

**Draft IESBA Staff Questions and Answers—
Long Association of Personnel with an Audit Client
(MARK-UP FROM SEPTEMBER 2016 DRAFT)**

Note: Before issuance of this publication, IESBA staff will review it for any necessary amendments to conform it to the approved text of the restructured long association provisions.

This Questions and Answers (Q&A) publication is issued by the Staff of the International Ethics Standards Board for Accountants (IESBA). [It is intended](#) to assist national standards setters, firms, IFAC member bodies and others as they adopt and implement the revised long association provisions in [extant Section 290 of](#) the *Code of Ethics for Professional Accountants* (the Code) issued by the IESBA in [Month, Year].

[This publication is designed to highlight, illustrate or explain aspects of the revised partner rotation regime in extant Section 290, and thereby assist in their proper application.](#)

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. ~~The~~ ~~is~~ ~~Q&As~~ ~~is-are~~ not meant to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

General – Audit Partner Rotation Provisions

AUDIT PARTNER ROTATION PROVISIONS FOR PUBLIC INTEREST ENTITIES

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

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

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

The maximum 7-year time-on period is [calculated](#) on a cumulative basis and need not be consecutive (see Q4). ~~Under certain conditions~~ [In some jurisdictions, the new provisions will permit for a limited time the application of](#) a cooling-off period ~~of shorter than~~ five consecutive years [\(but no shorter than](#)

three consecutive years) with respect to an engagement partner may be reduced to three consecutive years (refer to Q6). Combinations of roles are addressed in Q5.

Pursuant to paragraph 290.168, firms may have the opportunity for relief from the partner rotation requirements in the Code based on an exemption provided by the relevant regulator in their jurisdiction. Where such relief is available, the individual could remain as a key audit partner (for example, as the engagement partner) on the audit engagement in accordance with any conditions specified under such relief.

ENGAGEMENT PARTNER ON A SUBSIDIARY OF A PUBLIC INTEREST ENTITY

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

A: No. The cooling-off period of five years¹ 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 in relation to the PIE audit.

If the individual is not a key audit partner in relation to the group audit but in addition, if the subsidiary itself is a PIE, the individual will still be subject to rotation requirements as the engagement partner for that subsidiary audit, including the longer cooling-off period. In all other cases, the engagement partner on the audit of the subsidiary will be subject to the general provisions.

SIGNING PARTNER DIFFERENT FROM ENGAGEMENT PARTNER

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

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

¹ In some jurisdictions, the new provisions will permit for a limited time the application of a cooling-off period shorter than five consecutive years (but no shorter than three consecutive years) with respect to an engagement partner (refer to Q6).

to be key audit partners and therefore subject to a minimum two-year cooling-off period as applicable to the audit of a public interest entity.

Breaks in Service

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

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

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

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

| Yr 1 | Yr 2 | Yr 3 | Yr 4 | Yr 5 | Yr 6 | Yr 7 | Yr 8 | Yr 9 | Cooling-off period |
|------------|------------|------------|----------|----------|------|------|------|------|--|
| EP | EP | EP | EP | EP | EP | X | EP | | 5 consecutive years off at end of year 8 |
| EQCR | EQCR | EQCR | EQCR | X | X | EQCR | EQCR | EQCR | 3 consecutive years off at the end of year 9 |
| KAP | KAP | KAP | X | KAP | KAP | X | KAP | KAP | 2 consecutive years off at the end of year 9 |
| <u>KAP</u> | <u>KAP</u> | <u>KAP</u> | <u>X</u> | <u>X</u> | | | | | <u>The KAP has effectively served a 2 year cooling-off period and could return in year 6 for a further 7-year period</u> |

Combination of Roles

Q5: An individual has undertaken a combination of key audit partner roles [on the audit of a public interest entity](#) during the seven-year time-on period. How should the required cooling-off period be determined in those circumstances?

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

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

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

² [In some jurisdictions, the new provisions will permit for a limited time the application of a cooling-off period shorter than five consecutive years \(but no shorter than three consecutive years\) with respect to an engagement partner \(refer to Q6\).](#)

serve a cooling-off period of two *consecutive* years before he or she can return to the engagement (see paragraph 290.161).

- (4) As the individual has served on the audit engagement for a total of seven cumulative years in a combination of EP and EQCR roles during which he or she was the EP for three years, the individual must serve a cooling-off period of five *consecutive* years before he or she can return to the audit engagement (see paragraph 290.160(a)).
- (5) As the individual has served on the audit engagement for a total of seven cumulative years in a combination of EP and EQCR roles but was the EP for only two years, the individual must serve a cooling-off period of three *consecutive* years before he or she can return to the audit engagement (see paragraph 290.160(b)).

