

A COMPREHENSIVE GUIDE TO QUALITY CONTROL

PROVIDING GUIDANCE FOR PUBLIC
PRACTITIONERS ON APES 320

REVISED SEPTEMBER 2014

BE HEARD.
BE RECOGNISED.



WARNING

The manual is NOT an alternative to appropriate education, training or experience. Practitioners must refer to the actual text of the standards, other professional requirements in the Members' Handbook and applicable legislative requirements as well as using the guidance given in the manual. The material in the manual cannot be a substitute for the professional judgement that must be exercised when introducing quality control policies and procedures.

Pronouncements on quality control, and on other professional issues, will continue to be promulgated by CPA Australia. The requirements of newly released pronouncements prevail over any material to the contrary in the manual.

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The manual will be subject to periodic update. Members are invited to forward comments on the manual to:

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SECTION 1 INTRODUCTION TO THE QUALITY CONTROL MANUAL

OUTLINE

The following section is an introduction to the quality control manual.

The key features are:

- The role of quality control in the accounting profession.
- How to use the manual.
- Why the manual is published and its place in CPA Australia's Quality Review Program.
- A brief overview of quality control.
- A summary of the professional pronouncements on quality control.

Users of the manual should read the warning and disclaimer that appears on the second page of the manual prior to reading each section.

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QUALITY CONTROL AND THE ACCOUNTING PROFESSION

ABOUT THE MANUAL

CPA Australia is committed to ensuring that members comply with professional standards. The wider community is paying increasing attention to the work of our members, so being able to demonstrate compliance with professional standards is critical to the credibility of the profession.

Quality control is a key feature of the self-regulatory framework of CPA Australia. Other features include high entry standards, continuing professional development (CPD) requirements, and accountability to CPA Australia for compliance with ethical requirements and technical standards.

Mandatory requirements have now also been established for a firm's system of quality control. The accounting profession therefore views the matter of quality control as a high priority. In fact, two primary components of an accounting and auditing system are widely recognised as discipline and quality control. Quality control is a cornerstone of the professional standards and related legislation – without it, there would be increased risk of non-compliance and this would pose a serious risk to the individual firm, their clients, the accounting profession, as well as the financial and economic markets.

CPA Australia has designed the Quality Review Program to ensure that members holding a public practice certificate maintain a consistently high standard of quality and service to their clients. The program brings together professional guidance and assistance, with industry self-regulation. The reviews are conducted by qualified practitioners who are members of CPA Australia, to help ensure members comply with ethical and professional standards and maintain their CPA symbol of accountability in service excellence. A further requirement is that members who hold public practice certificates must sign a statement of compliance each year to indicate that their firm has established and maintained a system of quality control policies and procedures.

The manual provides non-authoritative guidance on applying APES 320 Quality Control for Firms issued by the APESB, as well as ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements issued by the AUASB. This manual is not to be used as a substitute for reading APES 320, ASQC 1 or use of professional judgement, but as a supplement to help you understand and consistently implement these standards within your practice.

The quality control manual is designed specifically to help you set up or review the quality control system in your firm.

The manual gives you a framework for a quality control system that you can tailor to your firm's needs. It offers guidance to firms on how to approach quality control through their own policy development and provides some useful practice aids. It does not, however, provide a comprehensive toolkit with all the accompanying forms, checklists, and programs necessary for meeting all the requirements for quality control at both the firm and engagement level.

More specifically, the manual contains the following:

Section 2 outlines the mechanics of setting up a quality control system.

Section 3 comprehensively analyses the elements of a system of quality control specified in APES 320 and ASQC 1.

Section 4 contains guidance specifically prepared for small firms not employing professional staff.

Sections 5 to 8 provide an overview of how quality control matters can be addressed in particular practice areas such as financial reporting/ compilation, audit and assurance, taxation, and insolvency.

The CPA website cpaaustralia.com.au also contains a number of useful resources on quality assurance.

WHAT IS QUALITY CONTROL?

Quality control is a system of policies and procedures that help ensure a firm is complying with professional standards. In a broad sense, professional standards encompass all the rules, regulations, standards and other pronouncements in your Members' Handbook, plus other requirements such as legislation.

BENEFITS OF QUALITY CONTROL:

Quality control can benefit your firm in many practical ways. Applying the principles of quality control to your firm will help you to consistently provide service of the highest standard to your clients, as well as identify areas for improvement or opportunities to provide better service.

The specific benefits quality control provides your firm include:

- Clarifying the services your clients expect your firm to provide;
- Reducing the risk of litigation or professional indemnity claims;
- Strengthening the position of members as accountability can be demonstrated;
- Reducing loss of time due to re-work or ineffective and/ or inefficient practices;
- Improving the communication structure;
- Highlighting procedural problems and implementing positive changes;
- Resolving problems effectively;
- Increasing confidence that effective controls are in place and the risk of error is reduced;
- Increasing profitability;
- Providing training and supervision for staff in performing their roles;
- Enhancing morale by having an effective, well run firm;
- Retaining existing clients and attracting new ones;
- Introducing new ideas and practices.

Benefits to the accounting profession:

- Enhancing the reputation in the business and social community of members of a professional body which prescribes, demonstrates, and enforces high standards of quality control in an environment of self regulation;
- Acceptance by government and the community of the concept of self-regulation of the accounting profession and its effectiveness.

Benefits to your clients and the community:

- Increasing the quality of service clients receive;
- Increasing the reliability of the end product;
- Increasing the confidence and trust placed on the accounting profession;
- Increasing value for money from accounting services.

RISK MANAGEMENT:

Risk management is interrelated with a firm's system of quality control. As of 1 January 2013 APES 325 Risk Management for Firms came into effect, replacing CPA Australia's Risk Management Statement, requiring members and firms to establish and maintain a Risk Management Framework in their Firms with respect to the provision of quality and ethical Professional Services. The aim of APES 325 is to provide an overall risk management framework which documents the firm's risk management policies and procedures and monitors how these policies and procedures perform so as to enable a firm to:

- Provide the highest quality service to clients;
- Protect the firm against the risk of litigation;
- Ensure all services are performed ethically;
- Facilitate business continuity;
- Protect the reputation and credibility of the Firm; and
- Enhance profitability and ensure the firm's long-term viability.

To set up a system of quality control you need to know the professional standards for your firm. A summary of the quality control professional pronouncements follows.

QUALITY CONTROL STANDARDS

The quality control standards are contained in APES 320 Quality Control for Firms and ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements. These Standards contain both the basic principles and essential procedures (which are mandatory), as well as related guidance on application and compliance.

