

AGENDA PAPER

Item Number: 7
Date of Meeting: 20 November 2019
Subject: Revision of Technical Staff Q&A on Audit Partner rotation

Action Required For Discussion For Noting For Information

Purpose

To obtain the Board's approval to issue the revised Technical Staff Q&A publication on audit partner rotation.

Background

In December 2017, APESB issued a Technical Staff Q&A publication on the Audit Partner rotation requirements in Australia (Q&A publication). The Q&A publication is based on the equivalent International Ethics Standards Board for Accountants (IESBA) publication.

In November 2018, APESB issued the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code), which made substantial changes to the structure of the Code, with most sections being renumbered.

In May 2019, the IESBA released an [updated Staff Questions & Answers document on Long Association](#) in May 2019. This document was updated to include additional questions based on global stakeholder feedback.

At the August 2019 Board Meeting, the Board considered an initial draft of the second edition of the Q&A publication. The Board requested Technical Staff to undertake consultation with stakeholders on the proposed publication and present the Board with a revised Q&A publication at the November 2019 Board meeting.

Consideration of issues

Technical Staff have developed an updated version of the second edition of the Q&A publication, incorporating the amendments approved at the August 2019 Board Meeting (refer to Agenda Item 7(a)).

In developing the revised version of the Q&A publication, Technical Staff have considered the revisions to the IESBA equivalent publication and also sought feedback from a wide range of stakeholders (listed in Table 1 below).

Table 1: Feedback sought from the listed stakeholders

Stakeholders consulted on Q&A Publication			
Standard Setters	Professional Bodies	Regulators and Oversight Bodies	Members in Public Practice
<ul style="list-style-type: none"> • AUASB • NZAuASB 	<ul style="list-style-type: none"> • Chartered Accountants Australia and New Zealand (CA ANZ) • CPA Australia • Institute of Public Accountants (IPA) 	<ul style="list-style-type: none"> • ASIC • APRA • ATO • Financial Reporting Council (FRC) 	<ul style="list-style-type: none"> • PwC • Deloitte • EY • KPMG • William Buck • Pitcher Partners • BDO • Findex/Crowe Horwath • Grant Thornton • ShineWing Australia • Nexia

The feedback received from stakeholders was generally very positive about the Q&A publication. Stakeholders considered the publication to be a very useful reference for audit practitioners, and their audit clients, to understand the audit partner rotation requirements in Australia.

A summary of the key amendments requested by stakeholders, which are reflected in the draft revised Q&A publication, is set out below.

Section or Question	Amendment based on feedback
Purpose/ Section A	Removed the word extant when describing the previous version of the Code.
Q 1	Reinforced that the general application of the conceptual framework should always apply – not just a rules-based approach with set timeframes.
Q 2	Included a cross-reference to other questions about different lengths for financial years.
Q 7	Clarification of the answer to a new question on cooling-off periods for multiple assurance engagements – refer to the matters for the Board’s consideration below.
Q 10	Included references to the extension of time-on options in the <i>Corporations Act 2001</i> .
Q 17	Updated the reference to the restructured Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)</i> .
Q 26	Replaced the words ‘long association’ with ‘served an Audit Client for a period of six or more cumulative years’ to reflect the wording used in paragraph R540.8 of the Code.
Q 26	Included references to the extension of time-on options in the <i>Corporations Act 2001</i> .
Q 28	Addition of new questions to align with the IESBA equivalent document.
Section H (Q29–Q40)	Reformatted the answers to be in a consistent format.

Matters for the Boards attention

There are two key matters for the Board's attention that have been included in the revised Q&A publication.

- End of the transition period (Questions 5, 31, 32, 35 and 36)

The revised long association provisions include transitional relief for entities where jurisdictional laws and regulations specify an alternative cooling-off period of less than five years. In this instance, a substitution of a shorter cooling-off period of at least 3 years is allowed. This substitution is only applicable for periods beginning on or after 1 January 2019 and prior to 31 December 2023.

This substitution applies to some entities in Australia, and stakeholders have questioned how the end of this transition period would work in practice. APESB raised this matter with the IESBA, who then included an additional question in their revised Questions & Answers publication.

Technical Staff have replicated this in APESB's Q&A publication at question 5. In addition, we have provided further questions in *Section H Determination of Cooling-off Period* of the Q&A publication to assist readers to determine the impact of the end of the transition period on the length of the cooling-off period.

These additional examples have received support from stakeholders.

One stakeholder did suggest the information be presented in a table to show the applicable cooling-off periods for each different year-end. However, Technical Staff believes the current tables in the Q&A publication are sufficient, and firms and audit partners should consider the relevant circumstances of their audit client and the threats to independence in determining the appropriate cooling-off period.

- Effect of the overlap of long association requirements for different assurance engagements (Question 7)

Stakeholders requested that the Q&A publication provide guidance on the situation where an Engagement Partner is undertaking two different assurance engagements for a client that have differing audit partner rotation requirements. In response to this request, Technical Staff developed question 7 which considers the scenario where an audit partner is undertaking a statutory audit and an audit to complete the APRA returns for a client.

Stakeholders provided mixed feedback with respect to this question. Two stakeholders supported the inclusion of the question, although one of these stakeholders believed the proposed answer could be clarified by referring to the restrictions on additional activities during the cooling-off period (as specified in paragraph R540.20 of the Code). Another stakeholder objected to the question as they were concerned it implies that APRA regulated entities would not be able to apply the substituted cooling-off period.

To resolve this matter, Technical Staff have clarified the facts in Question 7 to make the applicable cooling-off periods clear. In addition, a new paragraph has been included in answer to refer to the restrictions that apply to an individual when they are undertaking a cooling-off period.

Technical Staff seeks the Board's feedback on these two matters.

Technical staff are also waiting on feedback from regulators and will provide the Board with a verbal update at the meeting.

Staff Recommendation

Subject to the Board's review comments, the Board approve the second edition of the Technical Staff Q&A publication on Audit Partner rotation requirements in Australia.

Materials Presented

Agenda Item 7(a) Draft Tech Staff Long Association Q&A publication (2nd edition)

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