

# Proposed Standard: APES 320 Quality Management for Firms that provide Non-Assurance Services

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

EXPOSURE DRAFT 05/21

ISSUED September 2021

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## **Commenting on this Exposure Draft**

This Exposure Draft, *Proposed Standard APES 320 Quality Management for Firms that provide Non-Assurance Services (APES 320)*, 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 **26 November 2021**.

Comments should be addressed to:

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Australia

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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.

## **Request for Specific Comments**

APESB is seeking respondents' specific comments and feedback on the questions set out in the section below on the reasons for issuing this Exposure Draft.

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](http://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](mailto: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](mailto:sub@apesb.org.au).

## **Obtaining a copy of this Exposure Draft**

This Exposure Draft is available on the APESB website: [www.apesb.org.au](http://www.apesb.org.au)

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## Reasons for issuing Exposure Draft 05/21

APESB proposes to reissue APES 320 *Quality Management for Firms that provide Non-Assurance Services* (APES 320) for the reasons set out below.

Extant APES 320 *Quality Control for Firms* (extant APES 320) incorporates the requirements and application material of the International Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, issued by the International Auditing and Assurance Standards Board (IAASB). Extant APES 320 also includes 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), ISQM 2 *Engagement Quality Reviews* (ISQM 2) and ISA 220 *Quality Management for an Audit of Financial Statements* (ISA 220). ISQM 1 and 2 replace ISQC 1 and fundamentally change the way accounting firms are expected to manage quality for audits, reviews, other assurance and related services engagements.

The Auditing and Assurance Standards Board (AUASB) issued ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* (ASQM 1) and ASQM 2 *Engagement Quality Reviews* (ASQM 2) in March 2021 (effective 15 December 2022). These standards are the Australian equivalents of ISQM 1 and 2. ASQM 1 and 2 apply to the assurance practices of Australian firms.

### Changing APES 320 to be specific to non-assurance services

APESB is supportive of the focus of ASQM 1 and 2 on improving audit quality and the fundamental shift in the obligations under these standards. With respect to the application of extant APES 320 to non-assurance services, APESB is not aware of evidence to suggest that it is not fit for purpose. Accordingly, APESB proposes to reissue APES 320 to refocus it as a specific quality management standard for non-assurance practices of firms using the following approach:

- establish a high-level alignment between APES 320's elements and ASQM 1's components to assist hybrid firms (those with assurance and non-assurance practices) with the implementation of the two standards;
- maintain relevant extant APES 320 requirements and application material to minimise disruption for firms by enabling them to use existing policies and procedures with minimal changes; and
- remove all assurance related material from extant APES 320 to simplify the standard.

APESB has sought to simplify the standard and make it easier to navigate for firms of all sizes, including amending language to be more relevant to non-assurance services by removing assurance based terminology and assurance based roles or concepts such as engagement quality control review(er), reasonable assurance, relevant ethical requirements and suitably qualified external person.

**Request for Specific Comment 1** – *Do you agree that APES 320 should apply to the non-assurance practices and engagements of firms as set out in this Exposure Draft or should APES 320 continue to apply to all firms and engagements? Please provide reasons and justification for your response.*

## Root cause analysis

ISQM 1/ASQM 1 incorporate significant requirements and application material on firms undertaking root cause analysis to identify the root cause of deficiencies in the system of quality management. Whilst root cause analysis is likely beneficial in assessing recurring or systemic issues, APESB is concerned that including such requirements in APES 320 may be difficult and resource intensive for firms to implement in relation to non-assurance services.

***Request for Specific Comment 2*** – *Should APES 320 include root cause analysis as a means of identifying the root causes of deficiencies in the system of quality management? Please provide reasons and justification for your response.*

## Small and Medium Practices (SMPs)

APESB has considered the impact of any changes on SMPs in developing this Exposure Draft. APESB believes that the approach taken with this Exposure Draft minimises the impact on SMPs as it creates the least disruption, enables SMPs to maintain most of the existing policies and procedures with minimal changes, and for hybrid SMPs it provides high-level alignment to ASQM 1, reducing resource implications by enabling changes for assurance and non-assurance services to occur at the same time.

***Request for Specific Comment 3*** – *Would practitioners find the development of additional implementation material for APES 320 useful? For example, the development of the Independence Guide by APESB in conjunction with the professional bodies, to demonstrate the application of independence standards has been favourably commented on by stakeholders. APESB is open to the development of similar implementation material for quality management of non-assurance practices. Please provide reasons and justification for your response.*

## Interaction between APES 320 and APES 325

APESB considered the interaction between APES 320 and APES 325 *Risk Management for Firms* (APES 325) in the development of this Exposure Draft. Whilst the policies and procedures developed in accordance with APES 320 should be embedded within the risk management framework required under APES 325, the underlying users of each standard are different. APES 325 is intended for those responsible for the firm's governance, whereas APES 320 is also designed for those undertaking engagements and are accountable for engagement quality.

