

**Long Association of Personnel with an Audit Client—
Preliminary Summary of Significant Comments on the Exposure Draft****How the Project Serves the Public Interest**

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

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

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

I. Responses to the ED

1. The comment period for the exposure draft (ED) on the proposed changes to certain provisions of the Code addressing the long association of personnel with an audit or assurance client closed on November 12, 2014. Comment letters were received from 77 respondents.
2. In January 2015, the Board considered a [preliminary summary](#) (Agenda Item E-2) of the key themes arising from the comments and significant comments relating to the rotation requirements for KAPs on the audits of PIEs. The remainder of the issues will be considered at the April 2015 IESBA meeting.
3. The Task Force (TF) asks that the CAG provide comments on all the issues arising out of the ED notwithstanding that the Board has not yet considered all of them. The TF is seeking feedback on all matters at this point so that it can give a complete picture of the views of CAG Representatives to the Board at its next meeting. This will enable the TF to bring its final proposals to the Board's July 2015 meeting with a view to obtaining final approval of the changes to the Code at that meeting.

II. Summary

The comments from respondents which have been discussed with the Board have been set out in detail in Agenda Item E-2, supplemented by additional analysis (which has not yet been discussed with the Board) in Section III of this paper. The TF has prepared tables summarizing the key issues and responses to assist the CAG in considering the large amount of information and various topics.

A. General themes (Ref. to pages 4 to 8 of January Board paper: Agenda Item E-2).

There were a number of common themes and concerns that emerged from many respondents when commenting on the proposals. These have been summarized as follows:

General themes	Board considerations
<ul style="list-style-type: none">• The impact on SMPs• The impact on audit quality• The lack of empirical evidence for change• The interaction with local requirements• Moving away from a principles based approach• Complexity of application	The Board spent some time discussing the concerns raised by respondents. However, the Board felt that new issues were not, in general, being raised and these matters had been considered by the Board in formulating the proposals and were included in the Explanatory Memorandum. The Board still recognizes that the issues are finely balanced and that any change must be seen by stakeholders as being substantive and made on a sound and defensible basis, while balanced against the cost and complexity of implementation and the likely benefits. However, it also recognizes that the perception of independence and the public interest are key elements in determining that this project should be undertaken.

Matter for Consideration

1. CAG Representatives are asked whether they have any comments on the general themes arising out of respondents' comments.

B. Rotation requirements for KAPs of PIEs (Ref. January Board paper: Agenda Item E-2)

Proposals	Comments from respondents	Board considerations
Length of time-on for all KAPs: 7 years (page 8).	Most respondents supported the time-on period remaining at seven years for all KAPs	The Board discussed the comments and noted that most respondents supported the status quo. The Board considered that having a maximum time-on period of seven years did not preclude individual jurisdictions from applying a shorter time-on period as proposed by a few respondents. The Board confirmed its

Proposals	Comments from respondents	Board considerations
		continuing support of the proposal.
Length of cooling-off for the EP: 5 years (page 10).	The majority of respondents did not support extending the cooling-off period for the EP to five years.	There was lengthy Board discussion about the respondents' comments. Some Board members proposed that this should lead to the consideration of other approaches, including a three-year cooling-off period instead of a five-year one. The majority of the Board continues to support the proposals. Nevertheless, the TF was asked to consider whether the existence of different regulatory safeguards, or a package of safeguards, set at jurisdictional level might provide an alternative to the PIE rotation requirements in the Code and whether the Code could allow for such different solutions to address the long association threat. The TF has considered this and tentatively concluded that if five years is considered to be the appropriate time for an engagement partner to cool-off in order to appropriately reduce or eliminate the threats related to the individual, then it could not see a rationale for the Code allowing for a lesser alternative, even if combined with firm rotation in a particular jurisdiction.
Length of cooling-off period for other KAPs including the EQCR: 2 years (page 13).	Most respondents supported the cooling-off period remaining at two years for other KAPs although a few respondents 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.	The Board discussed the comments from respondents. With regard to the EQCR, it did not consider that there was a need to change the proposal based on the rationale expressed in the EM. The rationale included that the EQCR does not participate in the engagement or meet the client. The Board confirmed its continuing support of the proposals.

