OVERVIEW

1. At its December 2020 meeting, the IESBA established a working group to conduct the first phase of the Long Association Post-Implementation Review (LAPIR).

2. This paper:
   - Provides background and other information relating to the long association jurisdictional provision (paragraph R540.19 of the Code) which is due to expire for audits of financial statements for periods beginning on or after December 15, 2023, as well as the IESBA’s commitment to conduct a post-implementation review of the Long Association provisions in two phases.
   - Sets out the proposed scope of, and approach to, Phase 1 LAPIR.
   - Includes a draft LAPIR update and list of draft questions for stakeholders.

Matters for IESBA Consideration

IESBA members are asked to:

1. Confirm the scope of, and agree the approach to, LAPIR Phase 1.

2. Provide input on the issues relating to the implementation status of the five-year cooling off period for engagement partners (EPs) of audits of public interest entities (PIEs) and, in particular, the potential implications arising from the expiry of the jurisdictional provision.

3. Provide feedback to the draft list of questions for stakeholders (See Appendix 2). Early feedback to Geoff Kwan (geoffkwan@ethicsboard.org) would be most appreciated.

BACKGROUND

1. In the case of both audit and assurance engagements, it is in the public interest and required by the Code that members of audit and assurance teams and firms be independent, both of mind and in appearance, of their audit and assurance clients.¹

2. Long association of personnel on an audit engagement with an audit client can adversely impact objectivity and professional skepticism, which in turn are important contributors to audit quality. The

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¹ **Independence of mind** is the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

**Independence in appearance** is the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm’s, or a member of the audit team’s, integrity, objectivity or professional skepticism has been compromised.
independent auditor constitutes the principal external check on the integrity of financial statements. Hence, the length of an individual’s relationship with the audit client becomes a visible factor when evaluating the auditor’s independence of mind and in appearance.

3. The IESBA acknowledged that a perception issue existed with respect to the previous long association provisions of the Code, particularly as an individual could serve as a key audit partner (KAP) to an audit client that is a PIE for 14 out of a total of 16 consecutive years. Accordingly, the IESBA agreed that it was in the public interest to undertake a project to consider whether the provisions remained appropriate to address the threats to independence created by long association (Long Association Project).

4. In August 2014, the IESBA published its proposals in the exposure draft (ED), Proposed Changes to the Code Addressing the Long Association of Personnel of an Audit or Assurance Client. In December 2015, the Board:

- Concluded on many aspects of its proposals in the former Sections 290\(^2\) and 291,\(^3\) which included retaining the seven-year time on period for all KAPs and reaffirming that the cooling-off period for EPs auditing PIEs be extended from two to five years.
- Determined there was a need to re-expose three key issues relating to the Board’s proposals which, amongst other things, addressed circumstances where jurisdictions have established legislative or regulatory requirements addressing long association that were different from those proposed by the IESBA.

5. In February 2016, the Board issued the re-exposure draft (re-ED), Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client, which also included a Basis for Conclusions summarizing the significant issues raised by respondents on the proposals in the August 2014 ED that were addressed and finalized by the Board in December 2015.

6. In September 2016, the Board reached agreement on the provisions pertaining to the remaining three matters that were included in the re-ED. Subsequently, in early November 2016, the Public Interest Oversight Board (PIOB) expressed a number of concerns regarding the proposed revised provisions, primarily their perceived complexity and concerns about permitted exceptions. As a result of discussions between senior representatives of the Board and the PIOB, the PIOB’s concerns were narrowed down to three key areas, namely:

(a) The provision developed to address the position where legislative or regulatory requirements had been implemented in individual jurisdictions that were different to those proposed by the IESBA (the “jurisdictional provision”);

(b) The exception that would permit, under certain conditions, an audit engagement team for a PIE to consult with an individual who previously acted as EP or engagement quality reviewer\(^4\) (EQR) on the audit engagement if they have taken on a primary role as a technical specialist in their firms; and

\(^2\) Former Section 290, Independence – Audit and Review Engagements (Part 4A in the extant restructured Code)

\(^3\) Former Section 291, Independence – Other Assurance Engagements (Part 4B in the extant restructured Code)

\(^4\) As part of an upcoming conforming amendments project, the Board will be asked to consider aligning the term “engagement quality control reviewer” in the extant Code to new term “engagement quality reviewer” in the IAASB’s International Standards on Quality Management (ISQMs) 1 and 2, which were issued in December 2020.
(c) The need for transitional provisions relative to the effective date.

7. In December 2016, the Board finalized changes to the revised provisions to respond to the PIOB’s concerns. The final provisions included a revised jurisdictional provision and the corresponding transitional period of five years from the revisions’ effective date of December 15, 2018.

