

Audit Partner Rotation

ICAP Code of Ethics - Section 540

March 2021



Background

ICAP Code 2019

The ICAP issued Code of its Code of Ethics for Chartered Accountants (Revised 2019) (ICAP Code 2019), which is based on the IESBA Code issued by IFAC and has been enhanced to cater to instances where local requirements are more stringent.

Audit Partner Rotation

Section 540 of the ICAP Code 2019, details the requirements and application guidances for 'Long association of personnel (including Partner rotation) with an audit client' i.e Audit Partner Rotation

Scope

Section 540 applies to **all audit clients** with specific requirements for **Public Interest Entities**

Requirements for All Audit Clients

Although an understanding of the Audit Client and its environment is fundamental to audit quality, Firm's are required to assess the following risks which can arise due to long association of personnel with audit clients:

Familiarity threat might be created due to an individual's long association with:

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

Self-Interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.

Factors that are relevant to evaluating the level of such familiarity or self-interest threats are detailed on the next slide.



1 The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.

2 How long the individual has been an engagement team member, and the nature of the roles performed.

3 The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.

4 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 engagement team members.

5 The closeness of the individual's personal relationship with senior management or those charged with governance.

6 The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

7 The nature or complexity of the client's accounting and financial reporting issues and whether they have changed

8 Whether there have been any recent changes in senior management or those charged with governance.

9 Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

The above noted familiarity or self-interest threats can be eliminated by rotating the individual off the audit team.

Examples of safeguards against these threats



Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.



Having an appropriate reviewer who was not an audit team member review the work of the individual



Performing regular independent internal or external quality reviews of the engagement



Requirements for Audit Clients that are PIEs

- Listed company
- Non-listed Company which is:
 - (i) a public sector company as defined in the Act; or
 - (ii) registered and/or licensed under the Administered Legislation or Rules, or regulations made thereunder, as follows:
 - a) Non-banking Finance Companies which are Asset Management Companies, Pension Fund Managers, REIT Management Companies or Deposit Taking NBFCs;
 - b) Modaraba Company
 - c) Insurer
 - d) Securities Exchange
 - e) Commodity Exchange
 - f) Central Depository
 - g) Clearing House; or
 - (iii) registered, notified and/or licensed under the Banking Companies Ordinance, 1962 (LVII of 1962) or Microfinance Institutions Ordinance, 2001 (LV of 2001), as follows:
 - a) Banking Company including Foreign Banking Company
 - b) Microfinance Bank
 - c) Development Finance Institution (DFI).
 - (iv) all companies engaged in production and sale of sugar.

Requirements for Audit Clients that are PIEs

Engagement Partner

Engagement Quality
Control Reviewer

Any other Key Audit
Partner role

“Time-on” period

An individual shall not act in any of these roles, or a combination of such roles, for a period of more than seven cumulative years unless the law prescribes a shorter period

“Cooling-off” period*

Five consecutive years

Three consecutive years

Two consecutive years

**For individuals who have served in only one of the above roles, for individuals who have served in a combination of roles the cooling off period is detailed in the next slide*

Requirements for Audit Clients that are PIEs

A 'time-on' period in a combination of the following roles:

EP for 4 or more cumulative years

+

Any other Key Audit Partner role

=

Five consecutive years

EQCR for 4 or more cumulative years

+

Any other Key Audit Partner role

=

Three consecutive years

EP for 3 or more cumulative years

+

EQCR for 4 or more cumulative years

=

Five consecutive years

Any other combination of Key Audit Partner roles

=

Two consecutive years

“Cooling-off” period

Requirements for Audit Clients that are PIEs

The partner rotation requirements for an audit client under various laws would be as under:

	Engagement partner	EQCR	KAP
Public sector companies (both listed and unlisted)	After five years <i>In accordance with the Public Sector Companies (Corporate Governance) Rules, 2013 (the PSC Rules)</i>	After seven years <i>In accordance with the ICAP Code 2019</i>	After seven years <i>In accordance with the ICAP Code 2019</i>
Listed company	After five years <i>In accordance with the Listed Companies (Code of Corporate Governance) Regulations, 2019</i>	After seven years <i>In accordance with the ICAP Code 2019</i>	After seven years <i>In accordance with the ICAP Code 2019</i>
Insurance company	After five years <i>In accordance with the Code of Corporate Governance for Insurers, 2016</i>	After seven years <i>In accordance with the ICAP Code 2019</i>	After seven years <i>In accordance with the ICAP Code 2019</i>
Other public interest companies	After seven years <i>In accordance with the ICAP Code 2019</i>	After seven years <i>In accordance with the ICAP Code 2019</i>	After seven years <i>In accordance with the ICAP Code 2019</i>

Requirements for Audit Clients that are PIEs

- In calculating the time-on period, the **count of years shall not be restarted unless the individual ceases to act in any one of the roles** discussed earlier **for a minimum period**. This minimum period is **a consecutive period equal to at least the cooling-off period** as presented earlier which the individual served in the year immediately before ceasing such involvement.
- If an **audit client becomes a public interest entity**, a firm shall take into account the length of time an individual has served the audit client as a key audit partner before the client becomes a public interest entity in determining the timing of the rotation. The cumulative period allowed remains seven years. As an exception, 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 individual 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.
- **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 might not be possible unless an independent regulatory body 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 exemption.