

Audit Partner rotation requirements in Australia

Technical Staff Questions & Answers

Second edition: November 2019

Purpose

Australian professional and ethical requirements relating to audit partner rotation changed for periods beginning on or after 1 January 2019. To assist the Australian accounting profession with this change, the Technical Staff of the Accounting Professional & Ethical Standards Board Limited (APESB) released the first edition of the Technical Staff Questions & Answers (Q&A) publication in 2017.

In November 2018, APESB issued a restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code), with an effective date of 1 January 2020. This Questions & Answers (Q&A) publication has been updated to reflect the provisions (Sections 540 and 940) in the restructured Code, along with additional Q&As based on stakeholders' feedback and enquiries.

The provisions released in Australia align with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* released by the International Ethics Standard Board for Accountants (IESBA). The IESBA's equivalent publication *IESBA Staff Questions & Answers – Long Association of Personnel with an Audit Client (issued May 2017 and revised in May 2019)* has been utilised as the base document in the preparation of this publication.

Important note

This publication has been prepared by Technical Staff of the APESB. It does not constitute an authoritative or official pronouncement of APESB.

This publication and the examples contained within are provided for illustrative purposes only and are not intended to be, and cannot be, all-inclusive. The examples in this publication are provided to illustrate the requirements of the Code and are not intended to address all possible circumstances.

The publication does not amend or override the Code, the text of which alone is authoritative. Reading this publication is not a substitute for reading the full text of the Code and other relevant APESB pronouncements.

This document has been prepared by APESB Technical Staff. It is a non-authoritative document issued for information purposes only. Copyright © 2019 Accounting Professional & Ethical Standards Board Limited ('APESB'). For copyright, trademarks, and permissions information, please see page 36.

Table of Contents

Section	Page
A. Introduction	3
B. General provisions on partner rotation	7
C. Specific provisions for audits of PIEs	8
D. Entities listed in other jurisdictions.....	14
E. Breaks in service	17
F. Combination of roles	19
G. Other specific circumstances	22
H. Determination of Cooling-off period.....	25
Appendix A – Flowchart: Determination of type of entity	29
Appendix B – Flowchart: A Public Interest Entity (PIE) subject to a cooling-off period established by a law or regulation	30
Appendix C – Flowchart: Combination of Audit Partner Roles (continued from Appendix B).....	31
Appendix D – Flowchart: A Public Interest Entity (PIE) not subject to a cooling-off period established by law or regulation	32
Appendix E: Application of Provisions Regarding Service in a Combination of Roles	33

A. Introduction

Key changes to audit partner rotation requirements

In April 2018, APESB revised the provisions in the Code on the long association of personnel with an Audit or Assurance Client.¹ The most significant changes affect audit partners of Public Interest Entities (PIEs). The changes see an increase in the time required for an audit partner of a PIE to cool-off if they are either an Engagement Partner (EP) or the Engagement Quality Control Review (EQCR) Partner.

The auditor rotation rules primarily impact a Key Audit Partner who can be classified as an Engagement Partner, Engagement Quality Control Review (EQCR) Partner or other Key Audit Partners. The impact on these three roles is set out below.

Engagement Partners

Where current laws or regulations apply which specify a cooling-off period of two years (such as the *Corporations Act 2001*), the cooling-off period for Engagement Partners on PIE audits increases from two years to three years effective for periods beginning on or after 1 January 2019.² This cooling-off period of three years is only applicable for periods beginning on or after 1 January 2019 and prior to 31 December 2023 (**transition period**). Subsequent to the end of the [transition period](#), the Engagement Partner will be subject to a five-year cooling-off period.

Where there are no applicable laws and regulations specifying a cooling-off period, then the cooling-off period for Engagement Partners on PIE audits increased from two years to five years for periods beginning on or after 1 January 2019.³

Engagement Quality Control Review (EQCR) Partner

For periods beginning on or after 1 January 2019 the cooling-off period for EQCR Partners increased from two years to three years.

Other Key Audit Partners

For all other Key Audit Partners, the cooling-off period remains unchanged at two years.

A summary of the changes to the current rotation requirements is set out in Tables 1 and 2 below. [Table 1](#) sets out the requirements for PIEs such as Listed Entities and APRA regulated entities, where a shorter cooling-off period (i.e. two years) is mandated by laws and regulations. In these circumstances during the [transition period](#) a cooling-off period of three years must be used (i.e. higher of three years in the Code or two years in the laws or regulations). [Table 2](#) sets out the requirements for all other PIEs where a shorter cooling-off is not mandated by laws and regulations.

Note that for both tables:

- the cooling-off period is the minimum number of consecutive years that a Key Audit Partner must cool-off from the Audit Engagement, and
- the time-on period is the maximum number of cumulative (but not necessarily consecutive) years the applicable audit partner can perform a Key Audit Partner role on an engagement (Refer to [Questions 4](#) to [6](#)).

¹ Amendments first included in APES 110 *Code of Ethics for Professional Accountants* in Sections 290 and 291 in April 2018. In the restructured Code, effective from 1 January 2020, these provisions are now in Sections 540 and 940.

² If the Engagement Partner has not completed the two-year cooling-off period before 1 January 2019, the cooling-off period will be three years.

³ If the Engagement Partner has not completed the two-year cooling-off period before 1 January 2019, the cooling-off period will be five years.

Table 1: Rotation requirements for Listed Entities and APRA regulated entities

Role	Current		Transition (1 Jan 2019 to pre 31 Dec 2023)		Full Provisions (from 31 Dec 2023)	
	Time on (yrs)	Cooling off (yrs)	Time on (yrs)	Cooling off (yrs)	Time on (yrs)	Cooling off (yrs)
Engagement Partner	5/7**	2	5/7**	3	5/7**	5
EQCR Partner	5/7**	2	5/7**	3	5/7**	3
Other Key Audit Partners	7	2	7	2	7	2

****** In accordance with applicable laws and regulations, Audit Engagement and EQCR Partners can serve in the same role for a maximum of five years⁴, but may be extended by the Audit Client or a regulator in accordance with applicable laws and regulations.⁵

Pursuant to paragraph R540.9 of the Code, Firms may have the opportunity for relief from the partner rotation requirements in the Code based on an exemption provided by a relevant regulator, subject to conditions being imposed.⁶ Where such relief is available, the individual could remain as a Key Audit Partner (for example, as the Engagement Partner) on the Audit Engagement in accordance with any conditions specified under such relief.

Table 2: Rotation requirements for all PIEs other than Listed Entities and APRA regulated entities

Role	Current		Full provisions (from 1 Jan 2019)	
	Time on (yrs)	Cooling off (yrs)	Time on (yrs)	Cooling off (yrs)
Engagement Partner	7	2	7	5
EQCR Partner	7	2	7	3
Other Key Audit Partners	7	2	7	2

⁴ Refer to s324DA of the *Corporations Act 2001* for Audit Partner rotation requirements for Listed Entities. APRA Prudential Standards CPS 510 *Governance* (July 2019) and SPS 510 *Governance* (July 2017) provides partner rotation requirements for APRA regulated entities.

⁵ Refer also to s324DAA of the *Corporations Act 2001* in respect of extension of Audit Partner time-on periods for audits of Listed Entities.

⁶ Refer to s342A of the *Corporations Act 2001* which specifies that the Australian Securities and Investment Commission (ASIC) may grant extensions. APRA has the authority to grant extensions for Audit Partners of APRA regulated entities.

For audit partners of all other entities where laws and regulations do not mandate the cooling-off period, additional requirements and guidance have been included in the Code, such as the need to address familiarity and self-interest threats to Independence by determining an appropriate cooling-off period for Key Audit Partners.

Refer to [Appendices A](#) to [D](#) for flowcharts which map out the original and amended audit partner rotation requirements.

For the full details of the changes to the audit partner rotation provisions please refer to the Code on the [APESB website](#).

Who do the changes apply to?

The changes to the auditor partner rotation requirements in the Code are substantial and therefore all Members in Public Practice who perform audit and assurance services need to consider the impact of these changes.

An individual will need to cool-off from an Audit or Assurance Engagement if it is determined that there are familiarity and self-interest threats to Independence. The period of cooling-off will need to be determined by the Member and the Firm.

For Members in Public Practice who perform audits or reviews of Financial Statements for PIEs, the changes are more prescriptive and set out specific time-on and cooling-off periods for specific roles undertaken by Key Audit Partners. Members and Firms will need to consider the type of PIE they are auditing and whether there are specific laws and regulations that impact the cooling-off period during the [transition period](#). Refer to the section [Public Interest Entities](#) below for information on PIEs and to [Questions 4](#) to [14](#) for further information on shorter cooling-off periods applicable during the [transition period](#).

Further details of these changes are available in the Code.

Public Interest Entities

The Code includes a definition of a PIE and its meaning in paragraphs 400.8 to AUST 400.8.1 A1. The definition of PIE includes the following:

- a Listed Entity (including a listed entity as defined in Section 9 of the *Corporations Act 2001*); or
- an entity (a) defined by regulation or legislation as a public interest entity or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same Independence requirements that apply to the audit of Listed Entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

In determining whether an entity is a PIE it is important for a Member in Public Practice or Firm to consider the specifics of the entity such as the nature of the business, including its size and the number of employees, and whether there are a large number and wide range of stakeholders.

In Australia, entities that would generally meet the definition of PIEs (as per paragraph AUST 400.8.1 A1) include:

- Authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (NOHCs) regulated by the Australian Prudential Regulatory Authority (APRA) under the *Banking Act 1959*;
- Authorised insurers and authorised NOHCs regulated by APRA under Section 122 of the *Insurance Act 1973*;
- Life insurance companies and registered NOHCs regulated by APRA under the *Life Insurance Act 1995*;
- Private health insurers regulated by APRA under the *Private Health Insurance (Prudential Supervision) Act 2015*;
- Disclosing entities as defined in Section 111AC of the *Corporations Act 2001*;
- Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members, regulated by APRA under the *Superannuation Industry (Supervision) Act 1993*; and
- Other issuers of debt and equity instruments to the public.

Effective date for the amended requirements

The changes to the audit partner rotation requirements came into effect for periods beginning on or after 1 January 2019. The updated requirements in the restructured Code become effective from 1 January 2020.

Note that there is transitional relief for Engagement Partners who perform audits and reviews for PIEs, such as Listed Entities, disclosing entities or APRA regulated entities, where a shorter cooling-off period is mandated by laws or regulations (refer to the section [Key changes to audit partner rotation requirements](#) above and [Question 4](#)).

B. General provisions on partner rotation

Q1. What are the general provisions for the long association of personnel with an Audit or Assurance Engagement?