Proposals	Comments from respondents	Board considerations
Longer cooling-off period for EPs to apply to audits of all PIEs (page 15).	If longer cooling-off periods were to apply to the EP, the majority of respondents agreed that the requirements should apply to all PIEs although some respondents considered that as the PIE definition differs across jurisdictions the longer cooling-off provisions should apply to listed entities only.	The Board discussed the comments. Among other things, the board discussed its PIE definition which allows a PIE to be determined in a local jurisdiction (in addition to those specified in the code). The board considered that once the definition of a PIE had been determined in a local jurisdiction, the independence requirements relating to PIEs should be applied consistently across that jurisdiction. Accordingly, the board confirmed its continuing support of the proposals.
5 year cooling-off for EP even if for only 1 year of the 7 year time-on period (page 16).	There was general disagreement with this proposal as being too restrictive and inappropriate.	The Board agreed that it should reconsider. The TF was asked to consider a revised proposal. The TF will recommend that an individual who has acted as EP during the seven year period for either four or more years or for at least two out of the last three years be required to cool-off for five years. (See proposed change to text in the first bullet point of Section 290.150A in Agenda Items E-3 and E-4). This is consistent with the recommendation of a number of respondents.
KAP moving directly from one role, e.g. EP, into an EQCR role without a cooling-off period (page 19 paragraph 52).	This was not an issue addressed in the ED. However a respondent raised the issue of whether an engagement partner should be able move straight into an EQCR role without any cooling-off. It was considered that the individual performing the EQCR role would be reviewing his or her own	The Board asked that the TF give the matter further consideration. The TF has tentatively concluded that if a cooling-off period is to be served before an EP could become the EQCR, that such a requirement should be included in the paragraphs ¹ of ISQC1 that set out the requirements for the independence and objectivity of the EQCR. The TF recommends that the topic be discussed with the IAASB.

¹ ISQC1 paragraphs 39 and A39

Proposals	Comments from respondents	Board considerations
	prior work.	

Restrictions on activities that can be performed by a KAP during the cooling-off period (refer to Section III of this paper)

Proposals	Comments from Respondents	TF Considerations
Allowance for limited consultation role for the outgoing EP after 2 years (pages 7-8).	On balance, more respondents supported the proposal that limited consultation by the EP during the cooling-off period be permitted.	The TF continues to support the proposals in the ED but 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 equivalent expertise is available (subject to Board review). (See first bullet point 290.150B Agenda Items E-3 and E-4).
Additional restrictions or activities that can be performed by a former KAP during the cooling-off period (pages 8-10).	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 TF continues to support the proposals in the ED and is not proposing any adjustments on this issue (subject to Board review).

Matter for Consideration

2. CAG Representatives are asked for their comments on the rotation requirements for KAPs of PIEs. In particular, do CAG Representatives support the Board's tentative conclusions?

Enhancements to General Provisions (refer to Section III of this paper)

Proposals	Comments from Respondents	TF Considerations
New Provisions 290.150.C and 290.150D (pages 10-11).	Most respondents supported the new provisions reminding firms that the principles in the general provisions must always be applied, in addition to the specific provisions for KAPs on the audit of PIEs. There were comments, however, that para 290.150D was repetitive and did not add anything to the general provisions.	In view of the general support for these proposals, the TF has tentatively concluded that no amendments are needed to the wording of the new provisions. However, the TF is considering whether to delete 290.150D if it is seen to be repetitive and detract from the application of the general provisions (subject to Board review). For reference, the area of possible deletion has been highlighted in yellow in Agenda Item E-3.
Concurrence of TCWG in the application of the provisions in paragraphs 290.151 and 290.152 (pages 11-12).	Most respondents supported this proposal that firms should not apply the provisions in 290.151 and 290.152 without the concurrence of TCWG.	The TF has tentatively concluded that it should make no change to this proposal in view of the general support from respondents (subject to Board review).
Enhancements to general provisions in 290.148 (pages 12-13 and 14-16).	Most respondents supported the proposed enhancements to the general provisions. Respondents also made constructive suggestions for editorial changes to these provisions.	The TF is not proposing any significant changes to the proposals but it is reflecting some of the respondents' suggestions. See proposed changes in section 290.148 in Agenda Items E-3 and E-4 (subject to Board review).
Application of general provisions to the evaluation of potential threats caused by the long association of all individuals on the audit team, not just senior personnel (pages 13-14).	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 TF 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 (subject to Board review). See paragraph 290.148B bullet points 2, 3, 4 and 5 Agenda Items E-3 and E-4.

