

**Long Association of Senior Personnel (Including Partner Rotation)
with an Audit Client—Matters for Consideration****Background**

1. Paragraph 290.150 of the IESBA *Code of Ethics for Professional Accountants* (the Code) states that familiarity and self-interest threats are created by using the same senior personnel on an audit engagement over a long period of time. Paragraph 290.151 provides that for public interest entities that are audit clients, the key audit partner should be rotated after having served for seven years and, upon being rotating off the engagement, shall not be a member of the engagement team or be a key audit partner for the client for two years.
2. The Code defines a “key audit partner” as:

The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” may include, for example, audit partners responsible for significant subsidiaries or divisions.
3. Setting aside the partner rotation requirements in the Code, several jurisdictions have additional or different requirements relating to partner rotation on listed entity or other public interest entity audit engagements.
4. In December 2012, the IESBA approved this project to consider whether the long association provisions in the Code as a whole remain appropriate, with a specific focus on the rotation requirements for key audit partners for audits of PIEs.
5. It was agreed that the Task Force should commence research, having regard to the specific matters that were identified in the project proposal for consideration in this project, in addition to the rotation requirements for key audit partners, i.e.:
 - Whether a shorter period on the engagement team and/or a longer time-out period would strengthen auditor independence and, if so, how such a change could operate in a global code.
 - The types of entities with respect to which rotation requirements should apply (e.g., all PIEs or other entities according to industry, size, or market characteristics).
 - The partners covered in the definition of key audit partners.
 - Whether the PIE rotation requirements should apply to other individuals involved in the audit in addition to key audit partners.
 - The implications of any relationship between the individual rotating off the engagement and that individual’s replacement;
 - The nature of the involvement, if any, that the rotated individual may have in the audit while rotated off.
 - Any specific exemptions that should be provided.

- Whether those charged with governance should be involved in the rotation decision and, if so, how and to what extent.
6. Not included in the scope of the project is the matter of mandatory firm rotation, on which the IESBA agreed to keep a watching brief.

Benchmarking Survey

7. The Task Force agreed that it is important to have a thorough understanding of partner rotation provisions in a range of jurisdictions. It also decided that the research undertaken should be broad and not be restricted to major capital markets. Therefore, leveraging connections within the Task Force, a survey developed by the Task Force was distributed to two of the large firms¹ as an efficient way to collect information about the partner rotation provisions in a number of jurisdictions in which the firms operate. Approximately 90 responses have been received to date, which will require significant resources and time to analyze. The Task Force plans to present an analysis of the survey responses to the Board at its June 2013 meeting.
8. A copy of the survey is attached as Appendix 1.
9. Agenda Item 7-B shows the jurisdictions with respect to which a survey response has been received.

Matter for Consideration

1. IESBA members are asked if they have any comments on the jurisdiction survey.

Audit Committee Research

10. At the December 2012 IESBA meeting, it was suggested that it may be helpful to consult with audit committees to identify the factors that they use to evaluate the objectivity of the auditor. The Task Force therefore proposes to undertake a survey of audit committees, similar to the survey undertaken for the Breaches project. The proposed survey is included in Appendix 2.
11. The Task Force will aim for a broad cross section of respondents and will leverage available contacts to obtain input from diverse jurisdictions. A distribution approach similar to that used for Breaches will be employed, for example, utilizing an electronic survey tool, highlighting the survey in the IESBA e-News and in the IFAC newsletter, seeking Board participants' assistance in promoting it to audit committee contacts in their jurisdictions, etc.
12. Subject to the IESBA's concurrence, the Task Force anticipates undertaking the survey from the end of Q1 and into Q2 2013.
13. As a supplementary research effort, the Task Force could undertake a review of guidance provided to audit committees by their representative bodies or regulators.

Matters for Consideration

2. IESBA members are asked if they support the proposed research on audit committees' views on partner rotation, and if they have comments on the proposed survey questions in Appendix 2.

¹ Deloitte and PwC

Regulator Research

14. It was also suggested at the December 2012 IESBA meeting that it would be useful to understand regulators' views, in particular why they chose the rotation requirements that apply in their jurisdictions. The Task Force therefore plans to seek, as part of the proposed research, the views of regulators who have responsibility for setting those requirements as well as the views of audit and other regulators, such as those in the banking and insurance fields. The Task Force plans to obtain this input via:
 - The benchmarking survey referred to in paragraphs 7-9 above.
 - The IESBA Consultative Advisory Group (CAG)
 - The IESBA-National Standard Setters (NSS) liaison group.
 - Inspection and other reports by IFIAR members.
15. In December 2006, the IESBA issued an exposure draft on the topic of independence that considered the long association provisions in the Code. The Task Force will review the responses of regulators to that exposure draft to the extent that these remain relevant.
16. The benchmarking survey includes a question on the views of regulators:

In relation to questions 1-3, as appropriate, can you provide any comments regarding the rationale for having additional or different audit partner rotation requirements in your jurisdiction?