The Code requires individuals and Firms to perform an assessment as to whether there are any threats to Independence created from an individual being associated over a long period of time with an Audit or Assurance Client. If threats are identified, the individual and the Firm need to address these threats by eliminating them or reducing them to an Acceptable Level. This can be done by:

- Eliminating the circumstances including interests or relationships, that are creating the threats;
- Applying safeguards, where available and capable of being applied, to reduce the threats to an Acceptable Level; or
- Declining or ending the specific professional activity.

A key safeguard that could be implemented is removing the individual from the Audit or Assurance Engagement for a sufficient period to ensure the threat is adequately addressed.

If the engagement is for the audit of a PIE, there are additional requirements that must be met by the individual and the Firm. These requirements are set out in paragraphs R540.5 to 540.20 A1 of the Code, and discussed in [Section C](#) of this publication. However, if threats to Independence are identified, the general provisions must be considered and may override the outlined periods in the specific requirements for the audit of PIEs.

Q2. Section 540 of the Code measures time-on and cooling-off periods in years. Does the reference to years refer to a financial or calendar year?

The term 'year' refers to the client's financial year, which is ordinarily a 12-month period. It does not refer to a calendar year or the time it takes to perform the audit.

Refer to [Questions 23](#) and [24](#) for examples of a client's financial year being longer or shorter than a 12-month period.

C. Specific provisions for audits of PIEs

Q3. Are the audit partner rotation requirements the same for all PIEs?

No. In addition to the audit partner rotation requirements in the Code, there are laws and regulations in Australia which set out audit partner rotation requirements for some entities, such as Listed Entities and APRA regulated entities. The impact of complying with these laws and regulations, as well as the Code requirements, creates different rotation requirements for the Key Audit Partners of these PIEs.

The Code also specifies different rotation requirements for the different roles undertaken by audit partners in relation to the Audit Engagement. While the time-on period for all audit partners is the same maximum number of years, there are different cooling-off periods required for the different roles.

Refer to [Questions 4](#) and [5](#) for the specific rotation requirements where a shorter cooling-off period is mandated by laws and regulations (applicable to Listed Entities and APRA regulated entities during the [transition period](#)).

Refer to [Question 6](#) for the specific rotation requirements for entities where laws and regulations do not apply (applicable to PIEs excluding Listed and APRA regulated entities).

[Appendices A](#) to [D](#) set out the audit partner rotation requirements in flowcharts.

Q4. What are the requirements where a shorter cooling-off period is allowed under laws and regulations (i.e. for Listed and APRA regulated entities)?

In Australia, Engagement Partners of PIEs are required to comply with audit partner rotation requirements set out in specific laws and regulations, such as Listed Entities subject to the *Corporations Act 2001* and APRA regulated entities⁷, in addition to the requirements in the Code. These audit partners must follow the stricter requirements of the Code or the relevant law or regulation to ensure compliance with all relevant requirements.

Another important factor in determining the rotation requirements for these Engagement Partners is that the amended requirements in the Code allow a shorter cooling-off period during the [transition period](#). The shorter cooling-off period is the higher of three years or the period specified in the laws and regulations (i.e. two years) and will be applicable as long as the time-on period does not exceed seven years (paragraphs R540.19 and AUST R540.19.1 of the Code). These provisions will only apply during the [transition period](#). After that date, the cooling-off period will be five years.

A summary of the audit partner rotation requirements for Listed Entities and APRA regulated entities that are PIEs is set out in [Table 1](#) in [Section A](#), and [Appendices B](#) and [C](#).

Q5. A shorter cooling-off period can be substituted for the specific cooling-off period during the [transition period](#) where it is allowed under laws and regulations (as per paragraph R540.19 of the Code) and the cooling-off period is for a minimum of three years. For the substitution to meet the provisions in the Code, does the shorter cooling-off period need to be completed by the end date of the transition period?

No. The shorter cooling-off period can be applied as long as the specified conditions in paragraph R540.19 of the Code are met and the cooling-off period commences prior to 1 January 2024, for example if the Engagement Partner begins cooling-off from the start of the 12 month financial year starting on 1 January 2023.

⁷ Listed Entities as defined in the *Corporations Act 2001* and APRA regulated entities including those covered by APRA Prudential Standards CPS 510 *Governance* (July 2019) and SPS 510 *Governance* (July 2017).

For example, if an Engagement Partner of a Listed or APRA regulated entity commences a cooling-off period on 1 July 2023 (in relation to a 30 June year end audit), the applicable cooling-off would be three years (years ending 30 June 2024, 2025 and 2026) and the partner could return in any Key Audit Partner role for the year ended 30 June 2027.

However, if an Engagement Partner of a Listed or APRA regulated entity commenced a cooling-off period on 1 January 2024 (in relation to a 31 December year end audit), the cooling-off period would need to be for five years, meaning the partner could return in any Key Audit Partner role for the year ended 31 December 2029.

Q6. What are the requirements where a shorter cooling-off period is not allowed (i.e. all PIEs other than Listed or APRA regulated entities)?

When there are no specific laws and regulations that apply to the PIE, the audit partners must comply with the specific requirements of the Code set out in paragraphs R540.5 to R540.18 and paragraphs R540.20 to 540.20 A1.

Paragraph R540.19 of the Code, allowing the substitution of a shorter cooling-off period, will generally not apply to Audit Engagements for PIEs other than Listed and APRA regulated entities in Australia. This also means that there will be no [transition period](#) where the cooling-off period gradually steps up to the full provisions of the Code.

A summary of the audit partner rotation requirements for PIEs that are unable to substitute a shorter cooling-off period is set out in [Table 2](#) in [Section A](#) and [Appendix D](#).

Q7. What are the audit partner rotation requirements during the [transition period](#), when an Engagement Partner has been performing two different types of audits for an Audit Client to meet different reporting requirements and the shorter cooling-off period substitution is allowed for one of the audits but not for the other (for example, a non-listed APRA regulated PIE requires a statutory financial audit (with an audit partner rotation requirement of a 5-year cooling-off period) and an audit for APRA prudential requirements (with an audit partner rotation requirement of a 3-year cooling-off period))?

In the case where there are multiple requirements relating to the audits performed by an Engagement Partner for an Audit Client, the Engagement Partner must comply with the stricter audit partner rotation requirements and the restrictions on activities during the cooling-off period.

For example, the required cooling-off period for an Engagement Partner who performs the audit of APRA prudential requirements for an APRA regulated non-listed PIE is 3 years during the [transition period](#), as they are allowed to substitute a shorter cooling-off period required by local laws and regulations. However, the required cooling-off period for the same Engagement Partner who performs the statutory audit for the same APRA regulated non-listed PIE is 5 years, as they cannot access the substituted shorter cooling-off period allowed in paragraphs R540.19 and AUST R540.19.1 of the Code.

In addition, paragraph R540.20 imposes restrictions on the activities the Engagement Partner can undertake during a cooling-off period, including prohibiting any involvement with senior management or Those Charged with Governance.

Based on consideration of all these requirements and in this circumstance, the Engagement Partner should comply with the stricter rotation requirements, meaning completing a 5-year cooling-off period if they are going to continue performing the statutory and APRA required audits for the client.

Engagement Partner on a Subsidiary of a Public Interest Entity

- Q8. Individual A has served as the Engagement Partner for the audit of a PIE (P) for five years. Individual B has served as the Engagement Partner on the audit of a subsidiary (S) of P for five years. How long is the cooling-off period for individuals A and B if P is a Listed or APRA regulated entity?**

Individual A

In accordance with paragraphs R540.19 and AUST R540.19.1 of the Code, for audits of Financial Statements during the [transition period](#), individual A will be required to cool-off from the Audit Engagement for three consecutive years (i.e. higher of three years specified in the Code or two years in laws or regulations).

If the audit was for Financial Statements beginning on or after 31 December 2023, individual A will be required to cool-off from the Audit Engagement for five consecutive years.

Note that the length of the cooling-off periods will be the same if the Audit Client or the regulator permits individual A to increase their time-on period to seven years.

Individual B

To determine the appropriate cooling-off period for individual B it is necessary to consider B's role in the context of the audit of S and the group audit of P.

When reviewing B's role in the audit of S, the first consideration is whether S is a PIE. If S is a PIE, then the second consideration is whether that PIE is itself a Listed or APRA regulated entity.

If S is a Listed or APRA regulated entity, then the cooling-off periods for individual B will be consistent with the cooling-off periods for individual A. For audits of Financial Statements during the [transition period](#), individual B will be required to cool-off from the engagement for three consecutive years. For audits of Financial Statements beginning on or after 31 December 2023, the cooling-off period for individual B must be for five consecutive years.

If S is a PIE other than a Listed or APRA regulated entity the cooling-off period for individual B must be 5 years. However, individual B may serve a further two years on the Audit Engagement before the relevant cooling-off periods become applicable.

From the perspective of the group audit of P, it is necessary to determine if B is a Key Audit Partner. This determination would depend, for example, on the significance of the subsidiary to the group and whether individual B makes key decisions or judgements with respect to the group audit. If individual B was a Key Audit Partner in respect of P's group audit, he or she is required to serve a two-year cooling-off period from the group audit. However, individual B may serve a further two years on the Audit Engagement before the relevant cooling-off periods become applicable. (See also [Question 12](#))

If individual B was not a Key Audit Partner in P's group audit, there is no cooling-off requirement for individual B from the group audit. However, individual B will be subject to the general provisions set out in paragraphs 540.3 A1 to R540.4 of the Code.

- Q9. Individual C has served for seven years as the Engagement Partner for the audit of a PIE (Q) that is not a Listed or APRA regulated entity. Individual D has served as the Engagement Partner on the audit of a subsidiary (T) of Q for five years. How long is the cooling-off period for individuals C and D?**

Individual C

A cooling-off period of five consecutive years applies to individual C, as the Engagement Partner responsible for the audit reports issued on behalf of the Firm for the audit of Q. This Engagement Partner is sometimes referred to as the 'Lead Audit Engagement Partner' in a group audit.

Individual D

To determine the appropriate cooling-off period for individual D it is necessary to consider D's role in the context of the audit of T and the group audit of Q.

When reviewing individual D's role in the audit of T, the first consideration is whether T is a PIE. If T is a PIE, then the second consideration is whether that PIE is itself a Listed or APRA regulated entity.

If T is a Listed or APRA regulated entity, then the cooling-off periods will be as follows:

- For audits of Financial Statements during the [transition period](#), individual D will be required to cool-off from the engagement for three consecutive years.
- For audits of Financial Statements beginning on or after 31 December 2023, the cooling-off period for individual D must be for five consecutive years.

If T is a PIE other than a Listed or APRA regulated entity the cooling-off period for individual D must be five years. However, individual D may serve a further two years on the Audit Engagement before the relevant cooling-off periods become applicable.

