

6 April 2018

### **APESB issues amendments to the Audit Partner rotation requirements in Australia**

Accounting Professional & Ethical Standards Board Limited (APESB) issued today an amending standard to APES 110 *Code of Ethics for Professional Accountants*.

The amending standard reflects the revised provisions relating to the audit partner rotation requirements, as set out in the *Close-off Document: Amendments to Long Association of Personnel with an Audit or Assurance Client requirements in APES 110 Code of Ethics for Professional Accountants* issued by APESB in December 2017.

These amendments align the audit partner rotation requirements in Australia with the international requirements released by the International Ethics Standards Board for Accountants (IESBA).

The APESB has also published a practical guide to assist with implementation, the *Audit Partner rotation requirements in Australia - Technical Staff Questions & Answers*. This will be a valuable tool for auditors and audit firms as they navigate the new rules and comply with the requirements of the standard.

Please refer to Appendix 1 of this technical update for details of the revisions.

The amending standard to the Code and the Technical Staff Q&A publication is available from APESB's website: [www.apesb.org.au](http://www.apesb.org.au)

**– ENDS –**

#### **Technical Enquiries:**

Mr Channa Wijesinghe  
Chief Executive Officer  
Email: [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au)  
Phone: 03 9642 4372

## Appendix 1

### Amendments to APES 110 (Issued December 2010 and amended December 2011, May 2013, November 2013 and May 2017)

APESB has approved the following revisions to APES 110 *Code of Ethics for Professional Accountants* which was issued in December 2010 and amended in December 2011, May 2013, November 2013 and May 2017.

Paragraph/Section Reference	Revisions
<b>SECTION 290</b>	<p><b>INDEPENDENCE–AUDIT AND REVIEW ENGAGEMENTS</b></p> <p><i>[Paragraphs 290.1 – 290.147 of extant Section 290 remain unchanged.]</i></p> <p><b>Long Association of Senior Personnel (including Partner Rotation) with an Audit Client</b></p>
290.148	<p><i>General Provisions</i></p> <p>Familiarity and self-interest threats, <u>which may impact an individual's objectivity and professional scepticism, may be created and may increase in significance when an individual is involved in an Audit Engagement by using the same senior personnel on an Audit Engagement over a long period of time. The significance of the threats will depend on factors such as:</u></p> <ul style="list-style-type: none"> <li><del>•</del> How long the individual has been a member of the Audit Team;</li> <li><del>•</del> The role of the individual on the Audit Team;</li> <li><del>•</del> The structure of the Firm;</li> <li><del>•</del> The nature of the Audit Engagement;</li> <li><del>•</del> Whether the client's management team has changed; and</li> <li><del>•</del> Whether the nature or complexity of the client's accounting and reporting issues has changed.</li> </ul> <p>The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an Acceptable Level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> <li><del>•</del> Rotating the senior personnel off the Audit Team;</li> <li><del>•</del> Having a Member who was not a member of the Audit Team review the work of the senior personnel; or</li> <li><del>•</del> Regular independent internal or external quality reviews of the engagement.</li> </ul> <p><u>Although an understanding of an Audit Client and its environment is fundamental to audit quality, a familiarity threat may be created as a result of an individual's long association as a member of the Audit Team with:</u></p> <ul style="list-style-type: none"> <li>• <u>The Audit Client and its operations;</u></li> <li>• <u>The Audit Client's senior management; or</u></li> <li>• <u>The Financial Statements on which the Firm will express an Opinion or the financial information which forms the basis of the Financial Statements.</u></li> </ul>

