

Long Association—Issues and Task Force Proposals

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 and Summary of April 2015 Meeting

1. The [exposure draft](#) (ED) comment period closed on November 12, 2014. The Board considered summaries of the key themes and significant comments arising out of the ED at its meetings in January and April 2015, respectively.
2. The Board continues to support a seven-year time-on period for all KAPs.
3. The Board generally did not support the Task Force's initial proposal to allow an exemption to be applied with respect to the proposed five-year cooling-off period for the engagement partner (EP) on PIE audits in jurisdictions:
 - Where the time-on period for a KAP serving on a PIE audit is shorter than seven years; or
 - Where mandatory firm rotation is required in addition to the rotation of KAPs.

The Board asked the Task Force to consider the matter further.

4. The Board considered the options presented at its April 2015 meeting with respect to the cooling-off period for the engagement quality control reviewer (EQCR). The Board tentatively concluded that

this cooling-off period should remain at two years. However, the Board asked the TF to reflect further on the PIOB Observer's remarks regarding the implications of the EQCR's familiarity with the issues in a particular engagement.

5. The Board tentatively supported the Task Force's proposal that an individual who has served 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.
6. Subject to some minor editorial suggestions, the Board continued to support the proposed provisions in the ED with regard to the following matters:
 - Additional restrictions on the activities of KAPs during the cooling-off period;
 - Allowing limited consultation with the former EP after two years of the required 5-year cooling-off period;
 - The requirement to obtain the concurrence with those charged with governance (TCWG) in order to apply the provisions in paragraphs 290.150¹ and 290.152²; and
 - Enhancements to the general provisions.
7. The Board noted that:
 - The question of whether a KAP should be permitted to move directly from an EP role into an EQCR role had been referred to the International Auditing and Assurance Standards Board's (IAASB's) ISQC 1³ Working Group for its consideration;
 - The role of professional skepticism in the Code would be considered by a joint IESBA–IAASB–International Accounting Education Standards Board (IAESB) working group.

II. Recent Feedback from Stakeholders

IFAC Small and Medium Practices (SMP) Committee (SMPC)

8. Immediately before the April 2015 Board meeting, the Task Force received a letter from the SMPC. The Task Force has carefully considered the representations made in the SMPC letter. Although the Task Force has sympathy with the SMPC's position, it does not consider that there are any new representations in the letter which persuade the Task Force that the views of the SMPC were not previously communicated and considered, nor that the conclusions that the Board reached at its April 2015 meeting were not fully informed. However, the full text of the letter is included as Agenda Item 3-B so that the Board is fully aware of the representations made. The Board is asked to carefully consider the comments of the SMPC with respect to its further deliberations concerning the long association proposals, including noting the SMPC's support for:
 - An alternative approach to allow compliance with local jurisdiction rules instead of the cooling off requirements in paragraph 290.150A; and

¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

² Provision that a partner may continue to serve as a KAP for a maximum of two additional years before rotating off the engagement if the individual has served the audit client as a KAP for six or more years when the client becomes a PIE.

³ Provision permitting KAPs in rare cases due to unforeseen circumstances outside the firm's control, to serve one additional year on the audit of a PIE.

- Reconsideration of the requirements, for example, to apply only to listed entities or even reconsideration of the 7/3 option.
9. Mr. Caswell, IESBA's SMPC liaison and Task Force member, presented to the SMPC at its meeting on June 8, 2015. Among other matters, SMPC members expressed:
- Continuing concern about the impact of the current proposals on SMPs in jurisdictions where there are large numbers of PIEs.
 - Continuing concern about the impact on SMPs regarding the proposed restrictions on activities during the cooling-off period.

National Standard Setters (NSS) Liaison Group

10. Mr. Hannaford presented a project progress report to the NSS. Among other matters:
- Some participants expressed concern about the proposed extension of the cooling-off period for EPs from two to five years, given the perceived disproportionate impact on SMPs, the potential adverse consequences for market competition, and the lack of empirical evidence to justify the change. It was suggested that an alternative could be to establish a minimum cooling-off period of, say, three years, with an option for jurisdictions to go stricter to suit their particular circumstances.
 - Other participants highlighted the key principle the proposed change is intended to address, namely a fresh look. It was noted that investors value the benefit of the fresh look much more highly than the perceived adverse impact on audit quality when the EP rotates off the audit engagement. However, it was suggested that consideration could be given to allowing for some flexibility for a less strict cooling-off period, for example, with the concurrence of TCWG.

