

Reissue of APES 320 for Non-Assurance Services

APESB Webinar
8 November 2021



Channa Wijesinghe FCPA, FCA
Chief Executive Officer

Jon Reid CA
Senior Technical Manager

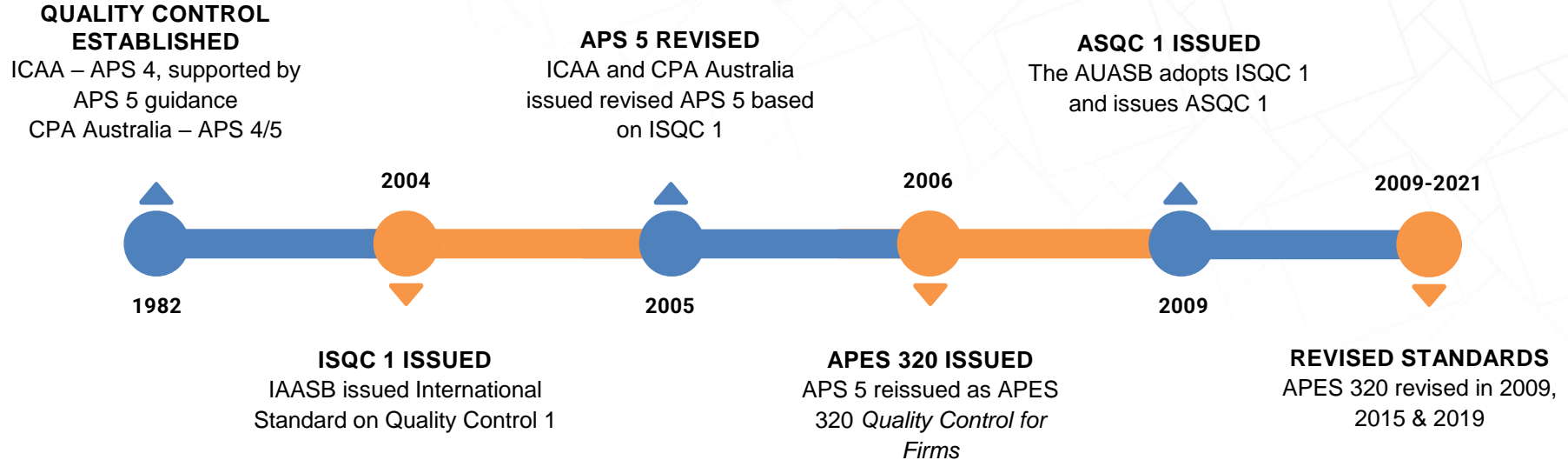
Agenda

- Australian Quality Control & International Developments
- APES 320 Options & Philosophy
- Proposed changes to APES 320
 - What has not changed?
 - What's new?
- Other Considerations:
 - Root cause analysis
 - Impact on SMPs
 - APES 320 & APES 325

Australian Quality Control & International Developments



History of Quality Control for Australian Firms



IAASB Quality Management Standards

2013-
2014

Feedback and concerns from ISA implementation project, outreach with regulators and audit oversight bodies and public comments.

2015-
2016

Invitation to comment (ITC) issued December 2015 addressing professional scepticism, quality control and group audits.

Dec
2016

Project approved to amend ISQC 1 and ISA 220 addressing quality control.

Feb
2019

ISQM 1 & 2 and ISA 220 EDs issued.

