

## Revised Draft IESBA Staff Questions and Answers— Long Association of Personnel with an Audit Client

[Date]

**(CLEAN)**

This Questions and Answers (Q&A) publication is issued by the Staff of the International Ethics Standards Board for Accountants (IESBA) to assist national standards setters, firms, IFAC member bodies and others as they adopt and implement the revised long association provisions in the *Code of Ethics for Professional Accountants* (the Code) issued by the IESBA in [Month, Year].

This publication does not amend or override the Code, the text of which alone is authoritative. Reading this Q&A is not a substitute for reading the Code. This Q&A is not meant to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

### General – Audit Partner Rotation Provisions

#### *Audit Partner Rotation Provisions for Public Interest Entities*

**Q1:** In respect of an audit of a public interest entity, are key audit partners subject to the same time-on and cooling-off periods?

**A:** The same maximum time-on period applies to all key audit partners. However, there are different cooling-off periods depending on the role of the key audit partner as summarized below:

Role	Time-on and cooling-off periods
<b>Engagement partner</b>	Maximum 7 year time-on period 5 year cooling-off period
<b>Individual responsible for the engagement quality control review</b>	Maximum 7 year time-on period 3 year cooling-off period
<b>Other key audit partners</b>	Maximum 7 year time-on period 2 year cooling-off period

The maximum 7-year time-on period is on a cumulative basis and need not be consecutive (see Q4). Under certain conditions, a cooling-off period of five consecutive years may be reduced to three consecutive years (refer to Q6). Combinations of roles are addressed in Q5.

### *Engagement Partner on a Subsidiary of a Public Interest Entity*

**Q2:** An individual has served as the engagement partner for the audit of a public interest entity for seven years. Another individual has served as the engagement partner on the audit of a subsidiary of the public interest entity for seven years. Are both engagement partners subject to a five year cooling-off period after serving seven years?

**A:** No. The cooling-off period of five years applies only to the engagement partner responsible for the report that is issued on behalf of the firm for the audit of the public interest entity. This engagement partner is sometimes referred to as the “lead audit engagement partner” in a group audit. An individual who has acted as the engagement partner at a subsidiary of the public interest entity may be a key audit partner in relation to the group audit, depending on the circumstances and the role of the individual on that audit. If that individual is a key audit partner (but is not the engagement partner or the individual responsible for the engagement quality control review for the public interest entity), he or she is required to rotate off the engagement after a maximum service of seven years and then must cool off for two consecutive years. If the individual is not a key audit partner in relation to the group audit but the subsidiary itself is a PIE, the individual will still be subject to rotation requirements, including the longer cooling-off period. In all other cases, the engagement partner on the audit of the subsidiary will be subject to the general provisions.

### *Signing Partner Different from Engagement Partner*

**Q3:** The Code defines the engagement partner as the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. In the situation where the partner who signs the audit report (the signing partner) is not the same individual as the engagement partner, which cooling-off provisions apply to the former?

**A:** The signing partner, if different, would normally also be treated as an engagement partner and be subject to the same requirement as the engagement partner. However, there are jurisdictions in which more than one audit partner is required to sign the audit report. In this case, it may not be reasonable or appropriate to treat all the signing partners as engagement partners, and determining which cooling-off provisions apply would depend on jurisdictional circumstances and the reasons why there are additional signing partner(s). At a minimum, however, the signing partner(s) would be considered key audit partners.

### **Breaks in Service**

**Q4:** A key audit partner for the audit of a public interest entity has completed five years in the role, followed by one year off the engagement (for example, for maternity leave or illness). Can the partner return to the engagement as a key audit partner the following year, and if so for how long?

**A:** In calculating the time-on period, the count of years may be restarted if the individual ceases to act as a key audit partner for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs 290.155 to 290.157 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. Breaks in service that are shorter than the required cooling-off period do not contribute to the consecutive cooling-off period. Accordingly, the one year off does not count towards cooling off and the year the key audit partner was not on the engagement team does not count towards the cumulative time-on period. He or she could therefore return to the engagement as a key audit partner for a further two years (completing a total of seven cumulative years of service) before being required to serve a cooling-off period.

In contrast, if the key audit partner had acted as the individual responsible for the engagement quality control review for those five years, followed by three years off the engagement, then he or she will have cooled-off and could return to the engagement for a further seven years.

The table below illustrates some examples showing how the cooling-off period would apply in the case of an audit of a public interest entity where “X” represents a year in which the individual was not a key audit partner on the audit. For the purposes of this table, “KAP” refers to an individual who was neither the engagement partner nor the individual responsible for the engagement quality control review.