Proposals	Comments from Respondents	TF Considerations
Determination of an appropriate time-out period if a firm decides that rotation of an individual is a necessary safeguard (pages 15-16).	Most respondents supported the proposal, although several respondents expressed the view that the Board should prescribe a minimum time-out period for the sake of consistency.	The TF has tentatively concluded that there is no need for a change in this proposal (subject to Board review).
Corresponding changes to Section 291 (pages 16-17).	Most respondents supported the proposed corresponding changes and, where relevant, asked that these reflect their comments on Section 291	Once the Board has considered respondents' comments, the TF will propose corresponding changes to Section 291.

Matter for Consideration

3. CAG Representatives are asked for their views on comments from respondents and the TF views on the enhancement to the general provisions.

III Analysis of the Remaining Issues in the ED (that have not been presented to the Board)

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

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

Limited Consultation by the Engagement Partner

5. Most respondents supported the proposal allowing limited consultation by the former engagement partner after two years. A few respondents² commented that they supported the proposal on the

² Firms Nexia Aus Nexia International Member Bodies HKICPA ICAGH

grounds of audit quality. They regarded the potential impact to audit quality resulting from restricting consultation as outweighing the threat. A few respondents³ commented that without this provision, costs for SMPs would be significantly increased. A respondent⁴ commented that a documentation provision should be included within the proposal.

6. A regulatory respondent,⁵ while believing it important for the engagement team to have access to technical experts, commented that the Board should first promote consultation with experts who are not serving a time-off period for the related audit engagement. This respondent commented that it should be possible to consult with another expert internally or externally to the firm or network firm. The TF discussed that the intention of the proposals is to ensure that the right technical experts are available to the audit team. However, it agreed that other experts should be consulted if such are available. The TF is proposing to add to the provisions in the first bullet point of 290.150B that there should be “no other equivalent expertise available”. This proposed change is set out in Agenda Items E-3 and E-4
7. Those respondents who did not support the proposal, in whole or in part, made a variety of comments. A few respondents⁶ expressed the view that the proposal ran counter to the need to have a cooling-off period in the first instance and contradicted the argument for the cooling-off period being increased from two to five years. Some respondents indicated that cooling-off should mean cooling-off.⁷ A regulatory respondent⁸ commented that to address fully concerns of threats to objectivity, there should be no involvement at all with the audit during the cooling-off period other than responding to queries concerning previously completed audits the partner was involved with. Some respondents⁹ commented that although there might be some consultation with the audit team there should not be any consultation with the audit entity.
8. Although the Board has not yet considered the responses in this regard, the TF has discussed the comments and continues to support the proposals and the rationale for the proposals set out in the ED. However, the TF agreed with commentary that even if consultation was required to occur with the former engagement partner, it should only be with the engagement team and should not involve contact with the client. The TF is tentatively proposing an adjustment to the text of the ED in the first bullet point of proposed paragraph 290.150B to reflect that there should be no consultation with the audit client during the cooling-off period. This proposed change is set out in Agenda Items E-3 and E-4.

³ **Firm** Nexia Aus Nexia International

⁴ **Firm** RSM

⁵ **Regulator and Public Authority** IOSCO

⁶ **Firm** GTI **Member Body** ICAS

⁷ **Regulator and Public Authority** FRC **Firms** FKA and William Buck **Member Body** FAR

⁸ **Regulator and Public Authority** FRC

⁹ **Regulator and Public Authority** Auditor General NZ **National Standard Setter** NZAuASB **Member Body** CPA Canada
Individual and Other J T Giraud

