

Long Association— Summary of Significant Comments on the Exposure Draft

How the Project Serves the Public Interest

The project serves the public interest as long association of personnel on an audit engagement with an audit client can impact objectivity and professional skepticism, which in turn are important contributors to audit quality. The independent auditor constitutes the principal external check on the integrity of financial statements. Hence, the length of the auditor's relationship with the audit client becomes a very visible factor when evaluating the auditor's independence of mind and in appearance. It is acknowledged that a perception issue exists with respect to long association, particularly as the length of time an individual may serve an audit client that is a public interest entity (PIE) in a key audit partner (KAP) role, may be 14 out of a total of 16 consecutive years. It is therefore important, and in the public interest, for the Board to consider whether the provisions remain appropriate for addressing the threats arising from long association.

The issues involved are complex and interwoven. The factors that give rise to threats to independence may also be factors that contribute to audit quality. These could include knowledge of the audit client and knowledge of the audit client's operations and continuity of personnel. In addition, while some stakeholders call for mandatory requirements to be strengthened, it is also recognized that arbitrary requirements can create unintended hardship on companies when rotations are forced to occur at times of change or transition.

The Board recognizes the debates and developments that are taking place in certain jurisdictions regarding mandatory firm rotation, and understands that jurisdictions may decide, depending on local circumstances, to introduce such requirements into law or regulation. The Board recognizes that this can be viewed as an additional safeguard to primarily address issues relating to a firm's long term relationship with an audit client. Such considerations are not part of this project which addresses the threats in relation to individuals involved in the audit engagement.

I. Background

1. The comment period for the [exposure draft](#) (ED) closed on November 12, 2014.
2. At its January 2015 meeting the Board considered a [preliminary summary](#) of the key themes and significant comments arising out of the ED. The summary covered the rotation requirements for KAPs on the audits of PIEs. The Board tentatively concluded that:
 - (a) The length of the time-on period for all KAPs should remain at seven years;
 - (b) The length of the cooling-off period for the engagement partner (EP) should be five years;
 - (c) The length of the cooling-off period for other key audit partners (KAPs), including the Engagement Quality Control Reviewer (EQCR), should remain at two years;
 - (d) The rotation requirements should apply to all PIEs.
3. The Board noted that there was lack of support from respondents for the proposal in the ED, that if an individual was EP for only part of the seven-year time-on period, that individual should cool-off for five years. The Task Force (TF) agreed to give further consideration to an alternative to this proposal.
4. The Board noted respondents' concerns regarding the interaction of the proposals in the ED with local requirements, particularly in jurisdictions which also have implemented firm rotation.

The Board asked the TF further to consider whether the existence of different regulatory safeguards, or a package of safeguards, set at jurisdictional level, might provide an alternative to the PIE rotation requirements in the Code, and whether the Code could allow for such different solutions to address the long association threat.

5. The IESBA CAG met on March 11, 2015 and was provided with a summary of the Board's discussion in January 2015. The CAG was also provided with the TF's consideration of the remaining issues and comments received in response to the ED proposals, as set out in Section III of this paper. The TF considered it important for the CAG to provide comments on all the issues arising out of the ED, notwithstanding that the Board had not yet considered them all, so that the TF could give a complete picture of the views of CAG Representatives to the Board at this meeting. However, the CAG discussion focused on the rotation requirements, and due to time constraints, the CAG was unable to provide feedback on any of the issues in Section III.
6. Draft minutes of the CAG meeting are set out in Agenda Item 3-C. The TF considers that without the CAG's feedback on all the issues, and taking into account the comments made by the CAG, it will be unlikely to be able to bring final proposals to the Board's July 2015 meeting, with a view to obtaining final approval of the changes to the Code at that meeting. The Board may wish to request a CAG meeting be held by conference call to consider all the matters outlined in this paper, so that the original timetable can be met.
7. Further analysis of the issues and comments arising from the January Board meeting is included in Section II of this paper. In addition, the TF has decided to separately analyze and present further options in respect of two major issues which were discussed at the January 2015 Board meeting. These issues are presented to the Board for its consideration in Item 3-B and have arisen as follows:
 - (a) The TF further discussed the issue of whether the existence of different regulatory safeguards at jurisdictional level might provide an alternative to the PIE rotation requirements in the Code. The TF also held a conference call with a respondent to the ED,¹ in light of the comments specifically received from European Union (EU) stakeholders on this issue, and concerns regarding the impact of the rotation proposals. The TF's summary of this matter, the concerns raised, and options for the Board's consideration, are set out in Section I of Agenda Item 3-B.
 - (b) At the IESBA CAG meeting on March 11, 2015 the majority of CAG Representatives were very strongly in support of the EQCR being subject to the same five-year cooling-off period as the EP, and the TF considers that this feedback should be brought back to the Board for consideration. The TF's summary of this matter, the concerns raised, and options for the Board's consideration, are set out in Section II of Agenda Item 3-B.
8. To date, the Board has only considered a summary of significant comments on the ED proposals relating to the rotation requirements for KAPs on the audits of PIEs. The remaining comments from the ED have been summarized for the Board's consideration in Section III of this paper, covering the following topics:
 - (a) Restrictions on activities during the cooling-off period;
 - (b) Limited consultation by the EP;
 - (c) Other restrictions on activities;

¹ Other Professional Organization FEE

- (d) Other changes – New provisions 290.150.C and 290.150D;
- (e) The concurrence of TCWG;
- (f) Strengthening the General Provisions.

