

THE IESBA'S LONG ASSOCIATION POST-IMPLEMENTATION REVIEW (LAPIR) QUESTIONNAIRE

Part B – National Standard Setters or Professional Accountancy Organizations ;

Submission from the External Reporting Board, New Zealand.

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?

Yes. The long association provisions in section 540 of the IESBA Code have been adopted and implemented in New Zealand.

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

We are not aware of any substantial issues encountered to date but note that it has only been 3 years since the implementation of the five- year cooling off period requirement became effective, and it is too soon to measure the full impact of the proposals.

In New Zealand, and we understand in other similar sized jurisdictions that have adopted the IESBA Code, there are a proportionately higher number of public interest entities to which the requirements apply, balanced against a relatively small pool of auditors who can undertake the work.

We raised a number of concerns about the proposals in our submission on the *IESBA Exposure Draft Proposed Changes to Certain Provisions of the Code Addressing Long Association of Personnel with an Audit or Assurance Client* in 2014, specifically the possible impact on auditor availability and audit quality.

We still have those concerns, and question whether the provisions are sustainable in the longer term.

We have a shortage of suitably qualified and experienced auditors in regional areas in New Zealand. We understand similar issues exist in Australia.

The IESBA provisions require a minimum of four licensed auditors per firm to meet the suggested requirements. There are a large number of smaller audit firms in New Zealand and most likely in other jurisdictions that do not have enough audit partners to rotate their clients.

As noted above, 3 years since implementation is too soon to measure the full impact of the provisions. The pandemic and the new IAASB quality management requirements for firms may have a further impact on the number of available auditors in small and medium practices.

We strongly encourage the IESBA to carefully consider the sustainability of the current long-term provisions and to ensure that the cooling off period is practical and sustainable both as a global standard and at the jurisdictional level.

Another observation is that with respect to long association there are no clear rules for when senior staff on an audit engagement transition through to the engagement leader (signing). It is left open for each firm to consider. It would be helpful if there were clearly rules around what period etc

would be considered reasonable or when a long association threat becomes so great that there are no safeguards that could be put in place.

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?

No other cooling-off period has been implemented in New Zealand, otherwise than by adoption of the Code. The cooling off period for EPs on audits of PIEs in New Zealand is 5 years in accordance with R540.11 of the Code.

- 2 (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?

Not applicable. The cooling off period for EPs on audits of PIEs in New Zealand is 5 years in accordance with R540.11 of the Code.

3. If the cooling-off period for EPs on audits of PIEs in your jurisdiction is shorter than five years, is this because jurisdiction:

Not applicable. The cooling off period for EPs on audits of PIEs in New Zealand is 5 years in accordance with R540.11 of the Code.

- (a) Has applied the jurisdictional provision (paragraph R540.19 of the Code)? Or

Not applicable. The jurisdictional provision has not been applied in New Zealand.

- (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.

Not applicable. The cooling off period for EPs on audits of PIEs in New Zealand is 5 years in accordance with R540.11 of the Code.

4. If your jurisdiction has applied the jurisdictional provision in the Code (paragraph R540.19):

Not applicable. The jurisdictional provision has not been applied in New Zealand.

- (a) What cooling-off period is in effect?

(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?

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

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.

Not applicable. The jurisdictional provision has not been applied in New Zealand.

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?

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We still have those concerns, and question whether the provisions are sustainable in the longer term.

We have a shortage of suitably qualified and experienced auditors in regional areas in New Zealand. We understand similar issues exist in Australia. The provisions require a minimum of four licensed auditors per firm to meet the suggested requirements. There are a large number of smaller audit firms in New Zealand and most likely in other jurisdictions that do not have enough audit partners to rotate their clients.

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We strongly encourage the IESBA to carefully consider the sustainability of the current long-term provisions and to ensure that the cooling off period is practical and sustainable both as a global standard and at the jurisdictional level.

Another observation is that with respect to long association there are no clear rules for when senior staff on an audit engagement transition through to the engagement leader (signing). It is left open as to each firm to consider. It would be helpful if there were clearly rules around what period etc would be considered reasonable or when a long association threat becomes so great that there are no safeguards that could be put in place.