

**Meeting:** IESBA CAG

**Meeting Location:** Teleconference

**Meeting Date:** October 10, 2013

## Agenda Item

# A

### Long Association – Cover Note and Report-Back

#### Objectives of Agenda Item

1. To provide a report-back on proposals of CAG Representatives on this project as discussed at the April 2013 CAG Meeting.
2. To obtain CAG Representatives' views on key matters arising from the research undertaken on the project, the Task Force's (TF's) proposals presented to the IESBA at the IESBA September 2013 meeting and the IESBA's responses thereto.

#### Project Status and Timeline

3. The IESBA approved the project proposal at its meeting in December 2012. At its June 2013 meeting, it received an update on the project, including the research being undertaken to gather stakeholder views on a number of matters being considered in the project.
4. At its September 2013 meeting, the IESBA considered the research findings and the TF's preliminary analysis of those findings and its proposals on the various matters under consideration.

#### April 2013 CAG Discussion

5. Below are extracts from the draft minutes of the April 2013 CAG meeting,<sup>1</sup> and an indication of how the project TF or IESBA has responded to CAG Representatives' comments:

Representatives' Comments	Task Force/IESBA Response
Ms. De Beer referred to the earlier discussions on the Structure of the Code and the future strategy and work plan, noting an apparent lack of context and a perceived fragmented approach to the various projects and initiatives. She also noted that this is another project that involves a survey and felt that there would be potential for stakeholder survey fatigue. She therefore wondered whether there would be a need for a broader discussion at the Board regarding a more holistic approach to the issues. Mr. Fleck noted that the IESBA had	Mr. Holmquist noted that the IESBA had discussed this topic at its February 2012 meeting which led to the addition of this work stream to the current strategy and work plan. He was of the view that there was no conflict between this project and the initiative addressing the structure of the Code. He also noted that the Board had considered the issue of survey fatigue at the March 2013 IESBA meeting and that the Board would further discuss how to coordinate information gathering.  Ms. Orbea noted that it would not be appropriate to

<sup>1</sup> The minutes will be approved at the September 2013 IESBA CAG meeting.

Representatives' Comments	Task Force/IESBA Response
considered the 14 out of 16 years issue, and felt that it would not reflect well on the IESBA if it were to do nothing.	combine the survey details on this project with the requests for information on all the other projects.
Mr Thompson commented that this project is important as it is linked to auditor independence. He was of the view that the definitions are key, especially given many debates about whether senior managers have an influence on the audit and whether they should be rotated.	Point taken into account.
Mr. Finnell expressed the view that the notion of rotation may be more important for certain segments or industries (like insurance) than for others. He agreed on the importance of clear definitions.	Point taken into account in the Task Force and Board deliberations.
Mr Hansen noted that this topic was considered about five years ago in the U.S. as part of an investigation into the implementation of the Sarbanes-Oxley Act. A significant amount of research had been undertaken on this topic back then and remains available. He advised that the human capital aspect should not be ignored given that rotation has the potential to impact partners' families, such as by causing families to have to relocate because the partners have to be rotated off particular engagements and move to different offices. He noted his personal view that the "five years on" period is too short and it can be very disruptive if partners and their families have to move from office to office, especially with respect to specialized industries.	Point taken into account. The human capital aspect is a matter that is being considered by the TF.
Mr. Fleck suggested that there would be merit in obtaining the views of actual audit partners, particularly those responsible for large audits in complex or specialized industries. There may be views that five years would be enough or on the other hand that the audit is so complex and highly specialised that this period would not be enough. Mr. Thompson commented that as a former auditor, he thought that five years would be too short and ten years too long, and that auditors need a couple	Point taken into account. The research has included the large firm networks.

Representatives' Comments	Task Force/IESBA Response
of years to become familiar with the assignment.	
Mr. Fleck noted that five-year-on rotations can be better for careers than seven as partners would be able to stay longer on the large audits. He noted that in the UK, auditors tend to be in their early 40s before they are assigned a listed audit. They may only have two or three major audits. If they get to 53 or 54 and have to consider whether to do one more audit, they may agree to a five-year period but not a seven-year one. Therefore, a seven-year-on period may create resource challenges for audit firms.	Point taken into account.

#### **Matters for CAG Consideration**

6. Representatives are asked for views on the matters raised in Agenda Item A-1.

#### **Material Presented – CAG Papers**

Agenda Item A-1            Long Association – Issues Paper (Executive Summary)

Agenda Item A-2            Long Association – September 2013 IESBA Issues Paper