

**Long Association of Personnel (Including Partner Rotation)  
with an Audit Client****(CLEAN)***General Provisions Applicable to All Audit Clients*

290.148A Familiarity and self-interest threats, which may impact an individual's objectivity and professional skepticism, may be created and may increase in significance when an individual is involved in an audit engagement over a long period of time.

Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat may be created as a result of an individual's long association as a member of the audit team with:

- The audit client and its operations;
- The audit client's senior management; or
- The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance, and which may inappropriately influence the individual's judgment.

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

(a) Factors relating to the individual include:

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

(b) Factors relating to the audit client include:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed;
- Whether there have been any recent changes in senior management or those charged with governance; and

- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual may have with senior management or those charged with governance.
- 290.148C The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management and the start of a new relationship.
- 290.149A The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
- Rotating the individual off the audit team;
  - Changing the role of the individual on the audit team or the nature of the tasks they perform;
  - Having a professional accountant who was not a member of the audit team review the work of the individual;
  - Performing regular independent internal or external quality reviews of the engagement; or
  - Performing an engagement quality control review.
- 290.149B The purpose of changing the role of an individual on an audit team, or rotating an individual off the audit team, is to allow the familiarity and self-interest threats arising from the interests and relationships of that individual to be reduced or eliminated. This also allows an incoming individual, such as a new engagement partner, to take a fresh look at the audit engagement and to perform their work free of influence and with objectivity.
- 290.149C If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team, provide quality control for the audit engagement, or consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events. The period shall be of sufficient duration to allow the familiarity and self-interest threats to independence to be eliminated or reduced to an acceptable level. In the case of a public interest entity paragraphs 290.150A to 290.153 also apply.

*Audit Clients That Are Public Interest Entities*

- 290.150A In respect of an audit of a public interest entity, an individual shall not be a key audit partner for more than seven years. After such time:
- An individual who has acted as the engagement partner during the seven year period for either four or more years or for at least two out of the last three years shall not be a member of the engagement team or provide quality control for the audit engagement for five consecutive 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 consecutive years.

In determining the number of continuous years that an individual has been a key audit partner, the length of the relationship shall, where relevant, include time whilst the individual was a key audit partner on that engagement at a prior audit firm.

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, and there is no other equivalent expertise available, the individual may provide such consultation to the engagement team after two years has elapsed, provided that such consultation is in respect of issues, transactions or events that were not previously considered by that individual in the course of acting as engagement partner;
- Be responsible for leading or coordinating the firm's professional services to the audit client or overseeing the firm's relationship with the audit client; or
- Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:
  - Having significant or frequent interaction with senior management or those charged with governance; or
  - Exerting direct influence on the outcome of the audit engagement.

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

290.150C There may be situations where a firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the audit engagement prior to an individual becoming a key audit partner.

290.150D Consideration shall also be given to the significance of any threat created by the long association of a member of the audit team who is not a key audit partner with an audit client. Safeguards shall be applied when necessary to eliminate the threat or reduce it to an acceptable level. Safeguards may involve the rotation of a partner or other individual off the audit team at any point during their association with the audit engagement.

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

discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

- 290.152 When an audit client becomes a public interest entity, the length of time the individual has served the audit client as a key audit partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for five years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit client as a key audit partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.
- 290.153 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.