Jul
2019

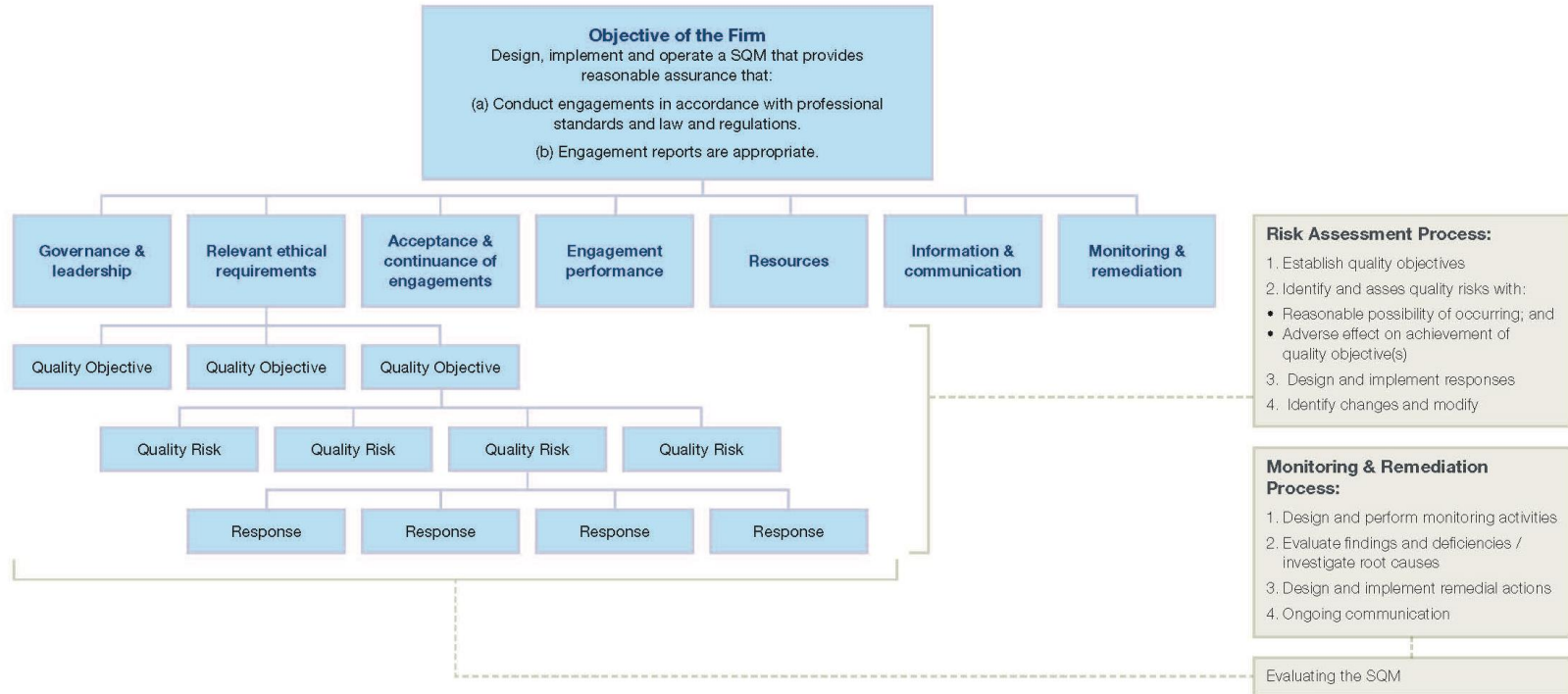
[APESB Submission to IAASB.](#)

The IAASB logo consists of the letters "IAASB" in a white, serif font, set against a dark blue rectangular background. A registered trademark symbol (®) is located to the upper right of the letters.

Dec
2020

Final standards ISQM 1 & 2 and ISA 220 issued.

ISQM 1 – System of Quality Management (SQM)*



AUASB Adoption of the International Standards

Australian equivalents issued by AUASB in March 2021

Standard	Details	Effective Date
ASQM 1	Firms that perform audits or reviews, or other assurance or related services engagements	SQM to be designed and implemented by 15 December 2022.
ASQM 2	Engagement Quality Reviews	Periods beginning from 15 December 2022
ASA 220	Quality management for audits	Financial reporting periods from 15 December 2022

APES 320 Options & Philosophy



APES 320 – Consideration of ISQM 1 & 2

APESB's considered whether APES 320 should conform with ISQM 1 & 2:

- Support the focus on improving audit quality.
- AUASB adopted international standards for Australian assurance practices.
- ISQM 1 & 2 represent a fundamental shift in professional obligations.
- No evidence extant APES 320 not fit for purpose in respect of NAS.
- Four options were considered by the Board.

