

## Exposure Draft

February 2016

Comments due: May 9, 2016

*International Ethics Standards Board for  
Accountants®*

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# Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client

**IESBA**

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This Exposure Draft was developed and approved by the International Ethics Standards Board for Accountants® (IESBA®).

The IESBA is an independent standard-setting Board that develops and issues high-quality ethical standards and other pronouncements for professional accountants worldwide. Through its activities, the IESBA develops the *Code of Ethics for Professional Accountants™*, which establishes ethical requirements for professional accountants.

The objective of the IESBA is to serve the public interest by setting high-quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, including auditor independence requirements, through the development of a robust, internationally appropriate code of ethics.

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## REQUEST FOR COMMENTS

This Exposure Draft, *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association with Personnel with an Audit Client*, was developed and approved by the International Ethics Standards IESBA for Accountants® (IESBA®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by May 9, 2016.**

Respondents are asked to submit their comments electronically through the IESBA website, using the "[Submit a Comment](#)" link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Technical Director, at [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

# LIMITED RE-EXPOSURE OF PROPOSED CHANGES TO THE CODE ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN AUDIT CLIENT

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## Basis for Conclusions and Explanatory Memorandum

### I. Introduction

1. This Exposure Draft incorporates:
  - (a) A basis for conclusions regarding proposals that were exposed as part of the August 2014 Exposure Draft, [Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing the Long Association of Personnel with an Audit or Assurance Client](#) (the ED), and which the IESBA has now closed; and
  - (b) A memorandum providing the background to, and an explanation of, the limited re-exposure of proposed changes to the Code of Ethics for Professional Accountants (the Code) addressing the long association of personnel with an audit client.
2. Also, to assist respondents in better understanding how the provisions in this exposure draft (both those that have been finalized and those that are subject to re-exposure) are intended to be applied, the IESBA has included a proposed IESBA Staff Questions & Answers (Q&A) publication in the Appendix. This proposed Staff publication is expected to be issued with the final pronouncement to facilitate implementation of the provisions.
3. The IESBA approved this re-exposure draft in December 2015.

### II. Background

4. In the case of both audit and assurance engagements, it is in the public interest and required by the Code that members of audit and assurance teams and firms be independent, both of mind and in appearance, of their audit and assurance clients.<sup>1</sup>
5. Long association of personnel on an audit engagement with an audit client can adversely 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 an individual's relationship with the audit client becomes a visible factor when evaluating the auditor's independence of mind and in appearance.
6. The IESBA acknowledged that a perception issue exists with respect to the current long association provisions in the Code. This is particularly so as the length of time that an individual may currently 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 IESBA to consider whether the provisions remain appropriate for addressing the threats to independence created by long association.
7. 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 have called for strengthening the requirements addressing long association

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<sup>1</sup> **Independence of mind** is the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

**Independence in appearance** is the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised.

in the Code, it is also recognized that arbitrary requirements can create unintended hardship on entities when rotations are forced to occur at times of change or transition.

8. In August 2014, the IESBA published its proposals in the ED noted above. Seventy-seven comment letters were received from various respondents, including regulators and audit oversight bodies, national standard setters, IFAC member bodies, other professional bodies, and firms.
9. Overall, there was broad support for the proposed enhancements to the general provisions addressing long association in the Code. There was also broad support for the time-on period for KAPs on audits of PIEs remaining at seven years. There was generally less agreement on the other proposals concerning the rotation of KAPs on PIEs. Support for and opposition to the proposals for limited consultation by the engagement partner (EP) with the audit team during the cooling-off period were more evenly balanced. Support for and opposition to the proposal for additional restrictions on activities that can be performed during the cooling-off period were similarly balanced. There was generally broad support for the proposed corresponding changes to Section 291.<sup>2</sup>
10. In the light of respondents' comments on the ED and the IESBA's discussions with its Consultative Advisory Group (CAG) and other stakeholders, the IESBA concluded on many aspects of its revised proposals but determined there was a need to issue for re-exposure new or revised proposals concerning (a) the length of the cooling-off period for the engagement quality control reviewer (EQCR) on an audit of a PIE; (b) circumstances where jurisdictions have established different legislative or regulatory safeguards addressing long association; and (c) circumstances where an individual has served either as an EP or as an EQCR, or in a combination of those roles, for part of the seven-year time-on period. These proposals are discussed in Section IV.
11. The IESBA has discussed this project with its CAG on seven separate occasions.

### **III. Basis for Conclusions Regarding Matters not Subject to Re-exposure**

#### **A. The Rotation Requirements for KAPs on the Audits of PIEs**

##### *Length of Time-on Period for All KAPs*

12. The ED proposed no change to the existing seven-year time-on period for KAPs with respect to the audit of a PIE. Most respondents supported retaining this provision. Some respondents, however, suggested that the time-on period should be reduced to five years.

##### **IESBA Decision**

13. The IESBA determined to retain the seven-year time-on period. The IESBA believes that this provides an appropriate balance between addressing the familiarity and self-interest threats to independence created by long association, and the need to maintain relevant knowledge and experience to support audit quality. The IESBA noted that having a maximum time-on period of seven years did not preclude individual jurisdictions from establishing a shorter time-on period.

##### *Length of Cooling-off Period for the EP*

14. The ED proposed an increase in the mandatory cooling-off period for the EP on the audit of a PIE from two years to five years. Many respondents supported this proposal to a greater or lesser extent on the premise that a two year cooling-off period is not long enough either for the outgoing EP to

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<sup>2</sup> Section 291, *Independence – Other Assurance Engagements*

reduce his or her familiarity with the client, or to enable a “fresh look” by the incoming EP. It was noted in particular that this proposal could strengthen the provisions addressing the familiarity threat by decreasing the potential for the EP to serve 14 out of 16 years on the audit.

15. Many other respondents, however, did not support extending the cooling-off period for the EP to five years. Their reasons included: a lack of empirical evidence for five years being the correct time-off period for an EP; that perceptions regarding familiarity and self-interest threats to independence were not supported by any evidence of there being audit deficiencies as a result of the existing two-year cooling-off period; that the proposal would be challenging for small and large firms alike to implement from a resource perspective, and therefore could adversely impact audit quality; that it would be complex to overlay the proposal with local provisions; and that it could lead to a reduction in competition in the market and, accordingly, a reduced choice of auditors for PIEs.
16. Respondents who did not support the proposal had varying views as to what might be an appropriate approach to the cooling-off period for the EP. Many in particular suggested that the cooling-off period be increased to three years only. There was also a concern that the proposal might cause particular difficulty in the EU where there have been recent changes in audit legislation as a result of which the cooling-off period for all KAPs<sup>3</sup> on audits of PIEs would be three years.

#### IESBA Decision

17. The IESBA carefully considered respondents’ diverse comments on this particular proposal, including respondents’ suggestions for alternative approaches. After lengthy deliberation, the IESBA determined that the overriding objective in the public interest is to ensure an effective fresh look on the audit engagement. The IESBA therefore reaffirmed that the cooling-off period for the EP on an audit of a PIE should be five years.

#### *Applicability of Longer Cooling-Off Period for the EP to Audits of Listed Entities or All PIEs*

18. The ED proposed that the five-year cooling-off period for the EP should apply to the audits of all PIEs. A substantial body of respondents supported this proposal. They commented that all PIEs are, by their nature, entities of public interest; that there was no previous distinction between listed and non-listed PIEs; and that applying the change in the provision to all PIEs would provide clarity, consistency and stability.
19. Some respondents did not support applying the five-year cooling-off period for the EP on audits of all PIEs. They noted that the definition of a PIE differs across jurisdictions and, in some jurisdictions, PIEs may only be small entities. They argued that scoping in the EP on smaller PIEs would adversely affect SMPs, given their more limited resources. A few of them suggested that the longer cooling-off period should only apply to EPs who audit listed entities given their significance to the investing public.

