



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

EXPOSURE DRAFT NZAuASB 2017-1

PROPOSED AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 (REVISED) PROVISIONS ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

(ED NZAuASB 2017-1)

Invitation to Comment

May 2017

Table of Contents

| | Page |
|--|----------|
| Information for Respondents | 3 |
| List of Abbreviations..... | 4 |
| Questions for Respondents..... | 5 |
| 1. Introduction | 6 |
| 1.1 Purpose of this Invitation to Comment | 6 |
| 1.2 Background | 6 |
| 1.3 Timeline and Next Steps..... | 6 |
| 2. Overview of ED NZAuASB 2017-1 | 7 |
| 2.1 Key changes made by IESBA..... | 7 |
| 2.2 New Zealand application..... | 7 |
| 2.3 Proposed New Zealand specific amendments..... | 12 |
| 2.4 Effective Date and transitional provisions..... | 13 |
| ED NZAuASB 2017-1 Proposed Amendments to PES 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client | |

Information for Respondents

Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising amendments to PES 1 (Revised).

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz
(please include the title of the Exposure Draft in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is 31 July 2017.

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

¹ The NZAuASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting auditing and assurance, including professional and ethical, standards.

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

| | |
|----------|--|
| ED | Exposure Draft |
| EP | Engagement partner |
| EQCR | Engagement quality control reviewer |
| FMA | Financial Markets Authority |
| IESBA | International Ethics Standard Board for Accountants |
| ISA (NZ) | International Standard on Auditing (New Zealand) |
| NZAuASB | New Zealand Auditing and Assurance Standards Board of the External Reporting Board |
| OAG | Office of the Auditor-General |
| PES | Professional and Ethical Standard |
| PIE | Public Interest Entity |

Questions for Respondents

| | Paragraphs |
|---|------------|
| 1. Do you agree with the proposals to adopt the revised international requirements dealing with long association? | 10 |
| 2. Do you agree that: | |
| (a) The New Zealand PIE definition remains appropriate in light of the international changes made to the long association provisions? | |
| (b) applying the revised requirements to all PIEs as defined in New Zealand is in the public interest? | |
| If not, please explain why and for which entities. Please expand on whether your concerns are related to auditor supply pressures (quantified where possible), or unintended consequences, or both. It is important we have evidence to justify our decisions. <i>Please bear in mind that the PIE requirements extend beyond the long association requirements, and therefore the impact of amending the PIE definition is not limited to long association considerations.</i> | 11-23 |
| 3. Do you consider that it is in the public interest to retain entities that voluntarily report using the tier 1 reporting requirements within the New Zealand PIE definition? | |
| If not, do you consider that including such entities within the New Zealand PIE definition: | |
| (a) creates even further auditor supply pressures, that are contrary to, rather than in the public interest? | 24-27 |
| (b) has any other unintended consequences? | |
| It is important that we have evidence to justify any changes so please explain why, including where possible evidence to support the number of entities that are voluntary PIEs, and explanations as to why entities elect to do so, to support your view that it is not in the public interest to include these entities as PIEs. | |
| 4. For dual listed entities (listed on the NZX and ASX), do you consider there to be unintended consequences of having different rotation requirements for the engagement partner for listed entities in New Zealand and Australia? If so, please explain. | 28-30 |
| 5. Do you agree with the New Zealand proposal to align the auditor rotation requirements for audits of financial statements and other recurring assurance engagements for public interest entities? If not, why not? | 31-35 |
| 6. The transitional provisions provide for an alternative cooling off period permitted under legislation or regulation that will have effect for audits of financial statements for periods beginning prior to 15 December 2023. The NZAuASB requests feedback on the impact of this transitional provision in the New Zealand context. | 36-38 |
| 7. Do you consider any further compelling reason amendments are needed? If so, what amendments should be made and why? | |
| 8. Do you have any other comments on ED NZAuASB 2017-1? | |

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment is to seek comments on the proposals in ED NZAuASB 2017-1 *Proposed Amendments to PES 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client* (the ED).

