

Long Association — Issues Paper (Executive Summary)**I. Background**

1. As part of the project research, the Task Force (TF) used several methods to obtain data on existing rotation requirements in different jurisdictions along with the views of stakeholders and interested parties on a number of matters pertaining to the topic of long association. The methods used and findings are detailed in the September 2013 IESBA issues paper, Agenda A-2.
2. The TF met in London to consider the findings of the research, to discuss the core issues and to develop initial recommendations that were then presented at the September 2013 IESBA meeting.

II. TF's Proposals and IESBA's Responses**A. General Principles in Paragraph 290.150 (Page 3 of Agenda Item A-2)**

TF Proposal

3. On review of the survey feedback and through discussion, the TF concluded that the general provisions in paragraph 290.150 of *the Code of Ethics for Professional Accountants* (the Code) are unclear and insufficient in places and could be enhanced. The TF proposed revising paragraph 290.150, which contains the general principles that apply to all audit engagements.

Board Response

4. The Board agreed and directed the TF to consider strengthening and improving the general principles in paragraph 290.150. It was also agreed that the long association provisions should provide a reasonable and robust alternative to mandatory tendering and firm rotation by addressing both personal and institutional familiarity threats.

INVOLVEMENT OF THOSE CHARGED WITH GOVERNANCE (TCWG) (PAGE 7 OF AGENDA ITEM A-2)

TF Proposal

5. The TF considered the survey responses and agreed with the views of the majority of respondents that TCWG should not have a decision-making role in relation to the rotation decision. The TF proposed that involvement of TCWG in the rotation decision should not be included in the Code as a safeguard.

Board Response

6. The Board agreed that TCWG should not approve rotation decisions made by the auditor. However, the Board directed the TF to consider whether there are ways in which communication between TCWG and the auditor can be improved.

**B. Rotation Requirements that Currently Apply With Respect to Public Interest Entities (PIEs)
(Page 8 of Agenda Item A-2)****(A) WHO SHOULD BE SUBJECT TO ROTATION?***i. Partners Assigned to the Audit Engagement*

7. The TF considered all the research findings and concluded that the significance of the partner's role

and the partners impact on the audit is the main consideration to take into account when deciding whether the threat created by long association with the audit client is so significant that rotation should be required.

TF Proposal

8. The TF concluded that the Lead Audit Engagement Partner and Quality Control Review Partners should continue to be subject to rotation requirements given their roles and did not propose any change to this requirement in the Code.
9. The TF believes, and this is supported by the research findings, that “other partners” should also continue to be required to rotate where they meet the definition of a Key Audit Partner (KAP).

Board response

10. The Board agreed that the rotation requirements applicable to KAPs serving PIEs remain appropriate.
 - ii. *Managerial Staff Assigned to the Audit Engagement*
11. Survey responses indicate that overall, respondents were more supportive of rotation requirements for managers than for “other partners”. In addition, responses indicated that there were varying views regarding the “type” of manager that respondents thought should be subject to a required rotation.
12. The TF considered the comments received from the surveys and the principles in the Code, and concluded that the influence an individual can exert on the outcome of an audit is more important than his or her job title when rotation requirements are being considered.

TF Proposal

13. The TF considered but rejected the idea of requiring a “cooling off” period before a manager becomes a partner on the same client. However, the TF was unable to reach a conclusion or recommendation on whether the amount of time a manager has served a PIE audit client prior to becoming a KAP should be taken into account in some way with respect to the total length of time the individual should be able to then serve as a KAP.

Board Response

14. For audit staff who are not KAPs but who may also have direct influence on the audit, e.g. managerial staff, the Task Force has been asked to consider:
 - Enhancing the guidance on these individuals within the general framework and provisions.
 - How the amount of time served prior to becoming a KAP could be taken into account with respect to total length of time served.

iii. *Junior Staff Assigned to the Audit Engagement*

TF Proposal

15. The TF agreed with the survey responses that there is no need for rotation requirements to be applied to junior staff and hence does not propose any change to the requirement in the Code.

Board Response

16. The Board agreed there should be no mandatory rotation requirements placed on junior staff.

(B) HOW LONG SHOULD THE “TIME ON” PERIOD BE?

TF Proposal

17. The TF considered the need to strike the right balance between addressing the familiarity threats created by long association and the need to maintain continuity and audit quality.
18. The TF has not seen any evidence to suggest a change is needed to improve independence and audit quality. The TF does not propose any changes to shorten the maximum seven-year period.

Board Response

19. The Board agreed that the seven years “time on” period remained appropriate.

(C) DURATION OF “COOLING OFF” PERIOD

TF Proposal

20. The TF considered that perception is the main reason for considering an increase in the “cooling off” period but that any consideration of a change needs to be weighed against the arguments against a longer period.
21. Taken in conjunction with the TF’s view that the “time on” period should not be shortened, the TF was split as to whether perception is a sufficient reason to increase the “cooling off” period.
22. If the “cooling off” period were to be extended, the TF members could not agree whether such an extension should apply to all KAPs or only the LAEP.

Board Response

23. The current two year “cooling off” period is too short. The TF was directed to reconsider these provisions.

(D) PERMISSIBLE ACTIVITIES DURING “COOLING OFF” PERIOD

TF Proposal

24. The TF is of the opinion that the focus of any guidance regarding the role a rotated partner can play during the “cooling off” period should be based around prohibiting the individual from being a member of the engagement team for the audit, or having any role that would allow him or her to influence the audit or undertake any other services that would impact the outcome of the audit.

Board Response

25. The rotated individual should not be involved in any roles or activities that could influence the audit. Any other involvement of the rotated individual with the audit client during the “cooling off” period should be very limited. The TF was directed to provide additional guidance and clarification as to the nature of roles that could be considered permissible during the “cooling off” period.

C. Exceptions to Rotation Requirements (Page 23 of Agenda Item A-2)

TF Proposal

26. The TF believes that no further exception paragraphs should be added to the Code. However, the TF proposed to amend paragraph 290.154 to allow an extension of only one year for KAPs after the audit client becomes a PIE, as opposed to the current possible two year extension.

Board Response

27. No changes should be made to the provisions that provide exceptions to the rotation requirements. The Board did not support the proposal to shorten this period of time. Most commented that this would be the time an entity is changing to a PIE, usually because it is listing, when it most needs stability and a focus on knowledge and audit quality.

D. Mandatory Rotation Requirements for Non-PIE Audits (Page 26 of Agenda Item A-2)

TF Proposal

28. The TF believes there is no evidence to suggest a need for a mandatory rotation for partners serving non-PIEs.

Board Response

29. The Board agreed that rotation requirements should not be extended to non-PIEs. The PIE definition allows firms and regulators to decide on a jurisdictional level that certain other entities should be treated as PIEs and therefore make them subject to the rotation requirements.