

Reissue of APES 320 specific to Non-Assurance Services

APESB Webinar
3 May 2022



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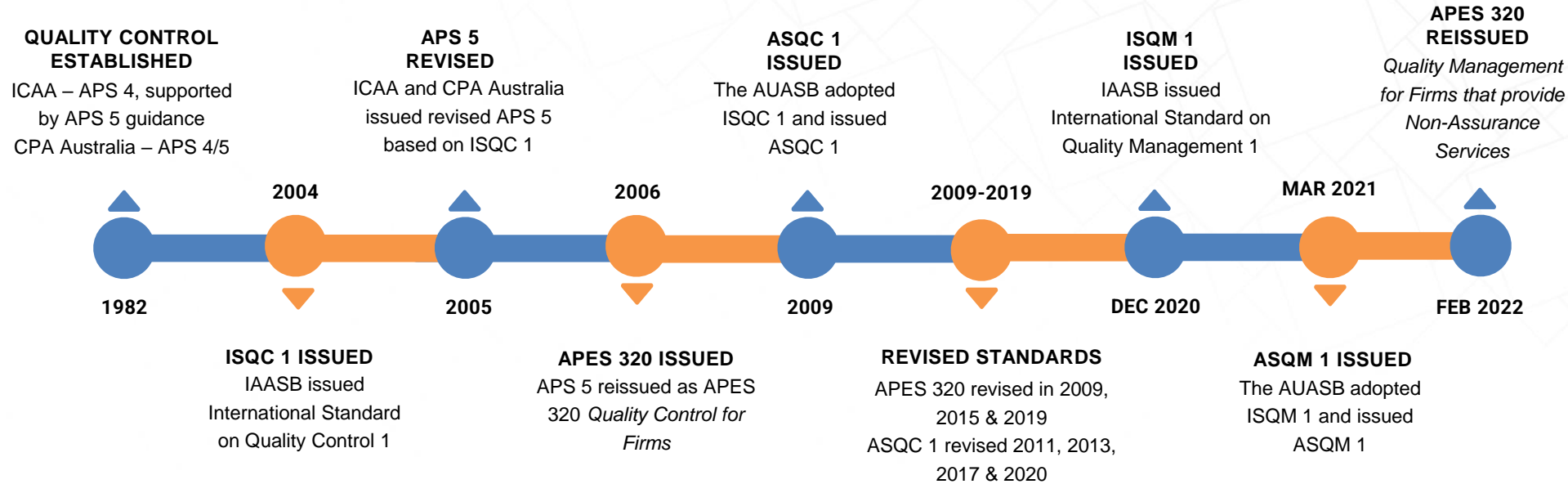
Agenda

- Australian Quality Management Developments:
 - Reissued APES 320 Approach, Philosophy & Scope
 - AUASB's new ASQM 1's Background, Philosophy & Scope
- Key revisions to APES 320
- APES 320 Considerations for SMPs
- Adoption Considerations for Hybrid Firms

Australian Quality Management Developments



Australian Quality Control/Management Timeline



APESB's Consideration of ISQM 1 & 2

APESB's considered whether APES 320 should conform with ISQM 1 & 2:

- APESB supports the focus on improving audit quality.
- AUASB adopted international standards for Australian assurance practices.
- ISQM 1 & 2 represent a fundamental shift in professional obligations.
- No evidence that extant APES 320 is not fit for purpose in respect of non-assurance services (NAS).
- APESB considered four options.

Specific Quality Management Standard for NAS

Option Adopted

APESB determined to reissue APES 320 and refocus it on NAS with:

- High-level alignment with ASQM 1 (to assist hybrid firms).
- Utilisation of extant requirements to minimise disruption, especially for SMPs.
- Simplification by removing assurance-based material and terminology.
- Restructuring to comply with APESB drafting conventions.

Exposure Draft issued 15 September 2021 and open for comments until 26 November 2021.