APESB believes combining the standards may cause unnecessary confusion and disruption to all firms, requiring them to re-establish risk management frameworks and discard existing mechanisms and tools. This is further complicated due to the proposed changes to APES 320 applying only to non-assurance services, whereas APES 325 covers the assurance and non-assurance practices of firms. Based on these reasons, APESB has determined not to combine APES 320 and APES 325 at this stage.

***Request for Specific Comment 4*** – *Do you agree that APES 320 and APES 325 should continue to be separate standards or should APES 320 be incorporated into, or otherwise combined with, APES 325? Please provide reasons and justification for your response.*

## Key requirements and guidance in Exposure Draft 05/21

This Exposure Draft sets out the proposed amendments to extant APES 320. The key revisions to APES 320 proposed in ED 05/21 include:

- changing the title of APES 320 from *Quality Control for Firms* to *Quality Management for Firms that provide Non-Assurance Services* and updating references from 'control' to 'management' throughout the Standard;
- revising the scope of APES 320 to delineate that:
  - the non-assurance practices of Firms are required to apply APES 320; and
  - assurance practices of Firms are required to comply with APES 210 *Conformity with Auditing and Assurance Standards*, which includes the quality management standards issued by the AUASB (ASQM 1, ASQM 2 and ASA 220);
- establishing and maintaining a System of Quality Management in place of the system of quality control and high-level alignment of APES 320's elements to ASQM 1's components;
- changing *Human Resources* in extant APES 320 to *Resources* with a requirement for sufficient and appropriate resources, maintaining most extant human resources requirements and including simplified guidance derived from ASQM 1 on technological and intellectual services and service providers;
- a new element Information and Communication and a requirement and application material derived and simplified from ASQM 1;
- a flowchart in Appendix 1 to demonstrate which standards apply to Firms depending on the services they provide;
- a new Appendix 2 to demonstrate the high-level alignment between proposed APES 320 elements and ASQM 1 components with paragraph references for each standard; and
- removing all material specific to assurance practices 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 on or after 1 January 2023.

Early adoption of the revised Standard will be permitted.

# APES 320 Quality Management for Firms that provide Non-Assurance Services

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

REISSUED: [DATE]

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## CONTENTS

Section	Page Number
1. Scope and Application .....	3
2. Definitions .....	4
3. Firm’s responsibilities for a System of Quality Management .....	6
– The System of Quality Management .....	7
– Allocation of responsibilities within the Firm .....	8
– Network Firms .....	8
– Documentation of the System of Quality Management.....	9
4. Elements of the System of Quality Management.....	9
– Governance and Leadership .....	9
– Professional Standards .....	10
– Acceptance and continuance of Client relationships and specific Engagements..	11
– Resources .....	13
– Engagement Performance.....	17
– Information and Communication.....	21
– Monitoring and remediation .....	22
5. Transitional Provisions .....	25
<i>Conformity with International Pronouncements .....</i>	<i>25</i>
<i>Appendix 1 – Application of quality management standards by Firms .....</i>	<i>26</i>
<i>Appendix 2 – Comparison of APES 320 elements to ASQM 1 components .....</i>	<i>27</i>

## 1. Scope and Application

- 1.1 The objectives of APES 320 *Quality Management for Firms that provide Non-Assurance Services* are to specify the mandatory obligations of a Firm in respect of establishing and maintaining a System of Quality Management for non-assurance services designed to provide it with reasonable confidence that the:
- Firm and its Personnel are complying with 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 that provide Non-Assurance Services (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 with 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 non-assurance practice and Engagements. Assurance Practices within Firms are required to comply with APES 210 *Conformity with Auditing and Assurance Standards*, which includes the quality management standards issued by the AUASB being:
- ASQM 1 – *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance Engagements or Related Services Engagements* (ASQM 1);
  - ASQM 2 – *Engagement Quality Reviews* (ASQM 2); and
  - ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* (ASA 220).



A flow chart that illustrates the quality management standard(s) that applies based on the [Professional Services](#) provided by a [Firm](#) is set out in Appendix 1 to the Standard. Appendix 2 sets out a high-level comparison of the elements in APES 320 to the components in ASQM 1.

- 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](#) and agreed-upon procedures [Engagement](#)<sup>1</sup> 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.

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<sup>1</sup> As described in ASRS 4400 *Agreed-Upon Procedures Engagements*.

