Partner Rotation – Detailed Comments

1.	Partner rotation	We are of the view that it is appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation, in relation to the audit of entities of significant public interest.	ICPAS	
2.	Partner rotation	It is appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation. The risks identified in the Exposure Draft are commonly encountered by reporting accountants, irrespective of a firm's size.	MIA	
3.	Partner rotation	We support the elimination on the flexibility for small firms to apply alternative safeguards to partner rotation.	KICPA	
4.	Partner rotation	Proposal to require internal rotation for *all* key audit partners and prescribe the individual responsible for the engagement quality control review: NIVRA agrees	NIVRA	
5.	Partner rotation	Yes, the PPB agrees that independence should not be dependent on the size of the firm providing the service. We do have a further issue with the rotation requirement, however. At present paragraph 290.147 prohibits the rotated partner from participating *in the audit* of the client. We believe that there should be a prohibition from the rotated partner having any involvement in the client. The ability of a former key audit partner to maintain continuous involvement with an entity during the "cooling-off" period is not consistent with trying to reduce the familiarity risk.	ICANZ	
6.	Partner rotation	The elimination of this flexibility altogether may have an adverse impact in Australian regional or rural areas where the supply of auditors may be limited. A preferred approach would be to have a general rule and then have specific exemptions which cater for flexibility in certain exceptional circumstances.	APESB	

7.	Partner Rotation	It is difficult to identify alternative safeguards that would be appropriate in the context of significant public interest entities. However, we would be concerned if at some future date this requirement was applied to all audit clients regardless of their size or nature.	ICAS	
8.	Partner rotation	The basic principal behind rotation is to strike an appropriate balance between requiring the necessary fresh look and the need for continuity of key individuals. Since the principle remains the same regardless of the size of the firm and the very fact that if any safeguard for non-rotation could be possible, it would be more available to larger firms, the flexibility in case of small firms does not seem appropriate and should be eliminated	ICAP	
9.	Partner rotation	We acknowledge IESBA's view that if there is insufficient depth within the firm to rotate the required partners, audit quality is likely to be adversely affected. However, as matters relating to small firms are not applicable for ACAG members, we have not provided a response to this specific question. As mentioned previously, flexibility regarding key partner rotation is required in relation to auditing public sector entities where the engagement partner is appointed by legislation and whose term may exceed the maximum term of seven years as outlined in paragraph 290.147.	ACAG	
10.	Partner Rotation	Although CGA-Canada is sympathetic to the removal of the flexibility for small firms to apply alternative safeguards to partner rotation in the case of entities of significant public interest, we are concerned with longer-run implications. It is definitely not in the public interest that smaller firms be restricted to the point that they are not economically viable and cannot develop as competitors for larger firms. Many larger firms are turning away smaller audit clients as it is not worth the firm's investment to maintain the accounts. This certainly cannot be in the public's best interest and efforts must be made to maintain this area of practice, especially for those SMPs who have an interest in servicing them. Further, there is no doubt in our minds that smaller audit clients would agree with us on a cost-benefit basis. Contd	CGA	

11.	Partner Rotation	We believe that a specific safeguard requiring the use of a quality control reviewer independent of both the client and the audit firm would, in our view, reduce the familiarity threat to an acceptable level. However, it should be emphasized that in the absence of another acceptable alternative for the SMP, this should, at a minimum, be the permissible course of action. It should be noted that it is our view that it is unlikely that the increased cost associated with such a safeguard would exceed the benefit gained by the safeguard. There is a concern expressed in the ED in the Explanatory Memorandum under *Association of Senior Personnel (Including Partner Rotation)* "…that if there was insufficient depth within the firm to rotate the required partners audit quality might be affected." However, existing assurance standards require in all cases that firms not accept engagements for which they do not have adequate knowledge or resources and this standard is normally enforceable by disciplinary procedures if violated. If, after considering comments on the ED, IESBA decides to proceed with the removal of flexibility for smaller firms, we recommend that this change be taken into account regarding guidance on where the line should be drawn with respect to entities with and without significant public interest. We agree with the continuation of the seven years on and two years off rule when partner rotation applies.	CGA - Canada	

12.	Partner rotation	We are concerned with the longer run implications of removing the flexibility of smaller firms to apply safeguards to partner rotation in cases where the entity is deemed to be an 'entity of significant interest'. There has been a shift in the amount of audit work that the smaller firm is able to provide. Many larger firms are turning away the smaller audit client and only a small percentage of our membership is picking these clients up. The removal of the flexibility for small firms to apply alternative safeguards to partner rotation does not appear to be in the best interest of the public or the economy. The smaller audit client is in need for auditors and would not appreciate having to change auditors when it is not by their choice. If, after considering comments on the Exposure Draft, IESBA decides to proceed with the removal of flexibility for smaller firms, we recommend that this change be taken into account regarding guidance on where the line should be drawn with respect to entities with and without significant public interest and consideration to the extension of time for the partner rotation.	CGA - Alberta	

13.	Partner rotation	As previously noted, we do not believe it is appropriate to extend all of the listed entity provisions to entities of significant public interest and believe the IESBA should allow member bodies, working with the appropriate regulators in their jurisdiction, to determine whether such requirements would be appropriate and achieve an appropriate cost/benefit balance. Specifically, we are most concerned that the costs associated with the partner rotation and cooling off requirements for non-listed entities of significant public interest will far outweigh the intended benefits, especially with respect to the audits of smaller entities of significant public interest. If the IESBA mandates that all listed entity requirements be applied to non-listed entities of significant public interest, we are concerned that the only way member bodies will be able to deal with the costs associated with the partner rotation and cooling-off requirements is by excluding certain entities from their definitions of significant public interest entities, resulting in fewer non-listed entities being captured under the definition. We would find this approach less desirable because we believe the required safeguards should not drive the determination of which entities should or should not be considered entities of significant public interest and believe it is important for the final guidance on significant public interest entities to be applied in a way that will promote a thorough and unencumbered analysis and determination of which entities are significant public interest entities Cont'd	AICPA	
14.	Partner rotation	If the IESBA concludes that it will not allow member bodies working with their regulators to evaluate and determine the appropriateness of requiring partner rotation and cooling-off periods for non-listed entities of significant public interest, we recommend that the final standard not extend these enhanced safeguards to non-listed entities of significant public interest and, instead, allow for alternative safeguards that can serve to mitigate the threats to independence that those requirements would be aimed at achieving, especially with respect to the audits of smaller entities, as further discussed below. In the United States, we believe the costs associated with the partner rotation and cooling-off requirements as they relate to non-listed entities of significant public interest would far outweigh the benefits. We describe some of those costs below. Cont'd	AICPA	

15.	Partner rotation	Partner rotation carries significant costs to all size firms, especially smaller firms, and the entities such firms audit. We do not believe the potential benefits of a "fresh look" outweigh those costs. In our view, any requirement to rotate partners that would apply with respect to non-listed entities of significant public interest should meet four basic criteria: • it must not interfere with a firm's ability to assign partners to audit engagements who have the requisite experience and knowledge and are independent; • it should not reduce audit quality; • it should not impose unnecessary costs to the entities and society; and • it should not impede timely financial reporting. Cont'd	AICPA	
16.	Partner rotation	We acknowledge the potential benefits of a "fresh set of eyes" in mitigating the familiarity threat, yet the benefit of a "fresh set of eyes" must be weighed against the loss of continuity and institutional knowledge that a recurring partner brings to an audit engagement. We believe that it is crucial that partners assigned to audit engagements be highly competent, knowledgeable, and experienced with respect to the client's business and industry, in addition to being a good accountant and auditor. Any requirement that would interfere with this, without any overriding benefit, would be detrimental to the well-being of the auditing profession and thus to the business community as a whole. When experience, knowledge, and skill are not appropriately matched to an audit engagement, audit quality and the confidence of stakeholders in the audited financial statements suffer. Cont'd	AICPA	

17.	Partner rotation	Many entities of significant public interest operate in unique and complex industries. In addition, many business activities are the result of unique local and national economies. All of these components require a myriad of highly-skilled auditors, many of whom specialize in a single industry or the accounting treatment of a specific type of transaction. The disadvantages of a requirement that unduly restricts the continued availability of partners on such engagements are significant. To remove partners from engagements who understand the significant public interest entity's business and the industry and environment it operates in, particularly when the firm does not have a comparable replacement, would be detrimental to the client, those who rely on the client's financial statements, and the financial markets as a whole. If a firm does not have the depth of experience and knowledge in its partner ranks, inappropriate over-reliance will be placed on less qualified partners and lower level staff. And, of course, not every accounting firm will have a sufficient number of partners who possess similar skills and industry expertise to achieve rotation. For many firms, partner rotation will therefore require firm rotation as a practical matter because alternative partners with the relevant competencies will not always be available in the local offices. Knowledge of the client, its business, industry, and the environment it operates in is essential to audit quality. Without this, audit quality will decrease. It is clearly in the public interest to keep the most qualified partner on the job. Cont'd	AICPA	

18.	Partner rotation	We strongly recommend that the IESBA provide for the use of alternative safeguards, which we believe would achieve the same objective as partner rotation for firms that audit entities of significant public interest. Specifically, we recommend that in cases where the key audit partner has been involved with the engagement for an extended period of time, generally seven consecutive years, the potential threat to the firm's independence should be discussed with those charged with governance of the client. During the discussion, the firm and the client should consider the appropriateness of implementing additional safeguards to eliminate or reduce the threat to an acceptable level. Such safeguards might include: • An additional professional accountant who was not a member of the assurance team (including individuals from outside the firm) to do a pre-issuance review of the work done by the senior personnel or otherwise advise as necessary; • An enhanced quality review of the engagement that focuses on the overall quality of the audit and, in particular, the independence and competence of the key audit partner in question on the audit engagement team. We believe that discussion between the firm and those charged with governance of the potential threats to independence and consideration of the need to implement additional safeguards (as described above) is a reasonable and effective approach to address the familiarity threat with respect to audits of non-listed entities of significant public interest. Refer to our response to no. 2 below for a further discussion of the adverse impact a partner rotation requirement would have on firms that do not have enough partners to accomplish partner rotation and on the entities they audit. Cont'd	AICPA	
19.	Partner rotation	We do not believe the potential benefits of a "fresh look" through partner rotation outweigh the costs to clients and the firms that audit them of eliminating the current exception to partner rotation "when a firm has only a few people with the necessary knowledge and experience to serve . . ." We recommend that the IESBA reconsider the elimination of the provision that allows firms to apply alternative safeguards. Cont'd	AICPA	

