

Quality Control

A new approach for accounting firms

APES 320: Quality Control for Firms was issued in July 2006, superseding APS 4 and both the revised 2005 and original 1982 versions of APS 5. Firms are required to comply with the revised standard as follows:

- firms which do not conduct the audit of any disclosing entities or of any APRA-regulated or other non-ATO-regulated superannuation entities have until 31 December 2006 to apply APES 320. Until this time they are required to comply with APS 4 and APS 5 (May 1982 versions)
- all other firms were required to apply APES 320 from 1 July 2006, and were required to apply revised APS 5 from 31 December 2005

APES 320 is substantially similar to revised APS 5, other than additional requirements for documentation and the replacement of the word 'should' with 'must' to correlate to the changes in auditing standards.

What are the key requirements of APES 320?

The firm is required to establish and document a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.

The elements of APES 320 are:

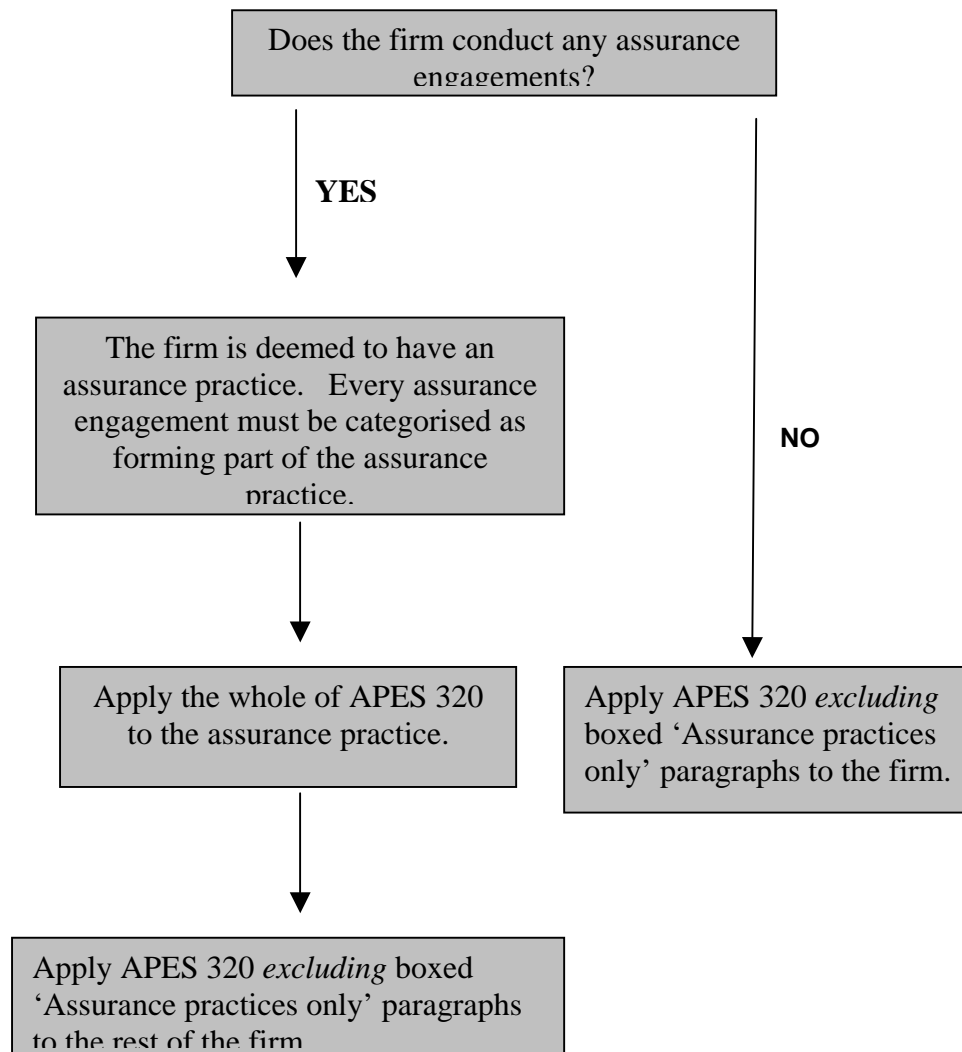
- *Leadership responsibilities for quality within the firm*
- *Ethical requirements*
- *Acceptance and continuance of client relationships and specific engagements*
- *Human resources*
- *Engagement performance*
- *Monitoring*
- *Documentation*

Does APES 320 apply to all firms?

Every accounting firm must have documented quality control policies and procedures in accordance with the principles of APES 320.

Members will note when reading APES 320 that some paragraphs are in boxes, designated 'assurance practice only'. These paragraphs contain assurance related or detailed procedures, and apply only to assurance practices. An assurance practice is defined as the assurance division or section of a firm, encompassing every assurance engagement conducted by the firm.

The application requirements are summarised in the flow chart below.



This approach was adopted in revised APS 5 and maintained in APES 320 after wide consultation with stakeholders including practitioners and regulators. As part of the profession's international obligations, and its commitment to adopting international standards, the accounting bodies, and now APES Board, were obliged to issue an Australian version of the International Auditing and Assurance Standards Board's standard ISQC 1: Quality Control for Firms that perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements. Through APES 320 this has been achieved, and thus all assurance engagements, whether for a small self managed superannuation fund or a listed entity, must be conducted within the framework of APES 320 in its entirety.