**Engagement Team** means all **Partners** and **Staff** performing the **Engagement**, and any other individuals who perform procedures on the **Engagement**, excluding an **External Expert**.

*Engagement Teams include any other individuals who perform procedures on the **Engagement** who are from a **Network Firm** or a **Service Provider**.*

**External Expert** means an individual (who is not a partner or a member of the professional staff, including temporary staff, of the **Firm** or a **Network Firm**) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the **Member** in obtaining sufficient appropriate evidence.

**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 confidence 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 management policies or 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.<sup>2</sup>

**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.

**System(s) of Quality Management** means a system established and maintained by a Firm designed to provide the Firm with reasonable confidence that the Firm and its Personnel comply with 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 a System of Quality Management

3.1 A Firm shall establish and maintain a System of Quality Management for non-assurance services designed to provide it with reasonable confidence that the Firm and its Personnel comply with 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 requirement in paragraph 3.1 and the procedures necessary to implement and monitor compliance with those policies.

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<sup>2</sup> 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 public interest is served by the consistent performance of quality **Engagements** which is enabled by the **Firm** establishing and maintaining the **System of Quality Management**. Quality **Engagements** are achieved by planning and performing **Engagements** and reporting on them in accordance with **Professional Standards** and applicable legal and regulatory requirements. This involves having an inquiring mind, exercising professional judgement and using the reasonable and informed third party test in the **Code**.<sup>3</sup>
- 3.4 The **Firm's** quality management policies and procedures developed in accordance with this Standard should be embedded within the **Firm's** risk management framework required to be established and maintained 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.

## The System of Quality Management

- 3.5 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;**
  - (c) **Acceptance and continuance of Client relationships and specific Engagements;**
  - (d) **Resources;**
  - (e) **Engagement performance;**
  - (f) **Information and communication; and**
  - (g) **Monitoring and remediation.**
- 3.6 A **Firm** shall document its policies and procedures and communicate them to the **Firm's Personnel**.
- 3.7 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**.
- 3.8 The requirements of this Standard are designed to enable a **Firm** to implement a **System of Quality Management** that achieves the requirement in paragraph 3.1 of this Standard. A **Firm** shall consider the nature and circumstances of the **Firm** or its **Engagements** and:
- (a) **comply with each requirement of this Standard unless the requirement is not relevant to the Firm; and**
  - (b) **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.**
- 3.9 This Standard does not call for compliance with requirements that are not relevant. In the circumstances of a sole practitioner with no **Staff** the following requirements for policies and procedures are not applicable:
- (a) for the assignment of appropriate **Personnel** to the **Engagement Team** (see paragraph 4.28);
  - (b) relating to **Engagement** performance specific to **Engagement Teams** and supervision and review responsibilities (see paragraph 4.38); and

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<sup>3</sup> Refer to Section 120 of the **Code**.

- (c) that extend to **Staff** in relation to compliance with **Professional Standards** (see paragraph 4.4) and **Independence** (see paragraph 4.9).
- 3.10 In general, communication of quality management policies and procedures to the **Firm's Personnel** includes a description of these policies and procedures and the objectives they are designed to achieve, and 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**.
- 3.11 Documentation and communication of policies and procedures for smaller **Firms** may be less formal and extensive than for larger **Firms**.

### Allocation of responsibilities within the Firm

- 3.12 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 **Service Providers** and, in such circumstances, care should be taken to establish the legal responsibilities of the parties and to safeguard **Client** confidentiality.
- 3.13 **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), shall assume ultimate responsibility for the Firm's System of Quality Management. The Firm shall document this in the Firm's policies and procedures.**
- 3.14 **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 for specific aspects of the System of Quality Management, by the Firm's chief executive officer, managing Partner 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 for the System of Quality Management.**
- 3.15 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.

### Network Firms

- 3.16 **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.**

## Documentation of the System of Quality Management

**3.17 A Firm shall maintain appropriate documentation to provide evidence of the operation of each element of its System of Quality Management.**

3.18 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 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 performance evaluations and the results of Monitoring Inspections. Smaller Firms may use more informal methods in the documentation of their Systems of Quality Management, such as manual notes, checklists and forms.

## 4. Elements of the System of Quality Management

### Governance and Leadership

**4.1 A Firm shall establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing Engagements.**

4.2 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 to perform work and issue reports that comply with the requirements of the System of Quality Management.

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 Personnel 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.

4.3 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.



## Professional Standards

- 4.4 A Firm shall establish policies and procedures designed to provide it with reasonable confidence that the Firm and its Personnel comply with Professional Standards.
- 4.5 Ethical requirements are contained in the Professional Standards. The Code establishes the fundamental principles of professional ethics:
- (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behaviour.
- 4.6 The Code illustrates how the conceptual framework is to be applied in specific situations. The Code 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.
- 4.7 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.

