

26 November 2021

Mr Channa Wijesinghe
Chief Executive Officer
Accounting Professional and Ethical Standards Board (APESB)
Level 11, 99 William Street
Melbourne VIC 3000

Via email: sub@apesb.org.au
channa.wijesinghe@apesb.org.au

Dear Channa,

Exposure Draft on Proposed Standard: APES 320 Quality Management for Firms that provide Non-Assurance Services.

Chartered Accountants Australia and New Zealand (“CA ANZ”) appreciates the opportunity to submit comment on the proposals outlined in the above Exposure Draft (“ED”) to reissue APES 320 Quality Control for Firms (“**extant APES 320**”) as APES 320 Quality Management for Firms that Provide Non-Assurance Services (“**APES 320**”) resulting from recent changes to the Australian Standards on Quality Management (“**ASQM 1 & ASQM 2**”).

Our responses to the APESB’s request for specific comment are contained in Appendix 1. Our general comments in response to the ED are included in Appendix 2 to this submission. Our overall recommendations are provided below.

- CA ANZ supports;
 - the APESB’s proposals to re-issue APES 320 as a standard applicable only to non-assurance engagements,
 - the APESB developing additional implementation material,
 - APES 320 and APES 325 remaining separate standards at this time,
 - the APESB’s approach to retain 19 of the 26 requirements from extant APES 320. We further support the partial use of 5 requirements from extant APES 320. CA ANZ commends the APESB for using existing application material wherever possible to minimise disruption especially for Small to Medium Practices (“**SMPs**”),
 - the APESB’s philosophy that APES 320 requirements are designed to address risks to engagement quality without the need for further ongoing risk assessment as prescribed by ASQM 1. An ongoing risk assessment may not be appropriate for all engagements and create unnecessary burden for members. Further, CA ANZ supports the concept that allows members to determine when requirements are not relevant for their practice and therefore do not need to be complied with. This latitude is particularly important for Sole Practitioners without staff and supports the exercise of professional judgement.

CA ANZ does **not** support;

- The inclusion of root-cause analysis in the re-issued APES 320.
- The use of terminology and phrasing which is audit centric. We note that extant APES 320 was replicated from the International Standard on Quality Control (“**ISQC 1**”). Given ISQC 1 was designed for audit and assurance services we are concerned that retention of some material from extant APES 320 may, in some circumstances, be conceptually inappropriate for non-assurance service engagements. We have identified examples of phrasing and terminology that require review at paragraphs 1.1, 2, 3.1, 3.3, 4.2, 4.11(b), 4.39, 4.49, 4.51, 4.66, 4.70, 4.75 (reference to reports as engagement deliverables), 4.42(e), 4.43 (c) 4.46, (reference to conclusions reached) 4.48 (reference to conclusions reached and reports) 4.8, 4.9 (reference to Independence Requirements).

Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact Josephine Haste CA, Josephine.haste@charteredaccountantsanz.com.

Yours sincerely

Simon Grant FCA
Group Executive
Advocacy and Professional Standing

Appendix 1 – Request by APESB 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**

CA ANZ supports alignment between the standards issued by the International Ethics Standards Board for Accountants (“**IESBA**”), the International Auditing and Assurance Standards Board (“**IAASB**”) and National Standard Setters (“**NSS**”). The International Standards on Quality Management (“**ISQM 1 & ISQM 2**”) issued by the IAASB are comprehensive standards for assurance practitioners and have been fully adopted in Australia by the Auditing and Assurance Standards Board (“**AUASB**”). There is no international standard for quality control for Non-Assurance Services (“**NAS**”). CA ANZ considers it appropriate for the APES to develop its own fit for purpose standard that establishes the requirements for a system of quality control for NAS that balances obligations, risks and benefits for this type of practice.

ASQM 1 is audit-centric and designed to manage the risks associated with delivering a quality audit. ASQM 1 does not distinguish between the entity type or size subject to the audit, therefore, the standard applies equally to Public Interest Entities (PIEs) and non-PIEs. Other Non-Assurance Engagements may either carry different risks or levels of risk not commensurate with those addressed by ASQM 1. These engagements may also differ substantially in size and impact on the public interest. Arbitrarily applying a standard that has been designed to mitigate risks associated with audit and assurance engagements to Non-Assurance Services is, therefore, unlikely to deliver the desired outcome. The proposed APES 320 retains substantial material from the extant standard which was based on ISQC 1. ISQC 1, being designed for Audit and Assurance engagements, uses terminology and references which may not be appropriate for Non-Assurance Engagements such as report/s, conclusions and Independence. CA ANZ supports a review of the proposed standard to ensure phrasing and terminology is appropriate for a non-assurance engagement.

