

**Marked-up version**

## **Amendments to Long Association of Personnel with an Audit or Assurance Client requirements in APES 110 *Code of Ethics for Professional Accountants***

ISSUED: [DATE]

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## 2 DEFINITIONS

[AUST] Professional Bodies means the Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

[Other terms defined in Definitions remain unchanged.]

## PART B - MEMBERS IN PUBLIC PRACTICE

### SECTION 290

#### INDEPENDENCE - AUDIT AND REVIEW ENGAGEMENTS

[Paragraphs 290.1 – 290.147 of extant Section 290 remain unchanged.]

Long ~~association~~ Association of ~~senior personnel~~ Personnel (including ~~partner~~ Partner rotation Rotation) with an Audit Client

#### General Provisions

290.148 Familiarity and self-interest threats, which may impact an individual's objectivity and professional scepticism, may are 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:

- ~~• How long the individual has been a member of the Audit Team;~~
- ~~• The role of the individual on the Audit Team;~~
- ~~• The structure of the Firm;~~
- ~~• The nature of the Audit Engagement;~~
- ~~• Whether the client's management team has changed; and~~
- ~~• Whether the nature or complexity of the client's accounting and reporting issues has changed.~~

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:

- The Audit Client and its operations;
- The Audit Client's senior management; or
- The Financial Statements on which the Firm will express an Opinion or the financial information which forms the basis of the Financial Statements.

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.

290.149 The significance of the threats will depend on factors, individually or in combination, relating to both the individual and the Audit Client.

(a) Factors relating to the individual include:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior Firm.
- How long the individual has been a member of the Engagement Team, and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- 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.
- The closeness of the individual's personal relationship with senior management or Those Charged with Governance.
- The nature, frequency and extent of the interaction between the individual and senior management or Those Charged with Governance.

(b) Factors relating to the Audit Client include:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or Those Charged with Governance.
- 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.

290.150 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.

290.151 The significance of ~~the any~~ threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce ~~it them~~ to an Acceptable Level. Examples of such safeguards include:

- Rotating the ~~individual senior personnel~~ off the Audit Team;
- Changing the role of the individual on the Audit Team or the nature and extent of the tasks the individual performs.
- Having a Member ~~in Public Practice~~ who was not a member of the Audit Team review the work of the ~~senior personnel/individual~~;
- Performing ~~R~~regular independent internal or external quality reviews of the engagement.
- Performing an Engagement Quality Control Review.

290.152 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.

#### Audits ~~Clients that are of~~ Public Interest Entities

~~290.149~~290.153 In respect of an audit of a Public Interest Entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the "time-on" period): be a Key Audit Partner for more than seven years.<sup>2</sup> 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 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.

(a) The Engagement Partner;

(b) The individual appointed as responsible for the Engagement Quality Control Review; or

(c) Any other Key Audit Partner role.

After the time-on period, the individual shall serve a "cooling-off" period in accordance with the provisions in paragraphs 290.155 – 290.163.

290.154 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.

#### Cooling-off Period

290.155 If the individual acted as the Engagement Partner for seven cumulative years, the cooling-off period shall be five consecutive years.

290.156 Where the individual has been appointed as responsible for the Engagement Quality Control Review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

290.157 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.

#### Service in a combination of Key Audit Partner roles

290.158 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.

<sup>2</sup> Refer to s324DA of the *Corporations Act 2001* which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia.

290.159 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.

290.160 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:

(a) Five consecutive years where the individual has been the Engagement Partner for three or more years; or

(b) Three consecutive years in the case of any other combination.

290.161 If the individual acted in any other combination of Key Audit Partner roles, the cooling-off period shall be two consecutive years.

#### Service at a Prior Firm

290.162 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.

#### Position where Alternative Cooling-Off Period for Engagement Partners is Established by Law or Regulation

290.163 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.

AUST290.163.1 Subject to AUST290.163.2, in Australia, the provisions of paragraph 290.163 apply to circumstances where legislation or a regulator prescribes a time-on period of shorter than seven years during which an individual is permitted to be Engagement Partner in the audits of Public Interest Entities.<sup>1</sup>

AUST290.163.2 Where the Audit Client has exercised an option, in accordance with legislation or regulation, to extend the Engagement Partner's time-on period to seven years, the cooling-off period shall be five consecutive years as specified in paragraphs 290.155, 290.158 and 290.160(a).

#### Restrictions on Activities During the Cooling-off Period

290.164 For the duration of the relevant cooling-off period, the individual shall not:

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<sup>1</sup> Refer to s324DA of the *Corporations Act 2001* which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia.

