



22 November 2014

The Chairman & Members,  
International Ethics Standards Board for Accountants  
529, Fifth Avenue, 6<sup>th</sup> Floor, New York, NY 10017  
Via Email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

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Dear Board Members,

**Re: Comments on “Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client”.**

Let us thank and record our appreciation for the honorable members of the Board and its staff who assist the Board for its contribution in serving the public interest.

We are pleased to convey our view on the captioned subject.

**General Comments:**

1. Rotation of Audit Team Members<sup>1</sup>. The Board should endeavor to reinforce rotation-triggering mechanisms at the firm-level. There's no safeguard / triggering mechanism proposed to prompt firms to consider rotation of an individual; what's proposed is evasive<sup>2</sup>. Bound the firms to diligently do 'audit governance' by reviewing any threats to the independence of all members of the audit team annually; and progressively so, for those with longer associations with a client. The length of time-on period should not be automatic for the KAP or for any individual of the audit team but subject to an annual consideration by the firm.
2. Disclosure of the length of Time-On Period in Audit Report. We recommend audit report to contain disclosure of number of years, if more than one, for same Engagement Partner<sup>3</sup> along with the name. Furthermore, we do not see seven years<sup>4</sup> time-on period for Key Audit Partner as desirable unless permitted by the specific jurisdiction. In our opinion, at maximum three audit cycles of five years each may be permitted with a five-year cooling period after the fifth and the tenth, or as permitted by the local regulations. This could potentially be 15 out of a total of 25 years for audit team members.

<sup>1</sup> Section 200.13 cites examples of the engagement-specific safeguards. It includes “senior assurance team personnel”. Whereas, in our scope are all members of the audit team, depending on threat evaluation.

<sup>2</sup> Section 290.150C and its equivalent for assurance in Section 291.137D.

<sup>3</sup> We recommend the disclosure in audit report of number of times a Key Audit Partner has done the client as a further measure for Section 290.149A and its corresponding 291.137C. We recommend the same for Section 290.151 for extending by an additional year the tenure of Key Audit Partner because of exceptional circumstances. We also recommend the same disclosure for Section 290.153 where there are few having necessary knowledge and experience to serve as a KAP on the audit of a public interest entity.

<sup>4</sup> Section 290.150A.



3. Family and Personal Relationships with clients. <sup>5</sup>Interests<sup>6</sup> and relations (family and personal) of the team members with a client may be a significant threat to independence<sup>7</sup>. The reality warrants a specific reference in Section 290.148A<sup>8</sup> as a threat.

4. Pre-screen Audit Team Members<sup>9</sup> based on self-disclosure. Reinforce auditor's independence by pre-screening audit team members for conflict of interest or any other threats. Let members of the audit team to self-disclose or certify in writing to the firm of previous audit or assurance engagements on the audit client; and if there are circumstances (interests and relationships<sup>10</sup>) that may give rise to threats mentioned in the Code. The firm decides on these inputs before assigning anyone to the client. The members of the audit team bound to self-disclose for any fresh interest or relation created while the assignment is in progress.

5. Insert cross-references and make the text user-friendly by using plain English in the Code. Enclosure 1 to these comments shows the clean proposed sections original text with our thoughts. Also, merge near identical paras where possible (see our response to Q.13). User-friendly IESBA Code of Ethics with total reformatting and redrafting is recommended.

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<sup>5</sup> Section 220.11 terms it "generally necessary" to disclose the nature of the conflict of interest and related safeguards to clients affected by the conflict; to obtain their consent of the safeguards to reduce such threats to an acceptable level. The Board should consider "specific disclosure" as a rule.

<sup>6</sup> See section 220 of the Code for "Conflict of Interest".

<sup>7</sup> Section 200.7 lists examples of circumstances that create familiarity threats for a professional accountant in public practice include:

A member of the engagement team having a close or immediate family member who is a director or officer of the client.

A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.

A director or officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the engagement partner.

