

18 May 2009

Ms. Merran H Kelsall  
Chairman  
Auditing and Assurance Standards Board  
Level 7, 600 Bourke Street  
Melbourne Vic 3000

Dear Merran,

**Re: AUASB's Exposure Draft ASQC 1**

We refer to the AUASB's Exposure Draft ASQC 1 and are pleased to provide our comments for your consideration.

As I think you are aware, APESB issued its exposure draft on APES 320 *Quality Control for Firms* (APES 320) based on the revised ISQC 1 in February 2009. At its May 2009 Board meeting, APESB considered respondents' comments and approved the issue of the revised APES 320 which will be effective from 1 January 2010.

APES 320 comprehensively covers quality control for all members of the accounting bodies. Accordingly, for members of the accounting bodies, the AUASB proposal appears to be a duplication. While we understand that you consider it important to issue ASQC1, we feel that it is unnecessary and may in fact, be counterproductive.

I would like to summarise the key points of our submission, being:

- Based on our previous discussions on this matter, we understand that the AUASB has not identified any failings with the existing arrangements, nor any gaps between ISQC 1 and APES 320;
- APESB is guided in its activities by the "public interest." We believe that the AUASB proposal is not in the "public interest" and may diminish the good standing of the standard-setting process in Australia;
- The quality control standard (APES 320/ISQC 1) stipulates firm level controls, and from a practical perspective we consider that it would be far preferable for one standard to stipulate firm level controls rather than two standards with the potential to cause confusion to practitioners;

- At the international level, IFAC regards the Code of Ethics and ISQC 1 as two linked overarching pronouncements. Further, the *International Framework for Assurance Engagements* issued by IAASB acknowledges that quality control has a wider scope than assurance engagements and applies equally in the non-assurance context;
- Consistent with APES 320, the applicable quality control pronouncements issued by the AICPA and NZICA indicate that the relevant quality control pronouncements are firm wide and applicable for assurance and non-assurance engagements. Clearly, AUASB does not have a mandate to issue a standard for non assurance practices;
- In 1982 the Institute of Chartered of Accountants in Australia and CPA Australia issued APS 4 *Statement of Quality Control Standard* to govern the quality control aspects of their members in public practice (i.e. assurance and non assurance firms). Since that time professional standards have mandated quality control requirements for all accounting firms in Australia *regardless of whether the firm was an assurance practice or a non-assurance practice*. The existing arrangements have served the public interest well and the requirements are well understood by practitioners and the profession;
- AUASB's proposal would mean that firms with non-assurance service lines such as tax services, would in future have to consider two quality control standards when they provide services to the same client;
- From an international perspective, such a duplication of standards would diminish the professionalism of standard-setting in Australia. The change proposed by the AUASB is not desirable especially given that the current quality control framework is working in an effective and efficient manner; and
- We suggest it may be useful for the AUASB to undertake a detailed impact assessment study including the associated costs and benefits of this duplication on the accounting profession.

APESB's concern on this duplication is also shared by some members of the profession and by the accounting bodies. The professional bodies addressed this issue in their letters of 22 August 2008 to the APESB, and 10 October 2008 to the Financial Reporting Council. In order to be appropriately informed, the APESB invited the Institute of Chartered Accountants in Australia (ICAA) to undertake some consultations with their members to gauge their views on the likely impact of the suggested change. (A summary of these issues is noted in the attached response from Andrew Stringer, Head of Audit of the ICAA in Appendix E.)

Members consulted by the ICAA overwhelmingly made the point that they can see no need for an additional standard on quality. They considered that it would certainly add to the cost structure of accounting firms and that these additional costs would need to be borne by the firms or passed on to their clients. It was thought it would create the potential for divergent future requirements and add nothing of value to the existing arrangements. Finally they indicated that the satisfactory operation of ISQC1/APES 320 in audit firms has been confirmed as part of the ASIC audit inspection program.

Based on feedback from the professional bodies and the regulator, since its first issue in 2006 APES 320/ISQC 1 in its current form (and predecessor quality control requirements which existed since 1982), is functioning well in mandating the professional obligations of accountants who provide public accounting services (assurance and non-assurance). As noted in this

submission the IAASB, AICPA and NZICA approach in applying the quality control requirements is similar to the existing arrangements in Australia in the sense that it is applied to assurance and non-assurance engagements.

As APESB has the capacity to mandate standards for all firms (whether assurance or non-assurance), our view is that the existing arrangements should be retained especially when it has not been demonstrated that a change from the existing quality control arrangements is warranted.

We note that since August 2008, APESB has communicated to the AUASB most of the technical arguments presented in this paper and APESB's concerns in respect of the proposed changes to the existing quality control framework in Australia. If you would like to discuss further or require any additional information, please do not hesitate to contact me or Channa Wijesinghe, Senior Project Manager on (03) 9642 4372 or email at [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au).

Yours sincerely

A handwritten signature in cursive script that reads "Kate Spargo".