Generally, compliance with APES 320 (including the 'Assurance Practices only' paragraphs) will ensure compliance with ASQC 1. As such, this manual refers only to the APES 320 requirements and guidance. APES 320 describes quality control and professional standards which apply to assurance and non-assurance aspects of firms. The objectives of APES 320 are set out in paragraph 3:

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

The standard applies to all firms, from the very large, multiple-partner firms to sole practitioners. However, the individual policies and procedures adopted by firms will vary considerably. For example, the types of procedures will vary for large and small firms as well as for firms involved in providing different types of professional service.

BRIEF HISTORY OF THE QUALITY CONTROL STANDARDS:

Quality control standards were originally issued by CPA Australia and the Institute of Chartered Accountants in Australia (ICAA) in May 1982. CPA Australia members were required to comply with APS 4/5 Statement of Quality Control Standard and Quality Control Policies and Procedures. This standard described thirteen (13) elements of quality control and brought together APS 4 Statement of Quality Control, APS 5 Quality Control Policies and Procedures, and CPA Australia's Risk Management Statement (RMS 1).

In 2004, the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) issued ISQC 1 Quality Control for Firms that perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements. This led to both the withdrawal of APS 4 Statement of Quality Control and the revised publication of APS 5 Quality Control for Firms by CPA Australia and ICAA in 2005. Then, in 2006, following the establishment of the Accounting Professional and Ethical Standards Board (APESB) in Australia, APS 5 was reissued as APES 320.

In 2009, APES 320 was revised and reissued (effective 1 January 2010) in line with changes that occurred to its international equivalent ISQC 1. Also in 2009, Australia's Auditing and Assurance Standards Board (AUASB) issued ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements. This standard is also based on ISQC 1, but applies only for firms of assurance practitioners providing audit, review and assurance engagements.

The CPA website cpaaustralia.com.au has a manual supplement that details the changes brought about by the reissue of APES 320 Quality control for firms in May 2009, as well as a Comparison Guide between APES 320 and ASQC 1.

Table 1.1 provides a glossary of the codes used for quality control standards.

Table 1.1: Quality control standards – descriptions of codes

CODE	DESCRIPTION
APES	Accounting Professional and Ethical Standards
ASQC	Australian Standard on Quality Control
ISQC	International Standard on Quality Control

FORCE OF LAW:

APES 320 has mandatory professional status for all engagements conducted by firms. In addition, the standard has the force of law for audits conducted under part 2M of the Corporations Act 2001 (Cwlth) (Corporations Act). This legal enforceability arises because of APES 320's linkages with standards issued as legislative instruments under the Corporations Act by the AUASB. Note that, as an auditing standard, ASQC 1 is a legislative instrument that is also legally enforceable.

SCOPE AND APPLICATION:

Paragraphs 1.3 – 1.5 of APES 320 state that:

- Members in public practice in Australia shall follow the mandatory requirements of APES 320.
- Members in public practice practising outside of Australia shall follow the provisions of APES 320 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.
- Members shall be familiar with relevant professional standards and guidance notes when providing professional services. All members shall comply with the fundamental principles outlined in the Code.

While APES 320 applies to all firms, the operating characteristics of the firm will determine the extent to which compliance is required. For the purposes of compliance with APES 320, there is a distinction between assurance and non-assurance services. An assurance practice is defined as the section of the firm that encompasses every assurance engagement conducted by the firm. An assurance engagement is defined as any engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation. For example, an audit is a type of assurance engagement the member undertakes in order to provide an opinion on the reliability of the information contained in the financial report. If your firm conducts any of the following engagements, your firm conducts an assurance practice:

- Financial report audits
- Financial report reviews
- Self-managed superannuation fund audits
- Certification of sophisticated investors or an applicant's net asset backing
- Trust account audits
- Honorary audits
- Opinions on the reliability of:
 - Prospective financial information
 - Internal control systems
 - Environmental performance
 - IT systems
 - Performance measures
 - Corporate governance
 - Risk management systems

Firms that have an 'Assurance Practice' are required to apply the whole of APES 320 as applicable to their assurance engagements. Firms that do not have an assurance practice, or the non-assurance parts of firms with an assurance practice, need not apply those paragraphs of APES 320 designated 'Assurance Practices only'.

Note that ASQC 1 "applies to all firms of assurance practitioners in respect of audits and reviews of financial reports and other financial information, and other assurance engagements." (ASQC 1 paragraph Aus 4.1)

WHAT DOES OUR FIRM NEED TO APPLY?

If your firm does not have an assurance practice, you are only required to apply the general requirements of APES 320 to your firm (i.e. you are not required to apply the paragraphs of APES 320 that are boxed and designated 'Assurance Practices only'). If your firm has an assurance practice, you may elect to either:

- apply the whole of APES 320 to your firm; or
- differentiate between your assurance practice and other areas of your firm, then apply the general requirements of APES 320 to the whole firm, and apply the additional 'Assurance Practices only' requirements to your assurance practice. The firm must also comply with ASQC 1 although, as mentioned above, compliance with all requirements of APES 320 generally ensures compliance with ASQC 1.

ELEMENTS OF A SYSTEM OF QUALITY CONTROL:

APES 320 describes six elements of a system of quality control. These are:

- **Leadership responsibilities for quality within the firm** – places responsibility on partners to promote a strong internal culture of quality, and to assume ultimate responsibility for the firm's system of quality control.
- **Relevant ethical requirements** – requires the firm and its personnel to act with integrity and objectivity, and to be free from relationships with a client which may impair independence.
- **Acceptance and continuance of client relationships and specific engagements** – aims to minimise the likelihood of association with a client whose management lacks integrity, and to ensure the firm has the necessary competence to perform the engagement.
- **Human resources** – expects firms to have sufficient personnel with the necessary competence, capabilities, and commitment to ethical principles to perform its engagements.
- **Engagement performance** – requires engagements to be performed in accordance with relevant standards and requirements, including supervision and review responsibilities, appropriate consultation to be available and to take place, and engagement documentation to be properly documented and stored.
- **Monitoring** – places an emphasis on independent monitoring of the quality control system to ensure it is relevant, adequate, and operating effectively. In addition to the six elements above, there are overarching responsibilities for the quality control policies and procedures to be documented and communicated to the firm's personnel.

CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

Fundamental ethical principles are clarified and explained in APES 110 Code of Ethics for Professional Accountants (the Code), so that high standards of ethical conduct and professional practice are observed by members and firms. Members have a responsibility to act in the public interest, and this requires the observance of, and compliance with, the principles of the Code.

Compliance with the Code is mandatory for all members, although where the Code differs to other jurisdictional requirements or guidance, members are instructed to comply with the more stringent requirements and guidance, unless prohibited by law or regulation. The Code is also deemed a 'relevant ethical requirement' for audit engagements and, as such, has the force of law in respect of Corporations Act audits.

The Code is separated into three parts.

Part A (General Application of the Code) provides a conceptual framework to assist members with identifying, evaluating and responding to threats to compliance with the fundamental principles of professional ethics.