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

Alternative Jurisdictional Approaches to Addressing Threats Created by Long Association

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

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

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

~~A: Yes, the Code recognizes that a legislative body or regulator may have evaluated the threats to independence that arise from long association with an audit client and determined that a different set or combination of requirements to those set out in [proposed Section 540³ of the restructured Code] is appropriate to reduce the threats to an acceptable level, including the implementation of mandatory firm rotation or mandatory re-tendering of the audit appointment after a predefined period, or joint audits. If one or more of those jurisdictional requirements have been implemented, then the five-year cooling-off period applicable to the engagement partner may be reduced to three years. This is on the condition that there is also an independent regulatory inspection regime operating in the jurisdiction.~~

³ Proposed Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

Position where Shorter Cooling-off Period is Established by Law or Regulation

Q6: Paragraph 290.163 will have effect only for audits of financial statements for periods beginning prior to December 15, 2023. Does this mean that for calendar 2024 audits and thereafter, the cooling-off requirement for engagement partners on the audit of a public interest entity will be five consecutive years in jurisdictions where a legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has established a cooling-off period shorter than five consecutive years?

A: Yes. Paragraph 290.163 is intended to facilitate the transition to the new cooling-off period of five consecutive years for engagement partners on audits of public interest entities in those jurisdictions. Up until audits of financial statements for periods beginning prior to December 15, 2023 (i.e., effectively up until the calendar year 2023 audit), firms may apply, for such engagement partners, a shorter cooling-off period specified by a legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) in their jurisdictions, provided that that cooling-off period is no shorter than three consecutive years.

However, the IESBA has committed to review during this transitional period the revised long association provisions to take account *inter alia* of relevant legislative and regulatory developments as well as experience of the application of the provisions in practice.

Other

IMPLICATIONS OF INVOLVEMENT IN A HALF-YEAR REVIEW

Q78: A key audit partner signs a half-year review opinion in relation to a client that is a public interest entity, then another partner signs the opinion for the audit. Does the partner's service as engagement partner for the review engagement constitute a year for the purposes of applying the rotation requirements?

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

IMPLICATIONS OF A NEED TO RE-AUDIT A PRIOR PERIOD

Q89: A firm accepts a new public interest entity audit client that had previously been audited by another firm. In the course of auditing the current period's financial statements, it was determined that the newly engaged firm should re-audit the prior two periods. For the purposes of the partner rotation provisions of the Code, does this engagement constitute one year or three years of service by the key audit partners?

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

MANAGER BECOMING A KEY AUDIT PARTNER

Q940: A manager served on the audit engagement team for a public interest entity audit client for five years before being promoted to partner. How many years may he or she serve on the engagement as a key audit partner for that public interest entity audit client?

A: The rotation requirements in the Code apply to time spent as a key audit partner. In principle, the individual may serve seven years as a key audit partner. However, the general provisions in the Code

indicate that in evaluating the threat created by long association, the overall length of an individual's association with the client, how long the individual has been on the engagement team and the roles that he or she has played should be taken into account (see paragraph 290.149). A firm may decide that it is appropriate to rotate an individual off the audit team before the end of the seven-year period (or to serve a period off the engagement before re-joining the audit engagement team as a KAP).

Transition to New Provisions—Cooling-off Period

[Note: Q10-Q12 below illustrate different transition scenarios with respect to an engagement partner. The same circumstances could arise with respect to an engagement quality control reviewer.]

COOLING-OFF PERIOD

~~For illustrative purposes, the following two questions assume that the revised long association provisions become effective for the audits of financial statements for years beginning on or after December 15, 2019⁴~~

~~**Q10:** The engagement partner for the audit of a public interest entity served for seven cumulative years in that role with the completion of the calendar year 2016 audit. The individual subsequently did not participate in the 2017 and 2018 audits. Would that individual be able to come back as engagement partner for the 2019 audit for a fresh seven-year term?~~

~~**A:** Yes. As the new provisions become effective only for audits of financial statements for periods beginning on or after December 15, 2018 (i.e., effectively from calendar 2019 audits) and the individual has served the time-on limit of seven cumulative years with the 2016 audit, the current cooling-off requirement of two consecutive years applies. The individual would therefore have to cool off for the 2017 and 2018 audits and could begin a fresh seven-year term from the calendar 2019 audit under the new provisions.~~

~~**Q11:** The engagement partner for the audit of a public interest entity served for seven cumulative years in that role with the completion of the calendar year 2018 audit. How long should the individual cool off?~~

