

Proposed Standard: APES 320 Quality Management for Firms

[Supersedes APES 320 Quality Control for Firms issued in September 2019]

EXPOSURE DRAFT **0X/21**
ISSUED June 2021

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Commenting on this Exposure Draft

This Exposure Draft, *Proposed Standard APES 320 Quality Management for Firms*, was developed and approved by the Accounting Professional & Ethical Standards Board Limited (APESB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. Comments are requested by **30 September 2021**.

Comments should be addressed to:

Chief Executive Officer
Accounting Professional & Ethical Standards Board Limited
Level 11, 99 William Street
Melbourne VIC 3000
Australia

E-mail: sub@apesb.org.au

APESB would prefer that respondents express a clear overall opinion on whether the proposed amendments, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed amendments.

Respondents are asked to submit their comments electronically through the APESB website, using the link <https://apesb.org.au/current-projects/>.

Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website www.apesb.org.au.

APESB prefers that comments are submitted via its website. However, if there are practical difficulties, comments can also be sent to sub@apesb.org.au or mailed to the address noted above. While APESB prefers formal submissions, we also encourage opinions and comments to be sent via email to sub@apesb.org.au.

Obtaining a copy of this Exposure Draft

This Exposure Draft is available on the APESB website: www.apesb.org.au

Accounting Professional & Ethical Standards Board Limited
Level 11, 99 William Street
Melbourne VIC 3000
Australia

E-mail: enquiries@apesb.org.au
Phone: (03) 9670 8911
Fax: (03) 9670 5611

Reasons for issuing Exposure Draft 0X/21

APESB proposes to reissue APES 320 *Quality Control for Firms* (APES 320) to align with new international requirements relating to the implementation of a system of quality management (which replaces requirements relating to quality control for firms).

The extant version of APES 320 incorporates the requirements and application material of ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, which was originally issued by the International Auditing and Assurance Standards Board (IAASB) in 2004. The extant APES 320 also included AUST paragraphs to reflect the Australian environment and a Scope and Application section in accordance with APESB's drafting conventions.

In December 2020, the IAASB issued ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1) and ISQM 2 *Engagement Quality Reviews* (ISQM 2). These new standards replace ISQC 1. The new standards introduce significant changes to existing requirements and necessitate firms, predominantly assurance practices, to design a system of quality management.

The Auditing and Assurance Standards Board (AUASB) issued ASQM 1 – *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (ASQM 1) and ASQM 2 – *Engagement Quality Reviews* in March 2021. These standards are the Australian equivalents of ISQM 1 and 2. ASQM 1 and 2 apply to the assurance practices of Australian Firms.

APESB proposes to reissue APES 320 to refocus it as a specific quality management standard for the non-assurance services provided by firms. The proposed changes will align the elements of APES 320 to components of ASQM 1 and will remove audit and assurance related material that is in the extant APES 320.

Key requirements and guidance in Exposure Draft 0X/21

This Exposure Draft sets out the proposed amendments to the extant APES 320. The key revisions to APES 320 proposed in ED 03/21 include:

- changing the title of APES 320 from *Quality Control for Firms* to *Quality Management for Firms* and updating references from 'control' to 'management' throughout the Standard;
- revising the scope of APES 320 to delineate that:
 - firms that do not undertake assurance services or the non-assurance parts of firms are required to apply the whole of APES 320; and
 - assurance practices of firms are required to comply with the quality management standards issued by the AUASB (i.e., ASQM 1 and ASQM 2);
- establishing and maintaining a system of quality management in place of the system of quality control, which incorporates requirements and application material from extant APES 320 and enhanced with additional material as detailed below;
- aligning the elements of APES 320 to the eight components of ASQM 1, including:
 - changing the *Human Resources* element of the extant APES 320 to *Resources* and incorporating relevant material from ASQM 1 on technological and intellectual services and service providers; and
 - including a new element on *Information and Communication* and including relevant material from ASQM 1; and

- removing existing material for *Assurance Practices only* from extant APES 320.

Stakeholders should not rely on this summary in the Exposure Draft to determine what changes, if any, are required to their current practices, policies or methodologies. Stakeholders should read the entire Exposure Draft to determine the significance of its proposals.

Proposed Operative Date

It is proposed that this Standard will be effective for engagements commencing on or after 1 January 2023.

Early adoption of the revised Standard will be permitted

APES 320 Quality Management for Firms

[Supersedes APES 320 Quality Control for Firms issued in September 2019]

REVISED: **DATE** 2021

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'APES 320 *Quality Management for Firms*' uses elements of the extant International Standard on Quality Control (ISQC 1) of the *International Auditing and Assurance Standards Board* and aligned where appropriate to the *International Standard on Quality Management* (ISQM 1), as issued in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Service Pronouncements, 2021 Edition published by the International Federation of Accountants (IFAC) in December 2020, and is used with permission of IFAC

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1. Scope and Application

- 1.1 The objectives of APES 320 *Quality Management for Firms* are to specify the mandatory obligations of a **Firm** in respect of establishing and maintaining a **System of Quality Management** designed to provide it with **Reasonable Assurance** that the:
- **Firm** and its **Personnel** are complying with **Relevant Ethical Requirements**, other **Professional Standards** and applicable legal and regulatory requirements; and
 - reports issued by the **Firm** or **Engagement Partners** are appropriate in the circumstances.
- 1.2 Accounting Professional & Ethical Standards Board (APESB) has reissued professional standard APES 320 *Quality Management for Firms* (**the Standard**). **Firms** are required to incorporate appropriate amendments to their systems by 1 January 2023 to establish a **System of Quality Management**. Earlier adoption of this Standard is permitted.
- 1.3 APES 320 sets the standards for **Members in Public Practice** to establish and maintain a **System of Quality Management** in their **Firms** in respect of the provision of quality and ethical **Professional Services**. The mandatory requirements of this Standard are in **bold-type**, preceded or followed by discussion or explanations in normal type. The Standard also includes paragraphs that include considerations specific to smaller firms on how this Standard is scalable. APES 320 should be read in conjunction with other professional duties of **Members** and any legal obligations that may apply.
- 1.4 **Members in Public Practice in Australia shall follow the mandatory requirements of APES 320.**
- 1.5 **Members in Public Practice practising outside of Australia shall follow the provisions of APES 320 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.6 **Members in Public Practice shall comply with other applicable Professional Standards and be familiar with relevant guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.7 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.8 All references to **Professional Standards**, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.9 In applying the requirements outlined in APES 320, **Members in Public Practice** should be guided not merely by the words but also by the spirit of the Standard and the **Code**.
- 1.10 **Firms** that provide non-assurance services are required to apply APES 320 to their **Engagements**. **Assurance Practices** within **Firms** are required to comply with the quality management standards issued by the **AUASB** being ASQM 1 – *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (ASQM 1) and ASQM 2 – *Engagement Quality Reviews* (ASQM 2). A flow chart that illustrates the quality management standard that applies based on the **Professional Services** provided by a **Firm** is set out in Appendix 1 to the Standard.
- 1.11 In this Standard, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

2. Definitions

Defined terms are shown in the body of the Standard in title case.