Options Considered

Option 1

Reissue APES 320 focussed on NAS and high-level alignment to ASQM 1.

Option 2

Create a new quality management standard for NAS not based on APES 320.

Option 3

Adopt Option 1 with a longer term project to refine and simplify APES 320.

Option 4

Explore the interaction between APES 320 and APES 325 and consolidate.

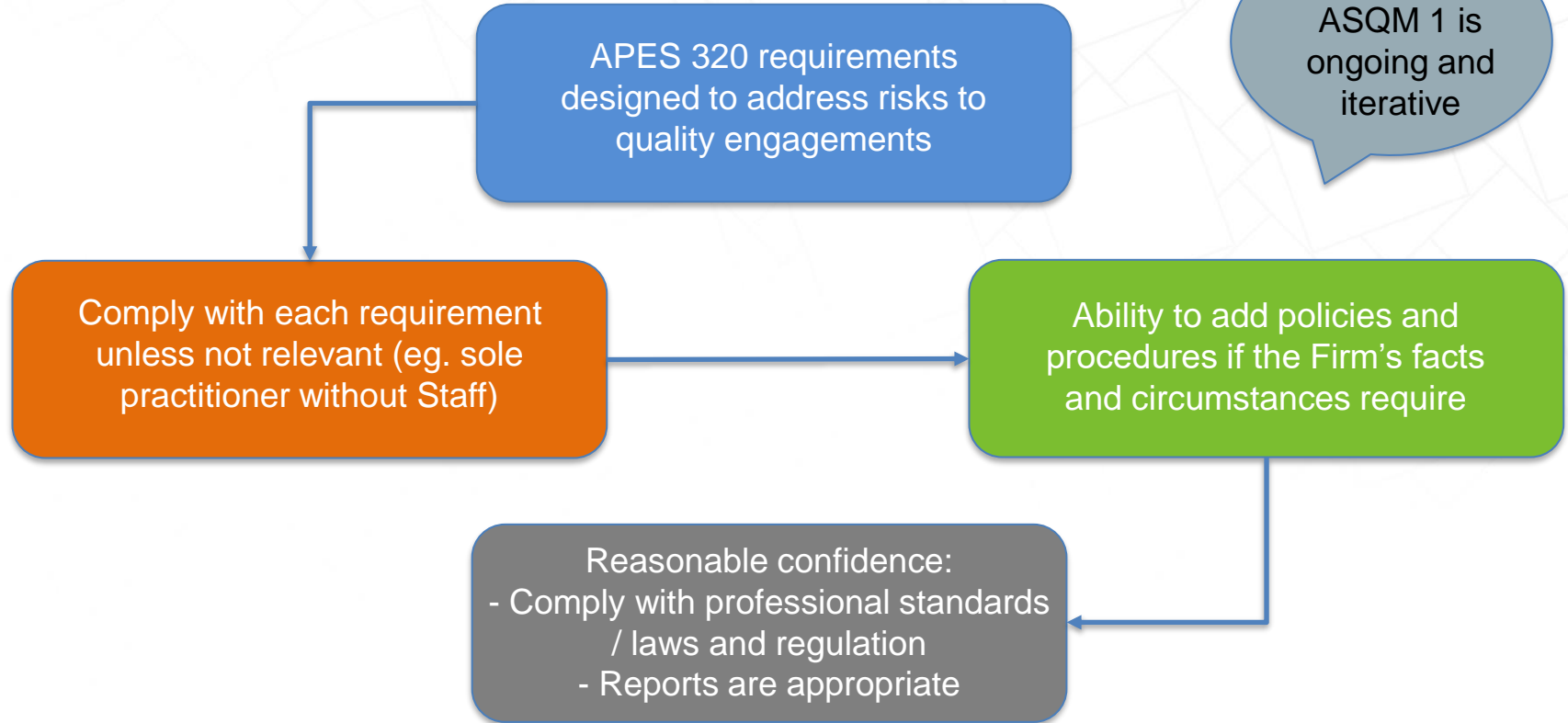
Specific Quality Management Standard for NAS