Part B (Members in Public Practice) and

Part C (Members in Business) demonstrates the application of the conceptual framework in different work environments.

The Code cannot cover all aspects of ethical conduct and professional practice. This is because ethics and professionalism are a matter of attitude, not merely of compliance with written rules of conduct. Members are therefore expected to comply with the spirit as well as the letter of the Code. The Code is based upon the following fundamental principles:

- **Integrity:** members must be straightforward and honest in professional and business relationships, and apply principles of fair dealing and truthfulness. Members should not be associated with information they believe is materially false, furnished recklessly, or misleading (Section 110).
- **Objectivity:** members must not compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others. Relationships that bias or unduly influence the professional judgement, or impair objectivity, of the member should be avoided (Section 120).
- **Professional Competence and Due Care:** members must maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service. Members must act diligently in accordance with applicable technical and professional standards when providing their services (Section 130).
- **Confidentiality:** members must refrain from disclosing outside the firm or employing organisation, confidential information acquired as a result of professional and business relationships without proper and specific authority from the client or employer or unless there is a legal duty to disclose. Members must refrain from using confidential information, acquired as a result of professional and business relationships, to their personal advantage or the advantage of third parties (Section 140).
- **Professional Behaviour:** members must comply with relevant laws and regulations and avoid any action or omission that may bring discredit to the profession. Members should be honest and truthful and should not bring the profession into disrepute (Section 150).

It is widely recognised that quality control stems from the professional and ethical behaviour of individuals. Accordingly, APES 320 is intended to be read in conjunction with Parts A and B of the Code. In addition to the fundamental principles listed above, the Code outlines a conceptual approach to 'independence' – a concept which is interlinked with the ethical requirements described in APES 320.

SECTION 2

DEVELOPING A QUALITY CONTROL SYSTEM IN YOUR FIRM

OUTLINE

The following section deals with some of the practical considerations involved in establishing a quality control system in your firm. The section includes comments on:

- Appointing an individual in the firm to be responsible for establishing and monitoring the quality control system.
- Documenting the quality control system.
- Communicating the quality control policies and procedures to all staff.
- Reviewing periodically to ensure the system that has been established is effective.

Users of the manual should read the warning and disclaimer that appears on the second page of the manual prior to reading each section.

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ESTABLISHING A SYSTEM OF QUALITY CONTROL

REQUIREMENTS:

- APES 320 – Paragraph 3
A firm shall establish and maintain a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements and that reports issued by the firm or engagement partners are appropriate in the circumstances.
- APES 320 – Paragraph 6
Personnel within a firm responsible for establishing and maintaining the firm's system of quality control shall have an understanding of the entire text of this standard, including its application and other explanatory material, to understand its objective and to apply its requirements properly.
- APES 320 – Paragraph 7
A firm shall comply with each requirement of this standard unless, in the circumstances of the firm, the requirement is not relevant to the services provided by the firm.
- APES 320 – Paragraph 9
...the firm shall consider whether there are particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by this standard to meet the stated objective.
- APES 320 – Paragraph 10
A firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements:
 - a. Leadership responsibilities for quality within the firm.
 - b. Relevant ethical requirements.
 - c. Acceptance and continuance of client relationships and specific engagements.
 - d. Human resources.
 - e. Engagement performance.
 - f. Monitoring.

APPLICATION GUIDANCE:

- APES 320 – Paragraphs 4–5, AUST 5.1 and 8

COMMENTARY:

Firms are required to establish, implement, maintain, monitor, and enforce a compliant quality control system. Accordingly, the firm's quality control system needs to include appropriately documented, communicated, and monitored policies and procedures that address each of the elements of quality control.

It is suggested that the underlying foundation of the quality control system be built on principles that stress:

- Ethical conduct;
- Independence and objectivity;
- Maintaining professional competency;
- Due care and quality of work;
- Generally accepted standards of practice;
- Clarity of wording and guidance;
- Practicality and relevance balanced with cost/benefit considerations;
- Reasonable client retention; and
- Firm member development, satisfaction, and retention.

Designing, implementing and monitoring a quality control system must be tailored to the circumstances of your firm. Designing the system involves considering the following aspects of your firm:

- Philosophy of the firm;
- Organisational structure;
- Size of the firm;
- Nature of the professional services provided;
- Types of clients;
- Degree of operating autonomy of the principals and staff in delivering service to clients;
- Geographic details.

DEVELOPING EXPERTISE IN QUALITY CONTROL

Your firm will need to determine who will be responsible for the quality control system. It is worth nominating one person, usually a principal or senior staff member, to plan and supervise implementation and maintenance of the system. As well as implementing and maintaining your system of quality control, this person will be able to answer questions when they arise, and alert the firm about events and technical pronouncements that will affect the firm.

External consultants are a possible source of assistance when developing and implementing a system of quality control. You could ask consultants to review your present system and to make recommendations on the best Requirements: methods to establish a quality control system for all areas of your firm.

DEVELOPING AND IMPLEMENTING A SYSTEM OF QUALITY CONTROL

You will need to identify the basic steps that are necessary to implement a quality control system in your firm. These steps will vary from one firm to another. The time required to go through the steps will also vary. The following is a checklist:

- Set objectives for your firm's quality control program;
- Determine quality control policies and procedures already in operation;
- Determine and document your required quality control policies, based on the elements of quality in APES 320 (described in detail in Section 3 of the manual);

- Determine and document the procedures to implement these quality control policies;
- Prepare or update your standard forms or formats, files and related manuals;
- Communicate the quality control policies and procedures to all staff;
- Monitor the effectiveness of the quality control system by evaluating, on a timely basis, the quality control policies and procedures, assignment of responsibilities, and communication of policies and procedures.

HELPFUL HINT:

Establish a definite timetable for accomplishing the various steps in the program. Make a realistic assessment of the time each step will take allowing sufficient time for the early stages. This will provide a better foundation for the system and will lead to a more effective quality control system.

DOCUMENTING THE QUALITY CONTROL SYSTEM

REQUIREMENTS:

- APES 320 – Paragraph 11
A firm shall document its policies and procedures and communicate them to the firm's personnel.
- APES 320 – Paragraph 124
A firm shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.
- APES 320 – Paragraph 128
A firm shall establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.
- APES 320 – Paragraph 129
A firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.

APPLICATION GUIDANCE:

- APES 320 – Paragraphs 13 and 125–127

COMMENTARY:

Documentation of quality control policies and procedures is an important overarching requirement of APES 320. Documentation ensures the firm's policies and processes are visible and accessible to staff, providing guidance whilst instilling discipline in organisational practices. Documentation may also be used as potential protection of members in the event of a negligence claim.

