

**Long Association of Personnel with an Audit Client—
Issues and Current Board Position****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, however, the existence of firm rotation in a jurisdiction has been recognized in the proposals to the extent it may, in conjunction with partner rotation, assist in diminishing perceived threats to independence.

I. Summary of the Board's Current Position

1. The Task Force has prepared and set out below tables summarizing the key issues and current position following the September 2015, IESBA CAG meeting. The tables also include commentary on proposed changes to the provisions since the exposure draft (ED).
2. Text has been drafted for: (a) *Long Association of Senior Personnel (including Partner Rotation) with an Audit Client* at Agenda Items 1-B (mark-up version) and 1-C (clean version); and (b) *Long Association of Senior Personnel with an Assurance Client* at Agenda Items 1-D (mark-up version) and Agenda Item 1-E (clean version).

Table Summarizing the Board's Current Proposals and the Changes to the Provisions Since the ED

| # | ED Proposals | Respondents' Views in Response to ED proposals ¹ | Current Board Position | September 2015 IESBA CAG meeting |
|---|--|---|---|--|
| 1. | Length of time-on for all KAPs: seven years. | Most respondents supported the time-on period remaining at seven years for all KAPs. | The Board continues to support that the time-on period for all KAPs on all PIE audits remains at seven years. | CAG Representatives made no suggestions for change to this provision |
| Adjustment to the provisions since the ED | | | | |
| | 1.2 No change has been made to the provision of itself although it is now occurs in two paragraphs ² because of the changes proposed to the EQCR's cooling-off period. | | | |
| 2. | Length of cooling-off for the EP: five years. | The majority of respondents did not support extending the cooling-off period for the Engagement Partner (EP) to five years. There was strong support from the Regulatory Community for the ED position. | The Board has not modified the proposal contained in the ED. However, an additional proposal has been drafted allowing for the five-year cooling-off period for an EP to be reduced to three years in certain restricted circumstances. A similar allowance is being proposed for the EQCR. See Item #13 below. | See Item #13 below. |
| Adjustment to the provisions since the ED | | | | |
| | 2.1 This provision now occurs in two paragraphs ² of the provisions because of the changes proposed to the EQCR's cooling-off period and is also interrelated to a paragraph ³ which provides a different approach to the cooling-off period in certain circumstances. The Task Force is keen to receive comments from IESBA members so that it can bring final provisions to the Board's December 2015 meeting. | | | |

¹ For a summary of responses to the ED, see [January 2015](#) and [April 2015](#) IESBA meeting material.

² The two paragraphs are 290.150A and 290.150B.

³ Paragraph 290.150D

| # | ED Proposals | Respondents' Views in Response to ED proposals ¹ | Current Board Position | September 2015 IESBA CAG meeting |
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| 3. | Length of cooling-off period for other KAPs including the EQCR: two years. | <p>Most respondents supported the cooling-off period remaining at two years for other KAPs (given the different role that the EQCR plays). However, a few respondents, who supported an increase in the cooling-off period for the EP, commented that the EQCR should cool off for a longer period, indicating that the role had more significance and justified a longer cooling-off period.</p> <p>Some regulatory respondents considered that the EQCR should be subject to the same cooling-off period as the EP.</p> | The Board agreed in principle on a middle-ground position as a tentative way forward. This position was to increase the cooling-off period for the EQCR to five years with respect to listed PIEs, and also increase the cooling off period for the EQCR to three years for non-listed PIEs. All other KAPs on PIEs that are not the EP or EQCR would cool off for two years. (See Appendix 1 below for a table illustrating this provision.) | GAG Representatives did not reach a consensus view. Some Representatives commented that the proposal was a reasonable and balanced in reaching a “middle-ground,” taking into account the views of those who think that the EQCR should follow the EP’s cooling-off period, and those who want no change. Other Representatives commented that the proposal: might be too complex to apply, monitor and effectively adopt, which might not be in the public interest; might cause hardship for SMPs; should emphasize that it is a minimum standard (for non-listed PIEs). Others expressed concern that the five-year cooling-off requirement would not apply to significant non-listed PIEs such as financial institutions. |
| Adjustment to the provisions since the ED | | | | |
| 3.1 This proposal has been substantively revised to reflect the proposed increases to the EQCR’s cooling off period and the Task Force is keen to receive comments from IESBA members so that it can bring final provisions to the Board’s December 2015 meeting. | | | | |
| 4. | Five-year cooling-off for the EP even if served for only one year of the seven-year time-on period. | There was general disagreement with this proposal as being too restrictive and inappropriate. | The Board agreed that an individual who has been a KAP for a seven-year period, but has acted as EP for either four or more years, or for at least two out of the last three years, should cool off for five years. This | CAG Representatives made no comments on suggestions for changes to this provision. |