II. Further Consideration of the Issues Arising from the ED as Discussed by the Board in January 2015

A. The Rotation Requirements for KAPs on the Audits of PIEs

Length of Time-On Period for All KAPs

- 9. The ED proposed no change to the existing seven-year time-on period for KAPs with respect to the audit of a PIE. The Board felt that this period of time seemed to provide the right balance between addressing the familiarity and self-interest threats to independence created by long association, and the need to maintain relevant knowledge and experience to support audit quality.
- 10. The Board noted that most respondents supported the status quo. The Board considered that having a maximum time-on period of seven years did not preclude individual jurisdictions from applying a shorter time-on period, as proposed by a few respondents. The Board confirmed its continuing support for the proposal.
- 11. Comments were not specifically received on this proposal during the IESBA CAG meeting.

Length of Cooling-Off Period for the EP

- 12. The ED proposed an increase in the mandatory cooling-off period, from two years to five years, for the EP on the audit of an entity that is a PIE. The majority of respondents did not support extending the cooling-off period for the EP to five years. There was lengthy Board discussion about the respondents' comments. Some Board members proposed that this should lead to the consideration of other approaches, including a three-year cooling-off period, instead of a five-year cooling-off period. The majority of the Board continued to support the proposals.
- 13. The TF was asked to consider whether the existence of different regulatory safeguards, or a package of safeguards, set at jurisdictional level, might provide an alternative to the PIE rotation requirements in the Code, and whether the Code could allow for such different solutions to address the long association threat. The TF considered this and originally tentatively concluded that if five years is considered to be the appropriate time for an EP to cool-off, in order to appropriately reduce or eliminate the threats related to the individual, then it could not see a rationale for the Code allowing for a lesser alternative, even if combined with firm rotation in a particular jurisdiction.
- 14. The TF subsequently met by teleconference with representatives of a respondent² to the ED. Several concerns with respect to the rotation proposals were discussed, including the impact they would have in the EU, where a due legislative process has introduced a package of measures which, while different, are arguably as robust in dealing with threats from long association.
- 15. In the light of the Board's direction to consider this issue further, together with the discussion outlined above, the TF has reconsidered its views. It has tentatively concluded that IESBA might consider allowing an alternative to the ED proposals if the time-on period for a KAP

² Other Professional Organization FEE

serving a PIE is shorter than seven years, or the jurisdiction has also implemented firm rotation. The TF has set out a summary of its considerations and discussions in Section I of Agenda Item 3-B and invites comments from IESBA Members on the potential options for dealing with this issue.

Matters for Consideration

1. IESBA members are asked to consider the issues raised in Section I of Agenda Item 3-B and for views on the options presented by the TF.

Length of the Cooling-Off period for Other KAPs, Including the EQCR

16. Most respondents supported the proposal in the ED that the cooling-off period remain at two years for other KAPs. A few respondents commented that the EQCR should cool-off for a longer period. These respondents indicated that the role had more significance and justified a longer cooling-off period.
17. The Board discussed the comments from respondents. It concluded that with regard to the EQCR, there was no need to change the proposal which was based on the rationale expressed in the explanatory memorandum (EM). The rationale included that the EQCR does not participate in the engagement or meet the client.

CAG Representatives' Views

18. CAG Representatives were asked for their views.³ In summary, the majority of CAG Representatives were unconvinced by the Board's rationale and strongly supported the EQCR being subject to the same five-year cooling-off period as the EP. Comments from other CAG Representatives were mixed, with: some supporting the view that the EQCR role was different and should not be subject to the same rotation requirements as the EP; some not supporting the five-year cooling-off for either role; and others suggesting other measures be considered, such as only applying the rotation requirements to listed companies.
19. As a result of the feedback received from CAG Representatives on this issue the TF has separately presented an analysis of the issues and options for the Board to consider in section II of Agenda Item 3-B.

Applicability of Longer Cooling-Off Period to Audits of Listed Companies or All PIEs

20. If longer cooling-off periods were to apply to the EP, the majority of respondents agreed that the requirements should apply to all PIEs. Some respondents disagreed with this view and considered that as the PIE definition differs across jurisdictions, the longer cooling-off provisions should apply to listed entities only.
21. The Board discussed the comments. Among other things, the Board discussed its PIE definition which allows a PIE to be determined in a local jurisdiction, in addition to those specified in the Code. The board considered that once the definition of a PIE had been determined in a local jurisdiction, the independence requirements relating to PIEs should be applied consistently across that jurisdiction. Accordingly, the Board confirmed its continuing support for the ED proposals.

³ Draft minutes of the meeting are included in Agenda Item 3-C.

CAG Representatives' Views

22. There was insufficient time at the CAG meeting to discuss this issue specifically. However, in an effort to find a common ground, given the different issues and impacts being raised, some CAG Representatives expressed the following views:
- (a) A number of PIES are audited by SMPs worldwide and the Board should take into account the problems that its proposals would cause SMPs. The impact would be reduced if applied only to listed entities;
 - (b) The proposals might be applied to PIES differently across jurisdictions and may cause a competitive disadvantage;
 - (c) If the same cooling-off requirements are applied to the EP and EQCR, one way to find a compromise on the potential impact concerns would be for the provisions to only apply to listed entities.
23. These comments have also been considered and included in Section II of agenda item 3-B.

Matters for Consideration

2. IESBA members are asked to consider the issues raised in Section II of agenda item 3-B and for their views on the options presented by the TF.

