



Mr Channa Wijesinghe
Chief Executive Officer
Accounting Professional & Ethical Standards Board Limited
Level 11, 99 William Street
Melbourne VIC 3000
Australia
sub@apesb.org.au

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Dear Channa

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

Thank you for the opportunity to provide a submission in relation to the Exposure Draft *APES 320 Quality Management for Firms that provide Non-Assurance Services* (Proposed Standard).

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators and the wider community. We strive to contribute to debate that seeks to develop a strong and prosperous economy and welcome the opportunity to provide a submission in response to the Proposed Standard.

While not the focus of the Proposed Standard, financial statement audits and other assurance services play a critical role in creating and maintaining investor confidence and unlocking valuable insights into businesses. KPMG believes that independent auditors perform the valuable role of being a trusted intermediary between the providers of business information and the users of that information. Financial statement audits and other assurance services give assurance over information used by investors and the capital markets. KPMG employs a range of quality management processes, including compliance with ASQM 1 and ASQM 2, to uphold audit and assurance quality as outlined in our [2021 Transparency Report](#).

In addition to audit and assurance services, KPMG offers a range of non-assurance services to clients and we take pride in the systems and processes we have in place to ensure the quality of these services. KPMG welcomes the amendments made to the Proposed Standard to make it simpler and 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. However, KPMG has identified language that may still require amending to further ensure it is more relevant to non-assurance services.



In responding to the request for comment section of the Exposure Draft, KPMG has identified five recommendations:

KPMG recommendations

Recommendation 1: KPMG considers that APES 320 should apply to the non-assurance practices and engagements of firms and should not continue to apply to all firms and engagements given that the audit and assurance practices and engagements of firms are already covered by ASQM 1 and ASQM 2.

Recommendation 2: APES 320 should not include root cause analysis as a means of identifying the root causes of deficiencies in the system of quality management given that in many instances cost would significantly outweigh the benefits that would arise.

Recommendation 3: KPMG does not consider the development of additional implementation material for APES 320 necessary given that the Proposed Standard does not require new measures to be adopted by firms. However, if the APESB releases material for comment, KPMG would be happy to review.

Recommendation 4: KPMG considers that APES 320 and APES 325 continue to be separate standards given the significant resourcing pressure on the sector as a result of the impact of the COVID-19 pandemic and implementation of testing controls required by ASQM 1 and ASQM 2.

Recommendation 5: KPMG considers that there could be further changes to the Proposed Standard to better reflect the broad array of services and advice provided by contemporary non-assurance practices.

We have sought to answer the request for comment questions set out in the Exposure Draft at **Attachment A**. If you would like to discuss this submission further at any stage, please do not hesitate to reach out.

Yours sincerely,

Jeff Cook
Ethics & Independence Partner
KPMG Australia



Attachment A: Response to consultation questions

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

Response

Yes, KPMG agrees that APES 320 should apply to the non-assurance practices and engagements of firms and should not continue to apply to all firms and engagements. The audit and assurance practices and engagements of firms are covered by ASQM 1 and ASQM 2. If they were to also be covered by APES 320, there would be significant risk of overlap and potential inconsistencies between the requirements of the different standards, with resulting confusion for practitioners and firms. The amount of additional work for smaller practitioners could also be cost and time prohibitive and not commensurate with the risk.

In addition, the quality management frameworks required for audit and assurance practice and engagements are quite different to those required for non-assurance practices and engagements. Consequently, any attempt to cover all practices and engagements in one standard would almost inevitably result in a standard split into two halves with the half devoted to audit and assurance practices and engagements being a reproduction of ASQM 1 and ASQM 2. There would seem to be little benefit in such an approach.

Recommendation 1: KPMG considers that APES 320 should apply to the non-assurance practices and engagements of firms and should not continue to apply to all firms and engagements given that the audit and assurance practices and engagements of firms are already covered by ASQM 1 and ASQM 2.

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.

Response

No, APES 320 should not include root cause analysis as a means of identifying the root causes of deficiencies in the system of quality management. Whilst root cause analysis is an important and valuable exercise to understand the underlying drivers of key failings in policies and processes and their application, given the breadth of requirements set out in APES 320, KPMG is of the view that the application of root cause analysis across all deficiencies in the system of quality management would be too onerous a requirement. In addition, root cause analysis is only one of many methods used to problem solve and mandating its requirement may be at the detriment of other more appropriate strategies. For example, root cause analysis is often considered not appropriate for problem solving for cultural deficiencies in the system of quality management.