| # | ED Proposals | Respondents' Views in Response to ED proposals ¹ | Current Board Position | September 2015 IESBA CAG meeting |
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| | | | formula has also now been applied to the cooling-off period for the EQCR. | |
| | Adjustment to the provisions since the ED | | | |
| | 4.1 The wording of the provision has changed to reflect that an individual who has been a KAP for a seven-year period, but has acted as EP for either four or more years, or for at least two out of the last three years, should cool off for five years. Also, it now occurs in two paragraphs ⁴ of the provisions because of the changes proposed to the EQCR's cooling-off period. | | | |
| Restrictions On Activities During Cooling-off Period | | | | |
| 5. | Allowance for limited consultation on technical issues for the outgoing EP after two years. | On balance, more respondents supported the proposal that limited consultation on technical issues by the EP be permitted after 2 years of the cooling-off period. | The Board continues to support the proposal in the ED, which is about allowing an expert on a technical matter to be consulted in the interests of audit quality. However, it is proposing two amendments to reflect that if consultation occurs: (a) It should only be with the engagement team and not the audit client; and (b) it should be permitted only if no one else in the firm has the expertise to provide the advice. In response to some concerns expressed by regulatory stakeholders, the wording has been amended to better reflect objectivity and not suggest that the rotated partner can | CAG Representatives did not reach a consensus view on this matter. The proposal was not supported by some Representatives because the proposal allowed the outgoing EP's relationship with the audit team to continue, and left the possibility of an external influence on the audit team. These Representatives concluded that "off means off." Other Representatives expressed the view that: it had worked well in another jurisdiction and it added to audit quality if the correct level of expertise is available; it would require careful implementation and would |

⁴ Paragraphs 290.150A, 290.150B.

| # | ED Proposals | Respondents' Views in Response to ED proposals ¹ | Current Board Position | September 2015 IESBA CAG meeting |
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| | | | become a consultant to the engagement team (see Agenda Item B-3 ⁵). | rely on the outgoing EP having no decision-making role. |
| | Adjustment to the provisions since the ED | | | |
| | 5.1 Since the ED the provision ⁶ has been adjusted so as to include reference to the EQCR, and to make it clear that consultation might only take place if there is no other individual within the firm with the expertise to provide technical consultation. A minor adjustment has been made to clarify that if consultation is permitted with an individual it relates to the “last,” rather than “previous,” year of involvement with the client. Minor adjustments have also been made to accommodate the proposed cooling-off period of the EQCR. Bearing in mind the comments of CAG Representatives about “off means off” the Board will be asked to confirm on the call whether this proposal should be changed so as to reflect this view from the CAG, which was also expressed by other respondents to the ED. | | | |
| 6. | Additional restrictions or activities that can be performed by a former KAP during the cooling-off period. | There were almost as many respondents in favor of this proposal as there were against it. Those against the proposal were divided between those who considered it was too strict and those who considered it not strict enough. | The Board continues to support the proposals in the ED and is not proposing any adjustments. | CAG Representatives made no comments on suggestions for changes to these provisions. |
| | Adjustment to the provisions since the ED | | | |
| | 6.1 No changes have been made to these provisions since the ED. | | | |
| Enhancements To the General Provisions (GP) | | | | |

⁵ See first bullet point of 290.150B.