A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.

Senior personnel having a long association with the assurance client.

<sup>8</sup> Section 240.148B lists 'the closeness of the individual's personal relationship with senior management or those charged with governance' as a factor for evaluating significant threat. We recommend evaluation of all relationships, personal and family of all members of the audit team.

<sup>9</sup> Section 290.149A for audit and its corresponding section 291.137C for assurance clients.

<sup>10</sup> When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, a professional accountant in public practice shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that compliance with the fundamental principles is not compromised. Section 220.3 IESBA Code of Ethics for Professional Accountants.



## Specific Comments:

Note: Section references in parenthesis to questions supplied by us to facilitate tracking.

## Proposed changes to Section 290 and 291

### Section 290

#### General Provisions

1. Do the proposed enhancements to the general provisions in paragraph 290.148 provide more useful guidance for identifying and evaluating familiarity and self-interest threats created by long association? Are there any other safeguards that should be considered (Section 290.149A)?

The question requires comment on two related but separate aspects.

Useful guidance? Yes.

However, plain reading of the text of Section 290<sup>11</sup>.148A<sup>i</sup> leaves one with an impression as if there are only these two threats, whereas in our opinion, the fact is these are the two of the most prominent, among others, mentioned elsewhere in the Code.

Also, initiate a discussion on diminishing the threats to independence at the firm-client level. Let us comment light heartedly our serious concerns on the welding-like auditor-client loyalty. We see it as most serious threat to the auditor's independence not so far found curable without a regulatory intervention.

Additional safeguards?

1.1. The description of the threats to independence is incomplete without reference (and self-disclosing procedure) to the interests and relations (personal and family) between the audit team and the client.

The three circumstances mentioned<sup>12</sup> on how a familiarity threat may be created by individual's long association<sup>13</sup> contains no such references, as stated in the IESB Code and examples of familiarity threat in 200.7 (reproduced as a footnote in general comment 3).

<sup>11</sup> Our responses are equally applicable for its corresponding proposed Section 291.

<sup>12</sup> Section 290.148A and its corresponding section 291.137A.

<sup>13</sup> It reads as follows: "Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat may be created as a result of an individual's long association with: the audit client and its operations; the audit client's senior management; or the financial statement on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

Whereas in section 200.7



Familiarity and/or self-interest threat may rise in case of a personal relationship as in case where the AEP and the CFO have been associated in a formal relationship in the same audit firm as colleagues, senior-junior, etc in the audit firm<sup>14</sup> or at point in life at some education institution previously or are simply close friends<sup>15</sup>. We do not find this everyday reality of direct close personal relationship between individual and audit client (staff) reflected properly.

Our personal opinion is that the clients too prefer to appoint someone from the audit firm precisely because of familiarity reason.

The fact is that the members of audit engagement team look up to the clients audited as potential employers on exit from the firm; the audit firms also wish the same. The Board will do well to survey the phenomenon of how many of audit team members with long-association with audit client end up working on the other side of the table for them and why it is so. Hence, not addressing family or personal relationship between the members of the engagement team and audit client (staff) is significant from our point of view which aggravates the threat of long-association.

Whilst its not pragmatic to place a bar on employment of audit engagement team members with long-association to accept employment at the audit clients; the point here is to bring on audit file a record of facts that may affect auditor's independence because of audit engagement team member's family and personal relationships and to address them properly. The proposed changes will not ensure this happening (also see our general comment 3 above).

1.2 Bring in a robust mechanism to raise red flags for any threats to the audit independence by making each audit team member disclose, if any or certify, if there is no threat. On such basis, pre-screen audit members. (also see our general comment 3 above).

<sup>14</sup> See "Employment with an Audit Client" Section 290.132 onwards in the IESBA Code.

<sup>15</sup> 220.115 "Members of the audit team shall determine whether a self-interest threat is created by any known financial interests in the audit client held by other individuals including:

(a) Partners and professional employees of the firm, other than those referred to above, or their immediate family members; and

(b) Individuals with a close personal relationship with a member of the audit team.