For the purpose of this Standard:

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.

This includes an [Engagement](#) in accordance with the *Framework for Assurance Engagements* issued by the [AUASB](#) or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements.

(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.)

Assurance Practice means the assurance division or section of a [Firm](#), encompassing every [Assurance Engagement](#) conducted by the [Firm](#), whether or not required to be conducted by a Registered Company Auditor and whether or not conducted by an individual auditor, an audit [Firm](#) or an audit company.

AUASB means the Australian statutory body called the Auditing and Assurance Standards Board established under section 227A of the *Australian Securities and Investments Commission Act 2001*.

Client means an individual, firm, entity or organisation to whom or to which [Professional Activities](#) are provided by a [Member in Public Practice](#) in respect of [Engagements](#) of either a recurring or demand nature.

Code means APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

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 agreement are not part of an Engagement.

Engagement Documentation means the record of work performed, results obtained, and conclusions the [Member in Public Practice](#) reached (terms such as “working papers” or “work papers” are sometimes used).

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.

Engagement Quality Review means an objective evaluation of the significant judgements made by the [Engagement Team](#) and the conclusions reached thereon, performed by the [Engagement Quality Reviewer](#) and completed on or before the date of the [Engagement](#) report.

Engagement Quality Reviewer means a partner, other individual in the [Firm](#), or an external individual, appointed by the [Firm](#) to perform the [Engagement Quality Review](#).

Engagement Team 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 by a [Network Firm](#).

Firm means:

- (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
- (b) An entity that controls such parties, through ownership, management or other means;
- (c) An entity controlled by such parties, through ownership, management or other means; or
- (d) An Auditor-General's office or department.

Independence comprises:

- (a) 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.
- (b) 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 that a **Firm's**, or an **Engagement Team** member's, integrity, objectivity or professional scepticism has been compromised.

Inspection means in relation to completed **Engagements**, procedures designed to provide evidence of compliance by **Engagement Teams** with the **Firm's** quality management policies and procedures.

Member means a member of a **Professional Body** that has adopted this Standard as applicable to their membership, as defined by that **Professional Body**.

Member in Business means a **Member** working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.

Member in Public Practice means a **Member**, irrespective of functional classification (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**.

Monitoring means a process comprising an ongoing consideration and evaluation of the **Firm's System of Quality Management**, including a periodic **Inspection** of a selection of completed **Engagements**, designed to provide the **Firm** with **Reasonable Assurance** that its **System of Quality Management** is operating effectively.

Network means a larger structure:

- (a) That is aimed at cooperation; and
- (b) 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.

Network Firm means a **Firm** or entity that belongs to a **Network**.

Partner means any individual with authority to bind the **Firm** with respect to the performance of a **Professional Services Engagement**.

Personnel means **Partners** and **Staff**.

Professional Activity means an activity requiring accountancy or related skills undertaken by a **Member**, including accounting, auditing, tax, management consulting, and financial management.

Professional Bodies means Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

Professional Services means **Professional Activities** performed for **Clients**.

Professional Standards means all standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable **Professional Body**.

Public Document means a disclosure document, product disclosure statement or other documentation provided to shareholders, unit holders or holders of a relevant interest in an entity (or which is provided to management of an entity) in relation to a scheme of arrangement under Part 5.1 of the *Corporations Act 2001* or a takeover or compulsory acquisition under Chapter 6 of the *Corporations Act 2001*.¹

Reasonable Assurance means in the context of this Standard, a high, but not absolute, level of assurance.

Relevant Ethical Requirements means ethical requirements to which the **Engagement Team** and **Engagement Quality Reviewer** are subject, which ordinarily comprise the provisions of the **Code**.

Service Provider means an individual or organisation external to the **Firm** that provides a resource that is used in the **System of Quality Management** or in the performance of **Engagements**. Service Providers exclude the **Firm's Network**, other **Network Firms** or other structures or organisations in the **Network**.

Staff means professionals, other than **Partners**, including any experts the **Firm** employs.

Suitably Qualified External Person means an individual outside the **Firm** with the competence and capabilities to act as an **Engagement Partner**, for example, a **Partner** of another **Firm**, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services **Engagements**, or of an organisation that provides relevant quality management services.

System(s) of Quality Management means a system established and maintained by a **Firm** designed to provide the **Firm** with **Reasonable Assurance** that the **Firm** and its **Personnel** comply with **Relevant Ethical Requirements**, other **Professional Standards** and applicable legal and regulatory requirements and that reports issued by the **Firm** or **Engagement Partners** are appropriate in the circumstances.

Those Charged with Governance means the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, Those Charged with Governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

3. Firm's responsibilities for Systems of Quality Management

3.1 A **Firm** shall establish and maintain a **System of Quality Management** designed to provide it with **Reasonable Assurance** that the **Firm** and its **Personnel** comply with **Relevant Ethical Requirements**, other **Professional Standards** and applicable legal and regulatory requirements and that reports issued by the **Firm** or **Engagement Partners** are appropriate in the circumstances.

3.2 A **System of Quality Management** consists of policies designed to achieve the objectives set out in paragraph 1.1 and the procedures necessary to implement and monitor compliance with those policies.

¹ For further information about Public Documents refer to APES 345 *Reporting on Prospective Financial Information prepared in connection with a Public Document* and APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*.

- 3.3 The Firm's quality management policies and procedures developed in accordance with this Standard should be embedded within the risk management framework required to be established and maintained by Firms under APES 325 *Risk Management for Firms* (APES 325). This will facilitate a Firm complying with this Standard and APES 325 and ensure consistency within the Firm's policies and procedures.
- 3.4 The public interest is served by the consistent performance of quality Engagements. Establishing and maintaining the System of Quality Management enables the consistent performance of quality Engagements by Firms. Quality Engagements are achieved by planning and performing Engagements and reporting on them in accordance with Professional Standards and applicable legal and regulatory requirements. Complying with the requirements of Professional Standards and applicable law or regulation involves exercising professional judgement and, when applicable to the type of Engagement, exercising professional scepticism.
- 3.5 The nature and extent of the policies and procedures developed by an individual Firm to comply with this Standard will depend on various factors such as the size and operating characteristics of the Firm, and whether it is part of a Network.
- 3.6 **The Firm remains responsible for its System of Quality Management, including professional judgements made in establishing and maintaining the System of Quality Management. The Firm shall not allow compliance with Network requirements or use of Network services to contravene the requirements of this Standard.**
- 3.7 The policies and procedures developed by a Firm need not be complex or time-consuming to be effective. This Standard describes responsibilities for several different roles and functions within the Firm, including overall quality management and Monitoring. For a small Firm, it may be necessary for one person to perform more than one of these functions. In some circumstances, it may be appropriate to use the services of a Suitably Qualified External Person. When a Firm decides to use such a person, care should be taken to establish the legal responsibilities of the parties and to safeguard Client confidentiality.