20.	Partner rotation	For firms that do not have enough partners to rotate, a partner rotation requirement is tantamount to a firm rotation requirement. Audit firm rotation has significant costs that far outweigh the potential benefits, as government agencies (including the Securities and Exchange Commission (SEC) and Government Accountability Office (GAO)), private organizations and members of academia in the United States previously have concluded. Those costs include: • *Increase in audit failures.* Studies by the Public Oversight Board, Commission on Auditor's Responsibilities, and the National Commission on Fraudulent Financial Reporting found that audit failures are three times more likely in the first two years of an audit. Thus, there is a positive correlation between auditor tenure and auditor competence. • *Increased start-up costs.* Changing auditors results in more frequent start-up costs, both for the auditor and the client. • *Increase difficulties in timely reporting.* Mandatory rotation makes timely reporting more difficult because audit firms need to meet a very short "learning curve" to perform a rigorous audit. In addition, the client may be unable to take advantage of various market opportunities due to the fact that it could not obtain an audit on a timely basis. Firm rotation would also result in clients having to spend a considerable amount of time and effort interviewing new audit firms to determine whether they could meet the client's needs, and training new auditors every seven years, which would take valuable time away from the client's core business activity. This seems especially disturbing if a member body concludes that government agencies, government-controlled entities, and not-for-profit organizations should be considered entities of significant public interest, since a portion of tax dollars, donations, and grants would need to be used to fund the search for and training of new auditors. Cont'd	AICPA	

21.	Partner rotation	*Loss of "institutional knowledge."* Over successive audits, audit firms increase institutional knowledge, including, for example, their knowledge of the client's accounting and internal control systems and a greater understanding of the industry in which the client operates. These benefits would be greatly diminished by mandatory rotation. *Opportunity to disguise voluntary rotations.* Companies may use mandatory rotation as a means to disguise problems in the relationship between the company and its auditor, thus avoiding the negative marketplace reaction that often accompanies a voluntary change in auditors. • *Reduced incentives to improve efficiency and audit quality*. Mandatory rotations fail to fully reward firms that achieve greater efficiency and audit quality, because rotation reduces potential demand. Auditors that are less efficient and provide lesser quality services are nevertheless likely to survive because there will constantly be companies looking for new auditors. Conversely, the incentive for each firm to increase its market share and profits would be reduced by the loss of clients after the maximum allowed duration. Cont'd	AICPA	
22.	Partner rotation	The November 2003 GAO "*Required Study on the Potential Effects of Mandatory Audit Firm Rotation*" found evidence that changing audit firms could increase the risk of an audit failure in the early years of an audit due to the new auditor's lack of understanding of the client's business. Another study published in 2003 by several academics1 found that higher earnings quality (which they believed was a barometer of audit quality) is associated with longer auditor tenure. Their results showed that long-term, continuing auditors were more likely to "place greater restraints on extreme management decisions in financial reporting." Cont'd	AICPA	

1 Myers, James N., Myers, Linda A. and Omer, Dr. Thomas C., "Exploring the Term of the Auditor-Client Relationship and the Quality of Earnings: A Case for Mandatory Auditor Rotation?" Accounting Review, 2003.

23.	Partner rotation	The U.S. SEC has successfully exempted firms that have fewer than ten partners and five SEC clients from its partner rotation requirements. This exemption was provided for a number of reasons: • First, to eliminate the costs that outweigh the benefits associated with audit firm rotation, as described above; • Second, to avoid the hardship that would otherwise be experienced by small businesses that are considering public funding or are at a stage where they do not need the services of a large, multi-national or regional public accounting firm; and • Third, to preserve the quality of financial reporting for businesses that cannot afford to hire a multi-national or regional public accounting firm or that are located in remote locations. Cont'd	AICPA	
24.	Partner rotation	The SEC recognized that there were significant costs associated with partner rotation for small firms and the entities they audit. For example, the SEC noted that requiring partner rotation *"would have imposed marketing and client-specific learning costs on the accounting firms and costs on clients to familiarize the new accountant with their operations. Costs associated with the periodic replacement of partners might include more frequent company-specific training, conducted by both the accounting firm and the audit client, as new partners join the audit engagement team. For example, the new partners will need to learn the company's accounting and financial reporting procedures, controls and familiarize themselves with key personnel. The final rules also might result in incremental costs related to some partners being required to travel extensively, relocate from one part of the country to another, or from one country to another…We note that these costs may be passed on to issuers in the form of higher audit fees. Had the proposed rules been adopted, another potential impact would have been the impact on the specialization of accounting firms within each industry. To minimize partners' costs of learning new businesses, accounting firms have an incentive to specialize in certain industries. This, potentially, could have had the effect of creating oligopolies within each industry and could have adversely affected competition among accounting firms."2* Cont'd	AICPA	

2 See *Strengthening the Commission's Requirements Regarding Auditor Independence*, Federal Register, Vol. 68, No. 24, February 5, 2003.

25.	Partner rotation	In addition, in its January 13, 2003 comment letter to the SEC on *Strengthening the Commission's Requirements Regarding Auditor Independence*, the U.S. Small Business Administration's Office of Advocacy ("Advocacy") also recognized that mandatory audit partner rotation has the potential to limit choices, decrease competition and thereby drive up costs. Specifically, their comment letter indicated they believed the increased costs to the auditing firm would result in increased costs to the audit consumer. While Advocacy's comment letter to the SEC focused on the need for a small firm exemption to public company audit partner rotation requirements, its comments can likewise apply to small firm audit partners of non-listed entities of significant public interest: Cont'd	AICPA	
26.	Partner rotation	*"Advocacy is concerned that small issuers retaining the services of currently exempt small audit firms who decline to offer audit services to them may be forced to engage the services of a larger audit firm. Advocacy believes that this could result in significantly increased audit costs to audit consumers in two ways. First, initial costs for new firms would rise, due to the need to familiarize auditors with the client firm's industry and business practices. Second, due to the effective elimination of smaller firms from the competitive market for audit services and the consolidation of the market, larger audit firms may gain some power over price, causing audit prices to rise."* Cont'd	AICPA	

27.	Partner rotation	We also believe that a requirement of auditor rotation may force many qualified "local" and "regional" firms to abandon audits of entities of significant public interest as a provided service. This will result in a shrinking in the pool of available audit firms for such entities to consider as their auditor. The talents of skilled auditors now working for local and regional firms may be lost as firms realign service offerings. In addition, many smaller entities of significant public interest may be unable to afford the higher fees typically charged by larger CPA firms. We believe that opportunities should be afforded to small businesses and that, by providing such businesses with access to a resource they can afford, the economy benefits. The potential reduction in the number of firms performing audit services for entities of significant public interest and the resulting increase in costs to small businesses by mandatory audit partner rotation is clearly not in the public interest. We urge the IESBA to provide for alternative safeguards to address the familiarity threat for firms that audit entities of significant public interest but do not have enough partners to rotate them. As described above in our response to no. 1, we believe that discussion between the firm and those charged with governance on the potential threats to independence and consideration of the need to implement additional safeguards is a reasonable and effective approach in addressing the familiarity threat.	AICPA	
28.	Partner rotation	We do not support this issue [elimination of small firm exemption] because we believe that most small firms in the United States have adopted many independence safeguards, which mitigates the need to eliminate the small firm flexibility. The primary safeguard adapted to eliminate the familiarity concern is the policy of requiring a pre-issuance concurring review of the report, financial statements, and the supporting work papers of all significant audit areas by a qualified partner or other qualified person not otherwise associated with an engagement from either within the firm or from another firm.	CoCPA	
29.	Partner rotation	Partner rotation and cooling off requirements should be optional for non-listed entities of significant public interest. Many federal and state regulators in the United States have already considered whether entities under their jurisdiction should be subject to these additional requirements. Partner rotation is tantamount to firm rotation for firms that do not have enough partners to provide for rotation. In particular, audit firm rotation has significant costs that far outweigh the potential benefits, as governmental agencies (including the Securities and Exchange Commission and the Government Accountability Office), private organizations and members of academia in the United States previously have concluded. Those costs include an increase in audit failures, start-up costs and difficulties in timely reporting, loss of institutional knowledge and reduced incentives to improve efficiency and audit quality	Wolf	

30.	Partner rotation	The Kentucky Society of Certified Public Accountants (KyCPA) has grave concerns that one provision of the ED will limit the ability of certified public accountants (CPAs) to perform audits. That provision, if enacted as drafted, will have a harmful effect on small CPA firms, including scores of Kentucky-based firms whose practitioners are KyCPA members and/or AICPA members. The ED (290.147) would require firms to rotate key audit partners on innumerable audit clients that would encompass entities other than public companies. This includes financial institutions, pension plans, state and local government agencies, and not-for-profit organizations. Certainly an argument can be made for some audit partner rotation provisions in the audits of public companies, and we have no opposition to strengthening independence standards in this respect. Except in a very few circumstances (and some exceptions are allowed), rotation in audits of public companies is manageable and reasonable. However, we disagree with the broad definition of "significant public interest entities" beyond listed companies because of the unjustifiable complexities it creates for other entities and their audit firms. It also unfairly discriminates against small firm practitioners. In a vast majority of instances, audit partner rotation will be identical to mandatory audit firm rotation. Some supporters of the ED might suggest that small organizations may be able to comply with the ED's intent by rotating audit managers instead of the audit partner. That presumes, of course, that every effected firm has multiple individuals with the requisite expertise to allow rotation. Such presumption is absurd. Some firms with exemplary professional reputation and a quality of service beyond reproach have only one professional with advanced audit skills and experience. Additionally, switching to another audit firm solely to accommodate the requirement will be ill-advised particularly when the organization has a commendable and professionally sound relationship with the existing service provider. In thousands of circumstances organizations would face insurmountable costs if forced to rotate audit firms every seven years or to rely solely on larger CPA firms that can accommodate audit partner rotation. Even where increased costs are not insurmountable, the unavoidable migration to larger CPA firms in order to comply with rotation requirements would create an unmanageable workload for those firms. The audit service would be denied or delayed; and the benefit of timely audits now performed for these organizations would be lost. Cont'd	KyCPA	

