



MEMO

To: Board of Directors
From: Company Secretary
Subject: **AUDITOR ROTATION**

The Chairman has asked me to advise the board on the auditor rotation rules.

Generally speaking, a person ('lead auditor') who has played a significant role in the audit of a stock exchange listed company ('audited body') for 5 successive financial years is not eligible to continue to play a significant role in the audit of such company. In other words, **auditor rotation after 5 years is mandatory for auditors of listed companies.**

In most cases the person can resume being the lead auditor after a break of at least 2 successive financial years.

Relevant legislation is Chapter 2M, Division 5 of the Corporations Act (ie, sections 324DA ~ 324DD) and ASIC Regulatory Guide 187.

S.9 of the Act defines 'play a significant role' in relation to the audit of a company by:

- the lead auditor (i.e. audit engagement partner)
- the review auditor
- a registered company auditor appointed as the auditor of the audited body.

Rotation Benefits

Auditor rotation is a key aspect of the independence provisions aimed at enhancing the reliability and credibility of financial reports and from time-to-time ASIC writes to selected auditors requesting their auditor rotation succession plans for listed companies.



Rotation Issues

Auditors should take steps to manage and mitigate any adverse impact on audit quality, especially when developing a rotation succession plan (eg, auditor rotation requirements may mean that experience could be lost and/or there may be tension between the rotation requirements and the desire to maintain audit quality). This could require long-term staff planning - such as having overlapping terms for the lead and review auditors so that both are not rotated simultaneously.

Note too that the outgoing auditor cannot continue as a team member even if not in the capacity of a lead or review auditor.

However, ASIC may grant relief where there is an unreasonable burden on the auditor (or audit firm) and/or the audited body.

DISCLAIMER

The comments in this memo reflect some commercial aspects and observations on the matter experienced or observed by the writer in practice as he understands them. The information is given as a guide only and does not represent a definitive or legal view of any of the issues raised, covered or referred to and the reader is urged to seek his own professional advice on all aspects of, or pertaining to, this and any related matter.