Paragraph/Section Reference	Revisions
	<p><u>A self-interest threat may be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or Those Charged with Governance, and which may inappropriately influence the individual's judgement.</u></p>
<p><u>290.149</u></p>	<p><u>The significance of the threats will depend on factors, individually or in combination, relating to both the individual and the Audit Client.</u></p> <p><u>(a) Factors relating to the individual include:</u></p> <ul style="list-style-type: none"> <li><u>• The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior Firm.</u></li> <li><u>• How long the individual has been a member of the Engagement Team, and the nature of the roles performed.</u></li> <li><u>• The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.</u></li> <li><u>• The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other members of the Engagement Team.</u></li> <li><u>• The closeness of the individual's personal relationship with senior management or Those Charged with Governance.</u></li> <li><u>• The nature, frequency and extent of the interaction between the individual and senior management or Those Charged with Governance.</u></li> </ul> <p><u>(b) Factors relating to the Audit Client include:</u></p> <ul style="list-style-type: none"> <li><u>• The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.</u></li> <li><u>• Whether there have been any recent changes in senior management or Those Charged with Governance.</u></li> <li><u>• Whether there have been any structural changes in the client's organisation which impact the nature, frequency and extent of interactions the individual may have with senior management or Those Charged with Governance.</u></li> </ul>
<p><u>290.150</u></p>	<p><u>The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management and the start of a new relationship.</u></p>

Paragraph/Section Reference	Revisions
290.151	<p>The long association of other partners with an Audit Client that is a Public Interest Entity creates familiarity and self-interest threats. The significance of the threats will depend on factors such as:</p> <ul style="list-style-type: none"> <li>• How long any such partner has been associated with the Audit Client;</li> <li>• The role, if any, of the individual on the Audit Team; and</li> <li>• The nature, frequency and extent of the individual's interactions with the client's management or Those Charged with Governance.</li> </ul> <p>The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an Acceptable Level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> <li>• Rotating the partner off the Audit Team or otherwise ending the partner's association with the Audit Client; or</li> <li>• Regular independent internal or external quality reviews of the engagement.</li> </ul>
<u>290.151</u>	<p>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> <li>• <u>Rotating the individual off the Audit Team.</u></li> <li>• <u>Changing the role of the individual on the Audit Team or the nature and extent of the tasks the individual performs.</u></li> <li>• <u>Having a Member in Public Practice who was not a member of the Audit Team review the work of the individual.</u></li> <li>• <u>Performing regular independent internal or external quality reviews of the engagement.</u></li> <li>• <u>Performing an Engagement Quality Control Review.</u></li> </ul>
<u>290.152</u>	<p><u>If a Firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the Firm shall determine an appropriate period during which the individual shall not be a member of the Engagement Team or provide quality control for the Audit Engagement or exert direct influence on the outcome of the Audit Engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to Independence to be eliminated or reduced to an Acceptable Level. In the case of a Public Interest Entity, paragraphs 290.153 to 290.168 also apply.</u></p>
	<p><i>Audits Clients that are of Public Interest Entities</i></p>
290.153 <sup>49</sup>	<p>In respect of an audit of a Public Interest Entity, an individual shall not <u>act in any of the following roles, or a combination of such roles, for a period of be a Key Audit Partner for more than seven cumulative years<sup>15</sup> (the "time-on" period): After such time, the individual shall not be a member of the Engagement Team or be a Key Audit Partner for the client for two years. During that period, the individual shall not participate in the audit</u></p>

Paragraph/Section Reference	Revisions
	<p><del>of the entity, provide quality control for the engagement, consult with the Engagement Team or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement.</del></p> <p><del>(a) The Engagement Partner;</del></p> <p><del>(b) The individual appointed as responsible for the Engagement Quality Control Review; or</del></p> <p><del>(c) Any other Key Audit Partner role.</del></p> <p><u>After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs 290.155 to AUST 290.163.1.</u></p>
Footnote 1 -14	These footnotes in the extant Compiled Code (September 2017) remain unchanged.
Footnote 15	Refer to s324DA of the <i>Corporations Act 2001</i> which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia.
<u>290.154</u>	<p><u>In calculating the time-on period, the count of years cannot be restarted unless the individual ceases to act in any one of the above roles for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs 290.155 to 290.157 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as Engagement Partner for four years followed by three years off can only act thereafter as a Key Audit Partner on the same Audit Engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph 290.158.</u></p>
	<u>Cooling-off Period</u>
<u>290.155</u>	If the individual acted as the Engagement Partner for seven cumulative years <sup>16</sup> , the cooling-off period shall be five consecutive years.
<u>Footnote 16</u>	Refer to s324DA of the <i>Corporations Act 2001</i> which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia.
<u>290.156</u>	Where the individual has been appointed as responsible for the Engagement Quality Control Review and has acted in that capacity for seven cumulative years <sup>17</sup> , the cooling-off period shall be three consecutive years.
<u>Footnote 17</u>	Refer to s324DA of the <i>Corporations Act 2001</i> which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia.