Other Restrictions on Activities

9. There were almost as many respondents in favor of the proposal as there were against it. There were a variety of comments from those respondents who supported the proposal. The following comments reflect why the proposals were supported:
- The proposals strike an appropriate balance.¹⁰
 - The provisions are reasonable and a comment that in the absence of these restrictions, the KAP can be performing roles that would render rotation an ineffective. This respondent¹¹ commented that the restrictions provided a clear context for any KAP to operate.
 - It is important that any contact with the audit team and client is minimal so there can be a fresh look in conducting the audit.¹²
 - Whilst reasonable in theory implementation of the proposals may only be possible in larger firms.¹³
10. Those respondents who did not support the proposal expressed a variety of views for their lack of support, both for it being too restrictive, or not restrictive enough:
- A few respondents¹⁴ expressed the view that “cooling-off means cooling-off.”
 - Some respondents¹⁵ preferred a risk-based approach with firms being able to exercise professional judgment indicating that a principles-based approach might be more appropriate to determine the activities that should be restricted.
 - A few respondents¹⁶ considered that the proposed restriction in relation to non-audit services was unduly restrictive if the non-audit services had no material effect on the financial statements or that the proposed restriction on contact with senior management was overly restrictive if the non-assurance service did not result in the individual exerting direct influence on the outcome of the audit engagement.
 - A respondent¹⁷ commented that the additional restrictions introduced unnecessary complexity and might be too time consuming and difficult to manage and may lead to firms imposing their own stricter requirements which might potentially penalize clients. Another respondent¹⁸ commented that its constituents from the SMP sector were concerned about the restrictive nature of the provisions.

¹⁰ **Firm EY**

¹¹ **Member Body ICAGH**

¹² **Firm DTTL**

¹³ **Member Body CPA Canada**

¹⁴ **Regulator and Public Authority FRC IRBA Member Body FAR**

¹⁵ **Regulator and Public Authority SCM Firm PKF Member Bodies ACCA IDW**

¹⁶ **Member Bodies AICPA KICPA**

¹⁷ **Member Body CAANZ**

¹⁸ **Member Body HKICPA**

- A respondent¹⁹ questioned why the provision of non-assurance services that result in significant or frequent interaction with senior management would not be permitted during the cooling-off period if the individual has no intention to act as KAP on that engagement again.
11. A few respondents²⁰ commented on the restriction in the proposal for individuals not being able to lead or coordinate the firm's professional services to the audit client or overseeing the firm's relationship with the audit client (often referred to as the relationship partner). They indicated that such restrictions might be unduly restrictive.
 12. The TF has considered these comments and is not proposing an adjustment to the provisions in the ED. The Board's rationale for the proposal was based on concerns of many stakeholders that contact between the rotated individual and the audit client during the cooling-off period should be very limited and that the rotated individual should not be in a position where he or she would be, or perceived to be, able to directly influence the outcome of the audit. The Board, however, did not consider that it was necessary or practical that there be no contact at all. The TF has not been persuaded that there is significant justification to change this proposal.

Other Changes – New Provisions 290.150.C and 290.150D

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

13. The ED explained that the structure of the extant Code may imply that it is always acceptable for a KAP to serve the maximum seven-year time-on period without reference to any other factors or safeguards. To address this matter, the IESBA proposed a new paragraph 290.150C which indicates that it may not always be appropriate for an individual who is a KAP to continue in that role, even if they have not completed seven years on the audit engagement as a KAP. The objective of the proposal is to ensure that the significance of any threat is evaluated in accordance with the general provisions.
14. Most respondents supported this proposal. Respondents supporting this proposal indicated, amongst other things, that it provided “solid ground that the general provisions must always be applied”²¹ and that the provisions were “essential in demonstrating that the code remains principles-based.”²² Respondents who did not support the proposal generally did not think that the provision was necessary considering that it is sufficiently clear that all individuals are subject to the general provisions²³ and the concept is covered elsewhere in the Code.²⁴
15. Although the Board has not yet considered the responses in this regard, the TF has discussed the comments. In the light of the support from respondents, the TF has tentatively reached the view that no change is required to the proposal in the ED.

