11 May 2016

The International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York, 10017
United States of America

Dear Members of the International Ethics Standards Board for Accountants

EXPOSURE DRAFT – LIMITED RE-EXPOSURE OF PROPOSED CHANGES TO THE CODE – ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN AUDIT CLIENT

Thank you for the opportunity to provide comments on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft – Limited Re-Exposure of Proposed Changes to the Code – Addressing the Long Association of Personnel with an Audit Client (the Exposure Draft).

We note the IESBA is not seeking further comment on the matters on which it has already formed a view, and that have been exposed previously. However, we have concerns about the decisions the IESBA has made that, in the New Zealand context, do not result in a proportionate response to the concerns about the (overly) long association of personnel with an audit entity. We would observe that the application of the proposed requirements in New Zealand (see the table in Appendix 2) tend to have a disproportionate impact on non-listed public interest entities (PIEs). This is counter intuitive, as it is generally accepted that the independence threat arising from long association is greater for listed PIEs.

We would note that the principle of “proportionate application” was carefully considered by the International Auditing and Assurance Standards Board when the International Standards on Auditing were introduced. The result of this consideration was the Staff Questions and Answers document dated August 2009 called “Applying ISAs Proportionately with the Size and Complexity of an Entity”.

In our opinion, the IESBA should adopt a similar approach in responding to the independence threat arising from the long association of personnel with an audit entity.

The problem facing the IESBA is the different approaches various jurisdictions have taken in defining non-listed PIEs. However, the IESBA is able to determine the appropriate rotation requirements for listed PIEs because the characteristics of listed PIEs are similar across all jurisdictions.

Because local jurisdictions define non-listed PIEs differently, it is not possible for the IESBA to determine a "proportionate" response that reflects local conditions. The IESBA acknowledges this situation in paragraph 78 of the Explanatory Memorandum where it states:

"The IESBA did not believe that trying to deal with "equivalence" between the PIE rotation requirements in the Code and different jurisdictional requirements to address the threats created by long association would be possible."

In our opinion, the appropriate standard setting process for non-listed PIEs, is to require local standards setters (who are familiar with the local requirements) to develop a proportionate response
that will be based on the requirements determined by the IESBA for listed PIEs. Consideration also needs to be given to the practicality of the requirements in the local jurisdiction. A proportionate response should improve audit quality and increase confidence in the work of the auditor. An impractical requirement will have the reverse effect.

To further illustrate our concern we audit about 10 listed PIEs. With some effort we will be able to meet the requirements proposed by the IESBA for these entities. However, we audit a further 220 non-listed PIEs and the proposed IESBA requirements will place a considerable, if not insurmountable, burden on our limited audit resources. Our request is that the IESBA reconsiders its requirements to extend the 5-year time-off period for the Engagement Partners and Engagement Quality Control Reviewers of non-listed PIEs. Instead we request that the IESBA requires local standards setters to adopt a proportionate approach in responding to the independence threat posed by long association with non-listed PIEs. This would require the local standards setter to:

- Take account of the IESBA requirements for listed PIEs;
- Recognise the independence threats arising from long association with non-listed PIEs; and
- Introduce a response that is practicable, promotes improved audit quality and increases confidence in the work of the auditor.

Appendix 1 to our submission responds to the questions listed in the Explanatory Memorandum dated December 2015.

If you have any questions about our submission, please contact Roy Glass (roy.glass@oag.govt.nz) or me.

Yours sincerely

Todd Beardsworth
Assistant Auditor-General (Accounting and Auditing Policy)
Office of the Controller and Auditor-General of New Zealand

Email: todd.beardsworth@oag.govt.nz
Appendix 1 - Our Responses to the IESBA Questions in the Exposure Draft

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

   (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?

As discussed in our covering letter, we disagree with the approach the IESBA has applied in determining a proportionate response to the independence threat posed by long association with non-listed PIEs. We have proposed an alternative approach in the covering letter.

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 290.150D(a) and (b)? If not, why not, and what other conditions, if any, should be specified?

Please refer to our response to question 1.

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)?

This proposal is reasonable.
Request for General Comments

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

In our opinion, the proposals do not reflect a proportionate response to the independence threat posed by long association with non-listed PIEs. The absence of a proportionate response makes application of the proposals extremely difficult in a SMP context. We have proposed an alternative approach in the covering letter.

(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.

We have no comment to make from the perspective of a preparer. From a user perspective widespread non-compliance with the proposals will reflect badly on the audit profession. It's therefore essential that the requirements can be applied in practice.

(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.

If we are going to have difficulty in applying the proposals in New Zealand, it is very likely that developing nations will also have difficulty in applying the proposals.

(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.

We have no comment to make on translation matters.
### Listed Public Interest Entities

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<th>Existing Requirements</th>
<th>Proposed Requirements</th>
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<tbody>
<tr>
<td>Engagement Partner</td>
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<td>5 years on, 3 years off *</td>
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<tr>
<td>EQCR</td>
<td>7 years on, 2 years off</td>
<td>7 years on, 5 years off</td>
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<tr>
<td>Other Key Audit Partners</td>
<td>7 years on, 2 years off</td>
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### Non-listed Public Interest Entities

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<tr>
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* In New Zealand the combination of Stock Exchange and regulator requirements appear to satisfy the proposed reduction in the cooling-off period, as permitted in paragraph 290.150D of the Exposure Draft.