#### IESBA Decision

20. In the light of the substantial support from respondents, the IESBA reaffirmed its view that it is in the public interest that the five-year cooling-off period should apply to the EP on the audits of all PIEs as the EP is the individual with the most influence over the outcome of the audit.

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<sup>3</sup> In the EU, the term “key audit partner” does not include an EQCR.

*Length of Cooling-off Period for Other KAPs*

21. The ED proposed that the cooling-off period remain at two years for other KAPs (including the EQCR). Most respondents supported this proposal. A few respondents, however, were of the view that the EQCR should cool off for a longer period on the grounds that this role had more significance than what had been outlined in the ED and justified a longer cooling-off period.

IESBA Decision

22. Given the broad support from respondents for retaining the two-year cooling-off period for all other KAPs except the EQCR, the IESBA determined to make no change to this provision in the Code.
23. The IESBA has, however, reconsidered the approach to the cooling-off period for the EQCR. This matter is discussed under the Section *Proposals for Re-exposure* below.

*Application of the “Seven-Year” Time-on Period*

24. The ED proposed a new paragraph 290.150C which indicated that it may not always be appropriate for an individual who is a KAP to continue in that role, even if the individual has not completed seven years on the audit engagement as a KAP. The proposal was intended to address a concern 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.
25. Most respondents supported this proposal. They indicated, among other things, that the proposal provided a sound reminder that the general provisions should always be applied and that it is essential in demonstrating that the code is principles-based. Respondents who did not support the proposal generally felt that the provision was unnecessary as it should be sufficiently clear that all individuals are subject to the general provisions.

IESBA Decision

26. Given the broad support from respondents, the IESBA determined that no change should be made to the provision (see paragraph 290.150F).

*KAP Moving Directly into an EQCR Role*

27. A respondent questioned whether a KAP (who has not yet served seven years) should be able move into an EQCR role without any cooling-off. The respondent was of the view that if this were to occur, the effectiveness of the EQCR role would be significantly diminished as the individual would be reviewing his or her prior work. The respondent noted that this matter was not addressed in the ED.

IESBA Decision

28. The IESBA determined that if a cooling-off period is to be served before a KAP could become the EQCR, this matter would be better addressed under ISQC1.<sup>4</sup> The IESBA noted that ISQC 1 already establishes requirements for the independence and objectivity of the EQCR. The IESBA has therefore agreed with the IAASB for this matter to be considered as part of the IAASB’s current initiative to review ISQC 1.

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<sup>4</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*



**B. Restrictions on Activities during the Cooling-Off Period***Allowance for Limited Consultation on Technical Issues after Two Years*

29. The ED proposed that an EP who has rotated off could, after two of the five years has elapsed, provide consultation to the engagement team or client if that partner is, or becomes, an individual whose responsibility it is to be consulted within the firm on a technical or industry-specific issue. This was on the condition that the consultation would be in respect of issues, transactions or events not previously considered by the individual while acting as the EP. Most respondents supported the proposal.
30. A respondent was of the view that it is important for the engagement team to have access to technical experts. The respondent, however, suggested that the IESBA should first promote consultation with experts who are not serving a cooling-off period for the related audit engagement. Other respondents did not support the proposal, or aspects of the proposal, for various reasons, including: 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 to be increased from two to five years for the EP; that cooling off should mean just that; and 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 in which the partner was involved. Some respondents felt that there might be some consultation with the audit team, but not with the audited entity.

*IESBA Decisions*

31. The IESBA noted the support from most respondents for the proposal. It reaffirmed that the proposal is aimed at ensuring that the right technical experts are available to the audit team to promote audit quality. However, in response to the comments received, the IESBA agreed to make the following refinements to the provision (see paragraph 290.150E):
- To promote consultation with other experts first if available, adding a further condition that there be no other partner within the firm expressing the audit opinion with the expertise to provide the advice.
  - To emphasize that the provision is intended to be used in limited circumstances, changing the words “issues” and “transactions” to the singular rather than the plural.
  - To emphasize that such consultation should only be with the engagement team and not involve contact with the client.
32. In the light of the proposal to extend the cooling-off period for the EQCR (see Section IV below), the IESBA has also extended the scope of the provision to cover the EQCR.

*Additional Restrictions on Activities that can be Performed During the Cooling-off Period*

33. The ED proposed that during the cooling-off period, the rotated partner should not:
- Be responsible for leading or coordinating the firm’s professional services to the audit client or overseeing the firm’s relationship with the audit client (sometimes referred to as the “relationship partner”); or
  - Undertake any other role or activity, including the provision of non-assurance services, that would result in the individual:
    - Having significant or frequent interaction with senior management or TCWG; or

- Exerting direct influence on the outcome of the audit engagement.
34. There were almost as many respondents in favor of the proposal as there were against it. Those in favor commented that the proposal was reasonable and balanced and that, in the absence of these restrictions, the KAP could perform roles that would render rotation an ineffective safeguard. A view was also expressed that any contact with the audit team and client should be minimal so there can be a fresh look in conducting the audit.
35. Those who did not support the proposal expressed a variety of views for their lack of support, both for its being too restrictive and not sufficiently restrictive. These views included the following:
- “Cooling-off” should mean just that and there should be no allowance for any permissible activities during cooling-off.
  - A risk-based approach might be preferable, which would allow firms to exercise appropriate judgment.
  - The proposed restriction in relation to non-audit services is unduly restrictive if such services would have no material effect on the financial statements. Also, the proposed restriction on contact with senior management is overly restrictive if the non-assurance service would not result in the individual exerting direct influence on the outcome of the audit engagement.
  - The additional restrictions introduced unnecessary complexity and might be too time consuming and difficult to manage, which could lead firms to impose their own stricter requirements, thereby potentially penalizing clients.

#### IESBA Decisions

36. The IESBA reaffirmed its rationale for the proposal which 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 be perceived to be, able to directly influence the outcome of the audit. The IESBA considered the views of respondents who expressed that there should be no allowance for contact with the audit client during the cooling-off period. However, the IESBA agreed that it was neither necessary nor practical that there be no contact at all.
37. The IESBA determined, based on the balance of comments from respondents and the rationale for the proposal, that the proposal is not overly restrictive and there was no significant justification for change. Accordingly, no change has been made.

#### C. Long Association of Audit Team Members other than KAPs

38. The ED proposed to require in paragraph 290.150D that consideration be given to threats created by the long association of a member of the audit team other than a KAP. The proposal was intended as a reminder that the principles in the general framework should be taken into account in addition to the specific requirements for KAPs on the audit of PIEs.
39. Most respondents supported the proposal as they felt that it was a useful reminder that the general provisions should be applied. Those who did not support it suggested either that the provision should only apply to senior personnel, or did not consider that the provision was necessary as it was repetitive of the general provisions and could introduce confusion.

40. A respondent expressed the view 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 suggested that the proposals should be significantly strengthened to appropriately address the threat relating to such non-partner engagement team members.

*IESBA Decisions*

41. On reflection in the light of respondents’ comments, the IESBA determined that although the provision was a useful reminder, it was repetitive of the general provisions and might create confusion. Accordingly, the IESBA agreed to delete it.
42. With respect to the matter of non-partner engagement team members “growing up” on an engagement, the IESBA noted that it had previously considered the matter and concluded that the principles-based approach contained in the general provisions addressed this concern.