¹⁹ **Firm PKF**

²⁰ **Member Body ACCA IDW**

²¹ **Regulator and Public Authority DFSA**

²² **Member Body ACCA**

²³ **Firm PWC**

²⁴ **Firm EY**

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

16. In addition, the ED proposed a new paragraph 290.150D providing that consideration be given to threats created by the long association of members of the audit team other than KAPs, in an effort to remind users that the principles in the general framework must be taken into account in addition to the specific requirements for KAPs on the audit of PIES.
17. Most respondents supported this proposal. As with the support for 290.150C, respondents considered that the proposed provision was a useful reminder that the general provisions should be applied. Respondents who did not support the proposal suggested that the provision should only apply to senior personnel²⁵ or, as with the 290.150C proposal, did not consider that the provision was required as it was repetitive of the general provisions, which would always apply in any case.
18. Although the Board has not yet considered the responses in this regard, the TF is considering whether this provision should be deleted as suggested by those respondents who regarded it as unnecessary or left in for emphasis for those respondents who thought that it was helpful. For reference, the area of possible deletion has been highlighted in yellow in Agenda Item E-3.
19. A regulatory respondent²⁶ indicated that the familiarity threat should not be narrowly focused on partners and that the provisions should address the familiarity threat of non-partner engagement team members who “grew up” on an engagement. The respondent recommended that the proposals should be significantly strengthened to appropriately address the threat from such non-partner engagement team members.
20. The Board and the TF have previously considered this question and concluded that the principles-based approach contained in the general provisions in 290.148B address this concern.

Concurrence of TCWG

21. In the ED, respondents were asked whether or not they agreed that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG, as was proposed in the ED.
22. Most respondents supported the proposed changes in paragraphs 290.151 and 290.152. A few respondents indicated that the proposed provisions provided enhanced transparency²⁷ and commented that there should also be disclosure of the matter in the audit report.²⁸ A regulatory respondent²⁹ commented that ordinarily such concurrence should be with the audit committee or persons serving an equivalent role. Another regulatory respondent,³⁰ whilst recognizing the Board’s efforts to strengthen the extant provisions, did not believe that the proposed provisions went far enough. That regulatory respondent believed that the familiarity threat is the same whether a partner is serving an audit client that is a non-PIE or a PIE. As such, it believed the total length of

²⁵ **IFAC Member Bodies** AICPA CAI Firm EY

²⁶ **Regulator and Public Authority** IOSCO

²⁷ **Firm** PWC **Other Professional Organization** SMPC (IFAC)

²⁸ **National Standard Setter** NZAuASB Firm Altaf Noor Ali

²⁹ **Regulator and Public Authority** FRC

³⁰ **Regulator and Public Authority** IOSCO

time a partner should be allowed to serve a non-PIE audit client that becomes a PIE should be the same as required for a partner who has served as an audit partner on a PIE.

23. Several respondents who did not support the wording of the proposals concerning paragraphs 291.151 and 290.152 considered that the provisions should not refer to concurrence, preferring terms which did not amount to obtaining agreement such as “informing”, “communicating”, “consulting” or “taking comments into account.”³¹ A few respondents commented that rather than obtaining the concurrence of TCWG, who may have an interest in the decision, it might be prudent to involve the local regulator in the decision making process.³² A respondent³³ indicated that the provision should adopt a risk based approach.
24. Although the responses to the ED have not yet been considered by the Board, the TF has considered this proposal in the light of the supportive comments from ED respondents and is not proposing any change to the ED.

STRENGTHENING THE GENERAL PROVISIONS

25. Three specific questions were raised with regard to the general provisions. They related to enhancements to the general provisions and whether there were any additional safeguards that should be considered, the application of the general provisions to the evaluation of potential threats caused by the long association of all individuals on the audit team (not just senior personnel) and the determination of an appropriate cooling-off period if a firm decides that rotation of an individual is a necessary safeguard.

Enhancements to the General Provisions in Paragraph 290.148A

26. Most respondents supported the proposed enhancements to the general provisions. Many respondents³⁴ commented on points of detail and made editorial suggestions which the TF has considered.
27. Of the respondents who did not support the proposal, a few³⁵ commented that the revisions were too detailed and made the text more complicated and confusing which might cause complications in its application.
28. A regulatory respondent³⁶ commented that “the general provisions in the extant Code stated that “Familiarity and self-interest threats *are created* by using the same senior personnel on an audit engagement over a long period of time.” Whereas the proposed language states that “Familiarity and self-interest threats which *may impact* an individual’s independence, objectivity and professional skepticism, *may be created* by using the same personnel on an audit engagement