1.2 Background

2. The IESBA has recently completed its project to review the long association provisions of the International Code of Ethics to ensure they continue to provide robust and appropriate safeguards against familiarity and self-interest threats arising from long association with an audit client.
3. In August 2014, the IESBA issued an exposure draft *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*. In February 2016, the IESBA issued a *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*. In January 2017, the IESBA issued a close off document of the finalised amended provisions.
4. The NZAuASB has previously sought feedback on these international exposure drafts from their New Zealand constituents, which informed the New Zealand submission to the IESBA.
5. The NZAuASB's strategic approach is to adopt those applicable international auditing standards, including ethical standards issued by the IESBA, and to consider modifying those standards only if there are compelling reasons to do so. This ensures we remain internationally competitive while ensuring those standards reflect our New Zealand conditions. The NZAuASB generally considers that the compelling reasons test for modifications in the public interest is triggered where the international standard does not reflect, or is not consistent with New Zealand regulatory arrangements or principles and practices that are considered appropriate in New Zealand. Any modification must result in a standard the application of which results in effective and efficient compliance with the legal framework in New Zealand and the modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.
6. Given the significance of the proposals for New Zealand, the NZAuASB has previously indicated its intention to consult separately on any proposed New Zealand modifications to the international long association provisions, but has delayed making any decisions about whether or what modifications may be necessary until the international provisions were finalised.
7. This exposure draft seeks feedback proposing minor amendments to the international requirements as well as whether additional amendments are necessary.

1.3 Timeline and Next Steps

8. Submissions on ED NZAuASB 2017-1 are due by 31 July 2017. Information on how to make submissions is provided on page 3 of this Invitation to Comment.

9. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue amendments to PES 1 (Revised).

2. Overview of ED NZAuASB 2017-1

2.1 Key changes made by IESBA

10. The amended long association provisions in the International Code of Ethics:
- a. Strengthen the general provisions applicable to all audit engagements regarding the threats created by long association;
 - b. Retain the maximum period that a key audit partner can remain in that role at 7 cumulative years ("the time-on period");
 - c. Increase the mandatory "cooling off" period, from two years to five years, for the EP on the audit of a PIE;
 - d. Increase the mandatory cooling off period, from two years to three years, for the EQCR on an audit of a PIE. There is no distinction between listed and non-listed PIEs;
 - e. Retain the cooling off period for other key audit partners at two years;
 - f. Determine the cooling off period where a key audit partner has served in a combination of roles during the time on period;
 - g. Strengthen restrictions on the type of activities that can be undertaken with respect to the audit client and audit engagement by any former key audit partner during the cooling-off period;
 - h. Permit a shorter cooling off period for the EP where a shorter cooling-off period is established in law or regulation, however this permission shall have effect only for audits of financial statements for periods beginning prior to December 15, 2023; and
 - i. Require the auditor to obtain the concurrence of those charged with governance regarding the application of certain exceptions to the rotation requirements.

The NZAuASB proposes to adopt these key changes in amending the relevant sections of PES 1 (Revised) to align the New Zealand requirements with the revised international requirements. Adoption of the revised requirements will ensure that the New Zealand rotation requirements remain at least as stringent as the international Code of Ethics.

The ED has been prepared indicating what changes are proposed to the existing New Zealand requirements by way of strike-through and underlined text in order to bring the New Zealand Code in line with the revised international requirements.

Question for respondents

1. Do you agree with the proposal to adopt the revised international requirements dealing with long association?

2.2 New Zealand application

11. The application of the revised long association provisions has the biggest impact for audits of public interest entities. The NZAuASB is aware that the amendments finalised by the IESBA will have an impact on audit firms in New Zealand, and has therefore considered the implications for each sector included in the New Zealand PIE definition as compared to similar entities in other jurisdictions.

Public Interest Entity Definition

12. The International Code of Ethics defines PIEs (section 290.25) as:
- 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.
13. The International Code also states (in section 290.26) that:
- “Firms and member bodies are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:
- The nature of the business, such as holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
 - Size; and
 - Number of employees.
14. The way in which PIEs are defined varies by jurisdiction. The only type of entity universally included is listed entities. Other common types of entities referred to include:
- Entities with revenue or assets over a predetermined level;
 - Regulated financial entities and other credit institutions;
 - Large not-for-profit entities;
 - Investment funds;
 - Some publicly owned entities.
15. The NZAuASB has previously consulted on the appropriate definition of PIEs in New Zealand. The definition of PIEs in PES 1 (Revised) (in section NZ290.25) is:
- “Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or

are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:

- Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1.”