Participants also discussed the approach to the cooling-off period for the EQCR:

- Some participants commented that any proposal to extend the cooling-off period for the EQCR would not be credible without empirical evidence showing that this would benefit audit quality.
 - Other participants favored extending the cooling-off period to five years to be consistent with that for EPs. It was felt that leaving it at two years would send a poor message about the importance of the EQCR role at a time when regulators are viewing that role as increasingly important. It was also felt that, as for the EP, the key issue that should be addressed is that of a fresh look.
 - It was noted that the argument that EQCR roles vary across jurisdictions is not credible. Additionally, it was noted that while the EQCR may not face a familiarity threat in terms of working with management, such a threat may arise as a result of being too familiar with the financial statement information, hence the need for a fresh look.
11. The comments from NSS participants illustrate the spectrum of responses which were made relative to the ED but did not raise any new matters for the Task Force to consider.

Fédération des Experts Comptables Européens (FEE)

12. Since the April 2015 Board meeting, a [letter](#) has been received from FEE outlining its concern that IESBA not undermine provisions that are already in place at jurisdictional level. FEE called for the Board to take these recent European developments pertaining to the EU audit legislation into account in its efforts to strive for global convergence. These comments are considered in Section III B of this paper.

How the Task Force has Addressed Comments from Stakeholders

13. Although the matters raised in the above feedback from stakeholders are not new, the Task Force has carefully reflected on the comments in its consideration of the way forward on:
- (a) The remaining matters to be resolved concerning the proposed cooling-off periods for the EP and the EQCR; and
 - (b) Whether the provisions should recognize different jurisdictional approaches.

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

A. COOLING-OFF PERIOD FOR THE EQCR

Background

14. Most respondents, including the SMPC, supported the proposal in the ED that the cooling-off period for KAPs other than the EP should not be extended beyond the current requirement of two years. Some respondents to the ED, however, considered that the EQCR should cool off for a longer period given the significance of the role.
15. Some Representatives on the IESBA CAG, and certain regulatory stakeholders, have continued to express strong views that the cooling-off period for the EQCR on audits of PIEs should be increased from two years to five years. They perceive the role of the EQCR as being of such importance that they believe the cooling-off period for the EQCR should be extended to five years, in the same way as has been proposed for the EP. Some CAG Representatives were unconvinced by the Board's rationale for maintaining the cooling-off period for the EQCR at the current requirement of two years.
16. Comments from other CAG Representatives were mixed. Some supported the view that the EQCR's role is different from the EP's role and therefore the EQCR should not be subject to the same rotation requirements as the EP. Some did not support a five-year cooling-off period for either role. There has also been a suggestion that other measures be considered, in particular narrowing the scope of the rotation requirements for EQCRs to audits of listed companies only.
17. At the April 2015 IESBA meeting, the majority of the Board supported the cooling-off period for the other KAPs, including the EQCR, remaining at two years as currently required in the Code. The Board's tentative conclusion was, to a large extent, based on the consideration that the respective roles and responsibilities of the EP and the EQCR are different.
18. Some CAG Representatives were unconvinced by the Board's rationale that the difference in roles could lead to a difference in how the rotation requirements ought to be applied, particularly in respect of the assertion that the EQCR is not generally known to the client. In this respect, the Task

Force has prepared an analysis of the two roles (set out in Appendix 1) in order to detail the differences in roles between the EQCR and the EP, and also to recap the Board's considerations when it issued the ED.

19. The Board, however, asked the Task Force to further reflect on regulatory stakeholder views and the PIOB Observer's remarks regarding the implications of the EQCR's familiarity with the issues in a particular engagement. The following paragraphs set out the Task Force's consideration of the PIOB observer's concerns and also the reservations expressed by other stakeholders about the need for a fresh look for the EQCR and the perception of a lack of independence owing to a familiarity threat.

