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Mr Imran Vanker  
The Director: Standards  
Independent Regulatory Board for Auditors'  
P O Box 8237  
Greenstone  
1616

Dear Imran,

**Request for comment: Exposure Draft, 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 Independent Regulatory Board for Auditors' ("IRBA'S") Exposure Draft, Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client. We are generally supportive of the proposals and note our exceptions in the specific comments below.

Should you wish to discuss our comments or require clarity on any matter raised, please do not hesitate to contact me at:

KPMG  
85 Empire Road  
Parktown  
2193

or,

Telephone: 0837040064  
Email: [thingle.pather@kpmg.co.za](mailto:thingle.pather@kpmg.co.za)

Yours sincerely,

Thinglemony Pather

Director: Department of Professional Practice

KPMG Services Proprietary Limited is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG Services Proprietary Limited is not a Registered Auditor in terms of the Auditing Profession Act, 26 of 2005 and does not provide audit services as defined in Section 1 of this Act.

Registration number 1999/012676/07

Policy Board:  
Chief Executive: TH Hoole

Executive Directors: N Dlomu, M Letsitsi, St. Louw, NKS Malaba, M Oddy, M Saloojee, CAT Smit

Other Directors: ZA Beseti, ZH De Beer, LP Fourie, N Fubu, AH Jaffer (Chairman of the Board), FA Karreem, ME Magondo, F Mali, GM Pickering, JN Pierce, T Rossouw, GCC Smith

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.



## Responses to request for specific comments

### *Cooling-Off Period for the EQCR on the Audit of a PIE*

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 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:**

The increased cooling-off period for the EQCR to five years with respect to listed entities and three years for non-listed PIEs whilst enhancing audit quality and addressing perception concerns, needs to be considered in light of the practical challenges given the large number of small PIEs coupled with the limited pool of EQCRs to meet the rotational requirements and the complexity in applying these provisions to listed and non-listed PIEs.

We do not support the cooling-off period for the EQCR of listed entities being increased to 5 years, as it is inconsistent with the increase to three years for non-listed PIEs, in areas where jurisdictional safeguards cannot be applied. There is an argument that the familiarity threat for an EQCR is not as great as that of the EP (e.g. no lengthy meetings / interactions with the client, etc.) and therefore three years would be sufficient for both listed entities and non-listed PIEs.

We suggest that the cooling-off period for the EQCR be three years in respect of both listed entities as well as non-listed PIEs as the five year cooling-off period will pose complexity in terms of implementation as outlined above. Also the threat to independence of the EQCR is not as profound given the role of the EQCR on the engagement.



From a South African perspective the proposed changes will result in partner rotation becoming very complex and difficult to monitor.

A summary of the different rotation requirements are as follows:

	Years on	Cooling off period
<b>Engagement partner (EP)</b>		
Companies Act	5	2
IESBA (all PIEs) - not subject to the Companies Act	7	5
IESBA (all PIEs) – where stricter local rotation rules apply the cooling off period can be reduced to 3 years, therefore for all PIEs that are subject to the Companies Act	7	3
IESBA - Key Audit Partners other than EP and EQCR	7	2
<b>EQCR</b>		
IESBA – Listed PIE	7	5
IESBA – Non-listed PIE	7	3

When combining these rules and taking the strictest period in each case, this is what we will need to apply:

	Years on	Cooling off period
<b>Engagement partner (EP)</b>		
PIEs not subject to the Companies Act (e.g. funds, medical schemes)	7	5
PIEs that are subject to the Companies Act	5	3
Non-PIE clients that are subject to the Companies Act	5	2
IESBA - Key Audit Partners other than EP and EQCR	7	2
<b>EQCR</b>		
IESBA – Listed PIE	7	5
IESBA – Non-listed PIE	7	3



### *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?*
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:**

Yes we do support the proposal to reduce the cooling-off period for EPs and EQCRs on audits of PIEs to three years where there is an independent regulatory inspection regime and a time-on period shorter than seven years. We are concerned with the inclusion of the provisions relating to mandatory firm rotation or mandatory re-tendering of the audit appointment since this regime is still currently under consideration from a South African context.

### *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 (paragraph 290.150A and 290.150B)?*

#### **Response:**

We support this provision since it allows for the cooling-off period to be managed accordingly where there has been a change in roles during the seven year period.