EP for only Part of the Seven-Year Time-On Period

24. The ED proposed that a KAP who served as an EP at any time during the seven-year period of service be required to cool-off for a period of five years. Respondents generally disagreed with this proposal as being too restrictive and inappropriate. The TF was asked to consider a revised proposal.
25. Comments were not specifically received on this proposal during the IESBA CAG meeting.

Outcome of TF Deliberations

26. The TF considered how to reformulate the proposal so that the five-year cooling-off period would apply when sufficient time had been served as the EP to warrant applying the longer cooling-off period. The TF also considered that an individual serving as EP in the last few years (of the maximum seven years of service) should be subject to the five year cooling-off period, whereas an individual who had served as EP in the first few years may not.
27. The TF recommends that an individual who has acted as an EP during the seven-year period for either four or more years, or for at least two of the last three years, be required to cool-off for five years. The TF has proposed a change to the text in the first bullet point of Section 290.150A in agenda items 3-D and 3-E. The TF considers this proposal is consistent with the recommendation of a number of respondents. By way of illustration of the proposal, the TF has included examples of its application in the Appendix to this paper.

Matters for Consideration

3. IESBA members are asked for views on the TF's proposal concerning the application of the five year cooling-off period to a KAP who is an EP for only part of the seven-year time-on period.

KAP Moving Directly from a KAP into an EQCR Role

28. Whilst this was not an issue addressed in the ED, a respondent⁴ raised the issue of whether an EP should be able move straight into an EQCR role without any cooling-off. It was considered that the individual performing the EQCR role would be reviewing his or her own prior work.
29. The Board asked that the TF give the matter further consideration. The TF tentatively concluded that, if a cooling-off period is to be served before an EP could become the EQCR, such a requirement should be included in ISQC1⁵ within the paragraphs that set out the requirements for the independence and objectivity of the EQCR. The TF considered that the topic be discussed with the IAASB.
30. The issue was subsequently included on the agenda of the March 10, 2015 liaison meeting between the leaderships of IESBA and IAASB. The leaderships recognized that this issue ought to be considered in a comprehensive manner. It was also acknowledged that there would be benefit in dealing with the issue in one place rather than two separate sets of standards. IAASB leadership therefore agreed that this matter be further considered as part of the IAASB's new work stream to review ISQC 1, subject to an IESBA member being identified to act as liaison to the ISQC 1 Working Group, to ensure the requirements of the Code are addressed in enough detail.
31. Pursuant to this discussion, the issue has been referred to the ISQC 1 Working Group for its consideration. The Task Force understands that the IAASB will be aiming to issue a discussion paper later this year for purposes of obtaining stakeholders' input on the issues to be addressed in a potential revision of ISQC 1. The TF proposes to defer making any further recommendations on this matter until it better understands the intentions of the ISQC 1 Working Group.
32. Comments were not specifically received on this proposal during the IESBA CAG meeting.

III Analysis of the Remaining Issues in the ED

33. As noted above, at its March 2015 meeting, the IESBA CAG was provided with a summary of the Board's discussion in January 2015. The CAG was also provided with the TF's further consideration of the remaining issues and comments received in response to the ED proposals, as set out in the following Section III. The TF considered it important for the CAG to provide comments on all the issues arising out of the ED notwithstanding that the Board had not yet considered them all, so that the TF could give a complete picture of the views of CAG Representatives to the Board at this meeting. However, the CAG discussion focused on the rotation requirements, and due to time constraints, the CAG was unable to provide feedback on any of the issues included in this section of this paper.

Restrictions on Activities during the Cooling-Off Period – Key Questions

34. The ED asked two questions concerning the proposed restrictions on activities that would apply to all KAPs during the cooling-off period. The first related to whether, after two years of a five-year cooling-off period has elapsed, an EP should be permitted to undertake a limited consultation role in relation to the audit engagement. The second question concerned whether additional restrictions should be placed on activities that can be performed by a KAP during the cooling-off period. If they did not agree with the proposals, respondents were asked to consider

⁴ **Regulator or Public Authority Auditor** General NZ

⁵ ISQC 1, paragraphs 39 and A39

what interaction should be permitted between the former KAP and the audit team or the audit client and why.

Q1-Limited Consultation by the EP

35. Most respondents supported the proposal allowing limited consultation by the former EP after two years. A few respondents⁶ commented that they supported the proposal on the grounds of audit quality. They regarded the potential impact on audit quality resulting from restricting consultation, as outweighing the threat. A few respondents⁷ commented that without this provision, costs for SMPs would be significantly increased. A respondent⁸ commented that a documentation provision should be included within the proposal.
36. A regulatory respondent,⁹ while believing it important for the engagement team to have access to technical experts, commented that the Board should first promote consultation with experts who are not serving a cooling-off period for the related audit engagement. This respondent commented that it should be possible to consult with another expert internally or externally to the firm or network.
37. Those respondents who did not support the proposal, in whole or in part, made a variety of comments. A few respondents¹⁰ expressed the view that the proposal ran counter to the need to have a cooling-off period in the first instance, and contradicted the argument for the cooling-off period being increased from two to five years (for the EP). Some respondents indicated that cooling-off should mean cooling-off.¹¹ A regulatory respondent¹² commented that to address fully concerns of threats to objectivity, there should be no involvement at all with the audit during the cooling-off period, other than responding to queries concerning previously completed audits the partner was involved with. Some respondents¹³ commented that although there might be some consultation with the audit team, there should not be any consultation with the audit entity.

