement partner.

There are important considerations that support the cooling-off period remaining at two years for the EQCR in the interest of maintaining audit quality, balanced with managing threats to independence and objectivity. These include:

- KAPs, other than the audit engagement partner, are subject to an additional safeguard, which is the fact that there is an audit engagement partner on the engagement who is the ultimate decision maker, and so any decisions made by other KAPs would be scrutinized by, and be the responsibility of, the audit engagement partner.
- Managing any change to an extended cooling-off period for audit engagement partners will be a significant burden given the implementation challenges. Extending this requirement to also include the EQCR would further compound the challenge and put further strain on experienced resources which will harm audit quality. EQCR resources are often already constrained, as many jurisdictions and firms have stringent requirements on those partners able to fill these roles, in the interest of quality. The EQCR role is a specialised one, requiring

experience and expertise, and compliance with the proposals could result in firms being pressured to put inexperienced people into the role.

- We believe that smaller firms and practices may be required to seek and appoint EQCR partners from outside the jurisdiction, perhaps from other network firms. In some jurisdictions there are restrictions on who can perform this role and so this may not be an option in practice. The EQCR fundamentally has familiarity with the accounting and auditing issues, rather than with client management, and we believe that less time is required to cool-off from those issues. It does not require five years.
- The Board indicates that, in part, the objective of setting a longer cooling-off period for the EQCR is to allow the incoming engagement partner time to have a "fresh look" at the audit. We are concerned with such a rationale as it implies that after two years that audit engagement partner may not have had the opportunity to take a fresh look at the audit. This would imply there are weaknesses either in the transition process or the competence and due care that the incoming engagement partner has brought to the engagement.

For these reasons we do not support an increase in the cooling off period for the EQCR. We do not believe that an increase in the cooling-off period to five years, for listed entities, appreciable increases the protection to the public interest, given other safeguards, and that this would be outweighed by the negative impact this would have.

We are not persuaded that there is any strong reason to differentiate between listed and non-listed PIEs, given the role of the EQCR partner and our views set our above. This adds to the complexity in the overall proposals.

However, we recognise that there are other stakeholders who are strongly of the view that the cooling off period for the EQCR should be longer than two years. If the Board is not persuaded by the arguments above, taking into account the views of other respondents, we recommend that the Board considers an increase in the cooling off period to three years for EQCRs on the audit of all public interest entities. This would be responsive to the concerns raised, would reduce the complexity of the overall provisions and be consistent with the position the Board is proposing to take regarding different jurisdictional safeguards (see below).

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?**
3. **If so, do Respondents agree with the conditions specified in subparagraphs 290.150 D (a) and (b)? If not, why not, and what other conditions, if any, should be specified?**

We support this proposal. It is appropriate that the Code recognises the overall safeguards that regulators in jurisdictions have put in place. Permitting (and requiring) a cooling off period of three years would be consistent with our view expressed above, should the Board decide to revise its proposals accordingly.

We recognise, however, that this approach will inevitably fail to deal with all jurisdictional differences and that the proposals will have an impact on application of the partner rotation rules in jurisdictions.

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, <u>including that of EP or EQCR,</u> during the seven-year time-on period (paragraphs 290.150A and 290.150B)?**

Please see our comments above in response to question 1 regarding the length of the "longer" period.

We appreciate that the Board's new proposal is responsive to the comments made in our response to the original ED, in which we recommended (at the time in relation to the audit engagement partner) that "some number of the seven years' service as engagement partner should subject the partner to a five year cool-off. We recommend that four years, representing a majority of the seven year period, would be a reasonable measure of the combination of years as audit engagement partner and KAP that would trigger the five year cool-off".

We note, however, that the proposals go further than this and requires the longer cooling off period if the engagement partner (or EQCR) has fulfilled that role in two of the last three years (during a seven year time-on period). The Board indicates that this is because their close association with the client would be more recent.

We believe that this adds unnecessary complexity to the application of the requirement. We recommend, to be responsive to the heightened threat at the end of the seven year period, that the requirement be amended to "or (b) the last three years" of the seven year period. We believe that this would be a more proportionate response to the threat and be more straightforward to understand and apply.