31.	Partner rotation	Finally, the U. S. and current international ethics rules allow small CPA firms to rely on other independence safeguards instead of partner rotation; and the ED will end that choice despite the non-abuse of other safeguards only in rare circumstances. There is an inherent unfairness in drastic revisions of professional standards to remedy an ethical breach that is quite rare. Other measures are in place to deal with egregious violation of professional standards instead of changing the standards in a manner that makes no common sense whatsoever and creates an undue burden on thousands of significant public interest entities or entities that have a significant number of public stakeholders. The "additional year before this requirement is effective" guidance (ED page 18) is inconsequential. If partner rotation creates an unnecessary burden, as we believe it will, postponing the matter one year will give no relief whatsoever. Additionally, the ED's assertion that a "long association [of the audit partner] with an audit client that is an entity of significant public interest may create a familiarity threat, a self-review threat or self-interest threat" (290.149) is not supported by empirical data. It is merely a presumption based on observations of the few alarming transgressions of current independence standards. In fact, the audit firm's practitioner-in-charge's wealth of experience with an organization's operations and activities is often invaluable to acceptably performing and correctly reporting the results of audit. This degree of insight and preparation are found only rarely in successor auditors even when they exercise due professional care.	KyCPA	
32.	Partner rotation	We consider it appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation for listed companies and regulated financial institutions such as banks and insurance companies. However, we are of the view that it is not appropriate to eliminate the flexibility for other entities of significant public interest at this stage. Until the term ESPI is properly considered and defined, it would be premature to propose a total elimination. We are concerned that if no flexibility is provided to smaller firms, including safeguards which may be applicable such as monitoring by external assessors or employing another firm of certified public accountants to carry out certain procedures, smaller firms will need to rotate off an audit. That will impair the quality of the service that smaller firms can provide to SMEs, while doing little to improve audit quality or public confidence. Therefore IESBA should consider the practical challenges if this is applied to enterprises such as charities and schools. Cont'd	HKICPA	

33.	Partner rotation	The mandatory partner rotation combined with the expanded definition of the audit partners will, in many circumstances in Hong Kong, effectively amount to firm rotation. Smaller firms will lose ESPI audit clients while larger firms will retain such clients by way of rotating audit partners. Over time many smaller firms will be driven out of the ESPI audit market and ESPI audit will slowly concentrate in the hands of larger firms. It is generally agreed that increased auditor concentration is not in the public interest. In this regard, we would prefer a principles-based approach to be developed rather than moving from a rules-based system that permits flexibility to a rules-based system that mandates rotation of key audit partners.	HKICPA	
34.	Partner rotation	No. Flexibility should be given to small firms. While such firms are named as small, they may not have any partner. Even they have, their size may not support such rotation indeed. In Hong Kong, over 95% of the audit firms are sole proprietor or have 2 partners only. If no flexibility is allowed, we can foresee that a large number of our members' firms may find difficulties, even in continuity and survival. The alternative safeguards to partner rotation for small firms, including sole practitioners, would be to require the auditing procedures and guidelines to be monitored by external assessors, such as practice review by the Hong Kong Institute of Certified Public Accountants or employment by the small firm of another firm of certified public accountants to carry out review of its firm's procedures	SCAA	

35.		I agree with the substance of this requirement and the applicable timeframes, which accomplish the stated objective of balancing the familiarity threat with the need for auditor continuity and audit quality. However, I believe there should be an exemption for small firms, which allows them to apply safeguards to mitigate familiarity threats to independence. I believe an exemption is appropriate because in these firms, partner rotation does not achieve the desired balance of objectivity and audit quality. Thus, it is not in the public's interest to rotate these firms. I urge the Board to reconsider alternative safeguards for smaller firms such as pre-issuance and peer review (or other safeguards) in lieu of rotation requirements. Another possible approach the Board may wish to consider would be to allow IFAC Member Bodies to determine whether to exempt small firms (including defining "small firms") in their jurisdictions. If a Member Body believes that a small firm exemption is in the public interest, it would also be charged with mandating appropriate safeguards to be applied by these firms. For example, a Member Body would evaluate the existing level of regulation over SPIEs in their jurisdiction and determine whether and to what extent the regulatory structure helps to mitigate familiarity threats to the auditor's independence. In this case, the Code would provide basic requirements only, leaving the Member Bodies to determine the specific provisions. Some Member Bodies may choose not to exempt small firms from rotation requirements while others may believe exemption is appropriate. However, these judgments would be made by the Member Bodies themselves and reflect the regulatory structures in those jurisdictions.	**AC**	
36.	Partner rotation	While we agree that the lead partner bears the responsibility for key decisions or judgments on significant matters we do not agree that an "other audit partner" bears a similar responsibility. We therefore do not support the extension of the definition of "key audit partner" to be used in the provisions on employment relationships, partner rotation and compensation. The expansion of the definition of "key audit partner", the expansion of the definition of an ESPI and the application of listed entity rules to all ESPIs together will place an unreasonable burden on firms with respect to partner rotation requirements. Should the IESBA adopt an expanded definition of the "key audit partner" we strongly recommend that the listed entity rules are not required to be applied to all ESPIs.	Australia	

37.	Partner rotation	*Flexibility for small firms* We believe that flexibility in the partner rotation rules for smaller firms, is necessary to facilitate competition in the accounting profession and to promote adequate servicing of the public, particularly in rural and regional areas. Securities, insurance, banking, and other government regulatory bodies have developed sufficient regulatory safeguards to allow for less onerous requirements for smaller firms in respect of particular pieces of legislation for which they have responsibility. We believe that it should also be possible for the IESBA to do so. Within the co-regulatory environment in Australia regulators are cognizant of their responsibilities to protect and serve the public interest and have assessed appropriate safeguards to sufficiently mitigate the familiarity threat for such "small firms". These contexts should not be overlooked. Partner rotation carries significant costs to all size firms, but especially smaller firms, and the entities such firms audit. The benefits of a "fresh look" do not always necessarily outweigh these costs. For example, in firms other than the largest ones, the audit partner is far more likely to be providing services to a number of smaller clients, as compared to the partner in the large firms who may have only one or two very large multinational clients. The number and size of clients being dealt with day-to-day in the smaller firms itself mitigates the threats to independence. Further, the principle applies equally to the larger firms in those situations where audit partners deal with many smaller clients. Once again, an approach based on the "threats and safeguards" principles would be more appropriate.	Australia	
38.	Partner rotation	Association of Senior Personnel (Including Partner Rotation) requires the rotation of audit partners on entities of significant public interest. This could lead to broad interpretation and require that one owner/CPA firms resign from audits because it would be impossible to comply. Significant public interest is in the eyes of the beholder. This will also potentially lead to increased litigation.	GSH	

39.	Partner rotation	The extension of the prohibition to Key Audit Partners ("KAP") effectively results in a requirement for audit firms to have at least 4 suitable people capable of being a KAP on a ESPI in order for that entity to remain a client. This effectively rules out many small firms from auditing an ESPI and may result in mandatory audit firm rotation rather than just audit partner rotation. In addition, the introduction of the concept of ESPIs results in a broadening of both the number and nature of entities brought into scope, some of which will undoubtedly operate in specialised markets. This means that in respect of some of these specialised industries, or in some of the more sparsely populated areas of the world, even the largest firms may have difficulty fulfilling the rotation requirements. Therefore, by only introducing flexibility for small firms, this issue would not be fully addressed. This has potential audit quality implications affecting ESPIs, which is in direct conflict with the reasons for their elevation to this status in the first instance. To avoid such a risk to audit quality, the IESBA should consider whether imposing additional safeguards may in fact be a more suitable solution than mandatory rotation. From a theoretical point of view, if it is accepted that no safeguard is sufficient to address the familiarity threat associated with long service periods of KAPs, then we believe that it is illogical as to why this threat would not be so significant if the service was provided by a small audit firm. However, the impact of rotation with audit quality has already been recognised in Paragraph 290.149 which, in certain circumstances effectively provides a short term exception to this prohibition where the quality of the audit is threatened. Although we recognise the importance of the familiarity threat, we believe that the introduction of ESPIs affects the absolute prohibition in a way that was not envisaged when it was first codified. Given the potential audit quality implication surrounding this matter, we recommend that the IESBA should reassess the appropriateness of the absolute prohibition by considering the public need for such restrictions and instances where these restrictions are likely to be against the public interest. We also recommend that the IESBA reassess the cost benefit aspect of this extension to all ESPIs.	BDO	

40.	Partner rotation	We are not in favor of eliminating the flexibility for small firms, particularly in the emerging countries, to apply alternative safeguards to partner rotation as a means of attenuating the familiarity threat. We note the existence of such provision for alternative safeguards in the USA (firms with fewer than 5 listed clients and 10 partners may substitute a three-yearly PCAOB review for partner rotation). The alternative safeguards might include: Recourse to another firm for independent review and quality control, and/or Organization of a periodical quality control review performed by an oversight body independent of the profession. The 8th directive provides for such reviews on a 3-yearly basis in the case of firms auditing entities of public interest, and several European countries have already anticipated this requirement. We also have reservations as regards the scope, in our view too broad (the "key audit partner" concept), of the rotation requirement. We believe that persons designated by the firm without final responsibility for the engagement and the audit opinion provided at group level, should not be required to rotate other than in specific circumstances to be determined on a case by case basis. Cont'd	Mazars	

