

## AGENDA PAPER

**Item Number:** 4

**Date of Meeting:** 10 June 2021

**Subject:** Proposed revisions to APES 320 *Quality Management for Firms*

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<input checked="" type="checkbox"/>	Action required	<input checked="" type="checkbox"/>	For discussion	<input checked="" type="checkbox"/>	For noting	<input type="checkbox"/>	For information
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### Purpose

To:

- provide the Board with an update on Technical Staff's engagement with the Professional Bodies on proposed amendments to extant APES 320 *Quality Control for Firms*;
- seek the Board's views and direction on the Preliminary working draft Exposure Draft APES 320 *Quality Management for Firms* (Agenda Item 4(a)); and
- obtain approval from the Board on Technical Staff's proposed way forward.

### Background

The IAASB issued the final pronouncements for ISQM 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements* ([ISQM 1](#)) and ISQM 2 *Engagement Quality Reviews* ([ISQM 2](#)) in December 2020, with both standards becoming operative on 15 December 2022.

ISQM 1 and 2 will replace ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements* (ISQC 1).

Extant APES 320 incorporates ISQC 1 with minor wording changes and additional AUST paragraphs to accommodate Australian legislation and environment. ISQM 1 and 2 fundamentally change the way accounting firms are expected to manage quality for audits, reviews, other assurance-related engagements, and other related services.

A project update was provided at the March 2021 Board meeting ([Agenda Item 5](#)). The Board discussed two options to manage the impact of the release of ISQM 1 and 2 on APES 320 *Quality Control for Firms* (extant APES 320) and APES 325 *Risk Management for Firms* (APES 325):

- Option 1 – Full harmonisation between ISQM 1, 2 and extant APES 320; and
- Option 2 – Harmonisation between fundamental components of ISQM 1 and extant APES 320 and removal of Audit and Assurance related materials and non-adoption of

ISQM 2. However, elements of engagement quality reviews would be retained based on extant ISQC1.

The [Board approved Option 2](#) for APES 320 to be developed into a specific quality management standard for firms providing non-assurance services while maintaining consistency with the firm-level components of the international quality management standards.

## **Key Considerations**

### AUASB's release of ASQM 1 and 2

The Board noted at the March 2021 Board meeting that the AUASB was planning to shortly release Australian equivalents of the international standards on quality management. The AUASB released the following final standards dated 10 March 2021 with operative dates of 15 December 2022:

- ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* ([ASQM 1](#)); and
- ASQM 2 *Engagement Quality Reviews* ([ASQM 2](#))

ASQM 1 and 2 are applicable to Assurance Practices that perform audits, reviews, other assurance engagements and related services engagements.

### Engagement with Professional Bodies

Technical Staff convened a meeting with the Professional Bodies on 31 March 2021 to discuss a preliminary mapping table comparing ISQM 1 to extant APES 320 and the proposed process to reissue APES 320. A representative from the New Zealand Institute of Chartered Accountants also attended the meeting.

All representatives present at the meeting agreed with APESB Technical Staff's proposed approach. Technical Staff requested any comments on the proposed approach and mapping table by 20 April 2021. However, no further comments have been received.

Technical Staff have recently provided the Professional Bodies with a copy of the Preliminary working draft Exposure Draft APES 320 *Quality Management for Firms* (Agenda Item 4(a)) and will convene an additional consultation with the bodies on 7 or 8 June 2021. A verbal update of this meeting will be provided at the 10 June 2021 Board meeting.

### Preliminary Working Draft of Exposure Draft APES 320 *Quality Management for Firms*

Technical Staff have undertaken a process of reviewing all requirements and application material in ASQM 1 and comparing this to extant APES 320 to develop harmonisation of fundamental components between the two standards, including aligning APES 320's elements to the components in ASQM 1 and removing audit and assurance related materials from APES 320.

Technical Staff have aimed to minimise changes to extant APES 320 to avoid non-assurance firms/practices from having to make significant changes to existing systems. The proposed changes are set out in the Preliminary working draft Exposure Draft APES 320 *Quality Management for Firms* (Agenda Item 4(a)) and include:

- reformatting the standard to APESB drafting conventions and section/paragraph numbering;

- revising the scope of the standard to delineate that non-assurance services are required to comply with APES 320 and assurance practices are required to comply with ASQM 1 & 2;
- amending references to quality control to quality management and including the requirement to establish and maintain a System of Quality Management;
- aligning elements in APES 320 to ASQM 1 components;
- changing Human Resources to Resources and incorporating relevant material from ASQM 1;
- adding the new element Information and Communication and related material from ASQM 1;
- including some additional requirements from ASQM 1 applicable to other elements in APES 320;
- redrafting material incorporated from ASQM 1 to align to APES 320:
  - emphasis on policies and procedures rather than the focus on quality objectives, quality risks and responses in ASQM 1; and
  - focus on ‘establish and maintain a system’ rather than ASQM 1’s focus on ‘design, implement and operate’, the latter which requires greater emphasis on the firm creating or designing a new system; and
- removal of assurance-related material from extant APES 320.

Technical Staff have also prepared a Preliminary mapping table Proposed APES 320 mapped to extant APES 320 (Agenda Item 4(b)). This mapping provides important context for stakeholders in understanding the shift to the proposed APES 320 as it includes:

- cross-references new paragraph numbers in the proposed APES 320 to paragraph references in extant APES 320;
- high-level reasons for any changes to existing paragraphs, for example, shifting from quality control to quality management;
- explanation of the reasons for the inclusion of new material from ASQM 1; and
- details all paragraphs from extant APES 320 that have been removed (due to being assurance related).

#### APES 325 Risk Management for Firms

Proposed paragraph 3.3 in Preliminary working draft Exposure Draft APES 320 *Quality Management for Firms* (Agenda Item 4(a)) has been added to note that the policies and procedures required by APES 320 should be embedded in firms’ risk management frameworks required under APES 325, which facilitates compliance with both standards and consistency of policies and procedures. Technical Staff note that if APES 320 is amended to *Quality Management for Firms*, minor consequential amendments will be required to APES 325.

#### **Way Forward**

Technical Staff had initially intended to present a proposed APES 320 Exposure Draft at the June 2021 Board meeting for approval and then release it for public comment. However, this has been delayed due to resource pressures from other APESB projects. As such, Technical Staff propose the following way forward:

- consider comments from the Professional Bodies and the Board on Preliminary working draft Exposure Draft APES 320 *Quality Management for Firms* (Agenda Item 4(a));

- if required, amend the proposed APES 320 Exposure Draft for approval at an out of session Board meeting in June/July 2021;
- issue an Exposure Draft for APES 320 by mid-July 2021 requesting public comments over a 90-day period ending mid-October 2021;
- seek approval from the Board to issue the revised APES 320 at the November 2021 Board meeting; and
- release the revised APES 320 in December 2021 (with an effective date of 1 January 2023), allowing a year for implementation with early adoption permitted.

### **Staff Recommendation**

The Board:

- note the update on Technical Staff's engagement with the Professional Bodies on proposed amendments to APES 320;
- provide their views and direction on the Preliminary working draft Exposure Draft APES 320 *Quality Management for Firms* (Agenda Item 4(a)); and
- approve Technical Staff's proposed way forward.

### **Materials Presented**

- Agenda Item 4(a) Preliminary working draft Exposure Draft APES 320 *Quality Management for Firms*
- Agenda Item 4(b) Preliminary mapping table Proposed APES 320 mapped to extant APES 320

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**Date:** 31 May 2021