- 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.**

Root cause analysis (“**RCA**”) is particularly useful in large, complex organisations where it may be difficult to identify factors, systems or processes contributing to an identified issue/s. A disadvantage of RCA, however, is that it generally presupposes one root cause of a defect, where situations and events leading to non-compliance are often multi-factorial. For example, where non-compliance issues are based in organisational culture and behaviour, RCA would not be the most appropriate method for analysis.

RCA is one of many strategies used to problem solve – it’s inclusion in a standard may be to the detriment and exclusion of other strategies that are more appropriate given due consideration to the circumstances. It is imperative that professional accountants are given the latitude to apply their professional judgement to matters of non-compliance and apply strategies for addressing and mitigating issues which are appropriate to the risk.

While root cause analysis may be best practice, mandating the method in APES 320, which will largely apply to Small to Medium Practices (“**SMPs**”), may impose a burden on members which is not commensurate with the benefit derived. Imposing RCA in APES 320 may result in additional regulatory burden for negligible gain. In the absence of evidence which demonstrates inadequacies of extant 320 and critically evaluates the net benefits of RCA, CA ANZ does **not** support its inclusion in a standard which is applicable to non-assurance practices.

- 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.***

The proposed APES 320 is largely similar to the extant APES 320, therefore the impact on SMPs is minimal. The mapping document (contained in the ED), together with staff Q&As would be beneficial for members in navigating the mandatory changes required to current quality control systems and processes. The PAOs are working on developing tools and guidance to assist members transition to ASQM 1 and 2, this will also include guidance for a re-issued APES 320. Technical support from the APESB (and AUASB) would be beneficial in developing a suite of resources for members, particular for those members who offer both assurance and non-assurance services in their practices.

- 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.***

APES 320 and APES 325 are complimentary standards. APES 325, however, focuses on the business of operating an accounting practice rather than the quality of engagements executed, providing a clear delineation between the two standards. Due to the volume and complexity of recent changes to standards, we believe combining APES 320 and APES 325 now, is not in members' interests and does not provide significant benefit to the public interest to justify the change. CA ANZ supports APES 320 and APES 325 remaining separate standards in the immediate future.

The amalgamation of APES 320 and APES 325 should be further explored and investigated by the APESB in the medium to long term.

Appendix 2 – General Comments in response to the Exposure Draft

Table 1 - Changes in Terminology

Extant APES 320	Proposed reissued APES 320	CA ANZ Comments
System of Quality Control	SQM	If alignment between ASQM 1 and APES 320 is not the predominant purpose for reissuing APES 320, then CA ANZ does not see the need for this change in terminology. Further, retaining the extant name of the standard might create a clearer distinction between APES 320 and ASQM 1. CA ANZ is not strongly opposed to the change in terminology.
Relevant Ethical Requirements	Professional Standards	CA ANZ supports this change to terminology
Reasonable Assurance	Reasonable Confidence	CA ANZ considers the term 'Reasonable Confidence' to be more appropriate for a non-assurance engagement.
Engagement Quality Control Reviewer	Appropriate Reviewer	CA ANZ supports the use of the term 'Appropriate Reviewer' consistent with the use of the term in The Code of Ethics for Professional Accountants ("The Code")
Suitably Qualified External Person	Service Provider	CA ANZ supports this change to terminology.

