

29 June 2021

Mr Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants (IESBA)  
International Federation of Accountants (IFAC)  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, New York 10017 USA

By email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Mr Siong,

**IESBA's Stakeholder Questionnaire Long Association Post-Implementation Review (Phase 1)**

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the IESBA's Stakeholder questionnaire *Long Association Post-Implementation Review (Phase 1)* (the stakeholder questionnaire).

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 (Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants). In Australia, APESB issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) and a range of professional and ethical standards that address non-assurance services.

**Overall comments**

APESB is supportive of the IESBA conducting a post-implementation review of the provisions relating to Long Association in the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code).

We appreciate the IESBA undertaking phase 1 of this review within the transitional period set out in the IESBA Code. We believe undertaking this review now and clarifying the way forward concerning any transitional relief will enable professional accountants in public practice to prepare and plan for any proposed changes.

APESB does not have direct evidence of issues that may arise due to the expiry of the transition relief, which will result in the audit partner cooling-off period increasing from three years to five years. As a Standards-Setter, APESB does not monitor or regulate the implementation of the professional and ethical standards it sets. This information could be provided by the three professional accounting bodies in Australia or by the audit regulator.

However, APESB has undertaken stakeholder engagement to ascertain potential issues or concerns in relation to the end of the transitional relief in the IESBA Code.

Based on feedback provided by stakeholders, it is clear that the end of the transitional period for jurisdictional relief will impact Australian auditors and their clients. For example, there is genuine concern about the capacity of the shrinking number of registered company auditors being able to provide high-quality audit services for Public Interest Entities (PIEs) and the growing need for the roles of engagement partner or engagement quality control reviewer to be performed from different geographical locations or outsourced.

The COVID-19 pandemic, and the response by the Australian government to close the borders to the country, have also impacted the capacity of firms to resource audit engagements adequately. In addition, the timing of removing the jurisdictional relief will impact Australian firms if the Australian borders remain closed for an extended period.

In light of the feedback received from stakeholders and the current impact of COVID-19 on the ability to resource audit engagements, APESB request the IESBA consider extending the application period of the transitional provision relating to the jurisdictional relief.

Appendix A provides APESB's responses to the IESBA's demographic questions (from Part A of the IESBA questionnaire) and the questions relevant to National Standard Setters or Professional Accountancy Organizations (from Part B of the IESBA questionnaire).

### **Concluding comments**

We trust you find these comments helpful in your Working Group's deliberations. Should you require additional information, please contact APESB's Chief Executive Officer, Mr. Channa Wijesinghe, at [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au).

Yours sincerely



Nancy Milne OAM  
**Chairman**

## APPENDIX A

### APESB's Responses to Part A and B of the IESBA's stakeholder questionnaire

APESB's responses to the IESBA's stakeholder questionnaire on the Long Association Post-Implementation review are as follows:

#### Part A – Demographic Information

1. **Please indicate the geographical profile which best represents your situation, i.e., from which geographical perspective are you providing your responses?**

- **Global**
- **Regional (Please specify)**
- **Multiple jurisdictions (Please specify)**
- **Single jurisdiction (Please specify)?**

APESB is providing its response from a single jurisdiction perspective. The relevant jurisdiction is Australia.

2. **Please indicate the stakeholder group to which you belong, i.e., from which perspective are you providing your responses?**

- **National Standard Setters or Professional Accountancy Organizations (Complete Part B)**
- **Regulators or Audit Oversight Bodies (Complete Part C)**
- **Auditors or Audit Firms (Complete Part D)**
- **Others (e.g., investors or other users of financial statements, those charged with governance, preparers, academics) (Complete Part E)**

APESB is the National Standard Setter for professional and ethical standards in Australia. APESB has completed the response to Part B of the IESBA's stakeholder questionnaire below.