**D. Obtaining the Concurrence of TCWG**

43. Extant paragraph 290.150 (renumbered 290.151 in the ED) provides that in rare cases due to unforeseen circumstances outside the firm’s control, a KAP whose continuity is especially important to audit quality may be permitted an additional year on the audit team beyond the seven-year time-on period, as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. The ED proposed to strengthen this provision by allowing the individual to serve the additional year as a KAP provided that those charged with governance (TCWG) concur. In this regard, the ED proposed requiring the firm to discuss with TCWG the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.
44. Extant paragraph 290.152 provides that if an individual has served an audit client as a KAP for six or more years when the client becomes a PIE, the partner may continue to serve in that capacity for a maximum of two additional years before rotating off the engagement. The ED also proposed to strengthen this provision by allowing the maximum two additional years only with the concurrence of TCWG.
45. Most respondents supported the proposed changes. A respondent, however, expressed the view that the proposed change to extant paragraph 290.152 did not go far enough and the ability to serve an additional two years when an audit client becomes a PIE should be removed, on the grounds that the familiarity threat is the same whether a partner is serving an audit client that is not a PIE or one that is a PIE. Several respondents did not support use of the term “concurrence,” preferring terms which do not amount to obtaining agreement, such as “informing” or “communicating.”

*IESBA Decisions*

46. In view of the broad support from respondents for the proposals, the IESBA determined that they should be finalized as presented in the ED. With respect to paragraph 290.152, the IESBA believes that continuity is especially important for audit quality in the initial transition years of an entity becoming a PIE when it may face significant changes, including in relation to financial reporting requirements. Accordingly, the IESBA determined to retain the limited allowance for a KAP who has already served six or more years on the audit to serve in that capacity for a maximum of two additional years when the audit client becomes a PIE, but on the new condition that the concurrence of TCWG be obtained.

47. The IESBA did not accept the suggestions to use terms such as “informing” or “communicating” in place of “concurrence” as these terms would not be consistent with its intention to strengthen the provisions.

**E. Strengthening the General Provisions**

48. The ED proposed to enhance the general provisions in extant paragraph 290.148 so as to establish a more robust framework applicable to all audit clients. The enhancements were also intended to provide more useful guidance for identifying and evaluating threats to independence created by long association and applying appropriate safeguards. The proposed changes, as reflected in paragraphs 290.148A to 290.148C in the ED, included:

- Providing more guidance regarding the threats which may be created by long association, including:
  - Recognizing that familiarity and self-interest threats to independence may impact an individual’s objectivity and professional skepticism;
  - Recognizing that an understanding of the audit client and its environment is fundamental to audit quality;
  - Explaining separately how familiarity and self-interest threats may be created;
  - Providing additional factors that should be considered, individually or in combination, when evaluating the significance of the potential threat, and which may relate to the individual or the audit client.
  - Recognizing that the combination of two or more factors may increase or reduce the significance of the threats created.
- Providing an additional safeguard in terms of considering changing the individual’s role on the audit, for example, if the familiarity threat relates to association with management.
- Establishing a requirement that, if a firm decides rotation of an individual on the audit team is a necessary safeguard, the firm determine an appropriate period during which the individual should not participate in the audit engagement or exert direct influence on its outcome.

*Enhancements to the General Provisions in Proposed Paragraph 290.148A*

49. Most respondents supported the proposed enhancements to the general provisions. Many respondents commented on points of detail and made editorial suggestions which the IESBA considered. Of the respondents who did not support the proposal, a few commented that the revisions were too detailed and that this could cause complications in its application.
50. A respondent noted that the extant general provisions state that familiarity and self-interest threats *are created* by using the same senior personnel on an audit engagement over a long period of time. The respondent noted that in contrast, the ED proposal indicated 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 over a long period of time” (emphasis added). The respondent was of the view that the proposed change sent the wrong message to auditors and at the same time would diminish the effectiveness of the Code.
51. A few respondents noted that familiarity threats increase over time and suggested that this be reflected in the provisions.

52. With respect to the statement in the ED that 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, a few respondents wondered how an individual's long association or familiarity with financial statements would be defined or measured. They were of the view that familiarity with the financial statements is not compatible with the definition of the familiarity threat in the Code.<sup>5</sup>
53. A few respondents suggested that the addition of a reference to losing a longstanding client be removed on the grounds that the provision should focus on the self-interest that may arise out of close personal relationships.
54. A respondent suggested that the IESBA 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.

#### IESBA Decisions

55. The IESBA noted that the scope of the provisions had been expanded to apply to all members of the audit team, not just senior personnel. The IESBA had previously determined it 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 IESBA therefore determined that the wording in the ED was appropriate.
56. The IESBA considered that despite the current definition of a familiarity threat in the Code, it was reasonable to conclude that a familiarity threat may also be created as a result of an individual's long association with the financial information which forms the basis of the financial statements. The individual may become too accepting of information he or she has seen before, which may potentially cause the individual to become less skeptical than he or she would have been otherwise. The IESBA will separately consider whether there is a need to clarify the definition of a familiarity threat.
57. The IESBA, however, determined to make the following further enhancements to paragraph 290.148A in response to the various other comments and suggestions noted above:
  - Adding in the first subparagraph that the threats "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;
  - Adding the words "as a member of the audit team" to the second subparagraph to indicate that an individual's familiarity with the financial statements is linked to the individual's role as a member of the audit team;
  - Deleting the words "of the firm" after "longstanding client" in the final subparagraph to address the concern that this was suggestive of an institutional rather than personal self-interest threat that gives rise for concern; and
  - Adding the words "and which may inappropriately influence the individual's judgment" (in the last subparagraph) to clarify how a self-interest threat created by long association can affect an individual's judgment.

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<sup>5</sup> Extant paragraph 100.12(d) describes the familiarity threat as 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.

*Application of General Provisions to All Individuals on the Audit Team*

58. 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 therefore proposed replacing references to “senior personnel” with “personnel.” A substantial body of respondents expressed support for the proposal.
59. Respondents who were not in favor of the provisions applying to all individuals on the audit team indicated that junior personnel are not key decision makers and so do not pose the same risk as senior personnel. A few respondents 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.

*IESBA Decision*

60. The IESBA noted the broad support from respondents for the proposal. However, to address concerns that the provisions may not adequately recognize that threats created by the long association with the client of junior personnel may be less significant, the IESBA agreed to include additional factors in paragraph 290.148B(a). These factors relate to the seniority of the individual on the audit team; the extent to which the individual’s work is directed, reviewed and supervised by more senior personnel; and the individual’s ability to direct the work of other members of the engagement team.

*Determination of the Rotation Period for an Individual on the Audit Team by the Firm*

61. The ED proposed that if a firm decides rotation of an individual on the audit team is a necessary safeguard, the firm be required to determine an appropriate period during which the individual should not participate in the audit engagement or exert direct influence on the outcome of the audit engagement.
62. Most respondents supported the proposal. Several respondents, however, were of the view that the IESBA should prescribe a minimum time-off period to ensure consistency. Nevertheless, there was some variation on what these respondents felt that time period should be. Some suggested a two-year period, and a respondent suggested a period of two to five years.

*IESBA Decision*

63. The IESBA noted that it had originally considered whether to establish a minimum cooling-off period in the general provisions but determined not to prescribe a specific period. The IESBA reaffirmed that firms should exercise appropriate judgment on this matter, taking into account the various factors set out in paragraph 290.148B that affect the significance of the threats and the appropriate safeguard.

*Enhancements to Other Paragraphs in the General Provisions*

64. A respondent 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 was of the view that the audit partner’s prior service with the previous firm should count in the determination of the partner rotation requirement.
65. In relation to the proposed safeguards in paragraph 290.149A, a few respondents commented that clarification was needed regarding the impact of “changing the role of the individual on the audit

team.” A respondent also commented that this 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.