Key Matters from the Exposure Process

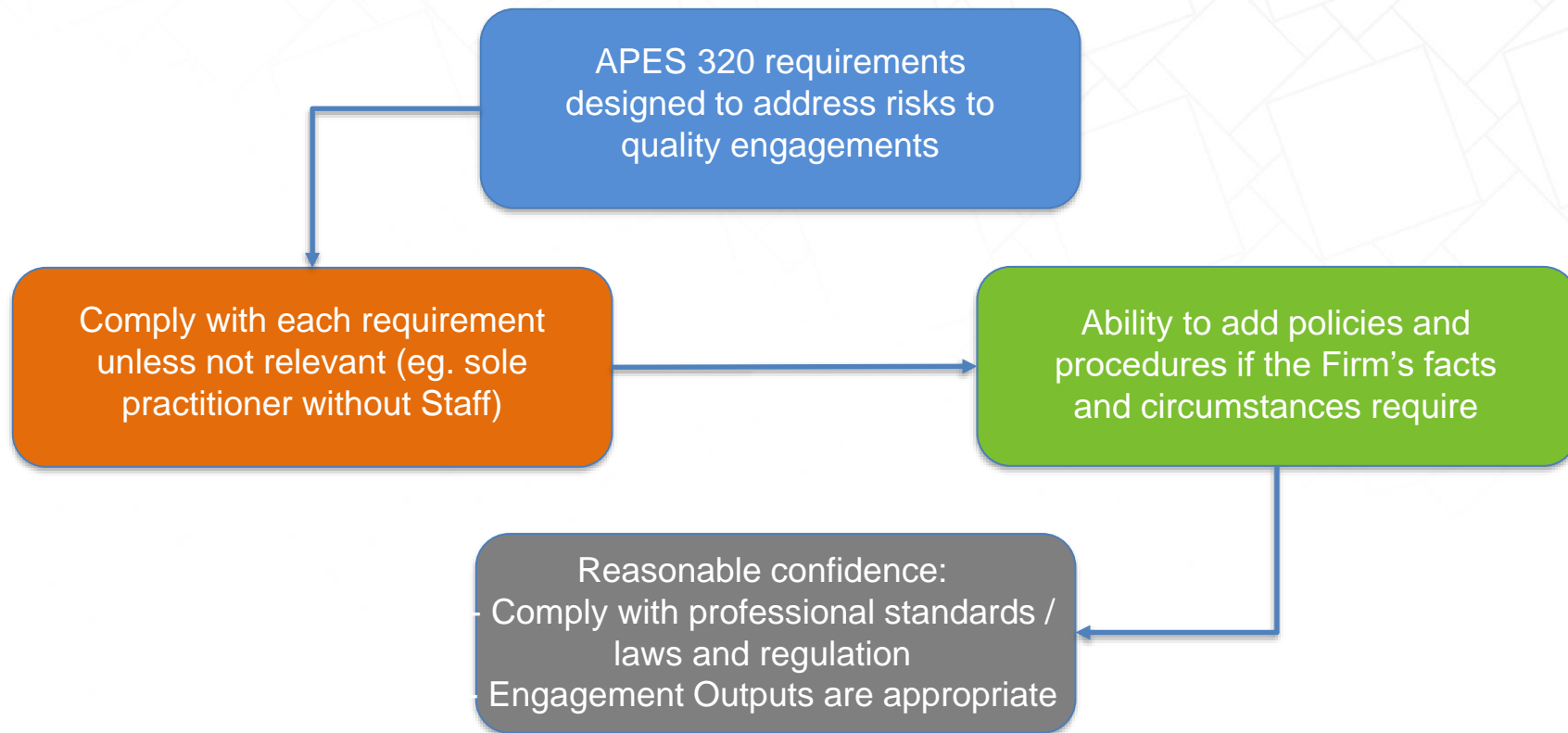
9 submissions on the ED and key matters considered by the Board included:

- Almost unanimous agreement with APESB's approach.
- Engagement outputs from non-assurance services.
- APES 320 and agreed-upon procedures provided by non-assurance firms.
- Root cause analysis included as guidance on possible remedial actions.
- Interaction between APES 320 and APES 325 *Risk Management for Firms*.