Kate Spargo  
**Chairperson**

## **Background and Summary of key issues**

APES 320 Quality Control for Firms/ISQC 1 in its current form has existed in Australia as a mandatory requirement for members of the accounting bodies in public practice (or firms) since July 2006. Prior to that (from July 2005) ISQC 1 requirements were reflected in APS 5. Accordingly, since 2005 Australian accounting firms have had mandatory quality control obligations imposed on them based on ISQC 1 equivalents and since 1982 quality control requirements for members in public practice have existed in Australia.

In line with international developments to ISQC 1 and APESB's mandate to issue professional and ethical standards for members of the Australian accounting profession, an exposure draft was issued in February 2009 to update the existing APES 320/ISQC 1. Subsequently, in April 2009, the Auditing and Assurance Standards Board (AUASB) issued ASQC 1 which is also based on ISQC 1. We consider the proposed ASQC 1 to be a duplication of an already existing mandatory requirement and understand that this view is shared by many members of the accounting profession.

APESB seeks that AUASB consider the following key issues in its deliberation:

1. The evolution of Quality Control for accounting firms in Australia;
2. International perspectives on Quality Control;
3. The link between ISQC 1 and ISA 220;
4. Whether ISQC 1 an Auditing Standard?;
5. Legal enforceability;
6. Impact of AUASB proposal on the Accounting profession;
7. Impact Assessment Studies; and
8. Public interest perspective.

In 1982 the Australian accounting profession introduced Quality Control requirements for their members in public practice. Subsequent to the development of ISQC 1 at the international level, the accounting profession implemented ISQC 1 in Australia in 2005 in order to comply with their IFAC member obligations.

When APESB was established in February 2006, the Institute of Chartered Accountants in Australia (ICAA) and CPA Australia transferred their intellectual property rights to the existing professional and ethical standards which include APS 5/ISQC 1 to the APESB. APESB then issued APES 320/ISQC 1 in 2006 in accordance with its mandate. Subsequently, APESB entered in to a written agreement with IFAC to reproduce ISQC 1 in Australia.

At the international level the Code of Ethics and ISQC 1 are considered two overarching pronouncement applicable to assurance and non assurance engagements based on the IAASB framework. We note that the existing Australian arrangement of having one quality control standard applicable to all engagements (or firm wide) is consistent with the practices of American Institute of Certified Public Accountants (AICPA) and New Zealand Institute of Chartered Accountants (NZICA).

Whilst the AUASB notes that there is a link between ISQC 1 and ISA 220, we suggest that there is a closer link between ISQC 1 and the Code of Ethics. The very first paragraph of ISQC 1 states that “*This ISQC 1 is to be read in conjunction with relevant ethical requirements*”. Relevant ethical requirements are defined to ordinarily include Part A and B of the *Code of Ethics for Professional Accountants*. Further, unlike Auditing Standards, ISQC 1 deals with relevant ethical requirements in depth, acceptance and continuance of client relationships, leadership, and human resources etc. which are all professional and ethical requirements. It is noted that most of these areas are linked to the Code rather than Auditing Standards.

At the international level ISQC 1 is not considered an Auditing Standard and throughout the IFAC framework and handbook a clear distinction is made between Auditing Standards and ISQC 1. If IFAC had intended ISQC 1 to be an auditing standard, it presumably would have given it an ISA designation.

APES 320/ISQC 1 stipulate firm level controls and from a practical perspective it is easier for one standard to stipulate firm level controls rather than two standards which are likely to cause confusion to practitioners especially when the existing quality control framework is working in an effective and efficient manner. Further, the AUASB proposal may lead firms with non assurance service lines such as tax services having to consider two quality control standards when providing services to the same client leading to confusion and unnecessary costs.

Another issue raised by the AUASB is the legal enforceability of APES 320/ISQC 1 as it is issued by APESB, a non statutory body. However, when APES 320/ISQC 1 ED was issued in 2006, AUASB supported its introduction and even proposed the appropriate wording to highlight the linkages between the Auditing Standards and APES320/ISQC 1. **Since APES 320/ISQC 1 was initially issued in 2006 there have been no regulatory changes, that APESB is aware of, that would impact on the existing quality control framework in Australia.**

Additionally, there is legal precedent where professional standards have been referred to in judgements as noted in this submission notwithstanding that those professional standards did not have legislative backing.

The proposed AUASB development will effectively duplicate the quality control requirements for members of the accounting profession who have complied with ISQC 1 equivalents since 2005. This is likely to create an unreasonable burden on the members of the accounting profession especially the vast majority of members who work in the smaller to medium practices. These members have already developed their quality control manuals, policies, procedures and documentation in compliance with APES 320/ISQC 1.

At the international level it is noted that IFAC is conducting a project to develop impact assessment studies prior to introducing a proposed standard. As the AUASB initiative is effectively a duplication of an already existing mandatory requirement for members of the accounting profession, it is not clear from the AUASB's media release issued with ASQC 1 in April 2009 whether the AUASB undertook a detailed impact assessment study on the costs and benefits of this duplication.

As AUASB has indicated to the APESB that it has no issues with the existing quality control framework in Australia it is not clear what public interest issues would be addressed by the release of ASQC 1.