4. Applying and complying with relevant requirements

- 4.1 **Personnel** within a Firm assigned ultimate responsibility and accountability or operational responsibility for the Firm's System of Quality Management shall have an understanding of the entire text of this Standard, including its application and other explanatory material, to understand its objective and to apply its requirements properly.
- 4.2 **A Firm shall comply with each requirement of this Standard unless the requirement is not relevant to the Firm because of the nature and circumstances of the Firm or its Engagements.**
- 4.3 The requirements are designed to enable a Firm to implement a System of Quality Management that achieves the objectives stated in paragraph 1.1 of this Standard. However, because circumstances vary widely and all such circumstances cannot be anticipated, the Firm shall consider whether there are particular matters or circumstances that require the Firm to establish policies and procedures in addition to those required by this Standard.

- 4.4 For the purposes of this Standard:
- (a) a risk-based approach has been used to establish requirements for the elements of a **System of Quality Management**;
 - (b) mandatory requirements in this Standard prescribe what **Firms** are required do to address the risks to achieving the objective stated in this Standard associated with the provision of **Professional Services** by **Members in Public Practice**;
 - (c) compliance with this Standard is designed to mitigate risks to achieving the objective of this Standard; and
 - (d) consistent with paragraph 4.3, Firms should consider whether there are particular matters or circumstances which create additional risks to achieving the objective of this Standard to be addressed.
- 4.5 **The individual(s) assigned the ultimate responsibility and accountability for the System of Quality Management, shall at least annually on behalf of the Firm, evaluate the System of Quality Management and conclude whether the System of Quality Management provides the Firm with Reasonable Assurance that the requirement in paragraph 3.1 is being met.**

Considerations specific to smaller Firms

- 4.6 This Standard does not call for compliance with requirements that are not relevant, for example, in the circumstances of a sole practitioner with no **Staff**. Requirements in this Standard, such as those for policies and procedures for the assignment of appropriate **Personnel** to the **Engagement Team** (see paragraph 9.10) and for review responsibilities (see paragraph 10.6), are not relevant in the absence of **Staff**.

5. Elements of the System of Quality Management

- 5.1 **A Firm shall establish and maintain a System of Quality Management that includes policies and procedures that address each of the following elements:**
- (a) **Governance and Leadership**
 - (b) **Professional Standards including Relevant Ethical Requirements.**
 - (c) **Acceptance and continuance of Client relationships and specific Engagements.**
 - (d) **Resources.**
 - (e) **Engagement performance.**
 - (f) **Information and communication**
 - (g) **Monitoring and remediation.**
- 5.2 **A Firm shall document its policies and procedures and communicate them to the Firm's Personnel.**
- 5.3 In general, communication of quality management policies and procedures to the **Firm's Personnel** includes a description of the quality management policies and procedures and the objectives they are designed to achieve, and the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. Encouraging the **Firm's Personnel** to communicate their views or concerns on quality management matters recognises the importance of obtaining feedback on the **Firm's System of Quality Management**.

Considerations specific to smaller Firms

- 5.4 Documentation and communication of policies and procedures for smaller Firms may be less formal and extensive than for larger Firms.

6. Governance and Leadership

6.1 A Firm shall establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing Engagements. Such policies and procedures shall require that the Firm's chief executive officer (or equivalent) or the Firm's managing Partner (or equivalent) or, if appropriate, the Firm's managing board of Partners (or equivalent), is assigned ultimate responsibility and accountability for the Firm's System of Quality Management.

6.2 The Firm's leadership and the examples it sets significantly influence the internal culture of the Firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the Firm's management that emphasise the Firm's quality management policies and procedures, and the requirement to:

- (a) perform work that complies with Professional Standards and applicable legal and regulatory requirements; and
- (b) issue reports that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognises and rewards high-quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in the Firm's internal documentation and training materials, and in Partner and Staff appraisal procedures such that they will support and reinforce the Firm's view on the importance of quality and how, practically, it is to be achieved.

6.3 Of particular importance in promoting an internal culture based on quality is the need for a Firm's leadership to recognise that the Firm's business strategy is subject to the overriding requirement for the Firm to achieve quality in all the Engagements that the Firm performs. Promoting such an internal culture includes:

- (a) establishment of policies and procedures that address performance evaluation, compensation, and promotion (including incentive systems) with regard to its Personnel, in order to demonstrate the Firm's overriding commitment to quality;
- (b) assignment of management responsibilities so that commercial considerations do not override the quality of work performed; and
- (c) provision of sufficient resources for the development, documentation and support of its quality management policies and procedures.

6.4 A Firm shall establish policies and procedures such that any person or persons assigned operational responsibility for the Firm's System of Quality Management, or assigned operational responsibility for specific aspects of the System of Quality Management including compliance with Relevant Ethical Requirements and other Professional Standards, and Monitoring and remediation processes, by the Firm's chief executive officer or managing board of Partners:

- (a) has the appropriate experience, knowledge, influence and authority within the firm, and sufficient time, to fulfill their assigned responsibility;
- (b) understands their assigned roles and that they are accountable for fulfilling them; and

- (c) have a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the **System of Quality Management**.

6.5 Appropriate experience and knowledge enables the person or persons assigned operational responsibility for the **Firm's System of Quality Management** to identify and understand quality management issues and to develop appropriate policies and procedures. Appropriate influence and authority within the firm enables the person or persons to implement those policies and procedures.

7. Professional Standards including Relevant Ethical Requirements

7.1 A **Firm** shall establish policies and procedures designed to provide it with **Reasonable Assurance** that the **Firm** and its **Personnel** comply with **Professional Standards**, including **Relevant Ethical Requirements**. Such policies and procedures shall include for:

- (a) identifying, evaluating and addressing threats to compliance with the **Relevant Ethical Requirements**;
- (b) identifying, communicating, evaluating and reporting of any breaches of the **Relevant Ethical Requirements** and appropriately responding to the causes and consequences of the breaches in a timely manner;
- (c) obtaining at least annually, a documented confirmation of compliance with **Relevant Ethical Requirements** from all **Personnel**.
- (d) receiving, investigating and resolving complaints and allegations about failures to perform work in accordance with **Professional Standards** and applicable legal and regulatory requirements, or non-compliance with the **Firm's** policies and procedures established in accordance with this Standard.

7.2 Ethical requirements are contained in the **Professional Standards**. The **Code** establishes the fundamental principles of professional ethics, which include:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behaviour.

7.3 The **Code** illustrates how the conceptual framework is to be applied in specific situations. It provides examples of how to identify, evaluate and address threats to compliance with the fundamental principles, including examples of situations where safeguards are not available to address the threats.

7.4 The fundamental principles are reinforced in particular by:

- (a) the governance and leadership of the **Firm**;
- (b) education and training;
- (c) **Monitoring**; and
- (d) a process for dealing with non-compliance.

7.5 In complying with the requirements in paragraphs 7.1 and 7.6, 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.

Independence

7.6 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 Professional Standards, including Relevant Ethical Requirements. Such policies and procedures shall enable the Firm to:

- (a) communicate its Independence requirements to its Personnel and, where applicable, others subject to them; and
- (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 eliminating the circumstances creating the threats, applying safeguards (if available), or to withdraw from the Engagement (where withdrawal is possible under applicable law or regulation).