Your firm must formalise its quality control policies and procedures. This requires documentation adequately describing the policies and procedures comprising the quality control system. Your firm will need to determine the procedures and level of documentation required to ensure your quality control system is effective, and meets APES 320 requirements and therefore the requirements of CPA Australia's Quality Assurance Review Program. The level of appropriate documentation will depend on:

- The size of your firm and the number of offices;
- The degree of authority granted to personnel and offices;
- The nature and complexity of your firm and the services it provides.

How the policies and procedures are documented is your firm's decision. Smaller firms may use less formal methods of documentation, including written checklists, memos and notes. While documentation may be electronic, hardcopy or a combination of both, your firm is required to retain the documentation for:

- firm personnel to access;
- inspection during a quality control review;
- inspection during monitoring procedures; and
- a period required by law or regulation.

To meet the requirements of APES 320, it is recommended that your firm develops a quality control policy manual. This document will assist with the formulation of your quality control system and becomes the centralised point of reference for all quality assurance aspects of the firm. A policy manual should be designed to achieve the following:

- Communicate the firm's vision and core objectives;
- Clarify management structure and responsibilities;
- Provide an administrative guide for the firm;
- Standardise the office policies, processes, procedures and work instructions;
- Provide standard job descriptions for administration staff.

The following items should be included in your quality control policy manual:

- Description of the goals and objectives of the firm;
- Description of the firm's philosophy on its service, clients and contribution to the community and the profession;
- Details of the professional services and clientele of the firm;
- Details of the organisation's senior management, committees, their responsibilities and roles;

-
- Organisation chart showing the various functions and work relationships within the firm;
 - Details on the background of the firm, including its current operating position;
 - List of the quality control policies and procedures;
 - Template forms and checklists to be used to implement quality control procedures;
 - Chart showing the flow of work through the firm, including correspondence and engagement completion;
 - Names of personnel responsible for the quality control system.

The Appendix to Section 3 includes a sample policy manual that can be adapted to your firm. The sample policy manual indicates the policies relevant to three types of firms: a sole practitioner with no staff, a sole practitioner with staff and a multi partner firm with staff.

PREPARING STANDARD FORMS AND FORMATS

Proper documentation of the quality control system is necessary and it will be more consistent and easier to accomplish if standardised forms and formats are used for all routine activities.

Firms should determine the forms needed and ensure they are readily accessible. A good idea is to have space in a filing cabinet, with a separate, clearly labelled folder for each named and numbered form. Alternatively, the forms can be stored electronically and downloaded when required.

HELPFUL HINT:

- It is important that:
- standardised forms and formats are technically correct;
- forms reflect current policies and procedures;
- forms are used in the situations for which they were designed;
- there is always a supply available; and
- superseded forms are removed from the system.

COMMUNICATING QUALITY CONTROL PRINCIPLES TO ALL STAFF

REQUIREMENTS:

- APES 320 – Paragraph 11
A firm shall document its policies and procedures and communicate them to the firm’s personnel.

APPLICATION GUIDANCE:

- APES 320 – Paragraphs 12–13

COMMENTARY:

It is important that personnel at all levels know of the existence of the quality control system and are thoroughly familiar with those parts of it that apply to them. Staff should be made aware that each individual has a personal responsibility for quality and that they are expected to comply with the policies and procedures comprising the quality control system. This message should be clear to staff through all means of communication, such as the mission statement and firm goals, internal and external training, and dialogue with the partner(s) of the firm.

HELPFUL HINT:

As a means of improving the quality control system, as well as to promote greater staff ownership or association with the system, staff should be encouraged to provide feedback on quality control matters.

MAKING STAFF MORE ‘QUALITY CONSCIOUS’

Another important factor in maintaining a quality control system is to have quality conscious staff.

This is accomplished by:

- Expecting quality work from all staff;
- Emphasising that only quality work will be accepted;
- Devising formats for financial statements, compilation and auditors’ reports and other communications to clients so that they have a professional appearance and are consistently high quality;
- Supporting and rewarding efforts that improve the quality of the work done.

Staff development involves establishing, promoting and maintaining a standard of quality. Accomplishing this may require additional training to increase the competence of staff, change the way work is undertaken, reassign responsibilities so that an appropriate level of supervision is applied, and set revised documentation standards. Training in quality control is also an important ‘orientation’ activity for new staff.

SECTION 3

THE ESSENTIAL COMPONENTS OF A QUALITY CONTROL SYSTEM

OUTLINE

This section describes the elements of a system of quality control applicable to firms.

The minimum areas to cover are the 6 elements of quality control referred to in APES 320 to the extent that each one is applicable to a particular firm, or to particular practices within a firm.

This section describes a number of practical steps to implement quality control policies and procedures for each element. A synopsis of the elements of quality control is provided below for easy reference:

- **Leadership responsibilities for quality within the firm** – places responsibility on partners to promote a strong internal culture of quality, and to assume ultimate responsibility for the firm's system of quality control.
- **Relevant ethical requirements** – requires the firm and its personnel to act with integrity and objectivity, and to be free from relationships with a client which may impair independence.
- **Acceptance and continuance of client relationships and specific engagements** – aims to minimise the likelihood of association with a client whose management lacks integrity, and to ensure the firm has the necessary competence to perform the engagement.
- **Human resources** – expects firms to have sufficient personnel with the necessary competence, capabilities, and commitment to ethical principles to perform its engagements.
- **Engagement performance** – requires engagements to be performed in accordance with relevant standards and requirements, including supervision and review responsibilities, appropriate consultation to be available and to take place, and engagement documentation to be properly documented and stored.
- **Monitoring** – places an emphasis on independent monitoring of the quality control system to ensure it is relevant, adequate, and operating effectively.

There are also overarching responsibilities for the quality control policies and procedures to be documented and communicated to the firm's personnel.

Not all of the elements in this section will be relevant to all firms. You should consider each item and determine its applicability to your firm.

You also need to consider how quality control policies and procedures apply specifically to different areas of your firm (e.g. financial reporting/compilation, audit and assurance, taxation, and insolvency). This is especially important when separating your non-assurance services from assurance services for the purposes of APES 320.

This section also includes a sample policy manual, which indicates the policies relevant to three types of firms: a sole practitioner with no staff, a sole practitioner with staff, and a multi partner firm with staff. This can be used as a guide to assist firms developing a quality control policy manual.

Users of the manual should read the warning and disclaimer that appears on the second page of the manual prior to reading each section.

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LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

REQUIREMENTS:

- APES 320 – Paragraph 14
A firm shall establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing engagements. Such policies and procedures shall require the firm’s partner(s) (or equivalent)...to assume ultimate responsibility for the firm’s system of quality control.
- APES 320 – Paragraph 17
A firm shall establish policies and procedures such that any person or persons assigned operational responsibility for the firm’s system of quality control ... has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.

