

Agenda Item 7(a) – Analysis of Options for APES 320 and APES 325

The table below explores 4 possible options relating to APES 320 and APES 325 and the arguments for and against each option.

Overview of Option	Arguments for	Arguments against
<p>Option 1 – Redraft APES 320 <i>Quality Management for Firms</i> based on extant APES 320, restructured and focused on non-assurance services, with improved navigation for firms of all sizes and high-level alignment with ASQM 1.</p>	<ul style="list-style-type: none"> • Firms have established systems based on these requirements since 2005. Therefore, they are well accustomed to this framework which will minimise disruption for firms, including SMPs (predecessor APS 5 <i>Statement of Quality Control for Firms</i> was originally issued in 1982). • There is no specific evidence from firms or the professional bodies of specific aspects of extant APES 320 that have caused implementation issues. • The proposed redraft has restructured and simplified the standard, removed assurance-based language and improved navigation for firms of all sizes. • High-level alignment between APES 320 elements and ASQM 1 components creates synergies for hybrid firms providing NAS and Assurance Services. • Assurance practices must comply with ASQM 1 by 15 December 2022, so changes required by firms for APES 320 could be undertaken simultaneously. • Professional bodies' member resources and tools for APES 320 should only require minor adjustments. • There is a significant benefit for mid-tier and SMPs if APESB and AUASB could undertake stakeholder engagement together to assist hybrid firms in navigating the changes. • Minimises any impact on the Professional Standards Scheme. 	<ul style="list-style-type: none"> • Extant APES 320 and ASQM 1 are based on IAASB standards which are predominantly assurance-focused. • Prevents the opportunity to develop a quality management standard for NAS from the ground up and consider new options, including whether a simplified standard is better for SMPs. • APES 320 is based on a policies and procedures approach, whereas ASQM is risk-based and focuses on quality objectives, quality risks and responses to address those risks. This may result in hybrid firms having to address quality via two separate methodologies.

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<p>Option 2 – Create a new quality management standard specific for firms providing non-assurance services and not based on extant APES 320.</p>	<ul style="list-style-type: none"> The quality management system could be tailored specifically for NAS from the 'ground up.' Establish whether this could be based on AS/NZS ISO 9001:2016 <i>Quality management systems – Requirements</i> and ISO 9001:2015 <i>Handbook for Small Enterprises</i>. 	<ul style="list-style-type: none"> The project could take two years or more to develop including, research, stakeholder engagement, drafting, Taskforce and Board meetings. The resultant system, in the end, could result in similar requirements as per Option 1. All firms are required to establish a new quality management framework in addition to those required to establish one under ASQM 1, which could cause significant costs and disruption in the current environment. Assurance practices need to comply separately with ASQM 1, potentially resulting in two separate systems not being aligned at the firm level. Professional bodies would need to establish new member resources and tools, taking additional time and cost. It could have an impact on the Professional Standards Scheme.
<p>Option 3 – Adopt option 1 to enable firms to update their quality management systems for non-assurance services simultaneously with changes required for ASQM 1 and then undertake a separate longer-term project to refine and potentially further simplify APES 320.</p>	<p>In addition to the arguments for Option 1:</p> <ul style="list-style-type: none"> Enables high-level alignment for hybrid firms and longer-term tailoring and simplification of the standard for NAS. 	<p>In addition to the arguments against Option 1:</p> <ul style="list-style-type: none"> Creates an additional disruption for firms having to adjust their systems initially and re-establish a framework once the project has been finalised. Additional time and resource implications for APESB and professional bodies.
<p>Option 4 – Explore the interaction between APES 320 and APES 325 and incorporating APES 320 into APES</p>	<ul style="list-style-type: none"> APES 325 <i>Risk Management for Firms</i> paragraph 3.3 notes that the policies and procedures developed for APES 320 should be embedded within the firm's Risk Management Framework. Incorporating APES 320 into APES 325 could reduce duplication of the material on scope and 	<ul style="list-style-type: none"> APES 325 applies to the whole firm (i.e., non-assurance and assurance practices), which creates problems with consolidating the two standards due to the split of APES 320 covering NAS and ASQM 1 covering assurance practices.

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<p>325 or consolidate the two standards.</p>	<p>application, definitions and monitoring and reduce monitoring requirements.</p> <ul style="list-style-type: none"> The approach could be adopted in the longer term in conjunction with any of the other three options listed above. 	<ul style="list-style-type: none"> Firms were required to establish a Risk Management Framework in accordance with APES 325 since 1 January 2013 and are well accustomed to this framework. Incorporating APES 320 within APES 325 would cause additional disruption requiring a new Risk Management Framework to be established by firms. APES 325's high-level principles cover a broader risk base than just quality management, including business continuity and protecting firms' reputations and credibility. Incorporating APES 320 within APES 325 could cause confusion and lack of visibility and focus on governance and business risks typically performed by the firm's leadership rather than those responsible for engagement quality. Incorporating APES 320 within APES 325 would not have any marked reduction in requirements for firms as they would still need to have a risk management framework that embeds or includes a quality management system.