

Proposed Changes to Section 290

[CLEAN]

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

General Provisions

290.148 Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, may be created and may increase in significance when an individual is involved in 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 as a member of the audit team 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 or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance, and which may inappropriately influence the individual's judgment.

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

(a) Factors relating to the individual include:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
- How long the individual has been a member of the engagement team, and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other members of the engagement team.
- The closeness of the individual's personal relationship with senior management or those charged with governance.
- 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.
- 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.

290.150 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 between 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 include:

- Rotating the individual off the audit team.
- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having a professional accountant who was not a member of the audit team review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.
- Performing an engagement quality control review.

290.152 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, provide quality control for 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 290.153 to 290.167 also apply.

Audits of Public Interest Entities

290.153 In respect of an audit of a public interest entity, an individual shall not act in any of the following roles for a period of more than **seven years** (the "time-on" period):

- (a) The engagement partner;
- (b) The key audit partner responsible for the engagement quality control review where appointed pursuant to the requirements of ISQC 1¹ or law or regulation; or
- (c) Any other key audit partner role.

¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

After the time-on period, the individual shall serve a cooling-off period in accordance with the provisions in paragraphs 290.154 – 290.162.

Cooling-off Period

- 290.154 If the individual acted as the engagement partner for seven years, the cooling-off period shall be five consecutive years.
- 290.155 Where the individual has been appointed as a key audit partner responsible for the engagement quality control review pursuant to the requirements of ISQC 1 or law or regulation and has acted in that capacity for seven years, the cooling-off period shall be three consecutive years.
- 290.156 If the individual has acted in any other capacity as a key audit partner for seven years, the cooling-off period shall be two consecutive years.

Service in a combination of key audit partner roles

- 290.157 If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more years, the cooling-off period shall be five consecutive years.
- 290.158 If the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more years, the cooling-off period shall, subject to paragraph 290.159(a), be three consecutive years.
- 290.159 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more years in aggregate during the time-on period, the cooling-off period shall be:
- (a) Five consecutive years where the individual has been the engagement partner for three or more years; or
 - (b) Three consecutive years in the case of any other combination.
- 290.160 If the individual acted in any other combination of key audit partner roles, the cooling-off period shall be two consecutive years.
- 290.161 In determining the number of years that an individual has been a key audit partner under paragraphs 290.153 to 290.160, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.
- 290.162 A legislative body or regulator (or organization authorized by such legislative body or regulator) may have evaluated the familiarity and self-interest threats to independence that arise from long association with an audit client and determined that a different set or combination of safeguards to those required in this Code are appropriate to reduce the threats to an acceptable level. In such circumstances, the cooling-off period of five consecutive years specified in paragraphs 290.154, 290.157 and 290.159 may be reduced to three consecutive years if the legislative body or regulator (or organization authorized by such legislative body or regulator) has:
- (a) Implemented a regulatory inspection regime independent of the accountancy profession; and
 - (b) Established requirements for:

- (i) A time-on period shorter than seven years during which an individual is permitted to be the engagement partner;
- (ii) Mandatory firm rotation or mandatory re-tendering of the audit appointment after a predefined period; or
- (iii) Joint audits for a predefined period.

290.163 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be a member of the engagement team or provide quality control for the audit engagement;
- (b) 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 last year of the individual's time-on period where this remains relevant to the audit). However, if an individual who has acted as the engagement partner or the individual responsible for the engagement quality control review 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 technical consultation to the engagement team provided:
 - (i) Two years have elapsed since the individual was a member of the engagement team or the individual responsible for the engagement quality control review;
 - (ii) There is no other partner within the firm expressing the audit opinion with the expertise to provide the advice; and
 - (iii) Such consultation is in respect of an issue, transaction or event that was not previously considered by that individual in the course of acting as the engagement partner or the individual responsible for the engagement quality control review;
- (c) 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
- (d) 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:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) 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.

290.164 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.

- 290.165 Despite paragraphs 290.153 – 290.160, 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.
- 290.166 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.
- 290.167 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.