#### IESBA Decisions

66. The IESBA accepted that the provisions should recognize a KAP’s prior service on the audit of the same audit client with a previous audit firm. Accordingly, the IESBA determined to make this clear in the first bullet point of paragraph 290.148B and in paragraph 290.150C.
67. With respect to paragraph 290.149A, the IESBA noted that “changing the role of the individual” is a safeguard in the extant Code. The IESBA, however, determined to clarify the provisions by adding the words “or the nature and extent of the tasks the individual performs” to the description of this particular safeguard.

#### F. Corresponding Changes to Section 291

68. Aside from corresponding changes to Section 291, the ED proposed that the provisions in that section should be limited to assurance engagements of a recurring nature.
69. Most respondents generally supported the corresponding changes to Section 291. A few respondents suggested that the IESBA provide guidance on the type of engagement that would be recurring. A respondent questioned 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. Another respondent felt that the inclusion of the phrase “of a recurring nature” was unnecessary as the ED already referred to the engagement occurring “over a long period of time.”

#### IESBA Decision

70. As respondents broadly supported the proposed changes to Section 291, the IESBA determined to retain them. The IESBA also determined to retain phrase “of a recurring nature” as respondents had not raised fundamental concerns about its inclusion. The IESBA agreed a number of further corresponding changes to this section based on the changes to Section 290 post-exposure.

## IV. Proposals Subject to Re-exposure<sup>6</sup>

### Length of the Cooling-off Period for the EQCR

71. The ED proposed that the cooling-off period remain at two years for the EQCR on the audit of PIEs. A substantial body of respondents supported this proposal. Many cited no evidence of a need for change. They also argued that the EQCR does not have the same influence on the audit as the EP; that the EQCR is not usually known to the client and does not usually participate in the engagement or make final decisions; and that the familiarity threat with respect to the EQCR is less than with respect to the EP. There was also a view that extending the cooling-off period for the EQCR to five years would be a significant burden for firms and put further strain on specialist resources, thus harming audit quality.
72. Some respondents, however, were of the view that the EQCR should cool off for a longer period than two years. They provided a variety of suggested time periods and reasons. In particular, it was noted that the EQCR is responsible for evaluating the significant judgments the engagement team made

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<sup>6</sup> This section of the memorandum addresses those issues on which the IESBA determined that there was a need to issue for re-exposure new or revised proposals. See paragraph 10.

and the conclusions it reached in determining the opinion expressed in the report. Given the significance of this role, it was therefore suggested that the EQCR should be subject to similar cooling-off requirements as the EP to safeguard objectivity. It was also argued that both the EP and the EQCR are key decision makers on the audit engagement. Accordingly, it was felt that it would be in the public interest for them to be subject to the same rotation requirements.

73. In its consultations with the IESBA CAG, the IESBA noted that a large part of the CAG was unconvinced by arguments supporting the cooling-off period for the EQCR remaining at two years. There was strong support within the CAG for the EQCR to be subject to the same five-year cooling-off period as the EP. Views among other CAG Representatives were mixed, with: some supporting the view that the EQCR plays a different role and should not be subject to the same rotation requirements as the EP; some not supporting the five-year cooling-off for either role; and others suggesting other measures be considered, such as applying the cooling-off requirements only to audits of listed entities. Additionally, during the IESBA’s deliberations, there was a comment from the Public Interest Oversight Board (PIOB) observer that there is a need to ensure a “fresh look” given the EQCR’s familiarity with the issues on the audit engagement.
74. The IESBA recognizes that a “fresh look” will only be effective if the rotating EP has sufficient time away from the engagement to allow the incoming EP to have a fresh look. In this respect, there may be a perception that an effective fresh look cannot occur without there being a longer cooling off for the EQCR given that the EQCR may be closely involved in debating issues on the audit engagement with the EP and therefore develop a familiarity with the issues.
75. The IESBA also considered, however, that from an audit quality perspective the EQCR needs to have sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team makes, and the conclusions it reaches in drafting the audit report. Owing to the seniority and experience that are required for an individual to perform the EQCR role, the availability of individuals suitably qualified to act in an EQCR role is generally more limited. Their skills are necessary to engagements, and a longer cooling-off period might lead to a reduction in the availability of people to perform this role, with a potential adverse consequence for audit quality.
76. After lengthy deliberation, the IESBA agreed to propose that the cooling-off period for the EQCR be increased to five years with respect to listed PIEs, and to three years with respect to non-listed PIEs. See paragraphs 290.150A and 290.150B (these paragraphs include an overlay of the provisions addressing an individual serving as EP or EQCR for only part of the seven-year time-on period – see discussion at the end of this section). All other KAPs on the audits of PIEs that are not the EP or EQCR would be required to cool off for two years. The IESBA considered that a two-year cooling-off period was insufficient for the EQCR, bearing in mind the higher perception concerns regarding audits of listed- and non-listed PIEs.

**Table Illustrating this Proposal**

	<b>Listed PIE</b>	<b>Non-Listed PIE</b>
<b>EP</b>	7/5	7/5
<b>EQCR</b>	<b>7/5</b>	<b>7/3</b>
<b>Other KAPs</b>	7/2	7/2



77. In reaching this position, the IESBA took into account the greater stakeholder interest, public interest, and regulatory oversight associated with listed entities. At the same time, recognizing that many national definitions of PIEs encompass small non-listed entities which many smaller firms audit, the IESBA felt it important not to disregard the practical challenges a five-year cooling-off period for the EQCR would create for smaller firms, given the more limited availability of individuals able to perform an EQCR role. The IESBA believes that this proposal, although adding some complexity to an already complex area, appropriately balances in the public interest the imperative to address stakeholder concerns regarding the need for a fresh look against considerations of global operability.

**Length of Cooling-off Periods – Recognizing Different Jurisdictional Legislative or Regulatory Requirements (“Jurisdictional Safeguards”)**

78. Some respondents to the ED raised concerns regarding the interaction of the proposals with local requirements, particularly in jurisdictions that have also implemented mandatory firm rotation, or have a shorter time-on period for KAPs. The IESBA acknowledged that in some cases, overlaying the ED proposals over regulatory requirements might have the unintended consequence of making the requirements applicable in that jurisdiction stricter than those proposed by the Code, or make it too complicated to interpret and apply the overlay of requirements. The IESBA felt that both these outcomes might actually detract from its goal of promoting widespread adoption and implementation of the Code. The IESBA did not believe that trying to deal with “equivalence” between the PIE rotation requirements in the Code and different jurisdictional requirements to address the threats created by long association would be possible.
79. The IESBA therefore considered whether the existence of regulatory safeguards, or a package of safeguards, set at the jurisdictional level to address threats created by long association might provide an alternative to elements of the PIE rotation requirements in the Code. The IESBA agreed that if a jurisdiction, after following appropriate due process, has reached a robust, but different approach to that in the Code, it would be reasonable and in the public interest for the Code to recognize an alternative, while maintaining a minimum set of requirements.
80. Accordingly, the IESBA is proposing that where an independent standard setter, regulator or legislative body has implemented an independent regulatory inspection regime and (a) established requirements for a time-on period shorter than seven years, or (b) implemented mandatory firm rotation or mandatory retendering at least every ten years, the cooling-off periods of five consecutive years specified for the EP and EQCR (as would apply in the latter case to audits of listed entities) may be reduced to three consecutive years (see paragraph 290.150D). All other PIE rotation requirements in the Code would continue to be applicable to all PIE audit engagements, regardless of any specific jurisdictional requirements.
81. The IESBA does not believe that finding a way to recognize a robust jurisdictional alternative approach to address threats created by long association would set an expectation that future pronouncements of the Board would also be open to the same approach. The IESBA believes that this proposal appropriately acknowledges the existing jurisdictional diversity in approaches in this specific area, while using the enhanced provisions to seek to raise ethical standards in jurisdictions that have not implemented regulatory safeguards.
82. The IESBA considered whether the scope of this alternative to the Code’s requirements should also include joint audits. For example, under the EU’s recent audit reforms, PIEs are required to rotate their audit firm after 10 years unless the relevant EU Member State allows the period of service to be extended once up to maximum (a) 10 years if a tender is undertaken, or (b) 14 years if a joint audit

is adopted. After deliberation, the IESBA determined not to include joint audits in the proposal. While omitting joint audits could lead to inconsistency in application of the alternative provision in the EU, the IESBA agreed that including it would add unnecessary complexity.

