

AGENDA PAPER

Item Number:	22
Date of Meeting:	8 - 9 May 2013
Subject:	Project Update – APES 320 <i>Quality Control for Firms</i> Position Paper

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Purpose

To obtain the Board's direction 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.

2013 Update

The Taskforce was asked in April 2013 to share their views on the desired approach for revising APES 320. These views are detailed in the attached Technical Staff Paper. 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 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.

Technical Staff Analysis

Refer to the attached Technical Staff Paper.

Technical Staff Recommendation

Refer to the attached Technical Staff Paper on four potential options for the Board to consider.

The Board to provide direction on the option to adopt in respect of proposed revision of APES 320 *Quality Control for Firms*.

Authors: Channa Wijesinghe
Rob Nickel

Date: 30 April 2013