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Chief Executive Officer
Accounting Professional & Ethical Standards Board
Level 11, 99 William Street
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Via email: sub@apesb.org.au

Dear Channa,

Re: Exposure Draft 05/21 - Proposed Standard: APES 320 Quality Management for Firms that provide Non-Assurance Services

We appreciate the opportunity to comment on Exposure Draft 05/21 - Proposed Standard: APES 320 Quality Management for Firms that provide Non-Assurance Services issued by the Accounting Professional & Ethical Standards Board (APESB) in September 2021 (the ED). This response includes our view on the areas that you have sought specific comments in addition to other matters that we have identified from our review of the ED.

Response to Requests 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 the APES 320 continue to apply to all firms and engagements?

We are supportive of the proposed changes to APES 320 so that it will apply to the non-assurance practices and engagements of firms and that ASQM 1 Quality Management for firms that perform Audits and 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), as issued by the Auditing and Assurance Standards Board (AUASB), apply to the assurance practices.

2. Should APES 320 include root cause analysis as a means of identifying the root causes of deficiencies in the system of quality management?

We believe that the APESB should allow the firms to implement APES 320 and conduct a post implementation review to assist in the assessment whether it is appropriate to introduce a requirement for root cause analysis.

3. Would practitioners find the development of additional implementation material for APES 320 useful?

Many firms, and in particular, those who are not implementing ASQM1, may find additional implementation material beneficial.

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?

We agree that APES 325 and APES 320 should be separate standards.

Other matters

In relation to the detailed requirements and application material in the ED, we have the following comments:

1. Use of should

We recommend that the APESB revisit the use of word should in the application material in the ED and in other APESB pronouncements. Where an APESB standard contains a requirement, the word shall is used to denote that requirement. This is

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consistent with the approach taken by the International Ethics Standards Board for Accountants and the approach taken by the AUASB. The word should be used extensively in the application material in the ED which we believe could create confusion due to the fact that the verb should be used to create an obligation which is not the intent of application material.

2. Reasonable Confidence

The ED uses the term reasonable confidence however, we note that this is not a defined term in the standard and there is no application material to guide firms as to what is required in order to demonstrate that the System of Quality Management (SQM) provides reasonable confidence. We appreciate that the APESB has concluded that it was not appropriate to use the term Reasonable Assurance in the ED as this is an assurance term and APES 320 is not an assurance standard. However, we do believe that a definition for the term reasonable confidence and related application material will support the implementation of the ED.

3. Nature of engagements

The ED is intended to apply to all non-assurance services and engagements performed by Firms. As drafted, there is an assumption that all non-assurance services and engagements result in the issuance of a report at the conclusion of the engagement, this is not correct, for example, some engagements relate to the systems implementations or the provision of managed services.

4. Definitions

- a) The ED contains a proposed definition for Assurance Engagements, as currently drafted, this definition is not the same as the definition that is in paragraph AUS 16.1 of ASQM 1. The definition should be the same as used in ASQM 1.
- b) We do not believe that it is necessary to have a definition for an Assurance Practice.
- c) In acknowledgement that not all engagements result in the issuance of a report, we recommend that the term Engagement Partner is revised as follows “**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”.
- d) We recommend that the APESB revisit the need for the inclusion of the term professional activity in the definition of Client and the need for a definition of professional activity in the ED. The definition of professional activity in the ED states “means an activity that requires accounting or related skills”. There is no definition of related skills in the ED. Furthermore, given the diverse nature of the activities that the Firms undertake many of them do not require accounting skills. If the APESB were to revise the definition of Client as follows: **Client** means an individual, firm, entity or organisation to whom or to which Professional ~~Activities~~ Services are provided by a member in Public Practice in respect of Engagements of either a recurring or demand nature”, it would eliminate the need for a definition for professional activity which is only used in the definitions in the ED.
- e) We question the need for a definition of Public Document in the ED as engagements of this nature would be covered by ASQM1.

5. Comments on specific paragraphs in the ED

We recommend that the APESB relook at the structure of the ED, we are concerned that it is referring to complying with the SQM in a number of the individual paragraphs. In our view, this is not necessary, Firms need a SQM to provide them with reasonable confidence, as outlined in paragraph 3.1, beyond that the requirements should refer to the establishment of policies and procedures required for an effective SQM. We recommend that the APESB revise the current drafting as follows:

- a) Par 4.1 A Firm shall establish policies and procedures ~~designed to~~ that specify how the firm will promote an internal culture ~~that recognises~~ ing that quality is essential in performing Engagements.
- b) Par 4.4 A Firm shall establish policies and procedures ~~designed to provide it with reasonable confidence~~ that require the Firm and its Personnel to comply with Professional Standards.

- c) Par 4.9 A Firm shall establish policies and procedures ~~designed to provide it with reasonable confidence that require the Firm, its Personnel and, where applicable, others subject to Independence requirements (including Network Firms' Personnel) to~~ maintain Independence where required by Professional Standards.
- d) Par 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~~ Professional Standards and applicable legal and regulatory requirements.
- e) Par 4.37 A Firm shall establish policies and procedures ~~designed to provide it with reasonable confidence that require the Firm to perform~~ Engagements that comply with ~~the requirements of the System of Quality Management.~~ Professional Standards and applicable legal and regulatory requirements.
- f) Par 4.43 A Firm shall establish policies and procedures for consultation which include ~~designed to provide it with reasonable confidence that~~:
 - a. when appropriate consultation shall take place on difficult or contentious matters and high-risk Engagements;
 - b. that sufficient resources ~~are~~ shall be available to enable appropriate consultation to take place; and
 - c. how conclusions resulting from consultations ~~are~~ shall be implemented.
- g) Par 3.4 we recommend that the last sentence in this paragraph is revised as to state "This will facilitate a Firm complying with this Standard and APES325 and ~~ensure~~ support consistency".
- h) Par 4.20 Personnel ~~issues~~ matters relevant ...
- i) Par 4.26 (a) includes a requirement that the identity and role of the Engagement Partner is communicated to key members of the Client management and Those Charged with Governance. Given the broad range of services that professional services firms provide there are many circumstances in which communication with, and the involvement of Those Charged with Governance is not necessary, therefore we recommend that this requirement is removed.
- j) Par 4.57 (b) provide, where necessary, a record of changes made to Engagement Documentation after completion of the assembly of the Engagements files ~~have been completed~~; and
- k) Par 4.58 we recommend removal of the final sentence, we do not believe that it is necessary to include it, and it could create confusion as to whether or not it is appropriate to include information provided by client on which the work has been performed in the engagement documentation. In many circumstances it will be appropriate to include such information in the engagement documentation.
- ↳ 4.71 A Firm shall establish policies and procedures ~~requiring documentation of~~ for receiving, investigating, and resolving complaints and allegations about failures to perform work in accordance with Professional Standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures established in accordance with this SQM, and the response to them ~~and that provide the Firm with reasonable confidence that it deals appropriately with~~:
 - i. ~~complaints and allegations that the work performed by the Firm fails to comply with Professional Standards and applicable legal and regulatory requirements; and~~
 - ii. ~~allegations of non-compliance with the Firm's System of Quality Management~~

Conformity with International Pronouncements

For consistency with the approach adopted in other standards, such as APES 330 Insolvency Services, we believe that this should state "The International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 320"

We would be pleased to discuss our comments with you. If you wish to do so, please do not hesitate to contact me on 9322 7288.

Yours sincerely

Deloitte Touche Tohmatsu



Caithlin Mc Cabe
Partner, Assurance & Advisory