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25 April 2016

Mr. I Vanker
Director of Standards
Independent Regulatory Board for Auditors
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Dear Imran

Comment letter: International Ethics Standards Board for Accountants' (IESBA) - Responding to Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client

We welcome the opportunity to comment on the proposed IESBA's limited re-exposure on Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client ("the re-exposure draft"). This comment letter deals with responses to the specific questions posed in the exposure draft as well as our general comments on the exposure draft to be included in the International Ethics Standards Board for Accountants' (IESBA) Code of Professional Conduct ("the Code"). The comments and considerations expressed in this comment letter are based on collated views of Ernst & Young Inc. South Africa and do not represent the collective view of Ernst & Young globally.

We support the IESBA's desire to make changes to the Code which is in the public's interest. Our comments should be read in the context of our support for the achievement of those objectives.

Our responses to the specific questions are set out on the pages that follow.

We thank the IRBA for an opportunity to comment on the exposure draft. We would be pleased to discuss these comments further with the IRBA if needed. If so please contact myself (021 443 0258) or Lindsay Croeser (011 772 5206).

Yours sincerely

Michael F.J. Bourne
Professional Practice Director

A member firm of Ernst & Young Global Limited

Section 1 - Responses to specific questions

Question 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?

Response

We support the IESBA's objective to develop a framework to guide practitioners in their response to actual and perceived threats to independence.

We are supportive of the differentiation between Listed PIEs and Non listed PIEs in determining the appropriate cooling off period. The generally more complex Listed PIEs could be seen to require more extensive involvement by the EQCR in evaluating the significant judgments of the engagement partner. Consequently the familiarity threat would be greater on these engagements and we thus agree that it is appropriate for the cooling off period of the EQCR of a listed PIE to be longer than that of a non-listed PIE.

We feel it is important to again emphasize the potential restrictive cost and complexity burden that the lengthening of the cooling off periods will place on smaller firms or offices where there is a limited number of appropriately qualified or specialized practitioners in that firm or office who could play the role of either engagement partner ("EP") or engagement quality control reviewer ("EQCR"). Rotation periods as long as 5 years for either the EP or EQCR will certainly cause engagement staffing concerns in these countries. The practical consequences of implementation for small and medium firms would be more complex than for the large firms from a resource perspective. The implementation in a large firm would require changes to succession planning and therefore be an internal portfolio management factor for consideration. In the smaller firms especially outside South Africa where the office often consists of one or two partners, the implementation would result in an increase in costs either by appointing more resources or outsourcing the EQCR role.

The concerns noted above will be compounded if in future they are coupled with restrictions on non-jurisdictional individuals (i.e. restrictions on individuals from outside the country of domicile of the company acting as EP or EQCR). If the IAASB pursues additional restrictions in this regard in the future they will need to consider the cost implications on smaller firms. The IAASB would also need to consider whether the restrictions would result in a decrease in audit quality. For example, where we have a bank in French Africa and only limited practitioners with appropriate industry knowledge in-country, jurisdiction restrictions would prevent those countries from sourcing either EP's or more commonly EQCR from out of country. We understand that the primary reason for limiting to in-country professionals is primarily to ensure adequate local market and legislative knowledge but we believe that there are circumstances where deep local knowledge would not be critical to the role of the EQCR and as such these countries should not be prevented from outsourcing beyond their country border. Without the ability to source outside the country borders, the extended cooling off periods would be even more prohibitive for smaller firms and offices. We recommend that where these restrictive legislative requirements are in place, the IAASB should consider writing a specific exception that deals with these situations in addition to the exemptions in section 290.150 and 291.151.

Many of the smaller countries have adopted the IFAC code and are currently applying the 2 year cooling off period. We see no significant difference between 2 years cooling off currently applied and 3 years cooling off period proposed in terms of the strength of safeguard. Consequently, we are not convinced that it is necessary to incur the costs of implementation of moving from a 2 year to a 3 year cooling off period for the marginal improvement in safeguard for non-listed PIEs. We do not believe that the risk profile of the non-listed PIEs justifies the extra costs that would be incurred in moving to the 3 year cooling off period.

Question 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?

Question 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?

Response to Question 2 and 3
We agree with the proposal to allow for a reduction in the cooling-off period under the conditions specified in paragraph 290.150D and 291.150D however we request that more clarity be provided in the guidance to prevent disparate applications of the requirements by practitioners. These paragraphs limit the application of the reduced years to individuals subject to scrutiny by an "independent regulator inspection regime". Our main concern is that practitioners would not consistently come to the same conclusion about firstly the independence of such regulator, and secondly on the appropriateness or effectiveness of the inspection regime itself. This is of particular concern in countries where the profession is not yet well established and in countries were the regulator is not or is not seen to be independent or suitably thorough in their inspections. These paragraphs also raise the question of whether the IAASB or IFAC would be responsible for determining which countries met this requirement of an independent regulatory inspection regime. We have no indication that IFAC or IAASB are considering this as part of their responsibilities.

We refer also to our comments in question 1 where we highlight the cost of compliance and practical implications on resource availability. Several countries on the African continent are subject to legislation that prevents a foreigner from playing the role of EP or EQCR, though the EQCR restrictions are not as common. The minimum cooling off period allowed under this exception is 3 years for an EQCR. This is still higher than the existing 2 year requirement and would in any event result in more restrictive rotation provisions in many of these countries. The reduction in cooling off burden from 5 years to 3 years for listed PIEs would certainly provide some relief from the practitioners in these countries. However, we question whether it is reasonable to impose the 3 year minimum at all for the EQCR. In instances where the practitioner is subject to either mandatory firm rotation every 10 years or to shorter "time-on periods" and subject to an independent regulatory inspection regime to monitor compliance with these rules we may consider it appropriate to allow that practitioner to follow the EQCR cooling off period rules for that specific jurisdiction as the only restriction, without the cooling off period minimum of 3 years. This may result in some jurisdictions allowing a shorter EQCR cooling off period than 3 years, but where the time on is shorter than 7 years or the firm is required to rotate after 10 years, we do not believe that this would significantly reduce the effectiveness of the safeguard.

We would like to highlight certain specific circumstances in South Africa which are certainly not uncommon. In South Africa the Banks Act requires rotation after 5 years with a cooling off period of 3 years. Therefore the rotation restrictions for banks in SA will be a mixture between the Banks Act (5 years "time-on") and the IESBA code (5 years "time-off"). We ask that the board consider whether this is the consequence that was envisaged in updating these requirements. We do acknowledge that the exception for jurisdictional provisions would likely mean that the time-off

could be reduced to 3 years provided we could conclude that IRBA's inspection regime was independent and appropriate. As a further illustration of this point, The South African Companies Act requires rotation of EP after 5 years with a cooling off period of 2 years. Therefore rotation for companies in SA will be a mixture between Companies Act (5 years "time-on") and the IESBA code (5 years "time-off" or limited to 3 years "time-off").

Question 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)?

Response

We agree with the proposed principle to be used in determining which cooling-off period applies. We believe the staff questions and the tables included in those questions provide good application guidance to practitioners in understanding various scenarios that may occur. This will allow for practitioners to reach consistent conclusions in circumstances where early rotation is required.