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IESBA ED –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 submit our views on the abovementioned exposure draft. We trust that our comments will be helpful to the NZAuASB and XRB for finalising their submission to the International Ethics Standards Board for Accountants (IESBA) in respect of the Exposure Draft: *Limited Re- exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client.*

PwC New Zealand[1] is part of the global network of PwC firms. The firm is New Zealand's largest firm of chartered accountants, with seven offices and more than 1,200 partners and staff. Our practice as Chartered Accountants gives us extensive experience of a range of professional services that are valued by the wide variety of entities and individuals that participate in capital market and investment activities in New Zealand. In responding to this consultation, we draw on our areas of expertise in the provision of assurance and related services.

Our overall comments on the Exposure Draft

We believe that there should be no change in the cooling off period for EQCRs on the audit of PIEs. It should remain at two years. It is our view that the audit Engagement Partner (EP) is most at risk from familiarity and self-interest threats because of the nature of their role as the key ultimate decision maker in the audit. As an independent and objective person the EQCR is not subject to the same level of risk and any risk that exists is covered by the rotation requirement.

No evidence has been presented that would suggest extending the cooling off period for EQCRs from the existing 2 years will reduce this risk further. In fact we believe that in New Zealand, given the number of PIE entities and relative size of audit firms, there is a limited pool of suitably qualified people who can undertake the EQCR role effectively. Any increase in the cool off period could have an adverse effect on audit quality.

Our more detailed comments on the specific questions asked by the IESBA

If you have questions or would like to discuss any aspect of our submission please do not hesitate to contact Graeme Pinfold, Assurance Partner (graeme.pinfold@nz.pwc.com or 09-355-8044).

We understand the submission is subject to the Official Information Act 1982, and have no objection to the release of any information contained in our submission, or its publication on the XRB's website.

Yours faithfully

Graeme Pinfold
Partner

1 This response is being filed on behalf of PwC New Zealand, a separate legal entity within the network of member firms of PricewaterhouseCoopers International Limited. References to "PwC", "we" and "our" refer to PwC New Zealand.

Appendix
Schedule of Responses to the IESBA's Specific Questions

Cooling-Off Period for the EQCR on the Audit of a PIE 1.

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 noted in our cover letter we do not agree with this proposal. No evidence has been presented to support the view that audit quality will be enhanced and familiarity and self-interest threat would be reduced if the cooling off period was increased from 2 years to 5 years for the EQCR. We believe the most appropriate safeguard to ensuring a 'fresh look' from the EQCR is the requirement to rotate after 7 years. A two year stand down allows another EQCR to cover at least two balance date audits.

Increasing the cool off period is likely to reduce audit quality. An EQCR needs to have the sufficient and appropriate experience and authority to objectively evaluate the significant judgements and conclusions made by the engagement team. The New Zealand market place has a large number of FMC Reporting entities requiring an EQCR. We as the largest chartered accountant firm already find it difficult to source suitably qualified individuals with appropriate industry experience, particularly in specialist industries such as financial services for this role. Because of the relatively small market we are continually having to deal with perceived conflicts of interest. For example an EP and in some cases an EQCR cannot work on more than one client in the same industry even if the roles are different. Extending the cool off period to 5 years for both EP and EQCR will compound this resourcing issue. With a significantly reduced pool of suitable candidates for the EQCR role the current criteria used by Firms to select EQCRs may be compromised giving rise to a potential risk that individuals with limited experience in terms of time and industry knowledge will be appointed as EQCRs. Rapid changes in specialist industries a stand down of 5 years could also result in the EQCRs industry experience being outdated. Both scenarios are in conflict with the IAASB's drive to enhance audit quality.

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?

Although we support the cooling off period for EQCRs to remain at 2 years, if the Board decides to extend the period to 5 years we agree with the proposal to allow a reduction in the cooling off period for EPs and EQCRs to 3 years under the conditions specified.

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 agree with the conditions specified.

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)?

We do not agree with the proposal to have a longer cooling off period for an EQCR therefore do not believe it is appropriate for us to comment on paragraphs 290.150A and 290.150B.