## Detailed comments on the key issues

### 1. The evolution of Quality Control for accounting firms in Australia

The evolution of Quality Control for accounting firms in Australia occurred in the following manner:

1. In 1982 the Institute of Chartered of Accountants in Australia and CPA Australia issued APS 4 *Statement of Quality Control Standard* to govern the quality control aspects of their members in public practice (i.e. assurance and non assurance firms). This was supported with guidance in APS 5.
2. In July 2005 the Institute of Chartered of Accountants in Australia and CPA Australia re-issued APS 5 which was based on International Standard on Quality Control (ISQC 1) *Quality Control for Firms that perform Audits and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements*. **Accordingly, the Australian accounting profession was responsible for introducing ISQC 1 in the Australian regulatory environment in 2005 and it has existed in the Australian environment since that date.**
3. APESB was established in February 2006 and then the Institute of Chartered Accountants in Australia and CPA Australia transferred the Joint Code of Conduct, the APS series of standards and guidance notes (including APS 4 and APS 5/ISQC 1 dealing with Quality Control) to the APESB under a license agreement.
4. Following the establishment of APESB, APS 5 was reissued under the aegis of the APESB as APES 320 *Quality Control for Firms (ISQC 1)*. APES 320 incorporates all the requirements and guidance of ISQC 1 and has been drafted in a manner to apply to all accounting firms in Australia. **APESB has also entered in to a written agreement with IFAC to reproduce ISQC 1 in Australia.**

5. APESB issued an exposure draft in February 2009 to update APES 320/ISQC 1 in line with international amendments.
6. In April 2009 AUASB issued ASQC which is also based on ISQC 1. Accordingly as far as the members of the accounting profession are concerned this will effectively be a duplication of an already existing mandatory requirement.

Prior to the issue of the AUASB exposure draft ASQC 1, **for the last twenty-six years professional standards have mandated quality control requirements for all accounting firms in Australia regardless of whether the firm was an assurance practice or a non-assurance practice.** These arrangements have served the **public interest well** and based on our consultations with the professional bodies the requirements are well understood by practitioners and the profession. The Corporate regulator ASIC made a presentation to APESB in 2008 and we understand that they are utilising APES 320/ISQC 1 in their inspection programs of audit practices. During its presentation to the Board, ASIC did not raise concerns with respect to the operation of APES 320/ISQC 1.

Further, the quality review functions of each of the three professional accounting bodies have made presentations to the APESB during 2008/09 Board meetings on the operation of their quality review programs of the respective bodies and the results of the quality review programs. In none of the presentations were concerns raised in respect of the requirements or operation of APES 320/ISQC 1.

AUASB's proposed standard will effectively duplicate the requirements of APES 320/ISQC 1 for the accounting profession. Members of the three professional accounting bodies have been covered by ISQC 1 equivalents (APES 320 and APS 5) for nearly 5 years. As such AUASB's proposal is likely to cause confusion for professional accounting practices and make them incur additional costs, especially in smaller to medium sized practices.

## **2. International perspectives on Quality Control**

**At the international level, the IAASB considers that the Code of Ethics and ISQC 1 are two overarching pronouncements (refer paragraph 4 of the International Framework for Assurance Engagements) and that practitioners who perform assurance engagements are governed by these two pronouncements (Refer Appendix A).** The IAASB also considers that the Code of Ethics and ISQC 1 are applicable to assurance engagements as well as related service engagements (refer Appendix B). Paragraph 12 of the International Framework for Assurance Engagements clearly states that related services engagements, such as agreed upon procedures engagements and compilation engagements are are not assurance engagements. **Thus the IAASB acknowledges that quality control has a wider scope than assurance engagements and applies even in the non-assurance context.**

We note that the American Institute of Certified Public Accountants (AICPA) and the New Zealand Institute of Chartered Accountants (NZICA) have issued quality control requirements as applicable to firms in public practice and made no distinction between firms providing assurance

or non-assurance services. Thus in USA and New Zealand the same quality control standard applies to all practices (assurance and non assurance).

The New Zealand quality control standard is issued as a Professional Standard (PS 1). PS 1 is based on ISQC 1 and is applicable to assurance and non-assurance engagements (refer NZ framework of pronouncements in Appendix C).

Accordingly, consistent with APES 320/ISQC 1, the applicable quality control pronouncements issued by the IAASB, AICPA and NZICA indicate that the relevant quality control pronouncements are applicable for assurance and non-assurance engagements.