From the perspective of the group audit of Q, it is necessary to determine if individual D is a Key Audit Partner. This determination would depend, for example, on the significance of the subsidiary to the group and whether individual D makes key decisions or judgements with respect to the group audit. If individual D was a Key Audit Partner in respect of Q's group audit, he or she is required to serve a two-year cooling-off period from the group audit. However, individual D may serve a further two years on the Audit Engagement before the relevant cooling-off periods become applicable. (See also [Question 12](#).)

If individual D was not a Key Audit Partner in Q's group audit, there is no cooling-off requirement for individual D from the group audit. However, individual D will be subject to the general provisions set out in paragraphs 540.3 A1 to R540.4 of the Code.

Engagement Partner on the Audit of a Public Interest Entity moving to a Subsidiary Audit

- Q10. Individual A has completed a cumulative period of five years as Engagement Partner on the audit of a PIE (P) that is a Listed Entity. Could individual A participate in the audit of a subsidiary (S) of P for purposes of the group audit of P without completing the required cooling-off period?**

No. Paragraph R400.20 of the Code states that:

- a) an Audit Client that is a Listed Entity includes all of its Related Entities (which include subsidiaries); and
- b) for all other Audit Clients, references to an Audit Client include Related Entities over which the client has direct or indirect control (which also would include subsidiaries).

Accordingly, individual A is subject to the same cooling-off period with respect to both P and S, as the reference to the Audit Client P also includes S. For audits of Financial Statements during the [transition period](#), this means individual A is not allowed to participate in the audit of S for purposes of the group audit of P without completing the required cooling-off period of three years. For audits of Financial Statements beginning on or after 31 December 2023, the mandatory cooling-off period would be five consecutive years.

Note that the time-on period for an Engagement Partner of a Listed Entity may be extended by the Audit Client or a regulator in accordance with the provisions of s342A and 324DA of the *Corporations Act 2001*. However, as this extension is not automatically applied and requires specific consent, it has not been applied to the facts in this question.

Q11. Individual C has completed a cumulative period of seven years as Engagement Partner on the audit of a PIE (Q) that is not a Listed or APRA regulated entity. Could individual C participate in the audit of a subsidiary (T) of Q for purposes of the group audit of Q without completing the required cooling-off period of five years?

No. Paragraph R400.20 of the Code states that:

- a) where an Audit Client is a Listed Entity, references to an Audit Client include its Related Entities (which include subsidiaries); and
- b) for all other Audit Clients, references to an Audit Client include Related Entities over which the client has direct or indirect control (which also would include subsidiaries).

Accordingly, individual C is subject to a five-year cooling-off period with respect to both Q and T, as the reference to the Audit Client (Q) also includes T. Individual C is not permitted under the Code to participate in the audit of T for purposes of the group audit of Q without completing the required cooling-off period of five years.

Engagement Partner on the Audit of a Subsidiary moving to the Audit of the PIE Parent

Q12. Individual C has completed a cumulative period of seven years as Engagement Partner on the audit of a subsidiary (S) of a PIE (P). Could individual C participate in the group audit of P after completing the seven-year time-on period on the audit of S?

The answer depends on whether individual C was a Key Audit Partner in the group audit of P; and whether S is a Listed Entity and, if so, whether it is material to P.

If individual C was considered to be a Key Audit Partner in the group audit of P, he or she would not be able to participate in the group audit until the completion of the appropriate cooling-off period. If S is a PIE, individual C would be required to serve a five-year cooling-off period (or a three-year cooling-off period if paragraphs R540.19 and AUST R540.19.1 of the Code apply) in relation to the audit of S.

If individual C was not considered to be a Key Audit Partner with respect to the group audit of P, but S is a Listed Entity and it is material to P, individual C would not be able to participate in the group audit of P⁸. Under the Related Entity provision in paragraph R400.20 of the Code, the reference to Audit Client (in this case, S) will also include P⁹. Individual C would therefore not be permitted to participate in the group audit of P without completing the required cooling-off period of five years (or three years during the [transition period](#)).

⁸ If S is material to P, it is likely that the Engagement Partner on S would be a Key Audit Partner in the group audit of P. However, this is not necessarily the case in all circumstances. This is because under the definition of a Key Audit Partner in the Code, whether the individual is a Key Audit Partner depends on whether he or she makes key decisions or judgements on significant matters with respect to the group audit, and not on whether S is material to P.

⁹ The definition of a Related Entity under the Code includes an entity that has direct or indirect control over the client if the client is material to such entity.

Signing Partner Different from Engagement Partner

- Q13. The Code defines the Engagement Partner as the partner or other person in the Firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the Firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body to sign the audit report. In the situation where the partner who signs the audit report (the signing partner) is not the same individual as the Engagement Partner, which cooling-off provisions apply to the former?**

The signing partner, if different, would normally also be treated as an Engagement Partner and would be subject to the same requirements as the Engagement Partner.

Where more than one audit partner is required to sign the audit report, it may not be reasonable or appropriate to treat all the signing partners as Engagement Partners. In this case, determining which cooling-off provisions apply would depend on engagement circumstances and the reasons why there are additional signing partner(s). At a minimum, however, any signing partner who is not the Engagement Partner would be a Key Audit Partner and therefore subject to a minimum two-year cooling-off period as applicable to the audit of a PIE.

- Q14. Paragraph R540.19 of the Code allowing a shorter cooling-off period for Engagement Partners will have effect only for audits of Financial Statements of PIEs for periods beginning prior to 31 December 2023. Does this mean that for audits of Financial Statements for periods beginning on or after 31 December 2023 the cooling-off requirement will increase to five consecutive years even though the relevant laws and regulations have not changed?**

Yes. Paragraph R540.19 of the Code facilitates the transition to the revised cooling-off period of five consecutive years for Engagement Partners on audits of PIEs in those jurisdictions (such as Australia) where a shorter cooling-off period is currently specified by a legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator). The impact of this transitional provision is that the cooling-off period will be three consecutive years as long as the time-on period does not exceed seven years.

APESB added paragraph AUST R540.19.1 to the Code to clarify how the application of this provision affects Listed Entities subject to the *Corporations Act 2001* and APRA regulated entities (see [Questions 4](#) and [5](#) for more detailed information).

The IESBA has committed to review this transitional provision to take account of, among other things, relevant legislative and regulatory developments as well as the experience of the application of the provisions in practice. However, this does not necessarily mean the provisions will change and Members in Public Practice and their Firms need to ensure they have put in place adequate plans to meet the requirements of the Code.

D. Entities listed in other jurisdictions

Q15. Are audit partner rotation requirements impacted if the Audit Client is listed in a foreign jurisdiction?

Potentially.

When an Audit Client is listed in a foreign jurisdiction, the Member in Public Practice or a Firm will need to consider a number of matters to help them determine the applicable audit partner rotation requirements. These matters would include:

- The structure of the entity;
- The jurisdiction where the relevant entity is incorporated and domiciled;
- The laws and regulations that require the entity to prepare Financial Statements;
- The laws and regulations that require an audit to be performed on the Financial Statements;
- Applicable stock exchange listing rules for the jurisdiction where the entity is listed;
- Relevant laws, regulations, and professional and ethical requirements relating to the rotation of audit partners, and audit Firms where applicable;
- Any relief from rotation requirements granted by the appropriate regulator;
- The role of the individual within the group audit (i.e. responsible for the group, parent entity or subsidiary audit);
- The specific Key Audit Partner role of the Member;
- Applicable policies and procedures of the entity relating to the appointment and removal of the auditor (these may be established by the Audit Committee); and
- Applicable policies and procedures of the Firm and Network Firm, where applicable.

In some situations, an entity may also be a dual Listed Entity. The term 'dual Listed Entities' is used to refer to entities that are listed on multiple stock exchanges. The way the dual listing is achieved may vary depending on the requirements in the relevant jurisdictions and the structure of the entity(ies) involved (for example, separate entities established in separate jurisdictions, or a single entity established and registered on the stock exchange in one jurisdiction which is also registered on the stock exchange in another jurisdiction).

The audit partner rotation requirements which will apply to the Key Audit Partners for an entity listed in a foreign jurisdiction or a dual Listed Entity may also need to consider the requirements in the relevant jurisdictions that need to be complied with.

The Member or Firm may find, after reviewing the considerations listed above, that they need to comply with multiple audit partner rotation requirements. This may mean that the rotation to be undertaken is a hybrid of applicable audit partner rotation requirements.

Australian domiciled entity listed on both the Australian and New Zealand stock exchanges

Q16. Individual E is the Engagement Partner for the audit of Aust Co, an Australian incorporated company that is listed on both the Australian and New Zealand Stock Exchanges.

At 30 June 2018 individual E has served as Engagement Partner on the audit of Aust Co for five years and is now required under audit partner rotation requirements to cool-off. What is the appropriate cooling-off period for individual E?

Matters to Consider

In determining the relevant cooling-off period individual E would have considered the following factors:

- As Aust Co is incorporated in Australia it needs to prepare Financial Statements in accordance with Part 2M of the *Corporations Act 2001*.
- The *Corporations Act 2001* sets out audit partner rotation requirements in s.324DA which apply to individual E as the Engagement Partner of a listed company (i.e. Aust Co).
- Individual E is a Member in Public Practice in Australia who must comply with the audit partner rotation requirements of the Code. In accordance with paragraphs R540.19 and AUST R540.19.1 of the Code, individual E will be required to cool-off from the Audit Engagement for three consecutive years (i.e. higher of three years specified in the Code or two years in laws or regulations).
- The timing of the cooling-off period and whether it falls within the [transition period](#) (as outlined in paragraph AUST R540.19.1). Subsequent to the end of the [transition period](#), the Engagement Partner will be subject to a five-year cooling-off period.
- The Australian Stock Exchange (ASX) Listing rules require the audit of Aust Co to be conducted in accordance with the Australian Auditing Standards by a registered company auditor.
- Whether Aust Co is listed on the New Zealand Stock Exchange (NZX) as a NZX Foreign Exempt Issuer as defined in the NZX Listing Rules or whether they are an Issuer of another class of Financial Product quoted on the NZX, with NZX being the home exchange (as this determines the NZX Listing Rules that would be applicable to Aust Co).
- Aust Co must comply with the applicable listing requirements in the NZX Listing Rules. Depending on the manner of how they are listed in NZ, this may include Rule 2.13.3 which requires the Audit Committee of an Issuer (as defined in the NZX Listing Rules) to ensure that the Key Audit Partner is changed at least every five years.
- The NZX Listing Rules allow Aust Co to lodge accounts prepared in accordance with *Corporations Act 2001* requirements instead of the *Financial Management Authority Act 2011* requirements.