Task Force Considerations

20. The Task Force agrees with the PIOB Observer's remarks that an EQCR will gain familiarity with the subject matter of the audit engagement and with the significant issues on which they are consulted. The proposed general provisions in the Code recognize that the familiarity threats with the client and the issues considered during the engagement increase in significance when an individual is involved in an audit engagement over a long period of time. The Code requires that both the EP and the EQCR rotate after seven years of service. In this important respect, the requirements for the EP and EQCR are aligned to ensure that a "fresh look" occurs after the same period of time in which the partner could gain familiarity with the audit engagement, the issues and the clients.
21. The Task Force also recognizes that a "fresh look" will only be effective if the rotating audit partner has sufficient time away from the engagement to allow the incoming partner to have a fresh look. In this respect, there may be a perception that an effective fresh look cannot occur without there being a longer cooling-off for the EQCR given that the EQCR may be closely involved in debating issues on the audit engagement with the EP and therefore develop a familiarity with the issues.
22. The Task Force is committed to finding the right balance in the public interest, while recognizing that international provisions will not be able to deal with every concern, and that there will be trade-offs. The Task Force recognizes that by responding to perception concerns and extending the cooling-off period for the EQCR on PIE audits to five years, an incremental benefit could possibly be gained in the medium term, potentially improving audit quality. However, the Task Force is also concerned about the impact that such a change would have in that it could be detrimental to audit quality.
23. The Task Force considered from an audit quality perspective that the EQCR needs to have sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made, and the conclusions it reached in formulating the report. Owing to the seniority and experience that is required for an individual to perform the EQCR role, qualified EQCRs are generally in shorter supply. Their skills are necessary to engagements, and a longer cooling-off period might lead to a reduction in the availability of people to perform this role with a potential consequence for audit quality. In some firms, retired partners are engaged to come back to perform engagement quality control reviews, and PIE audits may suffer in quality without available and experienced EQCRs.
24. The Task Force balanced the considerations above, including the differences in roles and the impacts on audit quality, with the comments from regulatory stakeholders. The Task Force

determined that it should present another option for the Board to consider with respect to the cooling-off period for the EQCR.

Option

25. The option outlined below would require the EQCR on the audit of a listed entity to cool off for five years while the EQCR on the audit of a non-listed PIE would cool off for two years as required currently. The requirements for the EP on all PIEs would remain the same.
26. The Board previously considered whether to make any distinction between the requirements for the audits of listed companies and other PIEs, given the greater regulatory oversight associated with listed companies. The Task Force recognizes that the Board previously concluded that there was little justification for making any distinction between listed companies and other PIEs, as they are all entities of public interest and are treated in the same way in the Code.
27. However, the Task Force is mindful that, in finding a solution to balancing stakeholder concerns, this option should also be presented for the Board's consideration. The Task Force took into account that ISQC 1 only requires an EQCR in respect of audits of financial statements of listed entities (even though the firm can determine whether an engagement quality control review is required for other audits and reviews of historical financial information and other assurance and related services engagements). Such an approach would also be consistent with the greater stakeholder interest, public interest, and regulatory oversight associated with listed entities, while continuing to allow a different approach with regard to the audit of non-listed PIEs which would assist SMPs and those jurisdictions where there are significant numbers of non-listed PIEs.

Table Illustrating the Option Proposed by the Task Force

	Listed PIE	Non-Listed PIE
EP	7/5	7/5
EQCR	7/5	7/2
Other KAP	7/2	7/2
How the option responds to stakeholder feedback:	<ul style="list-style-type: none"> Addresses regulatory concerns (IOSCO, US, UK) about the EQCR having the same cooling off period as the EP, at least in respect of listed entities. Consistent with a suggestion made at the CAG regarding splitting the requirements between listed entities and non-listed PIEs. While the SMPC does not agree with a longer cooling-off period for the EQCR, this approach addresses somewhat the concerns regarding the application of stricter requirements to non-listed PIEs audited by many SMPs and the significant global variation in national definitions of PIEs. There is no real change in application for those who are required to comply with the Code in respect of non-listed PIEs. 	

Other comments:	<ul style="list-style-type: none">• Consistent with ISQC 1, which mandates an EQCR for the audit of listed entities.• Retains current requirements for KAPs other than the EP for audits of non-listed PIEs.• Increases complexity of application for jurisdictions that do not currently mandate five-year cooling-off for EQCRs.• If supported, will need to reconsider the impact on the proposal below given the interaction with the jurisdictional alternative proposed in this paper.
-----------------	---

28. The Task Force requests that the Board consider the potential benefits, impacts and complexities arising from the various proposals discussed to date, in conjunction with the comments that continue to be received regarding the rotation requirements for the EQCR, and the information in the paper outlining the differences between the roles of the EQCR and the EP.

