

**Long Association of Senior Personnel (Including Partner Rotation)  
with an Audit Client—Research Update****Background**

1. The project considers the provisions in the IESBA *Code of Ethics for Professional Accountants* that address the potential threats to independence created by using the same senior personnel on an audit engagement over a long period of time. The Task Force is obtaining the views of stakeholders and interested parties on whether these provisions continue to provide robust and appropriate safeguards against familiarity or self-interest threats arising from the long association of senior personnel with an audit client, or whether the provisions can and should be revised to help enhance the independence and skepticism of audit engagement personnel.
2. The matter of mandatory firm rotation, on which the IESBA agreed to keep a watching brief, is not included in the scope of the project.
3. 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.
4. In March 2013, the IESBA were provided with an update on the Task Force's research plans and timeline.
5. In April 2013, the IESBA CAG considered the project and provided advice to the Task Force.

**Benchmarking Survey of Jurisdictions**

6. 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 restricted to major capital markets. Therefore, leveraging connections within the Task Force, a survey developed by the Task Force was distributed to the member firms of two of the large professional services networks<sup>1</sup> as an efficient way to collect information about the partner rotation provisions in a number of jurisdictions in which the firms operate. 82 responses have been received. The Task Force plans to analyze the survey responses, in conjunction with the results from the other surveys and research outlined below, at its meeting in July 2013 to identify the issues it wishes to present to the IESBA at its meeting in September 2013. The Task Force presents a geographic summary of the survey responses as Agenda Item 7-B.

**Audit Committee and Other Stakeholder Research**

7. 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 and to obtain views on partner rotation requirements. The Task Force therefore proposed to undertake a survey of audit committees, similar to the survey undertaken for the Breaches project. At the March 2013 IESBA meeting, it was suggested that the survey would be relevant to a broader range of stakeholders.
8. An online survey was developed and responses were requested by May 29, 2013, although a later deadline was anticipated if necessary. The survey is still live at the date of this Board meeting. To date

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<sup>1</sup> Deloitte and PwC

there have been 400 completed responses, including 51 from audit committee members. The responses are global and represent a wide range of stakeholders. However, the number of responses from audit committee members from larger economies is relatively low. For example, the United States is under-represented with 22 (5.6%) responses in total including 5 audit committee members, despite targeted requests. A summary report, without comments, of responses from audit committee members is attached as Agenda Item 7-D.

9. Many of the questions asked for comments and the large number of responses has therefore resulted in a large number of comments which will complicate the analysis that the Task Force will need to undertake.
10. Targeting the survey at a broad range of stakeholders does, however, allow comparison of responses from different stakeholder groups. Comparison of responses between stakeholder groups may prompt further questions.
11. Agenda Item 7-C provides a demographic analysis of the 400 respondents to the survey. It is noted that 244 professional accountants completed the survey, although they were not specifically targeted. As this demographic was “select all that apply,” the professional accountants will often have multiple responsibilities, e.g., they may also be audit committee members.
12. The Task Force will analyze the survey responses from audit committee members as a specific group in order to understand their perspective. The Task Force will consider whether responses from Audit Committees in listed entities and PIEs are sufficient to provide a representative sample of this stakeholder group. It has already requested IESBA members, CAG representatives and other named contacts to forward the survey to relevant contacts, in particular those on audit committees but this has not yet resulted in significant responses from that stakeholder group.

### **Regulator Research**

13. 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 has solicited the views of regulators who have responsibility for setting those requirements as well as the views of audit regulators. A request to complete the stakeholder survey was sent to IFIAR members.
14. Views of CAG representatives were sought at the April 2013 CAG meeting. The draft minutes of the CAG meeting are included as Agenda Item 1.
15. Views of NSS representatives were sought at the NSS meetings on May 29, 2013, based on their responses to the online survey (18 responses obtained). The Task Force will consider the NSS participant's views at its meeting in July 2013.
16. 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)
  - Malaysia (2011)
  - Netherlands (2011)

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.

17. The Task Force will also consider the comments provided by IOSCO on long association in its response to the IESBA Strategy survey.

#### **Firm Research**

18. The Task Force researched firms' views on the current provisions, including the impact of possible changes to the provisions, the challenges that firms are facing with the current provisions, the effectiveness of rotation in reducing concerns about independence, and the impact of the timing for the implementation of any changes. The Task Force invited views of the larger firms through the Forum of Firms, and the views of SMPs through the IFAC SMP Committee (SMPC). The deadline for responses to the Firm survey was May 24, 2013 although it is expected that some responses may come in shortly after that date. The Task Force will consider the responses at its meeting in July 2013.

#### **Academic Research on Long Association**

19. An initial desk review of academic research into the topic of long association has been conducted. 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 it is judged relevant.

#### **Limited Resource Exemption, and SMPs**

20. 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. 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.
21. A question on exemptions was included in the benchmarking survey and indirectly in the audit committee survey. The Task Force has approached the SMPC for assistance in obtaining information with regard to the SMP community and has joined an SMPC conference call to discuss the matter.

#### **Project Timeline**

22. The Task Force anticipates that the forward timeline remains as follows. This timeline assumes for now that changes to the Code will be proposed, requiring issuance of an exposure draft. The Task Force would ideally wish to issue the exposure draft after the April 2014 IESBA meeting, subject to obtaining the CAG's input on the proposals.

<b>Time</b>	<b>Activity</b>
May 2013	NSS meeting
June 2013	Initial jurisdiction survey report to IESBA

Long Association – Research Update  
*IESBA Meeting (June 2013)*

July 2013	Analysis of audit committee surveys and review of firms' and SMP responses
Sept 2013	Report on research to CAG
Sept 2013	Report on research to IESBA, with discussion topics and preliminary recommendations
Q4 2013	Drafting of proposed changes to the Code, if any
Dec 2013	First read of proposed changes to the Code, if any
March 2014	Consultation with CAG
April 2014	IESBA approval of exposure draft, if any