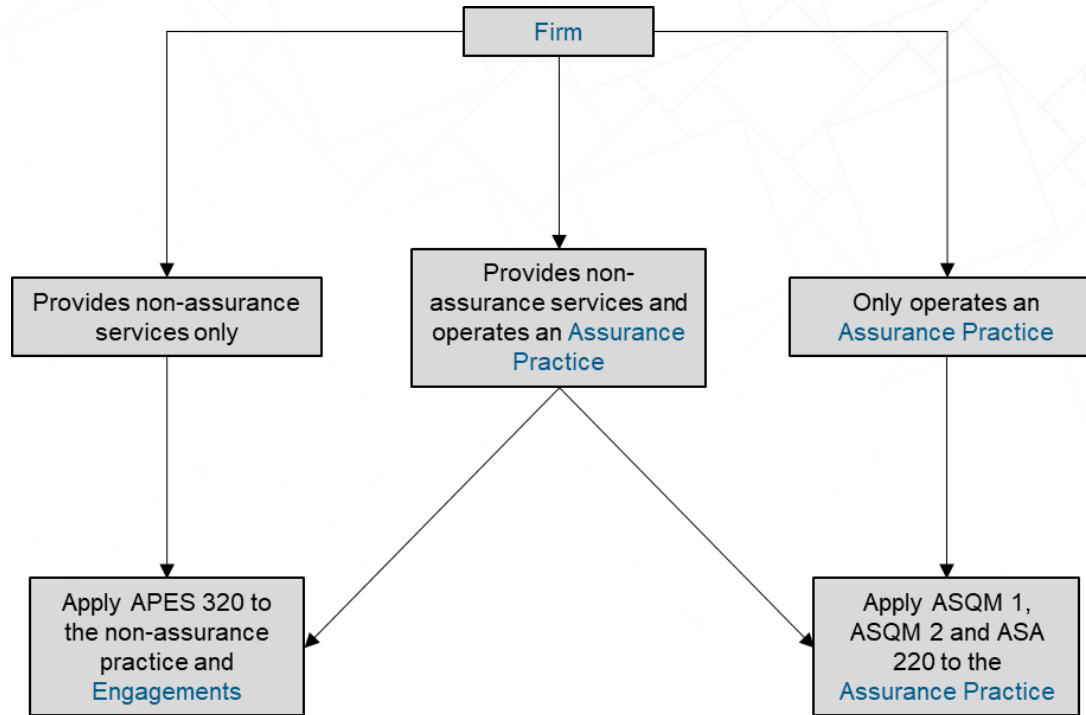
[Reissued standard](#) approved and released in February 2022.

[Basis for Conclusions](#) provides details of key matters considered.

APES 320's Philosophy



Scope of APES 320 and ASQM 1*



Services Covered by APES 320*

APES 320 covers all other professional services provided by a Firm that are not covered by ASQM 1, including, but not limited to:

- Business services (including compilations of financial information)
- Taxation services
- Valuation services
- Forensic accounting services
- Insolvency services
- Corporate finance services
- Financial planning services
- Agreed-upon procedures engagements – but only if the Firm does not also provide audits, reviews or other assurance engagements.

