7 April 2017

The Chairman
Accounting Professional and Ethical Standards Board Limited
Level 11, 99 William Street
Melbourne, VIC, 3000
Australia

Submission via APESB website

Dear Ms. Roxon

Submission on Exposure Draft 01/17: Proposed Amendments to Long Association of Personnel with an Audit or Assurance Client requirements in APES 110 *Code of Ethics for Professional Accountants* ("the ED")

We appreciate the opportunity to comment on the ED. We believe that it is essential that audit and assurance teams and firms are independent, both of mind and in appearance, of their clients and we support a common international framework for making that assessment and the adoption in Australia of that framework. However, through our submissions to the International Ethics Standards Board for Accountants ("IESBA") during the development of these changes, we expressed our concern about the potential impact of extended time off periods for Engagement Partners ("EPs") and Engagement Quality Control Reviewers ("EQCRs"). There is no evidence to demonstrate that increasing the time-off period of EP's and EQCRs to an arbitrarily selected term will improve independence. Even if it did, we do not believe the potential gains, which would be incremental at best, justify the practical impacts and potential reduction in audit quality that the increase will cause.

While we accept that the IESBA have issued their changes in relation to extending time-off periods for EPs and EQCRs we urge the board to continue to raise concerns at the international level about the impact of these changes, including the sunsetting clause in transitional provision 7.

Our chief concerns in relation to further extending time-off periods beyond those allowable in the transitional period are as follows.

Impacts on the audit market and audit quality

- Transitioning from a three a five year cooling-off period may lead to a contraction of the market. We are already concerned with the decline in the numbers of registered company auditors in regional areas. The difficulties of maintaining a viable audit client base in the face of rotation requirements with very long time off periods may prove too much for smaller firms, particularly those in regional areas, and lead to them exiting the market. This appears counterintuitive with the objective of having a competitive market. We note that internationally the importance of preventing an oligopoly in the audit market has been recognised.

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- Even in firms which have sufficient numbers of audit partners to manage rotation, it is likely that increasing the cooling-off period will result in an increase in the number of engagements where the engagement partner is located in a different geographical location to the client and the engagement team. A high level of direct audit partner involvement with the client and the engagement team has been acknowledged to be a key driver of audit quality. Similarly, ECQRs need to be able to interact with the engagement team and engagement partner as appropriate. Where partners are geographically separated it becomes more difficult for partners to sustain this level of involvement, and therefore audit quality may be adversely affected.
- Entities may decide that moving to a firm where they only have to change audit partners rather than change firms altogether is preferable purely to manage the logistics of their audit. For regional entities, this may force them to choose larger, non-local firms, which again, could result in a contraction of the market if regional auditors cannot maintain a sufficient audit client base. As discussed above, geographical distance between the engagement partner and/or the firm and the client may negatively impact audit quality. Entities would also incur additional costs from the time and resources required to conduct a tender process, and then again when a new auditor is selected. As ASIC approval is required for audit resignations in Australia, this imposes an additional time and cost burden on Corporations Act entities and their auditors when auditor change occurs.

Practical difficulties

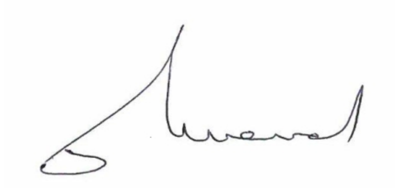
The coordination of EP and EQCR rotation is already time consuming and costly for firms. Increasing the administrative complexity by introducing differing time-on time-off periods for different types of entities and different types of partners will only increase these costs, even when the audit firm does not change, without increasing audit quality. We also understand that it is likely that the requirements for EQCRs in terms of industry experience and other qualifications will be increased in the revisions being proposed in the International Auditing and Assurance Standards Board’s various standard setting projects. This would further reduce the pool of partners who can perform EQCR roles and increase the complexity of rotation management. Our members have expressed a view that having identical time off periods for EPs and EQCRs is highly desirable to reduce some of the administrative burden.

Disproportionate regulatory burden

Other jurisdictions such as the European Union, the United Kingdom and the United States are held up as examples that five year partner rotation is manageable. However there are significant differences in the population, the geographic isolation, and in the size of the entities being regulated in those markets versus Australia. Therefore comparisons in relation to the manageability and impacts of the rotation process are not appropriate as the capacity issues in the market are not the same. In the US partner rotation applies only to SEC issuers and has not been extended to PIEs. US SEC issuers, due to the size of the market, are substantially larger than the majority of issuers in our capital market. The US also has exemptions to rotation requirements for smaller firms (less than 10 audit partners) with small numbers of clients who are registrants (less than five), so the regulator has acknowledged the potential for these requirements to adversely impact the smaller end of the market. Similar concessions have been made in Canada in relation to exempting smaller listed entities from certain independence requirements (including partner rotation) due to a view that requiring those entities to comply with the full requirements of the code would adversely impact those entities and smaller audit firms In Australia, we also have not seen extensive audit failure under the current regime. Further extending the time off periods in Australia imposes a regulatory burden on audit firms and clients that is disproportionate to their size compared to entities subject to the same level of regulation in other jurisdictions.

Appendix A contains our response to the specific request for comments included in the ED and Appendix B contains more information about Chartered Accountants ANZ. If you have any questions regarding this submission, please contact Liz Stamford (Audit and Insolvency Leader) via email; Liz.Stamford@charteredaccountantsanz.com.

Yours sincerely



Rob Ward AM FCA
Head of Leadership and Advocacy

Appendix A: Response to request for specific comments

Q1. Transition of shorter cooling off period established by legislation or regulation

We support the adoption of the shorter cooling off period allowable under transitional provision 7. We disagree with the IESBA's decision to attach a sunsetting period of five years to this provision. In order to manage the transitional provision in Australia, we encourage the board to:

- Continue to advocate with the IESBA for there to be no sunsetting of the jurisdictional overlay clause, so that the time-off periods for EPs remain at 3 years in Australia after 2023. We believe that the IESBA will be concerned with the impact on audit quality, so we encourage the board to work with the firms to monitor the impact on audit quality of the three year time off period. If there is no marked improvement in audit quality due to this change, there is no reason to expect that further increasing the period to five years will achieve an improvement. Similarly, it will be important to understand if audit quality has been adversely affected. We also encourage the board to explore options with academics to undertake research on audit quality and the impact of partner rotation during the next three years.
- If there is a possibility that the IESBA will not remove the sunsetting clause suggest that the board work with the Australian Securities and Investments Commission to achieve an increase in the time-on period under the Corporations Act 2001 to seven years for all engagements when the transitional period ends. Otherwise Australian firms will be dealing with a five year on, five year off cycle which is a stricter standard than other jurisdictions.

Due to the long lead times involved in firms managing the complexities of their rotation planning, we also encourage the board to communicate clearly and give the firms sufficient time to amend rotation plans already in place in the time leading up to the application of the new requirements and throughout the transitional periods and, if it occurs, the end of the transitional period.

Appendix B: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.
We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.