



Annual Review of APES 320 *Quality Control for Firms*

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Background

Accounting Professional and Ethical Standards Board (APESB) issued APES 320 *Quality Control for Firms* (APES 320) 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) with an effective date of 1 January 2010.

Reason for this report

In accordance with APESB's constitution, a review needs to be performed on an annual basis after a new standard is effective in order to identify any issues reported by stakeholders. This report presents a review of the issues either reported to APESB or identified by an internal technical review and the proposed recommendations to address those issues.

Review of Issues

Carry forward issue from prior years

- 1. The revised APES 320 *Quality Control for Firms* issued in May 2009 draws its framework from ISQC 1, which is primarily focussed on Assurance Engagements.**

Issue

APES 320 *Quality Control for Firms* was reissued in May 2009 (originally issued in 2006) and 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 ISQC 1, which is primarily focussed on Assurance Engagements.

Analysis of Issue

In practice in addition to assurance services, Firms provide an extensive and complex range of consulting, compliance and multi-disciplinary advisory services. In this context, it may be 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. Whilst APES 320 has delineated certain requirements as applicable only to assurance practices, it is acknowledged that there is value in developing a professional standard that has a primary focus on the non-assurance service lines.

Impacted Stakeholders

Members in Public Practice, Firms and Professional Bodies

Current Status

Refer Agenda Item 3 (b) – Project status update on the proposed revision of APES 320 *Quality Control for Firms* to focus on non-assurance practices.

2. Defined terms

Issue

The Technical Staff review identified that the Definitions section of APES 320 needs to be revised.

Analysis of Issue

The Definitions section in APES 320 requires revision due to amendments made to the IESBA's Code and subsequent changes made by APESB to APES 110 *Code of Ethics for Professional Accountants*.

Definitions to be revised

Assurance Engagement means an Engagement in which a conclusion is expressed by a Member in Public Practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

This includes an Engagement in accordance with the Framework for Assurance Engagements issued by the Auditing and Assurance Standards Board (AUASB) or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements.

Client means an individual, firm, entity or organisation to whom or to which ~~Professional services~~ Activities are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

Engagement Team means all ~~Personnel~~ Partners and staff performing the Engagement, and any individuals engaged by the Firm or a Network Firm who perform procedures on the Engagement. This excludes ~~e~~External ~~e~~Experts engaged by the Firm or a Network Firm.

Independence means:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion ~~provision of an opinion~~ without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism;
and

- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that ~~having knowledge of all relevant information, including any safeguards applied, would reasonably conclude~~ a Firm's, or a member of the Audit or Assurance Engagement Team's, integrity, objectivity or professional scepticism ~~has~~ been compromised.

Key Audit Partner means the Engagement Partner, the individual responsible for the Engagement Quality Control Review, and other audit Partners, if any, on the Engagement Team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the Firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit Partners” may include, for example, audit Partners responsible for significant subsidiaries or divisions.

Member means a member of a Professional Body that has adopted this Standard as applicable to their membership, as defined by that Professional Body.

Member in Public Practice means a Member, irrespective of functional classification (e.g. audit, tax, or consulting) in a Firm that provides Professional Services. ~~The~~This term is also used to refer to a Firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable Professional Body.

Network means a larger structure:

- (i) ~~That~~ is aimed at co-operation; and
- (ii) ~~That~~ is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

Network Firm ~~or Network Assurance Practice~~ means a Firm, ~~practice~~ or entity that belongs to a Network.

Professional Body(ies) means the Institute of Chartered Accountants ~~in Australia~~, CPA Australia and the ~~National Institute of Accountants~~ Institute of Public Accountants.

Professional Services means ~~services requiring accountancy or related skills performed by a Member in Public Practice including accounting, auditing, taxation, management consulting and financial management services.~~ Professional Activities performed for Clients.

Definitions to be added

External Expert means an individual (who is not a Partner or a member of the professional staff, including temporary staff, of the Firm or a Network Firm) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the Member in obtaining sufficient appropriate evidence.

Financial Statements mean a structured representation of Historical Financial Information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of Financial Statements, but it can also refer to a single Financial Statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes. The requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements. For the purposes of this Standard financial report is considered to be an equivalent term to Financial Statements.

Professional Activity means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.

Those Charged with Governance means the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, Those Charged with Governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

It should also be noted that APESB is currently considering whether the definition of *Professional Activity* should be revised in the Australian context. If this occurs then this definition will require revision.

Subsequent to the revision of the Definitions section, consequential editorial amendments may also be required to APES 320.

Impacted Stakeholders

Members in Public Practice, Firms and Professional Bodies

Recommendation

The defined terms in APES 320 should be revised in a manner consistent with the Code and other APESB Standards. It is recommended that these changes and any other consequential editorial amendments be processed at the next revision of APES 320 which is scheduled for the August 2015 Board meeting.