APES 320 / ASQM 1 Alignment*

APES 320 Elements	Para Ref	ASQM 1 Components	Para Ref
The SQM, allocation of responsibilities, networks, SQM documentation	Section 3	The firm's risk assessment process	23-27 & A39-A54
Governance and Leadership	4.1-4.3	Governance and Leadership	28, A32-A33, A35 & A55-A61
Professional Standards	4.4-4.9	Relevant Ethical Requirements	29, A22, A24 & A62-A66
Acceptance and continuance of Client relationships and specific Engagements	4.10-4.17	Acceptance and continuance of client relationships and specific engagements	30 & A67-A74
Resources	4.18-4.36	Resources	32 & A86-A108
Engagement performance	4.37-4.58	Engagement performance	31 & A75-A85
Information and Communication	4.59-4.64	Information and Communication	33 & A109-A115
Monitoring and remediation	4.65-4.75	Monitoring and remediation process	35-47 & A138-A174

AUASB Quality Management Standards

- Suite of 3 new or revised standards
 - *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 2 Engagement Quality Reviews;* and
 - *ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information.*
- ASQM 1 replaces ASQC 1, with an emphasis on Quality Management (rather than a compliance approach)
- ASQM 1 is built around a risk-based approach which focusses on proactively identifying and responding to quality risks (similar to APES 325)

Services Covered by ASQM 1*

ASQM 1 applies to a Firm that performs:

- Audit engagements
- Review engagements
- Other assurance engagements
- Related services engagements including agreed-upon procedures – but only if the Firm also provides audits, reviews or other assurance engagements.

Key Revisions to APES 320



What remains the same?

What remains from Extant APES 320?

19 of 25 requirements from extant APES 320

5 requirements partially from extant APES 320

Minimal changes to these elements:

- governance and leadership
- acceptance and continuance
- monitoring and remediation
- professional standards
- engagement performance

Existing application material remains wherever possible to minimise disruption

[APESB Table Mapping Reissued APES 320 to Extant APES 320](#)

What's new?

Revised scope to only apply to non-assurance services

Assurance-based terminology and requirements/application material removed

New, amended or removed definitions

1 new element and 5 partially new requirements

Human resources changed to resources

Information and communication

Appendix 2 demonstrates high-level alignment to ASQM 1

Removal of Assurance Terminology and Material

Extant APES 320 Terminology	Reissued APES 320 Terminology*
Relevant Ethical Requirements	Professional Standards
Reasonable Assurance	reasonable confidence
Engagement Quality Control Reviewer	appropriate reviewer
Suitably Qualified External Person	Service Provider
<i>Use Mapping Table to update terminology changes in existing policies and procedures</i>	

Assurance based 'boxed' material from extant APES 320 removed:

- 20 requirements paragraphs
- 31 application paragraphs

New Terminology

New Defined Terms	Derivation	Reason
AUASB	APES 110	Enhances clarity within the standard
External Expert	APES 110	
Those Charged with Governance	APES 110	
Member in Business	APES 110	Relevant to NOCLAR obligations (para 4.16)
Public Document	APES 345/350	Relevant to the high-risk engagements (para 4.48)
Engagement Output	New	To reflect outputs from non-assurance services
Engagement Document	APES 305	Used within new Engagement Output definition
Service Provider	ASQM 1	Relevant to the Resources element
System of Quality Management	New	Reflects the objective of the reissued APES 320

Engagement Output

Most substantive issue raised in submissions to the Exposure Draft was to include a definition of Engagement Output due to the variation in outputs from non-assurance services.

Engagement Output means the report or other output of an Engagement as specified in the Engagement Document. The Engagement Output may include, but is not limited to, a report, presentation, regulatory return or other completed form, advice, systems implementation, provision of managed services or project management outputs.

Amended Terminology

Amended Defined Terms	Reason
Assurance Engagement	Align with Part 4B of APES 110
Assurance Practice	Include reference to agreed-upon procedures to capture all services covered by ASQM 1
Engagement Partner	References to public sector audit organisation and Auditor-General delegations removed
Engagement Team	Align to ASQM 1
Inspection	
Monitoring	Quality management or reasonable confidence replacing quality control or Reasonable Assurance
Network	

Assurance Terminology Removed

Removed Defined Terms
Date of Report
Engagement Quality Control Review
Engagement Quality Control Reviewer
Key Audit Partner
Listed Entity
Reasonable Assurance
Relevant Ethical Requirements
Suitably Qualified External Person