Matter for Consideration

1. Do IESBA members support the option outlined above to extend the cooling-off period for the EQCR on the audit of a listed entity to five years or support retaining the proposal set out in the ED (i.e. two years)?

B. LENGTH OF COOLING-OFF PERIOD – RECOGNIZING DIFFERENT JURISDICTIONAL LEGISLATIVE OR REGULATORY REQUIREMENTS

Background

29. At its January 2015 meeting, the Board considered a summary of significant comments received on the August 2014 ED. The summary covered the rotation requirements for KAPs on the audits of PIEs. Among other matters, the Board tentatively concluded that the length of the cooling-off period for the EP should be increased to five years as proposed in the ED. However, the Board asked the Task Force to consider whether the existence of regulatory safeguards, or a package of safeguards, set at a jurisdictional level to address threats caused by long association might provide an alternative to elements of the PIE rotation requirements in the Code, and therefore whether the Code could incorporate a degree of flexibility to accommodate such regulatory safeguards.
30. At the April 2015 IESBA meeting, the Task Force presented the Board with the following proposed provision to allow firms to comply with regulatory requirements addressing long association in certain circumstances instead of the requirements in proposed paragraph 290.150A:

290.150AA Some national regulatory or legislative bodies have evaluated the familiarity and self-interest threats to independence that arise from long association with an audit client, and have determined that a different set or combination of safeguards other than those required in this Code are appropriate to reduce the threats to an acceptable level. If a national regulatory or legislative body requires a shorter time-on period than seven years in relation to the rotation of KAPs, or has implemented mandatory firm rotation in addition to rotation of KAPs, then

compliance in a jurisdiction with those requirements instead of those set out in 290.150A will not be considered a breach of this Code.

31. The Board generally did not support this proposed exemption and asked the TF to consider the matter further.
32. Comments from IESBA members who did not agree with the proposal included the following:
 - The Board is a global standard setter with a principles-based code. Accordingly, it should not make exceptions for different jurisdictions as there are many different jurisdictions with different rules.
 - Recognizing these national regulatory provisions might dilute the robustness of the Code because there would be different standards globally.
 - Including an exemption might set an expectation that future provisions might have exemptions.
33. On the other hand, some IESBA members were in support of some form of recognition of local legislative or regulatory safeguards. The Board did not reach a conclusion on what such a provision might contain. Comments included:
 - That the proposed provision might be too open-ended.
 - That different standards could be acceptable as long as a minimum standard is met.
 - It is difficult to incorporate into the Code the concept of “equivalent provisions” as this would be subject to different interpretations and therefore difficult to implement consistently.
 - Such a provision might be workable if it also included references to whether:
 - (i) There is a regulatory inspection regime or quality control system in the local jurisdiction;
 - (ii) The regulatory safeguards have been subject to public consultation;
 - (iii) A needs analysis has been performed;
 - (iv) There are environmental considerations that may be taken into account.

Task Force Considerations of Alternative Provisions

34. The Task Force has reflected on the views of Board members. The Task Force has also considered the views of stakeholders as represented during IESBA CAG meetings, NSS, and IFAC's SMPC, as summarized in its April 2015 Board papers and this paper. The SMPC in particular was supportive of the Board's consideration of an alternative.
35. In addition, in its letter to the Board, FEE commented that:
 - The recent EU regulatory reform was subject to extensive legislative proceedings and consultations, and the resulting requirements, which include both firm rotation and partner rotation, are regarded by its legislators as a robust and appropriate response to address the familiarity threat to an auditor's independence that may arise from long association with an audit client.