41.	Partner rotation	Audit team members should not be required to rotate simply because they have been involved with a client for a long time, as opposed to exercising significant influence on the formation of the audit opinion or being responsible for the engagement. Similarly, the rotation requirement should not systematically apply to the persons responsible for independent review, as we believe that a minimum amount of engagement team continuity is indispensable in the interests of audit quality. More generally, too broad a scope of rotation may generate a dual risk: The risk that audited entities in certain sectors, requiring very specific skills, may lack choice of their auditors given that the number of firms able to accept the engagement may become too restricted; The risk of compromising certain audit firms' future by hampering their ability to promote young partners, given that it is often desirable for new partners to be able to begin by dealing with clients of whom they have prior experience. Joint audit, involving two audit teams independent one from the other, who share their skills and oppose their opinions on significant technical issues while performing a double-sided examination, with a balanced apportionment of work and periodical exchange of work between the two firms (every three years) on areas involving material risk, is a factor which may contribute to mitigate certain threats, such as self-review, familiarity or intimidation. The two firms are jointly liable and in case of disagreement, it is possible that two diverging opinions be mentioned in the report.	Mazars	
42.	Partner rotation	I wish to express my opposition to the proposed rotation of key audit partners. This would be fine for big corporations and listed companies but would create havoc for smaller accounting firms, who for the most part do not have audits where the Public sector has direct interests. Furthermore it would be devastating to sole practitioners. I urge you to limit this provision to listed companies. If there is to be rotation of audit partners, which I am against in the case of small audits, then it would do no good, merely to rotate the audit partner, if in fact the "new " partner by virtue of the rotation has little or no audit experience. Also peer review could do some steps to ensure there is proper independence. But I guess here again peer review is not required in all States.	Blieden	

43.	Partner rotation	We generally support the Board's stance on partner rotation, particularly in maintaining a seven year rotation period for the partners of listed companies. In this respect, we are concerned that the current 5 year rule in the UK is a serious threat to audit quality, particularly in specialised sectors of the economy.	ICAS	
44.	Partner rotation	We do not believe that it is appropriate to eliminate the flexibility for small firms as contemplated in the ED. In fact, we believe that the flexibility currently provided to small firms in the Code, paragraphs 290.156 and 290.157, for listed entities is appropriate, should not be eliminated, and should also be applicable for audits of entities of significant public interest. Cont'd	Grant Thornton	
45.	Partner rotation	The exemption for the small firms is necessary to promote and retain appropriate competition in the market for audit services to listed entities and to avoid barriers to entry into the profession for newly formed accounting firms, existing smaller accounting firms, and accounting firms in developing nations to serve "entities of significant public interest." The Board should not require that its ethical requirements be more restrictive than other regulatory bodies such as those in the securities, insurance, banking, or other government regulatory arena. Many regulators have been able to develop appropriate safeguards to allow a "small firm exception", such as the SEC's Strengthening the Commission's Requirements Regarding Auditor Independence rule, which allows for audit firms with fewer than five audit clients that are issues and fewer than ten partners to qualify for an exemption from partner rotation requirement, the Statutory Auditors' Independence in the EU: a Set of Fundamental Principles, which allows for the Statutory Auditor to determine what other safeguards should be adopted to reduce independence risk when the audit firm is unable to provide for rotation and the Federal Deposit Insurance Company's guidance which is in concurrence with the SEC's regulations on small firms. Regulators are sufficiently cognizant of their responsibilities to protect and serve the public interest. In order to reduce the familiarity threat to an acceptable level, the Board should consider requiring the auditor to communicate the facts and circumstances surrounding the utilization of the small firm exception to the client's audit committee or its equivalent where one exists. Cont'd	Grant Thornton	

46.	Partner rotation	If a small firm exemption is not to be retained, we would recommend that the Board evaluate the inclusion of a transitional period for small firms and for those firms in developing countries in their application of rotation. As a general consideration, an extension of the rotation period by two years could be applicable for smaller firms in general and by four years for those firms in developing nations.	Grant Thornton	
47.	Partner rotation	In addition to the flexibility needed for small firms, the Board should consider the need for flexibility within firms when there may be limited expertise within a certain industry. Paragraph 290.157 of the current Code provides some relief from mandatory rotation where it states "Where a firm has only a few people with the necessary knowledge and experience to serve as engagement partner or individual responsible for the engagement quality review on a financial statement audit client that is a listed entity, rotation may not be an appropriate safeguard."	Grant Thornton	
48.	Partner rotation	Partner Rotation – If the definition of entities of significant public interest remains as proposed, we would recommend that the partner rotation requirement be flexible and that the Board consider an exemption or transition period for firms of a certain size. In addition, an inequity is created if concurring partner or another “key” partner is not required to be assigned to all entities of significant public interest, but an accounting firm chooses to do so as part of its internal quality control measures to better ensure audit quality. The firm would be required to rotate several partners whereas another firm that does not make a similar decision for a similar entity of significant public interest would not have the same requirement imposed on it. Therefore, the extension of partner rotation would appear contradictory to the goal of promoting audit quality.	Grant Thornton	
49.	Partner rotation	In our view, it is not appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation. While both the existing and proposed guidance recognize that using the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat and could require rotation of certain engagement personnel, the ED expands the population of personnel subject to the partner rotation provision by extending the requirements to non-listed entities of significant public interest and to key audit partners other than the engagement partner and engagement quality control reviewer. Coupled together, these proposed changes greatly increase the number of audit partners required to be rotated. We question the benefits of such mandatory rotation requirements when considering the costs associated therewith. Cont’d	DTT	

50.	Partner rotation	We believe ensuring audit quality is of paramount importance and as a result, are concerned that the elimination of the small firm exception may have unintended consequences that could be considerable and far-reaching. In some countries, small firms dominate certain market segments, and the audit skills required for these segments are often specialized. Mandatory rotation could lead to assigning individuals to audit engagements who do not have the knowledge or experience required under the circumstances. One response to these concerns is for the entity to change audit firms. However, there are obviously costs to entities and ultimately stakeholders associated with having to change audit firms. Another response is that smaller firms will consolidate in response to the partner rotation requirement to avoid what might appear to small firms as being a firm rotation rather than a partner rotation rule. Mergers of firms leave an entity with fewer choices and in some cases, other firms are not available to take on an audit because they have relationships with or provide services to the entity that are independence impairing. A reduction in competition can also potentially impact the cost of audits, raising questions whether the public is best served by requiring rotation when alternative safeguards may be appropriate. Cont'd	DTT	
51.	Partner rotation	Flexibility is also warranted because the degree of public interest in the entities that will end up being classified as entities of significant public interest in many jurisdictions may be vastly different. Consistent with the principles-based approach and given this variance, it is appropriate in our view to consider whether the threats to independence arising as a result of using personnel over a long period of time are mitigated to some extent based on other factors, such as: Turnover of client personnel. Threats arising from the familiarity with the client's personnel are reduced if such personnel, particular those in a position to influence the financial statements, have changed over the relevant period. Change in business. The audit client's business may have changed significantly as a result of acquisitions, mergers, or divestitures. Regulatory reviews. The audit client and/or the auditor's work on the audit client may be subject to reviews by external or regulatory bodies Cont'd	DTT	

52.	Partner rotation	We also urge the Board to carefully consider the consequences of eliminating the small firm exception and the interplay between this proposal and the proposal that member bodies define entities of significant public interest. The possibility exists that member bodies may be motivated to adopt a very narrow definition of entity of significant public interest merely because of the implications to small firms of the partner rotation rule. Such a result seems counter to what the Board hoped to achieve by extending the listed-entity provisions to other entities of significant public interest. Cont'd	DTT	
53.	Partner rotation	We believe the safeguard described in the extant paragraph 290.157 of the Code is an appropriate safeguard that could eliminate the familiarity threat or reduce it to an acceptable level. This safeguard should be required in situations where rotation is not possible. Other safeguards that could be used include: Requiring that the specific engagements be subject to external mandatory peer review programs. Mandatory external reviews and practice monitoring programs of a firm's quality control system are designed to ensure that firms apply the applicable professional standards to engagements they perform. The application of those professional standards and the tests of firm policies and controls for complying with those standards under a mandatory practice monitoring review can help ensure that a firm applies the necessary level of objectivity and professional skepticism in approaching audit engagements of entities of significant public interest. Where possible, encouraging the rotation of other staff on the engagement to provide a fresh look and "independent" perspective and require those staff to document their independence. Obtaining concurrence from those responsible for governance with the firm's conclusion that any threats to independence from using the same partner over an extended period of time have been adequately safeguarded.	DTT	

54.	Partner rotation	The IESBA proposes to not only extend the partner rotation requirements to non-listed entities of significant public interest, but also to key audit partners not already covered by the current Code (i.e., the engagement partner and engagement quality control reviewer). These proposals if adopted could, in our view, have a significant impact on audit quality, as noted above. Thus, we are concerned that the costs associated with such changes will outweigh the benefits. With respect to the extension of the rotation requirements to non-listed entities of significant public interest, we believe this proposed change is appropriate if the decision as to whether an entity is an entity of significant public interest is left to the judgment of the firm and engagement team. If however, the Board concludes that it is appropriate for member bodies to make the determination, then we believe the rotation requirements should apply to listed entities only and the threats and safeguards approach should be used with respect to other entities of significant public interest. As for the proposed expansion of the scope of partners covered by the proposed rotation requirements, we are concerned that regardless of the size of the entity or size of the firm, the risk that audit quality will be negatively impacted is such that we do not believe it is appropriate to mandate partner rotation beyond the engagement partner and engagement quality control reviewer. The threats associated with other key audits serving a client over a long period of time should be dealt on a facts and circumstances basis using the principles-based approach.	DTT	
55.	Partner rotation	The Institute of Certified Public Accountants in Israel has yet to discuss this matter in depth and suggests that both the IESBA and the SMP Committee seek an optimal solution to this issue.	ICPAI	
56.	Partner rotation	(i) Flexibility should be given to smaller firms for rotation of partner. Additional safeguard can be inbuilt that a quality review is conducted by another partner of the firm at regular intervals. This will ensure the objectivity of independence as well as hardship on smaller firms will be avoided	ICAIndia	
57.	Partner rotation	We were unable to produce alternative safeguards for audits of significant public interest entities and therefore believe that the flexibility for small firms to apply alternative safeguards to partner rotation to be inappropriate.	IRBA	