### 3. The link between ISQC 1 and ISA 220

One of the arguments put forward by the AUASB to duplicate ISQC 1 for the members of the accounting profession is the strong link between ISQC 1 and ISA 220. However, if this argument is logical, then the same case could be made for the Code of Ethics (issued internationally by the IESBA and in Australia by the APESB). **ISQC 1 contains a statement in paragraph 1 that “This ISQC is to be read in conjunction with relevant ethical requirements which are defined to include Parts A and B of the IFAC Code of Ethics.”**

We note that recently the Small and Medium Practices of IFAC issued a *Guide to Quality Control for Small and Medium Practices* based on ISQC 1. This guide has a summary on page 6 of its contents which follow the seven fundamental principles of ISQC 1. This summary is reproduced below:

Chapter	Title	Purpose
1	Leadership Responsibilities for Quality Within the Firm	To describe the firm’s responsibilities to promote an internal culture focused on quality control
2	Relevant Ethical Requirements	To provide guidance on the fundamental principles which define professional ethics
3	Acceptance and Continuance of Client Relationships and Specific Engagements	To provide guidance on the establishment of appropriate acceptance and continuance policies and procedures
4	Human Resources	To provide guidance on the human resource components of effective quality control policies and procedures
5	Engagement Performance	To provide guidance on the elements involved in engagement performance, highlighting the role of the engagement partner, planning, supervision and review, consultation, resolution of differences of opinion, and performance of engagement quality control review



<b>6</b>	Monitoring	To provide guidance on the monitoring of the firm's policies and procedures relating to the system of quality control, including the firm's monitoring program, inspection procedures, the monitor's report, addressing and removing deficiencies, and responding to complaints and allegations
<b>7</b>	Documentation	To provide guidance on the firm's requirements for documentation, both at the engagement level (including engagement quality control review) and for the firm's system of quality control

Additionally, we would like to draw AUASB's attention to A9 of ISQC 1 which state that the **fundamental principles of the Code (in Australia APES 110) are reinforced by:**

- The leadership of the Firm;
- Education and training;
- Monitoring; and
- A process for dealing with non-compliance.

Accordingly, we maintain that the seven fundamental principles of the quality control framework in ISQC 1 are closely linked with the Code rather than any specific Auditing Standard. Further, from a practitioner's perspective these principles have firm-wide application (as it is currently applied in Australia via APES 320) rather than to a specific area in which an accountant will provide professional services (i.e. Assurance).

As noted previously the IAASB considers the Code of Ethics and ISQC 1 as two overarching pronouncements. We note that the background information on the International Federation of Accountants (IFAC) Handbook which describes the IAASB role indicates that IAASB development of quality control standards is an additional obligation rather than a primary obligation (refer Appendix D). Thus it is possible that if a professional standards board existed at the international level then the quality control standard would be issued by that board and not the IAASB.

#### **4. Whether ISQC 1 an Auditing Standard?**

**We note that the AUASB proposes to issue ASQC 1 as an auditing standard. It should be noted that the IFAC handbook makes a clear distinction between the ISAs and ISQC 1. If ISQC 1 is an auditing standard then the IAASB would not have to make this distinction right throughout the IFAC Framework and handbook. If ISQC 1 is an auditing standard then it should have an ISA designation.**

Further, ISQC 1 deals with relevant ethical requirements, leadership, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance etc which are all professional and ethical requirements.

In AUASB's submission to APESB, it is noted that AUASB's issue of ASQC 1 is in accordance with its strategic direction to have regard to any programme initiated by the IAASB for the revision and enhancement of its Auditing Standards.

The relevant paragraph of AUASB's strategic direction states:

*In addition, the AUASB should have regard to any programme initiated by the IAASB for the revision and enhancement of ISA and make appropriate consequential amendments to AUSs.*

Accordingly, it is submitted that the above statement appears to only cover ISAs and not ISQC 1.

## **5. Legal enforceability**

Another argument to be considered is the legal enforceability of APES 320 as it is issued by the APESB (non-statutory body) and the existing Auditing and Assurance Standards cross refer to APES 320. Similar to issue 3, if this argument is logical then the same argument exist for the Code of Ethics (APES 110) which is referred to in a similar manner in most Auditing pronouncements issued by the AUASB.

Further, when APES 320/ISQC 1 was initially issued as an Exposure Draft in 2006, AUASB supported APESB's issue of ISQC 1 and commented as follows:

*Overall, the AUASB is supportive of the APESB's efforts to adopt conforming amendments made to the International Standard on Quality Control (ISQC 1) following the issue of the International Standard on Auditing ISA 230 (Revised) Audit Documentation. However, concern is raised regarding the statement that the professional standard will have "the force of law". Specific paragraphs have been identified and suggestions proposed under "Specific Comments by Paragraph Number" at attachment A.*

### Force of Law status

*In the background section of the ED the following statement is made:*

*"To the extent that those force of law auditing standards make reference to the quality control requirements for firms issued by a professional accounting body, APS 5 will also have the force of law in respect of Corporations Act Audits."*

*We acknowledge that generic reference has been made to quality control requirements for firms in the explanatory guidance paragraphs of the following Auditing Standards.*

- *ASA 200 Objective and General Principles Governing an Audit of a Financial Report at explanatory guidance paragraph 8 and footnote 2: and*
- *ASA 220 Quality Control for Audits of Historical Financial Information at explanatory guidance paragraph 6 and 45 and footnote 1*

*The APESB needs to clearly state that while APS 5 does not explicitly have the force of law, reference made to ‘quality control requirements for firms’ in legally enforceable Auditing Standards indirectly gives content of APS 5 the same level of legal enforceability as the explanatory guidance in which such reference is included. Furthermore, it is only in the conduct of audits and reviews under Part 2M.3 of the Corporation Act 2001, that the “quality control requirements for firms” included in APS 5 have any form of legal enforceability. Please refer to ASA 100 Preamble to AUASB Standards for understanding, interpreting and applying ASA 200 and ASA 220.*

Based on the above comments from the AUASB, APESB incorporated appropriate amendments to APES 320/ ISQC 1 Exposure Draft in 2006.