3. **Please provide the following information about your organization (if applicable) and other contact information:**

- **Your organization's name (or leave blank if you are completing the questionnaire in your personal capacity)**
- **Your name and job title/role**
- **Your email address:**

APESB

Mr. Channa Wijesinghe, Chief Executive Officer

[channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au)

## Part B – National Standard Setters or Professional Accountancy Organizations

1. (a) Has a cooling-off period of five years for engagement partners (EPs) on audits of public interest entities (PIEs) been implemented in your jurisdiction in accordance with Section 540 of the Code?

(b) If so, were any substantial issues encountered as a result of its implementation?

APESB has incorporated the entirety of Section 540 of the IESBA Code into APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, including paragraph R540.18, which allows the substitution of a shorter cooling off period set by a relevant legislative or regulatory body.

There are specific laws and regulations in Australia that also impose audit partner rotation requirements for Listed Entities subject to the *Corporations Act 2001* and APRA-regulated entities.<sup>1</sup> The audit partners of these entities must follow the stricter requirements of the Code or the relevant law or regulation to ensure compliance with all relevant requirements. These laws and regulations impose a cooling-off period of two years; however, according to paragraph R540.18, these entities have needed to implement a cooling-off period of three years.

As the local laws and regulations only apply to select entities, for engagement partners of some PIEs in Australia (i.e., those PIE entities that are not Listed Entities under the *Corporations Act 2001* nor regulated by APRA), they would have implemented the full five-year cooling-off period as specified in paragraph R540.11 in the IESBA Code (and APES 110).

A summary of Australia's audit partner rotation requirements, including the relevant cooling-off periods, is set out in Table 1 and Table 2 below.

**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

<sup>1</sup> 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).

**\*\* In accordance with applicable laws and regulations, Audit Engagement and EQCR Partners can serve in the same role for a maximum of five years<sup>2</sup> but may be extended by the audit client or a regulator in accordance with applicable laws and regulations.<sup>3</sup>**

*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.<sup>4</sup> 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

2. (a) Has a cooling-off period of five or more years for EPs been implemented in your jurisdiction otherwise than by adoption of the Code, e.g., by law or regulation or through a different ethical framework?
- (b) If so, are there any significant differences between those requirements and the requirements of Section 540? For example, does the cooling-off period apply to EPs on audits of all PIEs or only listed entities?

Within Australia, there are no other ethical frameworks or laws and regulations apart from the Code that set a cooling-off period of five or more years.

<sup>2</sup> 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.

<sup>3</sup> Refer also to s324DAA of the *Corporations Act 2001* in respect of extension of Audit Partner time-on periods for audits of Listed Entities.

<sup>4</sup> 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.

3. **If the cooling-off period for EPs on audits of PIEs in your jurisdiction is shorter than five years, is this because jurisdiction:**
- (a) **Has applied the jurisdictional provision (paragraph R540.19 of the Code)? or**
  - (b) **Is required to comply with a different regime to address the threats created by long association that permits a cooling-off period that is shorter than five years? If so, please describe the regime.**

In some circumstances in Australia, engagement partners of PIE audit clients have been able to apply the jurisdictional provision in paragraph R540.19 of the Code. Refer to APESB's response to Question 1 for further information on the circumstances which permit the application of the cooling-off period substitution paragraph.

4. **If your jurisdiction has applied the jurisdictional provision in the Code (paragraph R540.19):**
- (a) **What cooling-off period is in effect?**

Refer to APESB's response to Question 1 for further information on the circumstances that permit applying the cooling-off period substitution paragraph under paragraph R540.19.

- (b) **Has consideration been given to the implications of the expiry of the jurisdictional provision for audits of financial statements for periods beginning on or after December 15, 2023?**  
**If so, does your jurisdiction intend that a five-year cooling-off period should apply from December 15, 2023?**

APESB considered the expiry of the jurisdictional provision for PIEs as part of the initial adoption of the Long Association provisions. The outcome of the IESBA's post-implementation review will be used to inform any further consideration APESB may wish to undertake in relation to these provisions.

