



21 August 2014

**To: Members of the Hong Kong Institute of CPAs
All other interested parties**

**INVITATION TO COMMENT ON IFAC'S INTERNATIONAL
ETHICS STANDARDS BOARD FOR ACCOUNTANTS (IESBA)
EXPOSURE DRAFT ON PROPOSED CHANGES TO CERTAIN
PROVISIONS OF THE CODE ADDRESSING THE LONG
ASSOCIATION OF PERSONNEL WITH AN AUDIT OR
ASSURANCE CLIENT**

Comments to be received by 24 October 2014

The Hong Kong Institute of Certified Public Accountants' (Institute) Ethics Committee is seeking comments on the IESBA Exposure Draft (ED) on proposed changes to the Code of Ethics for Professional Accountants (Code) which has been posted on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/code-of-ethics/exposure-drafts/>

The IESBA aims to respond to stakeholder concern about the appearance of independence and the need to ensure that the threats created by the long association of audit firm personnel with an audit client are appropriately addressed on all audit engagements.

Among the proposed changes are:

- Strengthened general provisions applicable to all audit engagements regarding the threats created by long association;
- With respect to partner rotation, an increase in the mandatory "cooling-off" period, from two to five years, for the engagement partner on the audit of a public interest entity;
- Strengthened restrictions on the type of activities that can be undertaken with respect to the audit client and audit engagement by any former key audit partner during the cooling-off period; and
- A requirement to obtain the concurrence of those charged with governance regarding the application of certain exceptions to the rotation requirements.

The IESBA is also proposing strengthened provisions in Section 291 of the Code dealing with assurance engagements.

The Explanatory Memorandum to the Exposure Draft provides further background information on, and explanation of, the proposed changes.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

The Ethics Committee invites all stakeholders to comment on the IESBA's proposals. Comments should be supported by specific reasoning and should be submitted in written form. It would be helpful if respondents' comments could include the areas set out in the Request for Specific Comments section of the Exposure Draft which are in pages 16-17 of the Exposure Draft.

Comments may be sent by mail, fax or e-mail to:

Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37/F., Wu Chung House
213 Queen's Road East
Hong Kong

Fax number (+852) 2865 6776
E-mail: commentletters@hki CPA.org.hk

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

21 August 2014
Exposure Draft

Response Due Date
24 October 2014

ED of Proposed Changes to the Code of Ethics

Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client



Hong Kong Institute of
Certified Public Accountants
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Exposure Draft of Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

The Exposure Draft can also be found on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/code-of-ethics/exposure-drafts/>

Exposure Draft

August 2014

Comments due: November 12, 2014

*International Ethics Standards Board for
Accountants®*

Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance 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.

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

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REQUEST FOR COMMENTS

This Exposure Draft, *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*, was developed and approved by the International Ethics Standards Board 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 November 12, 2014.**

Respondents are asked to submit their comments electronically through the IESBA website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. 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.

This publication may be downloaded from the IESBA website: www.ethicsboard.org. The approved text is published in the English language.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background for, and an explanation of, the proposed changes to various paragraphs in the *Code of Ethics for Professional Accountants* (the Code) that address the threats to independence that may be created by using the same personnel on an audit engagement or assurance engagement over a long period of time (the long association provisions). The IESBA approved these proposed changes for exposure in July 2014.

The IESBA welcomes all comments on the proposed changes. In addition to general comments, the IESBA welcomes comments on the specific questions that are contained at the end of this memorandum.

Paragraph references have been extracted from the Code as set out in the [2014 Handbook of the Code of Ethics for Professional Accountants](#) (which differ from the paragraph references in the 2013 Handbook).

Background

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.¹

The Code provides that using the same personnel on an audit or assurance engagement over a long period of time may create familiarity and self-interest threats that may impact, or be seen to impact, an individual's independence.

The issues involved in evaluating the threats created by long association are complex and interwoven. With respect to audit engagements, the concern is that over a period of time a member of the audit team may become too familiar with the audit client, its personnel and their interests, including accounting and reporting issues, resulting in a loss of independence either of mind or in appearance. The IESBA recognizes that independence, objectivity and professional skepticism are critical to stakeholder confidence in the audit profession.

On the other hand, the cumulative knowledge and experience of an audit client's business, management and controls environment gained through familiarity with the audit client contribute positively to audit quality and evaluation and identification of audit risk areas.

The current partner rotation requirements in the Code are the result of amendments made to the Code by the IESBA in 2009, which were effective for the audit of financial statements for years beginning on or after December 15, 2011. Those changes extended partner rotation requirements from listed entities to all

¹ **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.

public interest entities (PIEs), and also extended the partner rotation requirements to all key audit partners.²

The IESBA concluded at the time of these amendments that these provisions struck the right 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.

