

AGENDA PAPER

Item Number: 4
Date of Meeting: 13 February 2017
Subject: Proposed Exposure Draft: Long Association of Personnel with an Audit or Assurance Client

Action Required **For Discussion** **For Noting** **For Information**

Purpose

To obtain the Board's approval to issue 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* (ED 01/17), subject to the Board's review comments and editorials.

Background

The Board approved at its [29 November 2016 meeting](#) the release of Exposure Draft 02/16: [Proposed Amendments to APES 110 Code of Ethics for Professional Accountants due to revisions to IESBA's Code of Ethics for Professional Accountants](#) (ED 02/16).

ED 02/16 was initially intended to contain proposed amendments relating to:

- Responding to Non-compliance with Laws and Regulations (NOCLAR);
- Non-Assurance Services for Audit and Assurance Clients (NAS); and
- Long Association of Personnel (including Partner Rotation) with an Audit and Assurance Client (Long Association).

The Long Association provisions included in the initial ED 02/16 were based on IESBA's provisions closed off in September 2016. IESBA however has proposed further changes to the September 2016 Long Association provisions. Accordingly, the Long Association provisions were removed from the final ED 02/16 issued by APESB in December 2016.

Reasons for IESBA's further changes to Long Association provisions

On its December 2016 Board meeting [paper](#) on Long Association, IESBA noted that it made further amendments to the September 2016 Long Association provisions in response to issues raised by the Public Interest Oversight Board (PIOB).

PIOB did not approve IESBA’s September 2016 Long Association provisions because it had concerns:

- regarding the complexity of the provisions; and
- that the jurisdictional clause (paragraph 290.163) “resulted in only a limited improvement in the cooling-off provisions”.

Discussions between IESBA and PIOB representatives were held, which resulted in the PIOB concerns relating to the September 2016 Long Association provisions being narrowed down to the following 3 key issues:

- the jurisdictional clause (paragraph 290.163);
- the provision (paragraph 290.164) dealing with the prohibition on consultations with an Engagement Partner or Engagement Quality Control Reviewer if they have become a technical specialist after cooling off for 2 years from a Public Interest Entity (PIE) audit; and
- need to have a transitional sunset provision in respect of the jurisdictional clause in a manner to ultimately move to a five year cooling-off period for Engagement Partners.

In order to address these concerns, IESBA with its Taskforce on Long Association worked on amending the relevant provisions.

The proposed amended Long Association provisions were approved by IESBA at its [December 2016 meeting](#). These provisions are subject to final PIOB approval.

Key Considerations

In line with IESBA’s December 2016 ED 01/17 contains the following key proposed revised provisions in respect of Long Association:

- New partner rotation requirements for Members in Public Practice in respect of audits of PIEs are summarised below.

Role	Time-on and cooling-off periods
Engagement Partner	Time on - maximum 7 cumulative years Cooling off - 5 consecutive years cooling-off period
Engagement quality control review Partner	Time on - maximum 7 cumulative years Cooling off - 3 consecutive years
Other Key Audit Partners	Time on - maximum 7 cumulative years Cooling off - 2 consecutive years

- Alternative cooling-off periods are permitted for Engagement Partners in PIE audits where there are jurisdictional legal or regulatory requirements (paragraph 290.163). Where legislation or regulation requires a cooling-off period of less than 5 years for an Engagement Partner of PIE audits, the cooling-off period of 5 years may be reduced to the higher of that period or 3 years.
- Paragraphs AUST290.163.1 and AUST290.163.2 are proposed by APESB Technical Staff to clarify the application of the jurisdictional clause in Australia.

- A transitional provision is proposed to specify a sunset to the jurisdictional clause in paragraph 290.163 which shall have effect only for audits of financial statements for periods beginning prior to 15 December 2023.

This aims to facilitate the transition to the required cooling-off period of 5 consecutive years in jurisdictions (such as Australia) where a legislation or regulation has required a cooling-off period of less than five consecutive years.

Respondents to ED 01/17 are requested to submit specific comments about the impact of this transitional provision in Australia.

Technical Staff Recommendation

The Board approve the proposed 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* for public comment.

Materials Presented

- Agenda Item 4 (a) 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* (Clean version);
- Agenda Item 4 (b) 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* (Marked-up version)

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Date: 25 January 2017