³¹ **Member Bodies** ACCA ANAN CPA HK ICAP RCA **Other Professional Organizations** Assirevi PICPA

³² **Member Bodies** ICAGH **Individual and Other** D S F Juvenal

³³ **Member Body** IDW

³⁴ **Firms** Altaf Noor Ali BDO DTT GTI KPMG Kreston International Nexia Aus Nexia International PKF PWC **Member Bodies** ACCA CAANZ CIPA FSR ICAP ICAS SAICA **Other Professional Organization** SMPC (IFAC) **Individual and Other** JEC Grant

³⁵ **Member Bodies** IDW WPK

³⁶ **Regulator and Public Authority** IOSCO

over a long period of time.” (Emphasis added). This regulatory respondent commented that the proposed change sent “the wrong message to auditors and at the same time diminishes the effectiveness of the Code.” The TF notes that the scope of the provisions has been expanded to apply to all members of the audit team, not just senior personnel. It was considered appropriate to change “are created” to “may be created” as there may be no threat created by the long association of a junior member of the engagement team. The TF proposes no change.

29. A few respondents³⁷ commented to the effect that familiarity threats increase over time and suggested that this be reflected in the provisions.
30. A few respondents³⁸ commented on the statement³⁹ “...a familiarity threat may be created as a result of an individual's long association with... the financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.” Comments in this regard included that this raised a question how an individual's long association or familiarity with financial statements would be defined or measured and that familiarity with the financial statements is not compatible with the definition of the familiarity threat in the Code (the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work). A few respondents⁴⁰ commented on the addition of a reference to losing a longstanding client. Such comments included that the reference be removed from this section of the Code as such self-interest threats are dealt with elsewhere in the Code and that the paragraph should focus on the self-interest that may arise out of close personal relationships.
31. A respondent⁴¹ commented on paragraph 290.148A that in addition to the example of a self-interest threat “a desire to maintain a close personal relationship with a member of senior management or those charged with governance,” the board should include an additional example of a self-interest threat related to “an individual's hesitancy to overturn a decision previously reached, so as not to call into question the prior judgment.”
32. Although the Board has not yet considered the responses in this regard, the TF has discussed the comments and proposed a few amendments to the text of the ED in response to comments from respondents. These changes are set out in Agenda Items E-3 and E-4 and:
- Add to the title, for clarity, that the general provisions apply to all audit clients;
 - Address comments on paragraph 290.148A (first paragraph) that suggested that the familiarity and self-interest threats described could happen any time, by adding that threats may be created “and may increase in significance” to make clear that the examples of familiarity and self-interest threats may be exacerbated as a result of long association with a client;
 - Clarify in paragraph 290.148A (third bullet point) that an individual's familiarity with the financial statements is linked to the individual's role as a member of the audit team;

³⁷ **Firms Crowe** Horwath Kreston International

³⁸ **Member Bodies** ACCA IDW **Firm** PWC

³⁹ Statement contained in 290.148A

⁴⁰ **Member Firm** PKF **Member Body** ACCA **Individual and Other** J E C Grant

⁴¹ **Member Body** SAICA

- Delete the words “of the firm” in the section of 290.148A (after the bullet points) after “longstanding client” to address the concern that it was suggestive of an institutional rather than personal self-interest threat that gives rise for concern;
- Clarify how a self-interest threat created by long association can affect an individual's judgment by adding the words “and may inappropriately influence the individual's judgment (at the end of 290.148A.)