However, a concern has been raised by a number of stakeholders on the continued robustness of the Code to address threats to independence arising from long association, particularly with respect to the audit of a client that is a PIE. This is because, under the Code, an individual can serve as a key audit partner (KAP) for up to 14 out of a total of 16 consecutive years, assuming the KAP returned to the audit engagement after the cooling-off period was completed.

The IESBA concluded it was important, and in the public interest, to consider whether the provisions as a whole remain appropriate for addressing the threats created by long association to ensure independence, both of mind and in appearance, of audit clients. In December 2012, the IESBA added a new project to its work program to consider the long association provisions in the Code. In addressing the issue as it relates to audit clients, the IESBA also took the opportunity to review the provisions related to other assurance clients.

The IESBA undertook extensive research, including a benchmarking exercise of jurisdictional requirements and various meetings with stakeholders, in order to understand the variety of views on this complex issue. It also sought views on the current provisions through an e-survey of stakeholders including standard setters, audit committees, regulators and professional accountants, which yielded over 400 responses.

Following detailed consideration of the issues and the existing provisions, the IESBA is now proposing the changes set out in this Exposure Draft.

Rationale for the Proposed Changes

The IESBA recognizes that the issues are finely balanced and that any change must be seen by stakeholders as being substantive and made on a sound and defensible basis, while balanced against the cost and complexity of implementation and the likely benefits.

The IESBA has carefully considered stakeholder concerns which support a strengthening of the long association provisions. In doing so, it has kept in mind that the goal is to promote and enhance audit quality, objectivity and professional skepticism while addressing perceptions regarding related threats to independence.

In order to find the right balance for dealing with these concerns, the IESBA has taken into account the potential implementation costs, including the added complexity of overlaying the proposals with local jurisdictional rules. It has also listened to concerns regarding the effects of the proposed amendments on the availability of resources, and on the small and medium practices (SMP) community.

² The Code defines a **key audit partner** as: "The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" may include, for example, audit partners responsible for significant subsidiaries or divisions."

The IESBA recognizes that concerns raised by stakeholders about the appearance of independence, the public interest, and continued confidence and trust in the independence of the audit process are an important rationale for supporting the changes proposed in this Exposure Draft. In addition, the IESBA considered that changes should be made to ensure that:

- The Code provides a reasonable and robust response to regulatory changes being implemented to regulate the independence of audit firms in some parts of the world, specifically mandatory tendering and audit firm rotation. While outside the scope of this project, these developments may indicate a lack of confidence by some stakeholders in partner rotation as an alternative to address threats to independence arising from long association with an audit client;
- The threats created by the long association of personnel are appropriately addressed on all audit and assurance engagements;
- Appropriate guidance is provided on the factors that should be considered when evaluating the threats, including recognizing that where rotation of personnel is regarded as a necessary safeguard that an appropriate cooling-off period should follow;
- An outgoing engagement partner is not able to influence the incoming engagement partner so that a “fresh look” is brought to the engagement; and
- Where exceptions to the rotation requirements are permitted by the Code, there is transparency regarding the application of the provisions, and those charged with governance (TCWG) are consulted about, and concur with, the exception.

Accordingly, the proposed changes broadly cover the following areas:

- Strengthening the general provisions that apply to all audits and assurance engagements with respect to the threats created by long association;
- Increasing the mandatory “cooling-off” period for the engagement partner on the audit of an entity that is a PIE;
- Strengthening the restrictions on the type of activities that can be undertaken with respect to the audit client and audit engagement by a former KAP during the cooling-off period; and
- Ensuring the concurrence of TCWG with respect to the application of extant paragraphs 290.150 and 290.152.

Significant Matters

Strengthening the General Provisions

The general provisions in paragraph 290.148 currently contain a brief outline of principles that apply to all audit clients when evaluating the significance of the threats created by using the same senior personnel on an audit engagement for a long period of time. These provisions are then supplemented by specific rotation requirements that apply to KAPs on the audits of PIEs in paragraph 290.149 onwards.

On review of the benchmarking, survey feedback and through discussion with stakeholders, the IESBA agreed that the general provisions could be enhanced so as to establish a more robust framework applicable to all audit clients, and provide more useful guidance for identifying and evaluating threats to independence created by long association and applying appropriate safeguards.

The proposed changes to paragraph 290.148 include:

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- 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 of considering changing the individual's role on the audit, for example if the familiarity threat relates to association with audit client management.
- Establishing a requirement that, if a firm decides rotation of an individual on the audit team is a necessary safeguard, the firm determines an appropriate period during which the individual shall not participate in the audit engagement or exert direct influence on the outcome of the audit engagement.