8. Acceptance and continuance of Client relationships and specific Engagements

8.1 A Firm shall establish policies and procedures for the acceptance and continuance of Client relationships and specific Engagements, designed to provide the Firm with Reasonable Assurance that it will only undertake or continue relationships and Engagements where the Firm:

- (a) is competent to perform the Engagement and has the capabilities, including time and resources, to do so;
- (b) can comply with Relevant Ethical Requirements; and
- (c) has considered the integrity of the Client and does not have information that would lead it to conclude that the Client lacks integrity.

8.2 Consideration of whether the Firm has the competence, capabilities and resources to undertake a new Engagement from a new or an existing Client involves reviewing the specific requirements of the Engagement and the existing Partner and Staff profiles at all relevant levels, and including whether:

- (a) Firm's Personnel have knowledge of relevant industries or subject matters;
- (b) Firm's Personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
- (c) the Firm has sufficient Personnel with the necessary competence and capabilities;
- (d) experts are available, if needed;
- (e) individuals meeting the criteria and eligibility requirements to perform Engagement Quality Reviews are available, where applicable; and
- (f) the Firm is able to complete the Engagement within the reporting deadline.

8.3 With regard to the integrity of a Client, matters to consider include, for example:

- The identity and business reputation of the Client's principal owners, key management, related parties and Those Charged with Governance.
- The nature of the Client's operations, including its business practices.
- Information concerning the attitude of the Client's principal owners, key management and Those Charged with Governance towards such matters as the aggressive interpretation of accounting standards and the internal control environment.

- Whether the **Client** is aggressively concerned with maintaining the **Firm's** fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the **Client** might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the **Firm** and non-reappointment of the previous **Firm**.
- The identity and business reputation of related parties.

The extent of knowledge a **Firm** will have regarding the integrity of a **Client** will generally grow within the context of an ongoing relationship with that **Client**.

8.4 Sources of information on such matters obtained by the **Firm** may include the following:

- Communications with existing or previous providers of professional accountancy services to the **Client** in accordance with **Relevant Ethical Requirements**, and discussions with other third parties.
- Inquiry of other **Firm's Personnel** or third parties such as bankers, legal counsel and industry peers.
- Background searches of relevant databases.

8.5 **A Firm shall establish policies and procedures that require:**

- (a) **The Firm to obtain such information as it considers necessary in the circumstances before accepting an Engagement with a new Client, when deciding whether to continue an existing Engagement, and when considering acceptance of a new Engagement with an existing Client.**
- (b) **If a potential conflict of interest is identified prior to accepting an Engagement from a new or an existing Client or during the conduct of an Engagement, the Firm to determine whether it is appropriate to accept or continue the Engagement.**
- (c) **If issues have been identified, and the Firm decides to accept or continue the Client relationship or a specific Engagement, the Firm to document how the issues were resolved.**

8.6 Deciding whether to continue a **Client** relationship includes consideration of significant matters that have arisen during the current or previous **Engagements** and their implications for continuing the relationship. For example, a **Client** may have started to expand its business operations into an area where the **Firm** does not possess the necessary expertise.

8.7 **A Firm shall establish policies and procedures on continuing an Engagement and the Client relationship, addressing the circumstances where the Firm obtains information that would have caused it to decline the Engagement had that information been available earlier. Such policies and procedures shall include consideration of:**

- (a) **When Personnel encounter or become aware of instances of non-compliance or suspected non-compliance with laws and regulations (NOCLAR) that:**
 - (i) **Members in Public Practice** comply with Section 360 *Responding to Non-Compliance with Laws and Regulations* of the **Code**; and
 - (ii) **Members in Business** (including employment relationships of **Members in Public Practice**) comply with Section 260 *Responding to Non-Compliance with Laws and Regulations* of the **Code**;
- (b) **The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the Firm to report to the person or**

persons who made the appointment or, in some cases, to regulatory authorities;
and

(c) The possibility of withdrawing from the **Engagement** or from both the **Engagement** and the **Client** relationship.

8.8 Policies and procedures on withdrawal from an **Engagement** or from both the **Engagement** and the **Client** relationship should address issues that include the following:

- Discussing with the appropriate level of the **Client's** management and **Those Charged with Governance** the appropriate action that the **Firm** might take based on the relevant facts and circumstances.
- If the **Firm** determines that it is appropriate to withdraw, discussing with the appropriate level of the **Client's** management and **Those Charged with Governance** withdrawal from the **Engagement** or from both the **Engagement** and the **Client** relationship, and the reasons for the withdrawal.
- Considering whether there is a professional, legal or regulatory requirement for the **Firm** to remain in place, or for the **Firm** to report the withdrawal from the **Engagement**, or from both the **Engagement** and the **Client** relationship, together with the reasons for the withdrawal, to regulatory authorities.
- Documenting significant matters, consultations, conclusions and the basis for the conclusions.

9. Resources

Human Resources

9.1 A **Firm** shall establish policies and procedures designed to provide it with **Reasonable Assurance** that it has sufficient **Personnel** with the competence, capabilities and commitment to ethical principles necessary to:

- (a) perform **Engagements** in accordance with **Professional Standards** and applicable legal and regulatory requirements; and
- (b) enable the **Firm** or **Engagement Partners** to issue reports that are appropriate in the circumstances.

9.2 **Personnel** issues relevant to a **Firm's** policies and procedures related to human resources include, for example:

- Recruitment.
- Performance evaluation.
- Capabilities, including time to perform assignments.
- Competence.
- Career development.
- Promotion.
- Compensation.
- The estimation of **Personnel** needs.

Effective recruitment processes and procedures help the **Firm** select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the **Firm's** work and possess the appropriate characteristics to enable them to perform competently.

- 9.3 Competence can be developed through a variety of methods, including the following:
- Professional education.
 - Continuing professional development, including training.
 - Work experience.
 - Coaching by more experienced **Staff**, for example, other members of the **Engagement Team**.
 - **Independence** education for **Personnel** who are required to be independent.
- 9.4 The continuing competence of a **Firm's Personnel** depends to a significant extent on an appropriate level of continuing professional development so that **Personnel** maintain their knowledge and capabilities. Effective policies and procedures should emphasise the need for continuing training for all levels of the **Firm's Personnel** and should provide the necessary training resources and assistance to enable **Personnel** to develop and maintain the required competence and capabilities.
- 9.5 A **Firm** may use a **Suitably Qualified External Person**, for example, when internal technical and training resources are unavailable.
- 9.6 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:
- (a) making **Personnel** aware of the **Firm's** expectations regarding performance and ethical principles;
 - (b) providing **Personnel** with evaluation of, and counselling on, performance, progress and career development; and
 - (c) helping **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.

Considerations specific to smaller Firms

- 9.7 The size and circumstances of a **Firm** will influence the structure of the **Firm's** performance evaluation process. Smaller **Firms**, in particular, may employ less formal methods of evaluating the performance of their **Personnel**.