~~**A:** The new provisions become effective for audits of financial statements for periods beginning on or after December 15, 2018, i.e., effectively calendar year 2019 audit and thereafter. Because they do not come with a transitional provision (other than in relation to paragraph 290.163), they apply retrospectively (i.e., if the individual has not yet completed cooling off under the old provisions, he or she will be subject to the new cooling-off regime under the new provisions). This means that in jurisdictions where a legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has established a cooling-off period shorter than five consecutive years, the shorter cooling-off period may be applied in accordance with paragraph 290.163 as long as that period is not shorter than three consecutive years (see Q6). In other jurisdictions, the five-year cooling-off requirement will need to be applied starting with the calendar year 2019 audit, i.e., the individual could only come back to the engagement in any key audit partner role for a fresh seven-year term with the 2024 audit.~~

The new provisions would be equally applicable had the individual completed his or her seven cumulative years as engagement partner with the 2017 audit and commenced cooling off as required by the old provisions from the 2018 audit.

⁴—Subject to IESBA deliberation at its September 2016 meeting

Q124: ~~The engagement partner for the audit of a public interest entity served for seven-five years and had cooled off for one year prior to the effective date of the new provisions in that role with the completion of the calendar year 2017 audit. The individual subsequently did not participate in the 2018 and 2019 audits. new provisions are effective for the audits of financial statements for years beginning on or after December 15, 2019. How should the transition be applied? Would that individual be able to come back as engagement partner for the 2020 audit for a fresh seven-year term (having cooled off for the 2018 and 2019 audits)?~~

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

A: ~~No. The new provisions do not come with a transitional provision (other than in relation to paragraph 290.163) – they become effective for audits of financial statements for periods beginning on or after December 15, 2018. This means that from calendar 2019 audits, the new cooling-off provisions in the Code apply. Accordingly, if the engagement partner comes off the engagement before the full permitted seven-year time-on period is served, under the new provisions the full five-year cooling-off period applies in accordance with paragraph 290.154 before the individual may come back to the engagement in any key audit partner role for a new seven-year time-on period.~~

~~In this case, as the individual would have been away from the engagement for only two years instead of five years, he or she could not start a fresh seven-year term when coming back for the 2020 audit. The individual would therefore be able to serve as engagement partner for only an additional two years (i.e., for the 2020 and 2021 audits) before reaching the cumulative seven-year time-on period. He or she would then need to cool off for five consecutive years from the 2022 audit.~~

~~Alternatively, the individual could continue to stay away from the engagement for the 2020, 2021 and 2022 audits, reaching the five consecutive years cooling-off period applicable to engagement partners under the new provisions, and then come back to the 2023 audit in any key audit partner role for a fresh seven-year time-on period.~~

~~(In accordance with paragraph 290.163, where a legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has specified a cooling-off period shorter than five years for engagement partners, that alternative cooling-off period may be substituted for the five years described in the above situation provided that this period is no shorter than three years. This transitional provision is available for a limited time only – see Q6.)~~

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

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

X represents the years the partner is required to cool off

Transition—ADDITIONAL RESTRICTIONS ON ACTIVITIES DURING THE COOLING-OFF PERIOD

Q132: The 2017~~8~~ calendar year audit will be the seventh year an individual has served as a key audit partner on ~~an the~~ audit engagement of a public interest entity. The individual then commences a cooling-off period starting with the 2018 audit~~partner completes one year of his or her cooling-off period in 2019 and then the additional restrictions on activities during cooling-off become effective for the audits of financial statements for years beginning on or after December 15, 2019~~. How is the ~~transition to~~ should the provision regarding additional restrictions on activities during the cooling-off period be applied?

A: The new provisions on scope of activities apply to all key audit partners from the effective date, i.e., effectively from calendar year 2019 audits. Accordingly, if a key audit partner has completed his or her seventh cumulative year of service with the 2017 audit and ~~is in the middle of a two-year commenced a~~ cooling-off period with the 2018 audit, ~~when the provisions become effective, the old provisions will apply in the first year of cooling-off and the new provisions in the second~~ he or she would be required to comply with paragraph 290.149 of the extant Code for the 2018 audit and paragraph 290.164 of the new provisions for the 2019 audit and thereafter.

Appendix

Application of Provisions Regarding Service in a Combination of Roles

(See Q5)

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

⁵ In some jurisdictions, the new provisions will permit for a limited time the application of a cooling-off period shorter than five consecutive years (but no shorter than three consecutive years) with respect to an engagement partner (refer to Q6).

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