## Independence

- 4.8 The type of Professional Services the Firm provides may result in the Firm being subject to Independence requirements. If the Firm is providing non-assurance services to a Client and the Firm is also engaged to conduct an Assurance Engagement, the Firm needs to consider Part 4A Independence for Audit and Review Engagements or Part 4B Independence for Assurance Engagements Other than Audit or Review Engagements of the Code, as applicable. Other Professional Standards with Independence requirements include:
- (a) APES 215 *Forensic Accounting Services*;
  - (b) APES 225 *Valuation Services*;
  - (c) APES 230 *Financial Planning Services*;
  - (d) APES 315 *Compilation of Financial Information*;
  - (e) APES 330 *Insolvency Services*;
  - (f) APES 345 *Reporting on Prospective Financial Information prepared in connection with a Public Document*; and
  - (g) APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*.

- 4.9 A **Firm** shall establish policies and procedures designed to provide it with reasonable confidence that the **Firm**, its **Personnel** and, where applicable, others subject to **Independence** requirements (including **Network Firms' Personnel**) maintain **Independence** where required by **Professional Standards**. 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).

### Acceptance and continuance of Client relationships and specific Engagements

- 4.10 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 confidence 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 **Professional Standards**; 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.
- 4.11 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 **Personnel** at all relevant levels, and including whether:
- (a) the **Firm's Personnel** have knowledge of relevant industries or subject matters;
  - (b) the **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) appropriate reviewers meeting the eligibility criteria are available, where applicable (see paragraph 4.48); and
  - (f) the **Firm** is able to complete the **Engagement** within the reporting deadline.
- 4.12 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 or tax laws and regulations.
  - 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.

4.13 Sources of information on such matters obtained by the Firm may include:

- Communications with existing or previous providers of Professional Services to the Client in accordance with Professional Standards including ethical letters and discussions with other third parties.
- Inquiry of other Firm's Personnel or third parties such as financial institutions, legal counsel and industry peers.
- Background searches of multiple sources including relevant databases, the internet and industry forums.

4.14 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; and
- (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.

4.15 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.

4.16 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 a Member encounters or becomes aware of instances of non-compliance or suspected non-compliance with laws and regulations (NOCLAR) that they comply with NOCLAR provisions in the Code<sup>4</sup>;
- (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.

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<sup>4</sup> Members in Public Practice are required to comply with Section 360 *Responding to Non-Compliance with Laws and Regulations* in the Code and Members in Business are required to comply with Section 260 *Responding to Non-Compliance with Laws and Regulations* of the Code.

- 4.17 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 conclusions.

## Resources

- 4.18 A **Firm's** size and circumstances and the nature and complexity of the **Engagements** the **Firm** performs will influence the resources employed and policies and procedures the **Firm** establishes. **Firms** should consider the following resources when establishing policies and procedures:
- (a) Human resources;
  - (b) Technology resources;
  - (c) Intellectual resources; and
  - (d) Service Providers.
- 4.19 **A Firm shall establish policies and procedures to provide it with reasonable confidence that the Firm has sufficient and appropriate resources for use in the Firm's System of Quality Management and in the performance of Engagements.**

## Human Resources

- 4.20 **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.

- 4.21 Competence can be developed through a variety of methods, including:
- 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.
- 4.22 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.
- 4.23 A **Firm** may use a **Service Provider**, for example, when internal technical and training resources are unavailable.
- 4.24 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.
- 4.25 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

- 4.26 **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;**
  - (c) the Engagement Partner has the capacity to be sufficiently and appropriately involved throughout the Engagement; and**
  - (d) the responsibilities of the Engagement Partner are clearly defined and communicated to that Partner.**
- 4.27 Policies and procedures may include systems to monitor the workload and availability of **Engagement Partners** to enable these individuals to have sufficient time to adequately discharge their responsibilities.

**4.28 A Firm shall establish policies and procedures to assign appropriate individuals to the Engagement Team with the necessary competence and capabilities to perform Engagements that comply with the requirements of the System of Quality Management.**

4.29 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

4.30 Technological resources that are relevant for the purposes of this Standard are:

- (a) directly used in establishing and maintaining the Firm's System of Quality Management;
- (b) used directly by Engagement Teams in the performance of Engagements; and
- (c) essential to enabling the effective operation of the above.

4.31 A Firm may consider the following matters in establishing policies and procedures in obtaining, developing, implementing and maintaining sufficient and appropriate technological resources including information technology (IT) applications:

- (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.

### Intellectual Resources

4.32 Examples of a Firm's intellectual resources include written policies and procedures, a methodology, industry or subject matter-specific guides, accounting guides, standardised documentation or access to information sources that are typically used in the performance of Engagements.