Amendments to Elements

Extant APES 320 (para 10)	Reissued APES 320 (para 3.5)
System of quality control elements:	System of quality management elements:
a) Leadership responsibilities for quality within the Firm	a) Governance and Leadership
b) Relevant Ethical Requirements	b) Professional Standards
c) Acceptance and continuance of Client relationships and specific Engagements	c) Acceptance and continuance of Client relationships and specific Engagements
d) Human resources	d) Resources
	e) Information and Communication (New)
e) Engagement performance	f) Engagement performance
f) Monitoring	g) Monitoring and remediation

New Requirement/Element

Information and Communication

Establish policies and procedures that address (para. 4.59):

- obtaining, generating and using information about the SQM; and
- communicating this within the Firm and externally on a timely basis.

Application material sets out what to include based on nature and circumstances of the Firm regarding communicating information about the SQM (paras. 4.60-4.64):

- Within the Firm
- With Network Firms or Service Providers
- With external parties including consideration of laws, regulations or Professional Standards

Partially New Requirements

Extant APES 320 policies and procedures	Reissued APES 320 policies and procedures
<p>Any person(s) assigned operational responsibility for the system of quality control has sufficient and appropriate experience, ability and the necessary authority (para 17).</p>	<p>Any person(s) assigned operational responsibility for the SQM (para 3.14):</p> <ul style="list-style-type: none"> - Has appropriate experience, <u>knowledge, influence, authority and sufficient time to fulfill</u>; and - <u>Understands and is accountable for role.</u>
<p>Reasonable Assurance have sufficient <u>human resources</u> with competence capabilities and commitment to ethics (para 47).</p>	<p>Reasonable <u>confidence</u> have sufficient and <u>appropriate resources</u> for the SQM (para 4.19).</p> <ul style="list-style-type: none"> - Extant human resources material remains. - New application material for technological and intellectual resources and Service Providers (paras 4.30 to 4.36).

APESB Mapping Table

Reissued APES 320 (February 2022)	Extant APES 320 (September 2019)	High level summary of changes (excluding minor editorials and changes to paragraph references within paragraphs resulting from new numbering system in the reissued APES 320)
Note that paragraphs are presented in the order of the reissued APES 320 (February 2022)		
4.13	41	Amended references to professional accountancy services to Professional Services, Relevant Ethical Requirements to Professional Standards and bankers to financial institutions. Removed 'the following' and added ethical letters and other sources of information on clients including the internet and industry forums.
4.14	42	No change
4.15	43	No change
4.16	44	Addition of subparagraph 4.16(a) that policies and procedures are to include consideration of compliance with NOCLAR provisions in the Code (with new footnote 5 referring Sections 260 and 360 <i>Responding to Non-Compliance with Laws and Regulations</i> of the Code).
4.17	45	Amended to use defined term Those Charged with Governance.
-	46	Paragraph removed as it relates to Assurance Practices and is outside the scope of reissued APES 320.
Resources	Human Resources	Amended subheading
4.18	-	New paragraph that the Firm's size and circumstances and nature and complexity of Engagements will influence the resources employed and policies and procedures adopted should consider Human, Technology and Intellectual resources and Service Providers.
4.19	47	Requirement amended to emphasise the Firm's policies and procedures established are to provide reasonable confidence it has sufficient and appropriate resources (not just human resources) for the System of Quality Management and Engagements. Amended reference to Reasonable Assurance to reasonable confidence.

New para
number

Old para
number

What has changed in
the paragraph

Partially New Requirements

Extant APES 320 policies and procedures	Reissued APES 320 policies and procedures
Assignment of responsibility to the Engagement Partner (para 54).	Additional aspect that the Engagement Partner has <u>capacity to be sufficiently and appropriately involved</u> (para 4.26(c)).
Policies and procedures for Engagement performance (paras 58 & 63).	Additional aspects that Engagement Teams: <ul style="list-style-type: none">- <u>understand and fulfill responsibilities</u>; and- <u>have an inquiring mind, exercise professional judgement and use the reasonable and informed third party test</u> (para 4.38).