IESBA’s STRATEGY AND WORK PLAN, 2019-2023

8. In finalizing the Long Association project, the IESBA committed to review the revisions to take account of, among other matters, relevant legislative or regulatory developments relating to other regimes around the world intended to address long association as well as experience of the application of the new provisions in practice.

9. As stated in the IESBA Strategy & Work Plan 2019-2023 (SWP), the LAIR is to be carried out in two phases:

   Phase 1
   This phase will review the implementation status of the five-year cooling-off requirement for EPs on audits of PIEs, and any issues arising from the implementation of such requirement before the expiry of the transition period for the jurisdictional provision.

   Phase 2
   Due to commence in Q2 2023, this phase will review how effectively the other revised long association provisions in the Code are being implemented in practice, taking into account legislative or regulatory developments relating to other regimes around the world intended to address long association, such as mandatory firm rotation (MFR) and mandatory retendering (MRT). To achieve synergies, the LAIR Phase 2 will be undertaken in conjunction with the post-implementation review of the restructured Code.

JURISDICTIONAL PROVISION

10. Some respondents to the ED had raised concerns regarding the interaction of the proposals with local requirements, particularly in jurisdictions that had also implemented MFR or had a shorter time-on period for KAPs. The IESBA acknowledged that, in some cases, overlaying the ED proposals on existing regulatory requirements might have unintended consequences and make the requirements applicable in that jurisdiction stricter than those in the Code, or make it too complicated to interpret and apply the additional requirements. The IESBA felt that both these outcomes might detract from its goal of promoting widespread adoption and implementation of the Code. The IESBA also did not believe that it would be possible to deal with “equivalence” between the PIE requirements in the Code and different jurisdictional requirements to address the threats created by long association.

11. In response to these concerns, the IESBA considered whether the existence of regulatory safeguards, or a package of safeguards, set at the jurisdictional level to address threats created by long association might provide an alternative to elements of the PIE rotation requirements in the Code. The IESBA agreed that if a jurisdiction, after following appropriate due process, had reached a robust, but different, approach to that in the Code, it would be reasonable and in the public interest for the Code to recognize that alternative, provided that the approach met a minimum set of requirements.
12. Accordingly, the IESBA re-exposed this issue in the ED released in February 2016 and proposed that where an independent standard setter, regulator or legislative body had implemented an independent regulatory inspection regime and either (a) established requirements for a time-on period shorter than seven years, or (b) implemented MFR or MRT at least every ten years, the cooling-off periods of five consecutive years specified for the EP and EQR (in the latter case, as was proposed for audits of listed entities) could be reduced to three consecutive years.

13. Following consideration of the comments received, the Board agreed to some refinements to its proposal at its September 2016 meeting. However, subsequent to this meeting, the PIOB questioned whether the jurisdictional provision was necessary, in addition to its broader concerns about overall complexity. The PIOB noted that by allowing a reduction in the cooling-off period for EPs to three years, the jurisdictional provision would weaken the overall partner rotation regime in the Code. It noted that stricter rules in national legislation, such as MFR, would prevail and apply.

14. In the light of the PIOB’s concern, the Board reconsidered the position regarding the jurisdictional provision and agreed to the following three changes:

- Replacing the revised jurisdictional provision with a simpler formulation that would achieve the objective of the original provision, i.e., that where an appropriately qualified body has established a cooling-off period for an EP of less than five years, the higher of that period or three years may be substituted for the cooling-off period of five years. The only condition is that the applicable time-on period does not exceed seven years.
- Clarifying that the appropriate national body, in addition to being a body authorized by a legislative body or regulator, might be a body recognized by such legislative body or regulator.
- Permitting a transitional period of up to five years from the effective date of December 15, 2018 during which the jurisdictional provision would remain available. This transitional approach was intended to facilitate an eventual changeover to the cooling-off period of five years for EPs in those jurisdictions where the appropriate national body has currently specified a cooling-off period of less than five years. The Board believed that the revised formulation achieved the outcome desired under the original provision while being responsive to the public interest concerns raised by the PIOB.

15. The jurisdictional provision as approved by the IESBA (paragraph 290.163 in the Close-Off Document, Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client) was subsequently restructured as paragraph R540.19 in the current Code as part of the IESBA’s Structure of the Code Project.