- 4.33 Intellectual resources may also be embedded in technological resources, for example, the Firm's methodology may be embedded in an IT application that facilitates the planning and performance of an Engagement. A Firm may establish policies and procedures regarding the use of the Firm's intellectual resources which may:
- Require the use of certain intellectual resources or IT applications in the performance of Engagements.
  - Specify the qualifications or experience that individuals need to use the resource, including the need for an expert or training.
  - Specify the responsibilities of the Engagement Partner regarding the use of intellectual or technological resources.
  - Set out how the 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 resource.

### Service Providers

- 4.34 Where a Firm uses resources provided by a Service Provider, including when a Firm does not have access to the appropriate resources internally, 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 to provide consultation on technical matters.
  - A commercial IT application used in the performance of Engagements.
  - Individuals performing procedures on the Firm's Engagements from other Firms not within the Firm's Network.
  - External Experts.
- 4.35 Members in Public Practice should refer to APES GN 30 *Outsourced Services* (APES GN 30) to determine whether a service provided by a Service Provider is an outsourced service (which may include cloud computing) and guidance on professional and ethical obligations in respect of outsourced services. APES GN 30 includes guidance on the outsourcing agreement and terms to include therein, and performance of the outsourcing agreement including monitoring and managing performance. Such guidance may also be useful in relation to Service Providers even if it is not an outsourced service.
- 4.36 A Firm may establish policies and procedures in order to identify and assess whether the use of Service Providers are appropriate including consideration of:
- (a) the nature of the resources provided by Service Providers;
  - (b) how Service Providers will be used by the Firm and whether its suitable for that purpose; and
  - (c) the general characteristics of the Service Providers, including:
    - 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 including how the Service Provider addresses the confidentiality of data.
    - 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.

## Engagement Performance

- 4.37 A **Firm** shall establish policies and procedures designed to provide it with reasonable confidence that the **Firm** performs **Engagements** that comply with the requirements of the **System of Quality Management**.
- 4.38 Where a **Firm** utilises an **Engagement Team**, the policies and procedures required in paragraph 4.37 shall include:
- (a) **Engagement Teams** understand and fulfill their responsibilities in connection with the **Engagements**;
  - (b) members of the **Engagement Team** have an inquiring mind, exercise professional judgement and use the reasonable and informed third party test in the **Code**<sup>5</sup>;
  - (c) matters relevant to promoting consistency in the quality of **Engagement** performance;
  - (d) supervision responsibilities; and
  - (e) review responsibilities, including that the work of less experienced team members is reviewed by more experienced **Engagement Team** members.
- 4.39 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, **Personnel** training and coaching.
  - Methods of reviewing the work performed, the significant judgements made and the form of the report being issued.
  - Where applicable, appropriate oversight of **External Experts**.
  - Appropriate documentation of the work performed and of the timing and extent of the review.
  - Processes to keep all policies and procedures current.
- 4.40 Appropriate teamwork and training assist less experienced members of an **Engagement Team** to clearly understand the objectives of the assigned work.
- 4.41 **Engagement** supervision includes:
- (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**.

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<sup>5</sup> Refer to Section 120 of the **Code**.

- 4.42 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.

### Consultation

- 4.43 **A Firm shall establish policies and procedures designed to provide it with reasonable confidence that:**
- (a) appropriate consultation takes place on difficult or contentious matters and high-risk Engagements;**
  - (b) sufficient resources are available to enable appropriate consultation to take place; and**
  - (c) conclusions resulting from consultations are implemented.**
- 4.44 Consultation includes discussion at the appropriate professional level, with individuals within or outside the **Firm** who have specialised expertise.
- 4.45 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.
- 4.46 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;
  - have appropriate knowledge, seniority and experience; and
  - have a process to resolve differences of opinion,
- and when conclusions resulting from consultations are appropriately documented and implemented.
- 4.47 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.



### High-Risk Engagements

- 4.48 A Firm may establish policies and procedures in relation to appropriate consultation for high-risk Engagements to consist of an appropriate reviewer<sup>6</sup> to provide an objective evaluation of the significant judgements made by the Engagement Team and the conclusions reached in formulating the report. Such policies and procedures may<sup>7</sup>:
- (a) require an appropriate reviewer to perform a review for all Engagements meeting criteria used to evaluate high-risk Engagements, including for example:
    - (i) the nature and complexity of the Engagement, including the extent to which it involves a matter of public interest;
    - (ii) the size of the Client and number of stakeholders that will rely on the Engagement report;
    - (iii) the identification of unusual circumstances, risks or subjectivity involved in an Engagement or class of Engagements;
    - (iv) whether the Engagement includes the preparation of a Public Document; and
    - (v) whether laws or regulations require such a review to be performed; and
  - (b) set out the appointment and eligibility of the appropriate reviewer and the appropriate reviewer's responsibilities relating to the performance and documentation of the review.