Application of General Provisions to All Individuals on the Audit Team

33. The ED proposed that the general provisions should apply to evaluating the potential threats created with respect to all individuals on the audit team, not just senior personnel. The ED proposed replacing references to “senior personnel” with “personnel” and asked respondents to comment on whether this change was appropriate.
34. More than half of the respondents, while recognizing that junior personnel posed a lesser risk, commented that the provisions should apply to all individuals on the audit team and not just senior personnel. Reasons expressed for this view included that the objectivity of members of the audit team, other than senior personnel, with long experience and close association with the client can also be “easily compromised”.⁴² Even junior staff that have stayed “too long” on a particular audit could also tacitly influence the outcome of an audit⁴³ and any member of the audit team could be associated with audit client staff long enough such that threats to independence can be created.⁴⁴ A respondent⁴⁵ commented on the importance of a principles-based approach to these provisions bearing in mind the varying nature of these types of relationships. A few respondents⁴⁶ indicated that the Board should provide examples that illustrate the threat connected with the long association of any member of the audit team, including where a junior member of staff's familiarity threat could be considered significant.
35. Respondents who were not in favor of the provisions applying to all individuals on the audit team expressed the view that junior personnel did not pose the same risk as senior personnel as they were not key decision makers.⁴⁷ A few respondents⁴⁸ also commented that extending the provisions to junior personnel was unnecessary and would require firms to devote time and resources to the matter which might include documenting the issues considered, when the existing provisions remain appropriate.
36. The TF has considered the comments and continues to support the proposal that the general provisions apply to all individuals on the audit team. However, the TF also proposes to address concerns that the provisions do not adequately take into account that threats created by junior personnel may be less significant, by adding additional factors in 290.148B (a) to consider when

⁴² **Firm** FKA

⁴³ **Member Body** ANAN

⁴⁴ **Member Body** ACCA

⁴⁵ **Regulator and Public Authority** SCM

⁴⁶ **Firm** Crowe Horwath **Member Body** ICAP

⁴⁷ **National Standard Setters** APESB NZAuASB **Firms** RSM William Buck **Member Bodies** IDW WPK SAICA

⁴⁸ **Member Body** AICPA IDW WPK **Firm** Pitcher Partners

evaluating threats. These factors are the seniority of the individual on the audit team, the extent to which their work is reviewed by more senior personnel and their ability to direct the work of other members of the audit team.

Enhancements to the General Provisions in Paragraph 290.148B

37. A few respondents⁴⁹ commented on the importance of training in ethical matters as an additional safeguard. In preparing the ED, the Board considered including training a safeguard in this proposal. On balance, the Board decided that training was a safeguard created by the profession which is considered in paragraph 100.14 of the Code. Accordingly, there was no need to include training in this proposed provision.
38. A regulatory respondent⁵⁰ commented that the provisions were silent with respect to when an audit partner switches firms and the new audit firm is also then responsible for auditing the audit client. The respondent commented that the audit partner's prior service with the previous audit firm should count in the determination of the partner rotation requirement. The TF agrees with this comment and, subject to Board consideration, has proposed changes to 290.148B (a) first bullet point and 290.150A (last sentence) to make this clear.
39. A few respondents⁵¹ commented with regard to paragraph 290.149A that the impact of "changing the role of the individual on the audit team," required clarification. A respondent⁵² also commented that the safeguard might not be effective, given that the level of familiarity with the client would not change as a result of the application of the safeguard. The TF notes that "changing the role of the individual" is a safeguard in the extant Code. However, it is proposing, subject to Board consideration, to clarify the intention by adding the words "or the nature of the tasks they perform" in the first bullet point of paragraph 290.149A.
40. A few respondents⁵³ commented that the meaning of "including" in the fourth bullet of 290.149A was also unclear. A respondent⁵⁴ commented that the wording may imply that an engagement quality control review is required when a quality review is implemented as a safeguard. It suggested that these two concepts be separated. The TF is proposing, subject to Board consideration, to address these comments by deleting the words "including an" and creating a new bullet point concerning the engagement quality control review to remove any ambiguity.
41. A respondent⁵⁵ commented that the use of the phrase "shall not participate in the audit engagement" in 290.149B is unclear and suggested replacing it with the wording already included in paragraph 290.150A "shall not be a member of the engagement team or provide quality control for the audit engagement" so as to improve consistency of drafting. The TF proposes to address comments that there was an inconsistency in the wording between 290.149B and 290.150A by

⁴⁹ **Firm GTI Member Body ICAB**

⁵⁰ **Regulator and Public Authority IOSCO**

⁵¹ **Member Body ICAS Other Professional Organization FEE**

⁵² **Other Professional Organization FEE**

⁵³ **Firm PKF Other Professional Organization FEE**

⁵⁴ **Firm PKF**

⁵⁵ **Firm PWC**

changing the description of the activities that an individual shall not undertake during cooling-off in 290.148B to reflect the same wording that was used in relation to PIEs in 290.150A.