- A holistic approach should be taken, based on an analysis of the interaction of the different approaches and measures that exist to mitigate the familiarity threat, e.g. mandatory firm rotation, KAP rotation, and rotation of EPs and senior personnel.
 - The IESBA “should not undermine provisions that are already in place at the jurisdictional level to address long association and which are seen by many as more demanding when combined.”
36. At the commencement of this project, the Task Force's research indicated that there are many different approaches to partner rotation because of the different needs of different jurisdictions and the way in which the needs of the jurisdictions have developed over time. The Task Force continues to believe that it would therefore be appropriate to consider whether the Code could recognize jurisdictional alternatives.
37. The Task Force also recognizes that respondents to the ED had raised concerns regarding the interaction of the proposals with local requirements, particularly in jurisdictions that have also implemented mandatory firm rotation, or have a shorter time-on period for KAPs. Furthermore, the Task Force recognizes that in some cases, the overlay of the ED proposals over regulatory requirements might have the unintended consequence of either, making the requirements applicable in that jurisdiction stricter than those proposed by the Code or making it too complicated to interpret and apply the overlay of requirements. Both these outcomes might actually detract from the Board's goal of promoting convergence and widespread adoption and implementation of the Code. The Task Force believes that if a jurisdiction, after following appropriate due process, has reached a robust but different conclusion to that reached in the Code, it would be reasonable and in the public interest for the IESBA to find a way in which to recognize an alternative, while maintaining a minimum set of requirements.
38. The Task Force does not believe that finding a way to recognize a robust jurisdictional alternative approach to address threats created by long association would set an expectation that future pronouncements of the Board would also be open to the same approach. The Task Force believes that the Board should consider how best to acknowledge the existing jurisdictional diversity in approaches in this specific area, while using the proposed enhanced provisions to seek to raise ethical standards in jurisdictions that have not implemented regulatory safeguards.
39. In the light of the April 2015 Board discussion, the Task Force has reconsidered the wording of its proposal and agreed that the Code should not be providing an open-ended exception to compliance with its provisions. It also concluded that the provision should not try to deal with “equivalence” as this is not possible. Rather, the Task Force recognizes that there are different combinations of requirements that can be implemented in order to respond to the threats created by long association, and while those responses could be implemented differently, they may be as robust. The Task Force considers therefore, that the Code could reasonably provide a limited and specific alternative to the five year cooling-off period in such circumstances while still setting a baseline.
40. The Task Force is recommending an alternative only in respect of applying the longer five-year cooling off period for EPs for PIE audits. All other requirements of the long association provisions would continue to be applicable to all audit engagements, regardless of any specific jurisdictional requirements. The Task Force is requesting the Board to consider the principle behind the proposal and to keep in mind the discussions regarding whether the EQCR could also be subject, in some

way, to a five year cooling-off period. Therefore, the proposed provision has been drafted with only the EP in mind, with potential mentions of the EQCR in square brackets.

41. The Task Force is proposing that the Code provide one specific alternative to the five-year cooling-off period in circumstances where a jurisdictional regulatory or legislative body, following appropriate due process and based on jurisdictional circumstances, has determined that the EP serves a time-on period that is shorter than seven years, or has implemented mandatory firm rotation in addition to rotation of KAPs. Such requirements must be in law or regulation, not in an IFAC member body ethical Code.
42. In such circumstances, the Task Force is proposing that the EP be required to cool off for a minimum of three consecutive years (rather than five). This provides one specific alternative approach, rather than an exception, and also does not permit the status quo of allowing the EP to cool-off for only two years. As stakeholders generally considered that the two year cooling-off period in the Code was too short for the EP, this also serves to establish a minimum three year cooling-off as a baseline for the EP.

Proposed Provision

290.150A 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 [or EQCR] 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 (subject to paragraph 290.XXX); 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.

290.XXX A national regulatory or legislative body may have evaluated the familiarity and self-interest threats to independence that arise from long association with an audit client and determined that a different set or combination of safeguards other than those required in this Code are appropriate to reduce the threats to an acceptable level. If a national regulatory or legislative body, following appropriate due process and based on jurisdictional circumstances:

- Determines a period shorter than seven years during which an individual is permitted to be an engagement partner [or EQCR] (the “time-on” period), or
- Has implemented mandatory firm rotation in addition to rotation of the engagement partner [and EQCR].

the period during which the engagement partner [or EQCR] shall not be a member of the engagement team or provide quality control for the audit engagement shall not be less than three consecutive years.

Task Force Recommendation

43. The Task Force has given further careful consideration to the feedback from IESBA members at the April 2015 meeting and other stakeholders since that meeting. The Task Force believes that an

alternative approach as proposed is in the public interest as it is consistent with the Board's objectives which include: facilitating the convergence of international and national ethics standards; and enhancing the quality and consistency of services provided by professional accountants throughout the world.