58.	Partner rotation	Proposal to no longer permit small accounting firms to provide alternative guarantees: NIVRA agrees. This is also in line with article 42(2) of the EU Statutory Audit Directive. It is appropriate, because it is in the public interest. See item 2.5 above	NIVRA	
59.	Partner rotation	We do not believe it is appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation. As mentioned earlier (see our comments under the heading Association of senior personnel (including partner rotation)), we believe this move could have a significant effect on the availability of auditors in a number of jurisdictions around the world, particularly where the client is operating in a specialised or remote area. This could result in a significant problem with choice of auditor or extra cost. It is unclear to us that it can be shown that this is justifiable in the public interest and we believe the IESBA should carry out research into the effects before removing the exemption.	ACCA	
60.		We are concerned that the withdrawal of the exemption from rotation from the requirement for the engagement and review partners on the audits of ESPIs will mean firms now effectively need to have at least four suitably skilled audit partners in order to undertake such engagements. This could have a significant effect on the availability of auditors in a number of jurisdictions around the world, particularly where the client is operating in a specialised or remote area. This could result in a significant problem with choice of auditor or extra cost. We do not believe that the withdrawal of this exemption is justifiable in the public interest and that the IESBA should carry out research into its effects before removing the exemption. We also believe that the impact of the withdrawal of the exemption is further exacerbated by the inclusion of key audit partners within the rotation requirements. As with the 'cooling off' provisions, in our view the rotation requirements should be applied only to partners *at the group level* and this should be clarified.	ACCA	

61.	Partner rotation	Such flexibility is not available in the United Kingdom as it was removed by the Auditing Practices Board in the Ethical Standards ('APB ESs') that apply in this country. We cannot comment on the impact of the removal of the flexibility in other parts of the world but note that there is no logical basis to the existing provision: either partner rotation is required to safeguard the independence of audits of listed entities or it is not. In terms of extending the rotation requirement from listed entities to other entities of significant public interest, we assume regulators / member bodies will take the cost-benefit of these and other additional requirements into account when determining their definition. Even in larger audit firms, there could be only a small number of specialists in sectors in which clients might be designated as ESPIs, such as banks or charities.	ICAEW	
62.	Partner rotation	As a result of provisions included in the Statutory Audit Directive, this flexibility has been withdrawn for public interest audits within the European Union already. However, we note that, as a result of the withdrawal of the exemption from rotation from the requirement for the engagement and review partners on the audits of ESPIs, firms now effectively need to have at least four suitably skilled audit partners in order to undertake such engagements. This could have a significant effect on the availability of auditors in a number of other locations around the world, particularly where the client is operating in a specialised or remote area. This could result in a significant problem with choice of auditor or extra cost. It is unclear to us that it can be shown that this is justifiable in the public interest and we believe the IESBA should carry out research into the effects before removing the exemption. The impact is further exacerbated by the inclusion of key audit partners within the rotation requirements. As with the 'cooling off' provisions (see 2.4 above), we believe that the rotation requirements should be applied only to partners *at the group level* and this should be clarified.	FEE	

63.	Partner rotation	*We have noted that the elimination of flexibility provided for by the IFAC is consistent with the provisions of the Directive on the statutory audit of accounts.* However, we should pay further attention so that the expected provisions do not lead to exclude most of the firms from the audit of significant public interest entities. Accordingly the CNCC disagrees with the scope of the definition of "key audit partner" which in its opinion is too broad. Therefore we would prefer that the audit partners who have not been appointed as audit engagement partners in charge of the file by the audit firm (those who do not sign the audit report) should be captured by rotation only in particular circumstances to be assessed on a case by case basis.	CNCC	
64.	Partner rotation	Thus the audit engagements members should not be concerned by rotation only on the basis of the fact that they have been working on the audit file for a long period. The criterion to be preferred should rather be the significant influence exercised by the said persons on the opinion issued or the criterion of responsibility over the audit file. We deem it essential to maintain minimum continuity at the level of the assurance engagement team in order to meet the objective of audit quality. In the same way, the persons in charge of the independent review should not automatically be concerned by the rotation requirement. Rotation applied in too much an extensive way entails a twofold risk : - a risk for the audited entities operating in particular fields requiring very specific audit skills, of having no latitude any longer in the free choice of their auditors, since the number of audit firms likely to be in a position to meet the rotation requirements turns out to be too limited, - a risk for the going concern of audit firms since rotation would deprive them of the possibility of ensuring any in-house harmonious advancement of their younger partners. As a matter of fact it is advisable that the first audit engagement on which young partners lay their signature are files which they have already learned to know of.	CNCC	

65.	Partner rotation	More generally, application of rotation should take into account the other requirements set to ensure audit quality and independence, such as a periodical independent quality control review, such as is laid down by the European directive (every three year for firms with public interest entities assignments), the possibility of involving another firm for the implementation of independent review and internal quality control (See ISQC1) and joint audit (co-commissariat aux comptes). In France co-commissariat aux comptes (joint audit) involves two audit teams being independent one from the other, who share their skills and oppose their opinions on significant technical issues while performing a double-sided examination. Apportionment of work is generally well balanced and provides for the periodical exchange of work between the two firms (every two to three years) on areas involving material risk. The two firms are jointly liable and in case of disagreement, it is possible that two diverging opinions be mentioned in the report. The involvement of two firms is a factor which, in certain circumstances, may contribute to mitigate certain threats such as : self-review, familiarity or intimidation.	CNCC	
66.	Partner rotation	The definition in the ED of a *key audit partner* is quite wide, since it includes the engagement partner, the individual responsible for the engagement quality control review, and other audit partners on the engagement team such as lead partners on significant subsidiaries or divisions who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the audit firm will express an opinion. In the EC Directive on Statutory Audits of Annual Accounts and Consolidated Accounts (2006/43/EC) the definition of *key audit partner* only makes it mandatory to include (apart from the statutory auditor who signs the report, in the unlikely event that he or she is not one of the following): the statutory auditor(s) designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm in the case of a group audit, the statutory auditor(s) designated by the audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries. Cont'd	NRF	

67.	Partner rotation	NRF agrees that a legal standard that has been established in such an important capital market as the European Union is a natural benchmark that has to be considered in the efforts to achieve global harmonisation. But NRF fails to see the wisdom in introducing even more restrictive standards without very good reasons. Introducing rotation rules for other partners than those primarily responsible for carrying out the statutory audit will create practical problems of a nature that, if the rules are applied indiscriminately, will lead to a reduction in audit quality. This is true particularly, but not exclusively, in small countries with a limited number of professionals. The rotation of other partners, such as those engaged in quality review and in divisions, may visibly improve the appearance of independence, but if the effect is to remove from the global team an industry specialist or another expert who contributes strongly to a high audit quality, the potential negative impact on audit quality is significant and may increase the risk of audit failure. These risks are not limited to small or medium-sized audit practices, although the lack of specialist resources in such practices will make them particularly serious. Cont'd	NRF	
68.	Partner rotation	NRF would also like to point out that excessive rotation could have a negative impact on the professional career opportunities for auditors. When an auditor has been lead partner on a significant subsidiary or division he or she will not be able to advance and become key audit partner for the parent company and the group due to the rotation requirement. Especially if the auditor is specialised and no other similar engagements are available, this will mean an involuntary interruption in his or her career. This will inevitably affect the image of a career as an auditor, and thus the profession's ability to attract the right people. Instead of simply extending and applying the rotation rule NRF would support an extension of the "threats and safeguards" approach, where audit partners of subsidiaries and divisions and partners engaged in quality review of the work performed are subject to stringent and documented safeguard procedures.	NRF	

69.	Partner rotation	Following on from our response to Question 1 above, EFAA believes that it is important to retain the flexibility for small practitioners to apply alternative safeguards to partner rotation. In many cases, especially relating to very small or sole practitioners, partner rotation is simply not possible. In developing nations, or in remote geographical locations, there may only be one, small audit practice available to audit an entity. In such situations, it cannot be in the interests of either the audit client and/or the broader public interest to impose burdensome and costly regulation. EFAA finds Question 2 itself and related changes to the Code somewhat inconsistent, however, and would welcome additional guidance and/or clarity from the IESBA. Our understanding of the proposed revisions to the Code is that the IESBA's proposal to eliminate flexibility applies to audits of entities of significant public interest only. Question 2 seems to imply that flexibility is being eliminated for all audits conducted by small practitioners. (Question 1, meanwhile, refers only to audits of entities of significant public interest). We believe that the IESBA should clarify the meaning of this point as a matter of urgency.	EFAA	
70.	Partner rotation	We accept that there is no theoretical basis to provide flexibility for small firms, although we note that a number of regulators, including the SEC, do provide such flexibility. We would consider that an appropriately scoped review, for example scoped in accordance with ISQC1, carried out *prior* to the issuance of the report by another firm might be a satisfactory safeguard, assuming that such an arrangement could be applied in practice. We also refer to our comments above regarding entities of significant public interest. We consider that some of the burden in extending partner rotation within small firms might be alleviated if it is clear that certain types of entities of local public interest would not be treated as entities of significant public interest (and therefore would not be subject to mandatory partner rotation).	KPMG	
71.	Partner rotation	We consent to the proposed amendment by which small audit firms shall no longer have the possibility to initiate alternative security measures where partner rotation has not been feasible in practice within the audit firm. It is not easy to find a reasonable explanation to maintain this existing special rule.	FSR	