Paragraph/Section Reference	Revisions
<u>290.157</u>	<u>If the individual has acted in any other capacity as a Key Audit Partner for seven cumulative years, the cooling-off period shall be two consecutive years.</u>
	<u>Service in a combination of Key Audit Partner roles</u>
<u>290.158</u>	<u>If the individual acted in a combination of Key Audit Partner roles and served as the Engagement Partner for four or more cumulative years, the cooling-off period shall be five consecutive years.</u>
<u>290.159</u>	<u>If the individual acted in a combination of Key Audit Partner roles and served as the Key Audit Partner responsible for the Engagement Quality Control Review for four or more cumulative years, the cooling-off period shall, subject to paragraph 290.160(a), be three consecutive years.</u>
<u>290.160</u>	<p><u>If an individual has acted in a combination of Engagement Partner and Engagement Quality Control Review roles for four or more cumulative years during the time-on period, the cooling-off period shall be:</u></p> <p><u>(a) Five consecutive years where the individual has been the Engagement Partner for three or more years; or</u></p> <p><u>(b) Three consecutive years in the case of any other combination.</u></p>
<u>290.161</u>	<u>If the individual acted in any other combination of Key Audit Partner roles, the cooling-off period shall be two consecutive years.</u>
	<u>Service at a Prior Firm</u>
<u>290.162</u>	<u>In determining the number of years that an individual has been a Key Audit Partner under paragraphs 290.153 to 290.154, the length of the relationship shall, where relevant, include time while the individual was a Key Audit Partner on that engagement at a prior Firm.</u>
	<u>Position where Shorter Cooling-Off Period is Established by Law or Regulation</u>
<u>290.163</u>	<u>Where a legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator) has established a cooling-off period for an Engagement Partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs 290.155, 290.158 and 290.160(a) provided that the applicable time-on period does not exceed seven years.</u>
<u>AUST 290.163.1</u>	<u>In Australia, where laws or regulations require a two year cooling-off period for Engagement Partners for audits of Public Interest Entities<sup>18</sup>, the cooling-off period shall be three years for audits of Financial</u>

Paragraph/Section Reference	Revisions
	<u>Statements for periods beginning prior to 31 December 2023 provided that the applicable time-on period does not exceed seven years.</u>
<u>Footnote 18</u>	<u>Refer to s324DA of the <i>Corporations Act 2001</i> which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia.</u>
	<u>Restrictions on Activities During the Cooling-off Period</u>
<u>290.164</u>	<p><u>For the duration of the relevant cooling-off period, the individual shall not:</u></p> <ul style="list-style-type: none"> <li><u>(a) Be a member of the Engagement Team or provide quality control for the Audit Engagement;</u></li> <li><u>(b) Consult with the Engagement Team or the client regarding technical or industry-specific issues, transactions or events affecting the Audit Engagement (other than discussions with the Engagement Team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);</u></li> <li><u>(c) Be responsible for leading or coordinating the Firm's Professional Services to the Audit Client or overseeing the Firm's relationship with the Audit Client; or</u></li> <li><u>(d) Undertake any other role or activity not referred to above with respect to the Audit Client, including the provision of non-assurance services, that would result in the individual:</u> <ul style="list-style-type: none"> <li><u>(i) Having significant or frequent interaction with senior management or Those Charged with Governance; or</u></li> <li><u>(ii) Exerting direct influence on the outcome of the Audit Engagement.</u></li> </ul> </li> </ul> <p><u>The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the Firm, such as that of the senior or managing partner.</u></p>
	<u>Other Matters</u>
<u>290.165</u>	<u>There may be situations where a Firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a Key Audit Partner to continue in that role even though the length of time served as a Key Audit Partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the Audit Engagement prior to an individual becoming a Key Audit Partner.</u>
<u>290.166<del>50</del></u>	<u>Despite paragraphs 290.149<del>153</del> – 290.161, Key Audit Partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the Firm's control, and with the concurrence of Those Charged with Governance, be permitted to serve</u>