The IESBA recognized concerns that any member of the audit team, not just senior personnel, could be associated with the audit client long enough to create threats to independence, depending on the nature of the roles they perform. The IESBA, therefore, agreed that the general provisions should apply to evaluating the potential threats created with respect to all individuals on the audit team on all audit engagements. The IESBA proposes replacing references to "senior personnel" with "personnel".

The IESBA has proposed substantially conforming changes to the long association provisions for assurance engagements contained in paragraph 291.137. In addressing the issue as it relates to assurance clients, the IESBA has taken into account the difference between audit engagements and other assurance engagements; the latter often being of a shorter duration and/or not recurring. The IESBA has proposed limiting the application of the provisions to assurance engagements "of a recurring nature" and adding that the nature of the assurance engagement is a factor to take into account when evaluating the significance of any threats created.

The Rotation Requirements for KAPs on the Audits of PIEs

In essence, the objective of the partner rotation requirements is to ensure a "fresh look" is brought to the audit engagement. Paragraphs 290.149 to 290.153 provide that in respect of an audit of a PIE, an individual shall not be a KAP for more than seven years (the time-on period) and after such time shall not be a member of the engagement team or a KAP for the client for two years (the cooling-off period).

In addition, many jurisdictions have additional or different requirements relating to audit partner rotation on listed entity or other PIE audit engagements.

The main concern raised by a number of stakeholders was that the risk of familiarity threat, including independence in appearance, increases with the length of time an individual serves as a KAP. Under the Code, this could potentially be 14 out of a total of 16 consecutive years, assuming the KAP returned to the audit engagement after the cooling-off period was completed.

In evaluating these concerns the IESBA reconsidered the current provisions, specifically with respect to the length of the time-on and the cooling-off periods, the types of entities and partners subject to the rotation requirements and the activities that may be undertaken by a partner during the cooling-off period.

Length of Time-On Period

The IESBA considered whether there were any factors that would support a reduction in the seven-year time-on period, in order to help address the concerns about independence in appearance.

The IESBA considered that a number of larger jurisdictions have restricted the time-on period to five years for the engagement partner and the individual responsible for the engagement quality control review (EQCR) on the audits of listed companies. The International Organization of Securities Commissions (IOSCO) had also indicated that the IESBA should review the time-on period “given the shorter regulatory requirement in many jurisdictions. A five year rotation period would ensure that a fresh mind is brought to the audit more frequently and reduce any familiarity threat.”

The benchmarking undertaken by the IESBA showed that time-on periods that currently exist vary from jurisdiction to jurisdiction, but that the majority apply a seven-year time-on period in line with the Code. In addition, a few regulators (e.g. in Australia, the UK and Canada) have chosen to increase the time-on period in their jurisdictions from five to seven years in certain circumstances on the grounds of preserving audit quality. The IESBA previously reviewed the length of the time-on period in 2009 and concluded that the time-on period should not be shortened.

The IESBA considered some stakeholders’ feedback that a time-on period of less than seven years may be seen as too short given the need for continuity with, and experience and knowledge of, the client to support audit quality. In addition, the increase in frequency of rotation is accompanied by an increase in costs and disruptions to companies. Such increased frequency of rotation is not likely to bring about meaningful incremental benefits, if at all, to audit quality or to the confidence in the independence of the auditor.

On balance, the IESBA considers that a seven year time-on period continues to be appropriate for KAPs with respect to the audit of a PIE, as that period of time seems to provide the right 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.

Length of Cooling-Off Period

As noted above, in addition to reducing or eliminating the familiarity threat, an objective of the partner rotation requirements is to ensure a fresh look on the audit engagement. Therefore, the IESBA considered the principle that when a partner is required to rotate off an audit engagement, the individual should be required to be away from the audit long enough for the incoming partner to bring a fresh look to the audit. The IESBA also considered the principle that during the “cooling-off” period, the outgoing partner should not exert direct influence over the engagement team or the outcome of the audit.

Based on stakeholder feedback that the current two-year cooling-off period might be too short to provide for an effective fresh look and to truly remove the influence of the outgoing partner, the IESBA agreed that it should consider lengthening the cooling-off period. Recognizing that the time-on period would remain at seven years, the IESBA considered options.

The European Union has recently amended its audit partner rotation rules to require a three-year cooling-off period, after a seven-year time-on period, for KAPs on the audits of PIEs. On one hand, increasing the cooling-off period to three years for all KAPs may be seen as doing little to address the concerns noted

above, as an individual could potentially be a KAP on the audit of a PIE for 14 out of 17 years. Conversely, a three-year cooling-off period would ensure that the KAP is actually away from the audit for at least two full audit cycles, given that the partner might engage in certain activities after rotating off the engagement, such as transitioning activities, that continued their contact with the audit client or audit team.