APPLICATION GUIDANCE:

- + APES 320 – Paragraphs 15–16 and 18

COMMENTARY:

The firm must design a system of policies and procedures, and create a suitable culture, to help ensure all work it undertakes is performed to the highest quality. A firm’s culture can bring together many ideals, and it can be defined in many ways, but an underlying culture of quality is an integral aspect of a firm’s quality control system. All levels of the firm’s management must therefore lead by example to embrace this principle and promote quality in everything the firm does. It follows that a quality control system will not work unless the senior staff in the firm demonstrate a genuine commitment to developing, implementing and following it.

Leadership also entails responsibility, and the ultimate responsibility of the firm’s system of quality control rests with the firm’s senior management. Liability is not abdicated through the delegation of responsibility for the implementation of this system. However, as a means of delivering effective quality control, the firm should provide a centralised responsibility for the system of quality control (referred to as the ‘quality control manager’).

The quality control manager must be suitably qualified and be afforded the necessary authority to supervise all aspects of quality control – from design and implementation to continuing monitoring of compliance and revision.

Note that a sole practitioner with no professional staff will automatically assume the role of quality control manager.

HELPFUL HINT:

Regardless of who is responsible for the quality control system, the partner(s) should ensure that:

- the firm’s commercial considerations do not override management responsibilities for quality;
- performance evaluation, compensation, and promotion policies demonstrate the primacy of quality; and
- sufficient resources are allocated to develop, document, and support quality control policies and procedures.

HOW TO ADDRESS LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM:

- Document the firm's policy on leadership responsibilities for quality within the firm. Consider the following areas:
 - That the firm has a commitment to a culture of quality;
 - That quality is recognised as essential in performing all client engagements;
 - That ultimate responsibility for the firm's system of quality control has been assumed by the partner(s) / principal(s) / CEO (or equivalent);
 - That clear, consistent and frequent actions and messages emphasising quality are made through a variety of mechanisms;
 - That staff attend, and are encouraged to attend, appropriate training;
 - That commercial considerations will not compromise quality of engagement work;
 - That performance evaluation, compensation and promotion policies and procedures require personnel to demonstrate their commitment to quality;
 - That the firm devotes sufficient resources for the development, documentation and support of its quality control policies and procedures;
 - That the firm has documented policies and procedures in place to comply with professional standards and legislative requirements;
 - That the firm has adequate controls and checks in place to minimise the likelihood of non-compliance;
- That identification of incidents of non-adherence to the quality control policies and procedures are reported and appropriate corrective action taken;
- That the principals are committed to the documented policies and procedures;
- That the policies and procedures are reviewed at least annually;
- That operational responsibility for the firm's system of quality control has been assigned to a quality control manager (see further documentation requirements below);
- That staff know who has authority for, and can answer questions about, the firm's quality control policies and procedures.
- Document the firm's assignment of operational responsibility to the quality control manager. Consider the following areas:
 - Determine the required level of experience and ability for a quality control manager in your firm;
 - Determine the necessary authority for a quality control manager in your firm;
 - Define the reporting responsibilities of the quality control manager;
 - Appoint a quality control manager and receive their acceptance of the appointment;
 - Ensure that the assignment documentation is signed by both a partner (or equivalent) and the quality control manager.

RELEVANT ETHICAL REQUIREMENTS

REQUIREMENTS:

- APES 320 – Paragraph 19
A firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.

INDEPENDENCE

- APES 320 – Paragraph 24
A firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to Independence requirements... maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the firm to:
 - (a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and
 - (b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

ASSURANCE PRACTICES ONLY

- APES 320 – Paragraph 25 (paraphrased)
 - Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;
 - Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and
 - Accumulate and communicate relevant information to appropriate personnel.
- APES 320 – Paragraph 26 (paraphrased)
The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations.
- APES 320 – Paragraph 29
At least annually, a firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements.
- APES 320 – Paragraph 31
The firm shall establish policies and procedures:
 - Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
 - Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements.

APPLICATION GUIDANCE:

- APES 320 – Paragraphs 20–23

**ASSURANCE PRACTICES ONLY
INDEPENDENCE**

- APES 320 – Paragraphs AUST27, AUST28, 30 and 32–37

COMMENTARY:

The firm must develop policies and procedures outlining how the firm and its personnel are to comply with the relevant ethical requirements. The importance of ethics in the culture of an organisation cannot be underestimated, as ethical practices are seen to be the foundation of long-term success. Strong leadership from the top of the organisation is required, as the behaviour and actions of the senior leaders will largely determine how the rest of the organisation behaves. Relevant ethical requirements are contained in the various professional standards, including:

- APES 110 Code of Ethics for Professional Accountants (the Code)
- Other standards issued by the Accounting Professional and Ethical Standards Board (APESB)
- Regulations
- By-laws
- Part A of the Code establishes the fundamental principles of professional ethics:
 - Integrity
 - Objectivity
 - Professional competence and due care
 - Confidentiality
 - Professional behaviour

These principles are summarised in Section 1 of the manual and further details can be obtained on the CPA website or the Members' Handbook.

INDEPENDENCE

Independence is a characteristic that is crucial to the accounting profession. The related characteristics of objectivity and integrity are essential to maintaining actual and perceived independence. Independence is both a state of mind and a guideline to action undertaken by an individual and a firm. To be independent, you must be intellectually honest and not influenced by any obligation to or financial interest in the client, its management, or its owners.

Firms must ensure all personnel remain independent, in accordance with the requirements of the Code. To assist in meeting this requirement, the firm's system of quality control must outline procedures for communicating independence requirements to all personnel. The system must also allow the firm to identify threats to independence and implement procedures to address these threats.

ASSURANCE PRACTICES ONLY

The independence requirements for assurance engagements are stricter than for other engagements. The requirements are found in section 290 of the Code and, for audits in accordance with the Corporations Act, part 2M of the Corporations Act. The Code also outlines situations which may threaten independence, as well as appropriate safeguards.

HELPFUL HINT:

Note also the strengthened independence requirements for audit and assurance engagements conducted by firms who are part of a network. In such situations, independence requirements must be implemented network-wide, requiring effective communication between those firms.

An accounting firm is considered part of a network when there is a larger structure aimed at co-operation in place and if one or more of the following apply:

- Profit or cost sharing among the entities;
- Share common ownership, control or management;
- Common quality control policies and procedures;
- Common business strategy;
- Use of common brand name; or
- Sharing of a significant part of professional resources.