### **EP or EQCR for Part of the Seven-Year Time-on Period**

83. The ED proposed that a KAP who has served as an EP at any time during the seven-year time-on period be required to cool off for a period of five years.
84. Respondents generally disagreed with this proposal as being too restrictive and inappropriate. They also observed that the proposal did not take into account practical circumstances that may lead a KAP to serve as the EP for only a year or two, such as to cover maternity/paternity leave, long term sick leave, sabbaticals, secondments and transfers for personal reasons. A respondent requested clarification of the provision so as to better articulate when the time-off period commences for an individual who has acted as the EP at any time during the seven-year period.
85. Respondents suggested a number of alternative approaches, including using a formulaic calculation with a “trigger point” such as having served more than three years out of seven (i.e., a majority).
86. The IESBA considered how to reformulate the proposal so that the five-year cooling-off period would apply to a KAP who has served as EP for sufficient time to warrant the longer cooling-off period, such as having served a majority of the seven-year period of service as the EP. The IESBA also considered that a KAP serving as EP in the last few years (of the maximum seven years of service) should be subject to the five-year cooling-off period as the closer association with the client would be more recent. The IESBA agreed that this proposal should also cover EQCRs, given the proposed increased cooling-off periods for these individuals as discussed above.
87. The IESBA therefore proposes that with respect to the audit of a listed entity, an individual who has acted as an EP or EQCR, in either capacity or a combination of these roles, for either four or more years, or for at least two of the last three years, during the seven-year time-on period be required to cool off for five years (see paragraph 290.150A). With respect to the audit of a non-listed PIE, the IESBA proposes a similar provision but bifurcated to take into account that the EQCR and EP would be subject to different cooling-off periods in respect of such audit (see paragraph 290.150B).

## **V. Analysis of Overall Impact of Proposals Subject to Re-exposure**

### **Length of the Cooling-off Period for the EQCR**

88. The IESBA considers that increasing the cooling-off periods for the EQCR with respect to audits of listed entities and audits of PIEs other than listed entities will enhance audit quality as it will reduce the familiarity and self-interest threats for EQCRs and address perception concerns regarding their objectivity and independence. The proposal may, however, create practical challenges for firms, particularly smaller firms that have fewer partners able to serve in an EQCR role. There will also be an added degree of complexity in applying the provisions given the different cooling-off periods applicable to different KAPs on the audits of listed entities and PIEs that are not listed entities.

### **Jurisdictional Safeguards**

89. The IESBA considers that this proposal will lessen the impact of the revised KAP rotation provisions for PIE audits in those jurisdictions that have implemented different but robust safeguards to address threats created by long association.

### **EP or EQCR for Part of the Seven-Year Time-on Period**

90. The IESBA considers that the revised proposal will have less of an impact than the previous proposal and is a more proportional response as it would not require a KAP to be subject to a longer cooling-off period just because the KAP had stepped into an EP or EQCR role for one year. The impact on EQCRs is also not expected to be excessive.

### **VI. Effective Date**

91. The IESBA will consider and seek respondents' feedback on the effective date for the final provisions concerning the long association of personnel with an audit or assurance client after it has redrafted these provisions under the proposed new structure and drafting conventions of the Code (see Section VII below). The IESBA will consider this matter in conjunction with its consideration of the effective date of the restructured Code.

### **VII. Project Timetable**

92. Subject to comments received on the re-exposure draft, the IESBA intends to close off the revised provisions under the current structure and drafting conventions of the Code in the second half of 2016. The IESBA will then restructure the revised provisions under the proposed new structure and drafting conventions of the Code. See the December 2015 [IESBA Update, Restructuring the Code of Ethics for Professional Accountants](#) for more information about the anticipated forward timeline for this project.

### **VIII. Guide for Respondents**

93. The IESBA welcomes comments on the proposals subject to re-exposure, but especially the matters identified in the *Request for Specific Comments* below. As the IESBA has carefully considered the responses to the August 2014 ED, it is not seeking repetition of comments previously made regarding the matters addressed by these new proposals.
94. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with the proposals subject to re-exposure, it will be helpful for the IESBA to be made aware of this view.

#### **Request for Specific Comments**

95. The IESBA would welcome views on the following specific questions:

*Cooling-Off Period for the EQCR on the Audit of a PIE*

1. Do respondents agree that the IESBA's proposal in paragraphs 290.150A and 290.150B regarding the cooling-off period for the EQCR for audits of PIEs (i.e., five years with respect to listed entities and three years with respect to PIEs other than listed entities) reflects an appropriate balance in the public interest between:
- (a) Addressing the need for a robust safeguard to ensure a "fresh look" given the important role of the EQCR on the audit engagement and the EQCR's familiarity with the audit issues; and

- (b) Having regard to the practical consequences of implementation given the large numbers of small entities defined as PIEs around the world and the generally more limited availability of individuals able to serve in an EQCR role?

If not, what alternative proposal might better address the need for this balance?

*Jurisdictional Safeguards*

2. Do respondents support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D?
3. If so, do Respondents agree with the conditions specified in subparagraphs 290.150D(a) and (b)? If not, why not, and what other conditions, if any, should be specified?

*Service in a Combination of Roles during the Seven-year Time-on Period*

4. Do respondents agree with the proposed principle "for either (a) four or more years or (b) at least two out of the last three years" to be used in determining whether the longer cooling-off period applies when a partner has served in a combination of roles, including that of EP or EQCR, during the seven-year time-on period (paragraphs 290.150A and 290.150B)?

**Request for General Comments**

96. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
- (a) *Small and Medium Practices (SMPs)* – The IESBA invites comments regarding the impact of the proposals subject to re-exposure for SMPs.
  - (b) *Preparers (including SMEs) and users (including Those Charged with Governance and Regulators)* – The IESBA invites comments on the proposals subject to re-exposure from preparers, particularly with respect to the practical impact of those proposals, and users.
  - (c) *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals subject to re-exposure, and in particular on any foreseeable difficulties in applying them in their environment.
  - (d) *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals subject to re-exposure.

**Proposed IESBA Staff Questions and Answers—  
Long Association of Personnel with an Audit Client**

**[Date]**

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**

*What are the 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:** No, different time-on and cooling-off periods apply depending on the role of the key audit partner and the type of public interest entity, as summarized below:

	<b>Listed Public Interest Entity ("Listed PIE")</b>	<b>Non-Listed Public Interest Entity ("Non-listed PIE")</b>
<b>Engagement Partner ("EP")</b>	Maximum 7 year time-on period 5 year cooling-off period	Maximum 7 year time-on period 5 year cooling-off period
<b>Individual responsible for the engagement quality control review ("EQCR")</b>	Maximum 7 year time-on period 5 year cooling-off period	Maximum 7 year time-on period 3 year cooling-off period
<b>Other Key Audit Partners ("KAPs")</b>	Maximum 7 year time-on period 2 year cooling-off period	Maximum 7 year time-on period 2 year cooling-off period

Under certain conditions, a cooling-off period of five consecutive years may be reduced to three consecutive years (refer to Q9).

