

6 September 2019

APESB issues revised APES 320 *Quality Control for Firms*

Accounting Professional & Ethical Standards Board Limited (APESB) today announced the issue of the revised APES 320 *Quality Control for Firms* (APES 320) to replace the existing APES 320 (Issued December 2015).

The key changes in the revised APES 320 consist of revisions to reflect the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued in November 2018.

Please refer to Appendix 1 of this technical update for details of all the revisions. The revised APES 320 will be effective for Firms from 1 January 2020 with early adoption permitted.

APESB has incorporated the following interactive PDF features within the revised APES 320:

- Bookmark tab section for contents page;
- Dynamic links to sections and paragraphs;
- Pop-up definitions upon mouse rollover for defined terms; and
- Links to external websites.

The revised standard is available from APESB's website: www.apesb.org.au

– ENDS –

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Appendix 1

Revision to APES 320 (Issued December 2015)

Accounting Professional & Ethical Standards Board Limited (APESB) has approved the following revisions to APES 320 *Quality Control for Firms* which was originally issued in May 2006 and revised in May 2009 and December 2015.

Paragraph Reference	Revisions
1.2	Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional standard APES 320 <i>Quality Control for Firms</i> (the Standard). Systems of quality control in compliance with this Standard were required to be established by Firms by 1 January 2010. This Standard supersedes APES 320 issued in May 2009 December 2015 and Firms are required to incorporate appropriate amendments to their systems of quality control by 1 April 2016 <u>January 2020</u> . Earlier adoption of this Standard is permitted.
1.6	Members in Public Practice shall be familiar <u>comply with relevant other applicable Professional Standards and be familiar with relevant guidance notes when providing Professional Services</u>. All Members shall comply with the fundamental principles outlined in the Code.
1.11	A Firm's Personnel may be required to comply with additional standards and guidance regarding quality control procedures at the Engagement level. For example in respect of Assurance Engagements, Auditing Standard ASA 220 <i>Quality Control for an Audit of a Financial Report and Other Historical Financial Information</i> (or equivalent predecessor ASA), issued by the Auditing and Assurance Standards Board (<u>AUASB</u>) establishes standards and provides guidance on quality control procedures for audits at the Engagement level.
2	<u>Defined terms are shown in the body of the Standard in title case.</u> For the purpose of this Standard:
2(e)	<i>Engagement Team</i>¹ means all Partners and Staff performing the Engagement, and any individuals engaged by the Firm or a Network Firm who perform procedures on the Engagement. This excludes external experts engaged by the Firm or <u>by a</u> Network Firm. <u>Footnote:</u> 1 The definition of Engagement Team in the Code does not exclude <u>has been amended from the International equivalent to remove the reference to</u> individuals within the Client's internal audit function who provide direct assistance on an <u>A</u> udit Engagement as the AUASB has prohibited the use of direct assistance in Auditing and Assurance Standard ASA 610 <i>Using the Work of Internal Auditors</i> (November 2013).
2(f)	<i>Firm</i> means: (i) a A sole practitioner, partnership, corporation or other entity of professional accountants; (ii) a An entity that controls such parties, through ownership, management or other means; (iii) a An entity controlled by such parties, through ownership, management or other means; or (iv) a An Auditor-General's office or department.

