

*This document sets out the differences between the proposed New Zealand exposure draft and the international requirements to illustrate the minor compelling reason changes proposed. New Zealand additions and deletions are shown by way of underline and strike through.*

## SECTION 290

### INDEPENDENCE— AUDIT AND REVIEW ENGAGEMENTS

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

##### *General Provisions*

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

Although an understanding of an audit or review 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 or review team with:

- The audit or review client and its operations;
- The audit or review 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~~judgement.

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

(a) ~~(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 or review, for example, by making key decisions or directing the work of other members of the engagement team.
- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) ~~(b)~~ Factors relating to the audit or review 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~~ organisation which impact the nature, frequency and extent of interactions the individual may have with senior management or those charged with governance.

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

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

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

290.152 If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team or provide quality control for the audit or review engagement or exert direct influence on the outcome of the audit or review engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to independence to be eliminated or reduced to an acceptable level. In the case of a public interest entity, paragraphs 290.153 to 290.168 also apply.

### *Audits or Reviews of Public Interest Entities*

290.153 In respect of an audit or review of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, 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.

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

290.154 ~~290.154~~—In calculating the time-on period, the count of years cannot be restarted unless 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 three years off can only act thereafter as a key audit partner on the same audit or review engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph 290.158.

#### Cooling-off Period

290.155 ~~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 ~~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 ~~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 ~~290.158~~—If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

290.159 ~~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 cumulative years, the cooling-off period shall, subject to paragraph 290.160(a), be three consecutive years.

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

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

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

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

#### Service at a Prior Firm

290.162 ~~290.162~~—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.

#### Position where Shorter Cooling-off Period is Established by Law or Regulation

290.163 ~~290.163~~—Where a legislative body or regulator (or ~~organization authorized~~organisation authorised or ~~recognized~~recognised by such legislative body or regulator) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs 290.155, 290.158 and 290.160(a) provided that the applicable time-on period does not exceed seven years.

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

290.164 ~~290.164~~—For the duration of the relevant cooling-off period, the individual shall not:

- (a) ~~(a)~~—Be a member of the engagement team or provide quality control for the audit or review engagement;
- (b) ~~(b)~~—Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit or review 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 or review);
- (c) ~~(c)~~—Be responsible for leading or coordinating the firm's professional services to the audit or review client or overseeing the firm's relationship with the audit or review client; or
- (d) ~~(d)~~—Undertake any other role or activity not referred to above with respect to the audit or review client, including the provision of non-assurance services, that would result in the individual:
  - (i) ~~(i)~~—Having significant or frequent interaction with senior management or those charged with governance; or
  - (ii) ~~(ii)~~—Exerting direct influence on the outcome of the audit or review 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

290.165~~290.165~~ 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 or review engagement prior to an individual becoming a key audit partner.

290.166 ~~290.166~~—Despite paragraphs 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 or review 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.

290.167 ~~290.167~~ When an audit or review client becomes a public interest entity, the length of time the individual has served the audit or review 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 or review 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 or review 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.

290.168 ~~290.168~~ When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit or review 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 other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

## SECTION 291

### INDEPENDENCE—OTHER ASSURANCE ENGAGEMENTS

#### Long Association of Personnel with an Assurance Clients

##### ~~291.137~~—General Provisions

291.137 Familiarity and self-interest threats, which may impact an individual's objectivity and professional ~~skepticism~~scepticism, 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~~judgement.

291.138 ~~291.138~~—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 ~~291.139~~—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.

291.140 ~~291.140~~—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~~ assurance practitioner 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.

291.141 ~~291.141~~—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 or 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 independence to be eliminated or reduced to an acceptable level. In the case of a public interest entity, paragraphs NZ291.141.1 to NZ291.141.15 also apply.

## **Effective Date**

### Assurance Engagements of Public Interest Entities

NZ291.141.1 In respect of an assurance engagement for a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time on period”)

(d) The engagement partner;

(e) The individual appointed as responsible for the engagement quality control review;  
or

(f) Any other key assurance partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs NZ291.141.3 – NZ291.141.10.

NZ291.141.2 In calculating the time-on period, the count of years cannot be restarted unless 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 NZ291.41.3 to NZ291.141.5 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 three years off can only act thereafter as a key audit partner on the same audit or review engagement for three further years

(making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph NZ291.141.6.

#### Cooling-off Period

NZ291.141.3 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

NZ291.141.4 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.

NZ291.141.5 If the individual has acted in any other capacity as a key assurance partner for seven cumulative years, the cooling-off period shall be two consecutive years.

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

NZ291.141.6 If the individual acted in a combination of key assurance partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

NZ291.141.7 If the individual acted in a combination of key assurance partner roles and served as the key assurance partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall, subject to paragraph NZ291.141.8(a), be three consecutive years.

NZ291.141.8 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years 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.

NZ291.141.9 If the individual acted in any other combination of key assurance partner roles, the cooling-off period shall be two consecutive years.

#### Service at a Prior Firm

NZ291.141.10 In determining the number of years that an individual has been a key assurance partner under paragraphs NZ291.141.1 to NZ291.141.2, the length of the relationship shall, where relevant, include time while the individual was a key assurance partner on that engagement at a prior firm.

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

NZ291.141.11 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 assurance engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the assurance 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 engagement);



- (c) Be responsible for leading or coordinating the firm's professional services to the assurance client or overseeing the firm's relationship with the assurance client; or
- (d) Undertake any other role or activity not referred to above with respect to the assurance 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 directly influence on the outcome of the 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

NZ291.141.12 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 assurance partner to continue in that role even though the length of time served as a key assurance 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 assurance engagement prior to an individual becoming a key assurance partner.

~~290.148~~ Despite paragraphs NZ291.141.1-NZ291.141.9, key assurance 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 assurance partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key assurance partner may remain in that role on the assurance 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.

NZ291.141.13 When an assurance client becomes a public interest entity, the length of time the individual has served the assurance client as a key assurance 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 assurance client as a key assurance 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 assurance client as a key assurance 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.

NZ291.141.14 When a firm has only a few people with the necessary knowledge and experience to serve as a key assurance partner on the assurance engagement of a public interest entity, rotation of key assurance 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 assurance partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified other requirements which are to be applied, such as the length of time that the key assurance partner may be exempted from rotation or a regular independent external review.

#### EFFECTIVE DATE

Subject to the transitional provision below, paragraphs 290.148 to 290.168 are effective for audits of financial statements for periods beginning on or after December 15, 2018. Paragraphs 291.137 to 291.141 are effective as of December 15, 2018. Early adoption is permitted. Paragraph 290.163 shall have effect only for audits of financial statements for periods beginning prior to December 15, 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.