Matter for Consideration

2. Do IESBA members, based on the Task Force's analysis, support the proposed provision?

IV. Other Matters

Liaison with IAASB

44. Since the previous Board meeting, IESBA and IAASB staff have liaised on the two matters of common interest arising from their mutual work streams. The discussion on how ISQC 1 might be adjusted to address the issue of KAP being permitted to move directly from an EP role into an EQCR role is continuing.
45. As noted above, the role of professional skepticism is being considered by a joint IESBA-IAASB-IAESB working group.

Proposed Changes to the Provisions for Audit and Review and Other Assurance Engagements

46. Following the April 2015 Board meeting, the Task Force met and considered the few minor adjustments necessary to the proposed revised Long Association provisions to reflect the feedback from IESBA members. The Task Force has not presented these adjustments to the Board for this meeting as it believes that the Board should focus on reaching a conclusion on the cooling-off provisions for the EP and the EQCR.

Appendix 1

A comparison of the Roles of the EQCR and the EP

1. The nature of an engagement quality control review and the role and responsibilities of, and provisions pertaining to, the EQCR in professional standards are established in ISQC 1.⁴
2. The engagement quality control review is a process designed to provide an objective evaluation, before the report is released, of the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report. It is one part of a system of quality controls that the firm must establish in order to provide the audit firm with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.
3. Firms are required to establish an engagement quality control review process for all audits of financial statements of listed entities, and other audits and reviews of historical financial information and other assurance and related services engagements, if any, where the firm has determined that an engagement quality control review is appropriate.⁵
4. The role of the EQCR includes the following responsibilities:
 - (a) Discussion of significant matters with the EP;
 - (b) Review of the financial statements or other subject matter information and the proposed report;
 - (c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and
 - (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.⁶
5. The EQCR responsibilities also include consideration of:⁷
 - (a) The engagement team's evaluation of the firm's independence in relation to the specific engagement;
 - (b) Whether appropriate consultation has taken place on matters involving differences of opinion, or other difficult or contentious matters, and the conclusions arising from those consultations; and
 - (c) Whether documentation selected for review reflects the work performed in relation to the significant judgments, and supports the conclusions reached.

These responsibilities do not necessitate the EQCR having contact with the client and the client does not need to know who the EQCR is. Instead, the EQCR's role is to perform an internal quality control review function for the audit firm in respect of audit engagements. This means the EQCR

⁴ ISQC 1, paragraphs 35 to 43

⁵ ISQC 1, paragraph 35

⁶ ISQC 1, paragraph 37

⁷ ISQC 1, paragraph 38

will gain a level of familiarity with the issues in the audit engagement but will not usually have any familiarity with the client's management or those charged with governance.

6. The definition of an EQCR in the Code is consistent with the definition in ISQC 1:⁸

“A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report”.

This definition establishes the important criterion that the EQCR is not a member of the engagement team.

The Role of the EP

7. In contrast, the role of the EP is distinctly different from that of the EQCR. The role of the EP is described in ISA 220⁹ (see Appendix 2). The definition of an EP is as follows:¹⁰

“The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.”

8. In addition, the EP is required to take responsibility for the overall quality on each audit engagement.¹¹ If matters come to the EP's attention through the firm's system of quality control that indicate that members of the engagement team have not complied with relevant ethical requirements, the EP determines what action should be taken.¹²
9. In contrast to the role of the EQCR, the EP is responsible for every part of the audit engagement, and has a significant degree of client contact to enable the EP role to be fulfilled. The EP will therefore gain familiarity over the years with the issues and subject matter of the audit engagement and also the client's management and those charged with governance. The EP is the individual in the firm who has the most influence on the outcome of the audit. The greater accountability and heightened public interest role of the EP is also evidenced in auditing standard proposals¹³ in various jurisdictions including in revised ISA 700 to require the disclosure of the audit engagement partner's name in the audit report for audits of financial statements of listed entities. This evolution in audit reporting has been led by objectives, among others, of increased accountability and transparency leading to better investor protection as well as user confidence in audit reports and financial statements. This means shareholders and investors may know who the engagement partner is but will not know who the EQCR is.