*Which engagement partner is subject to the longer cooling-off period?*

**Q2:** One individual has served as the engagement partner for the audit of a public interest entity for seven years and 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 KAP in relation to the group audit, the individual will still be subject to rotation requirements, including the longer cooling-off period, if the subsidiary is itself a PIE, and in all cases will be subject to the general provisions.

**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 that individual?

**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 KAPs.

### **Applying the provisions when there are breaks in service**

*How do breaks in service impact the application of the seven-year time-on period?*

**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:** The year the key audit partner was not on the engagement team does not count towards the 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.

*How do breaks in service impact the application of the cooling-off period?*

**Q5:** A key audit partner for the audit of a public interest entity has completed seven cumulative years in the role, which includes some breaks in service. Do the years in which the partner was not a key audit partner on the audit count towards the cooling-off period?

**A:** After seven cumulative years of service, a key audit partner is required to serve a cooling-off period of two, three or five *consecutive* years, depending on their role. Years that do not contribute to the consecutive cooling-off period cannot be counted towards cooling-off.

The table below illustrates some examples showing how the cooling-off period would apply for the audit of a listed 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	5 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

**Applying the requirements when an audit partner has served in a combination of roles**

*How should the cooling-off period be determined when the individual has served in a combination of different roles?*

**Q6:** A KAP has undertaken a combination of roles during the seven-year period. What impact does this have on the required cooling-off period?

**A:** The number of years off will be determined by the roles undertaken and when they were performed. This is illustrated in the tables below, for listed and non-listed public interest entities. Breaks in service are ignored for this purpose. For the purposes of these tables, “KAP” refers to an individual who was neither the engagement partner nor the individual responsible for the engagement quality control review.

*Listed PIE*

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

BASIS FOR CONCLUSIONS AND EXPLANATORY MEMORANDUM

(1) and (2) As the individual has served the client for a total of seven years (does not need to be consecutive) in a combination of roles where he or she was the EP and/or the EQCR for four or more years or at least two out of the last three years, the individual must serve a cooling-off period of five *consecutive* years before he or she can return to the audit engagement.

(3) The individual has served the client for a total of seven years but has not served as the EP and/or the EQCR for four or more years of those seven, nor at least two out of the last three years. The partner has served a period of seven years on the engagement so must serve a cooling-off period of two *consecutive* years before he or she can return to the engagement.

*Non-listed PIE*

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

(1) and (2) As the individual has served the client for a total of seven years (does not need to be consecutive) in a combination of roles where he or she was the EP for four or more years or at least two out of the last three years, the individual must serve a cooling-off period of five *consecutive* years before he or she can return to the audit engagement.

(3) and (4) As the individual has served the client for a total of seven years in a combination of roles where he or she was the EQCR for four or more years or at least two out of the last three years, the individual must serve a cooling-off period of three *consecutive* years before he or she can return to the engagement.

(5) The individual has served the client for a total of seven years but has not served as the EP and/or the EQCR for four or more years of those seven, nor at least two out of the last three years. The partner has served a period of seven years on the engagement so must serve a cooling-off period of two *consecutive* years before he or she can return to the engagement.

**Permitted activities during the cooling-off period**

**Q7:** During the cooling-off period, can an individual become the client “relationship partner” as long as the individual does not participate in the audit?

**A:** No. An individual cannot play such a role during the cooling-off period. Under the Code, the individual cannot be responsible for leading or coordinating the firm’s professional services to the audit client or overseeing the firm’s relationship with the audit client. Even if the individual is not expected to participate in the audit and is only responsible for overseeing the provision of permissible non-audit services to the client, a “relationship partner” continues to have significant contact with management and those charged with governance, and therefore, the familiarity threat is not reduced. A relationship partner will also have



significant contact with the audit team and may also influence, or be seen to influence, the outcome of the audit.

**Q8:** In what circumstances might an engagement partner serving a five year cooling-off period be permitted to consult with the engagement team?

**A:** If the partner's primary responsibility is to be consulted within a firm on a technical or industry-specific issue, the individual may provide such consultation to the engagement team after two years has elapsed, provided that such consultation is in respect of issues, transactions or events that were not previously considered by that individual in the course of acting as engagement partner. However, this would only be the case if there was no other partner within the firm expressing the audit opinion who has the expertise to provide the advice. For example, that partner could consult with the engagement team on the implications of a new financial reporting standard on the financial statements of a bank audit client provided there was not another partner in that firm who had the expertise to provide the advice.

**Applying the provisions where a jurisdiction has implemented either a shorter time-on period for KAPs or mandatory firm rotation or re-tendering requirements**

**Q9:** 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, 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 and/or the individual responsible for the engagement quality control review 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 and EQCR for the audit of a listed public interest entity are required to rotate after a time-on period of five years rather than seven. In this case, both partners could cool off for three years instead of five.

**Q10:** How does the Code recognize that independent standard setters, regulators or legislative bodies of some jurisdictions have implemented safeguards other than, or in addition to, partner rotation to deal with threats arising from long association, such as mandatory firm rotation?

**A:** The Code recognizes that an independent standard setter, regulator or legislative body 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 safeguards to those required in the 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. If one or more of those safeguards are required at least every ten years, then the five-year cooling-off period applicable to the engagement partner and/or the individual responsible for the engagement quality control review may be reduced to three years. This is on the condition that there is also an independent regulatory inspection regime in the jurisdiction.

**Q11:** If the conditions are met for the five-year cooling-off period applicable to the engagement partner to be reduced to three years, does this mean that cooling-off period for the EQCR can also be reduced to three years?

**A:** Yes, it would be inconsistent for the EQCR to be subject to a longer cooling-off period than the engagement partner. For example, in Country B, the engagement partner for the audit of a listed public interest entity is required to rotate after a time-on period of five years but there are no requirements for the

EQCR to rotate at all. In this case, both the engagement partner and the EQCR would be permitted to cool off for three years instead of five.

## **Other**

*What are the implications of involvement in a half-year review?*

**Q12:** A key audit partner signs a half-year review opinion, then another partner signs the opinion for the audit. Does the partner's service 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.

*What happens if an entity that is not a PIE becomes a listed PIE?*

**Q13:** A firm has served as the auditor of an entity that is not a PIE for more than six years using the same partners. The client is now going through an IPO and becomes a listed public interest entity. How long can the key audit partners continue to serve the audit client?

**A:** Since the audit client has become a PIE, the key audit partners for the PIE are subject to the rotation requirements. When a client becomes a public interest entity, the Code requires that the length of time the individual has served as a key audit partner be taken into account in determining the timing of the rotation (paragraph 290.152). However, the Code contains a transition provision which allows an extra two years in these situations. Accordingly, the key audit partners would have two additional years after the financial year in which the entity lists before having to rotate off the engagement.

*What is the impact if an individual moves from one firm to another firm?*

**Q14:** A partner has been the engagement partner for the audit of Company X with Audit Firm A for five years. The partner then leaves Audit Firm A to join Audit Firm B and Company X becomes an audit client of Audit Firm B. After joining Audit Firm B, how many additional years can the partner serve as the engagement partner for Company X before he or she must rotate off the engagement?

**A:** The Code provides that in determining the number of cumulative years that an individual has been a key audit partner, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior audit firm. This is because the rotation requirements are, in part, directed towards the need to have a fresh look with respect to the audit client. As a consequence, the partner would be able to serve as a key audit partner on Company X's audit for two additional years after joining Audit Firm B and would then be required to rotate off the engagement for the required cooling-off period.

*What are the implications of a need to re-audit a prior period?*

**Q15:** 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 audit partners?

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

*What is the impact of a manager becoming a key audit partner?*

**Q16:** A manager served on the audit team for five years before being promoted to partner. How many years may he or she serve on the engagement as a KAP for a public interest entity audit client?