Whether these interests create a self-interest threat will depend on factors such as:

The firm's organizational, operating and reporting structure; and

The nature of the relationship between the individual and the member of the audit team.



An action to secure independence at the firm level may not be there but for such mechanism<sup>16</sup>. Self-disclosure mechanism is specially significant for audit team members with long-association with an audit client. Its for the firm to decide whether there are sufficient safeguards in place to protect the independence of the auditor.

We recommend a formal mechanism to learn from the Audit Engagement Partner or any member of the audit team before or during the assignment if there are any threats which should be disclosed to the firm prior to the assignment.

1.3 Disclose in the audit report the name of the engagement partner and the total duration of association with the audit client (see our general comment 2).

Lastly, we may also point out that the last example of familiarity threat stated in 200.7 as in “senior personnel having long association with the assurance client”, omit the word “senior” as in 290.137A and add “audit or” before the word assurance.

*2. Should the General Provisions apply to the evaluation of potential threats created by the long association of all individuals on the audit team (not just senior personnel)?*

Yes.

There are many individuals involved in an audit and contribute by their roles in reaching to the audit opinion. The strength of the chain, in case of an audit, is its weakest link.

*3. If a firm decides that rotation of an individual is a necessary safeguard, do respondents agree that the firm should be required to determine an appropriate time-out period? See 290.149B; related 290.150C*

Agreed.

We find a robust mechanism for spotting red flags to be missing in the framework, which in turn prompts the firm to consider the option of rotation of audit team members on sound basis.

We recommend an annual review of the members of the audit team; with a highlight on those members of the audit team being assigned for more than a year.

Refer to our General Comment 1,3,4.

*Rotation of KAPs on PIEs*

*4. Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs? See Section 290.150A*

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<sup>16</sup> Section 200.12 cites examples of firm-wide safeguards which includes documentation of such matters; whereas we are for more specific mechanism.



No.

We recommend a maximum of three distinct audit cycles of five years each separated at the fifth and tenth year by five years<sup>17</sup>.

We recommend disclosure in the audit report of the number of years (periods) for the KAP.

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We recommend a similar disclosure in audit report for Section 290.153 which provides for an exemption from time-on period for firms not having sufficient personnel with necessary knowledge and experience to serve as Key Audit Partner.

*5. Do respondents agree with the proposal to extend the cooling-off period to five years for the engagement partner on the audit of PIEs? If not, why not, and what alternatives, if any, could be considered? See 290.150A.*

Yes.

We would rather like cooling period to be placed on the audit firm.

*6. If the cooling-off period is extended to five years for the engagement partner, do respondents agree that the requirement should apply to the audits of all PIEs?*

Yes. This should apply to all members of the audit team as a rule unless firm clears it.

*7. Do respondents agree with the cooling-off period remaining at two years for the EQCR and other KAPs on the audit of PIEs? If not, do respondents consider that the longer cooling-off period (or a different cooling-off period) should also apply to the EQCR and/or other KAPs? (Section 290.150A)*

Yes.

*8. Do respondents agree with the proposal that the engagement partner be required to cool-off for five years if he or she has served any time as the engagement partner during the seven year period as a KAP? (Section 290.150A)*

Yes. We consider the five year cooling period to be sufficient.

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<sup>17</sup> The Board must thoroughly revisit to see if mandatory audit rotation for the reasons of familiarity is possible. Those who perform audit should not be able to perform any other service. Audit should not be used as a foothold for getting further assignment, no matter how bona fide they may be.

The global history of our profession gives one an impression that some auditors do not wish to be independent of the audit client, otherwise how would such moves by the SEC in US and in other jurisdiction may be thwarted repeatedly.

Locally, when Securities and Exchange Commission of Pakistan enforced it, an audit firm here went to the Court and got a stay against rotation on the plea of free exercise of choice by the client; the matter gradually swept from the public view.