### **Engagement Documentation**

- 4.49 A Firm shall establish policies and procedures in relation to Engagement Documentation including:
- (a) the completion of the assembly of final Engagement files on a timely basis after the Engagement reports have been finalised;
  - (b) to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation; and
  - (c) for the retention of Engagement Documentation for a period sufficient to meet the needs of the Firm or as required by law or regulation.

### Completion of the assembly of final Engagement files

- 4.50 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, subparagraph 4.49(a) requires the Firm to establish time limits to complete the assembly of final Engagement files on a timely basis. Acceptance of electronic signatures, where permitted under relevant laws and regulations, may assist Firms to complete the assembly of final Engagement files on a timely basis.
- 4.51 Where two or more different reports are issued in respect of the same subject matter 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.

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<sup>6</sup> An appropriate reviewer is described in paragraph 300.8 A4 of the Code as a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a Member.

<sup>7</sup> The Firm may develop the policies and procedures referred to in paragraph 4.48 or the Firm may base such policies and procedures on ASQM 2.



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

- 4.52 **Professional Standards** 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 or professional right or 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.
- 4.53 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.
- 4.54 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 the **Engagement**, processing it during the **Engagement**, and collating it at the end of the **Engagement**.
  - Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy **Engagement Documentation**.
- 4.55 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

- 4.56 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.
- 4.57 Procedures that a Firm adopts for retention of Engagement Documentation include those that enable the requirements of subparagraph 4.49(c) 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

- 4.58 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.

## **Information and Communication**

- 4.59 **The Firm shall establish policies and procedures that address obtaining, generating or using information regarding the System of Quality Management, and communicating that information within the Firm and to external parties on a timely basis to enable the establishment and maintenance of the System of Quality Management.**
- 4.60 The procedures for obtaining, generating, using and communicating 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.
- 4.61 Smaller Firms with fewer Personnel and direct involvement of leadership may not need rigorous policies and procedures that specify how information should be obtained, generated, used and communicated within the Firm.
- 4.62 When establishing and maintaining policies and procedures in relation to communicating information regarding the System of Quality Management within the Firm, matters to consider include:
- The Firm communicates to Personnel and Engagement Teams:
    - the responsibility for implementing the Firm's policies and procedures.
    - changes to the System of Quality Management to the extent that the changes are relevant to their responsibilities.

- information 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:
  - obtained during the performance of an Engagement relevant to acceptance and continuance of Client relationships and specific Engagements.
  - about the operation of the Firm's policies and procedures, which in some cases, may indicate a deficiency in the Firm's System of Quality Management.
- Engagement Teams communicate information to individuals providing consultation.
- The individual(s) assigned operational responsibility for compliance with Professional Standards communicates to relevant Personnel and Engagement Teams changes in the Professional Standards and the Firm's policies and procedures to address such changes.

#### Communication with External Parties

- 4.63 A Firm may need to establish and maintain policies and procedures in relation to communicating information within the Firm's Network or to or from a Service Provider that supports the Firm in establishing and maintaining its System of Quality Management.
- 4.64 Policies and procedures in relation to communicating information regarding the System of Quality Management to external parties should include consideration of laws, regulations or Professional Standards that:
- (a) may require the Firm to communicate information to external parties such as:
    - The Firm becomes aware of suspected or actual NOCLAR 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 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.
  - (b) may preclude the Firm from communicating information related to its System of Quality Management externally including, for example:
    - Privacy or secrecy laws or regulations prohibits disclosure of certain information.
    - Provisions addressing the duty of confidentiality, including Subsection 114 *Confidentiality* of the Code.

## Monitoring and remediation

#### Monitoring a Firm's quality management policies and procedures

- 4.65 A Firm shall establish a Monitoring process designed to provide it with reasonable confidence 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; and
  - (b) require that those performing the Engagement are not involved in Inspections.

- 4.66 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 issued by the **Firm** or **Engagement Partners** are appropriate in the circumstances.
- 4.67 Ongoing consideration and evaluation of the **System of Quality Management** include matters such as:
- 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;
    - continuing professional development, including training; and
    - decisions related to acceptance and continuance of **Client** relationships and specific **Engagements**.
  - Determination of remedial 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 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.
- 4.68 In determining the scope of the **Inspections**, **Firms** may take into account quality reviews conducted by the **Professional Bodies** or regulators.
- 4.69 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.**
- 4.70 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 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.