16. The NZAuASB has considered the estimated number of entities included within the PIE definition across the for-profit, public sector and not-for-profit sectors in New Zealand, as well as the estimated number of licensed auditors. The purpose of this analysis was to better understand the implications of the revised rotation requirements in the New Zealand context.
17. The following provides a snapshot of how the NZAuASB has analysed the possible impact of the rotation requirements and the PIE definition in New Zealand:

| Tier 1 For Profit Accounting Requirements | | | | Tier 1 PBE Accounting Requirements | | |
|---|---|---|--|---|--|---|
| Listed issuers | Other FMC reporting entities considered to have a higher level of public accountability ² | Large for-profit public sector entity | May opt down, but voluntarily applies tier 1 | Large public sector entity | Large not-for profit entity | Other FMC reporting entities considered to have a higher level of public accountability |
| Both listed debt and equity | For example: <ul style="list-style-type: none"> • Registered banks • Insurers • Credit unions • Building societies • Licensed derivative issuers • Licensed MIS managers • Recipients of money from a conduit issuer | For example: <ul style="list-style-type: none"> • Port companies • Energy companies • Airports • State owned enterprise and Mixed ownership companies | | For example: <ul style="list-style-type: none"> • Large DHBs • Large government departments • Large crown agents • Large city /district/ regional councils • Crown tertiary education institutions | For example large registered charities | |

18. The NZAuASB is aware that implementing the IESBA’s changes in relation to PIEs as defined in New Zealand may result in auditor supply pressures, especially as the New Zealand definition includes many smaller FMC reporting entities as well as listed issuers, large FMC reporting entities and large public benefit entities. The

² A FMC reporting entity considered to have a higher level of public accountability is defined as a FMC reporting entity or a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:

- Under section 461K of the Financial Markets Conduct Act 2013; or
- By notice issued by the Financial Markets Authority (FMA) under section 461L(1)(1) of the Financial Markets Conduct Act 2013.

Information on FMC designations is available on the FMA website.

NZAuASB notes that in New Zealand the number of non-listed FMC reporting entities considered to have a higher level of public accountability far exceeds the number of listed entities. This is a reflection of the New Zealand economy.

19. As defined, New Zealand PIEs include entities that are likely to have a large number and wide range of stakeholders, hold assets in a fiduciary capacity, or are large. In line with the international guidance described in section 290.26 of the international code, the NZAuASB continues to believe that the New Zealand definition of a PIE is appropriate in the New Zealand context to protect the public interest.
20. In response to the international exposure drafts, the NZAuASB raised its own concerns that the stricter rotation requirements may create auditor supply challenges. The NZAuASB acknowledges that there may be supply challenges but considers that, despite these challenges, the revisions are workable and it is in the public interest to apply the finalised IESBA long association requirements to all PIEs as currently defined in New Zealand. Not doing so may have unintended consequences, including a lack of consistency for similar sized entities. It will also impact on other independence requirements, as the PIE requirements are not only related to long association requirements. In considering whether any entities should be excluded from the New Zealand PIE definition, the NZAuASB did not consider that the general provisions in PES 1 (Revised) included sufficiently robust requirements for entities with public accountability in New Zealand.
21. The NZAuASB also does not consider that it would be conceptually appropriate or within the spirit of the international requirements to draw distinctions in the long association provisions for different types of PIEs as defined in New Zealand. The IESBA enables each jurisdiction to define a PIE as appropriate for that jurisdiction. However, the international code does not make distinctions between types of entities that are defined as a PIE (for example, there are no distinctions between listed and non-listed PIEs). Retaining a consistent approach to all PIEs is favourable as it provides clarity, consistency and stability. Where an entity has been included within the PIE definition, all the PIE requirements apply to the auditor of that entity.
22. If these changes do create supply pressures, audit firms will need time to consider the implications, especially in remote locations or in industries that require specialist expertise.
23. The NZAuASB is working with the OAG to understand the impact of the revisions in the public sector. The NZAuASB will continue discussions with the OAG to investigate any supply pressures, or any other unintended consequences and how best any issues can be addressed in the public sector.

