

Agenda Item 7(b) Summary of changes made to APES 320 ED

The following summarises Technical Staff's proposed amendments to the preliminary Exposure Draft presented at the June 2021 Board meeting (Proposed June 2021 ED), which are incorporated into the Proposed Exposure Draft APES 320 ED 05/21 (Agenda Item 7(c)).

Technical Staff propose to remove terminology more relevant to assurance practices, including Engagement Quality Review(er) (now using appropriate reviewer from the Code, Reasonable Assurance (now using reasonable confidence consistent with APES 325 terminology), Relevant Ethical Requirements (now using Professional Standards for consistency with other APESB pronouncements) and Suitably Qualified External Person (now using Service Provider).

Section 3 of APES 320 has been restructured to:

- clarify the firm's responsibility to establish and maintain a system of quality management;
- establish what the system consists of and the need to comply with relevant requirements with scope for additional policies and procedures where necessary (paragraphs 7 and 9 of extant APES 320 consolidated into proposed paragraph 3.8);
- highlight the requirements that do not apply to sole practitioners with no professional staff (proposed paragraph 3.9);
- set out the allocation, and possible delegation, of responsibilities (moved from governance and leadership);
- remove the proposed requirement for annual conclusions from the person with ultimate responsibility that the system is providing reasonable assurance and the requirement for persons with the responsibility to understand the full text of the Standard (which is implied via other requirements);
- include a subsection specific to Network Firms and clarify that even though a Firm is part of a Network, the firm remains responsible for the quality management system; and
- include the requirement for documentation of the quality management system (previously at the end of the Standard).

Section 4 now sets out the elements of the system of quality management which is aligned to the components of ASQM 1 to minimise implementation disruption for hybrid firms. Proposed changes to Section 4 are summarised in the following table:

| Element | Proposed changes to Proposed June 2021 ED and impact |
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| Governance and Leadership | Moved requirements on allocation and delegation of responsibilities to Section 3 (refer above). Simplified the high-level requirement to only focus on promoting an internal culture recognising that quality is essential. |
| Professional Standards | References to Relevant Ethical Requirements changed throughout the Standard to Professional Standards for consistency with other APESB pronouncements. High-level requirement to have policies and procedures to provide reasonable confidence of compliance with Professional Standards. Removed specific requirements for policies and procedures from the Proposed June 2021 ED on: <ul style="list-style-type: none">• identifying, evaluating and addressing threats; |

| Element | Proposed changes to Proposed June 2021 ED and impact |
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| | <ul style="list-style-type: none"> • identifying, communicating and reporting on breaches; • annual confirmation from personnel on compliance; and • receiving, investigating and resolving complaints (covered under Monitoring and remediation). <p>Added a contextual proposed paragraph 4.8 to clarify when requirements on Independence may be applicable.</p> |
| Acceptance and continuance of Client relationships and specific Engagements | <p>Minimal changes made to this element as Technical Staff believe it is essential that firms of all sizes have adequate policies and procedures that cover (predominantly from extant APES 320):</p> <ul style="list-style-type: none"> • firm competence, ability to comply with Professional Standards and consideration of client integrity; • obtaining sufficient information before acceptance or continuance, how to deal with conflicts of interest and issues identified; and • consideration of NOCLAR, professional and legal responsibilities and withdrawal where appropriate. <p>Added ethical letters and other sources of information on clients, including the internet and industry forums, to proposed paragraph 4.13.</p> |
| Resources | <p>Contextual material that resources and policies and procedures are impacted by firm size and complexity (proposed paragraph 4.18) and a high-level requirement added for firms to establish policies and procedures to provide reasonable confidence the firm has sufficient and appropriate resources (proposed paragraph 4.19).</p> <p>Removed high-level requirements for human resources (now covered above) and maintained other extant APES 320 requirements and application material.</p> <p>Removed specific requirements for policies and procedures on technological and intellectual resources and service providers and simplified guidance material from ASQM 1 on such resources.</p> <p>Additional guidance in proposed paragraph 4.35 referring to APES GN 30 <i>Outsourced Services</i> and its guidance on outsourcing agreements, performance management and monitoring relevant to outsourced services and Service Providers even it is not an outsourced service.</p> |
| Engagement Performance | <p>Simplified the high-level requirement to establish policies and procedures to provide reasonable confidence Engagements comply with the requirements of the Standard (proposed paragraph 4.37).</p> <p>Separated the requirement specific to Engagement Teams on understanding responsibilities, professional judgement, quality consistency, supervision and review responsibilities (proposed paragraph 4.38 not applicable to sole practitioners without professional staff). This paragraph also consolidates the separate requirement on having less experienced staff reviewed by more experienced staff (from paragraph 63 of extant APES 320).</p> <p>High-risk engagements are now included in requirement paragraph 4.43 on having policies and procedures to provide reasonable confidence that appropriate consultation takes place.</p> <p>Removed specific requirements on undertaking Engagement Quality Reviews on high-risk engagements. Some of this has been changed to application material on what policies and procedures for high-risk Engagements might consist of, including the use of an appropriate reviewer as described in the Code, criteria to identify high-risk engagements and the appropriate reviewer's appointment, eligibility and responsibilities (proposed paragraph 4.48). Added to the criteria on high-risk engagements for</p> |

| Element | Proposed changes to Proposed June 2021 ED and impact |
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| | complexity and the size of the client and number of stakeholders relying on the engagement report. |
| Engagement Documentation | <p>Consolidated three separate requirements from extant APES 320 into proposed paragraph 4.49 for policies and procedures on Engagement Documentation including:</p> <ul style="list-style-type: none"> • completion of the assembly of the Engagement files; • maintaining confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation; and • retention of Engagement Documentation. <p>Added guidance to proposed paragraph 4.50 that acceptance of electronic signatures, where permitted under laws and regulations, may assist in completing engagement files on a timely basis.</p> |
| Information and Communication | <p>Significant simplification of this requirement (removing four sub-requirements) and application material from ASQM 1.</p> <p>High- level requirement is to establish policies and procedures that address obtaining, generating or using information and communicating internally and externally in a timely manner.</p> |
| Monitoring and remediation | <p>Maintained monitoring and retention of documentation requirements from extant APES 320.</p> <p>Consolidated extant APES 320 requirements on complaints and allegations and documentation and responses.</p> <p>Simplified the requirement for remediation to make it clear that appropriate remedial actions relate to deficiencies identified during monitoring or from complaints and allegations. In addition, the six appropriate remedial actions have been changed to guidance rather than a requirement.</p> <p>Amendments to proposed paragraph 4.65 to remove the requirement for the person assigned responsibility for monitoring (adequately covered by proposed paragraph 3.15) and to use the defined term Inspection to clarify what the inspection involves.</p> <p>Added guidance and a footnote to proposed paragraph 4.72 in relation to whistleblowing.</p> |

Technical Staff have developed a proposed improved flowchart in Appendix 1 to demonstrate which standards are applicable to firms depending on the services provided. A new proposed Appendix 2 demonstrates the high-level alignment between proposed APES 320 and ASQM 1 with paragraph references for paragraph all elements and components of the standards. These appendices should assist hybrid firms in navigating the implementation of APES 320 and ASQM 1.