

Item Number: 3 (b)
Date of Meeting: 25 May 2015
Subject: Project status update on revision of APES 320 *Quality Control for Firms* to focus on non-assurance practices

Action required **For discussion** **For noting** **For information**

Purpose

To provide a project status update to the Board on the proposed approach to revise APES 320 *Quality Control for Firms* to focus on non-assurance practices.

Background

Accounting Professional and Ethical Standards Board (APESB) issued APES 320 *Quality Control for Firms* (APES 320) in May 2006 with an effective date of 01 July 2006. In May 2009, APESB revised APES 320 to bring it into alignment with changes made to International Standard on Quality Control 1, *Quality Control for Firms that perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (ISQC 1).

APES 320 sets standards for Firms to establish and maintain a system of quality control at the Firm level in the provision of quality and ethical Professional Services. Whilst APES 320 applies to all areas in which a Firm provides services, it draws its framework from the international standard ISQC 1, which is primarily focused on Assurance Engagements.

In practice in addition to assurance services, Firms provide an extensive and complex range of consulting, compliance and multi-disciplinary advisory services. For example, even in the largest of Firms, assurance services may amount to less than 50% of total fees. The overwhelming majority of small Firms provide tax and accounting services, with little or no assurance work. In this context, some stakeholders have argued in the past that it is suboptimal that the whole-of-Firm standard (i.e. APES 320) to be based on ISQC 1, which was drafted to specifically apply to assurance services without taking into consideration of what might be an optimum quality control environment for non-assurance services. Although APES 320 has delineated certain requirements as applicable only to assurance practices, there is value in considering a professional standard whose primary focus is the non-assurance service lines.

Considering the suite of professional standards that APESB has released to date which apply to non-assurance services, some stakeholders have been lobbying APESB to develop a Quality Control Standard to specifically address these non-assurance service lines.

A further reason for re-visiting APES 320 in 2012 was that subsequent to APESB issuing the revised APES 320 in May 2009, AUASB issued its own standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (ASQC 1) in October 2009, to apply for Assurance Engagements in Australia. ASQC 1 primarily applies to Firms that perform assurance and related services.

If the APESB Board determines to develop APES 320 in a manner to focus on non-assurance services, then the proposed revised APES 320 should provide a Firm-level framework that is suitably tailored and comprehensive for non-assurance services. At the same time, the Board should be being mindful not to create different levels of quality control standards for assurance and non-assurance practices. Substantial benefit could be gained through the inclusion of certain definitions, use of more inclusive language and illustrative examples drawn from non-assurance services, while at the same time ensuring that stringent quality control requirements are in place for Firms.

Update from Taskforce Meeting of 13 August 2012

At the initial Taskforce meeting to discuss the approach to revising APES 320, a number of Taskforce members presented the view that there was no need to issue a quality control standard that was suited only for non-assurance services. They were of the view that if required, minor revisions could be incorporated in the existing standard to accommodate both assurance and non-assurance services.

May 2013 Update

The Taskforce was requested to share their views on the desired approach for revising APES 320. The taskforce members who were of the view that a separate quality control standard for non-assurance services was not necessary, shared the following primary reasons:

- The current Firm level quality control standard (APES 320) is functioning well in practice;
- It would be inefficient, complex and generally unnecessary to have two quality control standards;
- SMP's will be disproportionately disadvantaged in complying with two standards;
- Large practices have sufficient quality control systems in place already; and
- The required revisions for non-assurance can be achieved without a separate standard.

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

- The current APES 320 is focussed on 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 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
- APES 320 lacks illustrative examples on how to apply requirements in the non-assurance context.

At the May 2013 Board meeting, the Board directed Technical Staff to develop a position paper that addresses potential approach(es) to remove the duplication between ASQC 1 and APES 320 in respect of assurance services for the August 2013 Board meeting.

August 2013 Update

At the August 2013 Board meeting, the Board agreed that as a general principle they are supportive of minimising the duplication between APES 320 and ASQC 1. The scope of APES 320 should extend to include all engagements carried out by a Member in Public Practice which is not within the scope of ASQC 1. The Board noted that APES 320 should be revised adopting a principle-based approach with appropriate guidance incorporated directly in the Standard.

October 2013 Update

APESB Technical Staff met with AUASB Technical Staff during October 2013 and discussed possible ways to minimise the duplication of requirements between ASQC 1 and APES 320. Through these discussions, it was determined that including in APES 320 the reference to APES 210 which requires compliance with Auditing Standards should be sufficient to ensure that Members “engaged to perform an Assurance Engagement or related services Engagement” would be covered by the quality control requirements of ASQC 1.