Option 1 Adopted

APESB proposes to reissue APES 320 and refocus it on NAS:

- High-level alignment with ASQM 1 (assist hybrid firms).
- Utilise extant requirements to minimise disruption especially for SMPs.
- Simplification by removing assurance-based material and terminology.
- Restructured for APESB drafting conventions (sections, paragraph numbering).

APES 320's Philosophy



Poll Question – 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 the APES 320 Exposure Draft or should APES 320 continue to apply to all firms and engagements?

- APES 320 should now only apply to NAS
- APES 320 should apply to all firms and engagements
- APES 320 should conform with ISQM 1 & 2

Proposed changes to APES 320



What has not changed?

What remains from Extant APES 320?

19 of 26 requirements from extant APES 320.

5 requirements partially from extant APES 320.

Minimal changes to these elements:

- governance and leadership
- acceptance and continuance
- monitoring and remediation
- professional standards
- engagement performance

Existing application material remains wherever possible to minimise disruption.

[APESB Table Mapping Proposed APES 320 to Extant APES 320](#)

What's new?

Revised scope to only apply to non-assurance services

Assurance-based terminology and requirements/application material removed

New, amended or removed definitions

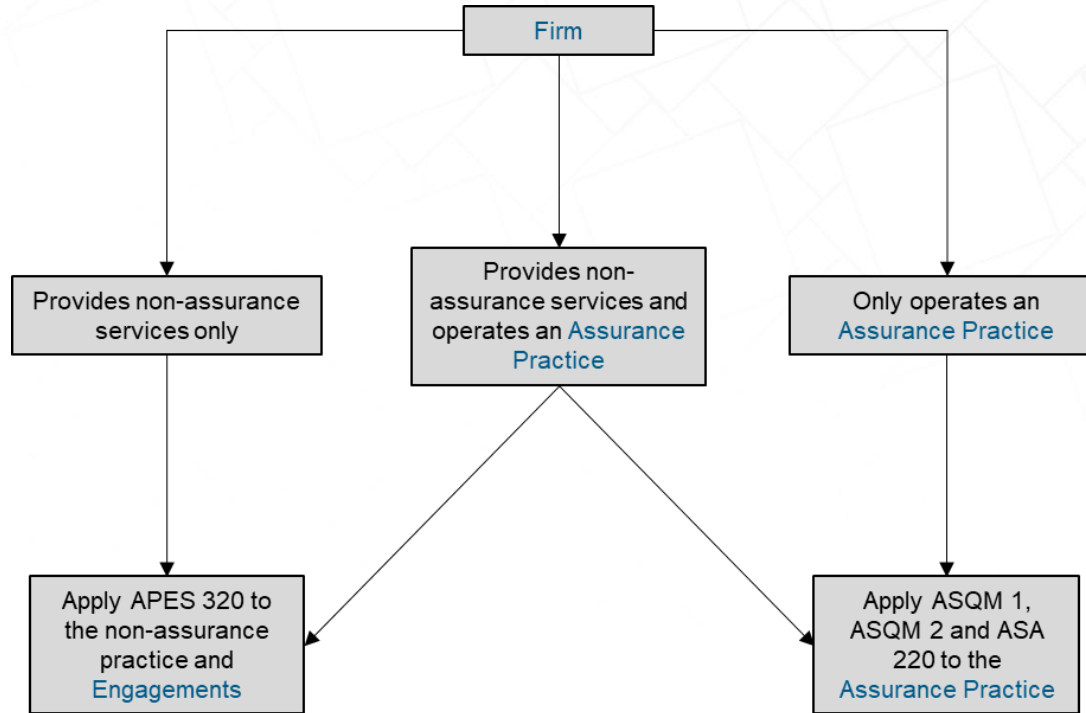
2 new and 5 partially new requirements

Human resources changed to resources

Information and communication

Appendix 2 demonstrates high-level alignment to ASQM 1

Revised Scope – Appendix 1



Changes in Terminology

Extant APES 320	Proposed reissued APES 320
system of quality control	System of Quality Management*
Relevant Ethical Requirements	Professional Standards
Reasonable Assurance	reasonable confidence
Engagement Quality Control Reviewer	appropriate reviewer
Suitably Qualified External Person	Service Provider

* Capitalised terms are defined in the standard

Changes to Definitions

New	Amended	Removed
AUASB	Assurance Engagement	Date of Report
External Expert	Assurance Practice	Engagement Quality Control Review(er)
Member in Business	Engagement Partner	Key Audit Partner
Public Document	Engagement Team	Listed Entity
Service Provider	Inspection*	Reasonable Assurance
System of Quality Management	Monitoring*	Relevant Ethical Requirements
Those Charged with Governance	Network*	Suitably Qualified External Person

