

# The Consultative Committee of Accountancy Bodies

PO Box 433  
Chartered Accountants' Hall  
Moorgate Place, London EC2P 2BJ  
Telephone: 020 7920 8100  
Facsimile: 020 7628 1874  
Email: [admin@ccab.org.uk](mailto:admin@ccab.org.uk)  
Website: <http://www.ccab.org.uk>

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Hazel O'Sullivan  
The Auditing Practices Board Limited  
5<sup>th</sup> Floor  
Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN

The Institute of Chartered Accountants in England and Wales  
The Institute of Chartered Accountants of Scotland  
The Institute of Chartered Accountants in Ireland  
The Association of Chartered Certified Accountants  
The Chartered Institute of Management Accountants  
The Chartered Institute of Public Finance and Accountancy

By email: [h.osullivan@frc-apb.org.uk](mailto:h.osullivan@frc-apb.org.uk)

Dear Hazel

## REVISED DRAFT ETHICAL STANDARDS FOR AUDITORS

The Consultative Committee of Accounting Bodies Ethics Group is pleased to respond to your request for comments on the Revised Draft Ethical Standards for Auditors (the ES), issued for consultation in March 2009.

We are pleased to see that, in this second round of proposed revisions, the APB has not proposed further moves away from a threats and safeguards approach to ensuring independence. However, while individual accountancy bodies that are members of the CCAB are writing to you on matters of detail, we would like to express our concern in two areas.

First, we continue to be of the view that an increase in the rotation period for engagement partners on listed company audits from five to seven years would, on balance, be an enhancement to the ES. While there are a variety of views on this and the proposed move to 'five plus enhanced flexibility' is an improvement, there are a number of arguments in favour of seven years which we believe outweigh the contra-views:

- We are not aware of any evidence, or specific circumstances peculiar to the UK and Ireland, that the five year period applied by the APB results in any greater degree of independence than the seven year period advocated by the International Federation of Accountants (IFAC) and the European Commission. IFAC reconsidered rotation periods as part of its revision of the independence requirements expected to be approved for issue by the IFAC Public Interest Oversight Board in the next few weeks. Although changes have been made elsewhere, it has continued to believe that a seven year period is appropriate. Given a general desire for international harmonisation of standards, there is therefore no reason why there should not be an alignment with the international position.
- There have been a series of changes in audit regulation since the five year period was introduced post-Enron, which the discussion paper does not give due weight to.
- There is a risk that the disclosure requirements will deter audit committees from endorsing an extension to the period, even where the complexity of the business might mean that the

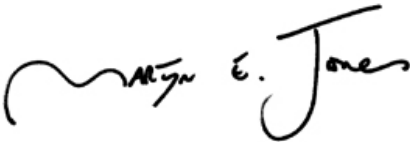
loss of knowledge from rotation would clearly outweigh the benefits of a fresh pair of eyes (something we believe it does in general terms anyway).

- The five year period disproportionately affects audit firms with fewer partners, creating a competition issues. This is exacerbated by two further factors:
  - the restriction of the extension period to large, complex listed companies. Smaller listed entities, which tend to be audited by smaller audit firms, can also have issues of complexity where an extension of the rotation period would be particularly valuable;
  - the period during which partners are required to remain uninvolved with the audit being retained at five years rather than the international position of two years. Again, this disproportionately affects audit firms with fewer partners. We see no reason why a two year period should not have the desired effect.

The second point we wish to highlight here concerns unnecessary deviations from the IFAC position. We strongly advocate the APB establishing a timeline for adoption of the IFAC code independence requirements, with (at least initially) such add-ons as the APB considers to be key to maintain the public interest. However, there are a number of differences which are clearly not key, and which could be aligned immediately. An example of this is the definition of affiliates, where the APB has moved part way towards alignment but is proposing to retain a small change in the wording for no compelling reason.

If you have any queries please do not hesitate to contact us,

Yours sincerely

A handwritten signature in black ink that reads "Martyn E. Jones". The signature is written in a cursive style with a large, stylized 'J' at the end.

**MARTYN JONES**

Chairman, CCAB Ethics Group.