

May 2009



## **Basis for Conclusions: APES 320 Quality Control for Firms (Revised and Reissued)**

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*Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board*

### BASIS FOR CONCLUSIONS:

#### **APES 320 Quality Control for Firms**

This basis for conclusions has been prepared by technical staff of Accounting Professional & Ethical Standards Board Limited (“APESB”). This document has been reviewed and approved by the Board of Directors of APESB and is provided for the benefit of stakeholders to gain an understanding of the background to the development of APES 320.

The basis for conclusions **does not** form part of APES 320 *Quality Control for Firms* and is not a substitute for reading the standard.

#### **Background**

APESB has reissued the APES 320 *Quality Control for Firms* in line with changes that have occurred to its international equivalent ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (ISQC 1).

APES 320 includes mandatory requirements and guidance in respect of:

- Elements of a system of quality control;
- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance;
- Monitoring; and
- Documentation of the system of quality control

APESB issued an Exposure Draft (ED 01/09) of the proposed revised standard in February 2009 with a comment deadline of 9 April 2009 and received submissions from the professional accounting bodies, Australasian Council of Auditors General (ACAG), Auditing and Assurance Standards Board (AUASB) and firms. As a result of the comments received, APESB made a few changes when finalising the text of APES 320. The following summarises the significant issues raised by respondents, and how APESB has addressed them.

### **Issue of ASQC 1 Exposure Draft by the AUASB**

Respondents noted that in April 2009, AUASB issued a proposed Standard on Quality Control (ASQC 1), also based on ISQC 1, which is only applicable to firms that perform audits, reviews and other assurance engagements. This proposal by AUASB will duplicate part of APES 320, which is mandatory for all members of the professional accounting bodies, irrespective of the services they perform.

Based on feedback from the professional accounting bodies and the regulator the existing quality control framework set out in APES 320, which mandates the quality control requirements for members of the professional accounting bodies, is working well.

Accordingly, APESB determined that the existing scope of APES 320 should be retained in the revised APES 320 and that APESB should work with AUASB to minimise any adverse consequences for members who perform audits, reviews and other assurance engagements.

### **Definition of Engagement Partner**

The ED defined an engagement partner as a person within a firm who is responsible for an engagement and its performance. In the public sector, the relevant legislation usually appoints the Auditor General as the auditor of each public sector entity. However, Auditors General may delegate 'engagement partner' responsibilities to suitability qualified persons within the Auditor General's department. ACAG noted that the definition of engagement partner did not address this circumstance. Accordingly, the definition of engagement partner was amended to address this circumstance.

### **Use of the term "applicable legal and regulatory requirements" [Paragraph 3, 15(a), 24(b), 47(a), 56(a), 57, 58, 62(a), 107, 108, 112(a), 116, 119(a), 126]**

The terminology "applicable legal and regulatory requirements" has been added in the final version of the revised ISQC 1 whereas APES 320 ED included the term "regulatory and legal". Accordingly the wording was amended to mirror the final revised version of ISQC 1.

### **Consultation [Paragraph 64(c) and paragraph 69]**

The original drafting of paragraph 64 (c) and paragraph 69 essentially stated that a firm shall have policies and procedures requiring both the individual seeking consultation and the individual being consulted to document the consultation. One respondent noted that this should only be applicable to assurance practices. In response to this comment, both paragraph 64 (c) and paragraph 69 have been boxed to indicate that they are only applicable for assurance practices.