Outcome of the TF Deliberations

38. The TF has discussed the comments and continues to support the proposals, subject to the following:
- (a) The TF agreed with commentary that even if consultation was required to occur with the former EP, it should only be with the engagement team and should not involve contact with the client. The TF is tentatively proposing an adjustment to the text of the ED in the first bullet point of proposed paragraph 290.150B, to reflect that there should be no consultation with the audit client during the cooling-off period. This proposed change is set out in agenda items 3-D and 3-E.

⁶ **Firms** Nexia Aus Nexia International **Member Bodies** HKICPA ICAGH

⁷ **Firm** Nexia Aus Nexia International

⁸ **Firm** RSM

⁹ **Regulator and Public Authority** IOSCO

¹⁰ **Firm GTI Member Body** ICAS

¹¹ **Regulator and Public Authority** FRC **Firms** FKA and William Buck **Member Body** FAR

¹² **Regulator and Public Authority** FRC

¹³ **Regulator and Public Authority** Auditor General NZ **National Standard Setter** NZAuASB **Member Body** CPA Canada
Individual and Other J T Giraud

- (b) The TF discussed that the intention of the proposals is to ensure that the right technical experts are available to the audit team. However, it agreed that other experts should be consulted if such are available. The TF is proposing to add to the provisions in the first bullet point of 290.150B, that there should be “no other equivalent expertise available”. This proposed change is set out in agenda items 3-D and 3-E.

Other Restrictions on Activities

39. There were almost as many respondents in favor of the proposal as there were against it. There were a variety of comments from those respondents who supported the proposal. The following comments reflect why the proposals were supported:
- The proposals strike an appropriate balance.¹⁴
 - The provisions are reasonable and that in the absence of these restrictions, the KAP could perform roles that would render rotation an ineffective safeguard. This respondent¹⁵ commented that the restrictions provided a clear context for any KAP to operate.
 - It is important that any contact with the audit team and client is minimal so there can be a fresh look in conducting the audit.¹⁶
 - The proposals are reasonable in theory, although the implementation of the proposals may only be possible in larger firms.¹⁷
40. Those respondents who did not support the proposal expressed a variety of views for their lack of support, both for it being too restrictive, or not restrictive enough:
- A few respondents¹⁸ expressed the view that “cooling-off means cooling-off.”
 - Some respondents¹⁹ preferred a risk-based approach with firms being able to exercise professional judgment, indicating that a principles-based approach might be more appropriate to determine the activities that should be restricted.
 - A few respondents²⁰ considered that the proposed restriction in relation to non-audit services was unduly restrictive if the non-audit services had no material effect on the financial statements, or that the proposed restriction on contact with senior management was overly restrictive, if the non-assurance service did not result in the individual exerting direct influence on the outcome of the audit engagement.
 - A respondent²¹ commented that the additional restrictions introduced unnecessary complexity and might be too time consuming and difficult to manage, and may lead to firms imposing their own stricter requirements which might potentially penalize clients. Another respondent²² commented that its constituents from the SMP sector were concerned about the restrictive nature of the provisions.

¹⁴ Firm EY

¹⁵ Member Body ICAGH

¹⁶ Firm DTTL

¹⁷ Member Body CPA Canada

¹⁸ Regulator and Public Authority FRC IRBA Member Body FAR

¹⁹ Regulator and Public Authority SCM Firm PKF Member Bodies ACCA IDW

²⁰ Member Bodies AICPA KICPA

²¹ Member Body CAANZ

²² Member Body HKICPA

- A respondent²³ questioned why the provision of non-assurance services that result in significant or frequent interaction with senior management would not be permitted during the cooling-off period, if the individual has no intention to act as KAP on that engagement again.
41. A few respondents²⁴ commented on the restriction in the proposal for individuals not being able to lead or coordinate the firm's professional services to the audit client or oversee the firm's relationship with the audit client, (often referred to as the relationship partner). They indicated that such restrictions might be unduly restrictive.

Outcome of TF Deliberations

42. The TF has considered these comments and, on balance, is not proposing any adjustment to the proposals in the ED. The Board's rationale for the proposal was based on concerns of many stakeholders that contact between the rotated individual and the audit client during the cooling-off period should be very limited; and that the rotated individual should not be in a position where he or she would be, or be perceived to be, able to directly influence the outcome of the audit. The Board, however, did not consider that it was necessary or practical that there be no contact at all. The TF has not been persuaded that there is significant justification to change this proposal.

Matters for Consideration

4. IESBA members are asked for views on the TF proposals concerning: (a) limited consultation by the EP; and (b) additional restrictions on the EP's activities.

Other Changes – New Provisions 290.150.C and 290.150D

290.150C – Application of the “Seven-Year” Time-On Period

43. The ED explained that the structure of the extant Code may imply that it is always acceptable for a KAP to serve the maximum seven-year time-on period without reference to any other factors or safeguards. To address this matter, the IESBA proposed a new paragraph 290.150C which indicates that it may not always be appropriate for an individual who is a KAP to continue in that role, even if they have not completed seven years on the audit engagement as a KAP. The objective of the proposal is to ensure that the significance of any threat is evaluated in accordance with the general provisions.
44. Most respondents supported this proposal. Respondents supporting this proposal indicated, amongst other things, that it provided “solid ground that the general provisions must always be applied”²⁵ and that the provisions were “essential in demonstrating that the code remains principles-based.”²⁶ Respondents who did not support the proposal generally did not think that the provision was necessary, considering that it is sufficiently clear that all individuals are subject to the general provisions,²⁷ and the concept is covered elsewhere in the Code.²⁸

²³ Firm PKF

²⁴ Member Body ACCA IDW

²⁵ Regulator and Public Authority DFSA

²⁶ Member Body ACCA

²⁷ Firm PWC

²⁸ Firm EY

Outcome of TF Deliberations

45. The TF has discussed the comments. In the light of the support from respondents, the TF has tentatively reached the view that no change is required to the proposal in the ED.