72.	Partner rotation	This requirement, coupled with the definition of key audit partners, will exclude sole practitioners and some smaller firms from performing certain engagements. This will result in certain expertise being unobtainable in smaller firms, thereby increasing the gulf between large and small firms. Where smaller firms may be able to comply with these requirements, the attendant costs may be prohibitive.	SAICA	
73.	Partner rotation	In addition to the comments we have made above regarding the consequences of some of the proposed amendments on small firms, we would respond here by suggesting that the approach be more flexible. An alternative safeguard could be the appointment of an engagement quality control reviewer (independent to the partner) to review these clients. A further safeguard in this regard would be for such quality reviewer to be appointed by, or at least approved by, the statutory regulator of registered auditors	SAICA	
74.	Partner rotation	The existing Code provides that when a firm has only a few people with the necessary knowledge and experience to serve as the engagement partner, or the individual responsible for the engagement quality control review, rotation may not be an appropriate safeguard. In these circumstance The ED proposes to remove this flexibility and extend existing partner rotation requirements to all key audit partners on an audit of an ESPI. We are in support of the Board's proposal to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation. Our views are consistent with those of the Board's. There is a need to strike a balance between addressing the familiarity threat by bringing a fresh look to the audit and the need to maintain continuity and audit quality for ESPI. The nature of an audit of an ESPI calls for more stringent standards, partly to address the expectations of today's market and other stakeholders. If a firm does not have the necessary resources and skills, it would not be appropriate for such a firm to undertake the audit of an ESPI going forward	PAOC	

75.	Partner rotation	Expanding the partner rotation requirements on audits of entities of significant public interest to all key partners may raise problem in developing countries and those countries that have limited number of auditors. In Thailand, the partner rotation requirement is applied only to the auditor of the listed company and there is no rotation requirement for other key audit partners of the auditor in charge. Eliminating the existing flexibility for firms with few partners to apply alternative safeguards instead of partner rotation to address the familiarity threat may cause problems to developing countries as stated in previous comment. In our opinion, local firms with limited number of auditors in many countries may face difficulty to comply with this modification.	FAP	
76.	Partner rotation	The Institute recommends that for the audits of listed companies, the engagement partner should be rotated after no more than 7 years. In small practices, or in special cases in firms, this period may be prolonged to 9 years. For example, in cases in which the engagement partner has audited a firm for 7 years, close to the initial date of incidence, rotation may be due after an additional 2 year period. In small practices we recommend that the issue of rotation should be discussed in depth separately	ICPAI	
77.	Partner rotation	Additionally, regarding lead engagement partners of significant subsidiaries or divisions, we suggest that only the lead partners of significant subsidiaries that would be making key decisions or judgments, be included, whose significance should be measured in relation to the consolidated financial statements. We suggest that partner rotation requirements have to apply only to the lead audit partner and the reviewing partner. That is, we do not agree to extend the rotation requirements to key audit partners. We believe that in this case, with the objective of achieving an appropriate cost-benefit balance, applying a principle-based approach is better than setting specific restrictions.	FACPE	
78.	Partner rotation	We do not agree with the removal of this flexibility. Although we understand that it can be inconsistent with the rotation requirement for other companies, it can be justified on cost-benefit considerations. In many small or developing countries without the flexibility many entities not closed to centres of significant economic activity or in certain industries will be required to change auditors and many audit firms will be unable to audit ESPIs.	FACPE	

79.	Partner rotation	The APB supports the elimination of the flexibility for small firms to apply alternative safeguards to partner rotation in respect of the audits of entities of significant public interest. We believe that the perceived threats to independence which arise from extended relationships between a key audit partner and such an audit client cannot be addressed by safeguards other than rotation of the key audit partner.	APB	
80.	Partner rotation	From the perspective of banking regulators, the threat to auditor independence from a very long term relationship between auditor and client is such that, when auditing public interest entities, it should be mandatory to have rotation of audit partners.	CEBS	
81.	Partner rotation	We support extending the existing rotation requirements for listed entities to ESPIs. However, we do not believe that these requirements should extend to key audit partners other than the lead audit partner and the reviewing partner. Further, we support the extension of the existing rotation requirements to smaller firms as long as the mandatory rotation only applies to the lead audit partner and the reviewing partner. Cont'd	E&Y	
82.	Partner Rotation	We agree that it is appropriate to extend the key audit partner rotation provisions to entities of significant public interest. We also agree that engagement quality control review should be extended to entities of significant public interest. Both of these measures are legitimate quality control responses to audits of entities of significant public interest and are quite different in nature to the changes proposed in the Exposure Draft.	CAGNZ	

83.	Partner rotation	We agree with the IESBA that there is a need to strike a balance between addressing the familiarity threat and the need to maintain continuity and audit quality. In particular, rotation requirements should not be too inflexible as to become detrimental to audit quality. To achieve such balance, considering the variety of possible situations, we believe that a more principle-based approach is warranted, rather than the prescriptive provisions for other key audit partners stated in the Exposure Draft. For example, the client's organisation structure is an important factor to consider when assessing the familiarity threat. On very large multinational audits, key audit partners other than the lead audit partner or the reviewing partner, and senior personnel may actually rotate to a different part of the group. By nature of the fact that a very large multinational group is likely to have different operations and management, the familiarity threat can be significantly reduced. Further, permitting a partner to gain experience of the audit client by rotating within the same group before becoming the lead partner could enhance audit quality. Cont'd	E&Y	
84.	Partner rotation	In addition, in many countries where most audit firms are of medium or small size (this is the case in certain jurisdictions where the number of partners is limited by statute), we believe that prescribing rotation for other key audit partners would have the unintended consequence of mandating the rotation of audit firms. We firmly believe that rotation of audit firms will have adverse consequences for the continuity and quality of audits. In fact, the forced termination of long term relationships between auditors and clients in an increasingly complex business environment, where knowledge and expertise is created over many years, could lead to a sustained decrease in the quality of audits. This would have serious implications for investor protection and the integrity of the financial system. Accordingly, the IESBA should be careful not to inadvertently create an environment favouring mandatory rotation of audit firms and it should also state clearly that it is not advocating mandatory rotation of audit firms. Cont'd	E&Y	
85.	Partner rotation	Consequently, although all rotation requirements for the lead audit partner and the reviewing partner should be maintained, the IESBA should address potential rotation of other key audit partners through the implementation of the threats and safeguards conceptual framework rather than a prescriptive prohibition. We would also recommend extending the transition provisions for rotation of all key partners for ESPIs to three years after the approval of the standard, rather than the proposed two years. This would allow the audit firms to know which entities will be designated as ESPIs by the Member Bodies prior to taking the appropriate steps to comply with the rotation requirements.	E&Y	

86.	Partner rotation	The ED proposes to extend existing partner rotation requirements to all key audit partners on an "audit" of an ESPI. At the same time, however, the IESBA is proposing to eliminate the exception in the current Code that provides relief to those firms with a limited number of individuals having the requisite knowledge, skill set, and experience to serve in engagement partner or quality control review roles. The explanatory memorandum acknowledges the Board's consideration of the so-called "small firm" exception (although "small" is not defined and a firm does not necessarily have to be small to find itself in that situation), and notes the Board's conclusion that flexibility should no longer be provided because, in the Board's view, there are no alternative safeguards that would adequately address the familiarity threat posed by long-term association. We are aware of no empirical data to suggest that the safeguards outlined in the current Code are inadequate, and therefore have difficulty in accepting this premise as a basis for the proposed revision. Cont'd	PwC	
87.	Partner rotation	Further, we have concerns about the marketplace disruption this requirement, if adopted, may create. The requirement may place an undue burden on small and mid-sized entities that retain audit firms lacking the resources to feasibly achieve partner rotation - perhaps because size constraints preclude such firms from being able to rotate senior personnel, because licensing requirements preclude the most suitable individuals from serving as a key audit partner, or visa or other entry requirements into the country cannot be satisfied by the most suitable individual. In those cases, there is also a clear risk that a firm will assign an engagement partner to the engagement who lacks sufficient expertise (in say a particular industry or financial services sector), simply to avoid being replaced as auditors, with the potential for a detrimental impact on audit quality. Entities that retain local or regional accounting firms to conduct their audits may be placed in a position of having to seek new auditors every seven years. Those entities whose audit firms cannot accomplish partner rotation would effectively be forced to undergo firm rotation, a result that would impose upon them and on the capital markets significantly greater costs without clear commensurate benefits. For the client, there is the time and effort needed to prepare requests for proposals from new auditors, interview candidates, and educate the new auditor about the client's business and operations; all of which take the client away from its core mission, and which increases cost for the client. Cont'd	PwC	

88.	Partner rotation	For both the client and the capital markets, there is considerable research showing that firm rotation can have an adverse impact on audit quality through lost institutional (firm) knowledge (e.g., detecting illegal acts, errors, and irregularities on a first year audit is generally a more difficult audit objective to accomplish). That research shows that the incidents of audit failures are highest in the first two years of a new audit. Rescinding the current exception may result in concentration among smaller firms so that partner rotation requirements can be achieved. We would be troubled by a standard that may cause firms to change the business model under which they operate, which, if not intended by the IESBA, would be another significant cost of complying with the requirement and an indicator that the requirement may not achieve an appropriate balance. This may also cause a concentration of audit appointments towards the larger firms to the extent they have sufficient numbers of partners to comply with the rotation requirement. We believe the public interest would be better served by not reducing the choices available to entities looking to retain an accounting firm. Accordingly, we suggest that the Board give further consideration to this matter Cont'd	PwC	
89.	Partner rotation	We fully recognise the benefits associated with a "fresh look" but question its benefits when in practice the effect will be to impose, in many situations, a requirement of firm rotation. Therefore, we recommend that the provision (Section 290.156) of the current Code allowing for flexibility of the rotation requirements "when a firm has only a few people with the necessary knowledge and experience to serve . . ." not be rescinded and that alternative safeguards be permitted in those situations, irrespective of whether the firm's client would be considered an ESPI. The safeguards in the current Code (paragraphs 290.153 and .157) are appropriate alternatives in those situations. We also recommend that the Code acknowledge as an additional safeguard periodic engagement reviews performed by a regulator or as part of an external peer review, since the deterrent effect of both types of reviews are effective in promoting auditor objectivity and audit quality. We also recommend that the first sentence of paragraph 290.147 be amended to read "In respect of the audit of <u>an entity</u> of significant public interest …" to make it consistent with the rest of the paragraph and with the first sentence of paragraph 290.150. Cont'd	PwC	