The IESBA also considered a five-year cooling-off period, which is the approach in some large jurisdictions. For example, the U.S., the UK and Canada require a five-year cooling-off period for the lead engagement partner and the EQCR on a listed company audit, and a two-year cooling-off period for other audit partners.

On balance, the IESBA considered that if the cooling-off period were to be extended, then five years was a preferred option. Three years was not seen as making any significant difference and four years was not a cooling-off period used in many jurisdictions and would lead to greater implementation challenges.

Applicability – Listed Companies or PIEs?

The IESBA also noted that the majority of jurisdictions that have longer cooling-off periods than the Code, have them often only in respect of the engagement partner and the EQCR for the audits of listed companies. The Code's requirements are much broader, as they apply to all KAPs for all audits of PIEs.

In considering the potential impact of any proposed changes, the IESBA considered whether to make any distinction between the requirements for the audits of listed companies and other PIEs, given the greater regulatory oversight associated with listed companies. The IESBA concluded that there was little justification for making any distinction between listed companies and other PIEs as they are all entities of public interest and are treated in the same way in the Code.

Which KAPs Should be Subject to a Longer Cooling-Off Period?

The IESBA then considered the possibility of having different cooling-off periods for different types of KAPs. The feedback from the survey and from other consultation showed that stakeholders support the premise that the significance of any threat created very much depends on the role of the individual. The role of the individual in turn impacts the significance of the familiarity and self-interest threats that can be created.

The IESBA noted that most jurisdictions apply a two-year cooling-off period for KAPs who are not the engagement partner. The IESBA considered that KAPs who are not the engagement partner will generally have a lesser ability to influence the audit and for that reason are generally subject to less strict rotation requirements in most jurisdictions. For example, an audit partner responsible for a significant subsidiary who is deemed to be a KAP for the group audit will not have the same relationship or contact with group management as would the engagement partner. Therefore, the extent to which familiarity and self-interest threats arise from long association is lesser, in the context of a group audit, for other KAPs.

The IESBA also considered some stakeholder feedback that the longer cooling-off period should apply to the EQCR, as the EQCR plays an important role in an audit. While the IESBA agrees that the role of the EQCR is important, it concluded that the nature of the EQCR role gives rise to different threats to independence. The EQCR does not participate in the engagement or make decisions for the engagement team. In practice, the EQCR does not meet the client. The work of the EQCR is akin to an independent internal quality control process. Furthermore, any consultation between the engagement partner and the EQCR (e.g. on matters of judgment) is not intended to be so significant that the EQCR's objectivity is compromised.

On balance, the IESBA concluded that the significance of the familiarity threats created by the long association of the EQCR with the audit client is less than that created by the engagement partner's, both in fact and appearance.

The engagement partner is the individual in the firm who is responsible for the engagement and its performance and who has most influence on the outcome of the audit. It is the engagement partner who should therefore be required to be removed from the audit client and audit engagement for a longer period of time to provide sufficient time for a fresh look. The IESBA concluded that if the cooling-off period were to be extended it should be extended with respect to the engagement partner only.

The IESBA is therefore proposing to increase the mandatory cooling-off period from two years to five years for the engagement partner on the audit of an entity that is a PIE. All other KAPs, including the EQCR, would continue to be required to cool-off for two years.

Engagement Partner for Only Part of the Seven-Year Time-on Period

The IESBA considered whether a two- or five-year cooling-off period should apply if the individual has served as the engagement partner for only a part of the seven-year time-on period and has served in another KAP role for the remainder of the seven years. In considering solutions, the IESBA considered how some jurisdictions have dealt with having different cooling-off periods for engagement partners.

The IESBA noted jurisdictions which take into account the time served as the engagement partner or EQCR consecutively or in aggregation. The IESBA concluded that if an individual were only required to rotate off for an extended period once he or she had served as the engagement partner for a total of seven years in aggregate, this would be complex to apply and lead to unintended consequences.

The IESBA also considered, but rejected as too complex, the option of placing a minimum number of years that would need to be served as engagement partner within the seven-year time-on period for a five-year cooling-off period to apply.

The IESBA then considered requiring a five-year cooling-off for the engagement partner after any time served as the engagement partner during a seven-year period, irrespective of the total length of time served as an engagement partner.

While this could be viewed as excessive, given the rationale for not proposing to extend the cooling-off period with respect to other KAP roles, this model is easier to apply as an individual would be required to cool off for five years once the maximum of seven years' service as a KAP has been reached even if they have only served one year as the engagement partner. For this reason, the IESBA is proposing that a KAP who at any time during the seven-year period served as an engagement partner be required to cool off for a period of five years.