9. Are the new provisions contained in 290.150C and 290.150D helpful for reminding the firm that the principles in the General Provisions must always be applied, in addition to the specific requirements for KAPs on the audits of PIEs?

Yes.

These two paras can be merged without any significant loss of understanding, too.

10. After two years of the five-year cooling-off period has elapsed, should an engagement partner be permitted to undertake a limited consultation role with the audit team and audit client?

Yes.

11. Do respondents agree with the additional restrictions placed on activities that can be performed by a KAP during the cooling-off period? If not, what interaction between the former KAP and the audit team or audit client should be permitted and why? Section 290.150B

Yes.

12. Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?

Yes, if the same is disclosed in the Audit Report as well.

Section 290.151 is about extending the time-on period by one year for unforeseen circumstances. The questions: Is the event important enough to be brought to the attention of those who appoint auditors? Is it in public interest to do so? Would it contribute to the auditor independence?

## Section 291

### Long Association of Personnel with an Assurance Client

13. Do respondents agree with the corresponding changes to Section 291? In particular, do respondents agree that given the differences between audit and other assurance engagements, the provisions should be limited to assurance engagements “of a recurring nature” (Section 291.137A)?

Our comments for Section 290 are valid for the corresponding sections in Section 291. Apart from Section 291.137B, the rest are similar to those in Section 290. For example,



1. Last paras of 291.137A<sup>18</sup> and 290.148A<sup>19</sup> are almost identical; combine as one for audit and assurance, redraft, if possible.
2. Last para of 291.137B<sup>20</sup>; almost identical to 290.148C<sup>21</sup>. If you do not wish to omit it we suggest that you provide an additional line stating it is identical and reproduced; else omit and cross-reference.
3. 291.137C<sup>22</sup>=290.149A (only “assurance” comes in place of “audit”)

## Impact Analysis

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

We generally agree with the impact analysis.

We also fully appreciate the difficulty in harmonising and balancing at times the conflicting goals and many perceptions. However, ethics is one thing that stands on its own feet and proves its worth by the way it is implemented.

The proposed changes may be the “right balance” but its impact on the public perception is unlikely to “enhance the perception of stakeholders in the audit process” because of gaps, some of which we have attempted to point.

The issue is that the topic is so sensitive that once buried it will only reappear on the horizon after a lapse of many many years.

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<sup>18</sup> 291.137A “A self-interest threat may be created as a result of an individual’s concern about losing a longstanding assurance client of the firm or a desire to maintain a close personal relationship with the assurance client or a member of senior management.”

<sup>19</sup> 290.148A “A self-interest threat may be created as a result of an individual’s concern about losing a longstanding client of the firm or a desire to maintain a close personal relationship with a member of senior management or those charged with governance.”

<sup>20</sup> 291.137B “The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship of an individual and the assurance client would be reduced by the departure of the person who is the responsible party and the start of a new relationship.”

<sup>21</sup> 290.148C “The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship of an individual and a member of the client’s senior management would be reduced by the departure of that member of the client’s senior management and the start of a new relationship.”

<sup>22</sup> 291.137C “The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

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





“The IESBA is an independent standard-setting board that develops and issues high-quality ethical standards”; and the Board, member bodies, profession and us all should be ready to walk some distance together to attain that goal.

End of Comments.

Before concluding we invite Board to hold its meeting here. We will be honoured to be your host. We will “welcome” in our local language as well. خوش آمدید

Finally, we also wish to thank our dear Institute of Chartered Accountants of Pakistan for making available the facilities at the “Member’s Library”; this fine place is possibly in its last days, its dismantling/shifting earmarked for something more important.

Thank you.

Sincerely,

**Altat Noor Ali** Chartered Accountants.



## Enclosure 1.

The bold text shows changes proposed by us and the text *in italics and faded* from ED shows our proposed deletions.