Conclusion

Based on the specific facts and circumstances set out in this example individual E will need to cool-off from the Audit Engagement for a minimum period of three consecutive years. Individual E could come back to the Audit Engagement in any Key Audit Partner role for the 2022 audit.

Members are cautioned that the determination of the appropriate cooling-off period to meet audit partner rotation requirements is a matter to be determined based on the particular facts and circumstances. The conclusion for this example is based on the facts and circumstances outlined above and any changes to those facts and circumstances may change the outcome of the required cooling-off period to be undertaken by Key Audit Partners.

New Zealand domiciled entity listed on both the New Zealand and Australian stock exchanges

Q17. Individual W is the Engagement Partner for the audit of NZ Co, a New Zealand incorporated company that is listed on both the New Zealand and Australian Stock Exchanges.

At 30 June 2018 individual W has served as Engagement Partner on the audit of NZ Co for five years. Can individual W serve an additional two years as Engagement Partner for this Audit Engagement? If individual W needs to cool-off what is the appropriate period?

Matters to Consider

In determining the relevant cooling-off period individual W would have considered the following factors:

- As NZ Co is incorporated in New Zealand it needs to ensure that Financial Statements prepared are audited by a qualified auditor (refer to Section 207 of the *Companies Act 1993* (NZ)).
- NZ Co must comply with the applicable listing requirements in the New Zealand Stock Exchange (NZX) Listing Rules. This includes Rule 2.13.3 which requires the Audit Committee of an Issuer (as defined in the NZX Listing Rules) to ensure that the Key Audit Partner is changed at least every five years. Note that this listing rule does not apply to NZX Foreign Exempt Issuers.
- Individual W is a Member in Public Practice in New Zealand who must comply with the audit partner rotation requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) (PES 1). Paragraph R540.11 of PES 1 requires individual W to cool-off from the Audit Engagement for five consecutive years.
- Whether NZ Co is listed on the Australian Stock Exchange (ASX) as a Standard ASX Listing, a Foreign Exempt Listing or an ASX Debt Listing as defined in the ASX Listing Rules (as this determines the ASX Listing Rules applicable to NZ Co).
- The ASX Listing Rules allow NZ Co to lodge accounts prepared in accordance with NZ laws and regulations as long as the accounts comply with the rules of the NZX and NZ Co is listed on the ASX as a Foreign Exempt Listing.

Conclusion

As NZ Co is a Listed Entity on the NZX, the Audit Committee of NZ Co would have been required to advise individual W to cool-off from the Audit Engagement. Based on the specific facts and circumstances set out in this example, individual W cannot complete a further two years on this Audit Engagement. The minimum period for cooling-off for individual W is five consecutive years off the Audit Engagement. Individual W could come back to the Audit Engagement in any Key Audit Partner role for the 2024 audit.

Members are cautioned that the determination of the appropriate cooling-off period to meet audit partner rotation requirements is a matter to be determined based on the particular facts and circumstances. The conclusion for this example is based on the facts and circumstances outlined above and any changes to those facts and circumstances may change the outcome of the required cooling-off period to be undertaken by Key Audit Partners.

E. Breaks in service

Q18. How do breaks in service affect the determination of time-on and cooling-off periods for an Engagement Partner, an EQCR Partner or any other Key Audit Partner for the audit of a PIE?

In calculating the time-on period, the count of years may be restarted if the break in service is equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 of the Code as applicable to the Key Audit Partner role in which the individual served in the year immediately prior to the break in service. Breaks in service that are shorter than the required cooling-off period do not contribute to the consecutive cooling-off period.

For example, if a Key Audit Partner for the audit of a PIE (that is not a Listed or APRA regulated entity) has completed five years in the role and is off the engagement for one year due to medical leave, the one year off does not count towards cooling-off and the cumulative time-on period. He or she could therefore return to the engagement as a Key Audit Partner for a further two years (completing a total of seven cumulative years of service) before being required to serve the cooling-off period associated with his or her role on the engagement.

In contrast, if the Key Audit Partner had acted as the EQCR Partner for those five years, followed by three years off the engagement, then he or she will have cooled off and could return to the engagement for a further seven years.

[Table 3](#) below illustrates some examples of how the cooling-off period would apply in the case of an audit of a PIE (which is not a Listed or APRA regulated entity) where “X” represents a year in which the individual was not a Key Audit Partner on the audit and met the requirements on restrictions in the cooling-off period in paragraph R540.20 of the Code. For the purpose of this table, “KAP” refers to an individual who was neither the Engagement Partner nor the EQCR Partner.

Table 3: Effect of Breaks in Service on cooling-off periods for PIEs that are not Listed or APRA regulated entities

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Cooling-off period
EP	EP	EP	EP	EP	EP	X	EP		Five consecutive years off at the end of Yr 8 (Note 1)
EQCR	EQCR	EQCR	EQCR	X	X	EQCR	EQCR	EQCR	Three consecutive years off at the end of Yr 9 (Note 2)
KAP*	KAP*	KAP*	X	KAP*	KAP*	X	KAP*	KAP*	Two consecutive years off at the end of Yr 9 (Note 3)
KAP*	KAP*	KAP*	X	X					The KAP* could return in Yr 6 for a further seven year period (Note 4)

* KAP = an individual who was neither the Engagement Partner nor the EQCR Partner

Notes

1. The one year off the engagement in year 7 does not constitute cooling-off as it is less than the five consecutive years off required to achieve cooling-off for an Engagement Partner. So, the individual reaches seven cumulative years on the engagement at the end of year 8 after which he or she must serve a cooling-off period of five consecutive years.
2. The two years off the engagement in years 5 and 6 do not constitute cooling-off as they are less than the three consecutive years off required to achieve cooling-off for an EQCR Partner. So, the individual reaches seven cumulative years on the engagement at the end of year 9, after which he or she must serve a cooling-off period of three consecutive years.
3. The two years off the engagement in years 4 and 7 do not constitute cooling-off as they do not add up to two consecutive years off required to achieve cooling-off for an other Key Audit Partner. So, the individual reaches seven cumulative years on the engagement at the end of year 9, after which he or she must serve a cooling-off period of two consecutive years.
4. The individual has effectively served a cooling-off period of two consecutive years in years 4 and 5 (even though not required by the Code as he or she had not completed seven years on the audit) and therefore could return in year 6 in any Key Audit Partner role for a further seven year period.

[Table 4](#) below illustrates further examples for the audit of a PIE that is a Listed or APRA regulated entity. Note “X” represents a year in which the individual was not a Key Audit Partner on the audit and met the requirements on restrictions in the cooling-off period in paragraph R540.20 of the Code. For the purpose of this table, “KAP” refers to an individual who was neither the Engagement Partner nor the EQCR Partner.

Table 4: Effect of Breaks in Service on cooling-off periods for PIEs that are Listed or APRA regulated entities

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Cooling-off period
EP	EP	EP	EP	X	EP	X	X	X	Three consecutive years for periods during the transition period or five consecutive years for periods beginning on or after 31/12/23 at the end of Yr 6 (Note 5)
EQCR	EQCR	X	EQCR	EQCR	EQCR	X	X	X	Three consecutive years off at the end of Yr 6 (Note 6)
KAP*	KAP*	KAP*	X	KAP*	KAP*	X	KAP*	KAP*	Two consecutive years off at the end of Yr 9 (Note 7)
KAP*	KAP*	KAP*	X	X					The KAP* could return in Yr 6 for a further seven year period (Note 8)

* KAP = an individual who was neither the Engagement Partner nor the EQCR Partner

Notes

5. The one year off the engagement in year 5 does not constitute cooling-off as it is less than the required cooling-off period for Engagement Partners. So, the individual reaches five years on the engagement at the end of year 6 after which he or she must serve a cooling-off period of three consecutive years for periods during the [transition period](#) or five consecutive years for periods beginning on or after 31 December 2023.
6. The EQCR has completed five years on this role at the end of year 6. He or she needs to cool-off for three consecutive years to achieve the required cooling-off period for an EQCR Partner.
7. The two years off the engagement in years 4 and 7 do not constitute cooling-off as they do not add up to the two consecutive years off required to achieve cooling-off for an other Key Audit Partner. So, the individual reaches seven cumulative years on the engagement at the end of year 9, after which he or she must serve a cooling-off period of two consecutive years.
8. The individual has effectively served a cooling-off period of two consecutive years in years 4 and 5 (even though not required by the Code as he or she had not completed 7 years on the audit) and therefore could return in year 6 in any Key Audit Partner Role for a further seven year period.

F. Combination of roles

Q19. An individual has undertaken a combination of Key Audit Partner roles on the audit of a PIE during the seven-year time-on period. How should the required cooling-off period be determined in those circumstances?

The number of required years to cool-off will be determined by the roles undertaken, the type of PIE entity and the periods during which they were performed.

[Table 5](#) below provides some examples of the effect of the combination of roles for PIEs that are not Listed or APRA regulated entities.

[Table 6](#) below provides further examples for PIEs that are Listed or APRA regulated entities.

For the purpose of these tables, “KAP” refers to an individual who was neither the Engagement Partner nor the EQCR Partner. For simplicity, breaks in service (covered in [Question 18](#)) are ignored. The cooling-off period refers to consecutive years.

A full analysis of the possible combinations and the determination of the required cooling-off period is included in the [Appendices](#) of this Publication.

Table 5: Effect of the combination of roles on cooling-off periods for PIEs that are not Listed or APRA regulated entities

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Cooling-off period
KAP*	KAP*	KAP*	EP	EP	EP	EP	5 years (Note 1)
KAP*	KAP*	KAP*	EQCR	EQCR	EQCR	EQCR	3 years (Note 2)
EP	EP	EQCR	KAP*	KAP*	KAP*	KAP*	2 years (Note 3)
EQCR	EQCR	EQCR	EQCR	EP	EP	EP	5 years ¹⁰ (Note 4)
EQCR	EQCR	EQCR	KAP*	KAP*	EP	EP	3 years (Note 5)
EP	EP	KAP*	KAP*	KAP*	EP	EP	5 years (Note 1)

* KAP = an individual who was neither the Engagement Partner nor the EQCR Partner

Notes

1. As the individual has served on the Audit Engagement for a total of seven cumulative years in a combination of roles during which he or she was the Engagement Partner for four or more years, the individual must serve a cooling-off period of five consecutive years before he or she can return to the Audit Engagement (see paragraph R540.14 of the Code).
2. As the individual has served on the Audit Engagement for a total of seven cumulative years in a combination of roles during which he or she was the EQCR Partner for four or more years, the individual must serve a cooling-off period of three consecutive years before he or she can return to the Audit Engagement (see paragraph R540.15 of the Code).
3. The individual has served on the Audit Engagement for a total of seven cumulative years but has not served as the Engagement Partner or the EQCR Partner for at least four of those seven years. Accordingly, the individual must serve a cooling-off period of two consecutive years before he or she can return to the engagement (see paragraph R540.17 of the Code).
4. The individual has served on the Audit Engagement for a total of seven cumulative years in a combination of Engagement Partner and EQCR Partner roles during which he or she was the Engagement Partner for three years, the individual must serve a cooling-off period of five consecutive years before he or she can return to the Audit Engagement (see paragraph R540.16 (a) of the Code).
5. As the individual has served on the Audit Engagement for a total of seven cumulative years in a combination of Key Audit Partner Roles, with more than four years in Engagement Partner and EQCR Partner roles but was the Engagement Partner for less than three years, the individual must serve a cooling-off period of three consecutive years before he or she can return to the Audit Engagement (see paragraph R540.16 (b) of the Code).