**A:** The requirements in the Code apply to time spent as a KAP. In principle, the individual may serve seven years as a KAP. However, the general provisions in the Code (para 298.148B) 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. A firm may decide that it is appropriate to rotate an individual off the audit team before the end of the seven-year period.

**Transition – Cooling-off period**

**For illustrative purposes, the following two questions assume that the provisions in paragraphs 290.150A to 290.153 become effective for the audits of financial statements for years beginning on or after December 15, 2018<sup>7</sup>**

**Q17:** 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, 2018. 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 2017 audit. He or she subsequently did not participate in the audit for 2018. Assuming the individual also “cools off” for the 2019 audit, can the partner return to the engagement in 2020 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 2020 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 2018 audit, the partner is subject to the new provisions with respect to the audit of the financial year starting January 1, 2019. 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 2024 calendar-year audit.

	Dec 16	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21	Dec 22	Dec 23
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*

<sup>7</sup> The IESBA will determine the effective date of the final provisions after it has finalized the restructuring of the provisions under the proposed new structure and drafting conventions of the Code.

**Transition – Additional restrictions on activities during the cooling-off period**

**The changes to the Code introduce additional restrictions on activities that can be undertaken during the cooling-off period and these apply to all key audit partners from the effective date. Accordingly, if a key audit partner 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.**

**Q18:** The 2017 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 2018 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, 2018. 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.

**NOTE: The changes to the Code shown in mark-up in this re-exposure draft are changes from the August 2014 ED. The provisions that are not subject to re-exposure are shaded in gray. They are provided for completeness and for reference only. The provisions subject to re-exposure (see paragraphs 290.150A, 290.150B and 290.150D) are *not* shaded.**

## Proposed Changes to Section 290 (Mark-Up)

### Long Association of Personnel (Including Partner Rotation) with an Audit Client

#### *General Provisions*

290.148A Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, may be created and may increase in significance when an individual is involved in ~~by using the same personnel on~~ an audit engagement over a long period of time.

Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat may be created as a result of an individual's long association as a member of the audit team with:

- The audit client and its operations;
- The audit client's senior management; or
- The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding client ~~of the firm~~ or an desire-interest to in maintaining a close personal relationship with a member of senior management or those charged with governance, and which may inappropriately influence the individual's judgment.

290.148B The significance of the threats will depend on factors, individually or in combination, relating to both ~~to~~ the individual and the audit client.

(a) Factors relating to the individual include:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.;
- How long the individual has been a member of the audit engagement team, and the nature of the roles performed.;
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other members of the engagement team.;
- The closeness of the individual's personal relationship with senior management or those charged with governance, ~~and~~
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

## (b) Factors relating to the audit client include:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed;
- Whether there have been any recent changes in senior management or those charged with governance; ~~and~~
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual may have with senior management or those charged with governance.

290.148C The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship ~~between~~ of an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management and the start of a new relationship.

290.149A The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Rotating the individual off the audit team;
- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs;
- Having a professional accountant who was not a member of the audit team review the work of the individual; ~~or~~
- Performing regular independent internal or external quality reviews of the engagement;
- Performing an including an engagement quality control review.

290.149B If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team, provide quality control for the audit engagement, participate in the audit engagement or exert direct influence on the outcome of the audit engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to independence to be eliminated or reduced to an acceptable level. In the case of a public interest entity, paragraphs 290.150A to 290.153 also apply.

*Audit Clients That Are ~~Public Interest~~ Listed Entities*

290.150A In respect of an audit of a ~~public interest~~ listed entity, an individual shall not be a key audit partner for more than seven years ~~. After such~~ (the "time-on" period), after which the individual shall serve a cooling-off period.

Subject to paragraph 290.150D the cooling-off period shall be:

- Five consecutive years for ~~An individual~~ key audit partner who during the time-on period ~~who has~~ acted as the engagement partner or the individual responsible for the engagement quality control review, in either capacity or a combination of these roles, ~~at any time during the seven year period~~ for either (a) four or more years or (b) at least two out of the last three years. ~~shall not be a member of the engagement team or provide quality control for the audit engagement for five years; and~~

- Two consecutive years for ~~Any other~~ key audit partner who acted in any other combination of key audit partner roles during the time-on period. ~~shall not be a member of the engagement team or provide quality control for the audit engagement for two years.~~

*Audit Clients that are Public Interest Entities other than Listed Entities*

290.150B In respect of an audit of a public interest entity that is not a listed entity, an individual shall not be a key audit partner for more than seven years (“the time-on period”), after which the individual shall serve a cooling-off period.

Subject to paragraph 290.150D, the cooling-off period shall be:

- Five consecutive years for a key audit partner who during the time-on period acted as the engagement partner for either (a) four or more years or (b) at least two out of the last three years.
- Three consecutive years for a key audit partner who during the time-on period was responsible for the engagement quality control review for either:
  - (a) Four or more years; or
  - (b) At least two out of the last three years; or
  - (c) Who acted in a combination of engagement partner and engagement quality control review roles for four years or more or at least two out of the last three years.
- Two consecutive years for a key audit partner who acted in any other combination of key audit partner roles during the time-on period.

*Audit Clients that are Public Interest Entities*

290.150C In determining the number of years that an individual has been a key audit partner, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

290.150D An independent standard setter, regulator or legislative body may have evaluated the familiarity and self-interest threats to independence that arise from long association with an audit client and determined that a different set or combination of safeguards to those required in this Code are appropriate to reduce the threats to an acceptable level. In such circumstances, the cooling-off periods of five consecutive years specified in paragraphs 290.150A and 290.150B may be reduced to three consecutive years, if an independent standard setter, regulator or legislative body has:

- (a) Implemented an independent regulatory inspection regime; and
- (b) Established requirements for either:
  - (i) 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
  - (ii) Mandatory firm rotation or mandatory re-tendering of the audit appointment at least every ten years.

~~290.150EB~~ ~~In addition, during that~~ For the duration of the relevant cooling-off period, the individual shall not:

- ~~(a)~~ Be a member of the engagement team or provide quality control for the audit engagement;
- ~~(b)~~ Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the ~~last~~ previous year of the individual's time-on period where this remains relevant to the audit). However, if an individual who has acted as the engagement partner or the individual responsible for the engagement quality control review is also, or becomes, an individual whose primary responsibility is to be consulted within a firm on a technical or industry-specific issue, the individual may provide such technical consultation to the engagement team provided:
  - ~~(i)~~ ~~or client after~~ Two years have elapsed since the individual was a member of the engagement team or the individual responsible for the engagement quality control review;
  - ~~(ii)~~ There is no other partner within the firm expressing the audit opinion with the expertise to provide the advice; and
  - ~~(iii)~~ ~~provided that~~ Such consultation is in respect of an issues, transactions or events that ~~were~~ not previously considered by that individual in the course of acting as engagement partner or the individual responsible for the engagement quality control review;
- ~~(c)~~ Be responsible for leading or coordinating the firm's professional services to the audit client or overseeing the firm's relationship with the audit client; or
- ~~(d)~~ Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, ~~that would result in the individual:~~
  - ~~(i)~~ Having significant or frequent interaction with senior management or those charged with governance; or
  - ~~(ii)~~ Exerting direct influence on the outcome of the audit engagement.

The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the firm, such as that of the Senior or Managing Partner.

~~290.150EG~~ There may be situations where a firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the audit engagement prior to an individual becoming a key audit partner.