290.150D – Considering Long Association of Audit Team Members other than KAPs

46. In addition, the ED proposed a new paragraph 290.150D, providing that consideration be given to threats created by the long association of members of the audit team other than KAPs, in an effort to remind users that the principles in the general framework must be taken into account in addition to the specific requirements for KAPs on the audit of PIEs.
47. Most respondents supported this proposal. As with the support for 290.150C, respondents considered that the proposed provision was a useful reminder that the general provisions should be applied. Respondents who did not support the proposal suggested that the provision should only apply to senior personnel²⁹ or did not consider that the provision was required as it was repetitive of the general provisions, which would apply in any case, and could be confusing.
48. The TF is considering whether paragraph 290.150D should be deleted as suggested by those respondents who regarded it as unnecessary, or left in for emphasis for those respondents who thought that it was helpful. For reference, the area of possible deletion has been highlighted in yellow in agenda item 3-D.
49. A regulatory respondent³⁰ indicated that the familiarity threat should not be narrowly focused on partners and that the provisions should address the familiarity threat of non-partner engagement team members who “grew up” on an engagement. The respondent recommended that the proposals should be significantly strengthened to appropriately address the threat from such non-partner engagement team members. The Board and the TF have previously considered this question, and concluded that the principles-based approach contained in the general provisions in 290.148B addresses this concern.

Outcome of TF Deliberations

50. The TF has discussed the comments. In the light of the support from respondents, the TF has tentatively reached the view that no change is required to the drafting of these proposals in the ED, although it is considering whether it would make the provisions easier to understand and apply if paragraph 290.150D were deleted.

Matters for Consideration

5. IESBA members are asked whether they agree that no changes are necessary to proposed provisions 290.150C and 290.150D.
6. IESBA members are also asked whether the proposals could be enhanced by the deletion of 290.150D to avoid repetition.

²⁹ IFAC Member Bodies AICPA CAI Firm EY

³⁰ Regulator and Public Authority IOSCO

Concurrence of TCWG

51. In the ED, respondents were asked whether or not they agreed that the firm should apply the provisions in paragraphs 290.151 and 290.152 only if they have the concurrence of TCWG, as was proposed in the ED.
52. Most respondents supported the proposed changes in paragraphs 290.151 and 290.152. A few respondents indicated that the proposed provisions provided enhanced transparency,³¹ and commented that there should also be disclosure of the matter in the audit report.³² A regulatory respondent³³ commented that ordinarily such concurrence should be with the audit committee or persons serving an equivalent role. Another regulatory respondent,³⁴ whilst recognizing the Board's efforts to strengthen the extant provisions, did not believe that the proposed provisions went far enough. That regulatory respondent believed that the familiarity threat is the same whether a partner is serving an audit client that is a non-PIE or a PIE. As such, it believed the total length of time a partner should be allowed to serve a non-PIE audit client that becomes a PIE, should be the same as required for a partner who has served as an audit partner on a PIE.
53. Several respondents who did not support the wording of the proposals concerning paragraphs 291.151 and 290.152 considered that the provisions should not refer to concurrence, preferring terms which did not amount to obtaining agreement such as "informing", "communicating", "consulting" or "taking comments into account."³⁵ A few respondents commented that rather than obtaining the concurrence of TCWG, who may have an interest in the decision, it might be prudent to involve the local regulator in the decision making process.³⁶ A respondent³⁷ indicated that the provision should adopt a risk based approach.

Outcome of TF Deliberations

54. The TF has considered the proposal, and the supportive comments from ED respondents, and continues to support the requirement that the firm should not apply the provisions in paragraphs 290.151 and 290.152 unless they have the concurrence of TCWG. The TF is therefore not proposing any change to the proposal.

Matters for Consideration

7. IESBA members are asked for their views on whether any changes should be considered to the proposals requiring concurrence with TCWG?

Strengthening the General Provisions

55. Three specific questions were raised with regard to the general provisions. They related to: enhancements to the general provisions and whether there were any additional safeguards that should be considered; the application of the general provisions to the evaluation of potential threats caused by the long association of all individuals on the audit team, (not just senior

³¹ **Firm PWC Other Professional Organization** SMPC (IFAC)

³² **National Standard Setter** NZAuASB Firm Altaf Noor Ali

³³ **Regulator and Public Authority** FRC

³⁴ **Regulator and Public Authority** IOSCO

³⁵ **Member Bodies** ACCA ANAN CPA HK ICAP RCA **Other Professional Organizations** Assirevi PICPA

³⁶ **Member Bodies** ICAGH **Individual and Other** D S F Juvenal

³⁷ **Member Body** IDW

personnel); and the determination of an appropriate cooling-off period if a firm decides that rotation of an individual is a necessary safeguard.