⁶ Paragraph 290.150B ED now 290.150E.

| # | ED Proposals | Respondents' Views in Response to ED proposals ¹ | Current Board Position | September 2015 IESBA CAG meeting |
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| 7. | ED Provisions 290.150.C (now renumbered 290.150F) and 290.150D (now deleted) | Most respondents supported the new provisions reminding firms that the principles in the GP must always be applied, in addition to the specific provisions for KAPs on the audit of PIEs. There were comments, however, that a provision ⁷ was repetitive and did not add anything to the GP. | In view of the general support for these proposals, the Board has tentatively concluded that no amendments are needed to the wording of the new provisions and the relevant provision ⁸ has been deleted. | CAG Representatives made no suggestions for further changes to the provisions. |
| Adjustment to the provisions since the ED | | | | |
| | 7.1 No changes have been made to the provisions reminding firms that the principles in the GP must always be applied, save that the paragraph has been renumbered from 290.150C to 290.150F. The general reminder ⁹ to consider the rotation of members of the audit team who are not KAPs has been deleted. | | | |
| 8. | Concurrence of TCWG in the application of the provisions in paragraphs 290.151 and 290.152. | Most respondents supported this proposal that firms should not apply the provisions in 290.151 and 290.152 without the concurrence of TCWG. | The Board has tentatively concluded that it should make no change to this proposal in view of the general support from respondents. | CAG Representatives did not comment that adjustments were required to paragraphs 290.151 and 290.152. However, a CAG Representative suggested that paragraph 290.153 might be adjusted so as to require discussion with TCWG in cases where a regulator |

⁷ Paragraph 290.150D

⁸ 290.150 D as proposed in the ED was deleted.

⁹ The general reminder was included in the ED in paragraph 290.150D

| # | ED Proposals | Respondents' Views in Response to ED proposals ¹ | Current Board Position | September 2015 IESBA CAG meeting |
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| | | | | may provide no general exemption but may grant individual one off exemptions on a case by case basis. |
| Adjustment to the provisions since the ED | | | | |
| | 8.1 No adjustment has been made to the provisions since the ED. IESBA members will be asked on the call whether they support making an adjustment to 290.153 to take account of the comments of the CAG Representative discussed above. A suggested approach to this effect has been included in italics in section 290.153. | | | |
| 9. | Other enhancements to the GP. ¹⁰ | Most respondents supported the proposed enhancements to the GP. Respondents also made constructive suggestions for editorial changes to these provisions. | The Board is not proposing any significant changes to the proposals but it has accepted some of the respondents' suggestions. See proposed changes in Agenda Item B-3. ¹¹ | CAG Representatives made no comments on these provisions. |
| Adjustment to the provisions since the ED | | | | |
| | 9.1 Addressed 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; | | | |
| | 9.2 Clarified 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; | | | |
| | 9.3 Deleted 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 | | | |

¹⁰ In paragraph 290.148

¹¹ Section 290.148

| # | ED Proposals | Respondents' Views in Response to ED proposals ¹ | Current Board Position | September 2015 IESBA CAG meeting |
|-----|---|--|---|--|
| | suggestive of an institutional rather than personal self-interest threat that gives rise for concern; | | | |
| | 9.4 Clarified 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.) | | | |
| 10. | Application of GP to the evaluation of potential threats caused by the long association of all individuals on the audit team, not just senior personnel. ¹² | More than half of respondents supported the proposed application of this proposal to all individuals although recognizing that junior staff pose less significant threats. | The Board has tentatively concluded that it should make no change to this proposal in view of the general support from respondents. However, the TF proposes to recognize additional factors to consider in evaluating the threat, in order to recognize that junior staff pose less significant threats. (See Agenda Item 1-B. ¹³) | CAG Representatives made no comments on this provision save for asking how the Board might highlight that rotation should also be considered by those who are not partners. This point is highlighted by a provision ¹⁴ (Agenda Item 1-B) which adds that if the firm decides that threats are significant then the rotation of any individuals is the necessary safeguard. |
| | Adjustment to the provisions since the ED | | | |
| | 10.1 The additional factors added are set out in bullet points three and four of 290.148 B and include references to: the extent to which the work of the individual is directed, reviewed and supervised by more senior personnel; and the extent to which the individual may direct the work of members of the engagement team. | | | |
| 11. | Determination of an appropriate cooling-off period if a firm decides that rotation of an individual (other than a | Most respondents supported the proposal, although several respondents expressed the view that the Board should | The Board has tentatively concluded that there is no need for a change in this proposal save for the adjustment mentioned below. | CAG Representatives made no comments on these provisions. |

¹² ED Section 290.148B

¹³ See paragraph 290.148B, bullet points 1-4.