### Complaints and allegations

4.71 A Firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them and that provide the Firm with reasonable confidence 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.

4.72 Complaints and allegations (not including those that are clearly frivolous) may be made by the Firm's Personnel, Clients or other third parties. They may be received by Engagement Team members or other Personnel. Firms should consider their obligations under whistleblower protection laws.<sup>8</sup>

4.73 It may not be practicable for Firms with few Partners, for the Partner supervising the investigation not to be involved in the Engagement. In such circumstances, Service Providers such as another Firm, may be used to carry out the investigation into complaints and allegations.

### Remediation

4.74 The Firm shall respond to circumstances and undertake appropriate remedial actions when findings of the Monitoring process, or investigations into complaints and allegations, indicate that there are deficiencies in the Firm's System of Quality Management.

4.75 Appropriate remedial actions for deficiencies may include:

- 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.
- Taking appropriate action to comply with relevant Professional Standards and applicable legal and regulatory requirements.
- When the report is considered inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.
- Changes to the quality management policies and procedures.
- The communication of the findings to those responsible for training and professional development.
- Disciplinary action against those who fail to comply with the policies and procedures of the Firm, especially those who do so repeatedly.

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<sup>8</sup> In Australia, whistleblower protection is addressed in the *Corporations Act 2001* and the *Taxation Administration Act 1953* (for the private sector) and in other legislation in place federally and in states and territories (for the public sector). All public companies, large proprietary companies, and public companies and proprietary companies that are trustees of registrable superannuation entities are required under legislation to have a whistleblower policy. Charities or not-for-profits structured as public companies limited by guarantee with annual (consolidated) revenue of \$1 million or more are also required to have a whistleblower policy.

## 5. Transitional Provisions

- 5.1 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***

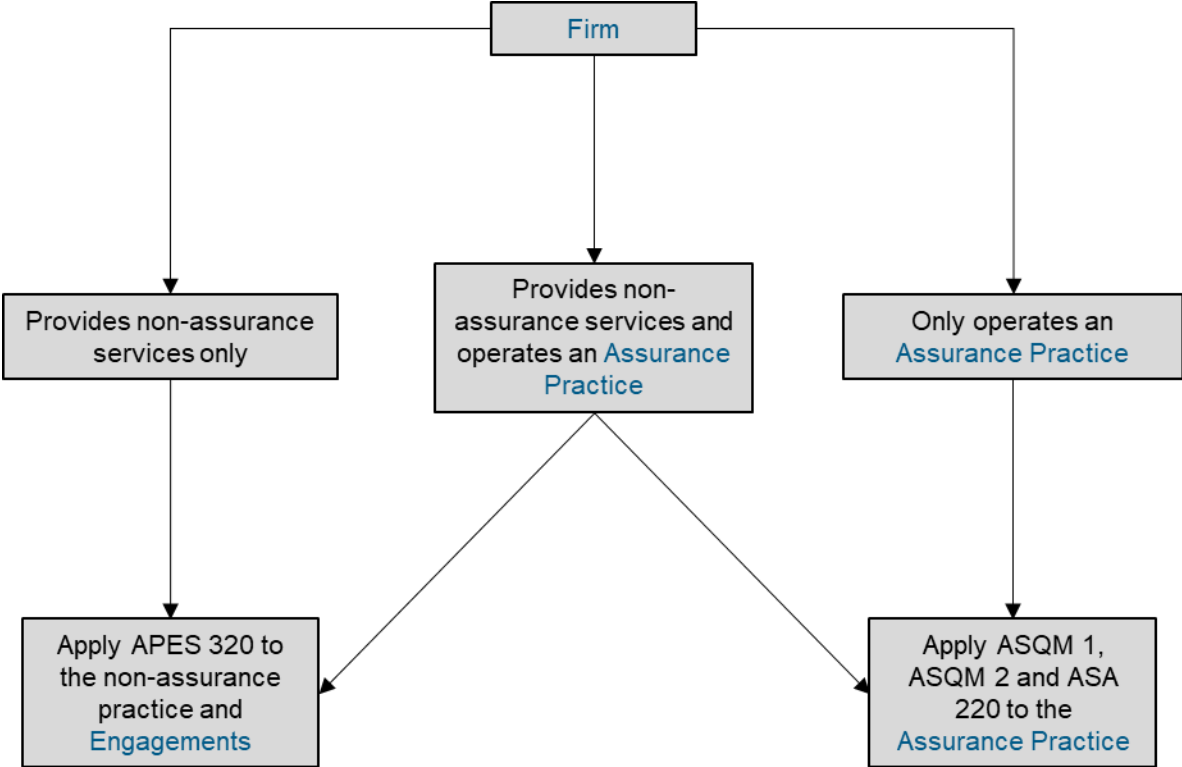
#### **APES 320 and ISQC 1/ISQM 1**

APES 320 contains material and elements from the *International Standard on Quality Control* (ISQC 1) and the *International Standard on Quality Management* (ISQM 1) issued by the International Auditing and Assurance Standards Board. The elements of APES 320 are aligned at a high-level with the components of ISQM 1. APES 320 excludes quality management requirements for **Assurance Practices**.

