

The Auditing Practices Board

Independent Regulation of the Accountancy Profession

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Ms Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
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Dear Ms Munro

COMMENTS ON PROPOSED REVISION OF THE IFAC CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

The Auditing Practices Board is pleased to provide its comments on the proposed revision of the IFAC *'Code of Ethics for Professional Accountants'*, as set out in the Exposure Draft issued by IFAC in November 2003.

The proposed revision is intended to correct an identified defect in paragraph 8.151 of the current version of the Code, as published by IFAC in November 2001. This paragraph introduced a requirement, in the audit of listed entities, for the mandatory rotation of the lead engagement partner after a pre-determined period (stated to be normally no more than seven years). A partner 'rotating off' after this period is not allowed to resume the lead engagement partner role until a further period of time (normally two years) has elapsed. But there is nothing in the Code to prevent that partner from then taking on the role of any other partner on the same audit engagement.

The basic objective of the rotation requirement is to address the 'familiarity threat' to the auditors' objectivity and independence by ensuring a periodic fresh look at all important issues concerned with the audit engagement. The fact that the former lead engagement partner, on completion of the pre-determined period, can then immediately assume the role of, say, concurring engagement partner for that engagement is a fundamental weakness in the effectiveness of the rotation requirement and we welcome IFAC's decision to remedy this.

We would strongly support a prohibition on the former lead engagement partner immediately assuming the role of concurring engagement partner for the same audit engagement. Indeed, we would go further: we consider that the prohibition should also prevent the former lead engagement partner from assuming any other influential role for the same audit engagement, such as that of a key audit partner, until a further period of time has elapsed.

However, we see no need to prohibit the individual in question from all forms of continuing involvement with the audit engagement, as proposed in the Exposure Draft. Participation in a non-decision making role, for example, may be of considerable assistance to the incoming lead engagement partner and may make good use of the predecessor's knowledge and experience.

Accordingly, we recommended that paragraph 8.151 of the Code be amended to prohibit a former lead engagement partner, who has served in that capacity for the pre-determined period, from undertaking any other influential role for the same audit, such as the concurring engagement partner or as a key audit partner; but it should not preclude continuing involvement in a lesser capacity. This is the approach taken by the APB in its Consultation Paper *'Draft Ethical Standards for Auditors'*, issued in November 2003 (copy enclosed).

We also take this opportunity to recommend that IFAC makes three additional changes relating to its provisions concerning the rotation of partners involved in the audit of listed entities. Although no proposals on these topics are included in the Exposure Draft, they are covered in the APB Consultation Paper and would, in our opinion, significantly enhance the rotation requirement.

First, in order to act as an effective safeguard of objectivity and independence, the rotation requirement should apply not only to the lead engagement partner but also to the concurring engagement partner and to key audit partners.

Second, where there is prolonged involvement in the audit by other members of the engagement team (for example, senior staff other than partners), the threats to the auditors' objectivity and independence arising from such prolonged involvement should be assessed and appropriate safeguards should be put in place. Such safeguards might include the removal of the member of staff from, or the rotation of roles within, the engagement team. This is a requirement of the EC Recommendation on *'Statutory Auditors' Independence in the EU'*.

Third, the maximum period for which an individual should be permitted to serve as lead engagement partner or as concurring engagement partner should be shorter than seven years. We also consider that the further period of time required to elapse before these roles can be resumed should be longer than two years. We suggest that both of these periods should be five years.

If you have any questions concerning our comments, please contact me.

Yours sincerely

Jon Grant
Executive Director