Assignment of Engagement Teams

- 9.8 **A Firm shall assign responsibility for each Engagement to an Engagement Partner and shall establish policies and procedures requiring that:**
- (a) the identity and role of the Engagement Partner are communicated to key members of Client management and Those Charged with Governance;**
 - (b) the Engagement Partner has the appropriate competence, capabilities and authority to perform the role; and**
 - (c) the responsibilities of the Engagement Partner are clearly defined and communicated to that Partner.**
- 9.9 Policies and procedures may include systems to monitor the workload and availability of **Engagement Partners** so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.

- 9.10 A Firm shall establish policies and procedures to assign appropriate Personnel with the necessary competence and capabilities to:
- (a) perform Engagements in accordance with Professional Standards and applicable legal and regulatory requirements; and
 - (b) enable the Firm or Engagement Partners to issue reports that are appropriate in the circumstances.
- 9.11 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:
- (a) understanding of, and practical experience with, Engagements of a similar nature and complexity through appropriate training and participation;
 - (b) understanding of Professional Standards and applicable legal and regulatory requirements;
 - (c) technical knowledge and expertise, including knowledge of relevant information technology;
 - (d) knowledge of relevant industries in which the Clients operate;
 - (e) ability to apply professional judgement; and
 - (f) understanding of the Firm's quality management policies and procedures.

Technology Resources

- 9.12 A Firm shall establish policies and procedures to provide it with Reasonable Assurance that appropriate technological resources are obtained or developed, implemented, maintained and used to enable the operation of the Firm's System of Quality Management and the performance of Engagements.
- 9.13 Technological resources, which are typically information technology (IT) applications, form part of the Firm's IT environment. The Firm's IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes:
- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.
 - The IT infrastructure is comprised of the IT network, operating systems, and databases and their related hardware and software.
 - The IT processes are the Firm's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes Monitoring the IT environment.
- 9.14 A technological resource may serve multiple purposes within the Firm and some of the purposes may be unrelated to the System of Quality Management. Technological resources that are relevant for the purposes of this Standard are:
- (a) Technological resources that are directly used in establishing and maintaining the Firm's System of Quality Management;
 - (b) Technological resources that are used directly by Engagement Teams in the performance of Engagements; and
 - (c) Technological resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application.

- 9.15 The Firm may consider the following matters in obtaining, developing, implementing and maintaining an IT application:
- (a) The data inputs are complete and appropriate;
 - (b) Confidentiality of the data is preserved;
 - (c) The IT application operates as designed and achieves the purpose for which it is intended;
 - (d) The outputs of the IT application achieve the purpose for which they will be used;
 - (e) The general IT controls necessary to support the IT application's continued operation as designed are appropriate;
 - (f) The need for specialised skills to utilise the IT application effectively, including the training of individuals who will use the IT application; and
 - (g) The need to develop procedures that set out how the IT application operates.
- 9.16 The Firm may specifically prohibit the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use by the Firm. Alternatively, the Firm may establish policies and procedures to address circumstances when the Engagement Team uses an IT application that is not approved by the Firm. Such policies and procedures may require the Engagement Team to determine that the IT application is appropriate for use prior to using it on the Engagement, through considering the matters in paragraph 9.15.

Intellectual Resources

- 9.17 **A Firm shall establish policies and procedures to provide it with Reasonable Assurance that appropriate intellectual resources are obtained or developed, implemented, maintained and used, to enable the operation of the Firm's System of Quality Management and the consistent performance of quality Engagements, and such intellectual resources are consistent with Professional Standards and applicable legal and regulatory requirements, where applicable.**
- 9.18 Intellectual resources include the information the Firm uses to enable the operation of the System of Quality Management and promote consistency in the performance of Engagements. Examples of intellectual resources include written policies and procedures, a methodology, industry or subject matter-specific guides, accounting guides, standardised documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in the performance of Engagements).
- 9.19 Intellectual resources may be made available through technological resources, for example, the Firm's methodology may be embedded in the IT application that facilitates the planning and performance of the Engagement.
- 9.20 The Firm may establish policies and procedures regarding the use of the Firm's technological and intellectual resources. Such policies and procedures may:
- Require the use of certain IT applications or intellectual resources in the performance of Engagements, or relating to other aspects of the Engagement, such as in archiving the Engagement file.
 - Specify the qualifications or experience that individuals need to use the resource, including the need for an expert or training, for example, the Firm may specify the qualifications or expertise needed to use an IT application that analyses data, given that specialised skills may be needed to interpret the results.
 - Specify the responsibilities of the Engagement Partner regarding the use of technological and intellectual resources.

- Set out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be applied, and the availability of support or assistance in using the technological or intellectual resource.

Service Providers

- 9.21 A Firm shall establish policies and procedures to provide it with Reasonable Assurance that human, technological or intellectual resources from Service Providers are appropriate for use in the Firm's System of Quality Management and in the performance of Engagements, taking into account the requirements in paragraphs 9.1, 9.10, 9.12, and 9.17.**
- 9.22 In some circumstances, the Firm may use resources that are provided by a Service Provider, particularly in circumstances when the Firm does not have access to the appropriate resources internally. Notwithstanding that a Firm may use resources from a Service Provider, the Firm remains responsible for its System of Quality Management. Examples of resources from a Service Provider include:
- Individuals engaged to perform the Firm's Monitoring activities or Engagement Quality Reviews, or to provide consultation on technical matters.
 - A commercial IT application used to perform Engagements.
 - Individuals performing procedures on the Firm's Engagements from other Firms not within the Firm's Network.
 - A Suitably Qualified External Person used by the Firm to assist the Engagement Team.
- 9.23 The Firm may consider the nature of the resources provided by Service Providers, how and the extent to which they will be used by the Firm, and the general characteristics of the Service Providers used by the Firm (for example, the varying types of other professional services firms that are used) in order to identify and assess whether the use of such resources are appropriate.
- 9.24 In determining whether a resource from a Service Provider is appropriate for use in the Firm's System of Quality Management or in the performance of Engagements, the Firm may obtain information about the Service Provider and the resource they provide from a number of sources. Matters the Firm may consider include:
- Whether the Service Provider updates its methodology to reflect changes in professional standards and applicable legal and regulatory requirements.
 - The nature and scope of the resources, and the conditions of the service (for example, in relation to an IT application, how often updates will be provided, limitations on the use of the IT application and how the Service Provider addresses the confidentiality of data).
 - The extent to which the resource is used across the Firm, how the resource will be used by the Firm and whether it is suitable for that purpose.
 - The extent of customisation of the resource for the Firm.
 - The Firm's previous use of the Service Provider.
 - The Service Provider's experience in the industry and reputation in the market.
- 9.25 The Firm may have a responsibility to take further actions in using the resource from a Service Provider so that the resource functions effectively. For example, the Firm may need to communicate information to the Service Provider in order for the resource to function effectively, or, in relation to an IT application, the Firm may need to have supporting IT infrastructure and IT processes in place.