### PROPOSED CHANGES TO SECTION 290 AND 291

#### Section 290

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

###### *General Provisions*

290.148A **Long association of personnel (including Partner Rotation) with an audit client may result in familiarity<sup>23</sup> and self-interest threats<sup>24</sup> among others<sup>25</sup>.** *which may impact an individual's objectivity and professional skepticism, may be created by using the same personnel on an audit engagement over a long period of time.*

*Although an understanding of an audit client and its environment is fundamental to audit quality, a*

**A familiarity threat may be created as a result of an individual's long association with:**

- The audit client and its operations;
- The audit client's senior management; or
- The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.
- **Family relationship.**<sup>26</sup>

A self-interest threat<sup>27</sup> may be created as a result of an individual's concern about losing a longstanding client of the firm or *a desire to maintain* a close personal relationship with a member of senior management or those charged with governance.

290.148B The significance of the threats will depend on **the over-all evaluation of the following** factors, *individually or in combination*, relating both to the individual and the audit client.

(a) Factors relating to the individual include:

- The overall length **and nature** of the individual's **family** relationship with the client;
- How long the individual has been a member of the audit team and the nature of the roles performed;
- The extent to which the individual has the ability to influence the outcome of the audit, for example by making key decisions;
- The closeness of the individual's personal relationship with **staff of the client including** senior management or those charged with governance; and
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

<sup>23</sup> See Section 200.03 for its description; See Section 200.7 for examples of familiarity threats for a professional accountant in public practice.

<sup>24</sup> See Section 200.03 for its description. See Section 200.4 for example of circumstances that create self-interest threat for a professional accountant in public practice.

<sup>25</sup> See Section 200.03 – 200.08 for a full description of threats to a professional accountant.

<sup>26</sup> See Section 290.126 onwards "Family and personal relationships"

<sup>27</sup> See Section 290.102 onwards describes different threats including those arising from financial interest etc.



(b) Factors relating to the audit client include:

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

290.148C The combination of two or more factors may **compound or diminish** *increase or reduce* the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship of an individual and a member of the client's senior management would be *reduced* **diminish** by *the his or her exit. departure of that member of the client's senior management and the start of a new relationship.*

290.149A **Evaluate** *The* significance of any threat *shall be evaluated* and **apply** safeguards *applied when necessary* to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Rotating the individual off the audit team;
- Changing the role of the individual on the audit team;
- Having a professional accountant who was not a member of the audit team review the work of the individual; or
- Performing regular independent internal or external quality reviews of the engagement including an engagement quality control review.
- **Obtaining and updating self-disclosure of family or personal relationship from each member of the audit team<sup>28</sup>.**
- **Pre-screening audit members prior to commencing of the audit.**
- **Disclosing in the audit report the time-on period of the Key Audit Partner.**

290.149B If *a firm decides that* the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine *an* **sufficient duration** *appropriate period* during which the individual shall not participate in the audit engagement or exert direct influence on the outcome of the audit engagement. The period shall be **reviewed** *of sufficient duration* to allow the familiarity and self-interest threats to independence to be eliminated or reduced to an acceptable level. *In the case of a public interest entity paragraphs 290.150A to 290.153 also apply.*

*Audit Clients that are Public Interest Entities<sup>29</sup>*

290.150A In respect of an audit of a public interest entity, an individual shall not be a key audit partner for

<sup>28</sup> Section 200.12 requires firms to have "policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients".

<sup>29</sup> According to Section 290.25 " For the purpose of this section, public interest entities are:

(a) All listed entities; and

(b) Any entity:

(i) Defined by regulation or legislation as a public interest entity; or

(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator."



more than *seven* **five** years. After such time:

- An individual who has acted as the engagement partner at any time during the **five** *seven* year period shall not be a member of the engagement team or provide quality control for the audit engagement for five years; and
- Any other key audit partner shall not be a member of the engagement team or provide quality control for the audit engagement for two years.

