

Proposed Plan – Addressing Long Association Issues during Transition

May 2018

Introduction

In April 2018, APESB released revised audit partner rotation requirements in an amending standard *Amendments to Long Association of Personnel with an Audit or Assurance Client requirements in APES 110 Code of Ethics for Professional Accountants* (the Amending Standard). The requirements become effective from 1 January 2019.

Included in the provisions is a mechanism that assists jurisdictions which have laws allowing shorter cooling-off period (i.e. 3 years) to transition to the full cooling-off requirements (i.e. 5 years) in the Code by 31 December 2023.

This plan considers how to address issues raised in relation to the new Long Association provisions in the Code during this transition period.

Background

The Amending Standard is based on equivalent provisions in the International *Code of Ethics for Professional Accountants* (International Code) issued by the International Ethics Standards Board for Accountants (IESBA).

IESBA had approved the provisions to be included in the International Code in relation to long association of personnel with an Audit or Assurance Client. However, the proposals relating to proposed jurisdictional exemptions were not approved by the Public Interest Oversight Board (PIOB). This approval is a required step in the IESBA's due process to issue a Standard.

To obtain the approval of the PIOB, the IESBA changed the provisions to allow a shorter cooling-off period for a transitional period in jurisdictions where laws and regulations stipulate a shorter time on period. The provision had attached provisos being the shorter cooling-off period must be a minimum of 3 consecutive years and the addition of a sunset clause for the provision (meaning the shorter cooling-off period must be phased out by 31 December 2023). These changes were not subject to re-exposure which caused concerns with global stakeholders and national standard-setters (including the APESB). APESB communicated these concerns to the PIOB in August 2017.

In Australia, engagement partners will be able to have a shorter cooling-off period of three consecutive years as the applicable law (the *Corporations Act 2001*) prescribes a cooling-off period that is shorter than the Code. This has been welcomed by stakeholders. However, the stakeholders have raised concerns about the impact on audit resources when the sunset clause ends and the three-year cooling-off period transitions to a five-year cooling-off period.

Accordingly, APESB needs to consider how to address issues raised in relation to the new Long Association provisions in APES 110 during the transition period.

Proposed Plan

In developing this plan Technical Staff have identified four key elements of the Plan. Each element contains proposed actions and timing.

1) Influence International agenda

APESB is committed to aligning requirements in APES 110 *Code of Ethics for Professional Accountants* (the Code) with the IESBA's International Code, including the Long Association provisions. Therefore, to affect changes to the provisions or to remove of the sunset clause the APESB will need to influence the international agenda on this topic.

APESB has already raised our concerns over the long association provisions with the IESBA. This has led to the IESBA agreeing to conduct a post implementation review of the Long Associations provisions. The review is included in the IESBA's recently proposed strategy and work plan 2019-2023 and is scheduled to commence in 2022.

Technical Staff are of the view that the proposed timing of the post implementation review is too late to be able to provide any effective relief to practitioners in Australia. This point will be raised in the submission to the IESBA on their strategy and work plan 2019-2023. APESB also raised this with the IESBA at the 2018 IESBA National Standard-Setters meeting in May 2018. APESB will continue to flag this matter in relevant communications with the IESBA.

Technical Staff will continue to engage with the IESBA's Technical Staff as issues arise in relation to Long Association.

2) Determine challenges for its implementation in Australia

APESB will need to engage with stakeholders to determine the challenges they face on implementation of the new requirements in Australia. Stakeholders did raise concerns about implementation during the consultation phase of this project and APESB will need to perform an assessment as to whether these concerns became issues/challenges upon actual implementation.

Technical Staff will continuously engage with key stakeholders at Firms, Professional Bodies and regulators on this matter during 2018/19.

In May 2018 the Australian Prudential Regulatory Authority (APRA) initiated a discussion with Technical Staff on the potential for harmonising the audit partner rotation requirements in the APRA regulations and the Code. These discussions are currently ongoing.

Feedback from the stakeholders will be compiled and a progress report provided to the Board in 2019. These outcomes could also be provided to the IESBA to support the need for an earlier post-implementation review of the long association provisions (refer to 1 above).

3) Evidence based research

At the time the revised audit partner rotation requirements were being considered APESB raised a concern with IESBA that empirical evidence had not been obtained to support the premise that the proposed revisions would improve audit quality.

To strengthen the basis of comments to the IESBA about issues that arise in the transition period, APESB will engage with the academic community in 2018 – 2019 to promote the need for evidence-based research into the revised audit partner rotation requirements.

Technical Staff have already engaged with academics at Monash University and RMIT University on this matter. We are hopeful that this engagement will lead to research being undertaken. If this does not eventuate Technical Staff will engage with other institutions in 2018-2019 to encourage research into this area.

4) Ongoing stakeholder engagement

Technical Staff believe it will be important to have ongoing engagement with stakeholders on matters relating to audit partner rotation.

Technical Staff attend various discussion groups with representatives from firms, regulators and national standard-setters. At two of these groups, APESB has a standing agenda item to discuss APESB projects. As part of this session Technical Staff will seek feedback on any concerns with the long association provisions over 2018-19.

Conclusion

APESB expects that issues in relation to Long association will arise during the transition period. This proposed plan aims to focus Technical Staff efforts on actions that may influence the adoption of the Standard in Australia as well as influence international developments.

It is vital that APESB focus on influencing the international agenda on long association to help resolve the issues for Australian auditors. Any proposals we put forward will need to be based on identified issues and supported by empirical research, which is why it will also be important to continuously engage with our stakeholders on this topic during the transition period.