10. Engagement Performance

- 10.1 A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that Engagements are performed in accordance with Professional Standards and applicable legal and regulatory requirements, and that the Firm or the Engagement Partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:
- (a) Engagement Teams understand and fulfill their responsibilities in connection with the Engagements, including, as applicable, the overall responsibility of Engagement Partners for managing and achieving quality on the Engagement and being sufficiently and appropriately involved throughout the Engagement;
 - (b) Engagement Teams exercise appropriate professional judgement and, when applicable to the type of Engagement, professional scepticism;
 - (c) matters relevant to promoting consistency in the quality of Engagement performance;
 - (d) supervision responsibilities; and
 - (e) review responsibilities.
- 10.2 A Firm promotes consistency in the quality of Engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardised documentation, and industry or subject matter-specific guidance materials. Matters addressed may include:
- How Engagement Teams are briefed on the Engagement to obtain an understanding of the objectives of their work.
 - Processes for complying with applicable Engagement standards.
 - Processes of Engagement supervision, Staff training and coaching.
 - Methods of reviewing the work performed, the significant judgements made and the form of the report being issued.
 - Appropriate documentation of the work performed and of the timing and extent of the review.
 - Processes to keep all policies and procedures current.
- 10.3 Appropriate teamwork and training assist less experienced members of an Engagement Team to clearly understand the objectives of the assigned work.
- 10.4 Engagement supervision includes the following:
- (a) tracking the progress of the Engagement;
 - (b) considering the competence and capabilities of individual members of the Engagement Team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the Engagement;
 - (c) addressing significant matters arising during the Engagement, considering their significance and modifying the planned approach appropriately; and
 - (d) identifying matters for consultation or consideration by more experienced Engagement Team members during the Engagement.

- 10.5 A review consists of consideration of whether:
- (a) the work has been performed in accordance with **Professional Standards** and applicable legal and regulatory requirements;
 - (b) significant matters have been raised for further consideration;
 - (c) appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
 - (d) there is a need to revise the nature, timing and extent of work performed;
 - (e) the work performed supports the conclusions reached and is appropriately documented;
 - (f) the evidence obtained is sufficient and appropriate to support the report; and
 - (g) the objectives of the **Engagement** procedures have been achieved.

10.6 A Firm's review responsibility policies and procedures shall be determined on the basis that the work of less experienced team members is reviewed by more experienced Engagement Team members.

Consultation

10.7 A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that:

- (a) appropriate consultation takes place on difficult or contentious matters;**
- (b) sufficient resources are available to enable appropriate consultation to take place; and**
- (c) conclusions resulting from consultations are implemented.**

10.8 Consultation includes discussion at the appropriate professional level, with individuals within or outside the **Firm** who have specialised expertise.

10.9 Consultation uses appropriate research resources as well as the collective experience and technical expertise of the **Firm**. Consultation helps to promote quality and improves the application of professional judgement. Appropriate recognition of consultation in the **Firm's** policies and procedures helps to promote a culture in which consultation is recognised as a strength and encourages **Personnel** to consult on difficult or contentious matters.

10.10 Effective consultation on significant technical, ethical and other matters within the **Firm**, or where applicable, outside the **Firm**, can only be achieved when those consulted:

- are given all the relevant facts that will enable them to provide informed advice; and
- have appropriate knowledge, seniority and experience,

and when conclusions resulting from consultations are appropriately documented and implemented.

Considerations specific to smaller Firms

10.11 A **Firm** needing to consult externally, for example, a **Firm** without appropriate internal resources may take advantage of advisory services provided by:

- (a) other **Firms**;
- (b) professional and regulatory bodies; or
- (c) commercial organisations that provide relevant quality management services.

Before contracting for such services, consideration of the competence and capabilities of the external provider helps the Firm to determine whether the external provider is suitably qualified for that purpose.

Engagement Quality Review of High-Risk Engagements

10.12 A Firm shall establish policies and procedures requiring, for appropriate high-risk Engagements, an Engagement Quality Review that provides an objective evaluation of the significant judgements made by the Engagement Team and the conclusions reached in formulating the report. Such policies and procedures shall:

- (a) set out criteria against which all high-risk Engagements shall be evaluated to determine whether an Engagement Quality Review should be performed;
- (b) require an Engagement Quality Review for all Engagements, if any, meeting the criteria established in compliance with subparagraph 10.12(a); and
- (c) set out the appointment and eligibility of the Engagement Quality Reviewer and the Engagement Quality Reviewer's responsibilities relating to the performance and documentation of the Engagement Quality Review.

10.13 Criteria for determining which Engagements are high-risk and are to be subject to an Engagement Quality Review may include, for example:

- The nature of the Engagement, including the extent to which it involves a matter of public interest.
- The identification of unusual circumstances, risks or subjectivity involved in an Engagement or class of Engagements.
- Whether the Engagement includes the preparation of a Public Document.
- Whether laws or regulations require an Engagement Quality Review.

10.14 A Firm shall establish policies and procedures setting out the nature, timing and extent of an Engagement Quality Review. Such policies and procedures shall require that the Engagement report not be dated until the completion of the Engagement Quality Review.

10.15 The Firm may develop the policies and procedures required by paragraphs 10.12 and 10.14, or the Firm may base such policies and procedures on the requirements and application material in ASQM 2.

Engagement Documentation

Completion of the assembly of final Engagement files

10.16 A Firm shall establish policies and procedures for Engagement Teams to complete the assembly of final Engagement files on a timely basis after the Engagement reports have been finalised.

10.17 Law or regulation may prescribe the time limits by which the assembly of final Engagement files for specific types of Engagement is to be completed. Where no such time limits are prescribed in law or regulation, paragraph 10.16 requires the Firm to establish time limits that reflect the need to complete the assembly of final Engagement files on a timely basis.

10.18 Where two or more different reports are issued in respect of the same subject matter information of an entity, a Firm's policies and procedures relating to time limits for the assembly of final Engagement files address each report as if it were for a separate Engagement.

Confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation

10.19 A Firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation.

10.20 **Relevant Ethical Requirements** establish an obligation for the **Firm's Personnel** to observe at all times the confidentiality of information contained in **Engagement Documentation**, unless specific **Client** authority has been given to disclose information, or there is a legal duty to do so. Specific laws or regulations may impose additional obligations on the **Firm's Personnel** to maintain **Client** confidentiality, particularly where data of a personal nature are concerned.

10.21 Whether **Engagement Documentation** is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the **Firm's** knowledge, or if it could be permanently lost or damaged. Accordingly, controls that the **Firm** designs and implements to avoid unauthorised alteration or loss of **Engagement Documentation** may include those that:

- (a) enable the determination of when and by whom **Engagement Documentation** was created, changed or reviewed;
- (b) protect the integrity of the information at all stages of the **Engagement**, especially when the information is shared within the **Engagement Team** or transmitted to other parties via the internet;
- (c) prevent unauthorised changes to the **Engagement Documentation**; and
- (d) allow access to the **Engagement Documentation** by the **Engagement Team** and other authorised parties as necessary to properly discharge their responsibilities.