Question for respondents

2. Do you agree that:

- a. The New Zealand PIE definition remains appropriate in light of the international changes made to the long association provisions?**
- b. Applying the revised requirements to all PIEs as defined in New Zealand is in the public interest?**

If not, please explain why and for which entities. Please expand on whether your concerns are related to auditor supply pressures (quantified where possible), or unintended consequences, or both. It is important we have evidence to justify our decisions. *Please bear in mind that the PIE requirements extend beyond the long association requirements, and*

therefore the impact of amending the PIE definition is not limited to long association considerations.

24. The NZAuASB has identified one possible exception to its overall view that in light of the revised long association provisions the existing New Zealand PIE definition remains appropriate and in the public interest.
25. The existing New Zealand PIE definition includes entities that are legally entitled to but do not elect to opt down (i.e., elect to report under Tier 1 and thus become PIEs voluntarily). While the NZAuASB has a reasonable understanding of the number of such entities in the public sector, and the potential consequences of applying the revised long association changes to them, it has so far been unable to reliably quantify the number of such entities in the for-profit or NFP sectors.
26. The NZAuASB is seeking further information to inform its understanding of entities that are "voluntary PIEs". The NZAuASB is particularly interested in the number of such entities and the reasons why these entities voluntarily apply the tier 1 reporting requirements.
27. The NZAuASB considers that excluding "voluntary PIEs" from the New Zealand PIE definition may still be consistent with the IESBA's PIE definition and application guidance. These entities may not have a large number nor a wide range of stakeholders, do not hold assets in a fiduciary capacity, and are not considered to be large.

Question for respondents

3. **Do you consider that it is in the public interest to retain entities that voluntarily report using the tier 1 reporting requirements within the New Zealand PIE definition?**

If not, do you consider that including such entities within the New Zealand PIE definition:

- (a) **creates even further auditor supply pressures, that are contrary to, rather than in, the public interest?**
- (b) **has any other unintended consequences?**

It is important that we have evidence to justify any changes so please explain why, including where possible evidence to support the number of entities that are voluntary PIEs, and explanations as to why entities elect to do so, to support your view that it is not in the public interest to include these entities as PIEs.

Relationship between rotation requirements proposed to be included in PES 1 (Revised) and elsewhere

28. For listed entities, the NZX listing rules³ currently limit the time-on period of the external auditor or lead audit partner to five years. When applied in conjunction with the revised international requirements, if adopted in New Zealand, this will result in a five-year time-on, five-year cooling-off rotation cycle for the engagement partner for listed entities. Such a rotation cycle is already required by other jurisdictions including the UK⁴, and in the USA⁵. In Australia, the existing rotation

³ Listing rule 3.6.3(f)

⁴ Revised Ethical Standard 2016 issued by the Financial Reporting Council

cycle is a five-year time-on, two-year cooling-off period for listed entities. As a result of legislative requirements in Australia, a rotation cycle of five-years on and three-years off may apply until 2023 under the revised IESBA requirements.

29. The impact of the proposed revisions for auditors of listed entities in New Zealand is illustrated as follows:

| Role | Existing NZ Code with NZX requirement in years | | Proposed NZ Code in years | | Proposed NZ Code with NZX requirement in years | |
|-----------|--|-------------|---------------------------|-------------|--|-------------|
| | Time-on | Cooling off | Time-on | Cooling off | Time-on | Cooling off |
| EP | 5 | 2 | 7 | 5 | 5 | 5 |
| EQCR | 7 | 2 | 7 | 3 | 7 | 3 |
| Other KAP | 7 | 2 | 7 | 2 | 7 | 2 |

Question for respondents

- 4. For dual listed entities (listed on the NZX and ASX), do you consider there to be unintended consequences of having different rotation requirements for the engagement partner for listed entities in New Zealand and Australia? If so, please explain**

30. The NZAuASB is in discussions with the NZX to explore the implications of legislative differences between New Zealand and Australia that impact on auditors of listed entities.