- (c) **What potential issues, if any, are expected to arise from the five-year cooling-off period becoming effective?**

APESB is a National Standard Setter and sets the professional and ethical standards for professional accountants in Australia. APESB does not monitor or regulate the implementation of professional & ethical standards. This role is performed by regulators and the professional accounting bodies in Australia. As such, APESB does not have direct evidence of issues that may arise due to the transition to a five-year cooling-off period. This information may be provided by the professional accounting bodies in Australia comprising Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (IPA) or the audit regulator ASIC.

In developing our response to this question, APESB has consulted with stakeholders about potential issues that might occur due to the end of the transitional period for the substitution of the shorter cooling-off period.

The stakeholders have raised concerns about the impact of these changes on Australian auditors and their clients. The matters raised included:

- In Australia, legislation imposes a five-year time-on period for auditors, which is shorter than the seven-year time-on period allowed in the IESBA Code. In addition, the overlay of the requirements in the IESBA Code to mandate a five-year cooling-off period with the requirements in Australian law would make the audit partner rotation requirements in Australia more onerous than other jurisdictions. As a result, auditors would have a time-on period of five years and a time-off period of five years. While there is a possibility in the Australian law for auditors to apply for a two-year extension to the time-on period, which will require audit committee and regulatory approval, stakeholders have noted that this exception is rarely used.
- The transition to a 5-year cooling-off period is likely to lead to an audit market contraction and reduced competitiveness in the provision of audit services for PIEs. In Australia, it is likely to lead to an audit market oligopoly, contrary to the global view of the importance of preventing such an occurrence.
- In recent years there has been a decline in the number of professional accountants who are registered company auditors in Australia. Over the last four years, the number of registered auditors has decreased by approximately 1,000 or 21%, to the current number of registered company auditors of approximately 3,600. There is concern that the declining trend in registered company auditors could lead to audit supply issues and audit market concentration in the future, which is not in the public interest.
- The COVID-19 pandemic, and the response by the Australian government to close the borders to the country, have also impacted the capacity of firms to resource audit engagements adequately. The timing of removing the jurisdictional relief could significantly impact Australian firms if the Australian borders remain closed for an extended period.
- The proposed end of the transition relief will have a disadvantageous impact on small and medium practices and firms operating in regional locations and specialised industries. These audit practices are already experiencing difficulties in allocating the best resources to PIE audits, including those that require expertise in specialised industries.
- The high level of direct involvement from the engagement partner and engagement quality control review (EQCR) partner is acknowledged as key drivers of audit quality. However, with the introduction of the revised long association provisions in Australia in 2018, stakeholders have noticed an increase in EQCR partners' number in different geographical locations and offices from the engagement team. The concern is that firms may also need to have Engagement Partners in different geographical locations once the jurisdictional relief is removed. This is likely to make audits more challenging to conduct and could negatively impact audit quality.

Based on stakeholders' concerns, APESB requests IESBA consider whether an extension to the jurisdictional relief is appropriate.

5. **If your jurisdiction does not intend to adopt a five-year cooling-off period for EPs on audits of PIEs, please set out the rationale for the approach proposed or considered. For instance:**
- **Alternative measures are in place to address the threats created by long association and those measures are considered adequate (e.g., mandatory firm rotation). If so, please describe those measures; or**
  - **The circumstances particular to your jurisdiction give rise to issues that outweigh the benefits of implementing a five-year cooling-off period. If so, please describe those circumstances and the public interest considerations leading to that conclusion.**

As noted in APESB's response to question 4(b), APESB has not determined to vary from the provisions in the IESBA Code. The outcome of the IESBA's post-implementation review will be used to inform any further consideration APESB may wish to undertake in relation to these provisions.

6. **Are there any other issues or comments that the IESBA should consider under Phase 1 of the LAPIR in relation to the expiry of the jurisdictional provision and the implementation of a five-year cooling-off period for EPs on PIE audits?**

Refer to APESB's response to question 4(c) above for issues or concerns relating to the expiry of the jurisdictional provision and the associated impact in Australia.

APESB does not have any further issues or comments to raise with the IESBA in relation to the expiry of the jurisdictional provision for long association.