90.	Partner rotation	Also, in the case of entities of specialized industries, those having unique methods of organizational management or those placed under special regulations, it is possible that difficulties could arise in effecting the smooth transfer of engagement duties, unless some consideration be given to the rule of making rotations. We consider it appropriate that, in addition to the relief provision for unforeseen circumstances in Paragraph 290.148, a further relief be provided for, in order to ensure the proper maintenance of the audit team, for example, by permitting the key partner to remain on the team one additional year, if there be special circumstances that make smooth rotations difficult. In Japan, firms under private management may obtain exceptional treatments with approval by the Prime Minister for each accounting period under the provisions of the Cabinet Ordinance, when there are unavoidable circumstances as provided for in the Ordinance	JICPA	
91.	Partner rotation	We suggest that the Board has not given adequate consideration to potential safeguards that could be used to ensure that the potential for the appearance of lack of independence has not been adequately addressed. We suggest that the following safeguards should be considered as safeguards that would reduce the risk: Peer reviews of the firm; and Cold partner reviews of engagements of an Entity of Significant Public Interest. Cont'd	CACPA	
92.	Partner rotation	The universal application of partner rotation does not take into consideration the potential impact to smaller CPA firms, CPA firms practicing in smaller communities, or small firms that are just in the process of being formed that may have all the requisite skill, but not the current ability to provide for partner rotation. We recommend the Board consider the above safeguards in removing the mandatory requirement of partner rotation for an Entity of a Significant Public Interest.	CACPA	

93.	Partner rotation	As an auditor in public practice serving small not for profit organizations and as a peer reviewer of other such firms in Indiana, I have grave concerns about sections 290.146 and 290.147in the revision of the Code of Ethics which require partner rotation even in small audits. Many of these firms have only one partner performing audits and this standard would effectively discriminate against these small firms and place a tremendous financial hardship on small clients if they have to be audited by large firms. Many of these small firms are performing high quality audit services at an affordable cost to small clients. Small clients are often required to have audits by their funding agencies or by governmental agencies and cannot exist without complying with these requirements from outside sources. The proposed changes add another layer of compliance issues for these entities. The public would not be well served by this change. Please reconsider the broad application of this standard and whether it serves the profession and the public. I feel that an exception needs to be made for small firms and their clients.	HRH-CR	

94.	Partner rotation	These comments represent my viewpoint as a CPA in public practice that is involved in performing audits on small tax-exempt organizations in central-northern Indiana. I have been a CPA since 1975 and have practiced in public accounting for all but 7 years of that time. These comments specifically deal with required partner rotation referenced in the revision of the Code of Ethics for sections 290.146 and 290.147. This is a change for appearance sake and with no reference to its impact on the party it is intended to benefit. Many small tax-exempt entities are required to have audits based on agreements with funding agencies or even by their by-laws. These audits are preformed by small accounting practices which essentially have only one audit partner. In today's environment of auditing, even the small tax-exempt clients are aware of the Peer Review process and require the accounting firms serving them to have and successfully pass a Peer Review. The Peer Review is the standard that was selected to allow those outside the profession of public accounting to have some objective measure of a firm's quality. Now, based upon changes to the Code of Ethics, the accounting profession is saying that the Peer Review process has little credibility. My viewpoint is that this requirement of partner rotation is a restraint of trade. It effectively removes many local accounting firms from the market place and gives larger firms an unfair advantage with little regard to the impact on the client. These local accounting firms have invested in the Peer Review process and served their clients well over a long period of time. They have met the standards set forth by the State and National Accounting Professions by being part of the Peer Review process. Now quality is not the issue only the size of the firm. These changes do not serve the public or the accounting profession in any positive way and should not be passed.	HRH - DH	

95.	Partner rotation	Mandatory rotation at the end of seven years of the key audit partner of audit engagement on annual or consolidated accounts of an audit client of significant public interest is dealt with in paragraph 290.147 to 290.150. Withdrawal of the previous exemption granted to small practices inevitably leads to exclude such entities from the performance of assurance engagements in significant public interest entities, which in our opinion is tantamount to a material impediment to the freedom of practice of professional accountants In addition such a requirement is likely to raise in the long run an important problem to enterprises when appointing their contractual auditors, especially when they operate in a specialised segment and in developing countries; this also leads to an increase in the cost of the services requested and it is not certain that such withdrawal of exemption plays the part of public interest. As a consequence we believe that the IESBA should assess the effects induced by such withdrawal prior to adopting it. Moreover, among the safeguards to be implemented by the professional accountant operating within a small practice and performing an assurance engagement, it is in our opinion advisable, pursuant to the possibility granted by the ISQC1 standard, to make use of the independent review performed by an external professional accountant adequately qualified and of quality control procedures of the professional body	CSOEC	
96.	Partner rotation	We do not agree that this is appropriate. There are circumstances where partner rotation is not practical. Also, given the ongoing discussions in some jurisdictions concerning choice in the auditor market we do not agree that an outright ban is acceptable. This is an example of a rule that disadvantages SMPs, since partner rotation is never an option open to them.	IDW	
97.	Partner rotation	We do not agree with the elimination of the flexibility for small firms as this disadvantages SMP and reduces the options for entities of significant public interests regarding the choice of an auditor.	WpK	

98.	Partner rotation	The Statement mentions the need for rotational policies for partners and significant audit staff. Firms both small and large tend to develop expertise over a period of years in areas requiring a significant learning curve. Examples of complicated audits/ audit issues are: - IT systems and processes particularly communications systems with regional and global information processing - Derivative Policy Evaluation and substantive testing - Quasi-Reorganization in Bankruptcy accounting and litigation support - Pension and Actuarial Fund Accounting and mathematical algorithms - Specialized accounting and legal accounting practices of host countries There are training technologies available to help facilitate knowledge transfer and reduce the down time due to training. These are the classic lecture, case studies, simulated transactions, apprenticeship, on-the-job training and Artificial Intelligence / Advice Giving Systems. Advice Giving Systems contain the experiential domain of complex knowledge preinput by the knowledge engineer. *GENERALLY*, the thrust of the new guidance is good; however, the practical implementation issues will be challenging for both small and large firms.	Maresca	

99.	Partner rotation	We are very concerned that a blanket prohibition in respect of ESPI will, in many instances, result in an adverse cost-benefit outcome and so fail to serve the public interest. For this reason, we outline various suggestions above, including alternative safeguards and the retention of some form of small practice exemption… We note that throughout S290 additional prohibitions have been added for the audit of an ESPI. In many cases this will often result in the exclusion of SMPs from performing the audit of ESPI. We suggest modifying the mandatory partner rotation requirement and/or the definition of ESPI for various reasons. First, the mandatory partner rotation combined with the expanded definition of key audit partners will for many SMPs and SMP networks amount to firm rotation. Such firms will lose ESPI audit clients while larger firms will retain such clients by way of rotating audit partners. Over time many SMPs will be driven from the ESPI audit market and ESPI will slowly concentrate in the hands of larger firms. Large firms seem to have concluded that firm rotation is generally inappropriate because of the potential damage to audit quality resulting from new auditors being unfamiliar with the client. SMPs will, therefore, ask: if large firms see firm rotation as unacceptable on grounds of excessive cost, then why is it effectively being mandated for us? Moreover, many SMPs will question why they have to bear the brunt of the adverse impact of the revisions, revisions which have been prompted by regulators intent on averting a repeat of the high profile audit failures of recent years? Cont'd	SMP/DNC	
100.	Partner rotation	Second, the proposals could be viewed as discriminatory, anti-competitive and even a restraint of trade matter from the standpoint of both the auditor and the client. In countries with large numbers of smaller listed entities typically the partner rotation requirement will have a particularly serious impact on SMPs, forcing many SMPs to relinquish ESPI audit clients to larger firms. This will simultaneously exacerbate the concentration of the audit market and effect as a barrier to market entry for SMPs. If rotation is seen as the appropriate safeguard, and we think in most cases it is not, then in the interests of fairness firm rather than partner rotation should be employed. Third, rotation will restrict the choice of auditors open to ESPI. There are considerable benefits to be had when an ESPI is faced with a choice of auditors. This choice is limited in certain circumstances, such as developing nations and remote and/or sparsely populated areas. The proposals stand to restrict this choice still further and could conceivably result in an ESPI having a no access to an auditor. Cont'd	SMP/DNC	

101.	Partner rotation	Fourth, from the perspective of an external stakeholder, partner rotation within a firm is not visible since they do not get to see or know the individual auditor(s) undertaking the audit. This then begs the question: how does partner rotation within a large firm improve independence of appearance? Fifth, the foregoing implies a high cost to SMPs and some ESPI with little, if any, corresponding benefit in terms of enhanced audit quality. Indeed, firm rotation will likely impair audit quality in the period immediately following firm rotation since new auditors, with limited knowledge and understanding of the client, are more prone to making mistakes. In addition, new auditors will likely be charging more since they are intent on recovering the costs of getting a proper understanding of their new client. Consequently, in the short-term rotation may well enhance independence but at the cost of a more expensive and lower quality audit. Cont'd	SMP/DNC	
102.	Partner rotation	Sixth, the costs associated with regulatory requirements need to be proportional to the threats in order for a favorable public interest outcome. Blanket mandatory rotation represents a draconian requirement to address what, in most situations, will likely amount to a modest threat. In the case of an SMP auditing a small listed entity the balance between public interest issues (auditor independence/audit quality/competition) is not the same as with a large firm auditing a large listed entity. Hence, partner rotation is not always an appropriate way of ensuring auditor independence for listed entities. In a large audit firm one could argue partner rotation is an acceptable safeguard since it imposes limited costs on the firm while yielding significantly more comfort for the general public. But in an SMP rotation may not be proportional as it may preclude the SMP from the audit and deny the client choice. Seventh, while rotation may enhance independence of appearance, it does not necessarily follow that it will improve independence of mind. Moreover, in the case of smaller listed entities independence of appearance is less relevant since there are few, if any, truly external investors. We believe there is a fundamental difference between large and small listed entities such as those trading on secondary markets or over the counter. Larger listed companies exhibit a clear separation between investors and the company, and hence increased demand and need for independence of appearance. Meanwhile with smaller listed entities the investors are much closer to the company and generally more involved. Investors are more likely individuals with some connection with the company. Cont'd	SMP/DNC	