Are you aware of any impending changes in audit partner rotation requirements in your jurisdiction?
17. Views of CAG and NSS representatives will be sought at the upcoming CAG and NSS meetings in April and May 2013, respectively, likely on the same matters included in the proposed survey of audit committees.
18. The work of the International Forum of Independent Audit Regulators (IFIAR) has included audit inspection reports for some jurisdictions. Desk research has identified comments pertaining to the matter of long association in reports from the following jurisdictions:
 - Australia (2011/12)
 - Germany (2007/10)
 - Malaysia (2011)
 - Netherlands (2011)
19. The Task Force will consider whether these reports provide insights into the impact of partner rotation rules vis-à-vis independence. It is noted that the rules in some IFIAR members' jurisdictions are not the same as those in the Code.

Matter for Consideration

3. IESBA members are asked if they support the proposed research above.

Firm Research

20. The Task Force plans to research firms' views on the impact of possible changes to the current long association provisions, the challenges that firms are facing with the current provisions, and the impact of any potential changes on timing for implementation. The Task Force plans to invite views of the larger firms through the members of the IESBA, and to obtain the views of a sample of SMPs through the IFAC SMP Committee.

Matter for Consideration

4. IESBA members are asked if they support the proposed research of firms' views.

Academic Research on Long Association

21. Staff has conducted an initial desk review of academic research into the topic of long association. The Task Force will review the research for matters of relevance to the project. A summary of the research will be provided to the Board if appropriate.

Limited Resource Exemption, and SMPs

22. Paragraph 290.155 sets out the limited resource exemption as follows:

When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

23. When the IESBA consulted on revisions to the Code in 2006, it noted that many comments were received regarding the need for an exemption with respect to the circumstance where a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner. Given the importance of this provision, it was noted at the December 2012 IESBA meeting that it would be helpful for the research to consider the impact of the provision and how practice may have evolved.
24. A question on exemptions was included in the benchmarking survey. Staff has approached the IFAC SMP Committee staff for assistance in obtaining information with regard to the SMP community that may be necessary to supplement the results of the benchmarking survey. The Task Force notes that this exemption may be relevant in small firms that are members of the larger firm networks and they too may have views on the exemptions in the Code.

Project Timeline

25. The Task Force anticipates that the forward timeline will be as follows, subject to the progress of the research. This timeline assumes that changes to the Code will be proposed through an exposure draft. The Task Force would ideally wish to issue the exposure draft after the March 2014 IESBA meeting, subject to obtaining the CAG's input on the proposals.

Time	Activity
Q1-Q2 2013	Survey of jurisdictions
March 2013	Status Report to IESBA
April 2013	CAG meeting
	Analysis of jurisdiction survey
	Survey of Audit Committees
May 2013	NSS meeting
June 2013	Jurisdiction survey report to IESBA
	Analysis of Audit Committee surveys
Sept 2013	Report on research to CAG
Sept 2013	Report on research to IESBA, with preliminary recommendations
	Drafting of proposed changes to the Code
Dec 2013	First read of proposed changes to the Code
Q1 2014	Consultation with CAG
March 2014	IESBA approval of exposure draft

Matter for Consideration

5. IESBA members are asked if they have any comments on the proposed project timeline.

APPENDIX 1

Survey of Audit Partner Rotation Requirements in a Range of Jurisdictions

Survey: Audit partner rotation requirements

JURISDICTION:

[insert jurisdiction]

Q1

IESBA CODE ROTATION REQUIREMENTS - PUBLIC INTEREST ENTITIES

290.151 provides: "In respect of an audit of a public interest entity, an individual shall not be a key audit partner for more than seven years. After such time, the individual shall not be a member of the engagement team or be a key audit partner for the client for two years. During that period, the individual shall not participate in the audit of the entity, provide quality control for the engagement, consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement."

290.152 provides: "Despite paragraph 290.151, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, be permitted an additional year on the audit team as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner."

290.153 requires that any threats to independence related to the long association of other partners be evaluated.

Q1: Are there any local professional or regulatory audit partner rotation requirements in your jurisdiction that are additional to, or different from, these IESBA Code requirements?

[YES / NO]

If YES, please complete the table below as comprehensively as possible with all the requirements in your jurisdiction. Add as many types of personnel/entities as needed.

CURRENT REQUIREMENTS	Type of entity	Definitions (add in notes below)	Relevant Regulation or Code name	Years of service permitted	Years "cooling off"	Exceptions or conditions
Lead audit engagement partner	Listed entity					
EQCR partner	Listed entity					
Other key audit partner	Listed entity	A				
Other audit partner	Listed entity	B				
Other senior personnel (manager level)	Listed entity	C				
Other audit engagement staff	Listed entity	D				
Lead audit engagement partner	Other PIE	E				
EQCR partner	Other PIE					
Other key audit partner	Other PIE					
Other audit partner	Other PIE					
Other senior personnel (manager level)	Other PIE					
Other audit engagement staff	Other PIE					
Lead audit engagement partner	[Other?]	F				
EQCR partner	[Other?]					
Other key audit partner	[Other?]					
Other audit partner	[Other?]					
Other senior personnel (manager level)	[Other?]					
Other audit engagement staff	[Other?]					