42. In considering the comments from respondents, the TF recognized that many respondents questioned the need for, or the rationale behind, some of the rotation proposals. The TF discussed and tentatively concluded that it would be helpful to add a general statement of purpose with respect to the objective of rotation, and is proposing, subject to Board consideration, to add an additional paragraph explaining the purpose of rotating an individual (290.149B).
43. The ED proposed the establishment of a requirement that, if a firm decides rotation of an individual on the audit team is a necessary safeguard, the firm determines an appropriate period during which the individual shall not participate in the audit engagement or exert direct influence on the outcome of the audit engagement.
44. Most respondents supported the proposal that the firm should determine an appropriate cooling-off period. Several respondents did, however, express the view that the Board should prescribe a minimum time out period for the sake of consistency.⁵⁶ There was some variation on what that time period should be. Some respondents⁵⁷ suggested that two years might be the appropriate time-out period. A regulatory respondent⁵⁸ suggested that a period of two to five years might be appropriate.
45. Although the Board has not yet considered the comments, the Board had discussed the topic at prior meetings, as the TF had originally proposed a minimum cooling-off period of one year in the general provisions. The Board had determined that the time-out period should not be specified in the general provisions. The TF has tentatively concluded that there is no need for a change in this proposal.

D CORRESPONDING CHANGES TO SECTION 291

46. The ED proposed corresponding changes to Section 291. The EM asked whether respondents agreed that given the differences between audit and other assurance engagements, the provisions should be limited to assurance engagements “of a recurring nature”.
47. Most respondents generally supported the proposed corresponding changes. Respondents also indicated that the Board should reflect their comments on Section 290 in the proposed changes to Section 291. A few respondents⁵⁹ commented that the Board should give guidance on the type of engagement that would be recurring. Whilst supporting the proposals, a few respondents commented that the provisions should not apply to all personnel because junior personnel do not participate in making key or significant decisions on assurance engagements or have the ability to influence the outcome of an assurance engagement.

⁵⁶ **Regulator and Public Authority** IRBA Firms Crowe Horwath Kreston International **Member Bodies** FAR ICAGH ICAP IMCP
Other Professional Organization FEE **Individual and Other** J E C Grant

⁵⁷ **Firms** Kreston International **Member Bodies** FAR ICAGH IMCP **Other Professional Organization** FEE

⁵⁸ **Regulator and Public Authority** IRBA

⁵⁹ **National Standard Setter** APESB NZAuASB

48. Respondents made various comments on the use of the term “of a recurring nature.” Comments included:
- Not agreeing with the assertion that the provisions should be limited to assurance engagements “of a recurring nature.”⁶⁰
 - Uncertainty about the relevance of the limitation to assurance engagements of a “recurring nature” because as soon as a service is provided over a long period for the same client a familiarity threat will arise.⁶¹
 - Although the phrase “of a recurring nature” was not incorrect, its inclusion did not contribute to the clarity or meaning of the paragraph as it already states the engagement is occurring “over a long period of time” – so, the change should be deleted so as not to make unnecessary changes to the Code.⁶²
49. Once the Board has considered comments from respondents to the ED in this regard, the TF will propose corresponding changes to Section 291. The TF is of the view that a reference to “recurring nature” is appropriate since if the engagement is for example a “one-off” engagement, then there is no risk of threats being created by long association.

Effective Date

50. Recognizing that the proposed changes were substantive, respondents to the ED were invited to comment on the effective date proposed in the ED. Many respondents made no comment on the effective date. Of those respondents who commented on the effective date, some respondents⁶³ agreed with the proposal in the ED and a few respondents⁶⁴ commented that there should be a longer lead time for the effective date. Some respondents⁶⁵ asked that release of the guidance be consolidated with other guidance being issued by the Board. The Board has not yet considered this issue.

⁶⁰ **Member Body** ICAS

⁶¹ **Other Professional Organization** FEE

⁶² **Firm** Deloitte

⁶³ **Firm KPMG Member Bodies** MAC MICPA

⁶⁴ **Member Bodies** CAANZ ICAP

⁶⁵ **Regulator and Public Authority** IRBA **Member Bodies** ICAEW IDW **Other Professional Organization** SMPC (IFAC)