

Meeting: IESBA CAG
Meeting Location: New York
Meeting Date: March 11, 2015

Agenda Item

E

Long Association – Cover Note and Report-Back

Objectives of Agenda Item

1. To provide a report-back on proposals of CAG Representatives on this project as discussed at the September 2014 meeting.
2. To:
 - (a) Obtain feedback from CAG Representatives on the significant matters arising from the responses to the [Long Association exposure draft](#) (ED); and
 - (b) Consider the Board's discussions at its January 2015 meeting.

Project Status and Timeline

3. The IESBA approved the project proposal at its December 2012 meeting. It has subsequently met to discuss the proposals in June and December 2013, April and July 2014, and January 2015.
4. The main issues considered in the project are:
 - (a) Strengthening the general framework in the Code surrounding long association;
 - (b) Duration of the cooling-off period;
 - (c) Permissible activities during the cooling-off period; and
 - (d) Communication with those charged with governance as it relates to partner rotation.
5. The IESBA voted out the ED at its July 2014 meeting with a closing date for responses of November 12, 2014.
6. The IESBA considered a preliminary summary of significant comments on key aspects of the ED at its January 2015 meeting.

September 2014 CAG Discussion

7. Below are extracts from the minutes of the September 2014 CAG meeting,¹ and an indication of how the project Task Force or IESBA has responded to CAG Representatives' comments.

¹ The minutes were approved at the November 2014 IESBA CAG teleconference.

Matters Raised	Task Force/IESBA Response
COOLING-OFF PERIOD FOR THE EQCR	
<p>Ms. Molyneux wondered about the rationale behind the IESBA's conclusion not to cover the engagement quality control review partner (EQCR) under the same revised cooling-off provisions as the engagement partner (EP). Mr. Kwok explained the role of the EQCR as a control over the work of the EP. He noted that the Board did not believe it necessary to have another control on top of that control, particularly given that the Board has not received evidence that there is an issue with the EQCR's independence under the current provisions. Accordingly, the focus was more on the EP. In addition, the EQCR is not usually known to the audit client as the EQCR has no contact with the client on audits. He indicated that the Board has, nevertheless, included a specific question in the explanatory memorandum to the exposure draft to seek stakeholders' views on this matter.</p>	<p>The Task Force agrees with Mr. Kwok's response on this point. Respondents to this question in the ED generally supported this approach.</p>
<p>Mr. Waldron commented that recent audit inspection findings from the PCAOB focused on the EQCR, which suggested possible issues with the role of the EQCR..</p>	<p>See the responses to Ms. Molyneux above and Ms. De Beer below. It is also noted that the PCAOB has issued its own auditing standard on engagement quality review.</p>
<p>Ms. de Beer suggested that it may be necessary to drill down further into the evidence. She expressed support for the inclusion of a question on the matter in the explanatory memorandum, adding that it would be important to analyze the source of the responses. Mr. Kuktvedgaard noted his satisfaction that the IESBA had included a specific question on the matter in the explanatory memorandum as the CAG had not provided a clear direction on this matter at the June 2014 teleconference.</p>	<p>Point noted. A question was included in the Explanatory Memorandum. Most respondents supported the cooling-off period remaining at two-years for the EQCR. They supported the rationale expressed in the EM that the EQCR does not meet the client; the work of the EQCR is akin to the work of an independent internal quality control process; and any consultation between the EP and the EQCR is not intended to be so significant that the EQCR's objectivity is compromised. Based on this rationale, the Board does not consider the need to change the proposal.</p>
<p>Mr. Hansen acknowledged that in some respects, the length of the cooling-off period is arbitrary. However, he noted that the role of the EQCR is unique in that it is the last stop in the</p>	<p>Point noted. See the responses above. The fact that the EQCR is the last stop in the process does not affect the rationale expressed in the EM as</p>

Matters Raised	Task Force/IESBA Response
<p>review process before the auditor’s report is signed. He indicated that there has been significant feedback from PCAOB inspections regarding the role of the EQCR. Accordingly, he stood by his previous views that the EQCR should be subject to the same cooling-off period as the EP.</p>	<p>discussed in the response to Ms. de Beer above.</p>
<p>Ms. Sucher indicated that she was not persuaded by Mr. Kwok’s explanations. She noted that in her experience, the EQCR has often been involved in doing the audit work. Further, in some cases, the EQCR’s lack of independence led to problems. She noted that the UK is moving towards covering the EQCR in the same way as the EP. In addition, she noted the Basel Committee on Banking Supervision’s view that the EQCR issue should be dealt with in standards. She indicated that there was no doubt that the regulatory focus on the role of the EQCR has increased.</p>	<p>Point noted. See the responses above.</p>
<p>Ms. Ceynowa indicated that the IESBA could look at the PCAOB inspection findings but she did not feel that they indicated any lack of independence for the EQCR. She suggested that the considerations for the EQCR could be based on the U.S. SEC principles regarding the level of contact with the client and whether the EQCR had been party to the decision-making process on the audit. She added that it would be important to strike an appropriate balance.</p>	<p>Point noted. See the responses above.</p>
<p>Mr. James suggested that as part of its outreach to IFIAR, the Board seek to obtain a clear understanding of the recent inspection findings. He noted that some of these findings involve the EQCR. Accordingly he felt that these might suggest evidence of the EQCR’s familiarity or lack of independence being an issue.</p>	<p>The Board has not identified evidence from IFIAR’s recent summary inspection reports highlighting specific threats created by the long association of the EQCR with the audit client. The Board is committed to working more closely with IFIAR and other audit oversight bodies to understand the nature of inspection findings at a more granular level with respect to implications for standard setting.</p>

Matters for CAG Consideration

8. CAG Representatives are asked for views on the matters for consideration in Agenda Item E-1.

Material Presented – CAG Paper

Agenda Item E-1	Issues paper
Agenda Item E-2	January 2015 IESBA Agenda Item – Preliminary Summary of Significant Comments on Key Aspects of the Exposure Draft
Agenda Item E-3	Long Association Provisions in Section 290 (Mark-Up from ED)
Agenda Item E-4	Long Association Provisions in Section 290 (Clean)