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

- Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the previous year where this remains relevant to the audit). However, if an individual who has acted as the engagement partner is also, or becomes, an individual whose primary responsibility is to be consulted within a firm on a technical or industry-specific issue, the individual may provide such consultation to the engagement team or client after two years has elapsed, provided that such consultation is in respect of issues, transactions or events that were not previously considered by that individual in the course of acting as engagement partner;
- Be responsible for leading or coordinating the firm's professional services to the audit client or overseeing the firm's relationship with the audit client; or
- Undertake any other role or activity *not referred to above with respect to the audit client* including the provision of non-assurance services, that would result in *the individual*:
  - o *Having* **s**Significant or frequent interaction with senior management or those charged with governance; or
  - o **An ability to** *E*exercising direct influence on the outcome of the audit engagement.

The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the firm, such as that of the Senior or Managing Partner.

290|150C *There may be situations where a* **A firm shall pre-screen all members of the audit team on an annual basis prior to commencing an assignment with long-association** , *based on an evaluation of threats in accordance with the general provisions above, and may* concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time-**on period is not exhausted** *served as a key audit partner is less than seven years*. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the audit engagement prior to an individual becoming a key audit partner.

290|150D **A firm may also** *C*consideration shall also be given to the significance of any threats created by the long association of a member of the audit team who is not a key audit partner with an audit client. **Apply** *S*safeguards shall be applied when necessary to eliminate the threat or reduce it to an acceptable level **that**. *Safeguards* may involve the rotation of a partner or other individual off the audit team at any point during *their association with* the audit engagement.

290|151 *Despite paragraph 290.150A, k***Key audit partners** whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards **and the matter disclosed in the audit report**. *For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation may was not be possible, as might be the case* due to serious illness of the intended engagement partner. **In such case,** *T*the firm shall discuss with those charged with governance



the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

290.152 When an audit client becomes a public interest entity, the length of time the individual has served the audit client as a key audit partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for five years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit client as a key audit partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement **as long as the matter is disclosed in the audit report.**

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290.153 When a firm has only a few **individuals** *people* with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. *If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation* In such circumstances, an individual may *remain* **be** a key audit partner for more than **five** *seven* years, *in accordance with such regulation*, provided that the **matter is disclosed in the audit report and the** independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

## Section 291

### Long Association of Personnel with an Assurance Client

291.137A **Long association of personnel with an assurance client may result in** *familiarity and self-interest threats among others., which may impact an individual's objectivity and professional skepticism, may be created by using the same individual on an assurance engagement of a recurring nature over a long period of time.*

A familiarity threat may be created as a result of an individual's long association with:

- The assurance client; or
- The subject matter and subject matter information of the assurance engagement.
- **Family relationship.**

A self-interest threat may be created as a result of an individual's concern about losing a longstanding assurance client of the firm or *a desire to maintain* a close personal relationship with the assurance client or a member of senior management.

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

- The nature of the assurance engagement;
- How long the individual has been a member of the assurance team and the nature of the roles performed;
- The extent to which the individual has the ability to influence the outcome of the assurance engagement, for example by making key decisions;
- The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management;
- The nature, frequency and extent of interaction between the individual and the assurance client;
- Whether there have been any changes in the individual or individuals who are the



responsible party or, if relevant, senior management; and

- Whether the nature or complexity of the subject matter or subject matter information has changed.

The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship of an individual and the assurance client would be reduced by the departure of the person who is the responsible party and the start of a new relationship.

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

- Rotating the individual off the assurance team;
- Changing the role of the individual on the assurance team;
- **Self-disclosure by the audit team members on any threats to independence specially because of family and personal relationship with the staff of the client.**
- Having a professional accountant who is not a member of the assurance team review the work of the individual; or
- Performing regular independent internal or external quality reviews of the engagement.

291.137D *If a* **A** firm decides **on annual basis and if** *that* the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team or provide quality control for the assurance engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats **to independence** to be eliminated or reduced to an acceptable level.