Paragraph Reference	Revisions
2(j)	<p>Network means a larger structure:</p> <p>(i) That is aimed at co-operation <u>cooperation</u>; and</p> <p>(ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.</p>
2(o)	<p>Relevant Ethical Requirements means ethical requirements to which the Engagement Team and Engagement Quality Control Reviewer are subject, which ordinarily comprise Parts <u>A 1</u> and <u>B 3</u> and, if applicable, Part <u>4A</u> or <u>4B</u> of the Code.</p>
AUST 2.1(a)	<p>Assurance Engagement means an Engagement in which a Member in Public Practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).</p> <p>This includes an Engagement in accordance with the <i>Framework for Assurance Engagements</i> issued by the AUASB or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements.</p> <p><u>(For guidance on Assurance Engagements, see the Framework for Assurance Engagements issued by the AUASB. The Framework for Assurance Engagements describes the elements and objectives of an Assurance Engagement and identifies engagements to which Australian Auditing Standards (ASAs), Standards on Review Engagements (ASREs) and Standards on Assurance Engagements (ASAEs) apply.)</u></p>
AUST 2.1(d)	<p>Code means APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i>.</p>
AUST 2.1(e)	<p>Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such an agreement are not part of an Engagement.</p>
AUST 2.1(f)	<p>Engagement Partner means the Partner or other person in the Firm who is responsible for the Engagement and its performance, and for the report that is issued on behalf of the Firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. In public sector audit organisations, the term includes a suitably qualified person to whom the Auditor-General has delegated Engagement Partner responsibilities.</p>
AUST 2.1(g)	<p>Independence is <u>comprises</u>:</p> <p>(i) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.</p> <p>(ii) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a Firm's, or a member of the <u>an</u> Engagement</p>

Paragraph Reference	Revisions
	Team's, member's integrity, objectivity or professional scepticism has been compromised.
AUST 2.1(h)	Key Audit Partner means the Engagement Partner, the individual responsible for the Engagement Quality Control Review, and other audit Partners, if any, on the Engagement Team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the Firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit Partners" may <u>might</u> include, for example, audit Partners responsible for significant subsidiaries or divisions.
AUST 2.1(j)	Member in Public Practice means a Member, irrespective of functional classification (e.g. for example, audit, tax, or consulting) in a Firm that provides Professional Services. This term is also used to refer to a Firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable Professional Body.
AUST 2.1(k)	Professional Activity means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, and management consulting, and financial management.
21	Part B 3 <i>Members in Public Practice and Independence Standards (Parts 4A and 4B)</i> of the Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to <u>how to evaluate and</u> address threats to compliance with the fundamental principles and also provides <u>including</u> examples of situations where safeguards are not available to address the threats.
23	In complying with the requirements in paragraphs 19, 24–26, 29 and 31, the definitions of "Firm", "Network" and "Network Firms" used in the Relevant Ethical Requirements apply in so far as is necessary to interpret those ethical requirements.
24	<p>A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that the Firm, its Personnel and, where applicable, others subject to Independence requirements (including Network Firm's Personnel) maintain Independence where required by Relevant Ethical Requirements. Such policies and procedures shall enable the Firm to:</p> <p>(a) Communicate its Independence requirements to its Personnel and, where applicable, others subject to them; and</p> <p>(b) Identify and evaluate circumstances and relationships that create threats to Independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by <u>eliminating the circumstances creating the threats, applying safeguards (if available), or, if considered appropriate, to withdraw from the Engagement,</u> (where withdrawal is possible under applicable law or regulation).</p>
AUST 27	Guidance on threats to Independence and safeguards, including application to specific situations, is set out in the Code. The Code also requires threats to Independence that are not clearly insignificant to be documented and include a description of the threats identified and the safeguards approach <u>safeguards approach</u> applied to eliminate or reduce the threats to an acceptable level.