~~290.150D~~ ~~Consideration shall also be given to the significance of any threat created by the long association of a member of the audit team who is not a key audit partner with an audit client. Safeguards shall be applied when necessary to eliminate the threat or reduce it to an acceptable level. Safeguards may involve the rotation of a partner or other individual off the audit team at any point during their association with the audit engagement.~~



- 290.151 Despite paragraph 290.150A and 290.150B, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. The firm shall discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.
- 290.152 When an audit client becomes a public interest entity, the length of time the individual has served the audit client as a key audit partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for five years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit client as a key audit partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.
- 290.153 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

## Changes to Section 291 (Mark-Up)

### Long Association of Personnel with an Assurance Client

291.137A Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, may be created and may increase in significance when an individual is involved by using the same individual on an assurance engagement of a recurring nature over a long period of time.

A familiarity threat may be created as a result of an individual's long association with:

- The assurance client; or
- The subject matter and subject matter information of the assurance engagement.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding assurance client ~~of the firm~~ or an desire interest to in maintaining a close personal relationship with the assurance client or a member of senior management and which may inappropriately influence the individual's judgment.

291.137B The significance of the threats will depend on factors, considered individually or in combination, such as:

- The nature of the assurance engagement<sub>;</sub>
- How long the individual has been a member of the assurance team, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm<sub>;</sub>
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other members of the engagement team<sub>;</sub>
- The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management<sub>;</sub>
- The nature, frequency and extent of interaction between the individual and the assurance client<sub>;</sub>
- Whether the nature or complexity of the subject matter or subject matter information has changed.
- Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management<sub>;</sub> ~~and~~

291.137C The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between of an individual and the assurance client would be reduced by the departure of the person who is the responsible party and the start of a new relationship.

291.137D~~C~~ The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards in relation to a specific engagement include:

- Rotating the- individual off the assurance team.;
- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.;
- Having a professional accountant who is not a member of the assurance team review the work of the individual.;
- Performing regular independent internal or external quality reviews of the engagement.
- Performing an engagement quality control review.

291.137D~~E~~ If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team, ~~or~~ provide quality control for the assurance engagement, or exert direct influence on the outcome of the assurance engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be eliminated or reduced to an acceptable level.

## Proposed Changes to Section 290 (Clean)

### Long Association of Personnel (Including Partner Rotation) with an Audit Client

#### *General Provisions*

290.148A Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, may be created and may increase in significance when an individual is involved in an audit engagement over a long period of time.

Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat may be created as a result of an individual's long association as a member of the audit team with:

- The audit client and its operations;
- The audit client's senior management; or
- The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance, and which may inappropriately influence the individual's judgment.

290.148B The significance of the threats will depend on factors, individually or in combination, relating to both the individual and the audit client.

#### (a) Factors relating to the individual include:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
- How long the individual has been a member of the engagement team, and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other members of the engagement team.
- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

#### (b) Factors relating to the audit client include:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.

- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual may have with senior management or those charged with governance.

290.148C The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management and the start of a new relationship.

290.149A The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Rotating the individual off the audit team.
- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having a professional accountant who was not a member of the audit team review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.
- Performing an engagement quality control review.

290.149B If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team, provide quality control for the audit engagement, or exert direct influence on the outcome of the audit engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to independence to be eliminated or reduced to an acceptable level. In the case of a public interest entity, paragraphs 290.150A to 290.153 also apply.

#### *Audit Clients That Are Listed Entities*

290.150A In respect of an audit of a listed entity, an individual shall not be a key audit partner for more than seven years (the "time-on" period), after which the individual shall serve a cooling-off period.

Subject to paragraph 290.150D the cooling-off period shall be:

- Five consecutive years for a key audit partner who during the time-on period acted as the engagement partner or the individual responsible for the engagement quality control review, in either capacity or a combination of these roles, for either (a) four or more years or (b) at least two out of the last three years.
- Two consecutive years for a key audit partner who acted in any other combination of key audit partner roles during the time-on period.

#### *Audit Clients that are Public Interest Entities other than Listed Entities*

290.150B In respect of an audit of a public interest entity that is not a listed entity, an individual shall not be a key audit partner for more than seven years ("the time-on period"), after which the individual shall serve a cooling-off period.

Subject to paragraph 290.150D, the cooling-off period shall be:

- Five consecutive years for a key audit partner who during the time-on period acted as the engagement partner for either (a) four or more years or (b) at least two out of the last three years.
- Three consecutive years for a key audit partner who during the time-on period was responsible for the engagement quality control review for either:
  - (a) Four or more years; or
  - (b) At least two out of the last three years; or
  - (c) Who acted in a combination of engagement partner and engagement quality control review roles for four years or more or at least two out of the last three years.
- Two consecutive years for a key audit partner who acted in any other combination of key audit partner roles during the time-on period. *Audit Clients that are Public Interest Entities*

290.150C In determining the number of years that an individual has been a key audit partner, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

290.150D An independent standard setter, regulator or legislative body may have evaluated the familiarity and self-interest threats to independence that arise from long association with an audit client and determined that a different set or combination of safeguards to those required in this Code are appropriate to reduce the threats to an acceptable level. In such circumstances, the cooling-off periods of five consecutive years specified in paragraphs 290.150A and 290.150B may be reduced to three consecutive years if an independent standard setter, regulator or legislative body has:

- (a) Implemented an independent regulatory inspection regime; and
- (b) Established requirements for either:
  - (i) 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
  - (ii) Mandatory firm rotation or mandatory re-tendering of the audit appointment at least every ten years.

290.150E For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be a member of the engagement team or provide quality control for the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit). However, if an individual who has acted as the engagement partner or the individual responsible for the engagement quality control review is also, or becomes, an individual whose primary responsibility is to be consulted within a firm on a technical or industry-specific issue, the individual may provide such technical consultation to the engagement team provided:

- (i) Two years have elapsed since the individual was a member of the engagement team or the individual responsible for the engagement quality control review;
- (ii) There is no other partner within the firm expressing the audit opinion with the expertise to provide the advice; and
- (iii) Such consultation is in respect of an issue, transaction or event that was not previously considered by that individual in the course of acting as engagement partner or the individual responsible for the engagement quality control review;

(c) Be responsible for leading or coordinating the firm's professional services to the audit client or overseeing the firm's relationship with the audit client; or

(d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:

- (i) Having significant or frequent interaction with senior management or those charged with governance; or
- (ii) Exerting direct influence on the outcome of the audit engagement.

The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the firm, such as that of the Senior or Managing Partner.

290.150F There may be situations where a firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the audit engagement prior to an individual becoming a key audit partner.

290.151 Despite paragraph 290.150A and 290.150B, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. The firm shall discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

290.152 When an audit client becomes a public interest entity, the length of time the individual has served the audit client as a key audit partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for five years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit client as a key audit partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

290.153 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.



## Changes to Section 291 (Clean)

### Long Association of Personnel with an Assurance Client

291.137A Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, may be created and may increase in significance when an individual is involved on an assurance engagement of a recurring nature over a long period of time.

A familiarity threat may be created as a result of an individual's long association with:

- The assurance client; or
- The subject matter and subject matter information of the assurance engagement.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with the assurance client or a member of senior management and which may inappropriately influence the individual's judgment.

291.137B The significance of the threats will depend on factors, considered individually or in combination, such as:

- The nature of the assurance engagement.
- How long the individual has been a member of the assurance team, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other members of the engagement team.
- The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.
- The nature, frequency and extent of interaction between the individual and the assurance client.
- Whether the nature or complexity of the subject matter or subject matter information has changed.
- Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management.

291.137C The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and the assurance client would be reduced by the departure of the person who is the responsible party and the start of a new relationship.

291.137D The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards in relation to a specific engagement include:

- Rotating the individual off the assurance team.

- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
- Having a professional accountant who is not a member of the assurance team review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.
- Performing an engagement quality control review.

291.137E If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team, provide quality control for the assurance engagement, or exert direct influence on the outcome of the assurance engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be eliminated or reduced to an acceptable level.

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