

**Long Association of Personnel (Including Partner Rotation)
with an Audit Client****(MARK-UP)***General Provisions*

290.150 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 ~~'s operations, strategies, business and financial performance~~ 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 business operations;
- The audit client's senior management or those charged with governance;
- 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.

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

The significance of the threats will depend on factors relating to the individual including:

- 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;
- The nature, frequency and extent of interaction between the individual and senior management or those charged with governance

The significance of the threats will depend on factors relating to the audit client including:

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

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.

290.151 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 in relation to a specific engagement include:

- Rotating the individual off the audit team;
- Changing the role of the individual on the audit team;
- Having a professional accountant who is not a member of the audit team review the work of the individual;
- Quality control procedures that require the work of managers and other staff on an audit to be directed, reviewed and supervised by more senior personnel;
- Performing regular independent internal quality reviews of the engagement, including an engagement quality control review;

In addition to such safeguards that may be applied, the following safeguards may also help to reduce the threat to an acceptable level:

- Inspections by external organizations such as a regulator or professional body
- Training in professional standards including relevant ethical requirements

In certain situations, a firm may decide that the threats are so significant that rotation of an individual is the only appropriate safeguard. Where rotation is applied, the firm shall determine an appropriate period, of at least one year, during which the individual shall not participate in the audit engagement or exert any influence on the outcome of the audit engagement. The period should 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 an audit of a public interest entity paragraph 290.152 also applies.

Audit Clients that are Public Interest Entities

290.152 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;
- 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.

In addition, during that period ~~the individual is rotated off the audit engagement~~, 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 ~~was~~ has acted as the engagement partner is ordinarily consulted within a firm on technical or industry specific issues, the individual may provide such

consultation to the engagement team or client after ~~a period of~~ 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;

- ~~Participate in the provision of services, including non-assurance services, to the client or its related entities over which the client has direct or indirect control (other than services that are not client specific, such as industry related training. However, after a period of two years has elapsed, an individual who was the engagement partner may participate in the provision of other services to the audit client so long as the individual does not directly influence the outcome of the audit engagement; or~~
- ~~Interact with senior management or those charged with governance other than in a limited and social context. For example the individual 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; or
- Undertake any role or activity with respect to the audit client, including the provision of other services, that would result in the individual:
 - having ongoing or frequent interaction with senior management and those charged with governance; or
 - exerting influence on the outcome of the audit engagement.

There may be situations where a firm, based on an evaluation of threats following 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.

Consideration shall also be given to the significance of the threats created by the long association of an individual, other than a key audit partner, with an audit client that is a public interest entity. Safeguards shall be applied when necessary to eliminate the threats or reduce them 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.

290.153 Despite paragraph 290.152, 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 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 safeguard to reduce any threats created.

290.154 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.

- 290.155 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.