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Cooling-off period
EP	EP	EP	EP	EP	EP	X	EP		5 consecutive years off at end of year 8
EQCR	EQCR	EQCR	EQCR	X	X	EQCR	EQCR	EQCR	3 consecutive years off at the end of year 9
KAP	KAP	KAP	X	KAP	KAP	X	KAP	KAP	2 consecutive years off at the end of year 9

### Combination of Roles

**Q5:** An individual has undertaken a combination of key audit partner roles during the seven-year time-on period. How should the required cooling-off period be determined in those circumstances?

**A:** The number of required years off will be determined by the roles undertaken and the periods during which they were performed. This is illustrated in the table below. Breaks in service are ignored for this purpose. For the purposes of the table, “KAP” refers to an individual who was neither the engagement partner nor the individual responsible for the engagement quality control review.

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Cooling-off Period	NOTE
KAP	KAP	KAP	EP	EP	EP	EP	5 consecutive years	(1)
KAP	KAP	KAP	EQCR	EQCR	EQCR	EQCR	3 consecutive years	(2)
EP	EP	EP	KAP	KAP	KAP	KAP	2 consecutive years	(3)
EP	EP	EP	EQCR	EQCR	EQCR	EQCR	5 consecutive years	(4)

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Cooling-off Period	NOTE
EP	EP	EQCR	EQCR	EQCR	EQCR	EQCR	3 consecutive years	(5)

- (1) As the individual has served on the audit engagement for a total of seven cumulative years in a combination of roles during which he or she was the EP for four or more years, the individual must serve a cooling-off period of five *consecutive* years before he or she can return to the audit engagement (see paragraph 290.158).
- (2) As the individual has served on the audit engagement for a total of seven cumulative years in a combination of roles during which he or she was the EQCR for four or more years, the individual must serve a cooling-off period of three *consecutive* years before he or she can return to the audit engagement (see paragraph 290.159).
- (3) The individual has served on the audit engagement for a total of seven cumulative years but has not served as the EP and/or the EQCR for at least four of those seven years. Accordingly, the individual must serve a cooling-off period of two *consecutive* years before he or she can return to the engagement (see paragraph 290.161).
- (4) As the individual has served on the audit engagement for a total of seven cumulative years in a combination of EP/EQCR roles during which he or she was the EP for three years, the individual must serve a cooling-off period of five *consecutive* years before he or she can return to the audit engagement (see paragraph 290.160(a)).
- (5) As the individual has served on the audit engagement for a total of seven cumulative years in a combination of EP/EQCR roles but was the EP for only two years, the individual must serve a cooling-off period of three *consecutive* years before he or she can return to the audit engagement (see paragraph 290.160(b)).

A full analysis of the possible combinations and the determination of the required cooling-off period is included in the Appendix.

### Alternative Jurisdictional Approaches to Addressing Threats Created by Long Association

**Q6:** The Code provides that a key audit partner must rotate off the audit after a time-on period of seven years. If a key audit partner serves a shorter time-on period (say five years), can the length of time that the key audit partner is required to cool off also be shortened?

**A:** Yes, in certain circumstances. If a jurisdiction's rules require the engagement partner to rotate after a shorter time-on period than seven years, then the five-year cooling-off period may be reduced to three years. This is on the condition that there is also an independent regulatory inspection regime in the jurisdiction. For example, in Country A, the engagement partner for the audit of a listed public interest entity is required to rotate after a time-on period of five years rather than seven. In this case, the partner could cool off for three years instead of five. If a jurisdiction's rules require the EQCR to rotate after a shorter time-on period than seven years, then the minimum three-year cooling-off period would still apply.

**Q7:** Does the Code recognize that the legislative bodies or regulators of some jurisdictions have implemented requirements other than, or in addition to, partner rotation to deal with threats arising from long association, such as mandatory firm rotation?

**A:** Yes, the Code recognizes that a legislative body or regulator may have evaluated the threats to independence that arise from long association with an audit client and determined that a different set or

combination of requirements to those set out in [proposed Section 540<sup>1</sup> of the restructured Code] is appropriate to reduce the threats to an acceptable level, including the implementation of mandatory firm rotation or mandatory re-tendering of the audit appointment after a predefined period, or joint audits. If one or more of those jurisdictional requirements have been implemented, then the five-year cooling-off period applicable to the engagement partner may be reduced to three years. This is on the condition that there is also an independent regulatory inspection regime operating in the jurisdiction.

## **Other**

### *Implications of Involvement in a Half-year Review*

**Q8:** A key audit partner signs a half-year review opinion, then another partner signs the opinion for the audit. Does the partner's service as engagement partner for the review engagement constitute a year for the purposes of applying the rotation requirements?

**A:** Yes. The partner for the review engagement is also considered to have served one year for the purposes of applying the rotation provisions even if he or she was not the engagement partner for the audit of the financial statements.

