

TECHNICAL STAFF PAPER

Subject: Position Paper: Options to revise APES 320 *Quality Control for Firms* to remove duplication with ASQC1 and to develop a guidance note for non-assurance practices

Purpose

The purpose of this paper is to provide the Board with:

1. A brief background to the proposal to revise APES 320 for non-assurance services;
2. Technical staff views and recommendations of options for removing duplication between APES 320 and ASQC1; and
3. Technical staff views and recommendations on gaps in the existing APES 320 or improvements that could be made to address non-assurance services.

Background to proposal to revise APES 320 for non-assurance services

Accounting Professional and Ethical Standards Board (APESB) issued APES 320 *Quality Control for Firms* in May 2006 with an effective date of 1 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 requires 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.

Considering the suite of professional standards that APESB has released to date which apply to non-assurance services, stakeholders have lobbied APESB to develop a quality control standard which specifically address these non-assurance service lines. In practice, Firms provide an extensive and complex range of consulting, compliance, multi-disciplinary and advisory services, in addition to assurance services and some may operate entirely in the provision of non-assurance services.

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.

Taskforce Comments on revision project and Technical Staff analysis

At the initial Taskforce meeting in August 2012, the approach to revising APES 320 was discussed. 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.

The Taskforce was asked in April 2013 to share their views on the desired approach for revising APES 320. These views are detailed below. Those holding 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 holding the view that a separate standard which focusses on non-assurance services is necessary 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.

APESB 8-9th May 2013 Board Meeting

At the May 2013 meeting the Board directed Technical Staff to develop a position paper for presentation at the August 2013 Board meeting which addresses the following matters:

1. potential approaches to remove the duplication between ASQC 1 and APES 320 in respect of assurance services; and
2. identify other potential gaps in the existing APES 320 or areas that can be improved upon in respect of various non-assurance services (e.g. issues raised on litigation services, tax advice, continuous consultancy engagements and insolvency services).

Technical Staff were instructed to develop the position paper and present it for the Board's consideration at the August 2013 Board meeting. Subsequent to the Board considering this position paper in August 2013, the Board will determine the way forward on the APES 320 Project.

1. Technical Staff recommendations to remove duplication

Modify scope of APES 320 to cover “all professional services excluding those covered by ASQC1” (audits and reviews of financial reports and other financial information, and other assurance engagements).

By restricting the scope to engagements that are not within the scope of ASQC1 the revised APES 320 will focus on non-assurance services. There will be minimal duplication of requirements since assurance practitioners will be referred instead solely to ASQC1 for Quality Control requirements on assurance engagements. Minimal changes will be made to the Standard, following some of the suggestions in section 2 below, and instead:

- (i) a guidance note will be developed that supports Members in non-assurance practices and SMPs to comply with the relevant requirements; and
- (ii) APESB could collaborate with the Joint Accounting Bodies when they are revising their respective quality control manuals in a similar manner to the recent SMSF Independence Taskforce.

(i) Develop Guidance Note to support APES 320

Due to stakeholder concerns on the prospects of significant revisions to APES 320 on the grounds that it would result in unnecessary additional compliance costs for those Firms that have already ‘bedded down’ APES 320 and ASQC1 requirements, a superior option is to develop a guidance note that still addresses the project objectives. The drafting of the proposed guidance note will follow APESB drafting principles for guidance notes and will align with APES 320 requirements. It could also provide further guidance that will assist SMP Firms comply with APES 320 as well as assist Firms in navigating the compliance requirements of APES 320 when providing non-assurance services.

(ii) Collaborate with Joint Accounting Bodies to update Quality Control manual to identify and address any gaps concerning non-assurance practices

The Institute of Chartered Accountants of Australia and CPA Australia both have quality control manuals with extensive guidance on how to apply APES 320 provisions to non-assurance practices. It would be beneficial to engage with the professional accounting bodies on this proposed project and liaise with them when they next update the manuals in a similar manner to the SMSF Auditor Independence project.

2. Improvements to APES 320 to address gaps and to improve its applicability to practices other than assurance

The most significant gap identified by stakeholders in the existing APES 320 is that it is not scalable for different levels of risk, for smaller Firms or Firms that are not active in the heavily regulated audit and other assurance services sector. For example, APES 320 contains requirements for professional independence which are less relevant for non-assurance practices; rather more guidance on applying the principle of objectivity is likely to be more useful.

Another area of potential improvement is engagement documentation. Some types of engagements, e.g. a recurring tax advisory service, do not generally result in an engagement report per se and the nature and extent of documentation differs from that of an audit or other assurance engagement. Some specific guidance or illustrative examples on the nature and extent of documentation for non-assurance services would assist in reducing the use of ‘tick the box’ compliance procedures and encourage the development of practical, scalable solutions for managing the quality of Engagement Documentation. For engagements with low levels of risk or few users of the ultimate client deliverable, a lesser extent of engagement documentation (in

comparison to an audit engagement) may be sufficient to demonstrate the quality of work performed.

Another gap is the absence of provisions regarding reporting or other client deliverables. Some non-assurance services may not result in a report but rather another deliverable. Guidance for producing other client deliverables in the same manner as reports would assist in achieving consistency and facilitate the monitoring of quality of outputs.

There are a number of small changes that can be made to terminology in APES 320 to reflect non-assurance practices. These are additions to the Standard as opposed to modifications. For example, when referring to engagement outputs or deliverables, reference to “report” can be appended with “and other client deliverables”. This will allow for other outputs from non-assurance services which can include such deliverables as tax returns, workshops, presentations, project management, outsourced CFO services, financial advice statements, etc. The explanation and use of terms such as “client deliverable” and “non-assurance services” would improve understanding of these two distinct practice matters.

Technical Staff Recommendation

Technical Staff recommend that the Board approve the following project approach:

1. To revise the scope and objective of APES 320 to apply only to all Professional Services or Engagements that are not covered by ASQC1 and make necessary improvements to improve the applicability of APES 320 to non-assurance practices;
2. To develop a guidance note to support APES 320 (refer proposed revised project plan) with the engagement of the Taskforce and the Joint Accounting Bodies;
3. Seek opportunities to collaborate with the professional bodies when they update their respective Quality Control manuals.

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