



47th ANNUAL MEETING – SEPTEMBER 2025

**Proposal to Amend NAFO Financial Regulations Rule 9.10
to extend the term of the Auditors’
(Prepared by the NAFO Secretariat)**

Current Policy

Rule 9.10 of the NAFO Financial Regulations states that:

The Auditors shall serve for a maximum term of five (5) years

A routine audit firm rotation is meant to ensure objectivity, enhance audit quality, and mitigate risks associated with long-term auditor-client relationships. Over time, long-standing relationships between auditors and their clients can lead to familiarity threats, where auditors may become too comfortable and less likely to challenge the financial practices of the company.

Evaluation of longer term

While there are benefits of fresh insights and enhanced audit quality, the transition to a new audit firm is not without its challenges and associated costs whenever a change occurs.

New auditors require time to grasp NAFO-specific financial systems and controls. The initial phase of the rotation includes a steep learning curve as they familiarize themselves with the operations, financial systems, and NAFO specific nuances. Auditors recognize that they will not be able to bill for these additional hours incurred in the first few years of an engagement and normally spread the time over the 5-year quote.

The onboarding of new auditors also requires significant investment by NAFO staff to facilitate the transition, providing the necessary documentation, and ensuring a seamless handover without disruptions to daily operational functions.

Rotation policies vary amongst jurisdictions. For instance, in Canada, there is no mandatory firm rotation, but audit committees are encouraged to review auditor tenure periodically. The European Union mandates that public interest entities rotate their audit firms every ten years; up to twenty years if a public tender is conducted. These regulations aim to prevent complacency and ensure a fresh perspective in the audit process.

As NAFO is a small not for profit organization, larger audit firms in Halifax have previously been very expensive or have declined to submit a proposal. There are a limited number of mid-size auditors in Halifax, with international affiliations, and therefore the pool to draw upon is minimal.

Conclusion

Extending the term so that an auditor can serve up to a maximum of 10 years would allow auditors to develop deep understanding of complex businesses, improving audit quality. This longer tenure can also be both cost effective and less disruptive.

Combining term limits with a periodic review by STACFAD fosters both continuity and independence. This balanced approach upholds transparency, supports audit quality, and aligns with international best practices.

Proposal

STACFAD is requested to consider amending Rule 9.10 of the NAFO Financial Regulations as follows:

Current Rule

The Auditors shall serve for a maximum term of five (5) years.

Proposed Amendment

~~The Auditors shall serve for a maximum term of five (5) years or (to be discussed internally)~~

The Auditors shall serve an initial term for a maximum term of five (5) years and may be reappointed for one additional term of five (5) years. No audit firm shall serve for more than ten (10) consecutive years.