Enhancements to the General Provisions in Paragraph 290.148A

56. Most respondents supported the proposed enhancements to the general provisions. Many respondents³⁸ commented on points of detail and made editorial suggestions which the TF has considered.
57. Of the respondents who did not support the proposal, a few³⁹ commented that the revisions were too detailed and made the text more complicated and confusing, which might cause complications in its application.
58. A regulatory respondent⁴⁰ commented that “the general provisions in the extant Code stated that “Familiarity and self-interest threats *are created* by using the same senior personnel on an audit engagement over a long period of time.” Whereas the proposed language states that “Familiarity and self-interest threats which *may impact* an individual’s independence, objectivity and professional skepticism, *may be created* by using the same personnel on an audit engagement over a long period of time.” (Emphasis added). This regulatory respondent commented that the proposed change sent “the wrong message to auditors and at the same time diminishes the effectiveness of the Code.” The TF notes that the scope of the provisions has been expanded to apply to all members of the audit team, not just senior personnel. It was considered appropriate to change “are created” to “may be created” as there may be no threat created by the long association of a junior member of the engagement team. The TF proposes no change.
59. A few respondents⁴¹ commented to the effect that familiarity threats increase over time and suggested that this be reflected in the provisions.
60. A few respondents⁴² commented on the statement⁴³ “...a familiarity threat may be created as a result of an individual’s long association with... the financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.” Comments in this regard included: that this raised a question how an individual’s long association or familiarity with financial statements would be defined or measured; and that familiarity with the financial statements is not compatible with the definition of the familiarity threat in the Code. (The threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work). A few respondents⁴⁴ commented on the addition of a reference to losing a longstanding client. Such comments included: that the reference be removed from this section of the Code as such self-interest threats are dealt with elsewhere in the Code; and that the paragraph should focus on the self-interest that may arise out of close personal relationships.

³⁸ **Firms** Altif Noor Ali BDO DTT GTI KPMG Kreston International Nexia Aus Nexia International PKF PWC **Member Bodies** ACCA CAANZ CISP FSR ICAP ICAS SAICA **Other Professional Organization** SMPC (IFAC) **Individual and Other** JEC Grant

³⁹ **Member Bodies** IDW WPK

⁴⁰ **Regulator and Public Authority** IOSCO

⁴¹ **Firms** Crowe Horwath Kreston International

⁴² **Member Bodies** ACCA IDW **Firm** PWC

⁴³ Statement contained in 290.148A

⁴⁴ **Member Firm** PKF **Member Body** ACCA **Individual and Other** J E C Grant

61. A respondent⁴⁵ commented on paragraph 290.148A that, in addition to the example of a self-interest threat “a desire to maintain a close personal relationship with a member of senior management or those charged with governance,” the Board should include an additional example of a self-interest threat related to “an individual’s hesitancy to overturn a decision previously reached, so as not to call into question the prior judgment.”

Outcome of TF Deliberations

62. The TF has discussed the comments and proposed a few amendments to the text of the ED in response to comments from respondents. These changes are set out in agenda items 3-D and 3-E and are as follows:
- Add to the title, for clarity, that the general provisions apply to all audit clients;
 - Address comments on the first paragraph of 290.148A that suggested that the familiarity and self-interest threats described could happen any time, by adding that threats may be created “and may increase in significance,” to make clear that the examples of familiarity and self-interest threats may be exacerbated as a result of long association with a client;
 - Clarify in the third bullet point of paragraph 290.148A that an individual’s familiarity with the financial statements is linked to the individual’s role as a member of the audit team;
 - Delete the words “of the firm,” in the section of 290.148A, (after the bullet points, after “longstanding client,”), to address the concern that it was suggestive of an institutional rather than personal self-interest threat that gives rise for concern;
 - Clarify how a self-interest threat created by long association can affect an individual’s judgment by adding the words, “and may inappropriately influence the individual’s judgment (at the end of 290.148A.)

Application of General Provisions to All Individuals on the Audit Team

63. The ED proposed that the general provisions should apply to evaluating the potential threats created with respect to all individuals on the audit team, not just senior personnel. The ED proposed replacing references to “senior personnel,” with “personnel,” and asked respondents to comment on whether this change was appropriate.
64. More than half of the respondents, while recognizing that junior personnel posed a lesser risk, commented that the provisions should apply to all individuals on the audit team and not just senior personnel. Reasons expressed for this view included that the objectivity of members of the audit team, other than senior personnel, with long experience and close association with the client can also be “easily compromised”.⁴⁶ Even junior staff that have stayed “too long” on a particular audit, could also tacitly influence the outcome of an audit,⁴⁷ and any member of the audit team could be associated with audit client staff long enough such that threats to independence can be created.⁴⁸ A respondent⁴⁹ commented on the importance of a principles-based approach to these provisions, bearing in mind the varying nature of these types of

⁴⁵ **Member Body SAICA**

⁴⁶ **Firm FKA**

⁴⁷ **Member Body ANAN**

⁴⁸ **Member Body ACCA**

⁴⁹ **Regulator and Public Authority SCM**

relationships. A few respondents⁵⁰ indicated that the Board should provide examples that illustrate the threat connected with the long association of any member of the audit team, including where a junior member of staff's familiarity threat could be considered significant.

65. Respondents who were not in favor of the provisions applying to all individuals on the audit team expressed the view that junior personnel did not pose the same risk as senior personnel, as they were not key decision makers.⁵¹ A few respondents⁵² also commented that extending the provisions to junior personnel was unnecessary, and would require firms to devote time and resources to the matter which might include documenting the issues considered, when the existing provisions remain appropriate.

Outcome of TF Deliberations

66. The TF has considered the respondents' comments and continues to support the proposal that the general provisions apply to all individuals on the audit team. However, the TF also proposes to address concerns that the provisions do not adequately take into account that threats created by junior personnel may be less significant, by adding additional factors in 290.148B (a) to consider when evaluating threats. These factors are the seniority of the individual on the audit team, the extent to which their work is reviewed by more senior personnel, and their ability to direct the work of other members of the audit team.