Other Changes to Consider

Extant APES 320	Reissued APES 320
<p>Where information obtained would have caused to decline the engagement if received earlier including consideration of:</p> <ul style="list-style-type: none">- professional and legal responsibilities; and- possibility of withdrawing (para 44).	<p>Remains the same but now includes consideration of <u>NOCLAR</u> (para 4.16).</p>
<p>Reasonable assurance that appropriate consultation takes place on difficult or contentious matters (para 64).</p>	<p>Reasonable <u>confidence</u> that appropriate consultation takes place on difficult or contentious matters <u>and high-risk engagements</u> (paras 4.43 & 4.48).</p>

Other Changes to Consider

Extant APES 320	Reissued APES 320
<p>Reasonable assurance deal appropriately with complaints and allegations and document responses to them (paras 119 and 129).</p>	<p>Documentation on <u>receiving and investigating</u> complaints and allegations and the responses to provide reasonable <u>confidence</u> dealt with appropriately (para 4.71).</p>
<p>If investigations into complaints and allegations identify deficiencies take appropriate actions (paras 122 and 115 list of remedial actions).</p>	<p>Undertake appropriate <u>remedial actions</u> when <u>monitoring</u>, or investigations into complaints and allegations, indicate that there are deficiencies (paras 4.74 & 4.75).</p>

APES 320 Considerations for SMPs



SMP Considerations

APESB considered the impact on SMPs in developing the reissued APES 320 consistent with our strategic focus. We believe:

- The approach taken minimises the impact through the least disruption.
- SMPs can maintain most existing policies and procedures with minimal changes.
- High-level alignment with ASQM 1 will assist hybrid SMPs.
- Timing enables hybrid SMPs to make changes for assurance (ASQM 1) and NAS (APES 320) concurrently reducing resource implications.

SMP Considerations

Reissued APES 320 incorporates scalability:

- nature and extent of policies (para. 3.7);
- compliance with requirements (para. 3.8 (a));
- impact of sole practitioners with no staff (para 3.9);
- documentation and communication of policies and procedures (para 3.11);
- documentation evidencing the operation of each element (para 3.18);
- size, circumstances, nature and complexity influences resources used (para 4.18);
- performance evaluation (para 4.25); and
- information and communication (para 4.61).

