

AGENDA PAPER

Item Number: 7
Date of Meeting: 27 November 2017
Subject: Project update: Long Association Q&A Document

Action Required For Discussion For Noting For Information

Purpose

- To obtain the Board's approval to issue the Long Association Close-off Document and a Q&A publication on audit partner rotation subject to IESBA's finalisation of the Code at its December 2017 Board meeting; and
- To seek the Board's views on conducting further research on the correlation between audit quality and higher cooling-off periods.

Background

At its August 2017 meeting, the Board approved the development of a Long Association Q&A publication based on the IESBA publication, and requested Technical Staff collaborate with relevant Australian stakeholders and the NZAuASB. The Board requested the draft Q&A publication be presented to the Board at the October 2017 Board Meeting.

The Board also considered the Long Association Close-off Document. The Board did not approve the issue of the Close-off Document as it was agreed that it should be released at the same time as the Q&A publication, before the end of the 2017 calendar year.

At the October 2017 Board Meeting the Board considered an initial draft of the Q&A publication and requested Technical Staff undertake consultation with stakeholders on the proposed publication. A revised Q&A publication was to be presented to the Board at the November 2017 Board meeting.

Consideration of issues

The Long Association Close-off Document is presented at Agenda Item 7(a). It is the same as the version presented at the August 2017 Board Meeting. Technical Staff are seeking Board approval to issue the Close-off Document.

Technical Staff have developed an updated marked-up version of the Q&A publication on audit partner rotation (refer to Agenda Item 7(b)).

In developing the revised version of the Q&A publication Technical Staff 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"> • IESBA • NZAuASB • AUASB 	<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 • Financial Reporting Council (FRC) 	<ul style="list-style-type: none"> • PwC • Deloitte • EY • KPMG • William Buck • Pitcher Partners • BDO • Crowe Horwath • Grant Thornton • ShineWing Australia • Nexia

Feedback received from stakeholders so far indicate support for the Q&A publication and the stakeholders consider it to be a very useful reference for audit practitioners in respect of the practical implications of the new audit partner rotation requirements.

Key amendments requested by stakeholders, which are reflected in the draft Q&A document, include:

- *Audit Clients listed in other jurisdictions (Section D)*

Stakeholders were keen to have guidance on audit partner rotation requirements when audit clients are listed in other jurisdictions. This also includes the situation where a company may be dual listed.

Audit clients listed in other jurisdictions adds unique complexities to the process of determining audit partner rotation requirements, and it is not practicable for the Q&A publication to cover every variation of different jurisdictional listings. Rather the questions have been developed to provide key matters that Members in Public Practice or Firms should consider in determining the required rotation of audit partners. In developing the list of matters to consider Technical Staff have consulted with ASIC, NZAuASB and other key stakeholders.

- *Re-audit of prior periods (Question 18 and 19)*

A stakeholder queried the outcome of Question 18 when the newly engaged auditor re-audits prior periods, as part of an engagement involving an audit of current period's financial statements. In particular the stakeholder was concerned that the outcome may be different to the outcome if s324DA of the *Corporations Act 2001* is applicable. The application of this section is discussed by ASIC in *Regulatory Guide 187: Auditor Rotation* where the time-on period for audit partners of listed entities or listed registered schemes is linked to the financial periods that have been audited rather than the calendar years over which the audits have occurred.

To resolve this matter, Technical Staff have clarified the facts in Question 18 to make it clear that the audit is for comparative purposes only and that no audit report is issued for these years. In addition, a new question has been included which covers the situation where three financial years are audited in one calendar year (question 19).

- Calendar years vs financial years (Questions 22-29)

Stakeholders requested clarification on the use of the term 'years' in the Q&A publication.

The use of 'years' in the Q&A publication meant 'calendar years' or 'financial years', depending on the specific circumstances of the examples included. Technical Staff have made revisions in the publication, as necessary.

- Illustrative diagram of partner rotation requirements (Appendix A – D)

One stakeholder suggested there was potential for the audit partner rotation requirements to be mapped out in an illustrative diagram or flowchart.

Technical Staff have included in Appendices A – D a series of flowcharts that set out the audit partner rotation requirements under the existing and proposed provisions.

Technical Staff understand that the NZAuASB has finalised its position on the Long Association provisions subject to consultation with Australia and relevant regulators. We are having ongoing discussions with NZAuASB Technical Staff about their final position and will monitor whether any changes are needed to be made to the Q&A publication, if necessary.

Timing of release

The IESBA are expected to finalise the new restructured Code at their meeting on 4-8 December 2017. The restructured Code will need to be approved by the Public Interest Oversight Board (PIOB) before it can be formally issued. However, after the IESBA's December meeting APESB Technical Staff will be able to confirm with the IESBA Technical Staff if there are any further changes to the Long Association provisions including any changes to the commencement date. Based on the history of late changes to these provisions Technical Staff believe we should not release the Long Association Close-off Document and Q&A publication until the IESBA Board meeting has occurred and the proposed international Code has been finalised.

Opportunity to undertake further research

In addition to the feedback received about the Q&A publication, CA ANZ has reiterated that they are not in favour of the sunset clause for paragraph 290.163 which ends in December 2023.

This is because they believe there is no clear evidence that the longer cooling-off period contributes to enhanced audit quality. CA ANZ encourages the Board to gather evidence to support analysis of the impact of the extension of the cooling off period on audit quality during the transition period, to be able to better respond to IESBA's review of the transitional provisions before the sunset date in 2023.

Technical Staff believe that there is merit to CA ANZ's recommendation, and therefore seek the Board's views on the opportunity for APESB to undertaking research on this matter in collaboration with the Professional Bodies and/or the academic community.

Staff Recommendation

That the Board:

- approve the issue of the Long Association Close-off Document and the Long Association Q&A publication subject to the outcome of consultation with the IESBA after its December 2017 meeting; and
- provide the Board's views on APESB's involvement in conducting research on the impact or correlation between extended cooling off periods and audit quality.

Materials Presented

Agenda Item 7(a)	Long Association Close-off Document
Agenda Item 7(b)	Revised draft Long Association Q&A publication

Authors:	Channa Wijesinghe Jacinta Hanrahan Ruth Oliquino
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Date:	17 November 2017
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