¹⁴ Paragraph 290.149B.

| # | ED Proposals | Respondents' Views in Response to ED proposals ¹ | Current Board Position | September 2015 IESBA CAG meeting |
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| | KAP) is a necessary safeguard. | prescribe a minimum cooling-off period for the sake of consistency. | | |
| | Adjustment to the provisions since the ED | | | |
| | 11.1 An adjustment has been made to reflect that an individual shall not “be a member of the engagement team” and the words “participate in the audit engagement or exert direct influence on the outcome of the engagement” have been removed. | | | |
| 12. | Corresponding changes to Independence – Other Assurance Engagements. ¹⁵ | Most respondents supported the proposed corresponding changes. | The Board has proposed corresponding changes. | For the sake of brevity these were not presented to IESBA CAG Representatives. It was accepted by CAG Representatives that corresponding changes would be made to the text |
| | Adjustment to the provisions since the ED | | | |
| | 12.1 Changes corresponding to those made in Independence – Audit and Review Engagements ¹⁶ have been made and are set out in Agenda Item 1-D. | | | |
| Recognizing Different Jurisdictional, Legislative or Regulatory Requirements for the EP and the EQCR | | | | |
| 13. | This is a completely new provision which was not included in the original ED. The Task Force is keen to receive comments from IESBA members so that it can bring final provisions to the Board's December 2015 meeting. | | | |

¹⁵ Extant Code Section 291.

¹⁶ Extant Code Section 290.

| # | ED Proposals | Respondents' Views in Response to ED proposals ¹ | Current Board Position | September 2015 IESBA CAG meeting |
|---|--|---|--|--|
| | New proposal | ED Respondents' views. ¹⁷ | Current Board position | Comments from September 2015 IESBA CAG meeting |
| | Allowance for a five-year cooling-off period for an EP or EQCR to be reduced to three years in certain conditions. | Comments from stakeholders and TF research indicated that there are many different approaches because of the different needs of different jurisdictions and the way in which the needs of the jurisdictions have developed over time. | <p>The Board tentatively agreed that a cooling-off period of five years could be reduced to three years if an independent regulator or legislative body, following appropriate due process and based on jurisdictional circumstances has:</p> <ul style="list-style-type: none"> (a) Determined a time-on period shorter than seven years during which an individual is permitted to be the engagement partner or the individual responsible for the engagement quality control review; or (b) Implemented mandatory firm rotation or mandatory re-tendering of the audit appointment at least every ten years in addition to the rotation of the engagement partner or the individual responsible for the engagement quality control review; and <p>Implemented a regulatory inspection regime.</p> | CAG Representatives commented as follows: that the new proposal addressed the concerns raised by ED respondents particularly those in the EU and was supported for that reason; the Board might be more specific in its description of a regulatory inspection regime so that only robust inspection regimes are brought within the provisions; was the reference to a ten-year mandatory firm rotation too specific? A CAG Representative commented that firm rotation and the rotation of an individual may not have the same objective. |

¹⁷ For a summary of responses to the ED, see [January 2015](#) and [April 2015](#) IESBA meeting material.

Matter for Consideration

1. IESBA Members are asked for their views on the current draft proposals, including feedback on the drafting of the provisions,
2. IESBA Member are asked especially for their feedback on the proposed provisions that, if approved by the Board, might be considered for re-exposure at the December meeting including:
 - (a) The now separated rotation proposals which provide a differential approach between listed and non-listed PIEs, however, which also increases the complexity of the provisions given the proposals now require separate sections for listed, non-listed and all PIEs (which may increase the risk of misunderstanding of the requirements or the incorrect application thereof further adding to the complexity of “when” the longer cooling off period is required).
 - (b) The proposed provision recognizing different jurisdictional, legislative or regulatory requirements for the EP and the EQCR considering the balance between support from some stakeholders and Board members; and concern from others, for example that the firm rotation period may be too long in practice to be an effective safeguard in relation to partner rotation.

Appendix 1

Table Illustrating the Middle-Ground Proposal

| | Listed PIE | Non-Listed PIE |
|------------|------------|----------------|
| EP | 7/5 | 7/5 |
| EQCR | 7/5 | 7/3 |
| Other KAPs | 7/2 | 7/2 |