2.3 Proposed New Zealand specific amendments

31. The International Code of Ethics has separated independence requirements for audits and reviews of historical financial statements (Section 290, dealing with audit and review engagements) and other assurance engagements (Section 291, dealing with other assurance engagements). Section 290 includes more stringent requirements for audits or review clients that are PIEs. Section 291 does not include the more stringent PIE requirements
32. The NZAuASB is of the view that conceptually, for all recurring assurance engagements the independence requirements for PIEs should be the same irrespective of the nature of the subject matter, i.e. whether it is financial information, prospective information or other non-financial information. For this reason, the NZAuASB has previously aligned section 290 and section 291, as appropriate, by including the PIE requirements in section 291. Extant section 291 of PES 1 (Revised) imposes a 7-year rotation period and a two year stand down period on key assurance partners of PIEs (i.e. aligning with the extant rotation requirements in section 290).
33. The NZAuASB proposes to continue to align section 290 and section 291 for recurring assurance engagements. The NZAuASB therefore proposes to include the revised PIE rotation provisions from section 290 in section 291.

⁵ Section 203 of the Sarbanes-Oxley Act

34. The NZAuASB does not believe that amending the rotation requirements for PIEs to align section 291 with section 290 will incur large compliance costs. In most circumstances where assurance is provided over prospective or non-financial information, the client will already be an audit or review client and therefore these tighter independence requirements would already apply.
35. A separate mark-up to compare the proposed New Zealand requirements to the international requirements has been prepared to indicate where the New Zealand proposals differ from the international code.

Question for respondents

- 5. Do you agree with the New Zealand proposal to align the auditor rotation requirements for audits of financial statements and other recurring assurance engagements for public interest entities? If not, why not?**

2.4 Effective Date and transitional provisions

36. The changes are effective for audits of financial statements for periods beginning on or after 15 December 2018. Changes to section 291 are effective as of 15 December 2018. Early adoption is permitted.
37. The changes are subject to a transitional provision to facilitate the transition to the extended cooling off period of five consecutive years where a legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.
38. The NZAuASB is not proposing to specify a cooling-off period of less than five years. The International Code of Ethics has specified a five-year cooling-off period. In line with the NZAuASB's strategic approach to adopt international standards, the NZAuASB is not proposing to amend the international requirements that could result in a standard that conflicts with, or results in lesser requirements than the international standard.

Question for respondents

- 6. The transitional provisions provide for an alternative cooling off period permitted under legislation or regulation that will have effect for audits of financial statements for periods beginning prior to 15 December 2023. The NZAuASB requests feedback on the impact of this transitional provision in the New Zealand context.**



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

**EXPOSURE DRAFT NZAUASB 2017-1
PROPOSED AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1
(REVISED) PROVISIONS ADDRESSING THE LONG ASSOCIATION OF PERSONNEL
WITH AN ASSURANCE CLIENT**

CONTENTS

A: INTRODUCTION

**B: AMENDMENTS TO SECTION 290 AND SECTION 291 OF
PROFESSIONAL AND ETHICAL STANDARD 1 (REVISED)**

C: EFFECTIVE DATE

A: INTRODUCTION

This document sets out proposed amendments to Professional and Ethical Standard (PES) 1 (Revised) *Code of Ethics for Assurance Practitioners*. This exposure draft has been issued as a result of changes made to the International Code of Ethics for Professional Accountants issued by IESBA.

Section B of this document sets out proposed amendments to section 290 and section 291 of PES 1 (Revised). Section B uses underlines and strike through to indicate additions and deletions from the existing requirements in PES 1 (Revised).

B: PROPOSED AMENDMENTS TO SECTION 290 AND 291 OF PES 1 (REVISED)

SECTION 290

INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS

[Paragraphs 290.1 – 290.147 of extant Section 290 remain unchanged]

Long Association of ~~Senior~~ 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 scepticism, are may be created and may increase in significance when an individual is involved in ~~by using the same senior personnel on 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 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. ~~such as:~~

- (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 ~~audit or review engagement team,~~ and the nature of the roles performed.;
 - ~~The role of the individual on the audit or review team;~~
 - ~~The structure of the 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 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) Factors relating to the audit or review client include:

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

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 ~~the~~ any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce ~~them~~ it to an acceptable level. Examples of such safeguards include:

- Rotating the ~~senior personnel~~ 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 an ~~additional~~ assurance practitioner who was not a member of the audit or review team review the work of the ~~senior personnel~~ individual. ; ~~or~~
- Performing rRegular 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 Clients that are 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.

be a key audit partner for more than seven years. 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 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 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years. After such time, the individual shall not be a member of the engagement team or be a key audit partner for the client for two 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 cumulative 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 cumulative 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 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.