* Change only due to use of quality management or reasonable confidence

Proposed New Requirements

Network Firms (only applicable if part of a Network)

Firm responsible for SQM irrespective of compliance with Network Firm requirements (para. 3.16).

Information and Communication

Establish policies and procedures that address (para. 4.59):

- obtaining, generating and using information about the SQM; and
- communicating this within the Firm and externally on a timely basis.

Application material sets out what to include based on nature and circumstances of the Firm (paras. 4.60-4.64)

Proposed Partially New Requirements

Extant APES 320 (para 10)	Proposed APES 320 (para 3.14)
System of quality control elements:	System of quality management elements:
a) Leadership responsibilities for quality within the Firm	a) Governance and Leadership
b) Relevant Ethical Requirements	b) Professional Standards
c) Acceptance and continuance of Client relationships and specific Engagements	c) Acceptance and continuance of Client relationships and specific Engagements
d) Human resources	d) Resources
	e) Information and Communication (New)
e) Engagement performance	f) Engagement performance
f) Monitoring	g) Monitoring and remediation

Proposed Partially New Requirements

Extant APES 320	Proposed APES 320
<p>Any person assigned operational responsibility has sufficient and appropriate experience, ability and authority (para 17).</p>	<p>Any person assigned operational authority (para 3.14):</p> <ul style="list-style-type: none">- Has appropriate experience, knowledge, influence and authority;- Understands and is accountable for role; and- Has direct line of communication to person with ultimate responsibility.
<p>Sufficient <u>human resources</u> with competence capabilities and commitment to ethics (para 47).</p>	<p>Sufficient and <u>appropriate resources</u> for the SQM (para 4.19)</p> <ul style="list-style-type: none">- Extant human resources material remains.- New application material for technological and intellectual resources and service providers.

Proposed Partially New Requirements

Extant APES 320	Proposed APES 320
Assignment of responsibility to the Engagement Partner (para 54).	Additional aspect that the Engagement Partner has capacity to be sufficiently and appropriately involved (para 4.26(c)).
Policies and procedures for Engagement performance (paras 58 & 63).	Additional aspect that Engagement Teams understand and fulfill responsibilities (para 4.38).