Restrictions on Activities During the Cooling-Off Period

An objective of the cooling-off period is ensuring that the outgoing partner cannot influence the incoming partner or the ongoing audit during that period. The IESBA concluded that the outgoing partner should be restricted from engaging in activities with respect to the audit client, such that he or she has limited contact with client management or the engagement team after rotating off the engagement.

The Code currently provides that during the cooling-off period the individual is prohibited from participating in the audit, providing quality control, consulting with the engagement team or the client regarding technical or industry-specific issues, transactions or events. The IESBA agrees with feedback that it would be useful to clarify the extent to which the rotated KAP could answer questions during the

cooling-off period with respect to the prior year's audit. The IESBA considers that it would be detrimental to audit quality not to allow such consultation to occur and therefore is proposing that discussions with the engagement team be permitted, provided they are limited to work undertaken or conclusions reached in the previous year and where such information remains relevant to the current audit. This would allow an appropriate balance to be struck between facilitating the partner transition and bringing a fresh look to the audit.

The IESBA considered the impact of the five-year cooling-off period for the engagement partner when combined with stricter restrictions on the nature of the activities that the engagement partner could undertake during that period. The IESBA took into account the need to balance the proposals with potential implementation challenges such as placing limitations on specialist resources and having competent resources available in the interests of audit quality. For example, the current engagement partner may need to consult the rotated engagement partner, who happens to be the specialist on a particular issue.

On balance, the IESBA concluded that the rotated engagement partner could be allowed to undertake a limited role after two years had elapsed, as the self-interest and familiarity threats would have diminished after two years of having limited contact with the engagement team and audit client. This would strike the right balance between addressing threats to independence and enabling potentially limited resources and technical skills to be made available to safeguard audit quality.

The IESBA is, therefore, proposing that an engagement partner who has been rotated off could, after two of the five years have 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 is on the condition that the consultation is in respect of issues, transactions or events that were not previously considered by the individual while they were the engagement partner.

The IESBA also agreed with concerns that the restrictions should be broader to take into account activities beyond involvement in the audit engagement which could still influence the outcome of the audit or would be contrary to reducing the self-interest and familiarity threats. In particular, the IESBA considered the 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 perceived to be, able to directly influence the outcome of the audit.

The IESBA concluded that it would be impractical to bar all contact between the rotated individual and the audit team and the client during the cooling-off period. There could be many situations where some form of contact could potentially occur, for example, at social occasions. It was also considered unnecessary to ban all contact, as the objective is to reduce familiarity threats and prevent the individual from being able to continue directly influencing the audit or the new KAP.

In this respect, the IESBA proposes that during the cooling-off period the rotated partner shall 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, including the provision of non-assurance services, that would result in:
 - Significant or frequent interaction with senior management or TCWG; or
 - An ability to exert direct influence on the outcome of the audit engagement.

Finally, the IESBA considered that the current definition of “audit team” in the Code includes individuals in certain leadership roles within the firm who are considered to be able to directly influence the outcome of the audit engagement. This may unintentionally imply that a partner would be restricted from taking on leadership roles in his or her firm during the cooling-off period, given that an individual cannot undertake a role during the cooling-off period in which he or she would exert direct influence on the outcome of the audit engagement. This is not the intention of the IESBA; therefore it proposes to add that the provisions are not intended to prevent an individual from assuming a leadership role in the firm, such as that of Senior or Managing Partner.

Other Changes

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. The IESBA has proposed a new paragraph 290.150C which sets out that it may not always be appropriate for an individual who is a KAP to continue in that role, even if they have not completed seven years on the audit engagement as a KAP. The objective of the proposed paragraph is to ensure that the significance of any threats is evaluated in accordance with the general provisions.

Similarly, the IESBA proposes a new paragraph 290.150D providing that consideration be given to threats created by the long association of members of the audit team other than KAPs, in an effort to remind users that the principles in the general framework must be taken into account in addition to the specific requirements for KAPs on the audits of PIEs.

Extant paragraph 290.151 has been deleted as these provisions are now contained elsewhere.

Obtaining the Concurrence of Those Charged with Governance

The IESBA considered whether there would be benefit in providing further guidance on improving communication between the auditor and TCWG on issues relating to the threats created by long association. In this respect, the IESBA considered whether TCWG should be involved or have any decision-making role with respect to rotation decisions. The majority of stakeholders consulted were of the view that TCWG should not be involved in the rotation decision, and that it is the responsibility of the auditor to make decisions relating to rotation in order to maintain independence. Furthermore, TCWG in any case has the option to change the auditor or retender the audit engagement.