<table>
<thead>
<tr>
<th>Extract from Restructured Code</th>
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<tr>
<td><strong>Shorter Cooling-off Period Established by Law or Regulation</strong></td>
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<td><strong>R540.19</strong> Where a legislative or regulatory body (or organization authorized or recognized by such legislative or regulatory body) 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 R540.11, R540.14 and R540.16(a) provided that the applicable time-on period does not exceed seven years.</td>
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16. When reviewing the jurisdictional provision, amongst other things, the following will be taken into consideration by the Working Group:

- The PIOB’s concerns, raised in late 2016, including that by allowing a reduction in the cooling-off period for EPs to three years, the jurisdictional provision would weaken the overall partner rotation regime in the Code and that stricter rules in national legislation, such as MFR, would prevail and apply.
- The number of jurisdictions that have relied on the jurisdictional provision and their transition plans.
- The changing landscape of the role of audit firms, including calls for reforms and strengthening of regulations as well as recent regulatory reviews of the audit profession in a number of major jurisdictions across the globe.
- Phase 2 of the LAPIR will include consideration of regulatory developments relating to other regimes around the world intended to address long association, such as MFR and MRT.

PROPOSED SCOPE AND APPROACH

Proposed Scope of Phase 1

17. The Working Group proposes that the scope of the LAPIR Phase 1 be as follows:

   (a) Review of the implementation status of the five-year cooling-off requirement for EPs for audits of PIEs. A primary focus of this review will be to establish the extent to which the jurisdictional provision has been adopted by jurisdictions; and

   (b) Recommend the approach to be taken by the IESBA in relation to the expiry of the jurisdictional provision on December 15, 2023. The Working Group intends to obtain stakeholders’ views on the implications and impact of the expiry of the jurisdictional provision and how they could be addressed.

18. The Working Group will not seek information about the efficacy of the five-year cooling off period under this phase as:

- It would be premature to review the requirement as it has only been two years since the provision became effective and the first full five-year period has not yet been completed.
- Such a matter should not be addressed in isolation of the remaining long association provisions in Section 540 and, therefore, would be best addressed as part of the broader review under Phase 2 of the LAPIR.

19. With the above in mind, the Working Group intends to collect the following information from stakeholders:

- Whether jurisdictions have (a) implemented the five-year cooling-off period for EPs, or (b) relied on the jurisdictional provision;
- How the jurisdictional provision has been used by jurisdictions, including any applicable local requirements; and
- Whether the transition to the five-year cooling-off requirement if the jurisdictional provision expires on December 15, 2023 is expected to give rise to any potential issues or concerns.
Proposed Approach

20. The LAPIR Phase 1 is the first post-implementation review to be conducted by the IESBA on its standard-setting projects in recent years. In accordance with its SWP, the IESBA has committed to commence three further post-implementation reviews in 2023:

- LAPIR Phase 2;
- Non-Compliance with Laws and Regulations (NOCLAR); and
- The Restructured Code

21. Therefore, the Working Group aims to develop an approach that can be used as a framework for future IESBA post-implementation reviews. The Working Group also observed that its proposed approach generally aligns with that taken by the International Auditing and Assurance Standards Board (IAASB) on its Auditor Reporting Post-Implementation Review.

22. The Working Group’s proposed approach includes the following key components:

(a) Initial update

- This update, to be released on the IESBA website, would provide a high-level overview of the IESBA’s commitment to conduct a post-implementation review of the long association provisions in two phases.

- The update would give an outline of the LAPIR Phase 1 and encourage stakeholders to respond to the questionnaire when it is released.

(b) Stakeholders’ Questionnaire

- The questionnaire seeks to obtain information with respect to the reliance on, and use of, the jurisdictional provision as outlined in paragraph 19 above.

- The questionnaire will be released on the IESBA website with a comment period of approximately 45 days. The Working Group also intends to distribute it through the IESBA’s normal channels and networks, including the IESBA CAG, national standard setters (NSS), and IFAC member bodies, to ensure it achieves the widest possible jurisdictional coverage.

- Whilst the questionnaire only has a limited focus, the Working Group is of the view that a 45-day comment period is appropriate, particularly given the pressures stakeholders are facing in the COVID-19 pandemic.

(c) Targeted outreach

- The Working Group will conduct targeted outreach with some of its global stakeholders such as the Forum of Firms as well as regional and local stakeholders, particularly in relation to those jurisdictions that are known to have relied on the jurisdictional provision.

(d) Preliminary and final recommendations

- The Working Group intends to provide a high-level summary of the key comments received, and any preliminary views it may have reached, to the IESBA in June/July ahead of its September 2021 meeting.
The Working Group aims to seek IESBA approval of its recommendations with respect to the jurisdictional provision in December 2021.

As part of its recommendations, the Working Group will include any lessons learnt for Phase 2 of the LAPIR. Comments and information received with respect to other aspects of the long association provisions, such as the efficacy of the five-year cooling-off period for EPs for audits of PIEs, will be accumulated and addressed in Phase 2.