We would also like to draw AUASB’s attention to paragraph 7 of the existing ASA 200 (and paragraph 14 of revised clarity version of ASA 200) which creates mandatory requirements for auditors to follow relevant ethical requirements. Accordingly, we note that AUASB has already created mandatory requirements for auditors to follow relevant ethical requirements which include the Code (APES 110) and quality control (APES 320).

We note in the revised ASA 200 paragraph 14 includes independence which is in APES 110. Thus there appears to be an inconsistent argument in that whilst the reference to APES 110 in legally enforceable standards is acceptable, the reference to APES 320 is not.

Further, historically courts have considered professional standards in their judgements and the lack of statutory legislation has not hindered the courts from interpreting professional standards and referring to them in their judgements. A few examples of legal precedence are APS 7 *Statement of Insolvency Standards* in the recent case of *Dean-Willcocks v Companies Auditors and Liquidators Disciplinary Board [2006] FCA 1438* and APS 11 *Statement of Forensic Accounting Standards* in *Orrong Strategies V Village Roadshow [2007] VSC 1*.

## **6. Impact of AUASB’s proposal on the Accounting profession**

The impact of the AUASB’s proposal on accounting practitioners and firms is that from January 2010 there would be two quality control standards applicable for firms that perform assurance and non assurance services. As both of these standards are based on ISQC 1 this will cause confusion to the practitioners, firms and the general public. **Further, the quality control standards stipulate firm level controls, and from a practical perspective it would be easier for one standard to stipulate firm level controls rather than two standards to stipulate firm level controls causing confusion.**

Another aspect to consider is that non assurance service lines in a firm typically provide services to the assurance service line and the AUASB's proposed standard is likely to impose a burden on such service lines. The most common example is tax services.

**The impact of the AUASB's proposed standard is that these non assurance service lines, such as tax services, would now have to consider two quality control standards when they provide services to *the same client* causing unnecessary costs and confusion.** For example, consider a client to whom both audit and tax services are provided by the same accounting firm. If the AUASB proposal goes ahead then during the audit process, the tax service line will provide a tax provision review to the assurance team and presumably would have to use ASQC 1. Then when the firm has to do the financial year end tax return process, as that work will not be covered by ASQC 1, they will have to refer to APES 320.

Thus if the AUASB proposal goes ahead then Australia will be in an undesirable position of having two quality control standards for professional accounting work performed to the same client.

## **7. Impact Assessment Studies**

It is noted that IFAC has recently commenced a development process in consultation with the standard setting Boards of IFAC of assessing the impact of introducing a proposed standard.

A progress report was recently presented at the IAASB National Standard Setters meeting in Vancouver and the IESBA Board meeting in New York. The IFAC impact assessment includes an analysis of the costs and benefits of introducing a proposed standard as well as consideration of the following factors by the relevant IFAC Standard setting Board:

- Set out in clear and simple language the nature of a problem the proposed standard is going to address;
- the objective(s) of the IFAC Standard setting board in addressing the problem;
- the information used to inform the analysis of the options;
- the final decision(s) of the board in regard to the problem
- Document and communicate the process noted above.

**As the AUASB is in effect duplicating an already existing mandatory requirement for the accounting profession it is not clear from the AUASB media release whether an impact assessment and the associated cost benefit analysis have been performed (similar to IFAC process noted above) in assessing the impact on the members of the accounting profession in introducing a proposed standard ASQC 1.**

Further, it should be noted since the introduction of APES 320/ISQC 1 which was effective from 1 July 2006, all firms in Australia have gone through a process of updating their quality control manuals, procedures and documentation to be in line with APES 320/ISQC 1. **If the AUASB proposal with ASQC 1 goes ahead, then these firms will need to incur further costs, for which we do not believe the benefit has been demonstrated.**

## 8. Public interest perspective

According to APES 110 *Code of Ethics for Professional Accountants*:

*The public interest is defined as the collective well-being of the community of people and institutions that the Members serve. The accountancy profession's public consists of Clients, credit providers, governments, employers, employees, investors, the business and financial community, and others who rely on the objectivity and integrity of Members to assist in maintaining the orderly functioning of commerce.*

APESB is guided in its activities by “the public interest.” APESB standards are developed with this as the overarching objective. Based on our discussions with the AUASB they acknowledge that they have not identified any issues with the existing quality control arrangements, nor have they identified any gaps between ISQC 1 and APES 320. Further we have not been made aware of any problems with the existing arrangements such as audit failures, which may lead one to conclude that there are problems with the existing quality control framework.