⁸ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 7(c)

⁹ ISA 220, paragraphs 8-18

¹⁰ ISA 220

¹¹ ISA 220, paragraph 8

¹² ISA 220, paragraph 10

¹³ ISA 700, paragraphs 45 and A56-58

Differences of Opinion Between the EQCR and the EP

10. ISQC1¹⁴ requires that firms have policies and procedures to address any differences of opinion that might arise between the EP and the EQCR. These provisions do not give the EQCR power to overrule the decision of the EP, or vice versa. They are therefore neutral in terms of differences between the two roles.

The Rationale in the EM for the EQCR's Cooling-Off Period Remaining at Two Years

11. The rationale for the proposal to extend the cooling-off period for only the EP was set out in the EM and was grounded in an analysis of the differences between the EP and EQCR roles, as described above. The Board considered that the perception of familiarity and self-interest threats was so much greater with the EP that it was therefore in the public interest to extend the cooling-off period for the EP.
12. The EM stated that “The IESBA also considered some stakeholder feedback that the longer cooling-off period should apply to the EQCR, as the EQCR plays an important role in an audit. While the IESBA agrees that the role of the EQCR is important, it concluded that the nature of the EQCR role gives rise to different threats to independence. The EQCR does not participate in the engagement or make decisions for the engagement team. In practice, the EQCR does not meet the client. The work of the EQCR is akin to an independent internal quality control process. Furthermore, any consultation between the engagement partner and the EQCR (e.g., on matters of judgment) is not intended to be so significant that the EQCR's objectivity is compromised.”
13. The Code already requires KAPs serving PIEs, including the EP and EQCR, to be subject to rotation as all KAPs have important roles on the audit engagement as they make key decisions or judgments on significant matters with respect to the audit of financial statements on which the firm will express an opinion. It is therefore important and in the public interest that KAPs be required to rotate and that a sufficient period of time be required to ensure a “fresh look” by the incoming partner.
14. Before issuing the ED, the Board had considered the possibility of having different cooling-off periods for different types of KAPs. The feedback from its e-survey of stakeholders including standard setters, audit committees, regulators and professional accountants, (which yielded over 400 responses), and from other consultation, showed that stakeholders supported the premise that the significance of any threats created very much depends on the role of the individual. The role of the individual in turn impacts the significance of the familiarity and self-interest threats that can be created.
15. When asked the question in the e-survey, 78.7 percent of respondents indicated that the EP should be subject to rotation because the threats to independence that would be created by the EP's long association with the audit client are so significant. However, the percentage which considered that the EQCR should be subject to rotation requirements at all was significantly lower at 57 percent, supporting the view that the roles are different in nature and the threats to independence that may be created by each are also different.

¹⁴ ISQC 1, paragraph 43

16. Survey respondents were also asked what they thought the cooling-off periods should be for the EP and the EQCR and the results were as follows, which also demonstrate a perception that the roles may be treated differently:

Proposed cooling-off period	None	1 yr.	2 yrs.	3 yrs.	4 yrs.	5 yrs.	Other
EP	9.5%	5.1%	26.6%	30.1%	5.4%	19.6%	3.8%
EQCR	13.5%	6.9%	30.4%	29.1%	3.1%	13.5%	3.5%

17. The Task Force also considered different jurisdictional requirements when it undertook a benchmarking exercise in 2013. From its benchmarking of 82 jurisdictions, the IESBA noted that 39% of the 82 jurisdictions surveyed solely followed the audit partner rotation provisions of the Code, whether through laws and regulations or through the application of their member body ethical Code. The other 61% of the jurisdictions surveyed, while following the requirements of the Code as a baseline, had implemented stricter audit partner rotation laws and regulations in some way or another for listed companies and/or other PIEs. Two-thirds of these jurisdictions (about a third of the total survey sample) had laws or regulations which implemented stricter requirements only for the EP, either because they did not provide any rotation requirements for the EQCR, or because they had lesser requirements for the EQCR than the EP (either a longer time-on or shorter cooling-off). Notably in the European Union rotation of the EQCR is not required as the EQCR is not regarded as a KAP. The research showed that EQCRs are subject to different rotation requirements in several jurisdictions, from which it is reasonable to conclude that this is as a result of the different nature of the roles and potentially the perception that the relationship between the EQCR and the audit engagement will create a less significant threat to independence.
18. Many stakeholders supported the Board's views that the independence and familiarity threats created by the long association of the EQCR are less significant than the EP. The IESBA also received some important stakeholder feedback that the longer cooling-off period should apply to the EQCR, as the EQCR plays an important role in an audit. While the IESBA agreed that the role of the EQCR is important and should continue to be subject to rotation, it concluded that the nature of the EQCR role and the relationship of the EQCR with the audit engagement gives rise to less significant threats to the independence of the audit, and that the public interest was better served by focusing on making the requirements for the EP stricter.

