



<b>Project:</b>	<b>Audit Engagement-related Disclosures</b>	<b>Meeting</b>	AASB June 2021 (M181)
<b>Topic:</b>	<b>Audit Tenure</b>	<b>Agenda Item:</b>	9.1
		<b>Date:</b>	7 June 2021
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Decide on the next steps

## Objective of this paper

- 1 The objectives of this agenda paper are for the Board to consider options for disclosing the audit tenure (PJC recommendation 6)<sup>1</sup> and provide views on further project direction.

## Background

- 2 The Australian Institute of Company Directors (AICD) is currently working on guidance for the Board of Directors on disclosing the information on audit tenure as a response to the PJC recommendation 6. The AICD plans to publish this guidance in the next financial year and suggests listed entities (say ASX200) voluntarily adopt it for 2022/23. Hence, there is a non-authoritative guidance being developed by the AICD in the short term.
- 3 Staff have met with a representative from AICD. Even though the PJC recommendation 6 is directed to FRC, the AICD representative has expressed the view that the AICD has a responsibility towards the industry to reflect on these recommendations and issue appropriate guidance to enhance audit quality.
- 4 The AICD representative also expressed the view that this guidance could be incorporated into the ASX Corporate Governance Principles subject to the decisions by the ASX Corporate Governance Council and pending any Government decision on an amendment to the Corporations Act 2001 (the Act).

## Staff analysis

- 5 As explained in Agenda paper 9.0, staff held discussions with several parties involved in addressing this issue. The AICD and CA ANZ representatives expressed a strong preference for audit tenure to be disclosed in the Directors' Report. As mentioned above, the AICD intends to achieve this through the non-mandatory guidance.

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<sup>1</sup> The committee recommends that the Financial Reporting Council, by the end of the 2020–21 financial year, oversee the revision and implementation of Australian standards to require audited entities to disclose auditor tenure in annual financial reports. Such disclosure should include both the length of tenure of the entity's external auditor, and of the lead audit partner.

- 6 From discussions with AUASB staff, AASB staff understand that at the meeting, the AUASB agreed that disclosure of audit tenure in the directors' report would require an amendment to the Act. The AUASB noted that amending the Act may not be achievable on a timely basis and, therefore, agreed that including the disclosure requirement in the financial statements and amending the Accounting Standards would also be acceptable.
- 7 The sentiment of the parties consulted to date indicates that, whilst the PJC recommendation is directed to the FRC, at least as an interim measure, development of voluntary measures by industry bodies might be an appropriate direction to address the concerns that the PJC report endeavours to address.
- 8 Upon reflection of discussions held with relevant parties as described in board paper 9.0, the AASB staff have prepared the following analysis considering:
- where the auditor tenure information would be disclosed
  - which entities would be required to disclose the information; and
  - potential timing for implementation of proposed amendments.

Option	Location	Entities in scope	Potential timing
Amendment to AASB 1054 <i>Australian Additional Disclosures</i>	Financial Statements	Applicable for all entities preparing financial statements that are required by legislation or otherwise (e.g: Trusts) to comply with Australian Accounting Standards (AAS).  Could make audit tenure disclosures applicable for all entities preparing financial statements that are required to comply with AAS (subject to Board's deliberations on the scope) or all entities required to prepare financial reports under Chapter 2M.3 of the Corporations Act 2001 (the Act), or listed entities only.	As per paragraph 6.5 of the <a href="#">AASB Due Process Framework</a> a domestic standard generally should allow a 90-day comment period.  Therefore, any amendments to the accounting standard could not be issued prior 2020/2021 year ends as recommended by PJC. If no significant delays to the project occur, the standard's finalisation could be expected at the beginning of 2022/2023 financial year.
Amending the Act	Directors' Report	Applicable to entities required to prepare financial reports under Chapter 2M.3 <sup>2</sup> of the Act.	It would require a change to the Act, which may take a longer time to enact as changes in the Act are subject to approval by Treasury and government. There may be competing priorities, and hence timing is uncertain.

<sup>2</sup> In Australia, sections 292 and 296 of the Corporations Act require a range of entities to prepare annual financial reports that comply with AAS. The types of entities are disclosing entities, public companies, large proprietary companies, registered schemes, companies limited by guarantee, and, in limited circumstances, small proprietary companies and small companies limited by guarantee.

Non-authoritative guidance by AICD	Directors' Report	Applicable to large listed entities (say ASX200)	The guidance is expected to be published in the next 12 months and will be available for adoption in 2022/23.
Incorporating the requirement into the ASX Corporate Governance Principles (in the longer term)	Directors' Report	Applicable to listed entities with a possibility of restricting to large, listed companies.	Timing is uncertain as this is subject to the decisions by ASX Corporate Governance Council and may take 3-4 years.

- 9 In relation to the above analysis, staff note the following advantages and disadvantages of the options have been identified:
- (a) the disclosure of audit tenure in the financial statements may not have context without further details on the directors' view on auditor independence;
  - (b) the Directors' Report may appear appropriate for the disclosure of audit tenure as the directors are considered responsible for the auditor's independence assessment. It would further emphasise the role of those charged with governance include overseeing auditor appointments;
  - (c) audit tenure could be disclosed together with the information required by PJC's recommendation 7<sup>3</sup> on audit tendering (if /when enacted) and could complement other required disclosures about the auditor's independence (ie. the auditor's independence declaration) in the Directors' Report.
  - (d) The Directors' Report may appear appropriate based on paragraph 4.130 of the PJC [interim report](#). As per this paragraph, recommendation 6 was included to address comments raised by the Australian Shareholders' Association which shows this disclosure is particularly important to the users of the financial statements of listed companies. Furthermore, a couple of audit firms also considered the ASX's disclosure requirements as a potential avenue for increased disclosure relating to audit tenure (see paragraphs 4.131-4.134 in PJC interim report).

### Next Steps

- 10 Based on the above analysis and considering the alternative disclosure options available for the audit tenure disclosure (see paragraph 0), staff seek the Board's view on the next steps for the project.
- 11 Staff have considered the following options:
- (a) **not** to propose amendments to Australian Accounting Standards to require audit tenure disclosure but continue to monitor work being carried out by AICD in issuing voluntary guidance for listed entities.

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<sup>3</sup> Recommendation 7 is for entities required to have an audit under the Corporations Act to undertake a public tender process every ten years, or if they elect not to, disclose why not in their annual report.

- (b) to proceed in developing a proposal to amend Australian Accounting Standards to require auditor tenure disclosure as outlined in PJC recommendation 6.

**Question to Board members**

Q1. Which option in paragraph 11 above do Board members support?