

TECHNICAL STAFF PAPER

Subject: Position Paper: Quality Control Standard for Non-Assurance Practices

Purpose

The purpose of this paper is to provide the Board with:

- A summary of Taskforce members views and comments made at the initial Taskforce meeting to discuss the revision of APES 320 *Quality Control for Firms* for non-assurance practices; and
- Technical staff views and recommendations.

A summary of the Taskforce members' views and comments and Technical staff views/recommendations thereon is given below.

1. Taskforce Comments

(i) No need for separate standard for non-assurance services

Analysis of Taskforce Comments

Members of the Taskforce have presented the view that APES 320 *Quality Control for Firms* (APES 320) need not be revised and reissued as a separate quality control standard to focus on non-assurance services. Those holding this view share the following primary reasons:

Current Firm level Quality Control standard (APES 320) is functioning well in practice

- APES 320 in its current form has existed since 2006 with its predecessor standard APS 4/5 existing with similar content since 2003. So for 10 years now APES 320 or its predecessor standard has been in place. Other than the project proponent, no external stakeholders have expressed concerns with its practical use. Based on representations made by the Taskforce members, the Standard has been 'bedded down' and is working well in practice.

Inefficient, complex and generally unnecessary to have two Quality Control standards

- Given that APES 320 applies to quality control at the Firm level and not engagement requirements at the service level, developing an additional quality control standard is likely to be inefficient and will increase complexity while at the same time the benefits of a standard focussed only on quality control for non-assurance services is not clear.
- There is no need for a general standard on quality control for non-assurance services since there are service line specific standards.

SMP's will be disadvantaged

- The majority of small and medium size Firms conduct some Assurance Engagements as well as tax/compliance and other engagements and having more than one quality control Standard would be burdensome in terms of compliance costs;

Large practices have sufficient quality control systems in place already

- Large Firms generally have different quality control policies and procedures for different divisions within the Firm, and these are far more detailed than what is required by APES 320/ASQC 1.

Required revisions for non-assurance can be achieved without a separate standard

- If the proposed changes are relatively minor, (such as incorporating consideration for the level of quality required, e.g. 'reasonable assurance' for assurance services as compared to 'reasonable confidence' for non-assurance services, and the nature of the engagement documentation and deliverables, e.g. 'reports' for assurance services compared to 'other client deliverables' for non-assurance services) then making minor modifications to the existing APES 320 or developing examples for non-assurance services is a better outcome.
- Designing a standard solely for non-assurance services creates its own issues. The paragraphs that relate to assurance services cannot simply be removed because matters such as independence still require consideration, especially where the practitioner provides assurance and non-assurance services. Accordingly, non-assurance services cannot and should not be considered in a vacuum.

The stakeholders who have lobbied the Board in the past to develop a separate standard focussed on non-assurance services argue that:

- The current APES 320 draws its framework from ISQC 1, which in the international framework applies only in respect of audits and reviews of financial statements together with other assurance and related services engagements;
- there are fundamental differences in management, quality control and oversight over non-assurance services when compared with assurance services;
- The level of quality expected for assurance services is 'reasonable assurance' whereas it is 'reasonable confidence' for non-assurance services. This may result in unnecessary and unreasonable burden on the non-assurance practitioner;
- APES 320 refers exclusively to reports whereas deliverables from non-assurance services often take different formats (e.g. workshops, software solutions, outsourced services, transaction processing, etc.);
- The extent of documentation for APES 320 is tailored for assurance services and in some circumstances may place an unnecessary and unreasonable burden on non-assurance practitioners; and
- Paragraphs 93 to 95 of APES 320 contain requirements for assembly of final engagement files which makes little sense for e.g. tax practitioners with continuous relationships with clients and where a final or completed report is of little relevance; and
- APES 320 lacks illustrative examples on how to apply requirements in the non-assurance context.

2. Technical Staff views

The Board has four potential options to consider in respect of this project:

- Option 1: Draft a separate standard for non-assurance services;
- Option 2: Make minor revisions to the existing standard to reflect non-assurance services;
- Option 3: Maintain the current APES 320 and draft a guidance note, appendix or other technical bulletin that supports the extant APES 320 with illustrative examples on how APES 320 applies in the non-assurance services context; or
- Option 4: Do nothing and monitor the issue via Annual Reviews.

Option 1 is not favoured by the majority of the Taskforce members due to the comments noted above. Technical staff agrees with the majority Taskforce views that those who have lobbied the Board in the past have not provided sufficient evidence to support their case to develop a quality control standard that is focussed only on non-assurance services.

Option 2 is a possibility as the revisions would be relatively minor and would assist non-assurance practices to better understand and apply APES 320. However, that would mean that it would create a divergence with ASQC 1/ISQC 1. At the time APES 320 was last revised a discussion was held with the AUASB and the general agreement was to minimise any differences between the two standards (APES 320 and ASQC1).

Option 3 would mean that no change is made to the existing APES 320 and guidance in the form of examples or a guidance note is developed to assist a Member in Public Practice apply APES 320 in the non-assurance context. The Board has similarly developed examples in Valuation Services, Forensic Accounting, Members in Business (APES GN 40) and most recently in Outsourced Services.

Option 4 is to take no action at this stage and monitor the issue via Annual Reviews.

Technical Staff Recommendation

As noted in the preceding discussion there have been no significant issues noted with operation of the existing standard in practice. Whilst concerns have been expressed by some stakeholders from time to time, on the whole the standard has been working well in practice. Furthermore, the Firms, Members and professional bodies represented by the Taskforce do not support a stand-alone quality control standard for non-assurance services due to the reasons noted above.

Technical staff are also of the view that sufficient evidence has not been provided by the stakeholders why there should be a separate quality control standard that is focussed on non-assurance services.

Accordingly, based on the information APESB has at the moment, the viable options for the Board to consider are either Option 2 or 3. Due to the interrelationship between APES 320 and ASQC1 noted above the most favoured option from these two options is option 3.

Option 4 should also be considered by the Board. However, it is advisable for the Board to take some action to develop guidance on quality control for Members in Public Practice who provide non-assurance services.

Authors: Channa Wijesinghe
Rob Nickel

Date: 30 April 2013