Table summarizing Differences between the Familiarity Threats created by the Long Association of the EQCR and the EP with an Audit Client

19. The following table summarizes the key differences between the roles of the EQCR and the EP and their respective familiarity with the client and its financial information. The information is derived from the analysis of the roles of the EQCR and the EP.

Role and Familiarity with:	Client	Financial information
EP	High level of contact with senior management and	High level of familiarity with financial and other information about the Client Responsibility for all judgments made.

Long Association – Issues and Task Force Proposals
IESBA Meeting (June/July 2015)

Role and Familiarity with:	Client	Financial information
	TCWG Leader of the engagement team with overall responsibility for the audit engagement.	
EQCR	Little, if any contact with the client's management and TCWG. Not part of the engagement team.	Quality control – significant judgments only.

Appendix 2

Extract from ISQC 1

Engagement Quality Control Review

35. The firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall:
 - (a) Require an engagement quality control review for all audits of financial statements of listed entities;
 - (b) Set out criteria against which all other audits and reviews of historical financial information and other assurance and related services engagements shall be evaluated to determine whether an engagement quality control review should be performed; and
 - (c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph 35(b).
36. The firm shall establish policies and procedures setting out the nature, timing and extent of an engagement quality control review. Such policies and procedures shall require that the engagement report not be dated until the completion of the engagement quality control review.
37. The firm shall establish policies and procedures to require the engagement quality control review to include:
 - (a) Discussion of significant matters with the engagement partner;
 - (b) Review of the financial statements or other subject matter information and the proposed report;
 - (c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and
 - (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.
38. For audits of financial statements of listed entities, the firm shall establish policies and procedures to require the engagement quality control review to also include consideration of the following:
 - (a) The engagement team's evaluation of the firm's independence in relation to the specific engagement;
 - (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
 - (c) Whether documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.

Criteria for the Eligibility of Engagement Quality Control Reviewers

39. The firm shall establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through:
 - (a) The technical qualifications required to perform the role, including the necessary experience and authority; and
 - (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.
40. The firm shall establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer.
41. The firm's policies and procedures shall provide for the replacement of the engagement quality control reviewer where the reviewer's ability to perform an objective review may be impaired.
Documentation of the Engagement Quality Control Review
42. The firm shall establish policies and procedures on documentation of the engagement quality control review which require documentation that:
 - (a) The procedures required by the firm's policies on engagement quality control review have been performed;
 - (b) The engagement quality control review has been completed on or before the date of the report; and
 - (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.

Differences of Opinion

43. The firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer.
44. Such policies and procedures shall require that:
 - (a) Conclusions reached be documented and implemented; and
 - (b) The report not be dated until the matter is resolved.

Appendix 3

Extract from ISA 220 Establishing the Role of the EP

Requirements

Leadership Responsibilities for Quality on Audits

8. The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.

Relevant Ethical Requirements

9. Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team.
10. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

Independence

11. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall:
 - (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
 - (b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
 - (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

Acceptance and Continuance of Client Relationships and Audit Engagements

12. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate.
13. If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

Assignment of Engagement Teams

14. The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:
- (a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and
 - (b) Enable an auditor's report that is appropriate in the circumstances to be issued.

Engagement Performance

Direction, Supervision and Performance

15. The engagement partner shall take responsibility for:
- (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and
 - (b) The auditor's report being appropriate in the circumstances.

Reviews

16. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures.
17. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.

Consultation

18. The engagement partner shall:
- (a) Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;
 - (b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm;
 - (c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
 - (d) Determine that conclusions resulting from such consultations have been implemented.

Engagement Quality Control Review

19. For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:
- (a) Determine that an engagement quality control reviewer has been appointed;

- (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
 - (c) Not date the auditor's report until the completion of the engagement quality control review.
20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
- (a) Discussion of significant matters with the engagement partner;
 - (b) Review of the financial statements and the proposed auditor's report;
 - (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
 - (d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.
21. For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:
- (a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;
 - (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
 - (c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.

Differences of Opinion

22. If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.