HOW TO ADDRESS ETHICAL REQUIREMENTS:

- Document the firm's policy on ethical requirements. Consider the following areas:
 - That all personnel accept their responsibility to act in the public interest;
 - That all personnel are thoroughly familiar with the relevant professional standards and comply with the fundamental principles of ethics:

Integrity – that personnel are straightforward and honest in professional and business relationships, and apply principles of fair dealing and truthfulness; that personnel are not associated with information they believe is materially false, furnished recklessly, or misleading;

Objectivity – that personnel do not compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others; that relationships that bias or unduly influence the professional judgement, or impair objectivity, of team members are avoided; that specifically:

- personnel or close relatives of personnel in the firm shall not make or guarantee a loan to or from a client except in the ordinary course of a client's business where the loan is negotiated at arm's length;
- personnel or close relatives of personnel in the firm shall not accept goods and services from clients on terms more favourable than those generally available to others, or accept hospitality or gifts on a scale that is not commensurate with normal courtesies of social life;
- conflicts of interest or duty either between the firm and the client or between two clients shall be explained and disclosed to the client(s) and, in severe cases where two clients are involved, the firm shall not advise both clients on the matter.

Professional competence and due care

– that personnel maintain professional knowledge and skill at the level required to ensure that clients and the firm receive competent professional service; that personnel act diligently in accordance with applicable technical and professional standards when providing their services;

Confidentiality – that personnel refrain from disclosing outside the firm, confidential information acquired as a result of professional and business relationships without proper and specific authority from the firm or unless there is a legal duty to disclose; that personnel refrain from using confidential information, acquired as a result of professional and business relationships, to their personal advantage or the advantage of third parties;

Professional behaviour – that personnel comply with relevant laws and regulations and avoid any action or omission that may bring discredit to the profession; that personnel are honest and truthful and should not bring the profession into disrepute.

- That all personnel are aware of, and address, the requirements of the Code;
- That consideration has been given to the examples of threats and safeguards of compliance with the fundamental principles of ethics;
- That the firm's policies and procedures emphasise the fundamental principles and are reinforced by leadership, education and training, monitoring, and a process for dealing with non-compliance;
- That personnel are encouraged to seek guidance on the ethical principles from the engagement partner, quality control manager, or other senior partner.

INDEPENDENCE

- Document the firm's policy on independence. Consider the following areas:
 - That all personnel, and others subject to independence requirements, maintain independence where required by the Code;
 - That the firm communicates independence requirements to personnel and others subject to them;
 - That the firm identifies and evaluates circumstances and relationships that create threats to independence and takes appropriate action to eliminate those threats or reduce them to an acceptable level;
 - That the quality control manager is responsible for making sure all staff understand the requirements, obtain the confirmations, and resolve independence issues;
 - That the importance of an 'independent attitude' is highlighted to staff in training sessions and on-the-job training;
 - That staff are trained to identify situations where independence is threatened and able to bring these to the prompt attention of the engagement partner;
 - That when the firm acts as a principal and engages another firm to perform segments of an engagement, representations on the independence of the other firm are obtained.

ASSURANCE PRACTICES ONLY

- Document the firm's policy on independence. Consider the following areas:
 - That the firm recognises and demonstrates the importance of independence;
 - That the quality control manager is assigned operational responsibility for independence.
 - That, where the firm is part of a network firm, independence requirements are implemented on a network-wide basis.

Communication:

- That a list of the clients and related entities to which independence policies apply are maintained and circulated to all staff periodically to check for possible conflicts;
- That engagement partners communicate all relevant information about the client engagement to the firm;
- That team members evaluate relevant information to determine whether any threats to independence exist;
- That personnel within the firm promptly notify the engagement partner of any situation that has caused, or may cause, a breach of independence.

Education and compliance:

- That engagement partners notify the firm and the quality control manager of the actions taken to address any actual, or potential, breach;
- That the quality control manager will review the actions taken to ensure they are appropriate and in compliance with all professional and legislative requirements;
- That examples of threats to independence and safeguards in Section 290 of the Code have been reviewed and incorporated, including those on:
 - Financial interests
 - Loans and guarantees
 - Close business relationships with assurance clients
 - Family and personal relationships
 - Employment with assurance clients
- Recent service with assurance clients
- Serving as an officer or director on the board of assurance clients
- Long association of senior personnel with assurance clients
- Provision of non-assurance services to assurance clients
- Fees and pricing
- Gifts and hospitality
- Actual and threatened litigation.
- That threats to independence that are not clearly insignificant have been documented, including
 - a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level;
- That the firm provides education to personnel who are required to be independent, and makes any independence issues current for, and visible to, its personnel.
- That the firm obtains written confirmation, at least annually, from all personnel required to be independent by the Code that they have complied with the firm's policies and procedures on independence.
- That new staff sign an independence declaration when they join the firm.
- That, where a team member is in non-compliance with the independence policy, the team member completes an independence resolution documenting the issue(s), the potential threat(s), the source(s) of consultation, and how the threat(s) is(are) to be eliminated or reduced to an acceptable level.
- That the firm has established and implemented steps to help it identify when safeguards are required to ensure a familiarity threat is reduced to an acceptable level when using the same senior personnel on an assurance engagement.
- That, for audits of listed entities, the lead engagement partner, audit review partner (if any) and engagement quality control reviewer will be rotated after five years.

- That, for audits of listed entities, the auditor provides an auditor independence declaration to the client.
- That, if a potential independence issue arises, the problem should be researched, addressed, and documented, before work is begun on the engagement.
- That, whenever possible, the firm will use different engagement teams with separate reporting lines where the firm provides both assurance and non- assurance services to the same client.
- That, in the case of continuing clients, independence should be addressed and documented during the planning process, especially any long outstanding fees that may take on some of the characteristics of a loan to the client.
- That where situations arise where fees from a client represent more than 15 per cent of the firm’s revenue, the firm will ensure adequate safeguards are in place to reduce the potential threat to an acceptable level.

ADDITIONAL GUIDANCE ON INDEPENDENCE FOR SPECIFIC PRACTICE AREAS:

Additional independence issues need to be considered for various practice areas such as:

Financial Reporting/Compilation	Australian Standard on Quality Control
Audit	Auditing Standards, requirements of the Corporations Act, other legislative requirements, overseas statutory requirements, special requirements for reports such as experts’ reports, and specific requirements within the Code.
Taxation	Guidance in the Code.
Insolvency	APES 330 requirements, compliance with the Insolvency Practitioners Association of Australia Code of Professional Practice (“COPP”), and general requirements of the Code.
Financial Planning/Advisory	APES 230 requirements, the Code requirements dealing with commissions, the Corporations Act and ASIC Regulatory Guides.
Forensic Accounting	APES 215 requirements and general requirements of the Code.