[Additional information to be added based on the final standard]

### 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.*





## Appendix 2 – Comparison of APES 320 elements to ASQM 1 components

This Appendix provides a high-level comparison of the elements in APES 320 to the components in ASQM 1 to assist *Firms* that provide non-assurance services (required to comply with APES 320) and also have *Assurance Practices* (required to comply with ASQM 1).

APES 320 Element and paragraph references	High-level Summary	ASQM 1 Component and paragraph references	High-level Summary <sup>9</sup>
<b>No specific element</b> (Section 3)	<i>Firm's</i> responsibilities for quality management, system elements and allocation of responsibilities. Policies and procedures required by the Standard enable the Standard's objectives to be met (with scope to incorporate additional policies and procedures if necessary).	<b>The firm's risk assessment process</b> (paragraphs 23-27 and A39-A54)	Firm required to implement a risk-based approach to quality management by establishing quality objectives, identifying and assessing quality risks and designing and implementing responses <sup>10</sup> to address quality risks.
<b>Governance and leadership</b> (paragraphs 4.1-4.3)	Promote an internal culture recognising that quality is essential.	<b>Governance and leadership</b> (paragraphs 28, A32, A33, A35 and A55-A61)	Firm's culture, leadership responsibility and accountability, organisational structure, assignment of roles and responsibilities and resource planning and allocation.
<b>Professional standards</b> (paragraphs 4.4-4.9)	<i>Firm</i> and <i>Personnel</i> comply with <i>Professional Standards</i> .	<b>Relevant ethical requirements</b> (paragraphs 29, A22, A24 and A62-A66)	Fulfilling relevant ethical requirements by the firm, its personnel and others external to the firm to the extent relevant.
<b>Acceptance and continuance of Client relationships and specific Engagements</b> (paragraphs 4.10-4.17)	<i>Firm</i> competence, ability to comply with <i>Professional Standards</i> and consideration of client integrity, obtaining sufficient information before acceptance or continuance, dealing with conflicts of interest and consideration of professional and legal responsibilities.	<b>Acceptance and continuance of client relationships and specific engagements</b> (paragraphs 30 and A67-A74)	Judgments about whether to accept or continue a client relationship or specific engagement.
<b>Resources</b> (paragraphs 4.18-4.36)	Sufficient and appropriate resources in the <i>System of Quality Management</i> , including requirements on human resources and guidance on technological and intellectual resources and service providers.	<b>Resources</b> (paragraphs 32 and A86-A108)	Obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner, including specific requirements on human technological and intellectual resources and service providers.
<b>Engagement performance</b> (paragraphs 4.37-4.58)	<i>Engagement Teams</i> understand responsibilities, use professional judgement, promote quality consistency and supervision and review	<b>Engagement performance</b> (paragraphs 31 and A75-A85)	Actions to promote and support consistent performance of quality engagements, including through direction, supervision and review, consultation,

<sup>9</sup> Based on pages 9 to 10 of the IAASB publication *First-Time Implementation Guide (June 2021) International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

<sup>10</sup> Specified responses required under ASQM 1 are set out in paragraph 34 (with guidance in paragraphs A116-A137).



APES 320 Element and paragraph references	High-level Summary	ASQM 1 Component and paragraph references	High-level Summary <sup>9</sup>
	responsibilities. Appropriate consultation takes place and <a href="#">Engagement Documentation</a> maintained.		differences of opinion and supporting engagement teams exercise professional judgment and scepticism.
<b>Information and communication</b> (paragraphs 4.59 to 4.64)	Obtaining, generating or using information regarding the system and communicating information within and outside the <a href="#">Firm</a> on a timely basis.	<b>Information and Communication</b> (paragraphs 33 and A109-A115)	Obtaining, generating or using information regarding the system and communicating information within and outside the firm on a timely basis.
<b>Monitoring and remediation</b> (paragraphs 4.65-4.75)	Policies and procedures are relevant, adequate and operating effectively, complaints and allegations are dealt with effectively and deficiencies in the system are remediated.	<b>Monitoring and remediation process</b> (paragraphs 35-47 and A138-A174)	Provide the firm with relevant, reliable and timely information about the design, implementation and operation of system and take appropriate actions to respond to deficiencies through remediation on a timely basis.