

## Long Association—Proposed Changes to Section 290 (Mark-up from Re-Exposure Draft)<sup>1</sup>

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

#### *General Provisions*

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.

290.1498B The significance of the threats will depend on factors, individually or in combination, relating to both the individual and the audit client.

(a) Factors relating to the individual include:

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

<sup>1</sup> Text shaded in gray represents provisions closed-off in December 2015. It is not open for further substantive discussion.

(b) Factors relating to the audit client include:

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

290.15048C 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.

290.15149A The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

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

290.15249B If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team, provide quality control for the audit engagement, or exert direct influence on the outcome of the audit engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to independence to be eliminated or reduced to an acceptable level. In the case of a public interest entity, paragraphs 290.1530A to 290.16853 also apply.

~~Audit Clients That Are Listed Entities~~ Audits of Public Interest Entities

290.1530A In respect of an audit of a ~~listed~~ public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, not be a key audit partner for a period of more than seven cumulative years (the "time-on" period);

- (a) The engagement partner;
- (b) The individual appointed as responsible for the engagement quality control review; or
- (c) Any other key audit partner role.

aAfter which the time-on period, the individual shall serve a cooling-off period in accordance with the provisions in paragraphs 290.155 – 290.163.

~~Subject to paragraph 290.150D the cooling-off period shall be:~~

~~Five consecutive years for a key audit partner who during the time-on period acted as the engagement partner or the individual responsible for the engagement quality control review, in either capacity or a combination of these roles, for either (a) four or more years or (b) at least two out of the last three years.~~

~~Two consecutive years for a key audit partner who acted in any other combination of key audit partner roles during the time-on period.~~

290.154 In calculating the time-on period, the count of years may be restarted if the individual ceases to act in any one of the above roles for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs 290.155 to 290.157 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as engagement partner for four years followed by five consecutive years off the audit engagement may thereafter return to the same audit engagement for a cumulative period of seven years in any one of the roles in paragraph 290.153(a) – (c) above or a combination of such roles.

#### Cooling-off Period

290.155 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

290.156 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

290.157 If the individual has acted in any other capacity as a key audit partner for seven cumulative years, the cooling-off period shall be two consecutive years.

#### Service in a combination of key audit partner roles

290.158 If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more years, the cooling-off period shall be five consecutive years.

290.159 If the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more years, the cooling-off period shall, subject to paragraph 290.160(a), be three consecutive years.

290.160 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more years in aggregate during the time-on period, the cooling-off period shall be:

(a) Five consecutive years where the individual has been the engagement partner for three or more years; or

(b) Three consecutive years in the case of any other combination.

290.161 If the individual acted in any other combination of key audit partner roles, the cooling-off period shall be two consecutive years.

*Audit Clients that are Public Interest Entities other than Listed Entities*

290.150B ~~In respect of an audit of a public interest entity that is not a listed entity, an individual shall not be a key audit partner for more than seven years (“the time-on period”), after which the individual shall serve a cooling-off period.~~

Subject to paragraph 290.150D, the cooling-off period shall be:

- ~~Five consecutive years for a key audit partner who during the time-on period acted as the engagement partner for either (a) four or more years or (b) at least two out of the last three years.~~
- ~~Three consecutive years for a key audit partner who during the time-on period was responsible for the engagement quality control review for either:~~
  - (a) ~~Four or more years; or~~
  - (b) ~~At least two out of the last three years; or~~
  - (c) ~~Who acted in a combination of engagement partner and engagement quality control review roles for four years or more or at least two out of the last three years.~~
- ~~Two consecutive years for a key audit partner who acted in any other combination of key audit partner roles during the time-on period.~~

*Audit Clients that are Public Interest Entities*

Service at a Prior Firm

290.16250C In determining the number of years that an individual has been a key audit partner under paragraphs 290.153 to 290.154, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

Alternative Jurisdictional Approaches to Addressing Threats Created by Long Association

290.16350D ~~An independent standard setter, regulator or~~ A legislative body or regulator (or organization authorized by such legislative body or regulator) may have evaluated the familiarity and self-interest threats to independence that arise from long association with an audit client and determined that a different set or combination of ~~safeguards requirements~~ to those required established in this Code are ~~Section is~~ appropriate to reduce the threats to an acceptable level. In such circumstances, the cooling-off periods of five consecutive years specified in paragraphs ~~290.150A and 290.150B~~ 290.155, 290.158 and 290.160 may be reduced to three consecutive years if an independent standard setter, regulator or legislative body has in relation to the audit of that public interest entity:

- (a) The legislative body or regulator (or organization authorized by such legislative body or regulator) has ~~Established~~ requirements for either:
  - (i) A time-on period shorter than seven years during which an individual is permitted to be the engagement partner ~~or the individual responsible for the engagement quality control review;~~ or
  - (ii) Mandatory firm rotation or mandatory re-tendering of the audit appointment after a predefined period at least every ten years; ~~or~~

(iii) Joint audits; and

(ba) ~~Implemented a~~ An independent regulatory inspection regime operates in the jurisdiction;  
~~and~~

#### Restrictions on Activities During the Cooling-off Period

290.16450E For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be a member of the engagement team or provide quality control for the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit). However, if an individual who has acted as the engagement partner or the individual responsible for the engagement quality control review is also, or becomes, an individual whose primary responsibility is to be consulted within a firm on a technical or industry-specific issue, the individual may provide such technical consultation to the engagement team provided:
  - (i) Two years have elapsed since the individual was a member of the engagement team or the individual responsible for the engagement quality control review;
  - (ii) There is no other partner within the firm expressing the audit opinion with the expertise to provide the advice; and
  - (iii) Such consultation is in respect of an issue, transaction or event that was not previously considered by that individual in the course of acting as the engagement partner or the individual responsible for the engagement quality control review;
- (c) Be responsible for leading or coordinating the firm's professional services to the audit client or overseeing the firm's relationship with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:
  - (i) Having significant or frequent interaction with senior management or those charged with governance; or
  - (ii) Exerting direct influence on the outcome of the audit engagement.

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

#### Other Matters

290.1650F 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.

- 290.16654 Despite paragraphs ~~290.150A and 290.150B~~ 290.153 – 290.161, 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.
- 290.16752 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 a period of five cumulative 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 a period of six or more cumulative 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.
- 290.16853 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.

## Changes to Section 291 (Mark-up from Re-Exposure Draft)

### Long Association of Personnel with an Assurance Client

291.137A 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 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.

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

291.138~~7B~~ The significance of the threats will depend on factors, considered individually or in combination, such as:

- The nature of the assurance engagement.
- How long the individual has been a member of the assurance team, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, 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 the assurance client or, if relevant, senior management.
- The nature, frequency and extent of interaction between the individual and the assurance client.
- Whether the nature or complexity of the subject matter or subject matter information has changed.
- Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management.

291.139~~7C~~ 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 the assurance client would be reduced by the departure of the person who is the responsible party and the start of a new relationship.

291.14037D The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards in relation to a specific engagement include:

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

291.14137E 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 assurance engagement, or exert direct influence on the outcome of the assurance engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be eliminated or reduced to an acceptable level.