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 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 Where a legislative body or regulator (or organisation authorised or 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 For the duration of the relevant cooling-off ~~During that~~ period, the individual shall not:

- (a) Be a member of the engagement team ~~participate in the audit or review of the entity,~~ or provide quality control for the audit or review engagement;
- (b) eConsult 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) 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) 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) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) ~~or otherwise~~ Exerting directly 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 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 Despite paragraphs ~~290.149~~290.153-290.161, key audit partners whose continuity is especially important to ~~the audit quality of the engagement~~ 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 on the audit or review team 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.

~~The long association of other partners with an audit or review client that is a public interest entity creates familiarity and self interest threats. The significance of the threats will depend on factors such as:~~

- ~~• How long any such partner has been associated with the audit or review client;~~
- ~~• The role, if any, of the individual on the audit or review team; and~~
- ~~• The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance.~~

~~The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:~~

- ~~• Rotating the partner off the audit or review team or otherwise ending the partner's association with the audit or review client; or~~
- ~~• Regular independent internal or external quality reviews of the engagement.~~

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 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 alternative safeguards 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.

[Paragraphs 290.154 – 290.228 of extant Section 290 remain unchanged but renumbered as paragraphs 290.169 – 290.243]

SECTION 291

INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS

[Paragraphs 291.1 – 291.136 of extant Section 291 remain unchanged]

Long Association of ~~Senior~~ Personnel with an Assurance Clients

General Provisions

291.137 Familiarity and self-interest threats, which may impact an individual's objectivity and professional scepticism, ~~are~~ may be created and may increase in significance when an individual is involved on by using the same senior personnel 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 judgement.

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.
 - ~~The role of the individual on the assurance team;~~
 - ~~The structure of the firm;~~
 - ~~The nature of the assurance engagement;~~
 - Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management. client's management team has changed; and
 - ~~Whether the nature or complexity of the subject matter or subject matter information has changed.~~
- 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 The significance of ~~the~~ any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce ~~it them~~ to an acceptable level. Examples of such safeguards in relation to a specific engagement include:
- Rotating the individual senior personnel 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 an ~~additional~~ assurance practitioner who ~~was~~ is not a member of the assurance team review the work of the ~~senior personnel individual.~~ ; ~~or~~
 - Performing Regular independent internal or external quality reviews of the engagement.
 - Performing an engagement quality control review.
- 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.

Assurance Engagements Clients that are 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")
- (a) The engagement partner;

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

(c) Any other key assurance partner role.

~~be a key assurance partner for more than seven years. 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 NZ291.141.3 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. After such time, the individual shall not be a member of the engagement team or be a key assurance partner for the client for two 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 ~~During that~~ period, the individual shall not:

- (a) Be a member of the engagement team ~~participate in the assurance engagement of the entity, or~~ provide quality control for the assurance engagement; ;
- (b) eConsult 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) ~~or otherwise~~ 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.

NZ291.137.2~~141.13~~ Despite paragraphs NZ291.141.1-NZ291.141.9, key assurance partners whose continuity is especially important to ~~the audit quality of the engagement~~ 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 on the assurance team 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.

~~NZ291.137.3 The long association of other partners with an assurance client that is a public interest entity creates familiarity and self interest threats. The significance of the threats will depend on factors such as:~~

- ~~• How long any such partner has been associated with the assurance client;~~
- ~~• The role, if any, of the individual on the assurance team; and~~
- ~~• The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance.~~

~~The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:~~

- ~~• Rotating the partner off the assurance team or otherwise ending the partner's association with the assurance client; or~~
- ~~• Regular independent internal or external quality reviews of the engagement.~~

NZ291.141.14 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.

NZ291.141.15 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 alternative safeguards 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.

[Paragraphs 291.138-291.157 of extant Section 291 remain unchanged but renumbered as paragraphs 291.142 – 291.161]

C: 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 organisation authorised or recognised by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.