The next issue for the profession to address was how ISQC 1 interacted with the existing Australian quality control standards APS 4 and 5, which apply to all accounting firms regardless of the type of practice. Whilst in many respects the standards cover the same elements as ISQC 1 there are significant differences in some areas. The overwhelming response was that it would be impracticable to require two differing approaches to quality control to be adopted by firms, particularly smaller firms that do not have separate assurance divisions.

Hence the approach of APES 320, providing the quality control standard for all accounting firms, but with some requirements being applicable only to assurance practices.

What is the impact on firms?

Building on the 1982 quality control standards, APES 320 provides more guidance in many areas and requires an increased emphasis on ethical issues, in particular independence. This is an ideal opportunity for accounting firms to review and enhance their quality control policies and procedures.

The impact of this revised standard on an accounting firm will depend of course on its existing quality control policies and procedures, and also whether it conducts any assurance engagements.

Impact on all firms

Although APES 320 covers mostly the same areas as the superseded standards, firms will need to carefully read the standard to make sure their quality control policies and procedures address APES 320 in all respects. Listed below are the most significant changes between the 1982 versions of APS 4 and 5 and APES 320.

- **All firms are required to document their quality control policies and procedures**

Whilst all accounting firms have demonstrated their commitment to quality control, as evidenced by the positive outcomes of the Institute's quality review program, some firms have been using informal policies and procedures. These are the firms that will be most impacted by APES 320s requirement to document the firm's quality control policies and procedures and communicate these to the firm's personnel, if any.

Practical assistance is being provided by the Institute in the form of a manual to guide practitioners through the process of implementing an appropriate quality control system. This guidance manual will be targeted at practitioners from smaller firms, providing a basic quality control manual designed so practitioners can download and tailor it to their firm.

As APES 320 requires documentation to evidence the operation of each element of the quality control system, firms with existing formal quality control documentation will also have to review their systems to ensure they fit within the elements of APES 320.

- **Policies and procedures should be designed to provide reasonable assurance that the firm and personnel comply with ethical requirements**

Whilst again quality reviews have endorsed the view that CA firms are committed to ethical requirements, these must now be incorporated into the firm's quality control system. Firms will need to check their existing policies and procedures address these ethical issues.

- **Quality control policies and procedures must be designed to provide the firm with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements**

Again, although firms have consistently been taking this approach in practice, it is the first time the quality control standard has required the quality control system to address regulatory and legal requirements as well as professional standards. Firms will need to make sure this is built into their quality control policies and procedures.

Other changes firms need to consider include:

- Consultations to resolve complex issues must be documented
- Documentation is required where issues are identified in relation to the client acceptance/continuance decision
- Policies and procedures are required for the selection of the engagement partner
- The policies and procedures must address complaints and allegations.

Impact on firms that conduct assurance engagements

As auditors will be aware, accounting practitioners are required to apply the highest level of quality in their assurance engagements. This requirement is evidenced by AUS 206: Quality Control for Audits of Financial Information, the international standard on quality control; ISQC 1, issued by the International Auditing and Assurance Standards Board (IAASB), and the CLERP 9 amendments to the Corporations Act.

Accordingly APES 320 is applicable in all respects to firms, or divisions that conduct assurance engagements, regardless of the type of assurance engagement or level of fees from this type of work. Whether a firm conducts the audits of listed entities or only a handful of self managed superannuation funds, it must still have appropriate policies and procedures in place to comply with APES 320. Obviously the complexity will depend on the size of the firm and the type of assurance engagements.

Policies and procedures now required by APES 320, in addition to those required for a non-assurance practice and by the previous APS 4 and 5 include:

- **Documentation of detailed policies and procedures in relation to independence**

Whilst independence is an issue for all engagements, it is of particular relevance to assurance engagements. Accordingly APES 320 requires policies such as an annual written confirmation of compliance with independence policies and procedures by all assurance personnel. Many practices already require these policies and procedures, but smaller practices do not always document issues such as compliance.

- **Policies and procedures should address engagement quality review (second partner review) including:**

- When a review is required
- Qualifications of reviewer
- Review approach
- Documentation

The review must be conducted before the report is issued. As a minimum an engagement quality review must be conducted for all listed audit engagements. This mirrors the requirements of revised AUS 206 Quality Control for Audits of Historical Financial Information, applicable for financial periods commencing on or after 15 June 2005, and is normal procedure for most audit firms. However, for audits of smaller listed entities this may not be the procedure, and will be a change for some firms.

- **Detailed requirements and associated guidance on monitoring the quality control system, including:**

- Three yearly inspection of engagements file for each partner (guidance)
- Policies and procedures to address deficiencies noted during the monitoring process

Again many firms already have formal monitoring procedures, but smaller ones may not.

This paper is based on an article in Charter September 2005 by Claire Locke CA, Quality Review Technical Consultant. It has been updated for the issue of APES 320.