APES 320 / ASQM 1 Alignment – App 2

APES 320 Elements	Para Ref	ASQM 1 Components	Para Ref
The SQM, allocation of responsibilities, networks, SQM documentation	Section 3	The firm's risk assessment process	23-27 & A39-A54
Governance and Leadership	4.1-4.3	Governance and Leadership	28, A32-A33, A35 & A55-A61
Professional Standards	4.4-4.9	Relevant Ethical Requirements	29, A22, A24 & A62-A66
Acceptance and continuance of Client relationships and specific Engagements	4.10-4.17	Acceptance and continuance of client relationships and specific engagements	30 & A67-A74
Resources	4.18-4.36	Resources	32 & A86-A108
Engagement performance	4.37-4.58	Engagement performance	31 & A75-A85
Information and Communication	4.59-4.64	Information and Communication	33 & A109-A115
Monitoring and remediation	4.65-4.75	Monitoring and remediation process	35-47 & A138-A174

Other Considerations

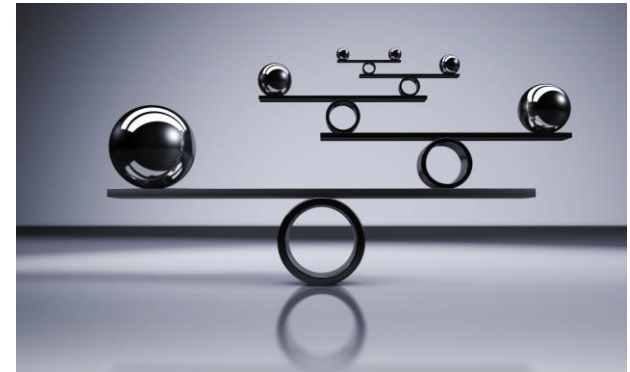
Root Cause Analysis (RCA)

ISQM 1 includes approximately 5 ½ pages of material relating to RCA to:

- Investigate the root cause of deficiencies; and
- Understand causal factors of inspection findings and improve audit quality.

APESB believes including RCA requirements in APES 320 may:

- Add a significant level of complexity to the standard;
- Be too resource intensive for firms to implement for NAS; and
- Create implementation costs that outweigh benefits.



Poll Question – 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?

- APES 320 should include root cause analysis
- APES 320 should not include root cause analysis

Impact on SMPs

APESB considered the impact on SMPs in developing this ED consistent with our strategic focus. We believe:

- The proposed approach minimises the impact through the least disruption.
- SMPs can maintain most existing policies and procedures with minimal changes.
- High-level alignment with ASQM 1 will assist hybrid SMPs.
- Timing enables hybrid SMPs to make changes for assurance (ASQM 1) and NAS (APES 320) concurrently reducing resource implications.

Impact on SMPs

The proposed APES 320 incorporates scalability in the following paragraphs:

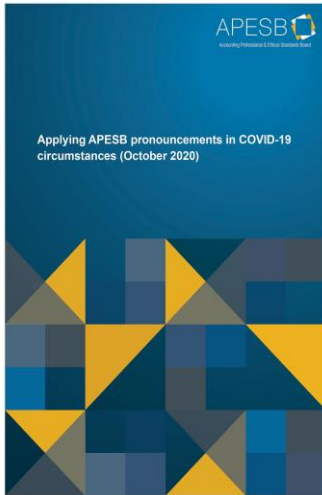
- nature and extent of policies (para. 3.7);
- compliance with requirements (para. 3.8 (a));
- impact of sole practitioners with no staff (para 3.9).
- allocation of responsibilities (para 3.12);
- communication and documentation (para 3.10 & 3.18);
- performance evaluation (para 4.25); and
- information and communication (para 4.61).

Expected Changes for SMPs

A 2-3 partner Firm by 1 January 2023 will need to:

- Update policies and procedures for terminology changes – Mapping Table highlights where changes are required.
- Update specific policies and procedures for:
 - Assignment of responsibility to the Engagement Partner;
 - Engagement performance
- Assess the Firm's technological resources, intellectual resources and if applicable use of Service Providers and whether policies and procedures required.
- Establish an Information and Communication policy and procedure.