Matters to be addressed for the specific areas are as follows:

FINANCIAL REPORTING/ COMPILATION

Specific guidance on professional independence for financial reporting/compilation work includes the following:

- The Code (section 290)
 - Firm personnel that provide assistance in keeping accounting records of an audit client must not make management decisions on behalf of the audit client;
 - The provision of technical assistance and advice to audit clients, to promote the fair presentation of the financial statements, does not generally threaten the firm's independence;
 - Services that are considered to be a normal part of the audit process do not, under normal circumstances, threaten independence;
 - Where the firm is involved in the preparation of accounting records or financial statements, the firm should not be party to the subsequent audit of those financial statements;
 - The firm may provide an audit client that is not a listed entity with accounting and bookkeeping services, provided any self-review threat created is reduced to an acceptable level;
 - The preparation of financial statements on behalf of an audit client that is a listed entity is prohibited, except in emergency situations and when the services fall within the statutory audit mandate;
 - Threats to independence for financial reporting/compilation work may be created where:
 - a. The firm assumes a managerial role or makes managerial decisions;
 - b. The audit client does not accept responsibility for the results of the work; and
 - c. Personnel providing the services are members of the assurance team.
- APES 315 Compilation of Financial Information (paragraphs 3.4 & 3.5)
 - Independence is not a requirement for a compilation engagement;
 - Where a member is not independent, a statement to that effect must be made in the compilation report.

AUDIT

Specific guidance on professional independence for audit practitioners includes the following:

- The Code (section 290)
 - A firm is prohibited from acting as an auditor of a company:
 - If a member of the audit team, or their immediate family member:
 - has; or
 - receives by way of inheritance, gift, or as a result of a merger, a direct financial interest, or a material indirect financial interest, in the audit client
 - If a firm, partner of the firm, or their immediate family member:
 - has; or
 - holds as trustee, a direct financial interest, or a material indirect financial interest, in the audit client.
 - If a firm, or member of the audit team, makes, guarantees, or accepts a loan to or from an audit client that is not a financial institution;
 - If there exists a close business relationship with an audit client involving material commercial or common financial interests;
 - If there exists a close family or personal relationship with an audit client involving the exertion of direct and significant influence over the subject material information;
 - If a director, officer, or employee that is in a position to exert direct and significant influence over the audit client has previously been a member of the audit team or partner of the firm;

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- If a member of the audit team has served as an officer, director, or employee that is in a position to exert direct and significant influence over the audit client within the period covered by the audit report;
 - If any person in the firm serves as an officer or as a director on the board, or as a liquidator, provisional liquidator, controller, scheme manager, official manager or administrator of the audit client.
 - ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (paragraph 14)
 - Auditors must comply with relevant ethical requirements, including those pertaining to independence, relating to a financial report audit engagement;
 - ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information (paragraph 11)
 - Engagement partners are required to form a conclusion on compliance with independence requirements that apply to the audit engagement.
 - Corporations Act (Division 3 'Auditor Independence' of Part 2M.4 'Appointment and Removal of Auditors) General requirements
 - The audit team member or the firm must not have a known conflict of interest outstanding;
 - Conflicts of interest situations may arise because of relationships with:
 - the audit client; or
 - the current or former directors of the audit client; or
 - a person currently or formerly involved in the management of the audit client.
 - is an officer or an audit-critical employee of the audit client;
 - provides remuneration to an officer or an audit-critical employee of the audit client for acting as a consultant;
 - was an officer or an audit-critical employee of the audit client at any time during the period to which the audit relates, or the 12 months immediately preceding the beginning of that period, or the period during which the audit is being conducted or the audit report is being prepared;
 - has an asset that is an investment in the audit client;
 - owes, or is owed, an amount to or by the audit client;
 - is liable under a guarantee of a loan made to the audit client or is entitled to the benefit of a guarantee given by the audit client in relation to a loan.
 - Specific guidance on Audit Independence can be found in the Fourth Edition of the Independence Guide released by the Joint Accounting Bodies February 2013

TAXATION

Specific guidance on professional independence for tax practitioners includes the following:

- The Code (paragraph 290)
 - Taxation services to an audit client are generally not seen to create threats to independence.

Specific requirements

- The audit team member or the firm must not engage in the audit when relevant relationships exist;
- Relevant relationships may exist when the audit team member:

INSOLVENCY

Specific guidance on professional independence for insolvency practitioners includes the following:

- APES 330 Insolvency Services (paragraphs 4.1–4.3, 4.6–4.7, and 4.9–4.17):
 - Generally, members shall maintain independence.
 - Members shall identify, evaluate and address threats to independence, prior to accepting an appointment. Members shall not accept appointments unless:
 - the threat is trivial and inconsequential;
 - the threat arises in circumstances or relationships that are permitted by APES 330; or
 - the member obtains court approval.
 - Members shall:
 - act impartially in the discharge of the member’s duties and responsibilities; and
 - ensure that the member’s personal interests do not conflict with the member’s duty to the creditors.
 - Generally, members shall not accept an appointment where:
 - the member, the member’s firm or partners or the firm’s managerial employees have, or have had, relationships which create threats to independence that cannot be reduced to an acceptable level or eliminated; or
 - the member or the member’s firm has during the prior two years provided a professional service to the insolvent entity.
 - Members shall not provide advice to both an insolvent entity and the insolvent entity’s directors in their personal capacity, as the threat created would be so significant that no safeguard could reduce the threat to an acceptable level.
 - Members shall not accept an appointment or perform an administration that involves any such arrangements that restrict the proper exercise of the member’s judgement and duties.
 - Members shall provide an appropriate Declaration of Independence and Relevant Relationships and Indemnities (DIRRI) in respect of an insolvency service (excluding an appointment as a controller).
- Code of Professional Practice (COPP) for Insolvency Professionals (section 6):
 - When accepting or retaining an appointment the practitioner must at all times during the administration be independent in fact, and be seen or perceived to be independent;
 - A practitioner must not accept an appointment, or continue to act under an existing appointment, if:
 - a reasonable and informed third party;
 - on the information available (or which should have been available) at the time;
 - might reasonably form the opinion that the practitioner might not bring an independent mind to the administration and thus may not be impartial or may act with bias;
 - because of a lack of independence, or a perception of a lack of independence.
 - A practitioner must not accept any referral that contains, or is conditional upon:
 - referral commissions, inducements or benefits; or
 - spotter’s fees; or
 - recurring commissions; or
 - understandings’ or requirements that work in the administration will be given to the referrer; or
 - any other such arrangements that restrict the proper exercise of the practitioner’s judgement and duties.
 - Practitioners must not, with limited exception, take an appointment if they have had a professional relationship with the insolvent during the previous two years;
 - A practitioner must not take an appointment if there are or have been other non-trivial relationships include personal or business relationships or interests with the Insolvent that are not professional relationships
 - Practitioners must actively seek to identify any risks to independence before accepting an appointment.