Enhancements to the General Provisions in Paragraph 290.148B

67. A few respondents⁵³ commented on the importance of training in ethical matters as an additional safeguard. In preparing the ED, the Board considered including training as a safeguard in this proposal. On balance, the Board decided that training was a safeguard created by the profession which is considered in paragraph 100.14 of the Code. Accordingly, there was no need to include training in this proposed provision.
68. A regulatory respondent⁵⁴ commented that the provisions were silent with respect to when an audit partner switches firms and the new audit firm is also then responsible for auditing the audit client. The respondent commented that the audit partner's prior service with the previous audit firm should count in the determination of the partner rotation requirement. The TF agrees with this comment and, subject to Board consideration, has proposed changes to 290.148B (a) first bullet point and 290.150A (last sentence) to make this clear.
69. A few respondents⁵⁵ commented with regard to paragraph 290.149A that the impact of "changing the role of the individual on the audit team," required clarification. A respondent⁵⁶ also commented that the safeguard might not be effective, given that the level of familiarity with the client would not change as a result of the application of the safeguard. The TF notes that "changing the role of the individual," is a safeguard in the extant Code. However, it is proposing, subject to Board consideration, to clarify the intention by adding the words "or the nature of the tasks they perform," in the first bullet point of paragraph 290.149A.

⁵⁰ **Firm** Crowe Horwath **Member Body** ICAP

⁵¹ **National Standard Setters** APESB NZAuASB **Firms** RSM William Buck **Member Bodies** IDW WPK SAICA

⁵² **Member Body** AICPA IDW WPK **Firm** Pitcher Partners

⁵³ **Firm** GTI **Member Body** ICAB

⁵⁴ **Regulator and Public Authority** IOSCO

⁵⁵ **Member Body** ICAS **Other Professional Organization** FEE

⁵⁶ **Other Professional Organization** FEE

70. A few respondents⁵⁷ commented that the meaning of “including” in the fourth bullet of 290.149A was also unclear. A respondent⁵⁸ commented that the wording may imply that an engagement quality control review is required when a quality review is implemented as a safeguard. It suggested that these two concepts be separated. The TF is proposing, subject to Board consideration, to address these comments by deleting the words “including an,” and creating a new bullet point concerning the engagement quality control review, to remove any ambiguity.
71. A respondent⁵⁹ commented that the use of the phrase “shall not participate in the audit engagement,” in 290.149B is unclear, and suggested replacing it with the wording already included in paragraph 290.150A, “shall not be a member of the engagement team or provide quality control for the audit engagement,” so as to improve consistency of drafting. The TF proposes to address comments that there was an inconsistency in the wording between 290.149B and 290.150A, by changing the description of the activities that an individual shall not undertake during cooling-off in 290.148B to reflect the same wording that was used in relation to PIEs in 290.150A.
72. In considering the comments from respondents, the TF recognized that many respondents questioned the need for, or the rationale behind, some of the rotation proposals. The TF discussed, and tentatively concluded that it would be helpful to add a general statement of purpose with respect to the objective of rotation, and is proposing, subject to Board consideration, to add an additional paragraph explaining the purpose of rotating an individual (290.149B).
73. The ED proposed the establishment of a requirement that, if a firm decides rotation of an individual on the audit team is a necessary safeguard, the firm determines an appropriate period during which the individual shall not participate in the audit engagement or exert direct influence on the outcome of the audit engagement.
74. Most respondents supported the proposal that the firm should determine an appropriate cooling-off period. Several respondents did, however, express the view that the Board should prescribe a minimum time-off period for the sake of consistency.⁶⁰ There was some variation on what that time period should be. Some respondents⁶¹ suggested that two years might be the appropriate time-out period. A regulatory respondent⁶² suggested that a period of two to five years might be appropriate.

Outcome of TF Deliberations

75. The Board has discussed this topic at prior meetings, as the TF had originally proposed a minimum cooling-off period of one year in the general provisions. The Board has determined that the time-out period should not be specified in the general provisions. The TF has tentatively concluded that there is no need for a change in this proposal.

⁵⁷ Firm PKF Other Professional Organization FEE

⁵⁸ Firm PKF

⁵⁹ Firm PWC

⁶⁰ Regulator and Public Authority IRBA Firms Crowe Horwath Kreston International Member Bodies FAR ICAGH ICAP IMCP Other Professional Organization FEE Individual and Other J E C Grant

⁶¹ Firms Kreston International Member Bodies FAR ICAGH IMCP Other Professional Organization FEE

⁶² Regulator and Public Authority IRBA

Matters for Consideration

8. IESBA members are asked whether they agree with the amendments to the General Provisions proposed by the TF in response to the comments from respondents to the ED?
9. IESBA members are also asked whether there are other changes that the TF should consider?

Corresponding Changes to Section 291

76. The ED proposed corresponding changes to Section 291, where relevant. The EM asked whether respondents agreed that given the differences between audit and other assurance engagements, the provisions should be limited to assurance engagements, “of a recurring nature”.
77. Most respondents generally supported the proposed corresponding changes. Respondents also indicated that the Board should reflect their comments on Section 290 in the proposed changes to Section 291. A few respondents⁶³ commented that the Board should give guidance on the type of engagement that would be recurring. Whilst supporting the proposals, a few respondents commented that the provisions should not apply to all personnel, because junior personnel do not participate in making key or significant decisions on assurance engagements or have the ability to influence the outcome of an assurance engagement.
78. Respondents made various comments on the use of the term, “of a recurring nature.” Comments included:
 - Not agreeing with the assertion that the provisions should be limited to assurance engagements “of a recurring nature.”⁶⁴
 - Uncertainty about the relevance of the limitation to assurance engagements of a “recurring nature,” because as soon as a service is provided over a long period for the same client a familiarity threat will arise.⁶⁵
 - Although the phrase “of a recurring nature” was not incorrect, its inclusion did not contribute to the clarity or meaning of the paragraph as it already states the engagement is occurring “over a long period of time” – so, the change should be deleted so as not to make unnecessary changes to the Code.⁶⁶

Outcome of TF Deliberations

79. The TF has proposed corresponding changes to Section 291 which are set out in agenda items 3-F and 3-G. The TF continues to support the inclusion of the reference to “of a recurring nature.” The TF did not specifically seek CAG comments on these proposed changes to Section 291 as any changes would reasonably be derived from the CAG comments on Section 290.

