

AGENDA PAPER

Item Number: 12.1

Date of Meeting: 7 September 2009

Subject: Reference to rotation requirements in APES 320 *Quality Control for Firms*

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Purpose:

To clarify that the reference to rotation requirements in the recently issued APES 320 *Quality Control for Firms* (Effective from 01 January 2010) should be read as applying to the rotation requirements established by Relevant Ethical Requirements which are defined as being part A and B of APES 110 *Code of Ethics for Professional Accountants*.

Issue

The recently issued APES 320 which is applicable from 01 January 2010 has a mandatory requirement (paragraph 31) which states that in respect of listed entities, firms must establish rotation requirements for the engagement partner, engagement quality control reviewer and others subject to rotation requirements in accordance with Relevant Ethical Requirements. Relevant Ethical Requirements are defined as being Part A and B of APES 110 *Code of Ethics for Professional Accountants*.

Paragraph 34 which is a guidance paragraph state

The Code recognises that the familiarity threat is particularly relevant in the context of financial statement audits of Listed Entities. For these audits, the Code requires the rotation of Key Audit Partners after a pre-defined period, normally no more than five years, and provides related standards and guidance.

The purpose of the mandatory and guidance paragraphs is to refer to the rotation requirements established by the Code (i.e. APES 110) that is effective at the time.

APES 320 includes a definition of Key Audit Partner which is consistent with the recently issued IESBA Code. This definition of Key Audit Partner is broader than who will be considered to be key audit partners in the existing Code. For example, the broader definition in APES 320 (and the new IESBA code) would also capture partners responsible for key subsidiaries.

The existing Code considers the following as personnel who should be rotated on a five year cycle for listed entities:

- Lead Engagement Partner; or
- Audit Review Partner (if any); or
- Engagement Quality Control Reviewer

The professional bodies and stakeholders have raised concerns that the reference in APES 320 to Key Audit Partner in APES 320 can be read to mean that APES 320 is early adopting this definition. This is not the intention of the inclusion of the Key Audit Partner definition in APES 320.

Technical analysis

The text in paragraph 31 and 34 of APES 320 in respect of the rotation and reference to Key Audit Partner is consistent with IAASB's ISQC 1 which is applicable for periods commencing 1 January 2010. The only difference is that whereas ISQC 1 is silent on the definition of Key Audit Partner, APES 320 has defined it (consistent with new IESBA Code).

However, the mandatory and guidance paragraphs refer users to Relevant Ethical Requirements (i.e. Part A and B of the Code). Accordingly, until APESB issues the revised Code in line with the new IESBA code, the Partners who are subject to rotation requirements will be the Lead Engagement Partner, Audit Review Partner and Engagement Quality Control Reviewer as defined in the existing Code.

Recommendation:

1. APESB to issue a technical update to stakeholders clarifying the application of rotation requirements referred to in APES 320 *Quality Control for Firms*.

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Date: 24th August 2009