Table 2 - Changes to Definitions

New Definitions	Amended Definitions	Removed Definitions	CA ANZ Comments
AUASB	Assurance Engagement	Date of Report	CA ANZ supports the removal of definitions and/or phrasing which is audit centric. CA ANZ acknowledges that the term "Independence" is used more widely than only in audit and assurance standards. However, with the recent introduction of the ' <i>Role and Mindset</i> ' provisions in the Code, it may be more appropriate for the term "Independence" to be reserved for engagements that require Independence as defined by The Code, relevant legislation and/or accounting and auditing standards. We recommend that the APESB review other professional standards to determine whether ' <i>role and mindset</i> ' is a more appropriate term, weighed against the level of public interest in various non-assurance services.
External Expert	Assurance Practice	Engagement Quality Review(er)	
Member in Business	Engagement Partner	Key Audit Partner	
Public Document	Engagement Team	Listed Entity	
Service Provider	Inspection	Reasonable Assurance	
SQM	Monitoring	Relevant Ethics Requirements	
Those Charged with Governance	Network	Suitably Qualified External Person	

Table 3 and 4- Proposed Partially New Requirements**Table 3**

Extant APES 320 (para 10)	Proposed APES 320 (para 3.14)
System of Quality Control Elements: <ul style="list-style-type: none"> • Leadership responsibilities for quality within the Firm • Relevant Ethical Requirements • Acceptance and Continuance of Client Relationships and Specific Engagements • Human Resources • Engagement Performance Monitoring 	SQM Elements: <ul style="list-style-type: none"> • Governance and Leadership • Professional Standards • Acceptance and Continuance of Client Relationships and Specific Engagements • Resources • Information and Communication • Engagement Performance • Monitoring and remediation

CA ANZ Comments
CA ANZ supports the new requirement of <i>'Information and Communication'</i> and the amendments to <i>'Resources'</i> and <i>'Governance & Leadership'</i> to appropriately broaden the scope and practically reflect practice operations. Where the public interest is clearly benefited, we support general, high-level alignment with ASQM 1 reflected in the proposed amendments to the elements of quality management

Table 4

Extant APES 320	Proposed APES 320	CA ANZ Comments
Any person assigned operational responsibility has sufficient and appropriate experience, ability and authority (para 17)	Any person assigned authority (para 3.14): <ul style="list-style-type: none"> • Has appropriate influence and authority; • Understands and is accountable for the role; and • Has a direct line of communication to the person with ultimate responsibility. 	CA ANZ considers the proposed changes to operational responsibility for quality management to be inconsistent with the public interest risk attributable to non-assurance practices. CA ANZ recommends that the extant requirement is adopted to allow SMPs greater flexibility in operational management of their SQM.
Sufficient human resources with competence capabilities and commitment to ethics (para 47)	Sufficient and appropriate resources for the SQM (para 4.19): <ul style="list-style-type: none"> • Extant human resources material remains • New application material for technology and intellectual resources and service providers. 	CA ANZ supports the changes to Resources, including retaining the extant material for human resources. CA ANZ supports the application material included for technology and intellectual services and service providers.
Assignment of responsibility to the Engagement Partner (para 54)	Additional criteria that the Engagement Partner has capacity to be sufficiently and appropriately involved (para 4.26(c)).	CA ANZ supports the inclusion of the additional criteria (c) in requirement paragraph 4.26

Policies and procedures for Engagement performance (paras 58 & 63)	Additional criteria that Engagement Teams understand and fulfil responsibilities (para 4.38)	CA ANZ supports the partially new requirements at paragraph 4.38. The extant requirements and application material clearly articulate responsibilities as described in paragraph 4.38. While we are not strongly opposed to sub-paragraph 4.38 (a), we consider the sub-paragraph to be a duplication of other requirements.
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Table 5 - Proposed New Requirements

Proposed APES 320	CA ANZ Comments
<p>Network Firms Firm responsible for SQM irrespective of compliance with Network Firm Requirements (para 3.16)</p>	<p>CA ANZ questions whether this new requirement is needed. As the professional standards are mandatory for all members in Australia (paragraph 1.4 & 3.1), it follows that the requirements of APES 320 must be adhered to locally. CA ANZ recommends removing this requirement.</p>
<p>Information and Communication Establish policies and procedures that address (para 4.59):</p> <ul style="list-style-type: none"> • Obtaining, generating and using information about the SQM; and • Communicating this within the Firm and externally on a timely basis. <p>New application material to support the introduction of a new element.</p>	<p>CA ANZ supports the new principles based requirement at 4.59 and application material for Information and Communication. While this requirement has been derived from ASQM 1, it has been simplified, allowing for greater scalability for NAS.</p>

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.