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NOTES: Add relevant definitions/detail here (as necessary)		
	A. Key audit partner	
	B. Other audit partner	
	C. Other senior personnel	
	D. Other audit engagement staff	
	E. Public Interest Entity	
	F. Other type of entity to which rotation applies	

Q2	Q2: With respect to the role of the individual in the "cooling off" period (290.151), does your jurisdiction have any additional or different requirements or guidance on the nature of the involvement, if any, that the rotated individual may have in the audit or with the client while rotated off?	[YES / NO]
	If yes, please provide details.	

Q3	Q3: Does your jurisdiction have any additional requirements or guidance on the implications of any relationship between the individual rotating off the engagement and that individual's replacement?	[YES / NO]
	If yes, please provide details.	

Q4	Q4: In relation to questions 1-3, as appropriate, can you provide any comments regarding the rationale for having additional or different audit partner rotation requirements in your jurisdiction?	[YES / NO/ N/A]
	If yes, please provide details and any information that would be helpful for understanding the regulator's/standard setter's rationale for having stricter or different requirements than the IESBA Code	

Q5	IESBA CODE ROTATION REQUIREMENTS - LIMITED EXEMPTION	
	<p>290.155 provides: "When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review."</p>	
	Q5. Does your jurisdiction have any additional or different local exceptions or special conditions for the application of audit partner rotation requirements for small firms and/or small entities?	[YES / NO]
	If yes, please provide details and any information that would be helpful for understanding the rationale for having these exceptions or conditions	

Q6 IESBA CODE LONG ASSOCIATION PROVISIONS - ALL AUDIT CLIENTS (General provisions)

290.150 provides: "Familiarity and self-interest threats are created by using the same senior personnel on an audit engagement over a long period of time." The rest of this paragraph requires the significance of the threats to be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.

Q6. In addition to, or instead of, rotation requirements (see Q1 above), does your jurisdiction have any additional requirements in relation to other senior personnel on an engagement?

[YES / NO]

If yes, please provide details and any information that would be helpful for understanding the rationale for having these requirements.

Q7 Q7. Are you are aware of any impending changes in audit partner rotation requirements in your jurisdiction?

[YES / NO]

If yes, please provide details and any information that would be helpful for understanding emerging requirements for audit partner rotation in your jurisdiction.

APPENDIX 2

Outline Draft Survey of Audit Committees

1. Do you believe that the threat to independence increases as a result of long association with the audit engagement by the audit engagement partner and other partners on the audit?

- ☐ Yes
- ☐ No

Comments:

2. Do you think rotation of the audit partners is necessary and appropriate to reduce the familiarity threat to independence?

- ☐ Yes
- ☐ No

3. Please indicate which partners² you think should rotate and after how many years rotation should be required for those partners.

Number of years	No rotation	3	4	5	6	7	Other
Lead audit engagement partner							
ECQR partner							
Other key audit partners							
Other(s), please describe							

4. Please comment on your rationale for your answers to question 3.

5. Once rotated off, how long do you think the partner should be “off” the audit engagement?

Number of years	1	2	3	4	5	Other
Lead audit engagement partner						
ECQR partner						
Other key audit partners						
Other(s), please describe						

6. Please comment on your rationale for question 5.

² Definitions will be inserted

7. Do you think a partner who has rotated off the engagement should have any ongoing relationship with the client entity while rotated off?

- ☐ Should have no relationship at all
- ☐ Could act as a non-audit service partner
- ☐ Could act as a client relationship partner
- ☐ Other, please describe

8. On a scale of 1 (very unimportant) to 5 (very important), how important is partner rotation in assessing the independence of the auditor?

Very unimportant				Very important
1	2	3	4	5
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

9. Do you think there should be any exceptions to the requirement to rotate?

- ☐ Yes, please explain
- ☐ No, please explain

10. Do you have any views on whether there is an impact on audit quality in the immediate period following rotation of key audit partners?

- ☐ Yes, please explain
- ☐ No, please explain

11. Only partners are currently required to rotate under the Code. Do you think other senior staff on the engagement should be subject to rotation?

- ☐ Yes, please explain
- ☐ No, please explain

12. What type of entities do you think rotation should apply to?

- ☐ Listed
- ☐ Other Public Interest Entities
- ☐ Other, please describe

13. Do you think that "those charged with governance" should be involved in the rotation decision and if so how and to what extent?

- ☐ Yes, please explain
- ☐ No, please explain

14. Are you a member on an audit committee?

- ☐ Yes
- ☐ No

15. Which best describes the organization(s) you serve?

- ☐ Listed

- Unlisted
- SME

16. In which region of the world are you located? [Insert standard drop-down list of countries]