Paragraph/Section Reference	Revisions
	<p>an additional year <u>as a Key Audit Partner on the Audit Team</u> as long as the threat to Independence can be eliminated or reduced to an Acceptable Level by applying safeguards. For example, a Key Audit Partner may remain <u>in that role</u> on the Audit Team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended Engagement Partner. <u>The Firm shall discuss with Those Charged with Governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.</u></p>
290.16752	<p>When an Audit Client becomes a Public Interest Entity, the length of time<sup>19</sup> the individual has served the Audit Client as a Key Audit Partner before the client becomes a Public Interest Entity shall be taken into account in determining the timing of the rotation.<sup>16</sup> If the individual has served the Audit Client as a Key Audit Partner for <u>a period of five cumulative</u> years or less when the client becomes a Public Interest Entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the Audit Client as a Key Audit Partner for <u>a period of six or more cumulative</u> years when the client becomes a Public Interest Entity, the partner may continue to serve in that capacity <u>with the concurrence of Those Charged with Governance</u> for a maximum of two additional years before rotating off the engagement.</p>
Footnote 196	<p>Refer to s324DA of the <i>Corporations Act 2001</i> which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia. <u>The Corporations Act 2001 restricts the number of years that an Engagement Partner can serve a listed Audit Client (which includes all the years served by the Engagement Partner on that entity).</u></p>
290.16853	<p>When a Firm has only a few people with the necessary knowledge and experience to serve as a Key Audit Partner on the audit of a Public Interest Entity, rotation of Key Audit Partners may not be an available safeguard. If an independent regulator<sup>2017</sup> in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a Key Audit Partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified <u>other requirements</u> <del>alternative safeguards</del> which are <u>to be applied</u>, such as <u>the length of time that the Key Audit Partner may be exempted from rotation or a regular independent external review.</u></p>
Footnote 2047	<p>Refer to s342A of the <i>Corporations Act 2001</i> which specifies that the Australian Securities and Investment Commission may grant extensions.</p>
290.16954 - -290.24126	<p><i>[Paragraphs 290.154 – 290.226 of extant Section 290 remain unchanged but renumbered as paragraphs 290.169 – 290.241.]</i></p>



Paragraph/Section Reference	Revisions
Footnote <del>2148</del> - <del>2320</del>	These footnotes in the extant Compiled Code (September 2017) remain unchanged but renumbered as indicated.
<b>Paragraphs 290.24227 to 290.499 are intentionally left blank.</b>	
<i>[Paragraphs 290.500 – 290.514 of extant Section 290 remain unchanged.]</i>	
<b>SECTION 291</b>	<b>INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS</b>  <i>[Paragraphs 291.1 – 291.136 of extant Section 291 remain unchanged.]</i> <b>Long Association of Senior Personnel with <u>an Assurance Clients</u></b>
291.137	<p>Familiarity and self-interest threats, <u>which may impact an individual's objectivity and professional scepticism, may <del>are</del> be created and may increase in significance when an individual is involved by using the same senior personnel on an Assurance Engagement of a recurring nature over a long period of time. The significance of the threats will depend on factors such as:</u></p> <ul style="list-style-type: none"> <li><del>•</del> How long the individual has been a member of the Assurance Team;</li> <li><del>•</del> The role of the individual on the Assurance Team;</li> <li><del>•</del> The structure of the Firm;</li> <li><del>•</del> The nature of the Assurance Engagement;</li> <li><del>•</del> Whether the client's management team has changed; and</li> <li><del>•</del> Whether the nature or complexity of the subject matter information has changed.</li> </ul> <p>The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an Acceptable Level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> <li><del>•</del> Rotating the senior personnel off the Assurance Team;</li> <li><del>•</del> Having a Member who was not a member of the Assurance Team review the work of the senior personnel; or</li> <li><del>•</del> Regular independent internal or external quality reviews of the engagement.</li> </ul> <p><u>A familiarity threat may be created as a result of an individual's long association with:</u></p> <ul style="list-style-type: none"> <li><del>•</del> <u>The Assurance Client; or</u></li> <li><del>•</del> <u>The subject matter and subject matter information of the Assurance Engagement.</u></li> </ul> <p><u>A self-interest threat may be created as a result of an individual's concern about losing a longstanding Assurance Client or an interest in maintaining a close personal relationship with the Assurance Client or a member of senior management and which may inappropriately influence the individual's judgement.</u></p>