The IESBA agrees with these views and also acknowledged that the Code already encourages regular communication between the auditor and TCWG on matters thought to bear on independence. Based on its consultation with stakeholders, the IESBA believes that in practice communication regarding rotation generally already takes place between the auditor and TCWG. The IESBA therefore concluded that additional provisions in this respect were not required.

The IESBA then considered whether it would be appropriate for the auditor to communicate with TCWG with respect to the application of the provisions that allow the audit firm to depart from the application of the rotation requirements. These provisions, contained in paragraphs 290.150, 290.152 and 290.153, allow limited relief in respect of the rotation requirements for various reasons.

The IESBA concluded that while the provisions remain appropriate, the audit firm should not be able to make a decision to extend the time-on period without the concurrence of TCWG or in accordance with an exemption provided by a regulator. How concurrence is obtained from TCWG should be left to the judgment of the audit firm.

Accordingly, the IESBA is proposing the following changes:

- To amend paragraph 290.150 to provide that an additional year can be served due to unforeseen circumstances outside the firm's control only with the concurrence of TCWG. The IESBA also proposes requiring the firm to discuss with TCWG the reasons why the planned rotation cannot take place and the safeguards that will be applied.
- To amend paragraph 290.152 to provide that a partner may continue to serve as a KAP for a maximum of two additional years only with the concurrence of TCWG.

The IESBA is not proposing to make any changes to paragraph 290.153 as an individual may only remain a KAP for more than seven years in accordance with this paragraph if a regulator has provided an exemption in the relevant jurisdiction.

Analysis of Overall Impact of the Proposed Changes

Throughout its consideration of the complex issues involved in the long association provisions, the IESBA has at all times kept in mind its goal of promoting and enhancing audit quality, promoting objectivity and professional skepticism and addressing perceptions regarding related threats to independence. It has sought to find the right balance bearing in mind potential implementation costs.

General Provisions

The IESBA considers that its enhancements to the general provisions will improve audit quality and generally enhance confidence in auditing. It will also have positive impacts for clients and investors. In addition, it has significantly clarified for auditors their general obligations and the considerations that they should make when approaching audit work.

Length of Cooling-Off period

The IESBA considers that increasing the cooling-off period for engagement partners will have a positive impact on audit quality as it will reduce the familiarity and self-interest threat for engagement partners and address perception concerns expressed by stakeholders regarding independence. It may well, however, have a negative impact on audit firms, particularly smaller audit firms which have fewer audit personnel available to them. The change in the cooling-off period for engagement partners is recognized by IESBA as being the change which overall will have the greatest impact. No other jurisdictions currently apply a seven/five year approach solely for the engagement partner and only three jurisdictions that participated in the benchmarking survey have a five-year cooling-off period.

Which KAPs Should be Subject to Longer Cooling-Off?

By only proposing that engagement partners should be subject to a longer cooling-off period, the IESBA has sought to take a proportionate approach to the changes. This will lessen the impact of the changes for firms where specialist personnel are in short supply, particularly smaller firms. The IESBA recognizes, however, that the two-tier approach may cause complexity for firms as layering two-tier requirements for different roles over local legislation and standards makes the requirements difficult to apply. It also has a high compliance cost for audit firms which will have to maintain more extensive partner rotation plans to ensure appropriate succession planning.

Engagement Partner for Part of the Seven-Year Period

Whilst this provision may be perceived as having a high impact on some engagement partners, it has been chosen as being the least complex option and one which will enhance the perception of stakeholders in the audit process.

Restrictions on Activities During the Cooling-Off Period

The restrictions on activities may well have an overall adverse impact for firms. The IESBA believes, however, that this is outweighed by the anticipated improvement in the perception of independence from stakeholders as a whole, including investors and regulators.

Obtaining Concurrence with TCWG

The IESBA considers that this proposed change will have positive impacts for clients, investors and public confidence in that it creates a further check and balance on decision making within the audit process.

Effective Date

The IESBA proposes that the provisions in paragraphs 290.150A to 290.153 be effective for the audits of financial statements for years beginning on or after December 15, 2017.

The new provisions on scope of activities apply to all KAPs from the effective date. Accordingly, if a KAP 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.

Illustration for a Partner Who Has Served as a KAP

Years served and cooling-off (X represents the cooling-off period in the table below) for years ended December 31

	Dec 15	Dec 16	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21	Dec 22
EP	5	6	7	X	X	X	X	X
EP	6	7	X	X				
EP	7	X	X					
Other KAPs	5	6	7	X	X			
Other KAPs	6	7	X	X				
Other KAPs	7	X	X					

Project Timetable

Subject to comments received on exposure of the proposed changes, the IESBA intends to finalize the revisions to the Code in the first half of 2015.