¹⁰ As part of its current project to revise its International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, the International Auditing and Assurance Standards Board (IAASB) is examining how to address situations where an individual moves into an EQCR role on an Audit Engagement immediately after having served as EP on the same engagement. APESB is monitoring the progress of this ISQC1 project, including its potential implications to APES 320 *Quality Control for Firms*.

Table 6: Effect of the combination of roles on cooling-off periods for PIEs that are Listed or APRA regulated entities

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Cooling-off period
KAP*	KAP*	KAP*	EP	EP	EP	EP	3 years for periods during the transition period or 5 years for periods beginning on or after 31/12/23 (Note 6)
KAP*	KAP*	KAP*	EQCR	EQCR	EQCR	EQCR	3 years (Note 7)
EP	EP	EP	KAP*	KAP*	KAP*	KAP*	2 years (Note 8)
EQCR	EQCR	EQCR	EQCR	EP			3 years (Note 9)
EQCR	EQCR	EQCR	EQCR	EQCR			3 years (Note 10)
EP	EP	KAP*	KAP*	KAP*	EP	EP	3 years for periods during the transition period or 5 years for periods beginning on or after 31/12/23 (Note 6)
KAP*	KAP*	KAP*	KAP*	EP	EP	EP	2 years (Note 8)

* KAP = an individual who was neither the Engagement Partner nor the EQCR Partner

Notes

6. As the individual has served on the Audit Engagement for a total of seven cumulative years in a combination of roles during which he or she was the Engagement Partner for four or more years, the individual must serve a cooling-off period of three consecutive years during the [transition period](#) or five consecutive years for periods commencing on or after 31 December 2023, before he or she can return to the Audit Engagement (see paragraphs R540.14, R540.19 and AUST R540.19.1 of the Code).
7. As the individual has served on the Audit Engagement for a total of seven cumulative years in a combination of roles during which he or she was the EQCR Partner for four or more years, the individual must serve a cooling-off period of three consecutive years before he or she can return to the Audit Engagement (see paragraph R540.15 of the Code).
8. The individual has served on the Audit Engagement for a total of seven cumulative years in a combination of roles during which he or she was the Engagement Partner for three years and an other Key Audit Partner for four years. Accordingly, the individual must serve a cooling-off period of two consecutive years before he or she can return to the engagement (see paragraph R540.17 of the Code).
9. The individual has served on the Audit Engagement for a total of five consecutive years in a combination of Engagement Partner and EQCR Partner roles during which he or she was the EQCR Partner for four consecutive years. Unless granted an extension, the individual must serve a cooling-off period of three consecutive years before he or she can return to the Audit Engagement (see paragraph R540.16 (b) of the Code).
10. The individual has served on the Audit Engagement for a total of five years as EQCR Partner. Unless granted an extension, the individual is not able to perform the Engagement Partner or EQCR role until he or she has cooled off from the engagement for three consecutive years (see the paragraph R540.15 of the Code).

G. Other specific circumstances

Implications of Involvement in a Half-Year Review

- Q20. A partner signs a half-year review opinion in relation to a client that is a PIE, then another partner signs the opinion for the audit. Does the partner's service as Engagement Partner for the half-year Review Engagement constitute a year for the purposes of applying the rotation requirements?**

Yes. The partner for the Review Engagement is also considered to have served one year for the purposes of applying the rotation provisions even if he or she was not the Engagement Partner for the audit of the Financial Statements.

Implications of a Need to Re-audit a Prior Period

- Q21. A Firm accepts a new PIE Audit Client that had previously been audited by another Firm. In the course of auditing the current period's Financial Statements, it was determined that the newly engaged Firm should re-audit the prior two periods for comparative purposes only (with no updated audit reports to be issued). For the purposes of the partner rotation provisions of the Code, does this engagement constitute one year or three years of service by the audit partner?**

As the audits are undertaken concurrently, this constitutes one year of service for the purposes of determining when the individuals would need to rotate. The familiarity threat would not be different than if the Engagement Partner had performed only the first-year audit of the entity as a new client.

Implications of Auditing Multiple Periods in one Calendar Year

- Q22. A Firm accepts a new PIE Audit Client that is a Listed Entity. The newly engaged Firm is required to audit three successive financial years within the first calendar year of their appointment. For the purposes of the partner rotation provisions, does this engagement constitute one year or three years of service by the audit partner?**

In Australia there are requirements in the *Corporation Act 2001* that specify audit partner rotation requirements for Listed Entities and listed registered schemes (s324DA). These requirements are specifically linked to the financial year of the audited body. This position is clarified in ASIC's *Regulatory Guide 187: Auditor Rotation*.

Based on the requirements of the *Corporations Act 2001*, the engagement would constitute three years for the purposes of determining when the individuals would need to rotate.

Audits of Financial Statements for Periods Other than 12 Months

- Q23. A firm audits an eighteen-month period for a PIE due to a change in the entity's financial year-end. Does the Engagement Partner's service constitute one year for the purposes of partner rotation?**

Yes, it would be considered as one year.

Q24. Due to a change in accounting period, a firm audits two sets of financial statements for a PIE, one covering a six-month period and the other the subsequent twelve-month period. Would the engagement partner's service constitute one or two years for the purposes of partner rotation?

This depends on whether the PIE is a Listed or APRA regulated entity or not.

In Australia there are requirements in the *Corporations Act 2001* that specify audit partner rotation requirements for Listed Entities and listed registered schemes (s324DA). These requirements are specifically linked to the financial year of the audited body. This position is clarified in ASIC's *Regulatory Guide 187: Auditor Rotation*. Based on the requirements of the *Corporations Act 2001*, the engagement would constitute two years for the purposes of determining when the individuals would need to rotate.

If the PIE is not a Listed or APRA regulated entity, it depends on the timing of the execution of the audits. If the Audit Engagements are carried out concurrently, the two engagements would constitute one year of service. The familiarity threat would not be different than if the engagement partner had served on the audit of the combined 18-month period as one engagement. If, however, the two Audit Engagements are not carried out concurrently, they would be considered as two years of service.

Manager Becoming a Key Audit Partner

Q25. A manager served on the Audit Engagement Team for a PIE Audit Client for five years before being promoted to partner. How many years may he or she serve on the engagement as a Key Audit Partner for that Audit Client?

The rotation requirements in the Code apply to time spent as a Key Audit Partner. In principle, the individual may serve seven years¹¹ as a Key Audit Partner. However, the general provisions of the Code indicate that in evaluating the threat created by long association, the overall length of an individual's association with the client, how long the individual has been on the Engagement Team and the roles that he or she has played should be taken into account (see paragraphs 540.3 A3 and R540.10 of the Code). A Firm may decide that it is appropriate to rotate an individual off the Audit Team before the end of the seven-year period or to serve a period off the engagement before re-joining the Audit Engagement Team as a Key Audit Partner.

Entities Becoming Public Interest Entities

Q26. How do the revised long association provisions apply to audits of entities that become Public Interest Entities?

Paragraph R540.8 of the Code permits an Audit Partner who has already served an Audit Client for a period of six or more cumulative years at the time of the entity becoming a PIE (for example, through an Initial Public Offering) to serve a further two years with the concurrence of Those Charged with Governance of the entity.

However, the requirements of the *Corporations Act 2001*¹² mean that any years served as the Engagement Partner or the EQCR Partner on the audit of this entity before the listing is included in determining the maximum five-year time-on period allowed for Listed Entities. Therefore, a partner who has served five years or more as the Engagement Partner or EQCR Partner on the audit of a private company prior to its listing is not permitted to act in a similar role once the entity becomes a Listed Entity.

¹¹ If the PIE entity is a Listed Entity or APRA regulated entity the maximum time-on period for the Engagement Partner or EQCR Partner may only be five years, unless the relevant regulator grants an extension to the time-on period.

¹² Refer to s324DA of the *Corporations Act 2001* which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia. The *Corporations Act 2001* restricts the number of years that an Engagement Partner can serve an Audit Client that becomes a Listed Entity.

Note that the time-on period for an Engagement Partner of a Listed Entity may be extended by the Audit Client or a regulator in accordance with the provisions of s342A and 324DA of the *Corporations Act 2001*. However, as this extension is not automatically applied and requires specific consent, it has not been applied to the facts in this question.

Additional Restrictions on Activities during the Cooling-off Period

Q27. The 30 June 2017 financial year audit will be the seventh year an individual has served as a Key Audit Partner on the audit of a PIE that is not a Listed or APRA regulated entity. The individual then commences a cooling-off period starting with the 30 June 2018 audit. How should the provision regarding additional restrictions on activities during the cooling-off period be applied?

The new provisions on the scope of activities apply to all Key Audit Partners from the effective date. Accordingly, if a Key Audit Partner has completed his or her seventh cumulative year of service with the 2017 financial year audit and commenced a cooling-off period with the 2018 financial year audit, he or she would be required to comply with paragraph 290.149 of the extant Code for the financial year 2018 audit and paragraph R540.20 of the Code for the 2019 financial year audit and thereafter. Additional restrictions would apply in 2019. For example, during 2019 the individual would not be permitted to lead or coordinate the Firm's Professional Services to the Audit Client – this change would need managing in terms of a Firm's resource planning.

Q28. An individual has served five cumulative years as a Key Audit Partner on the audit of a PIE that is a Listed Entity and has entered a cooling-off period as required by the Code. The Firm subsequently determines that the individual will not return to the Audit Engagement at the end of the cooling-off period. Would the individual be permitted to move into a role in which he or she provides non-assurance services to the entity which would involve significant contact with management during the cooling-off period?

No. Under paragraph R540.20(d), the individual would be prohibited from undertaking any role or activity, including the provision of non-assurance services, which would result in the individual:

- (a) Having significant or frequent interaction with senior management or Those Charged with Governance; or
- (b) Exerting direct influence on the outcome of the Audit Engagement.