⁶³ **National Standard Setter** APESB NZAuASB

⁶⁴ **Member Body** ICAS

⁶⁵ **Other Professional Organization** FEE

⁶⁶ **Firm** Deloitte

Matter for Consideration

10. IESBA members are asked for views on the corresponding changes to Section 291.

Effective Date

80. The ED proposed that the new provisions become effective for the audits of financial statements for years beginning on or after December 15, 2017.
81. Recognizing that the proposed changes were substantive, respondents to the ED were invited to comment on the effective date proposed in the ED. Many respondents made no comment on the effective date. Of those respondents who commented on the effective date, some respondents⁶⁷ agreed with the proposal in the ED, and a few respondents⁶⁸ commented that there should be a longer lead time for the effective date. Some respondents⁶⁹ asked that release of the guidance be consolidated with other guidance being issued by the Board.

Outcome of TF Deliberations

82. The TF has considered the comments from respondents and continues to support the approach outlined in the ED. However, in the light of the issues that remain to be discussed, the TF considers that the Board may need to consider a longer lead time for the effective date, depending on whether the proposal timeline is met or whether the proposals are subject to re-exposure.

Matter for Consideration

11. IESBA members are asked for views on the effective date.

Other Matters

83. A regulatory respondent⁷⁰ commented on the role of professional skepticism in the Code, noting that it would like to “encourage the Board to determine how the concept of professional skepticism can be addressed more thoroughly in the Code, not just with respect to partner rotation.” The respondent noted that the Code has a dedicated section addressing matters relating to auditor independence, bearing in mind that auditor independence underpins everything that an auditor does in performing an audit. This respondent also noted that professional skepticism also underpins everything that an auditor does in performing an audit. Accordingly, it suggested that professional skepticism may warrant a dedicated section and a similar level of emphasis within the Code as independence.
84. The respondent noted that the IESBA Strategy and Work Plan 2014-2018 includes a project on audit quality. It suggested that the Board include, within that project, work on a dedicated section in the Code addressing professional skepticism, noting that this would contribute to improving audit quality.
85. Although this suggestion is outside the scope of the Long Association project, the TF brought it to the Board’s attention at its last meeting so that the Board might consider what further action

⁶⁷ **Firm KPMG Member Bodies** MAC MICPA

⁶⁸ **Member Bodies** CAANZ ICAP

⁶⁹ **Regulator and Public Authority** IRBA **Member Bodies** ICAEW IDW Other **Professional Organization** SMPC (IFAC)

⁷⁰ **Regulator and Public Authority** IOSCO

should be taken in this regard. This matter was subsequently included on the agenda of the March 10, 2015 liaison meeting between the leaderships of IESBA and IAASB where the leaderships recognized that this issue ought to be considered in a comprehensive manner. It was also acknowledged that there would be benefit in dealing with the issue in one place rather than two separate sets of standards. IAASB leadership therefore agreed that this matter be further considered in liaison with IESBA to ensure the requirements of the Code are appropriately addressed.

86. Pursuant to this discussion, the matter has been referred to the IAASB for its consideration. The TF understands that the IAASB will be aiming to issue a discussion paper later this year for purposes of obtaining stakeholders' input on the issues to be addressed in a potential revision of ISQC 1. The TF proposes to defer making any further recommendations on this matter until it better understands the intentions of the ISQC 1 Working Group.

Appendix

Illustration of the application of the proposed 290.150 rotation period

“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:

- An individual who has acted as the engagement partner during the seven-year period for either four or more years or for at least two out of the last three years shall not be a member of the engagement team or provide quality control for the audit engagement for five consecutive years; and*
- Any other key audit partner shall not be a member of the engagement team or provide quality control for the audit engagement for two consecutive years.”*

In all cases, the partner could serve another 7 years on the engagement in a KAP role after completing the relevant cooling-off period.

E = EP K = Other KAP

These examples assume seven consecutive years of service, however would be equally applicable if there were gaps in service that did not amount to a cooling-off period being served.

Examples

Yrs.	1	2	3	4	5	6	7	Cooling -Off	Rationale for 5 year cooling-off	Years of service/ total years inc. cooling-off
i	E	E	E	E	E	E	E	5	All as E	14/19
ii	E	E	E	K	K	K	K	2		10/16
iii	E	E	E	E	K	K	K	5	Majority as E	11/19
iv	E	E	K	K	K	K	K	2		9/16
v	K	K	K	K	E	E	E	5	E at least 2 of last 3	10/19
vi	K	K	K	E	E	E	E	5	Majority as E	11/19
vii	K	K	K	K	K	E	E	5	E at least 2 of last 3	9/19
viii	K	K	K	K	K	K	E	2		8/16
ix	K	E	K	E	K	E	K	2		11/16
x	K	K	E	E	E	K	K	2		10/16