Paragraph Reference	Revisions
AUST 28	A Firm receiving notice of a breach of Independence policies and procedures should promptly communicate relevant information to Engagement Partners, others in the Firm as appropriate and, where applicable, experts contracted by the Firm and Network Firm Personnel, for appropriate action. Appropriate action by the Firm and the relevant Engagement Partner should include applying <u>undertaking</u> appropriate safeguards actions to eliminate the threats to Independence, or to reduce them <u>threats</u> to an acceptable level, <u>by applying safeguards</u> or withdrawing from the Engagement
31	<p>A Firm shall establish policies and procedures:</p> <p>(a) S<u>etting out criteria for determining the need for safeguards to reduce</u> reducing the familiarity threat to an acceptable level <u>(including the application of safeguards if available)</u> when using the same senior Personnel on an Assurance Engagement over a long period of time; and</p> <p>(b) R<u>equiring, for audits of financial statements of Listed Entities, the rotation of the Engagement Partner and the individuals responsible for Engagement Quality Control Review, and where applicable, others subject to rotation requirements, after a specified period in compliance with Relevant Ethical Requirements.</u></p>
36	Listed Entities ₁ as referred to in paragraphs 31 and 34 ₁ are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Therefore, there may be instances when a Firm determines, based on its quality control policies and procedures, that a public sector entity is significant for the purposes of expanded quality control procedures.
46	<p><u>Assurance Practices Only</u></p> <p><i>[The above heading has been added before paragraph 46]</i></p>
52	<p>Performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. Steps a Firm may take in developing and maintaining competence and commitment to ethical principles include:</p> <p>(a) M<u>aking Personnel aware of the Firm's expectations regarding performance and ethical principles;</u></p> <p>(b) P<u>roviding Personnel with evaluation of, and <u>counselling</u> counseling on, performance, progress and career development; and</u></p> <p>(c) H<u>elping Personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the Firm's policies and procedures may result in disciplinary action.</u></p>

Paragraph Reference	Revisions
57	<p>A Firm's assignment of Engagement Teams and the determination of the level of supervision required; include for example, consideration of the Engagement Team's:</p> <ul style="list-style-type: none"> • Understanding of, and practical experience with, Engagements of a similar nature and complexity through appropriate training and participation; • Understanding of Professional Standards and applicable legal and regulatory requirements; • Technical knowledge and expertise, including knowledge of relevant information technology; • Knowledge of relevant industries in which the Clients operate; • Ability to apply professional judgement; and • Understanding of the Firm's quality control policies and procedures.
78	<p>Other matters relevant to evaluating the significant judgements made by the Engagement Team that may be considered in an Engagement Quality Control Review of an audit of financial statements of a Listed Entity include:</p> <ul style="list-style-type: none"> • Significant risks identified during the Engagement and the responses to those risks. • Judgements made, particularly with respect to materiality and significant risks. • The significance and disposition of corrected and uncorrected misstatements identified during the Engagement. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. <p>These other matters, depending of <u>on</u> the circumstances, may also be applicable for Engagement Quality Control Reviews for audits of financial statements of other entities as well as reviews of financial statements and other assurance and related services Engagements.</p>
86	<p>In the public sector, a statutorily appointed auditor (for example, an Auditor-General, or other suitably qualified person appointed on behalf of the Auditor-General) may act in a role equivalent to that of Engagement Partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the Engagement Quality Control Reviewer should include consideration of the need for Independence from the audited entity and the ability of the Engagement Quality Control Reviewer to provide an objective evaluation.</p>
105	<p>Unless otherwise specified by law or regulation, Engagement Documentation is the property of a Firm. The Firm may, at its discretion, make portions of, or extracts from, Engagement Documentation available to Clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of Assurance Engagements, the Independence of the Firm or its Personnel.</p>
130.	<p>Systems of quality control in compliance with this Standard were required to be established by Firms by 1 January 2010. This Standard supersedes APES 320 issued in May 2009 <u>December 2015</u> and Firms are required to incorporate appropriate amendments to their systems of quality control by 1 April 2016 <u>January 2020</u>. Firms should consider the appropriate transitional arrangements for Engagements in process at that date.</p>

Paragraph Reference	Revisions
Appendix 2	Summary of revisions to the previous APES 320 (Issued in December 2015) – Amended

Amendments to the capitalisation of lists have been made in the following paragraphs: 15-16, 22, 25-26, 38-39, 47, 54, 56, 58, 61-62, 64, 67-70, 73, 77, 80, 84, 88, 90, 98, 100, 104, 106-107, 112, 115, 118-119, 121 and 126.