### *Implications of a Need to Re-audit a Prior Period*

**Q9:** A firm accepts a new public interest entity audit client that had previously been audited by another firm. In the course of auditing the current period's financial statements, it was determined that the newly engaged firm should re-audit the prior two periods. For the purposes of the partner rotation provisions of the Code, does this engagement constitute one year or three years of service by the key audit partners?

**A:** This constitutes one year for the purposes of determining when the individuals would need to rotate.

### *Manager Becoming a Key Audit Partner*

**Q10:** A manager served on the audit engagement team for five years before being promoted to partner. How many years may he or she serve on the engagement as a key audit partner for that public interest entity audit client?

**A:** The rotation requirements in the Code apply to time spent as a key audit partner. In principle, the individual may serve seven years as a key audit partner. However, the general provisions in the Code indicate that in evaluating the threat created by long association, the overall length of an individual's association with the client, how long the individual has been on the engagement team and the roles that he or she has played should be taken into account (see paragraph 290.149). A firm may decide that it is appropriate to rotate an individual off the audit team before the end of the seven-year period.

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<sup>1</sup> Proposed Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

**Transition – Cooling-off Period**

**For illustrative purposes, the following two questions assume that the revised long association provisions become effective for the audits of financial statements for years beginning on or after December 15, 2019<sup>2</sup>**

**Q11:** The engagement partner for the audit of a public interest entity served for seven years and had cooled off for one year prior to the effective date of the new provisions. The new provisions are effective for the audits of financial statements for years beginning on or after December 15, 2019. How should the transition be applied?

For example, for a calendar-year audit, the engagement partner completed his or her seventh year of service on the engagement at the end of the 2018 audit. He or she subsequently did not participate in the audit for 2019. Assuming the individual also “cools off” for the 2020 audit, can the partner return to the engagement in 2021 after serving a two-year time out?

**A:** Yes. The partner needs to comply with the previous provisions that require him or her to cool off for two years, instead of five, as the partner completed his or her seven years of service prior to the effective date of the new provisions. Under the previous rotation provisions, the partner is able to return to the 2021 engagement with a fresh clock after a two year time-out. If, on the other hand, the engagement partner had completed his or her seventh year of service on the engagement for the 2019 audit, the partner is subject to the new provisions with respect to the audit of the financial year starting January 1, 2020. Accordingly, the engagement partner will have to complete a five-year cooling-off period specified under the new provisions and could not return to the engagement until the 2025 calendar-year audit.

	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21	Dec 22	Dec 23	Dec 24
EP	5	6	7	X	X	X	X	X
EP	6	7	X	X	1	2	3	4

*X represents the years the partner is required to cool off*

**Transition – Additional Restrictions on Activities during the Cooling-off Period**

**Q12:** The 2018 calendar year audit will be the seventh year an individual has served as a key audit partner on an audit engagement. The partner completes one year of his or her cooling-off period in 2019 and then the additional restrictions on activities during cooling-off become effective for the audits of financial statements for years beginning on or after December 15, 2019. How is the transition to be applied?

**A:** The new provisions on scope of activities apply to all key audit partners from the effective date. Accordingly, if a key audit partner has completed his or her seventh year of service and is in the middle of a two-year cooling-off period when the provisions become effective, the old provisions will apply in the first year of cooling-off and the new provisions in the second.

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<sup>2</sup> Subject to IESBA deliberation at its September 2016 meeting

**Appendix**

**Application of Provisions Regarding Service in a Combination of Roles**

(See Q5)

Number of Years During Time-on Period			Cooling-off (Years)	Sec. 290 Para Ref.
Engagement Partner	Engagement Quality Control Reviewer	Other Key Audit Partner		
7	–	–	5	155
6	1	–	5	158
6	–	1	5	158
5	2	–	5	158
5	1	1	5	158
5	–	2	5	158
4	3	–	5	158
4	2	1	5	158
4	1	2	5	158
4	–	3	5	158
3	4	–	5	160(a)
3	3	1	5	160(a)
3	2	2	5	160(a)
3	1	3	5	160(a)
3	–	4	2	161
2	5	–	3	160(b)
2	4	1	3	160(b)
2	3	2	3	160(b)

Revised Draft FAQs (Clean)  
 IESBA Meeting (September 2016)

Number of Years During Time-on Period			Cooling-off (Years)	Sec. 290 Para Ref.
Engagement Partner	Engagement Quality Control Reviewer	Other Key Audit Partner		
2	2	3	3	160(b)
2	1	4	2	161
2	–	5	2	161
1	6	–	3	159
1	5	1	3	159
1	4	2	3	159
1	3	3	3	160(b)
1	2	4	2	161
1	1	5	2	161
1	–	6	2	161
–	7	-	3	156
–	6	1	3	159
–	5	2	3	159
–	4	3	3	159
–	3	4	2	161
–	2	5	2	161
–	1	6	2	161
–	–	7	2	157