- (a) Be a member of the Engagement Team or provide quality control for the Audit Engagement;
- (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);
- (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
- (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:
  - (i) Having significant or frequent interaction with senior management or Those Charged with Governance; or
  - (ii) Exerting direct influence on the outcome of the Audit Engagement.

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.

#### Other Matters

290.165 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.

~~290.15066~~ Despite paragraph 290.449153 - 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 an additional year as a Key Audit Partner on the Audit Team 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 in that role 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. 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.

~~290.151 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:~~

- ~~• How long any such partner has been associated with the Audit Client;~~
- ~~• The role, if any, of the individual on the Audit Team; and~~
- ~~• The nature, frequency and extent of the individual's interactions with the client's management or Those Charged with Governance.~~

~~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:~~

- ~~• Rotating the partner off the Audit Team or otherwise ending the partner's association with the Audit Client; or~~
- ~~• Regular independent internal or external quality reviews of the engagement.~~

[Paragraphs 290.151 of extant Section 290 has been deleted as content is addressed in paragraphs 290.148 and 290.149.]

290.1~~52-67~~ When an Audit Client becomes a Public Interest Entity, the length of time 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>2</sup> If the individual has served the Audit Client as a Key Audit Partner for a period of five cumulative 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 six or more cumulative years when the client becomes a Public Interest Entity, the partner may continue to serve in that capacity with the concurrence of Those Charged with Governance for a maximum of two additional years before rotating off the engagement.

290.1~~5368~~ 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>3</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 alternative safeguards other requirements which are to be applied, such as the length of time that the Key Audit Partner may be exempted from rotation or a regular independent external review.

[Paragraphs 290.154 – 290.228 of extant Section 290 remain unchanged but renumbered as paragraphs 290.169 – 290.242.]

Paragraphs 290.243 to 290.499 are intentionally left blank.

[Paragraphs 290.500 – 290.514 of extant Section 290 remain unchanged.]

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2 Refer to s324DA of the *Corporations Act 2001* which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia.

3 Refer to s342A of the *Corporations Act 2001* which specifies that the Australian Securities and Investment Commission may grant extensions.



## SECTION 291

### INDEPENDENCE—OTHER ASSURANCE ENGAGEMENTS

*[Paragraphs 291.1 – 291.136 of extant Section 291 remain unchanged.]*

#### Long Association of ~~Senior~~ Personnel with an Assurance Clients

291.137 Familiarity and self-interest threats, which may impact an individual's objectivity and professional scepticism, may ~~are 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:

A familiarity threat may be created as a result of an individual's long association with:

- The Assurance Client; or
- The subject matter and subject matter information of the Assurance Engagement.

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.

291.138 The significance of the threats will depend on factors, considered individually or in combination, such as:

- The nature of the Assurance Engagement.
- 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.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- 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.
- The closeness of the individual's personal relationship with the Assurance Client or, if relevant, senior management.
- ~~• The role of the individual on the Assurance Team;~~
- ~~• The structure of the Firm;~~
- The nature, ~~of the Assurance Engagement;~~ frequency and extent of interaction between the individual and the Assurance Client.
- ~~• Whether the client's management team has changed; and~~
- Whether the nature or complexity of the subject matter or subject matter information has changed.

- Whether there have been any recent changes in the individual or individuals who are the responsible party, or if relevant, senior management.

291.139 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.

291.140 The significance of ~~the any~~ threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an Acceptable Level. Examples of such safeguards in relation to a specific engagement include:

- Rotating the ~~senior personnel~~individual off the Assurance Team~~;~~
- Changing the role of the individual on the Assurance Team or the nature and extent of the tasks the individual performs.
- Having a Member in Public Practice who ~~was~~ is not a member of the Assurance Team review the work of the ~~senior personnel;~~ or individual.
- Performing Regular independent internal or external quality reviews of the engagement.
- Performing an Engagement Quality Control Review.

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.

[Paragraphs 291.138 – 291.157 of extant Section 291 remain unchanged but renumbered as paragraphs 291.142 – 291.161.]

## TRANSITIONAL PROVISIONS

The Code is subject to the following transitional provisions:

*[Paragraphs 1 – 6 of extant Transitional Provisions remain unchanged.]*

Long Association of Personnel with an Audit Client or Assurance Client

7. The long association provisions (including partner rotation) have been strengthened to stipulate specific requirements for Key Audit Partners. The new provisions set out in paragraphs 290.148 – 290.168 are effective for audits of Financial Statements for periods beginning on or after 15 December 2018 and paragraphs 291.137 - 291.141 are operative on 15 December 2018. Early adoption of these amendments is permitted.
8. The alternative jurisdictional partner rotation requirements set out in paragraph 290.163 shall have effect only for audits of Financial Statements for periods beginning prior to 15 December 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for Engagement Partners in those jurisdictions where the legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.