**Thus it is not clear how duplicating the quality control requirements for the accounting profession serves the public interest in the absence of a specific public interest issue that requires the change from the existing quality control framework.**

AUASB's proposal will inevitably result in two standards in Australia dealing with quality control as the AUASB does not have the ability to issue standards for non assurance practices.

## Specific Comments

Whilst APESB's view that ASQC 1 should not apply to members of the accounting profession who are covered by APES 320/ISQC 1, we would like to raise the following specific comments:

Specific issue in ASQC	Comment
Reference to AUASB Standards	We note that the reference in ISQC 1 is to <b>Professional Standards</b> which include relevant ethical requirements.
Exclusion of Related Services Engagements	As noted above IAASB applies ISQC 1 as applicable to Related Services Engagements which are defined in the IAASB framework as non assurance engagements. <b>Thus AUASB is attempting to applying ISQC 1 in a manner that is not applied by the IAASB.</b>
Aus 53.1 which states the “ Engagement partners are entitled to rely on the results of the firm’s monitoring process in respect of its system of quality control unless otherwise advised by the firm”	In a professional standard which establishes a quality control framework Aus 53.1 is clearly not appropriate.

The above specific comments also highlight the shortcomings of the AUASB approach when ISQC is applied more broadly by the IAASB.

## **Selected Extracts from International Framework for Assurance Engagements issued by the IAASB**

### *Ethical Principles and Quality Control Standards*

**4. In addition to this Framework and ISAs, ISREs and ISAEs, practitioners who perform assurance engagements are governed by:**

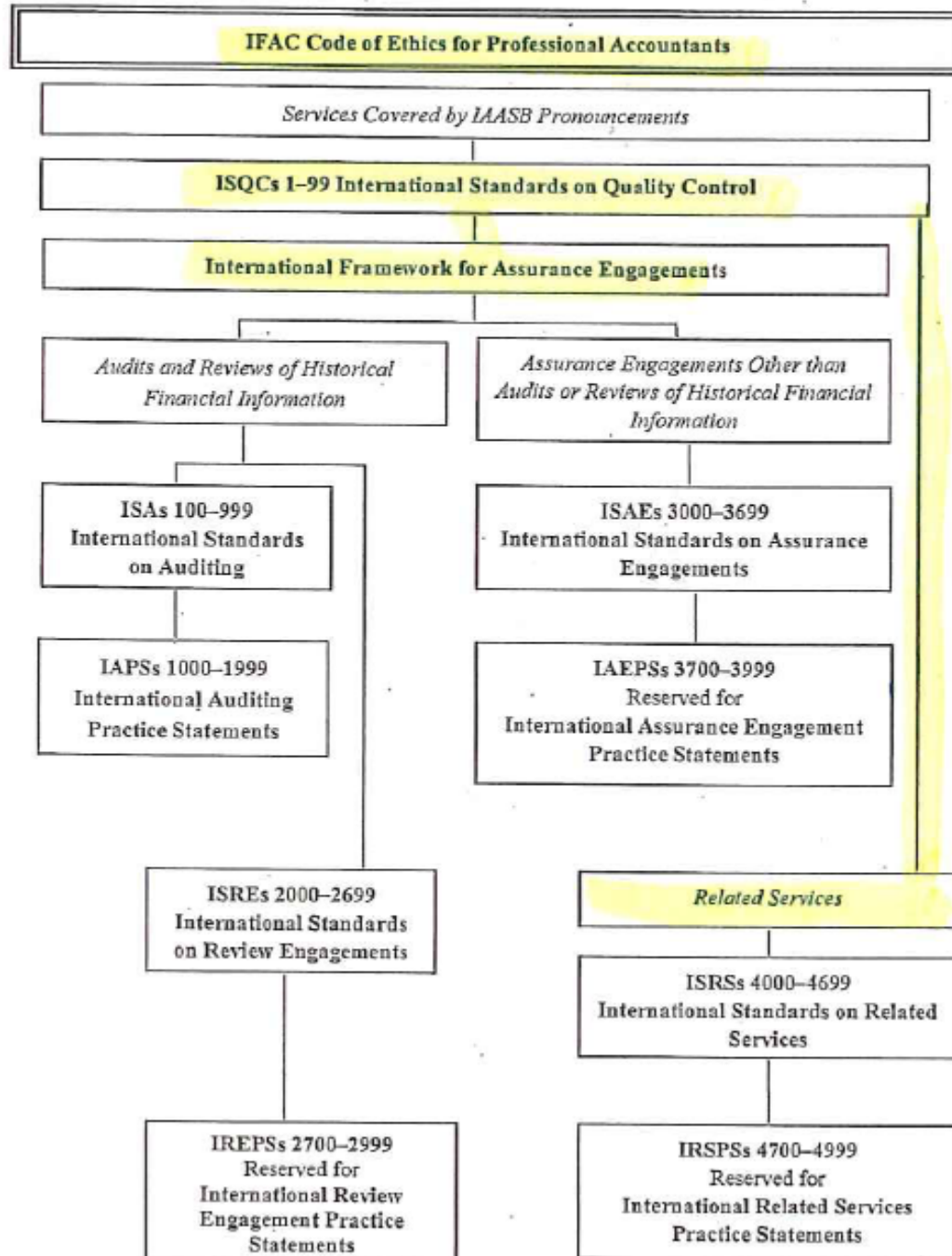
- (a) The IFAC Code of Ethics for Professional Accountants (the Code), which establishes fundamental ethical principles for professional accountants; and**
- (b) International Standards on Quality Control (ISQCs), which establish standards and provide guidance on a firm's system of quality control.**

