

Six monthly review of APES 320 Quality Control for Firms issued in May 2006

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1. Executive Summary

1.1. Background

The Accounting Professional and Ethical Standards Board (APESB) issued *APES 320 Quality Control for Firms* in May 2006 with an effective date of 01 July 2006. The exposure period for this standard was limited due to the necessity of introducing this standard by 01 July 2006 to be in line with the force of law auditing standards issued by the Auditing and Assurance Standards Board (AUASB).

1.2. Reason for this report

In accordance with the constitution of the APESB, a review needs to be performed six months after an issue of a new standard. This report presents a review of the issues identified and a proposed course of action to address them.

1.3. Issues identified

The issues identified since the issue of the standard in May 2006 are summarised below:

1. Formatting of paragraph 56 of the standard: *Documentation of consultations with other professionals*.
2. Paragraph 73 (e) “a legal or professional duty to disclose”.

1.4. Summary of Recommendations

The following is a list of the recommendations contained in the main report. It is recommended that:

1. Include additional text in the unboxed part of paragraph 56 to improve the clarity of the requirements that apply to assurance practices and other practices.
2. In the next version of the standard the wording “or professional” in paragraph 73 (e) should be deleted as there is only a legal duty to disclose.

2 Review of Implementation Issues

2.1 Formatting of Paragraph 56 : *Documentation of Consultations with other professionals*

Issue

Paragraph 56 of APES 320 discusses the requirement to document consultations that occurred with other professionals or experts in respect of difficult or contentious matters and the requirement for both parties to agree to the documentation. There is a box around the first part of the paragraph indicating its applicability to assurance practices only. This has caused confusion among some users regarding the application of the paragraph to assurance and other engagements.

Analysis of the issue

Paragraph 56 is in essence providing guidance to the black letter standard contained in paragraph 51 which states that firms shall establish policies and procedures in relation to consultations that takes place in respect of difficult or contentious matters and the process for documenting these consultations.

The rationale to have the first part in a box was to mandate that in respect of assurance engagements the consultations on difficult or contentious matters need to be documented in a manner agreed to by the individual seeking the consultation and the individual consulted. Thus in respect of “non assurance” engagements it is not necessary for all parties to agree to the documentation as in some cases these will be of a general or informal nature.

The rest of the paragraph dealt with the fact that the documentation needs to be sufficiently complete and detailed to enable an understanding of the issue as well as the results of the consultation. The current view is that the unblocked portion of this is applicable to all practices (assurance and non assurance) as it is considered to supply guidance on the mandatory requirements of paragraph 51.

In other areas of the standard the paragraphs relating to assurance practices have been similarly blocked and the purpose of separating it has been explained in the application requirements of APES 320. The difference in paragraph 56 is that part of the paragraph is blocked as applicable to assurance practices whilst the other part is not.

Impacted Stakeholders

Firms will be impacted by this paragraph as they are required to keep documentation on consultations that takes place on difficult/contentious issues in respect of all engagements.

This issue was raised by the ACAG Financial Reporting and Auditing committee in their response to the Exposure Draft in May 2006.

Recommendation

In order to improve the clarity of paragraph 56, the unboxed part of paragraph 56 be amended to read as follows:

The documentation of consultations by the Firm in accordance with policies and procedures developed to comply with paragraph 51 (c) and (d) above, is sufficiently complete and detailed to enable an understanding of:

- (a) The issue on which consultations was sought;*
- (b) The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.*

The bold text is additional wording recommended by the ICAA, which will make it clear that it relates to the documentation of consultations in respect of all engagements as per the standard stipulated in paragraph 51.

As there have not been significant member inquiries in this regard it is recommended that this amendment be done in the next revision of the standard.

2.2 Paragraph 73 (e) – “Legal or Professional duty to disclose”

Issue

Paragraph 73 (e) refers to the obligation of the firm’s personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority is given to disclose or there is “a legal or professional duty” to disclose. This wording originated from the IFAC wording in *International Statement on Quality Control (ISQC 1)*. From an Australian context there is only a legal duty to disclose as the similar wording in *APES 110: Code of Ethics for Professional Accountants* was amended to remove the professional duty to disclose.

Stakeholders

Engagement personnel involved in carrying out professional services for clients will be impacted by this wording as it is imposing an unintended obligation.

Recommendation

To ensure consistency with the code, in the next version of the standard the wording “or professional” in paragraph 73 (e) should be deleted as there is only a legal duty to disclose.