

AGENDA PAPER

Item Number: 14

Date of Meeting: 4 November 2013

Subject: Project Update – APES 320 *Quality Control for Firms*

Action Required

For Discussion

For Information Only

Purpose

To provide an update to the Board on the approach to revise APES 320 *Quality Control for Firms*.

Background

Accounting Professional and Ethical Standards Board (APESB) issued APES 320 *Quality Control for Firms* in May 2006 with an effective date of 01 July 2006. In May 2009 APESB revised APES 320 to bring it into alignment with changes made to the *International Standard on Quality Control for Firms that perform Audits and reviews of Financial Statements, and other assurance and related services engagements* (ISQC 1).

APES 320 sets standards for Firms to establish and maintain a system of quality control at the Firm level in the provision of quality and ethical Professional Services. Whilst APES 320 applies to all areas in which a Firm provides services, it draws its framework from ISQC1, which is primarily focussed on Assurance Engagements.

In practice, Firms provide an extensive and complex range of consulting, compliance, multi-disciplinary and advisory services, in addition to assurance services. For example, even in the largest of Firms, assurance services may amount to less than 50% of total fees. The overwhelming majority of small Firms provide tax and accounting services, with little or no assurance work. In this context, some stakeholders argue that it is suboptimal that the whole-of-Firm standard APES 320 is based on ISQC 1, which was drafted for specific application to assurance services without taking into consideration what might be an optimum quality control environment for non-assurance services. While APES 320 has delineated certain requirements as applicable only to assurance practices, there is value in considering a professional standard whose primary focus is the non-assurance service lines.

Considering the suite of professional standards that APESB has released to date which apply to non-assurance services, some stakeholders have been lobbying the APESB to develop a Quality Control Standard to specifically address these non-assurance service lines.

A further reason for re-visiting APES 320 in 2012 was that subsequent to APESB issuing APES 320 in 2006, AUASB issued its own standard ASQC 1 (in 2009) which is also based

on ISQC 1 to apply for Assurance Engagements in Australia. ASQC 1 primarily applies to Firms that perform assurance and related services.

The proposed revised APES 320 should provide a Firm-level framework that is suitably tailored and comprehensive for non-assurance services and at the same time being mindful not to create different levels of quality control standards for assurance and non-assurance practices. Substantial benefit could be gained through the inclusion of certain definitions, use of more inclusive language and illustrative examples drawn from non-assurance services, while at the same time ensuring that stringent quality control requirements are in place.

Update from Taskforce Meeting of 13 August 2012

At the initial Taskforce meeting to discuss the approach to revising APES 320, a number of Taskforce members presented the view that there was no need to issue a quality control standard that was suited only for non-assurance services. They were of the view that if required, minor revisions could be incorporated in the existing standard to accommodate both assurance and non-assurance services.

May 2013 Update

The Taskforce was asked in April 2013 to share their views on the desired approach for revising APES 320. The taskforce members who are of the view that a separate quality control standard for non-assurance services is not necessary share the following primary reasons:

- The current Firm level quality control standard (APES 320) is functioning well in practice;
- It would be inefficient, complex and generally unnecessary to have two quality control standards;
- SMP's will be disproportionately disadvantaged in complying with two standards;
- Large practices have sufficient quality control systems in place already; and
- The required revisions for non-assurance can be achieved without a separate standard.

The stakeholders who have lobbied the Board in the past to develop a separate standard focussed on non-assurance services argue these key points:

- The current APES 320 is focussed on assurance and related services engagements;
- There are fundamental differences in management, quality control and oversight over non-assurance services when compared with assurance services;
- The extent of documentation for APES 320 is tailored for assurance services and in some circumstances may place an unnecessary and unreasonable burden on non-assurance practitioners; and
- APES 320 lacks illustrative examples on how to apply requirements in the non-assurance context.

At the May 2013 Board meeting, the Board directed Technical Staff to develop a position paper that addresses potential approach(es) to remove the duplication between ASQC 1 and APES 320 in respect of assurance services for the August 2013 Board meeting.

August 2013 Board meeting update

At the August 2013 Board meeting, the Board agreed that as a general principle they are supportive of minimising the duplication between APES 320 and ASQC 1. The scope of APES 320 should extend to include all engagements carried out by a Member in Public Practice which is not within the scope of ASQC 1. APES 320 should be revised and adopt a principle-based approach with appropriate guidance incorporated directly in the Standard. During the proposed revision of APES 320, Technical Staff should communicate with the professional accounting bodies to ensure that any impact to the professional bodies existing resources in respect of quality control matters are minimised and managed appropriately.

October 2013 Update

Technical Staff met with representatives of AUASB during October 2013 and discussed possible ways to minimise the duplication of requirements between ASQC1 and APES 320. Through these discussions, it was determined that including in APES 320 the reference to APES 210 which requires compliance with Auditing Standards would be sufficient to ensure that Members “engaged to perform an Assurance Engagement or related services Engagement” would be covered by the quality control requirements of ASQC1.

It was further proposed that APES 320 could be amended to provide comfort that all other Professional Services not caught by ASQC1 would be covered by APES 320 with the addition of a new Scope and application paragraph (1.3) which state:

- 1.3 Members in Public Practice performing Assurance Engagements and related services Engagements shall comply with APES 210 *Conformity with Auditing and Assurance Standards*, including ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information and Other Assurance Engagements (ASQC 1)*. Where a Member in Public Practice’s quality control policies and procedures complies with ASQC 1 the Member is excluded from the scope of this Standard.**

The existing paragraph 1.3 should be renumbered as 1.4 and revised in the following manner:

- 1.4 Subject to paragraph 1.3, Members in Public Practice in Australia shall follow the mandatory requirements of APES 320.**

The AUASB has clarified in their October 2013 Board papers that the scope and application of ASQC1 will exclude APES 315 and that the AUASB Glossary will be amended accordingly. The amended definition of related services is to be:

“Related services engagement means an engagement in which an assurance practitioner does not express an assurance conclusion on subject matter which is the responsibility of another party, but conducts specified procedures, agreed in the engagement terms, to provide a factual findings report to identified intended users.”

The related services standards issued by AUASB to date address Agreed Upon Procedures and Comfort Letter Engagements.

Technical Staff Recommendation

If the Board is supportive of the proposed approach, the APES 320 Taskforce will be engaged to recommence the project. The Standard will be revised adopting a principles-based approach with appropriate guidance added where it is relevant and in consideration of non-assurance services and SMPs.

The Board provide direction on the project to revise APES 320 *Quality Control for Firms*.

Material Presented

Attachment 14 (a) - AUASB Board Paper - ASQC1 ED Comments Received - October 2013

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