Whilst the cooling-off requirement serves to facilitate a 'fresh pair of eyes', the prohibition in R540.20 also serves to allow the Audit Engagement Team to conduct the audit without any influence from the former Key Audit Partner. Accordingly, even if there is no intention for the former Key Audit Partner to return to the audit, the Code would not permit the individual to provide such non-assurance services to the entity during the cooling-off period.

H. Determination of Cooling-off Period

Listed Entities and APRA regulated entities (including transitional relief)

30 June year end

- Q29. The Engagement Partner for the audit of a PIE that is a Listed or APRA regulated entity served for five cumulative years in that role with the completion of the 30 June 2017 financial year audit. How long should the individual cool-off?**

The cooling-off period commences for the financial year beginning 1 July 2017. Under the original provisions, a cooling-off period of two consecutive years is required (i.e. for 2018 and 2019). The Engagement Partner will complete the cooling-off period required under the original provisions before the revised provisions come into effect for the next audit of the Financial Statements of the client beginning on or after 1 January 2019. The individual could come back to the Audit Engagement in any Key Audit Partner role for the 2020 audit.

- Q30. The Engagement Partner for the audit of a PIE that is a Listed or APRA regulated entity served for five cumulative years in that role with the completion of the 30 June 2018 audit. How long should the individual cool-off?**

The cooling-off period commences for the financial year beginning 1 July 2018. The length of the cooling-off period must meet the requirements of the revised provisions as the Engagement Partner will not be able to complete a two-year cooling-off period required by the original provisions before the revised provisions come into effect.

The Engagement Partner will need to cool-off for three consecutive years. The individual will not be able to be a Key Audit Partner on the audit of this entity until the 30 June 2022 audit.

- Q31. The Engagement Partner for the audit of a PIE that is a Listed or APRA regulated entity served for five cumulative years in that role with the completion of the 30 June 2023 audit. How long should the individual cool-off?**

The cooling-off period commences for the financial year beginning 1 July 2023. The Engagement Partner has commenced the cooling-off period prior to the end of the [transition period](#) for the substitution of a shorter cooling-off period established by law and regulation, i.e. effective for audits of financial statements for periods beginning prior to 31 December 2023. Therefore, the Engagement Partner will need to cool-off for three consecutive years. The individual will not be able to be a Key Audit Partner on the audit of this entity until the 30 June 2027 audit.

- Q32. The Engagement Partner for the audit of a PIE that is a Listed or APRA regulated entity served for five cumulative years in that role with the completion of the 30 June 2024 audit. How long should the individual cool-off?**

The cooling-off period commences for the financial year beginning 1 July 2024. The substitution of a shorter cooling-off period established by law and regulation will no longer be able to be applied as it was only effective for audits of financial statements for periods beginning prior to 31 December 2023. Therefore, the Engagement Partner will need to cool-off for five consecutive years. The individual will not be able to be a Key Audit Partner on the audit of this entity until the 30 June 2030 audit.

31 December year end

- Q33. The Engagement Partner for the audit of a PIE that is a Listed or APRA regulated entity served for five cumulative years in that role with the completion of the 31 December 2016 financial year audit. How long should the individual cool-off?**

The cooling-off period commences for the financial year beginning 1 January 2017. Under the original provisions, a cooling-off period of two consecutive years is required (i.e. for 2017 and 2018). The Engagement Partner will complete the cooling-off period required under the original provisions before the revised provisions come into effect for the next audit of the Financial Statements of the client beginning on or after 1 January 2019. The individual could come back to the Audit Engagement in any Key Audit Partner role for the 2019 audit.

- Q34. The Engagement Partner for the audit of a PIE that is a Listed or APRA regulated entity served for five cumulative years in that role with the completion of the 31 December 2017 financial year audit. How long should the individual cool-off?**

The cooling-off period commences for the financial year beginning 1 January 2018. The length of the cooling-off period must meet the revised requirements as the Engagement Partner will not complete the cooling-off period required under the original provisions before the revised provisions came into effect.

The Engagement Partner needs to complete a cooling-off period of three consecutive years (i.e. 2018 - 2020) in accordance with the new provisions. The individual could come back to the Audit Engagement in any Key Audit Partner role for the 2021 audit.

- Q35. The Engagement Partner for the audit of a PIE that is a Listed or APRA regulated entity served for five cumulative years in that role with the completion of the 31 December 2022 audit. How long should the individual cool-off?**

The cooling-off period commences for the financial year beginning 1 January 2023. The Engagement Partner has commenced the cooling-off period prior to the end of the [transition period](#) for the substitution of a shorter cooling-off period established by law and regulation, i.e., effective for audits of financial statements for periods beginning prior to 31 December 2023. Therefore, the Engagement Partner will need to cool-off for three consecutive years. The individual will not be able to be a Key Audit Partner on the audit of this entity until the 31 December 2026 audit.

- Q36. The Engagement Partner for the audit of a PIE that is a Listed or APRA regulated entity served for five cumulative years in that role with the completion of the 31 December 2023 audit. How long should the individual cool-off?**

The cooling-off period commences for the financial year beginning 1 January 2024. The substitution of a shorter cooling-off period established by law and regulation will no longer be able to be applied as it was only effective for audits of financial statements for periods beginning prior to 31 December 2023. Therefore, the Engagement Partner will need to cool-off for five consecutive years. The individual will not be able to be a Key Audit Partner on the audit of this entity until the 31 December 2029 audit.

PIEs other than Listed Entities and APRA regulated entities

30 June year end

- Q37. The Engagement Partner for the audit of a PIE that is not a Listed or APRA regulated entity served for seven cumulative years in that role with the completion of the audit of the financial period ending 30 June 2017. How long should the Engagement Partner cool-off?**

The cooling-off period commences for the financial period beginning 1 July 2017. Under the original provisions, a cooling-off period of two consecutive years is required (i.e. for 2018 and 2019). The Engagement Partner will complete the cooling-off period required under the original provisions before the revised provisions come into effect for the next audit of the Financial Statements of the client beginning on or after 1 January 2019. The individual could come back to the engagement in any Key Audit Partner role for a new seven-year term with the audit for the financial period ending 30 June 2020.

- Q38. The Engagement Partner for the audit of a PIE that is not a Listed or APRA regulated entity served for seven cumulative years in that role with the completion of the 30 June 2018 financial year audit. How long should the individual cool-off?**

The cooling-off period commences for the financial period beginning 1 July 2018. The length of the cooling-off period must meet the revised requirements as the Engagement Partner will not be able to complete the cooling-off period required under the original provisions before the revised provisions came into effect. The Engagement Partner needs to complete a cooling-off period of five consecutive years. The individual could come back to the engagement in any Key Audit Partner role for a new seven-year term with the 2024 audit.

31 December year end

- Q39. The Engagement Partner for the audit of a PIE that is not a Listed or APRA regulated entity served for seven cumulative years in that role with the completion of the audit of the financial period ending 31 December 2016. The individual subsequently did not participate in the 2017 and 2018 audits. Would that individual be able to come back as Engagement Partner for the 2019 audit for a new seven-year term?**

Yes. The cooling-off period commences for the financial period beginning 1 January 2017. Under the original provisions, a cooling-off period of two consecutive years is required (i.e. for 2017 and 2018). The Engagement Partner will complete the cooling-off period required under the original provisions before the revised provisions come into effect for the next audit of the Financial Statements of the client beginning on or after 1 January 2019. The individual could begin a new seven-year term beginning with the audit of the financial period ending 31 December 2019.

- Q40. The Engagement Partner for the audit of a PIE that is not a Listed or APRA regulated entity served for seven cumulative years in that role with the completion of the 31 December 2018 financial year audit. How long should the individual cool-off?**

The cooling-off period commences for the financial period beginning 1 January 2019. The length of the cooling-off period must meet the revised requirements as the Engagement Partner will not complete the cooling-off period required under the original provisions before the revised provisions came into effect. The Engagement Partner needs to complete a cooling-off period of five consecutive years. The individual could come back to the engagement in any Key Audit Partner role for a new seven-year term with the 2024 audit.

Breaks in service

Q41. The Engagement Partner for the audit of a PIE that is not a Listed or APRA regulated entity served for five years in that role with the completion of the 30 June 2018 financial year audit. The individual subsequently did not participate in the 2019 and 2020 audits. Would that individual be able to come back as Engagement Partner for the 2021 audit for a new seven-year term (having cooled off for the 2019 and 2020 audits)?

No, the Engagement Partner would not be able to come back for a new seven-year term. As the revised provisions are effective for audits of Financial Statements for periods beginning on or after 1 January 2019, the revised cooling-off provisions in the Code apply. Accordingly, if the Engagement Partner comes off the engagement before the full permitted seven-year time-on period is served, under the revised provisions the full five-year cooling-off period applies in accordance with paragraphs R540.6 and R540.6 A1 of the Code before the individual may come back to the engagement in any Key Audit Partner role for a new seven-year time-on period.

In this case, the individual would therefore be able to serve as Engagement Partner for an additional two years (i.e., for the 2021 and 2022 financial year audits) before reaching the cumulative seven-year time-on period. He or she would then need to cool-off for five consecutive years starting from the 2023 financial year audit.

Alternatively, the individual could remain off the engagement for the 2021, 2022 and 2023 financial year audits, reaching the five consecutive years cooling-off period applicable to Engagement Partners under the new provisions, and then come back to the 2024 audit in any Key Audit Partner role for a new seven-year time-on period.

The tables below illustrate the two options, where “X” represents a year in which the individual was not a Key Audit Partner on the audit.

Option 1

FY 2018 (Yr 5)	FY 2019	FY 2020	FY 2021 (Yr 6)	FY 2022 (Yr 7)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028 (Yr 1)
EP	X	X	EP	EP	X	X	X	X	X	KAP*

* KAP = Key Audit Partner

Option 2

FY 2018 (Yr 5)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024 (Yr 1)	FY 2025 (Yr 2)	FY 2026 (Yr 3)	FY 2027 (Yr 4)	FY 2028 (Yr 5)
EP	X	X	X	X	X	KAP*	KAP*	KAP*	KAP*	KAP*

* KAP = Key Audit Partner

Appendix A – Flowchart: Determination of type of entity

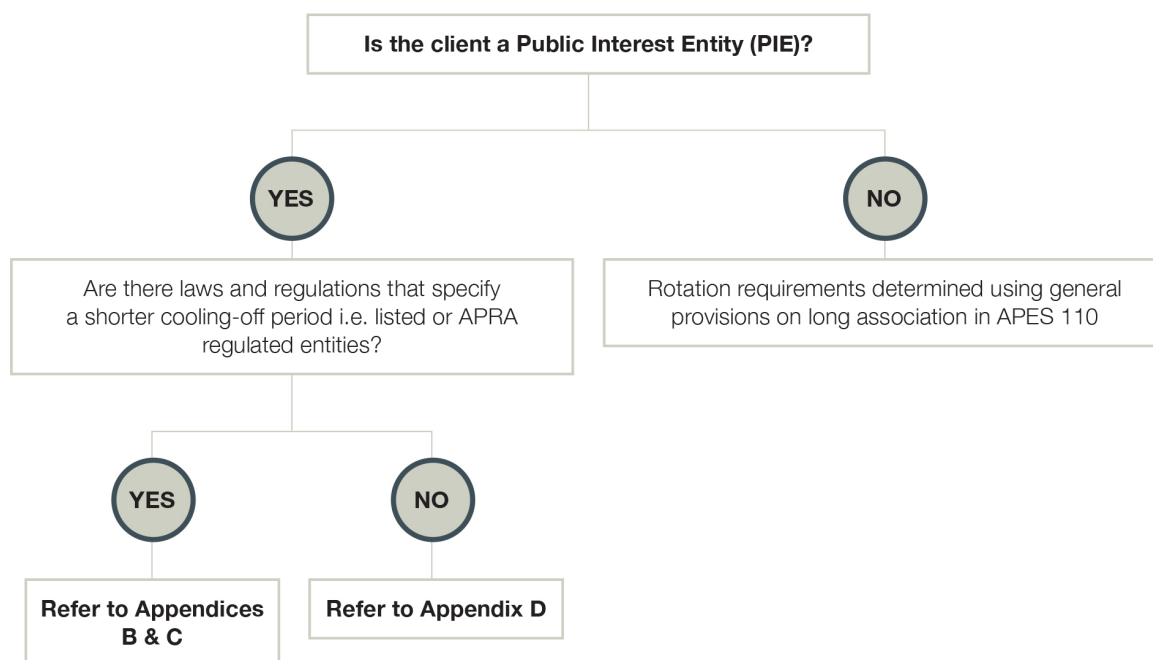
Introduction to Appendices A to D

Appendices A to D set out a flowchart of the original and revised audit partner rotation requirements. The flowchart maps out key factors to consider such as:

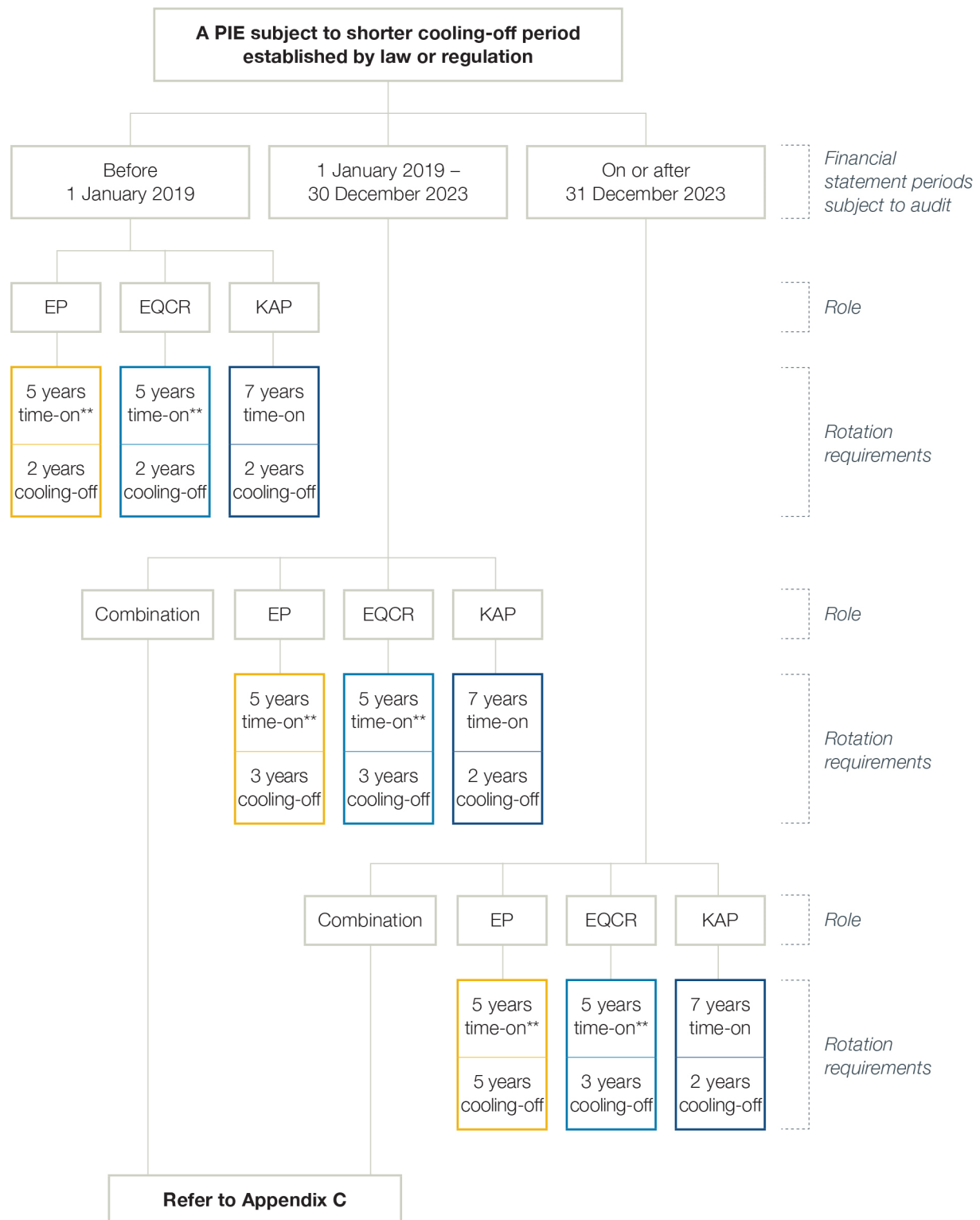
- The type of entity being audited (Appendix A);
- The impact of a shorter cooling-off period specified in laws and regulations ([Appendix B](#));
- The impact when there are no laws and regulations that specify a shorter cooling-off period ([Appendix D](#)); and
- The effect of acting in a combination of Key Audit Partner roles ([Appendix C](#) and [Appendix D](#)).

The flowchart can help individuals determine the applicable rotation requirements. [Appendix E](#) sets out further details on the combinations that may occur in practice and the impact on the audit partner rotation requirements.

Flowchart



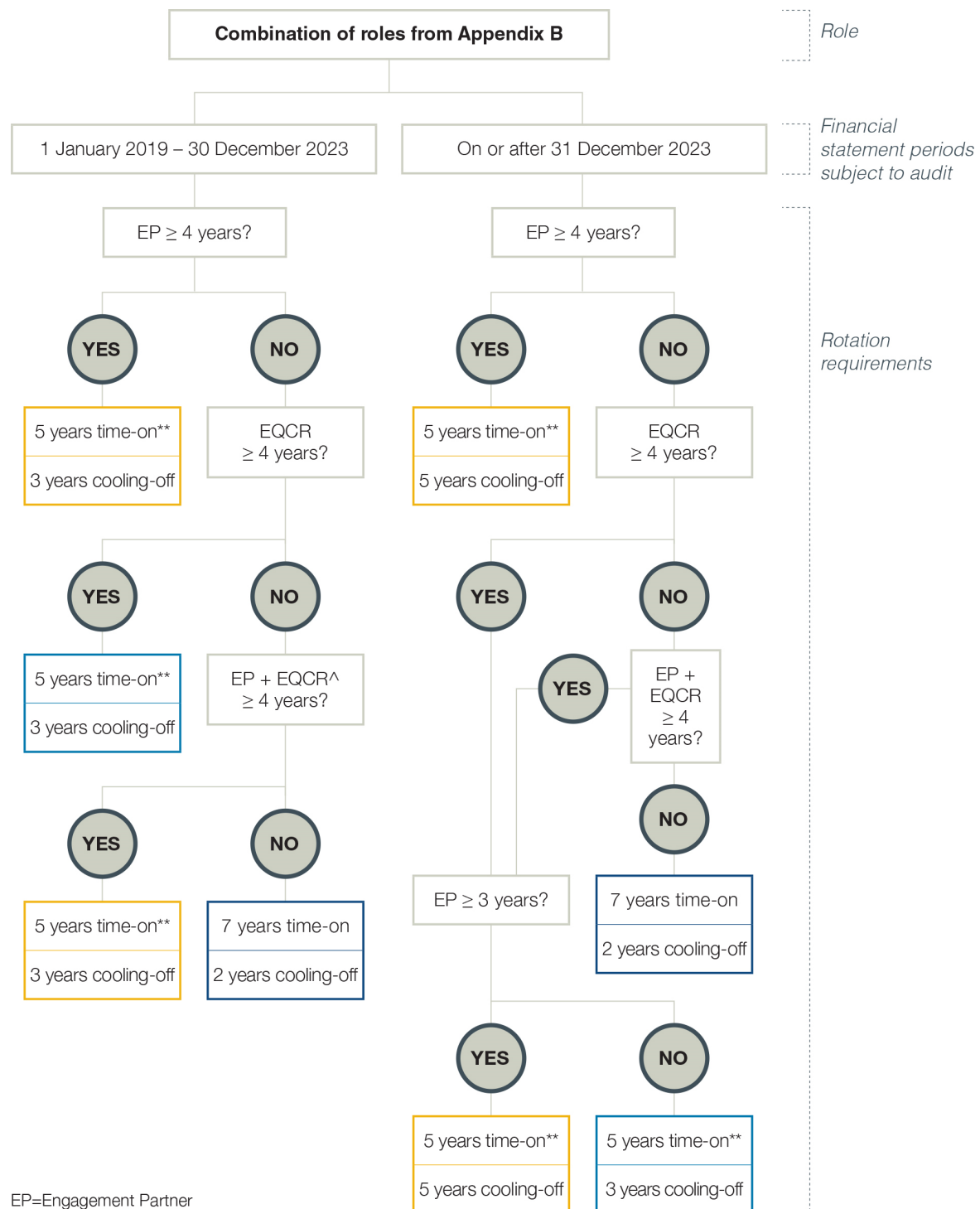
Appendix B – Flowchart: A Public Interest Entity (PIE) subject to a cooling-off period established by a law or regulation



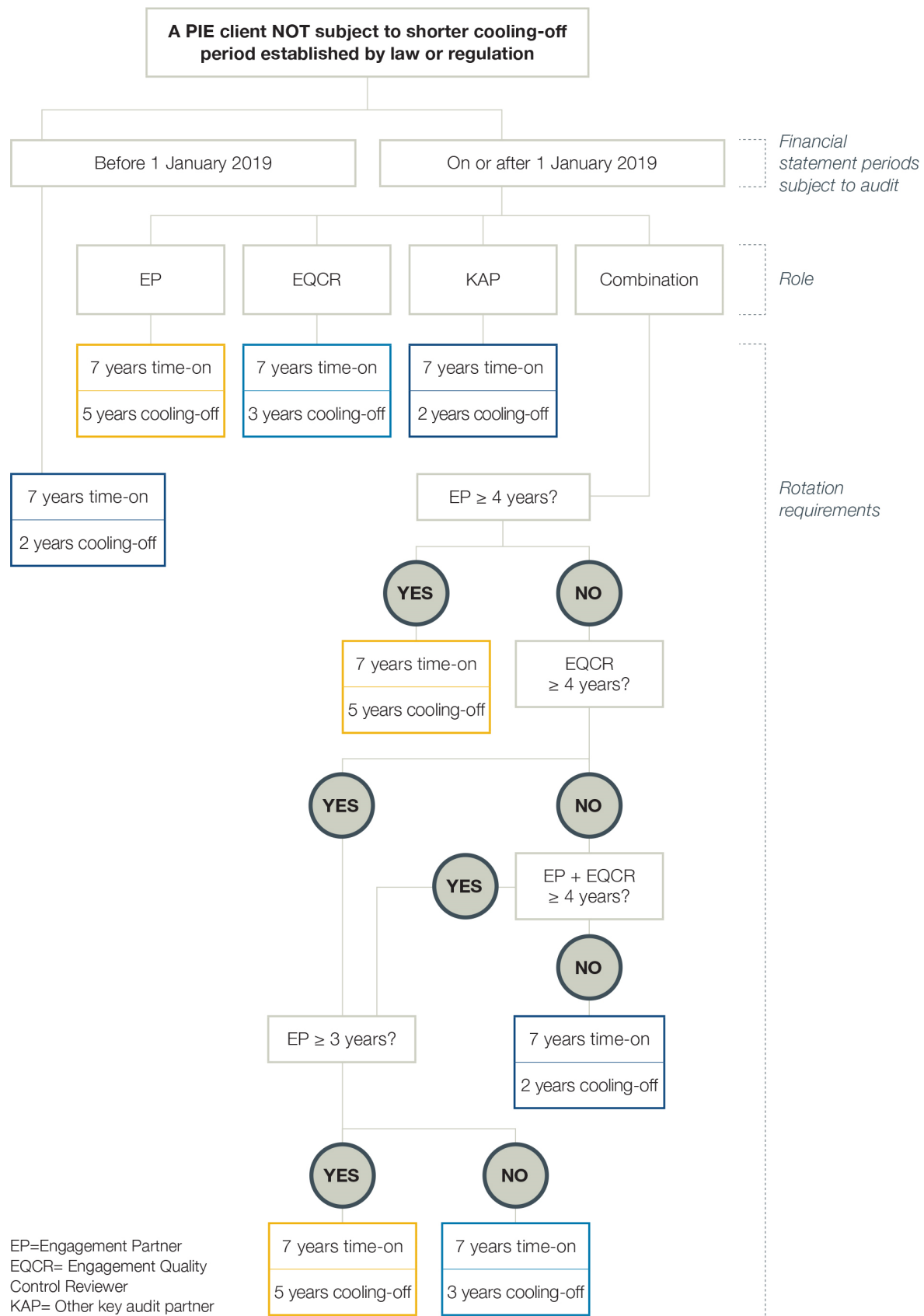
EP=Engagement Partner
EQCR= Engagement Quality Control Reviewer
KAP= Other key audit partner

** Time-on period of 5 years may be extended by the client or regulator up to maximum of 7 years in accordance with applicable laws and regulations.

Appendix C – Flowchart: Combination of Audit Partner Roles (continued from Appendix B)



Appendix D – Flowchart: A Public Interest Entity (PIE) not subject to a cooling-off period established by law or regulation



Appendix E: Application of Provisions Regarding Service in a Combination of Roles

Information on the combination of roles and the impact on audit partner rotation requirements is set out in Question 19. The tables below provide further details on the combinations that may occur in practice and the related impact on the auditor partner rotation requirements.

Table A: Combination of roles for PIEs that are not Listed or APRA regulated entities

Number of Years During Time-on Period			Cooling-off (Years)	The Code Paragraph Reference
Engagement Partner	EQCR Partner	Other Key Audit Partner		
7	–	–	5	R540.11
6	1	–	5	R540.14
6	–	1	5	R540.14
5	2	–	5	R540.14
5	1	1	5	R540.14
5	–	2	5	R540.14
4	3	–	5	R540.14
4	2	1	5	R540.14
4	1	2	5	R540.14
4	–	3	5	R540.14
3	4	–	5	R540.16(a)
3	3	1	5	R540.16(a)
3	2	2	5	R540.16(a)
3	1	3	5	R540.16(a)
3	–	4	2	R540.17
2	5	–	3	R540.16(b)
2	4	1	3	R540.16(b)
2	3	2	3	R540.16(b)
2	2	3	3	R540.16(b)
2	1	4	2	R540.17
2	–	5	2	R540.17
1	6	–	3	R540.15
1	5	1	3	R540.15
1	4	2	3	R540.15
1	3	3	3	R540.16(b)

Number of Years During Time-on Period			Cooling-off (Years)	The Code Paragraph Reference
Engagement Partner	EQCR Partner	Other Key Audit Partner		
1	2	4	2	R540.17
1	1	5	2	R540.17
1	–	6	2	R540.17
–	7	-	3	R540.12
–	6	1	3	R540.15
–	5	2	3	R540.15
–	4	3	3	R540.15
–	3	4	2	R540.17
–	2	5	2	R540.17
–	1	6	2	R540.17
–	–	7	2	R540.13

Table B: Combination of roles for PIEs that are Listed or APRA regulated entities.

Number of Years During Time-on Period ¹³			Cooling-off (Years)	The Code Paragraph Reference
Engagement Partner	EQCR Partner	Other Key Audit Partner		
5	–	–	3/5 ¹⁴	R540.11, R540.19 & AUST R540.19.1
5	–	1	3/5 ¹³	R540.14, R540.19 & AUST R540.19.1
5	–	2	3/5 ¹³	R540.14, R540.19 & AUST R540.19.1
4	1	–	3/5 ¹³	R540.14, R540.19 & AUST R540.19.1
4	1	1	3/5 ¹³	R540.14, R540.19 & AUST R540.19.1
4	1	2	3/5 ¹³	R540.14, R540.19 & AUST R540.19.1
4	–	3	3/5 ¹³	R540.14, R540.19 & AUST R540.19.1
3	2	–	3/5 ¹³	R540.16(a), R540.19 & AUST R540.19.1

¹³ This assumes that there are no extensions granted on the Engagement Partner's time-on period in instances when the individual has served the maximum of 5 years in this role.

¹⁴ Cooling-off period of three years (for audits of Financial Statements during the [transition period](#) and five years (for audits of Financial Statements beginning on or after 31 December 2023).

Number of Years During Time-on Period ¹³			Cooling-off (Years)	The Code Paragraph Reference
Engagement Partner	EQCR Partner	Other Key Audit Partner		
3	2	2	3/5 ¹³	R540.16(a), R540.19 & AUST R540.19.1
3	2	1	3/5 ¹³	R540.16(a), R540.19 & AUST R540.19.1
3	1	3	3/5 ¹³	R540.16(a), R540.19 & AUST R540.19.1
3	–	4	2	R540.17
2	3	–	3	R540.16(b)
2	3	1	3	R540.16(b)
2	3	2	3	R540.16(b)
2	2	1	3	R540.16(b)
2	2	2	3	R540.16(b)
2	2	3	3	R540.16(b)
2	1	4	2	R540.17
2	–	5	2	R540.17
1	4	–	3	R540.15
1	4	1	3	R540.15
1	4	2	3	R540.15
1	3	3	3	R540.16(b)
1	2	4	2	R540.17
1	1	5	2	R540.17
1	–	6	2	R540.17
–	5	–	3	R540.15
–	5	1	3	R540.15
–	5	2	3	R540.15
–	4	3	3	R540.15
–	3	4	2	R540.17
–	2	5	2	R540.17
–	1	6	2	R540.17
–	–	7	2	R540.13

About APESB

This document was prepared by the Technical Staff of the [Accounting Professional & Ethical Standards Board Limited](#) (APESB).

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, high-quality professional and ethical pronouncements. These pronouncements apply to the membership of the three major Australian professional accounting bodies (CPA Australia, Chartered Accountants Australia and New Zealand and the Institute of Public Accountants).

APESB publications and trademarks

APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, APESB pronouncements, Exposure Drafts, Consultation Papers, and other APESB publications are published by, and copyright of, APESB.

APESB does not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'Accounting Professional & Ethical Standards Board', 'APESB' and the APESB logo are registered trademarks of APESB in Australia and New Zealand.

IFAC Disclaimer

The text from the 'IESBA Staff Questions and Answers – Long Association of Personnel with an Audit Client' of the International Ethics Standards Board for Accountants, published by the International Federation of Accountants (IFAC) in May 2019 is used by APESB with permission of IFAC. Such use of IFAC's copyrighted material in no way represents an endorsement or promotion by IFAC. Any views or opinions that may be included in the 'Technical Staff Q&As: Audit Partner Rotation Requirements in Australia' are solely those of APESB, and do not express the views and opinions of IFAC or any independent standard setting board supported by IFAC.

Copyright © 2019 Accounting Professional & Ethical Standards Board Limited ("APESB"). All rights reserved. Apart from fair dealing for the purpose of study, research, criticism and review as permitted by the *Copyright Act 1968*, no part of these materials may be reproduced, modified, or reused or redistributed for any commercial purpose, or distributed to a third party for any such purpose, without the prior written permission of APESB.

Any permitted reproduction including fair dealing must acknowledge APESB as the source of any such material reproduced and any reproduction made of the material must include a copy of this original notice.

The 'Technical Staff Q&As: Audit Partner Rotation Requirements in Australia' is based on 'IESBA Staff Questions and Answers – Long Association of Personnel with an Audit Client' of the International Ethics Standards Board for Accountants, published by the International Federation of Accountants (IFAC) in May 2019 and is used with permission of IFAC.

'IESBA Staff Questions and Answers-Long Association of Personnel with an Audit Client' © May 2019 by the International Federation of Accountants.

Contact Permissions@ifac.org for permission to reproduce, store or transmit, or to make other similar uses of the IFAC document.