24. The following is the proposed timeline and milestones for Phase 1 of the LAPIR based on the Working Group’s proposed scope and approach, taking into account the IESBA’s work plan for 2021:

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<table>
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<tr>
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<tbody>
<tr>
<td>March 2021</td>
<td>Board approval of scope and approach</td>
</tr>
<tr>
<td>April 2021</td>
<td>Release of update</td>
</tr>
<tr>
<td></td>
<td>Release of stakeholders’ questionnaire (45-day comment period)</td>
</tr>
<tr>
<td>April – September 2021</td>
<td>Targeted stakeholder outreach</td>
</tr>
<tr>
<td>June/July 2021</td>
<td>High-level summary of key comments and preliminary views</td>
</tr>
<tr>
<td>September 2021</td>
<td>Preliminary recommendations to the Board</td>
</tr>
<tr>
<td>December 2021</td>
<td>Final recommendations and IESBA determination</td>
</tr>
</tbody>
</table>
Appendix 1

Draft Long Association Post Implementation Review
Update – March 2021

In accordance with the commitment it made, the International Ethics Standards Board for Accountants (IESBA) intends to undertake a post-implementation review (‘LAPIR’) of the revisions to the long-association provisions in section 540 of the IESBA Code issued in January 2017 and effective from December 15, 2018.

IESBA Commitment to the LAPIR

The IESBA’s Strategy and Work Plan 2019-2023 has identified two phases of the LAPIR.

Phase 1

This phase will review the implementation status of the five-year cooling-off requirement for engagement partners on audits of PIEs, and any issues anticipated from the expiry in December 2023 of the jurisdictional provision (paragraph R540.19 of the Code).

Commenced in Q1 2021.

Phase 2

This phase will review how effectively the other revised long association provisions in the Code are being implemented in practice, taking into account other regulatory regimes around the world intended to address long association (e.g., mandatory firm rotation and mandatory retendering).

Due to commence in Q2 2023.

Phase 1 Information Gathering

The focus of the LAPIR Phase 1 will be on the use of the jurisdictional provision which is due to expire on December 15, 2023 and how jurisdictions will transition to the five-year cooling-off period for engagement partners with respect to PIE audits.

The IESBA will gather information for its LAPIR Phase 1 through the following:

- A questionnaire that aims to solicit views and input from all stakeholder groups, including regulators and oversight bodies, national standard setters, professional accountancy organizations and firms.
  > Due to be released in April 2021

- Targeted outreach activities with global, regional and local stakeholders, particularly those that have relied on the jurisdictional provision.
  > Due to take place between April and September 2021
Jurisdictional Provision (Extract from the Code)
Shorter Cooling-off Period Established by Law or Regulation

**R540.19** Where a legislative or regulatory body (or organization authorized or recognized by such legislative or regulatory body) 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 R540.11, R540.14 and R540.16(a) provided that the applicable time-on period does not exceed seven years.

*(Refer to the [IESBA eCode](https://www.iesba.org/eCode) for paragraphs R540.11, R540.14 and R540.16(a)).*

### Phase 1 Timeline

<table>
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<tr>
<th>Month</th>
<th>Event</th>
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<tr>
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<tr>
<td>September 2021</td>
<td>Board review of LAPIR Working Group findings and preliminary recommendations</td>
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<tr>
<td>December 2021</td>
<td>Board discussion of final recommendations and determination</td>
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</table>

**Useful Links:**

For more information about the IESBA’s LAPIR, or if you have any comments, please contact:

- Geoff Kwan ([geoffkwan@ethicsboard.org](mailto:geoffkwan@ethicsboard.org)) IESBA Principal
Appendix 2

LAPIR Phase 1 Questionnaire
Draft Questions

1. Has your jurisdiction implemented the five-year cooling-off period for engagement partners (EPs) on audits of public interest entities (PIEs) as required by Section 540 of the Code?

2. Does your jurisdiction have other legislative requirements that address long association of personnel with an audit client (e.g., mandatory firm rotation and shorter time-on period)? If so, please provide details.

3. Has your jurisdiction applied the jurisdictional provision in the Code (paragraph R540.19)? If so,
   a. What cooling-off period has been in effect in accordance with paragraph R540.19?
   b. What potential issues are expected to arise within your jurisdiction if paragraph R540.19 expires on December 15, 2023? Please also provide suggestions on how these issues might be addressed.
   c. What actions are planned to comply with the Code when the jurisdictional provision expires on December 15, 2023?

4. Are there any other issues or comments that IESBA should consider under Phase 1 of the LAPIR in relation to the expiry of the jurisdictional provision and the transition to the five-year cooling-off period for EPs on PIE audits?