10.22 Controls that the **Firm** designs and implements to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of **Engagement Documentation** may include the following:

- The use of a password among **Engagement Team** members to restrict access to electronic **Engagement Documentation** to authorised users.
- Appropriate backup routines for electronic **Engagement Documentation** at appropriate stages during the **Engagement**.
- Procedures for properly distributing **Engagement Documentation** to the team members at the start of **Engagement**, processing it during **Engagement**, and collating it at the end of **Engagement**.
- Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy **Engagement Documentation**.

10.23 For practical reasons, original paper documentation may be electronically scanned for inclusion in **Engagement** files. In such cases, the **Firm's** procedures designed to maintain the integrity, accessibility, and retrievability of the documentation may include requiring the **Engagement Teams** to:

- (a) generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
- (b) integrate the scanned copies into the **Engagement** files, including indexing and signing off on the scanned copies as necessary; and
- (c) enable the scanned copies to be retrieved and printed as necessary.

There may be legal, regulatory or other reasons for a **Firm** to retain original paper documentation that has been scanned.

Retention of Engagement Documentation

- 10.24** A Firm shall establish policies and procedures for the retention of **Engagement Documentation** for a period sufficient to meet the needs of the Firm or as required by law or regulation.
- 10.25 The needs of a Firm for retention of **Engagement Documentation**, and the period of such retention, will vary with the nature of the **Engagement** and the Firm's circumstances, for example, whether the **Engagement Documentation** is needed to provide a record of matters of continuing significance to future **Engagements**. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of **Engagements**, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements.
- 10.26 Procedures that a Firm adopts for retention of **Engagement Documentation** include those that enable the requirements of paragraph 10.24 to be met during the retention period, for example to:
- (a) enable the retrieval of, and access to, the **Engagement Documentation** during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time;
 - (b) provide, where necessary, a record of changes made to **Engagement Documentation** after the **Engagement** files have been completed; and
 - (c) enable authorised external parties to access and review specific **Engagement Documentation** for quality management or other purposes.

Ownership of Engagement Documentation

- 10.27 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. **Engagement Documentation** does not include the original source documents provided to the Firm by the Client.

11. Information and Communication

- 11.1** The Firm shall establish policies and procedures that address obtaining, generating or using information regarding the **System of Quality Management**, and communicating information within the Firm and to external parties on a timely basis to enable the establishment and maintenance of the **System of Quality Management**. Such policies and procedures shall require that:
- (a) the information system identifies, captures, processes and maintains relevant and reliable information that supports the **System of Quality Management**, whether from internal or external sources;
 - (b) the culture of the Firm recognises and reinforces the responsibility of **Personnel** to exchange information with the Firm and with one another;
 - (c) relevant and reliable information is exchanged throughout the Firm and with **Engagement Teams**, including:
 - (i) information is communicated to **Personnel** and **Engagement Teams**, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the **System of Quality Management** or **Engagements**; and

- (ii) **Personnel and Engagement Teams** communicate information to the **Firm** when performing activities within the **System of Quality Management or Engagements**;
 - (d) **relevant and reliable information is communicated to external parties, including:**
 - (i) **information is communicated by the Firm to or within the Firm's Network or to Service Providers, if any, enabling the Network or Service Providers to fulfill their responsibilities relating to the Network requirements or Network services or resources provided by them; and**
 - (ii) **information is communicated externally when required by law, regulation or Professional Standards, or to support external parties' understanding of the System of Quality Management.**
- 11.2 Obtaining, generating or communicating information is generally an ongoing process that involves all **Personnel** and encompasses the dissemination of information within the **Firm** and externally. Information and communication is pervasive to all elements of the **System of Quality Management**.

The Firm's Information System

- 11.3 Reliable and relevant information includes information that is accurate, complete, timely and valid to enable the proper functioning of the **Firm's System of Quality Management** and to support decisions regarding the **System of Quality Management**.
- 11.4 The information system may include the use of manual or IT elements, which affect the manner in which information is identified, captured, processed, maintained and communicated. The procedures to identify, capture, process, maintain and communicate information may be enforced through IT applications, and in some cases, may be embedded within the **Firm's** other policies and procedures. In addition, digital records may replace or supplement physical records.

Considerations Specific to smaller Firms

- 11.5 Less complex **Firms** with fewer **Personnel** and direct involvement of leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed and maintained.

Communication within the Firm

- 11.6 The **Firm** may recognise and reinforce the responsibility of **Personnel** and **Engagement Teams** to exchange information with the **Firm** and with one another by establishing communication channels to facilitate communication across the **Firm**. Examples of communication among the **Firm, Personnel** and **Engagement Teams** includes:
- The **Firm** communicates the responsibility for implementing the **Firm's** policies and procedures to **Personnel** and **Engagement Teams**.
 - The **Firm** communicates changes to the **System of Quality Management** to **Personnel** and **Engagement Teams**, to the extent that the changes are relevant to their responsibilities and enables **Personnel** and **Engagement Teams** to take prompt and appropriate action in accordance with their responsibilities.
 - The **Firm** communicates information that is obtained during the **Firm's** acceptance and continuance process that is relevant to **Engagement Teams** in planning and performing **Engagements**.
 - **Engagement Teams** communicate to the **Firm** information about:

- The **Client** that is obtained during the performance of an **Engagement** that may have caused the **Firm** to decline the **Client** relationship or specific **Engagement** had that information been known prior to accepting or continuing the **Client** relationship or specific **Engagement**.
- The operation of the **Firm's** policies and procedures (for example, concerns about the **Firm's** processes for assigning **Personnel** to **Engagements**), which in some cases, may indicate a deficiency in the **Firm's System of Quality Management**.
- **Engagement Teams** communicate information to the **Engagement Quality Reviewer** or individuals providing consultation.
- The individual(s) assigned operational responsibility for compliance with **Relevant Ethical Requirements** communicates to relevant **Personnel** and **Engagement** Teams changes in the **Relevant Ethical Requirements** and the **Firm's** policies and procedures to address such changes.

Communication with External Parties

Communication to or within the Firm's Network and to Service Providers

- 11.7 In addition to the **Firm** communicating information to or within the **Firm's Network** or to a **Service Provider**, the **Firm** may need to obtain information from the **Network**, a **Network Firm** or a **Service Provider** that supports the **Firm** in establishing and maintaining its **System of Quality Management**. An example of information obtained by the **Firm** from within the **Firm's Network** is the **Firm** obtains information from the **Network** or other **Network Firms** about **Clients** of other **Network Firms**, where there are **Independence** requirements that affect the **Firm**.

Communication with others external to the Firm

- 11.8 Examples of when the law, regulation or **Professional Standards** may require the **Firm** to communicate information to external parties include:
- The **Firm** becomes aware of suspected or actual non-compliance with laws and regulations by a **Client**, and Section 360 *Responding to Non-Compliance with Laws and Regulations* of the **Code** requires the **Firm** to report to an appropriate authority outside the **Client** entity or to consider whether such reporting is an appropriate action in the circumstances.
 - Securities law or regulation requires the **Firm** to communicate certain matters to **Those Charged with Governance**.
- 11.9 In some cases, law or regulation may preclude the **Firm** from communicating information related to its **System of Quality Management** externally. Examples of when the **Firm** may be precluded from communicating information externally include:
- Privacy or secrecy law or regulation prohibits disclosure of certain information.
 - Law, regulation or **Relevant Ethical Requirements** include provisions addressing the duty of confidentiality, including Subsection 114 *Confidentiality* of the **Code**.