SMP Guidance



APESB Pronouncements being readily known, easily understood and quickly bought into practice with a focus on the SMP sector

APESB is willing to consider the development of implementation/guidance material on quality management for NAS

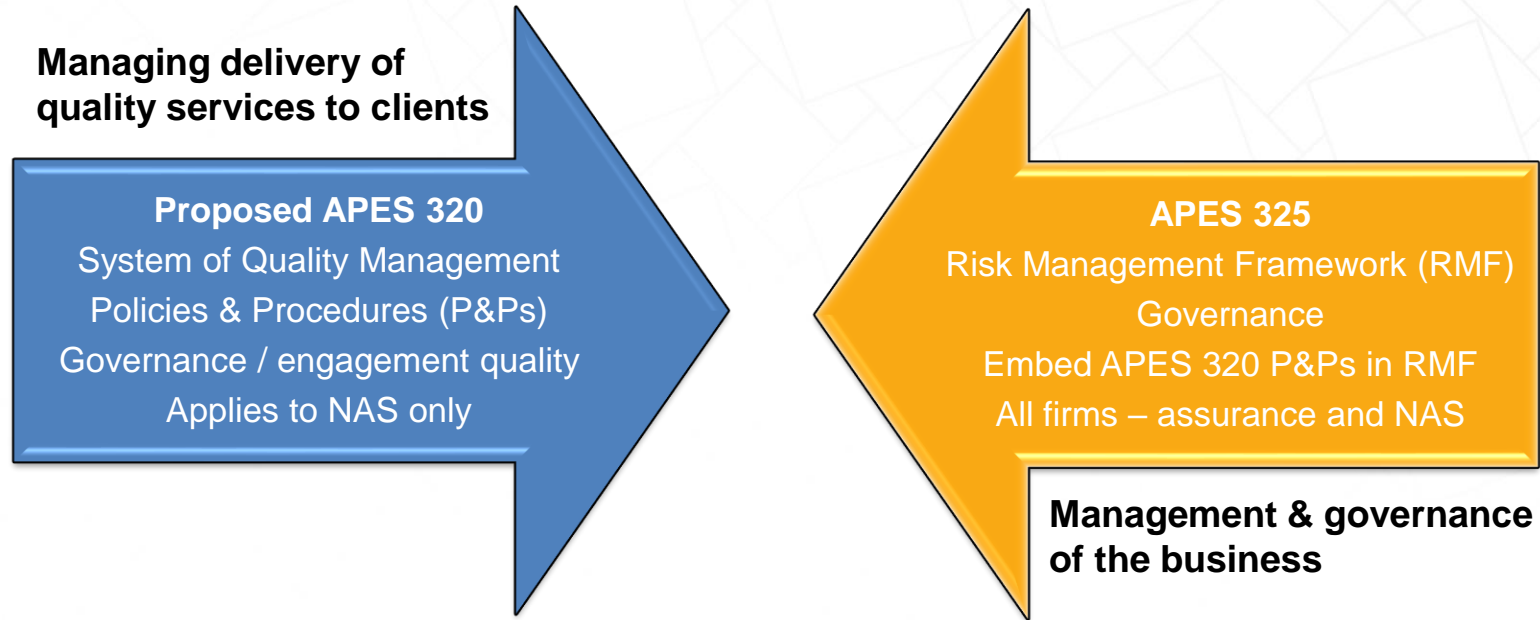


Poll Question – Request for Specific Comment 3

Would practitioners find the development of additional implementation material for APES 320 useful?

- Yes – Implementation guide
- Yes – Frequently asked questions
- Yes – Other
- No – the standard is understandable

APES 320 and APES 325 Interaction



Combining APES 320 and 325 may cause confusion and disruption – new RMF

Poll Question – 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?

- APES 320 and APES 325 should remain as separate standards
- APES 320 should be incorporated into / combined with APES 325

Submissions on the Exposure Draft

APESB encourages you to make submissions or send us an email at sub@apesb.org.au.



15 Sept 2021
– ED Issued

26 Nov 2021
– comment
period closes

Q1 2022 –
Final
Standard

Critical and supportive comments are essential for a balanced view of the proposals.

Further Information

For more information visit www.apesb.org.au

Follow the APESB [LinkedIn page](#) for timely updates,

To download APESB's mobile app:

