Long Association—Consideration of Potential Additional FAQs

Background

1. The Board released the close-off document incorporating the revised Long Associations provisions under the pre-Structure drafting conventions in January 2017. In May 2017, IESBA Staff released a Q&A publication intended to assist national standards setters, firms, IFAC member bodies and others as they adopt and implement the revised long association provisions.

2. Subject to a transitional provision, the Board determined that the revised provisions are effective for audits of financial statements for periods beginning on or after December 15, 2018.

3. Under the transitional provision, paragraph 290.163 of the revised provisions (the “jurisdictional provision” – see below) has effect only for audits of financial statements for periods beginning prior to December 15, 2023. This is intended to facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.

4. Paragraph 290.163 states the following:

   Where a legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs 290.155, 290.158 and 290.160(a) provided that the applicable time-on period does not exceed seven years.

5. In recent months, IESBA Staff has received some questions from some national standard setters and firms regarding the application of the transitional provision as well as questions regarding other aspects of the provisions. Selected the questions are included in the Appendix for information.
Questions Received on Revised Long Association Provisions
From the Accounting and Corporate Regulatory Authority, Singapore (ACRA)

Q1. Assume a shorter cooling off period of 3 years is allowed during the transitional period. Also assume the engagement partner for the audit of a public interest entity has served for seven cumulative years in that role with the completion of the calendar year 2021 audit and cooled off for two years before the end of the transitional period of 15 Dec 2023. How long more should the individual cool off subsequent to FY2023?

Would it be:
(a) An additional 1 year so that the total cooling-off is 3 years (on the basis that the cooling-off period started during the transitional where the cooling-off requirement of 3 years applies) – as illustrated below

OR

(b) An additional 3 years so that the total cooling-off is 5 years based on the new requirement?

From the Institute of Singapore Chartered Accountants

Q2. Assume the Engagement Partner’s (“EP”) 5 year cooling off covers FY 2019 to FY 2023, for a 31 Dec year-end entity. He was the EP for FY 2018 and completed the audit (signed off audit report) on 30 April 2019. Does his 5 year cooling-off period commence only from 1 May 2019 and end only on 30 April 2024? If this is so, does this mean that he would not be able to perform any potential planning work for FY 2024 audit prior to 1 May 2024?
Or do we count his 5 year cooling-off period based on financial years? Hence, so long as he does not perform any work relating to audits for the entity’s FY 2019 – FY 2023, he would be considered as having cooled-off for 5 years. Thus, he can commence his audit planning for FY 2024 from as early as even December 2023.

From the Malaysia Institute of Accountants

Q3. The engagement partner (EP) for the audit of a PIE served for 5 cumulative years in that role with the completion of audit for the year ending 31-12-2017. The individual did not participate in the audit for the year ending 31-12-2018. Currently, our stay-on period is 5 years in Malaysia. Malaysia will move to a maximum stay-on period of 7 cumulative years with audits of financial statements for periods beginning on or after December 15, 2018. Can the individual continue to serve as an EP for another 2 years, i.e. year ending 31-12-2019 and 31-12-2020, before being required to cool off for three consecutive years?

Q4. A firm audits two periods due to change in the Company’s financial year end (July 20XX-1 to June 20XX and July 20XX to December 20XX). Does the partner’s service as EP for the audits of the two periods constitute two years for the purposes of partner rotation?

Q5. A firm audits an eighteen-month period due to change in the Company’s financial year end (July 20XX-1 to December 20XX). Does the partner’s service as EP constitute a year for the purposes of partner rotation?

From Mazars Hong Kong

Q6. When an audit client becomes a PIE, there is a “transitional” relief on the partner rotation requirements by allowing a minimum of 2 additional years of time-on period <290.167>. It is unclear why such a relief is not available to other circumstances with similar nature. For example, if the engagement partner has served a non-PIE audit client for six years or more cumulative years before it is acquired by a PIE, then the engagement partner will immediately enter into the cooling-off period after the acquisition (assuming that the engagement partner will be a key audit partner with respect to the group audit of the new PIE parent & the audit for the non-PIE subsidiary will be undertaken for the purposes of the group audit).

Q7. In the case of initial listings, audit opinions on the financial statements for 3 consecutive years may be issued at the same date. Should those audits be considered as 3 years of time-on period or, with reference to IESBA Staff Q&A Q10, 1 year?

Q8. There could be at least 3 possible interpretations on when to start (or restart) the time-on timer (after the applicable cooling-off period):

1. **1st year of work (years of knowledge)**
   It means, on real-time basis, the first year in which the engagement partner starts his work on a client e.g. if a single audit takes the partner 2 years to complete, then his time-on is 2.

2. **1st financial year for which a report is issued (knowledge of years)**
   It means the first financial year which the engagement partner has audited e.g. if the audits for past 3 years are performed simultaneously in a single year, then the time-on is 3.
3. **1st year in which a report is issued (years with deliverables)**

   It will give 1 for both scenarios above – this is the case even if the audits in the 2nd scenario take more than one year to complete.

Which option should be taken?