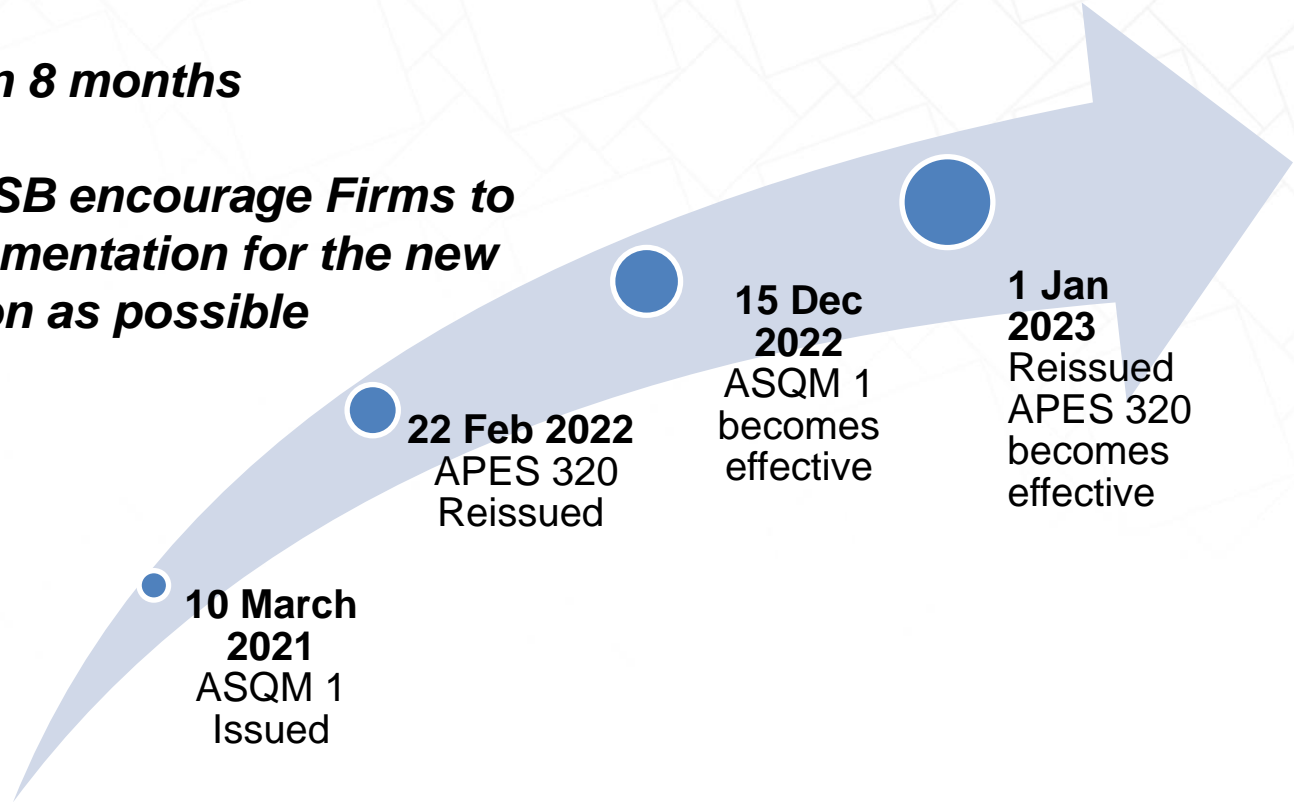
Adoption Considerations for Hybrid Firms



Important Dates

There is less than 8 months

APESB and AUASB encourage Firms to commence implementation for the new standards as soon as possible



APES 320 Adoption Considerations for Hybrid Firms

Determine who will be responsible for and/or champion the SQM:

- Will it be the same person as for ASQM 1 (different philosophies/methodologies)?
- Will a separate person(s) be delegated operational responsibility?

Clarify which services or parts of the Firm will be subject to APES 320 and ASQM 1.

APES 320 Adoption Considerations

- Review current policies and procedures and update for:
 - Terminology changes and amendments to Elements ([Mapping Table](#));
 - NOCLAR (para 4.16);
 - Assignment of responsibility to the Engagement Partner (para 4.26(c));
 - Engagement performance (para 4.38);
 - High-risk engagements (para 4.43);
 - Receiving and investigating complaints (para 4.71); and
 - Remedial actions (paras 4.74 & 4.75)

APES 320 Adoption Considerations

- Update policies and procedures on assignment of operational responsibility for the system (only if applicable) (para 3.14);
- Establish an 'Information and Communication' policy and procedures (para 4.59).
- Assess whether additional policies and procedures are required for:
 - Technological resources (paras 4.30 & 4.31);
 - Intellectual resources (paras 4.32 & 4.33);
 - Service Providers if used by the Firm (paras 4.34 to 4.36).

ASQM 1 Adoption Considerations for Hybrid Firms

Where ASQM 1 is applicable to your firm:

- The System of Quality Management is required to be *Designed and Implemented* by **15 December 2022**.
 - NB: The System of Quality Management applies at the Firm level and becomes operative to all engagements at this date, regardless of the reporting period that applies to individual engagements.
- An *Evaluation* of the system must be performed annually. The first evaluation of the revised system under ASQM 1 must be performed **15 December 2023**.

Questions?



Further Information

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