Partner rotation

9. The Government will make audit partner rotation compulsory after 5 years.

   - The new requirement will apply to the lead engagement partner and the review partner. To maintain continuity of knowledge, the appointment of these partners could be staggered.

Commentary

The issue of whether audit firms or audit staff should be rotated has been debated recently. It is argued that rotating audit firms would prevent the building of close relationships between auditors and a client's staff. Also, knowing that another audit firm is to take over the audit in the near future would act as an incentive for the current auditor to maintain auditing standards. However, disadvantages of rotating audit firms include the cost and the fact that in its first years a new auditor may produce audits in less than ideal circumstances. In the first years of tenure, a new auditor may lack a detailed knowledge of the client's business and thus may not know the areas on which they should focus.

Staggered rotation of audit partners may prevent the above-noted weakness and provide some form of incentive for the existing partner to meet and maintain high standards. However, it is argued that the new partner might be reluctant to criticise a member of his or her own firm. The profession's independence standard, *Professional Statement F1: Professional Independence*, states in paragraph 2.51 that the lead partner should be rotated after a predefined period no longer than seven years.

Reference

Institute of Chartered Accountants in Australia, 2002, *Professional Statement F1: Professional Independence*, ICAA Member's Handbook June 2002, ICAA.