### **Scope of the Framework**

**12. Not all engagements performed by practitioners are assurance engagements. Other frequently performed engagements that do not meet the above definition (and therefore are not covered by this Framework) include:**

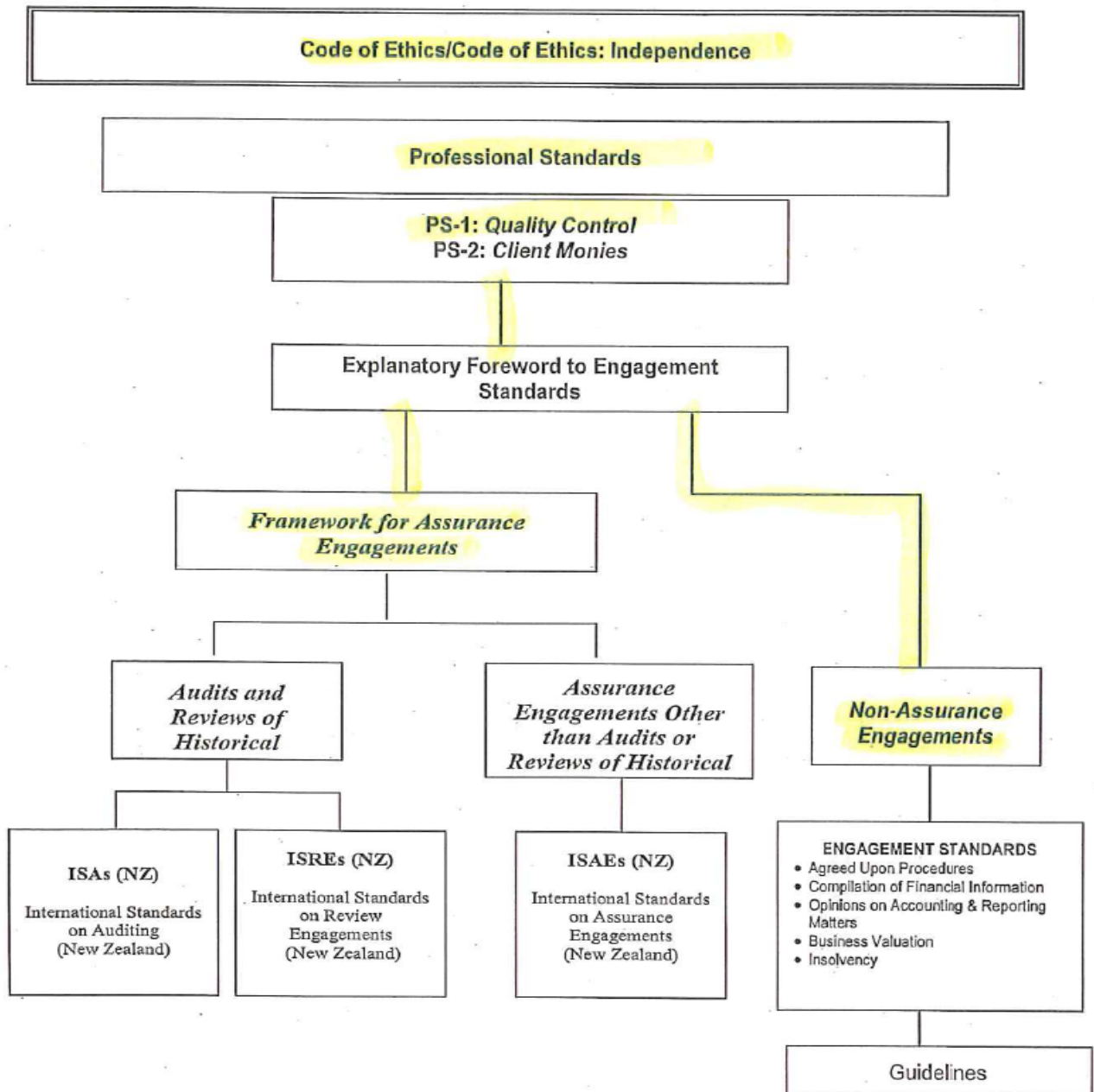
- *Engagements covered by International Standards for Related Services, such as agreed-upon procedures engagements and compilations of financial or other information.*
- *The preparation of tax returns where no conclusion conveying assurance is expressed.*
- *Consulting (or advisory) engagements, such as management and tax consulting.*

## STRUCTURE OF PRONOUNCEMENTS ISSUED BY THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD





ETHICAL AND PROFESSIONAL STANDARDS



#### BACKGROUND INFORMATION ON THE INTERNATIONAL FEDERATION OF ACCOUNTANTS

IFAC's Public Interest Activity Committees (PIACs) – the International Auditing and Assurance Standards Board, International Accounting Education Standards Board, International Ethics Standards Board for Accountants, and the Compliance Advisory Panel – are subject to oversight by the Public Interest Oversight Board (PIOB) (see below).