Paragraph/Section Reference	Revisions
291.138	<p>The significance of the threats will depend on factors, considered individually or in combination, such as:</p> <ul style="list-style-type: none"> <li>• <u>The nature of the Assurance Engagement.</u></li> <li>• <u>How long the individual has been a member of the Assurance Team, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior Firm.;</u></li> <li>• <u>The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.</u></li> <li>• <u>The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the Assurance Engagement, for example, by making key decisions or directing the work of other members of the Engagement Team.</u></li> <li>• <u>The closeness of the individual's personal relationship with the Assurance Client or, if relevant, senior management.</u></li> <li>• <u>The nature, frequency and extent of interaction between the individual and the Assurance Client.</u></li> <li>• <u>Whether the nature or complexity of the subject matter or subject matter information has changed.</u></li> <li>• <u>Whether there have been any recent changes in the individual or individuals who are the responsible party, or if relevant, senior management.</u></li> </ul>
291.139	<p><u>The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and the Assurance Client would be reduced by the departure of the person who is the responsible party and the start of a new relationship.</u></p>
291.140	<p><u>The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. Examples of such safeguards in relation to a specific engagement include:</u></p> <ul style="list-style-type: none"> <li>• <u>Rotating the individual off the Assurance Team.</u></li> <li>• <u>Changing the role of the individual on the Assurance Team or the nature and extent of the tasks the individual performs.</u></li> <li>• <u>Having a Member in Public Practice who is not a member of the Assurance Team review the work of the individual.</u></li> <li>• <u>Performing regular independent internal or external quality reviews of the engagement.</u></li> <li>• <u>Performing an Engagement Quality Control Review.</u></li> </ul>

Paragraph/Section Reference	Revisions
291.141	If a Firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the Firm shall determine an appropriate period during which the individual shall not be a member of the Engagement Team or provide quality control for the Assurance Engagement or exert direct influence on the outcome of the Assurance Engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be eliminated or reduced to an Acceptable Level.
291.142 <del>38</del> – 291.160 <del>56</del>	<i>[Paragraphs 291.138 – 291.156 of extant Section 291 remain unchanged but renumbered as paragraphs 291.142 – 291.160.]</i>
<p><b>TRANSITIONAL PROVISIONS</b></p> <p>The Code is subject to the following transitional provisions:</p>	
Paragraphs 1 - 8	These paragraphs in the extant Compiled Code (September 2017) remain unchanged.
	<u><i>Long Association of Personnel with an Audit or Assurance Client</i></u>
9.	The long association provisions (including partner rotation) have been strengthened to stipulate specific requirements for Key Audit Partners. Subject to paragraph 10 below, paragraphs 290.148 – 290.168 are effective for audits of Financial Statements for periods beginning on or after 1 January 2019 and paragraphs 291.137 - 291.141 are effective for Assurance Engagements as of 1 January 2019. Early adoption is permitted.
10.	Paragraph 290.163 shall have effect only for audits of Financial Statements for periods beginning prior to 31 December 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for Engagement Partners where legislation or regulation has specified a cooling-off period of less than five consecutive years.
<b><u>Effective Date</u></b>	<p>The changes will be effective for:</p> <ul style="list-style-type: none"> <li>• <u>audits of Financial Statements for periods beginning on or after 1 January 2019;</u></li> <li>• <u>Assurance Engagements as of 1 January 2019.</u></li> </ul> <p><u>Early adoption is permitted.</u></p>