12. Monitoring and remediation

Monitoring a Firm's quality management policies and procedures

- 12.1 A Firm shall establish a Monitoring process designed to provide it with Reasonable Assurance that the policies and procedures relating to the System of Quality Management are relevant, adequate, and operating effectively. This process shall:
- (a) include an ongoing consideration and evaluation of the Firm's System of Quality Management, including, on a cyclical basis, Inspection of at least one completed Engagement for each Engagement Partner;
 - (b) require responsibility for the Monitoring process to be assigned to a Partner or Partners or other persons with sufficient and appropriate experience and authority in the Firm to assume that responsibility; and
 - (c) require that those performing the Engagement or the Engagement Quality Review are not involved in inspecting the Engagements.
- 12.2 The purpose of Monitoring compliance with quality management policies and procedures is to provide an evaluation of:
- (a) adherence to Professional Standards and applicable legal and regulatory requirements;
 - (b) whether the System of Quality Management has been appropriately designed and effectively implemented; and
 - (c) whether the Firm's quality management policies and procedures have been appropriately applied, so that reports that are issued by the Firm or Engagement Partners are appropriate in the circumstances.
- 12.3 Ongoing consideration and evaluation of the System of Quality Management include matters such as the following:
- Analysis of:
 - new developments in Professional Standards and applicable legal and regulatory requirements, and how they are reflected in the Firm's policies and procedures where appropriate;
 - written confirmation of compliance with policies and procedures on Relevant Ethical Requirements;
 - continuing professional development, including training; and
 - decisions related to acceptance and continuance of Client relationships and specific Engagements.
 - Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the Firm's policies and procedures relating to education and training.
 - Communication to appropriate Firm's Personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it.
 - Follow-up by appropriate Firm Personnel, so that necessary modifications are promptly made to the quality management policies and procedures.
- 12.4 In determining the scope of the Inspections, Firms may take into account quality reviews conducted by the Professional Bodies or regulators.

- 12.5 The **Firm** shall respond to circumstances when findings of the **Monitoring** process indicate that there is an **Engagement**, or **Engagements**, for which procedures required were omitted during the performance of the **Engagement(s)** or the reports issued may be inappropriate. Appropriate remedial actions for deficiencies noted shall include one or more of the following:
- (a) taking all reasonable steps to advise the **Client** where the reports issued may be inappropriate and to advise the **Client** to take the necessary steps to inform anyone who may have received the erroneous reports of the situation;
 - (b) taking appropriate action to comply with relevant **Professional Standards** and applicable legal and regulatory requirements;
 - (c) when the report is considered inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice;
 - (d) changes to the quality management policies and procedures;
 - (e) the communication of the findings to those responsible for training and professional development; and
 - (f) disciplinary action against those who fail to comply with the policies and procedures of the **Firm**, especially those who do so repeatedly.

Complaints and allegations

- 12.6 A **Firm** shall establish policies and procedures designed to provide it with **Reasonable Assurance** that it deals appropriately with:
- (a) complaints and allegations that the work performed by the **Firm** fails to comply with **Professional Standards** and applicable legal and regulatory requirements; and
 - (b) allegations of non-compliance with the **Firm's System of Quality Management**.

As part of this process, the **Firm** shall establish clearly defined channels for the **Firm's Personnel** to raise any concerns in a manner that enables them to come forward without fear of reprisals.

- 12.7 Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the **Firm**. They may be made by the **Firm's Personnel**, **Clients** or other third parties. They may be received by **Engagement Team** members or other **Firm's Personnel**.
- 12.8 If during the investigations into complaints and allegations, deficiencies in the design or operation of the **Firm's** quality management policies and procedures or non-compliance with the **Firm's System of Quality Management** by an individual or individuals are identified, the **Firm** shall take appropriate actions as set out in paragraph 12.5.

Considerations specific to smaller Firms

- 12.9 It may not be practicable, in the case of **Firms** with few **Partners**, for the **Partner** supervising the investigation not to be involved in the **Engagement**. These small **Firms** and sole practitioners may use the services of a **Suitably Qualified External Person** or another **Firm** to carry out the investigation into complaints and allegations.

13. Documentation of the System of Quality Management

- 13.1 A **Firm** shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its **System of Quality Management**.

13.2 The form and content of documentation evidencing the operation of each of the elements of the **System of Quality Management** is a matter of judgement and depends on a number of factors, including the following:

- The size of the **Firm** and the number of offices.
- The nature and complexity of the **Firm's** practice and organisation.

For example, large **Firms** may use electronic databases to document matters such as **Relevant Ethical Requirements** confirmations, performance evaluations and the results of **Monitoring Inspections**.

13.3 Appropriate documentation relating to **Monitoring** should include, for example:

- **Monitoring** procedures, including the procedure for selecting completed **Engagements** to be inspected.
- A record of evaluation of:
 - adherence to **Professional Standards** and applicable legal and regulatory requirements;
 - whether the **System of Quality Management** has been appropriately designed and effectively implemented; and
 - whether the **Firm's** quality management policies and procedures have been appropriately applied, so that reports that are issued by the **Firm** or **Engagement Partners** are appropriate in the circumstances.
- Identification of the deficiencies noted, an evaluation of their effect, and the basis for determining whether and what further action is necessary.

Considerations specific to smaller Firms

13.4 Smaller **Firms** may use more informal methods in the documentation of their **Systems of Quality Management**, such as manual notes, checklists and forms.

13.5 A Firm shall establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing Monitoring procedures to evaluate the Firm's compliance with its System of Quality Management, or for a longer period if required by law or regulation.

13.6 A Firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.

14. Transitional Provisions

14.1 This Standard replaces APES 320 issued in September 2019 and **Firms** are required to incorporate appropriate amendments to their systems by 1 January 2023 to establish **Systems of Quality Management**. **Firms** should consider the appropriate transitional arrangements for **Engagements** in process at that date.

Conformity with International Pronouncements

APES 320 and ISQC 1/ISQM 1

APES 320 is conceptually based on the extant *International Standard on Quality Control (ISQC 1)* of the International Auditing and Assurance Standards Board, and the requirements are aligned with the components of the *International Standard on Quality Management (ISQM 1)*, as issued in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Service Pronouncements, 2021 Edition published by the International Federation of Accountants (IFAC) in December 2020. APES 320 excludes quality management requirements for Assurance Engagements.

[O/S – to be completed]

Appendix 1: Application of quality management standards by Firms

Firms are required to apply quality management standards based on the type of Professional Services that the Firms provide. The flow chart below sets out the key considerations of a Firm in determining the quality management standards that the Firm must comply with.

