

24 March 2017

The Hon Nicola Roxon
Chairman
Accounting Professional & Ethical Standards Board
Level 11, 99 William Street
MELBOURNE Victoria 3000

Dear Ms Roxon,

Submission on Exposure Draft 01/17 Proposed Amendment to Long Association of Personnel with an Audit or Assurance Client requirements in APES 110 Code of Ethics for Professional Accountants

We welcome the opportunity to provide the Accounting Professional & Ethical Standards Board with our comments on Exposure Draft 01/17 (ED 01/17).

Nexia Australia represents the Nexia network firms in Australia comprising seven independent Chartered Accountancy firms located in Adelaide, Brisbane, Canberra, Darwin, Melbourne, Perth and Sydney.

Nexia Australia firms service clients from small to medium enterprises, large private company groups, not-for-profit entities, publicly listed entities and other public interest entities and includes market leaders in many sectors of business.

All firms are members of Nexia International, a global accounting and consulting network ranking 10th in size in terms of annual turnover and employing over 20,000 people in over 100 countries.

Comments on the proposals

Nexia Australia opposes the revisions to paragraph 260.155 to extend the cooling-off period for the Engagement Partners to 5 years and to paragraph 260.156 to extend the cooling-off period for the Engagement Quality Control Reviewer to 3 years.

We agree with the inclusion of paragraph AUST290.163.1 to the Code. However, after conclusion of the sunset period in 2023 the operation of the Code and the *Corporations Act 2001* will result in a maximum time-on period for the Engagement Partner of 5 years with a cooling-off period of 5 years.

In our opinion, these restrictions are excessive and place an unreasonable burden on smaller and mid-tier firms that have less than five audit partners in an individual office, as well as those smaller firms that audit entities in specialised industries (eg, financial services, resources) where specialist audit expertise is required.

In respect of listed entities, the *Corporations Act 2001* requires a cooling off period of 2 years for the Engagement Partner (EP) and the Review Partner (RP), once they have completed a 5 year term as an EP or RP. The extension of the cooling off period to 5 years for Engagement Partners will impose a burden greater than that considered necessary by local regulators and legislators.

We believe that adoption of a 5 year cooling-off period (ie, 5 years time-on followed by 5 years cooling-off) is excessive and not justified by objective data that such an approach would enhance audit quality.

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We are concerned that the proposals will result in the concentration of audits of PIEs to the Big 4 audit firms and will reduce competition in the Australian audit services market in that it significantly disadvantages audit practices comprising three qualified auditors, which are unable to meet the 5-on/5-off requirement. Adopting a 5-year cooling-off period will amount to audit firm rotation as those smaller and medium practices struggle to adequately resource those engagements.

We support the objective of exploring ways to improve audit quality. We believe that the accounting profession is better placed to implement other means that could directly improve audit quality such as through improving auditor competency, consultation requirements, and education.

In our opinion, extending the cooling-off period to 5 years is not the right solution and the proposal lacks clear evidence to support that assertion. In that context, the proposals do not appear to have satisfied the requirements in *The Australian Government Guide to Regulation* nor has the Board demonstrated that government action is needed as required by the Australian government's requirements relating to Regulation Impact Statements.

In our opinion, a reasoned, rational and supportable case for amending the existing cooling-off requirements has not been made. Consequently, Nexia Australia opposes the proposals contained in ED 01/17.

Should you wish to discuss any aspects of our submission, please contact me at molde@nexiaaustralia.com.au.

Yours faithfully

Nexia Australia Pty Ltd



Martin Olde
Technical Director