



FINANCIAL REPORTING COUNCIL  
(Established under the Financial Reporting Act 2004)

**FRC/Adm/133**

**4 November 2014**

*IFIAR Secretariat*  
1666 K Street, N.W.  
Washington, DC 20006

Dear Sir

**Exposure Draft on Proposed changes to certain provisions of the Code addressing the long association of personnel with an Audit or Assurance Client**

The Financial Reporting Council (Mauritius) has one of its main functions to ensure co-ordination and cooperation with international institutions in the development and enforcement of financial reporting, accounting and auditing standards.

The FRC is pleased to respond to the International Auditing and Assurance Standards Board's (IASB's) Exposure Draft, *Proposed changes to certain provisions of the Code addressing the long association of personnel with an Audit or Assurance Client*. The comments and responses to the specific questions are included in the following pages.

For any further clarifications, please contact us at [frc.mauritius@intnet.mu](mailto:frc.mauritius@intnet.mu).

Yours faithfully

A handwritten signature in black ink, appearing to read 'S. Naiken', written over a white background.

**S. Naiken**  
**Chief Executive Officer**



## **Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client**

**1. Do the proposed enhancements to the general provisions in paragraph 290.148 provide more useful guidance for identifying and evaluating familiarity and self-interest threats created by long association? Are there any other safeguards that should be considered?**

Yes, the proposed enhancements are much clearer and provide better guidance for identifying and evaluating threats to independence. The guidance will be easily understood by the auditors and TGWG and thus enhance auditors independence from management.

Rotating the individual off the audit team and/ or changing the role of the individual on the audit team are good safeguards to reduce familiarity threat. However, an indication of the timeline for rotation and/or changing role of the individual, **without being too prescriptive** will make the safeguards more effective and reduce grounds for loopholes.

**2. Should the General Provisions apply to the evaluation of potential threats created by the long association of all individuals on the audit team (not just senior personnel)?**

For the purpose of understanding of the audit client and its environment, it is appropriate that the whole team is not rotated at the same time. The audit firm should plan the audit in such a way that not all the individuals would require to be rotated within 7 years, at the same time.

**3. If a firm decides that rotation of an individual is a necessary safeguard, do respondents agree that the firm should be required to determine an appropriate time-out period?**

Yes, however it must be principle based and not too prescriptive. IESBA could provide more guidance on when a firm should determine the appropriate time out.

### **Rotation of KAPs on PIEs**

**4. Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?**

Yes, on the grounds of preserving audit quality. A period less than seven years may be seen as too short given the need for continuity with, and experience and knowledge of, the client to support audit quality.

However, to be in line with the European's Union's decision, the rotation of audit firm after 10 years for all PIEs should have been considered in the ED, rather than rotation of the KAP only. This is also justified by the fact that a few developed countries have moved with the firm's rotation to maintain the independence of the auditors

**5. Do respondents agree with the proposal to extend the cooling-off period to five years for the engagement partner on the audit of PIEs? If not, why not, and what alternatives, if any, could be considered?**

Yes, 5 years is reasonable.

However, while rotating, the firm must ensure that the other engagement partner has necessary experience and competence to accept the engagement.

**6. If the cooling-off period is extended to five years for the engagement partner, do respondents agree that the requirement should apply to the audits of all PIEs?**

Yes.

**7. Do respondents agree with the cooling-off period remaining at two years for the EQCR and other KAPs on the audit of PIEs? If not, do respondents consider that the longer cooling-off period (or a different cooling-off period) should also apply to the EQCR and/or other KAPs?**

The cooling off period for EQCR could remain 2 years, where the risk of familiarity threat is lower compared to KAPs.

**8. Do respondents agree with the proposal that the engagement partner be required to cool-off for five years if he or she has served any time as the engagement partner during the seven year period as a KAP?**

Yes, this would reduce familiarity threat.

**9. Are the new provisions contained in 290.150C and 290.150D helpful for reminding the firm that the principles in the General Provisions must always be applied, in addition to the specific requirements for KAPs on the audits of PIEs?**

Yes

**10. After two years of the five-year cooling-off period has elapsed, should an engagement partner be permitted to undertake a limited consultation role with the audit team and audit client?**

No, the purpose of cooling-off period is to safeguard independence. There has been extension from 2 to 5 years in order to provide enough safeguard against independence. The objective is to have a fresh look on the audit engagement. Therefore limited consultation by the engagement partner should not be permitted. The term 'limited' may be difficult to define and could be prone to loophole.

**11. Do respondents agree with the additional restrictions placed on activities that can be performed by a KAP during the cooling-off period? If not, what interaction between the former KAP and the audit team or audit client should be permitted and why?**

Yes, agree

**12. Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?**

Yes, TCWG report to shareholders and in practice, appoint auditors on behalf of shareholders. Hence they must also be in a position to explain to shareholders that there were no familiarity threat and they have to state the reason for reappointing the auditor

### **Section 291**

**13. Do respondents agree with the corresponding changes to Section 291? In particular, do respondents agree that given the differences between audit and other assurance engagements, the provisions should be limited to assurance engagements “of a recurring nature”?**

Yes, because this is where the risk of familiarity threat lies.

### **Impact Analysis**

**14. Do respondents agree with the analysis of the impact of the proposed changes? In the light of the analysis, are there any other operational or implementation costs that the IESBA should consider?**

Yes