Guide for Respondents

The IESBA welcomes comments on all matters addressed in the exposure draft. 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 proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IESBA to be made aware of this view.

Request for Specific Comments

The IESBA would welcome views on the following specific questions:

General Provisions

1. Do the proposed enhancements to the general provisions in paragraph 290.148 provide more useful guidance for identifying and evaluating familiarity and self-interest threats created by long association? Are there any other safeguards that should be considered?
2. Should the General Provisions apply to the evaluation of potential threats created by the long association of all individuals on the audit team (not just senior personnel)?
3. If a firm decides that rotation of an individual is a necessary safeguard, do respondents agree that the firm should be required to determine an appropriate time-out period?

Rotation of KAPs on PIEs

4. Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?
5. Do respondents agree with the proposal to extend the cooling-off period to five years for the engagement partner on the audit of PIEs? If not, why not, and what alternatives, if any, could be considered?
6. If the cooling-off period is extended to five years for the engagement partner, do respondents agree that the requirement should apply to the audits of all PIEs?
7. Do respondents agree with the cooling-off period remaining at two years for the EQCR and other KAPs on the audit of PIEs? If not, do respondents consider that the longer cooling-off period (or a different cooling-off period) should also apply to the EQCR and/or other KAPs?
8. Do respondents agree with the proposal that the engagement partner be required to cool-off for five years if he or she has served any time as the engagement partner during the seven year period as a KAP?
9. Are the new provisions contained in 290.150C and 290.150D helpful for reminding the firm that the principles in the General Provisions must always be applied, in addition to the specific requirements for KAPs on the audits of PIEs?
10. After two years of the five-year cooling-off period has elapsed, should an engagement partner be permitted to undertake a limited consultation role with the audit team and audit client?
11. Do respondents agree with the additional restrictions placed on activities that can be performed by a KAP during the cooling-off period? If not, what interaction between the former KAP and the audit team or audit client should be permitted and why?
12. Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?

Section 291

13. Do respondents agree with the corresponding changes to Section 291? In particular, do respondents agree that given the differences between audit and other assurance engagements, the provisions should be limited to assurance engagements “of a recurring nature”?

Impact Analysis

14. Do respondents agree with the analysis of the impact of the proposed changes? In the light of the analysis, are there any other operational or implementation costs that the IESBA should consider?

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the following general questions:

- (a) *Small and Medium Practices (SMPs)* –The IESBA invites comments regarding the impact of the proposed changes for SMPs.
- (b) *Preparers (including SMEs) and users (including Regulators)* – The IESBA invites comments on the proposed changes from preparers, particularly with respect to the practical impacts of the proposed changes, 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 proposed changes, in particular, on any foreseeable difficulties in applying them in a developing nation 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 proposed changes.
- (e) *Effective date* – Recognizing that the proposed changes are substantive, would the proposal require firms to make significant changes to their systems or processes to enable them to properly implement the requirements? If so, do the proposed effective date and transitional provisions provide sufficient time to make such changes?

PROPOSED CHANGES TO THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS ADDRESSING LONG ASSOCIATION

The relevant sections have been extracted below from the extant Code, which can be accessed at [2014 Handbook of the Code of Ethics for Professional Accountants](#).

PROPOSED CHANGES TO SECTION 290 AND 291

(MARK-UP FROM 2014 CODE)

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

General Provisions

290.148A Familiarity and self-interest threats, ~~are~~ which may impact an individual's objectivity and professional skepticism, may be created by using the same ~~senior~~ personnel on an audit engagement over a long period of time. ~~The significance of the threats will depend on factors such as:~~

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 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 a desire to maintain a close personal relationship with a member of senior management or those charged with governance.

290.148B The significance of the threats will depend on factors, individually or in combination, relating 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;
- How long the individual has been a member of the audit team and the nature of the roles performed;
- ~~The role of the individual on the audit team~~
- ~~The structure of the firm;~~
- The nature of the audit engagement; The extent to which the individual has the ability to influence the outcome of the audit, for example by making key decisions;
- 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 ~~client's changes in senior management team has changed~~ or those charged with governance; and
- ~~Whether the nature or complexity of the client's accounting and reporting issues has changed~~ 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 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 ~~the any~~ threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce ~~them~~ it to an acceptable level. Examples of such safeguards include:

- Rotating the ~~senior personnel~~ individual off the audit team;
- Changing the role of the individual on the audit team;
- Having a professional accountant who was not a member of the audit team review the work of the ~~senior personnel~~ individual; or
- Performing ~~R~~regular independent internal or external quality reviews of the engagement 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 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 Entities

290.150A~~49~~ In respect of an audit of a public interest entity, an individual shall not be a key audit partner for more than seven years. After such time;

- An ~~The~~ individual who has acted as the engagement partner at any time during the seven year period shall not be a member of the engagement team or ~~be a key audit partner for the client for two years. During that period, the individual shall not participate in the audit of the entity,~~ provide quality control for the audit engagement for five years; and
- Any other key audit partner shall not be a member of the engagement team or provide quality control for the audit engagement for two years.