KPMG is concerned that the costs associated with root cause analysis, in terms of financial and other resources, would in many instances significantly outweigh the benefits that would arise. KPMG suspects this would particularly be the case for small and medium practitioners and firms.

Recommendation 2: APES 320 should not include root cause analysis as a means of identifying the root causes of deficiencies in the system of quality management given that in many instances cost would significantly outweigh the benefits that would arise.

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.

Response

Recognising that the proposed revised APES 320 does not contain significant new requirements for firms with non-assurance practices, in the absence of any evidence of significant failings in firms' quality management frameworks applicable to non-assurance practice and engagements, KPMG does not perceive a need for additional implementation material.

Nevertheless, KPMG would welcome the opportunity to consider any implementation material the APES Board felt would be of assistance to practitioners and firms. Such material issued in the form of guidance is usually welcome, however KPMG is mindful of the risk of such guidance material being misinterpreted as requirements by regulators and other stakeholders.

Recommendation 3: KPMG does not consider the development of additional implementation material for APES 320 necessary given that the Proposed Standard does not require new measures to be adopted by firms. However, if the APESB releases material for comment, a mapping document may be beneficial (I.e., quality control manual) and KPMG would be happy to review these materials prior to release.

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.

KPMG agrees that APES 320 and APES 325 should continue to be separate standards. Firms with assurance practices are already under significant resourcing pressure as a result of: — the impact of the COVID-19 pandemic on their ability to recruit from markets outside Australia; and



- the implementation and testing of controls required by the new standards ASQM 1 and ASQM 2.

For these reasons, KPMG is of the view that now is not an appropriate time for the APES Board to attempt to combine APES 320 and APES 325. Generally, KPMG encourages the APES Board to consider the pressures currently facing the profession before proposing any further changes to the standards with which it must comply. KPMG supports the APESB further explore and investigate this matter in the medium to long term.

Recommendation 4: KPMG considers that APES 320 and APES 325 continue to be separate standards given the significant resourcing pressure on the sector as a result of the impact of the COVID-19 pandemic and implementation of testing controls required by ASQM 1 and ASQM 2.

Other comments - Assurance v non-assurance

KPMG appreciates that the APES Board has made a significant effort to remove all material specific to assurance practices from the Proposed Standard. However, KPMG considers that further enhancements can be made to recognise the varied nature of non-assurance practices and the services they offer.

In particular, in a number of paragraphs of the standard, there is an inference that all engagements result in the forming of conclusions or the production of a report. KPMG suspects this reflects the historic focus on audit and assurance reports, however in a non-assurance context there are many services and engagements which do not lead to the forming of conclusions or the production of a report. While KPMG have not proposed this change in the list below, APESB could consider changing all references to 'engagements' to 'non assurance services'.

KPMG makes the following recommendations to reflect the broad array of services and advice provided by contemporary non-assurance practices.

- New defined term – “Engagement deliverable” means the output of the engagement as required by, and documented in, the Engagement. This could include, but is not limited to, a report, presentation, tax return or other completed form, advice, or project management outputs.
- Paragraph 1.1 – change “reports issued by” to “Engagement deliverables issued or provided by,”
- Definition: Engagement Partner – replace “the report that is issued” with “Engagement deliverables issued or provided”.
- Definition: System of Quality Management – replace “reports issued” with “Engagement deliverables issued or provided”.
- Paragraph 3.1 - replace “reports issued” with “Engagement deliverables issued or provided”.



- Paragraph 4.39 – replace “form of the report being issued” with “form of the Engagement deliverables being issued or provided”.
- Paragraph 4.42(f) – Add the words “where relevant,” to the beginning of the point.
- Paragraph 4.48 – replace “report” with “Engagement deliverables”.
- Paragraph 4.48(a)(ii) – replace “Engagement report” with “Engagement deliverables”.
- Paragraph 4.49(a) – replace “Engagement reports” with “Engagement deliverables”.
- Paragraph 4.66(c) - replace “reports issued” with “Engagement deliverables issued or provided”.
- Paragraph 4.70 - replace “reports issued” with “Engagement deliverables issued or provided”.
- Paragraph 4.75 – in the first and third bullet points, replace references to “reports” to references to “Engagement deliverables”.

Recommendation 5: KPMG considers that there could be further changes to the Proposed Standard to better reflect the broad array of services and advice provided by contemporary non-assurance practices.