The terms of reference, due process and operating procedures of the IFAC standard-setting boards are available from the IFAC website at <http://www.ifac.org>.

IFAC actively supports convergence to ISAs and other standards developed by its independent standard-setting boards and the International Accounting Standards Board.

#### **Auditing and Assurance Services**

The International Auditing and Assurance Standards Board (IAASB) develops ISAs and International Standards on Review Engagements, which deal with the audit and review of historical financial information; and International Standards on Assurance Engagements, which deal with assurance engagements other than the audit or review of historical financial information. The IAASB also develops related practice statements. These standards and statements serve as the benchmark for high quality auditing and assurance standards and statements worldwide. They establish standards and provide guidance for auditors and other professional accountants, giving them the tools to cope with the increased and changing demands for reports on financial information, and provide guidance in specialized areas.

In addition, the IAASB develops quality control standards for firms and engagement teams in the practice areas of audit, assurance and related services.

#### **Ethics**

The *Code of Ethics for Professional Accountants* (the Code), developed by IFAC's International Ethics Standards Board for Accountants, establishes ethical requirements for professional accountants and provides a conceptual framework for all professional accountants to ensure compliance with the five fundamental principles of professional ethics. These principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. Under the framework, all professional accountants are required to identify threats to these fundamental principles and, if there are threats, apply safeguards to ensure that the principles are not compromised. A member body of IFAC or firm conducting an audit using ISAs may not apply less stringent standards than those stated in the Code.

#### **Public Sector Financial Reporting**

IFAC's International Public Sector Accounting Standards Board focuses on the development of high quality financial reporting standards for use by public sector entities around the world. It has developed a comprehensive body of IPSASs setting out the requirements for financial reporting by governments and other public sector organizations. The IPSASs represent international best practice in financial reporting by

*Response from ICAA on member consultation via e-mail on 2<sup>nd</sup> February 2009*

To: Channa Wijesinghe (APESB)  
Cc: Denis Pratt (CPA Australia); Bill Palmer (ICAA); Paul Meredith (ICAA); Gary Pflugrath (CPA Australia); Tom Ravlic (NIA)

Dear Channa,

This is further to your email dated 7 January 2009 seeking information regarding the potential impact on practitioners of being required to comply with an Auditing and Assurance Standards Board (AUASB) version of ISQC1 and a similar APESB version. The feedback below is from members of the Institute of Chartered Accountants in Australia.

You would be aware that we had previously heard from members when the suggestion was originally made that the AUASB was considering issuing an Australian equivalent to ISQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. Those views, as well as those of the two other professional accounting bodies (CPA Australia and the National Institute of Accountants), were conveyed both to Kate Spargo, Chairperson of the APESB in a letter dated 22 August 2008, as well as to Jeffrey Lucy, Chairman of the FRC in a letter dated 10 October 2008.

Further input received from members in response to your request is set out below:

- > A number responded by stating that, rather than attempt to assess the impact of having two standards, the question should instead be asked as to why it is felt necessary to issue a second standard in the first place. How can this proposal be justified on the grounds of potential benefit, when the existing system works well as it is?
- > It is very difficult to attempt to assess the impact on firms of having to comply with two quality control standards. However, the clear view was that there would be some impact
- > Overwhelmingly members made the point that they can see no need for another standard on audit quality. It would certainly make their lives no easier and will simply add to the administration cost in firms. Firms will need to cross-reference their compliance in policies and procedure manuals with two separate sources, and maintain the referencing when ISQC1 or other quality standards are revised in the future. It would create the potential for divergent future requirements and add nothing of value to the existing regime
- > The requirements of ISQC1 are already adopted and operational in practice via APES 320, issued by the APESB

- > The satisfactory operation of ISQC1/APES 320 in audit firms has been confirmed as part of the ASIC audit inspection program, the results of which have been provided to the FRC
- > Existing requirements effectively make APES 320 legally enforceable for auditors, as they are required to confirm in their independence declaration, provided in accordance with section 307C of the *Corporations Act 2001*, "no contraventions of any applicable code of professional conduct in relation to the audit or review". APES 320 is applicable to auditors in this context, and the independence declaration covers the auditor's compliance with this standard
- > Some questioned whether there might be more productive use of the AUASB's resources, rather than to seek to replicate requirements that are contained in another standard with which practitioners must comply.

I hope this feedback is of assistance to you. Please feel free to contact me should you require any further information.

Kind regards,

**Andrew Stringer**

Head of Audit

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