

22 April 2016

Chief Executive Officer
External Reporting Board
P O Box 11250
Manners St Central
WELLINGTON 6142

Attention: Mr Allen

Dear Sir

IESBA 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 comment on the IESBA exposure draft of proposed changes to certain provisions of the Code addressing the long association of personnel with an audit or assurance client.

Staples Rodway is supportive of the stated aims of the IESBA in releasing this exposure draft. Staples Rodway acknowledges the importance of both perceived and actual independence in the audit industry and how the association of senior personal impacts this. However, we do not agree with the proposal of a five year cooling-off period. We consider that the current minimum cooling-off period of two years for engagement partners and engagement quality control reviewers, to be sufficient and practical.

Staples Rodway and Pitcher Partners are independent members of the Baker Tilly International network. Pitcher Partners submitted a comment letter to the IESBA summarising our views as part of the Oceania Baker Tilly network in November 2014. This letter builds on those views expressed and is consistent with the responses sent to the IESBA directly for the re-exposure exposure draft.

Please contact me or Nigel de Frere (nigel.defrere@staplesrodway.com) in relation to any matters arising in this submission.

Yours sincerely

STAPLES RODWAY


D I Searle
MANAGING PARTNER

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 regards 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?

- a) We do not agree with the proposal to extend the cooling-off period to five years for EQCRs in listed entity audits and three years with respect to unlisted PIEs. It is our understanding that there is no empirical evidence to suggest that audit quality is compromised with an EQCR serving a two year cooling-off period. We cannot see how audit quality would be improved or a 'fresh look' provided with an extension in the cooling off period. An EQCR provides an independent review and challenges the approach and judgement taken by the EP. The significance of the familiarity threat is lower for the EQCR (and other Key Audit Partners) as they have a lesser ability to influence the audit, and generally have very minimal client contact.
- b) A supply problem is likely to be created where PIE entities are proportionately higher than the number of licensed auditors in a jurisdiction. It is expected that firms will need at least four licensed auditors to meet the requirements. This would impact a number of firms and is likely to impact the strategy of small firms in moving away from PIE audits.

Audit quality is impacted by various factors and small to medium sized firms have implemented various safeguards to address potential threats to independence. Independence – both actual and perceived is important, but should be evaluated within realistic and practicable measures. Furthermore, the availability of EQCRs both geographically and to meet current rotation requirements can be difficult in a jurisdiction such as New Zealand. We consider the current cooling-off period of two years provides an appropriate balance.

As such we consider a two year cooling-off period for EQCR and KAPs as appropriate.

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?

We support the principle provided in 290.150D(a) and (b) to coordinate the provisions in the Code with local jurisdictional requirements. If a five year cooling-off period is finalised, these provisions would be considered appropriate.

We are in support of IESBA establishing a minimum requirement for cooling-off with jurisdictions assessing tighter requirements and/or applications to the principles. New Zealand auditors of listed entities are already required to rotate off after five years.

Service in a combination of roles during the seven-year time-on period

Do respondents agree with the proposed principle 'for either (a) four or more years or (b) at least two out of the last five 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 agree with the principle that time served as a KAP, EP or EQCR be considered in aggregate over the seven year period, in order to determine whether a cooling-off period should apply. We consider the added complexity justified, given the alternative could drive supply constraints in remotely spread jurisdictions such as New Zealand, which would adversely impact audit quality.

We do not consider a five year cooling-off period appropriate where an individual has served two out of the last three years. This is a significant increase in the cooling-off period for a minor period served on an audit. We do not believe that this is necessary to maintain auditor independence and is unlikely to improve audit quality in the long-term. A minimum cooling-off period that addresses the threat to familiarity, independence – both perceived and actual and audit quality is needed but this provision is excessive. An alternative would be for IESBA to establish a minimum that is achievable globally and allow jurisdictional regulators to provide further guidance on the national application. This will allow for coordination with pre-existing jurisdictional requirements and a practical approach to dealing with global differences.