103.	Partner rotation	Finally, if the investors vote to have an SMP undertake the audit in the full knowledge that the key audit partner has not been rotated then it would seem their consent means that rotation is a non-issue. These reasons suggest that the public interest case for blanket mandatory rotation of key partners for audits of ESPI, as defined in the ED, is not proven and/or inequitable. In many cases the wider costs of rotation – in terms of lower audit quality, higher audit costs, lack of choice, etc – may outweigh the benefits. We suggest that IESBA consider a combination of one or more of the following: modifying the ESPI definition as suggested above; providing for the use of alternative safeguards; and retaining the existing SMP exemption. Cont'd	SMP/DNC	
104.	Partner rotation	We strongly recommend that the IESBA consider alternative safeguards to address the familiarity threat with respect to audits of non-listed entities of significant public interest. In particular, we suggest that where the key audit partner has been involved with the engagement for an extended period of time, the potential threat to the firm's independence should be discussed with those charged with governance of the entity. During this discussion, the firm and client should consider the appropriateness of implementing additional safeguards to eliminate or reduce the threat to an acceptable level. Such safeguards might include: An additional professional accountant who was not a member of the assurance team, including accountants from outside the firm, to do a pre-issuance review of the work done by the senior personnel or otherwise advise as necessary; or An enhanced quality review of the engagements that focuses on the overall quality of the audit and, in particular, the independence and competence of the key personnel on the audit engagement teams. We also believe, contrary to the IESBA, that external review by a regulator is an appropriate safeguard in certain cases. While we accept such a review is conducted ex-post, these reviews, just like historical financial statements, have confirmatory as well as predictive value.	SMP/DNC	

105.		We would recommend that provision is made for staggered rotation and that rotation be permitted within a group of companies, on the basis that removing all key audit partners from the audit of a large group of companies at the same time could have material negative consequences which could far outweigh the potential benefits. If the provisions do not provide for staggered rotation and rotation within a group but this is left up to the audit firms to manage within the 7 year period it will have the unintended effect of reducing the mandatory rotation period for some of the key audit partners to a period of less than 7 years in order to avoid the disruptive effect of a multiple rotation after 7 years.	IRBA	
106.	148	APESB supports the introduction of this term to clearly identify the key senior members of audit engagement teams. APESB also support the general view that those provisions relating employment relationships, partner rotation and compensation needs to be extended to this group. However, in terms of partner rotation there may be a benefit in allowing some flexibility to key audit partners (excluding the engagement partner) such as an extended period (i.e. one or two years) in exceptional circumstances. For example in a situation where the engagement partner as well as most of the key audit partners needs to rotate in the same year in a complex audit engagement. This is likely to have a detrimental impact on continuity of key audit staff and thus impact on the quality of the audit. We note that paragraph 290.148 does consider a similar situation (i.e. illness of a partner) and allows an additional year for key audit partners which include the engagement partner. APESB is of the view that this flexibility should not be extended to engagement partners (who has already served a seven year period). However, it would be appropriate to extend it to the other key audit partners even for an extended period (i.e. two years). We believe that more guidance is required in respect of key audit partners and rotation to ensure that there is a sufficient number of audit partners available to perform the assurance engagements under the proposed independence requirements. Further, it would be useful to have more guidance in respect of what would be considered to be an exceptional circumstance as otherwise there may be different interpretations what would constitute an exceptional circumstance in practice	APESB	

107.	147	We agree with the proposed amendment that would prevent a key audit partner, rotating off an audit after a pre-defined period, from participating in the audit until a further period of time, normally two years, has elapsed. The amendment, however, does allow a former key audit partner to continue to be involved with the audit client in other ways - such as in the provision of non-assurance engagements. In our opinion, the familiarity risk will only be removed if the key audit partner rotating off the audit has no association with the audit client in *any capacity* during the two-year "cooling off" period. Consideration should therefore be given to extending the proposed revision to require a former key audit partner to have no association with the *audit client* during the "cooling off' period	CAGNZ	
108.	147	We support the approach taken by IESBA requiring the rotation of other key audit partners including the Engagement Quality Control Reviewer after a pre-defined period. However, we believe more timely rotation of key audit partners every five years rather than every seven years would further reduce the familiarity threat to independence. In Australia, the rotation of the Lead Engagement Partner, the Audit Review Partner and the Engagement Quality Control Reviewer is required every five years for listed entities and significant public sector entities. Our suggestion is also consistent with the requirements regarding audit partner rotation outlined in S 203 of the *Sarbanes-Oxley Act of 2002*.	ACAG	

109.	147	In respect of partner rotation, the inclusion of the term “key audit partner” extends the mandatory requirement of rotation to a wider group of individuals. The Institute recognises the fact that in larger engagement, key audit partners, other than the engagement partner and the individual responsible for the engagement quality control review, may play a significant role in maintaining ongoing relationship with client management and therefore give rise to possible threats to independence. However, to require mandatory rotation for other partners in the engagement team apart from the engagement partner and the individual responsible for the engagement quality control review may be too onerous. It was also felt that the engagement partner and the individual responsible for the engagement quality control review are the final and ultimate decision makers on the financial statement, therefore the mandatory rotation of other engagement partner on the engagement team is overly strict and unnecessary to maintain independence. It should also be noted that in countries where there is a limited pool of available talent especially in cases of specialised audits, mandatory rotation of other audit partners on the engagement team may pose challenges and cause the audit quality to suffer. Therefore, the IESBA is requested to assess the approach taken and to consider the possibility of taking an approach whereby for other audit partners in the engagement team apart from the engagement partner and the individual responsible for the engagement quality control review, the threats to independence should be assessed on a risk basis rather than on a mandatory basis.	MIA	
110.	147	The CNCC in addition suggests that the cooling off period provided for in the case of lead engagement partner rotation (§ 290.147) be explicitly defined as "two audited financial years", rather than two years, since the notion of audited period seems to be more relevant. Therefore using the expression "financial year", in our view, would contribute to avoid any ambiguity	CNCC	
111.	147	We endorse the extension of the rotation requirement for the audit of ESPIs to key audit partners (though we have concerns about the interaction of this with the widened definition: see paragraph 56 below) and the retention of the rotation period at seven years. This period is a reasonable balance between issues of independence and the retention of knowledge, both important components of audit quality.	ICAEW	

112.	147	Entities that may be classified as an "entity of significant public interest" as currently defined will include some governmental entities where the "key partners" may well be the "auditor general" of the jurisdiction that are required by law or regulation to audit the government's comprehensive or general-purpose financial statements. In these circumstances, rotation will not be feasible. Partner rotation would apply to key audit partners as currently defined in the ED. Clarity should be provided regarding "partners on significant subsidiaries or divisions" in applying the partner rotation requirement. As written, it could be interpreted to imply that a partner on an international subsidiary could be required to adhere to the rotation requirement. This is not practicable and as discussed below, we do not believe that this partner bears the same responsibility as that of the lead engagement partner. Partner rotation should be required at the group level only, not at a subsidiary level unless the subsidiary is an entity of significant public interest in its own right.	Grant Thornton	
113.	148	Any absolute period or amount inserted into a principles based code can lead to unintended consequences. Accordingly we are pleased to see the retention of a limited flexibility in this paragraph.	ICAEW	
114.	148	Section 290.148 of the exposure draft stipulates that rotation can only take place after eight instead of seven years (1 year dispensation) under certain circumstances, and only when guarantees are made. NIVRA does not agree with this, because it is not in the public interest nor in line with the EU Statutory Audit Directive, which does not offer such a dispensation option.	NIVRA	
115.	148	The example provided should clearly refer to the 'key audit partner' and not just a 'partner' in order to avoid any confusion.	KPMG	

116.	148	We support the new term and definition of 'key audit partner' and generally support extending the listed entity provision of key partner rotation for significant public interest entities. However, as outlined previously, in a number of jurisdictions, including Australia, public sector entities are required by legislation to be audited by the Auditor-General (or equivalent). In Australia, the Auditors-General (State and Federal) are appointed by the respective Parliaments, and in some jurisdictions within Australia the term of their appointment may exceed seven years. Therefore, it may not be practical to implement key partner rotation every seven years, in accordance with paragraph 290.147, with respect to the Auditor-General in this circumstance. To address the situation where the auditor is appointed by legislation for a term greater than seven years, the following guidance paragraph is suggested to be included following paragraph 290.148. *'In some countries, the engagement partner of significant public interest entities (particularly government agencies and government owned entities) are appointed by law or regulation. Where the term of the appointment of the engagement partner does not facilitate key partner rotation in accordance with paragraph 290.147, the firm should implement appropriate safeguards to minimize the familiarity, self review and self interest threats.'*	ACAG	

117.	150	We believe that Board should re-evaluate its previous policies on the number of years served when an entity initially becomes an "entity of significant public interest." Under paragraph 290.150, the partner would be required to count all prior years of service in determining whether he or she has provided a total of seven years of services, but at a minimum would be able to serve in his or her "key partner" role for two further years. Instead, we believe that the service life should start from the beginning of the first of the financial periods covered by the accountant's report when the audit client becomes an "entity of significant public interest." Many firms have voluntarily included in their quality control policies and procedures, an assignment of a concurring partner to the audits of higher risk or complexity, typically because they involve a public interest which may not be listed entities. If paragraph 290.150 remains as it is currently drafted, a continuing concurring partner on an audit of a public interest entity that becomes an entity of significant public interest (for example because it subsequently becomes listed) may only provide a further two years of service. This does not seem to be in the best interests of the public or the client and would conflict with the objective of the appointment of the partner, which is the maintenance of audit quality.	Grant Thornton	