



INSTITUTE OF
**PUBLIC
ACCOUNTANTS®**

Submission to APESB

Exposure Draft 05-21

Proposed Standard

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

December 2021

7 December 2021

Mr Channa Wijesinghe
Chief Executive Officer
Accounting Professional & Ethical Standards Board Limited
Level 11, 99 William Street
Melbourne Victoria 3000

By email: sub@apesb.org.au

Dear Channa,

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

Thank you for the opportunity to comment on Exposure Draft 05/21 – Proposed Standard: *APES 320 Quality Management for Firms that provide Non-Assurance Services*.

IPA supports the proposal to revise APES 320 and to adjust its scope and application to firms that provide non-assurance services. We believe the redesign of the proposed standard complements the quality management requirements reflected in *ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information*, *ASQM 1 Quality Management for Firms that Perform Audits or Review of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* and *ASQM 2 Engagement Quality Reviews* which are applicable to firms that provide assurance services.

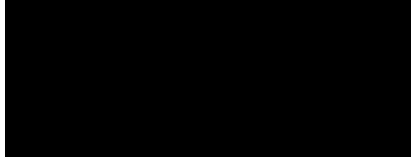
We note that practices that provide a combination of non-assurance and assurance services (blended practices) will need to carefully consider the requirements of this new suite of standards when reviewing and revising their current risk management and quality control policies and procedures. In essence, blended practices may choose to establish and maintain two sets of policies and procedures, adopt the higher-level requirements of ASA 220, ASQM 1 and ASQM 2, or develop a set of intertwined requirements. For sole practitioners and firms that only provide non-assurance services, the revised APES 320 strikes the right balance in guiding practitioners to put in place relevant quality management policies and procedures commensurate with risk associated with providing such services.

While we conceptually support the benefits of root cause analysis, we believe this would add an unnecessary level of complexity for sole practitioners and smaller firms and the nature of non-assurance services they provide. We believe the quality management framework provided in APES 320 is fit for purpose and the range of amendments in their current form, excluding root cause analysis, result in changes that are not overly complex to implement.

Our response to the matters APESB has sought specific comment on are addressed by way of Attachment.

If you have any queries with respect to our comments or require further information, please don't hesitate to contact Vicki Stylianou, Group Executive, Advocacy & Policy, at vicki.stylianou@publicaccountants.org.au or on mobile 0419 942 733.

Yours sincerely



Vicki Stylianou
Group Executive, Advocacy & Policy
Institute of Public Accountants

Attachment – IPA’s Response to Request for Specific Comments

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.*

We support revisions to APES 320 as drafted. Many firms do not provide assurance services and are best served by a dedicated and contemporary standard. The presentation of quality management requirements for non-assurance practices in isolation of the elevated requirements for assurance practices results in a less cluttered and convoluted standard and a clearer presentation of requirements.

The sign-posting to audit and assurance pronouncements in paragraph 1.10 and in Appendix 1 is supported. Although firms that provide a combination of assurance and non-assurance services will have two compliance frameworks to comply with, the separate articulation of requirements provides a clearer presentation of compliance requirements and it is hoped this will support compliance with both sets of requirements.

Although APES 320 will now only apply to non-assurance services, as the proposed Standard rightly sign-posts the need for assurance service firms to comply with APES 210 *Conformity with Auditing and Assurance Standards* and the relevant related audit and assurance pronouncements, the name of the standard could be less complicated and more aligned to the extant standard. This may assist the less sophisticated user or new practitioner to not potentially overlook the application of APES 320 if they are not familiar with the term “*non-assurance services*”. Scope and application paragraphs are the place to explain the context in which each standard applies and this is accepted convention across all standards in Australia.

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.*

Refer response on cover page.

The Engagement Performance and Monitoring and Remediation requirements provide an adequate risk management framework to identify deficiencies in the system of quality management relating to the provision of non-assurance services generally.

APESB may wish to consider extended requirements, such as root cause analysis, for specialised non-assurance services if there are particular concerns where there is an expectation that firms providing such services are more likely to be exposed to adverse events that are chronic, recurring and possibly systemic. These conditions are not generally prevalent in the provision of non-assurance services by sole practitioners and smaller practices. Regulatory settings should be fit for purpose and in the APES 320 context root cause analysis would be overly onerous for most practices to apply.

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.*

Extant APES 320 has been in place for some time now and existing users have developed Quality Control (Practice) Manuals for their practices. Although these manuals will require updating to embrace changes in the proposed revised Standard, for practitioners only providing non-assurance services this should be achievable with some support from the professional bodies.

The challenging aspect of the new quality management regime in Australia will relate to application by blended practices. IPA encourages the APESB to work with the professional bodies and the AUASB to ensure practitioners operating blended practices feel supported in applying the new suite of requirements. For example, a small firm or sole practitioner that provides a combination of SMSF audit services and tax services is not well resourced to develop two sets of manuals and/or to identify and address the differences between the auditing standard requirements and APES 320.

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.*

Conceptually we understand the arguments that would support the approach of merging APES 320 into APES 325 *Risk Management for Firms* given quality management standards are in essence an integral part of a practice's risk management system. However, as the scope of the revised standard will now only apply to non-assurance engagements, merging the two standards is more likely to lead to a level of complexity in application which may be more difficult for practitioners to understand and apply.

APES 325 has been in place since January 2013 and practitioners have developed policies and procedures to address the requirements of this important standard. The standard works, isn't broken and merging the standard with the proposed revised APES 320 will add to further re-education and support needing to be provided for practitioners.

The adjustment to the new quality management requirements will involve considerable effort particularly for audit/assurance practices and blended practices. Merging the requirements of APES 320 with APES 325 would cause further disruption and take away from the valuable time practitioners will require to review and update existing policies and procedures to bring them in line with the requirements of the revised APES 320 and should be avoided at this time.

We note the APESB considered this issue at its September 2021 meeting and this issue was lightly probed as Option 4 in Agenda Paper 7(a). We believe there may be merit in further examining a merger of APES 320 and APES 325 in the future. However, a more detailed examination of options should be undertaken by APESB as a first step.