It was further proposed that APES 320 could be amended to provide comfort that all other Professional Services not caught by ASQC 1 would be covered by APES 320 with the addition of a new Scope and application paragraph (1.3) which states:

- 1.3 Members in Public Practice performing Assurance Engagements and related services Engagements shall comply with APES 210 *Conformity with Auditing and Assurance Standards*, including ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (ASQC 1). Where a Member in Public Practice’s quality control policies and procedures complies with ASQC 1 in respect of Assurance Engagements and related services Engagements, the Member is excluded from the scope of this Standard.**

The existing paragraph 1.3 should be renumbered as 1.4 and revised in the following manner:

- 1.4 Subject to paragraph 1.3, Members in Public Practice in Australia shall follow the mandatory requirements of APES 320.**

The AUASB clarified in their October 2013 Board papers that the scope and application of ASQC 1 will exclude APES 315 and that the AUASB Glossary will be amended accordingly at its next revision. The amended definition of related services is to be:

“Related services engagement means an engagement in which an assurance practitioner does not express an assurance conclusion on subject matter which is the responsibility of another party, but conducts specified procedures, agreed in the engagement terms, to provide a factual findings report to identified intended users.”

The related services standards issued by AUASB addresses Agreed Upon Procedures and Comfort Letter Engagements.

November 2013 Update

At the Board meeting held in November 2013, the Board considered:

- the duplications between APES 320 and ASQC 1 and were of the view that, if possible, these duplications should be removed;
- the need for a balanced representation on the taskforce of representatives particularly from the SMP sector; and
- agreed with the recommendations in relation to the proposed approach to revise the standard.

October 2014 Update

At the Board meeting held in October 2014, the Board noted the mid-tier and large Firms' reluctance towards the revision of APES 320. Consequently, the Board requested that the Technical Director engage with the Professional Bodies' SMP and quality review Committees to determine their level of interest in this project.

International developments and May 2015 Update

International Auditing and Assurance Standards Board (IAASB) developments

On 19 February 2015, IAASB issued a survey in connection with its new quality control initiative. Its purpose was to:

- inform the scoping of the proposed quality control project, specifically with respect to issues encountered by SMPs in complying with the requirements of ISQC 1 and of International Standard on Auditing, *Quality Control for an Audit of Financial Statements* (ISA 220); and
- address concerns raised by stakeholders that ISQC 1 cannot be proportionately applied by SMPs performing audits; and reviews, other assurance, and related services engagements. The survey closed on 27 March 2015.

On 29 April 2015, IAASB held a teleconference to discuss its planned approach to set up an overarching group to consider a combined discussion paper by connecting three projects related to enhancing audit quality (i.e. quality control, group audits and special audit considerations relevant to financial institutions) and coordinating the way forward. IAASB's planned timing on this project is as follows:

- research and targeted outreach on issues: March to September 2015;
- development of discussion paper: July to December 2015;
- issuance of discussion paper: December 2015 (with comment period of 150 days ending May 2016);
- comment analysis: May to September 2016;
- approval of project proposals: September 2016; and
- development of exposure drafts: September 2016 to June 2017.

Stakeholder Consultations

The Technical Director attended the Large National Networks Discussion Group (LNN Discussion Group) held on 26 March 2015 in Melbourne. The potential revision of APES 320 was discussed and the LNN Discussion Group noted that in practice they tend to use APES 320 as it addresses both assurance and non-assurance services. They noted that they make minimal use of ASQC 1 as in any case it is a mirror image of APES 320. Accordingly, these Firms apply APES 320 across all service lines and are not in favour of revising APES 320 at this stage.

The Technical Director also consulted with Chartered Accountants Australia & New Zealand (CAANZ) and was advised that in CAANZ's view, consideration of any changes to APES 320 should be deferred until after the completion of IAASB's current quality control project. Since any changes to ISQC 1 may impact on APES 320 as well as ASQC 1, CAANZ are not in favour of revising APES 320 prior to the completion of IAASB's quality control project noted above.

The Technical Director will attend the CPA Australia's *Quality Review Advisory Committee* on 18 May 2015 to discuss their views on the potential revision of APES 320 and will provide an update on CPA Australia's position in respect of this matter at the 25th May Board meeting.

The Technical Director has engaged with the Institute of Public Accountants (IPA) to discuss the potential revision of APES 320. IPA has agreed to participate in the discussion and are in the process of organising a meeting with their SMP committee members.

Staff Recommendation

Whilst it is acknowledged that there are benefits in removing the duplication between APES 320 and ASQC 1, at this stage we recommend the deferral of this project due to:

- IAASB's project to revise ISQC 1 and address issues raised by SMPs is likely to address some of the issues raised by constituents in Australia and it is best to wait until the international process is completed in order to avoid duplication of effort; and
- In practice, since Members in Public Practice appear to be using APES 320 (rather than ASQC 1) as it addresses all aspects of the work performed by the Firm, the duplication does not appear to be resulting in duplication of effort.

Authors: Channa Wijesinghe
Saras Shanmugam

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