290.150B In addition, during that period the individual shall not:

- Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the previous year where this remains relevant to the audit). However, if an individual who has acted as the engagement partner 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 consultation to the engagement team or client 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;
- 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
- 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:
 - Having significant or frequent interaction with senior management or those charged with governance; or
 - 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.

290.150C 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.

290.1510 Despite paragraph 290.14950A, 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 on the audit team 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.

~~290.151 The long association of other partners with an audit client that is a public interest entity creates familiarity and self-interest threats. The significance of the threats will depend on factors such as:~~

- ~~• How long any such partner has been associated with the audit client;~~
- ~~• The role, if any, of the individual on the audit team; and~~
- ~~• The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance.~~

~~The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:~~

- ~~• Rotating the partner off the audit team or otherwise ending the partner's association with the audit client; or~~
- ~~• Regular independent internal or external quality reviews of the engagement.~~

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.

Long Association of Senior Personnel with an Assurance Client

291.137A Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, are may be created by using the same senior personnel individual on an assurance engagement of a recurring nature over a long period of time. The significance of the threats will depend on factors such as

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 a desire to maintain a close personal relationship with the assurance client or a member of senior management.

291.137B The significance of the threats will depend on factors such as:

- The nature of the assurance engagement;
- How long the individual has been a member of the assurance team; and the nature of the roles performed;
- The extent to which the individual has the ability to influence the outcome of the assurance engagement, for example by making key decisions;
- 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;
- ~~The role of the individual on the assurance team;~~
- ~~The structure of the firm;~~
- ~~The nature of the assurance engagement;~~
- Whether there have been any changes in the individual or individuals who are the responsible party or, if relevant, client's senior management; team has changed; and
- Whether the nature or complexity of the subject matter or subject matter information has changed.

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 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.

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

- Rotating the ~~senior personnel~~ individual off the assurance team;
- Changing the role of the individual on the assurance team;
- Having a professional accountant who ~~was~~ is not a member of the assurance team review the work of the ~~senior personnel~~ individual; or
- Performing ~~R~~regular independent internal or external quality reviews of the engagement.

291.137D 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. The period shall be of sufficient duration to allow the familiarity and self-interest threat to be eliminated or reduced to an acceptable level.

PROPOSED CHANGES TO SECTION 290 AND 291

(CLEAN)

Section 290

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 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 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 a desire to maintain a close personal relationship with a member of senior management or those charged with governance.

290.148B The significance of the threats will depend on factors, individually or in combination, relating 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;
- How long the individual has been a member of the audit team and the nature of the roles performed;
- The extent to which the individual has the ability to influence the outcome of the audit, for example by making key decisions;
- 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 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;
 - 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 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 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 Entities

- 290.150A In respect of an audit of a public interest entity, an individual shall not be a key audit partner for more than seven years. After such time:
- An individual who has acted as the engagement partner at any time during the seven year period shall not be a member of the engagement team or provide quality control for the audit engagement for five years; and
 - Any other key audit partner shall not be a member of the engagement team or provide quality control for the audit engagement for two years.
- 290.150B In addition, during that period the individual shall not:
- 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 previous year where this remains relevant to the audit). However, if an individual who has acted as the engagement partner 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 consultation to the engagement team or client 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;
 - 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

- 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:
 - Having significant or frequent interaction with senior management or those charged with governance; or
 - 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.

- 290.150C 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, 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.

Section 291

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 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 a desire to maintain a close personal relationship with the assurance client or a member of senior management.

291.137B The significance of the threats will depend on factors such as:

- The nature of the assurance engagement;
- How long the individual has been a member of the assurance team and the nature of the roles performed;
- The extent to which the individual has the ability to influence the outcome of the assurance engagement, for example by making key decisions;
- 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 there have been any changes in the individual or individuals who are the responsible party or, if relevant, senior management; and
- Whether the nature or complexity of the subject matter or subject matter information has changed.

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 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.

291.137C 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;

- Having a professional accountant who is not a member of the assurance team review the work of the individual; or
- Performing regular independent internal or external quality reviews of the engagement.

291.137D 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. The period shall be of sufficient duration to allow the familiarity and self-interest threat to be eliminated or reduced to an acceptable level.

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