FINANCIAL PLANNING/ADVISORY SERVICES

Specific guidance on professional independence for financial planning services includes the following:

- The Code (paragraphs 240 & 290):
 - The receipt of commissions or other benefits as a result of a financial planning/advisory services engagement can pose a self-interest threat to objectivity and professional competence and due care. Members need to establish appropriate safeguards to reduce this threat to an acceptable level.
 - A member in a firm should not pay or receive a referral fee or commission, unless they inform the client in writing of:
 - the existence of such arrangement;
 - the identity of the other party or parties; and
 - the method of calculation of the agency fee, commission or other benefit occurring directly or indirectly to the member.
 - The receipt of commissions or other benefits as a result of the Assurance Engagement, where the member provides financial planning/advisory services to an assurance client, poses a risk to Independence that cannot be resolved by safeguards other than the refusal to perform the Engagement.
- Corporations Act (Chapter 7 'Financial Services and Markets')
 - Requires people who carry on a business of providing financial services in relation to financial products to hold an Australian Financial Services Licence (AFSL).
 - When licences are required a member should either:
 - hold an AFSL from ASIC; or
 - have written authority from a licence holder to represent the licence holder (i.e. be an authorised representative of an AFSL holder and registered accordingly with ASIC)
 - The range of services requiring an AFSL includes:
 - providing financial product advice; or
 - dealing in a financial product; or
 - making a market for a financial product; or
 - operating a registered scheme; or
 - providing a custodial or depository service.
 - Financial products (s.764A), financial services (s.766A), and financial product advice (s.766B) are defined in the Corporations Act.
 - The Corporations Act specifically prohibits the use of certain restricted terms such as independent, unbiased and impartial (s.923A(5)) unless certain conditions are met.
- ASIC Policy Statements
 - The Australian Securities and Investments Commission (ASIC) has released a number of Regulatory Guides on the provision of investment(financial product) advice, clarifying when licences are required, and the conditions a person must meet to call their advisory services 'independent'
- APES 230 Financial Planning Services (paragraph 4)
 - When engaged to provide a Financial Planning Service, a Member shall comply with Professional Independence as defined in APES 230 and where applicable shall comply with the independence requirements contained in laws or regulations, such as the *Corporations Act 2001*;
 - Where a Member provides a Financial Planning Service that is restricted in scope, including where the Financial Planning Service is restricted to particular areas, financial products or providers, the Member shall disclose the extent of those restrictions and any resulting effect on the Member's objectivity and Professional Independence:
 - (a) prior to undertaking the Financial Planning Service; and
 - (b) at the time the Financial Planning Service is provided to the Client;
 - Professional independence requires independence of mind and independence in appearance.

FORENSIC ACCOUNTING SERVICES

Specific guidance on professional independence for forensic accounting engagements includes the following:

- APES 215 Forensic Accounting Services (paragraphs 3.6 to 3.11 & 8.2(b))
 - Members that perform services that require independence, and members that claim to be independent, must comply with the definition of independence in APES 215.
 - Where a forensic accounting engagement is an assurance engagement, members shall comply with section 290 of the Code;
 - A member may assist and advise a client in resolving a dispute but must ensure their role does not cause a conflict in relation to their expert witness service engagement;
 - When providing expert witness services, members shall disclose all matters in the Member's Report that would assist the Court to assess the degree of the Member's Independence.
 - No part of any fee charged or received when acting as an independent accounting expert, including an expert witness, can be contingent on the matter or the amount of the damages awarded.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

REQUIREMENTS:

- APES 320 – Paragraph 38
A firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:
 - Is competent to perform the engagement and has the capabilities, including time and resources, to do so;
 - Can comply with relevant ethical requirements; and
 - Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity.
- APES 320 – Paragraph 42
A firm shall establish policies and procedures that require:
 - The firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.
 - If a potential conflict of interest is identified prior to accepting an engagement from a new or an existing client or during the conduct of an engagement, the firm to determine whether it is appropriate to accept or continue the engagement.
 - If issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, the firm to document how the issues were resolved.
- APES 320 – Paragraph 44
A firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures shall include consideration of:

- The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
- The possibility of withdrawing from the engagement or from both the engagement and the client relationship.

APPLICATION GUIDANCE:

- APES 320 – Paragraphs 39–41, 43 and 45–46

COMMENTARY:

A firm's system of quality control must identify steps to be taken to evaluate the firm's ability to perform the new or continuing engagement, the firm's ability to meet all ethical requirements before undertaking or continuing an engagement, and the integrity of any new or continuing client. In reviewing its ability to service a client properly, a firm should have regard to its industry expertise, necessary experience, the size of engagement, and manpower available to staff the engagement. Additionally, the engagements must not conflict with professional or practice standards, including conflicts among clients, or conflicts of interest.

This may occur, for example, where a firm not only provides a consulting service but also supplies its own software.

In such situations, full disclosure of any association with a software package must be made to the client prior to accepting the engagement.

While the firm does not vouch for the integrity or reliability of a client, the integrity and reliability of a client's management impacts the representations and statements, accounting records and general conduct of the business.

HELPFUL HINT:

Maintaining a quality firm involves carefully evaluating prospective clients and periodically re-evaluating continuing clients. These evaluations help to:

- determine the relative risk of professional liability;
- determine whether the firm is competent to serve the client; and
- avoid potential conflicts of interest or professional embarrassment.

Information on new clients may be sourced from other professional providers, including the existing or previous provider of professional accountancy services to the client (in accordance with section 210 of the Code), as well as background searches of relevant databases. Other third parties include the prospective client's banker, legal advisers, investment banker, and others in the financial or business community.

Important considerations in deciding whether or not to accept or continue client relationships – especially audit engagements – include the identity, business reputation and stability of management, the nature of the business, the attitude of management towards the interpretation of accounting standards, limitations in the scope of work or in keeping the firm's fees low, its sources of financing and financial needs, its financial strength and stability, indications of money laundering, terrorism financing or other criminal activities, and its system of administration and internal controls. The integrity of the client's staff and business attitudes should also be considered.

These matters influence the extent to which the firm can rely on the representations and statements made by the client's management during the engagement.

Where issues have been identified involving a new or continuing client engagement, but the firm still decides to accept or continue with the engagement, it must document how the issues were resolved.

A firm's policies and procedures must also document the action the firm is to take if it discovers information concerning a current client that, if the information was known earlier, would cause the firm to decline the client engagement. Such action must be determined after considering all professional, regulatory and legal requirements, and may include reporting the client to the relevant authorities and/or withdrawing from the engagement or client relationship. The firm must document any significant issues, consultations, conclusions and the basis for the conclusions.

HOW TO ADDRESS ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS:

- Document the firm's policy on acceptance and continuance of client relationships and specific engagements. Consider the following areas:
 - That the firm considers the ability to service the client, ethical requirements, and client integrity as essential components of the firm's system of quality control

Accepting an engagement with a new client:

- That a partner conducts a briefing session with any prospective clients in order to make an initial assessment of the ability of the firm to service the client, any ethical issues that may arise, particularly with regard to independence and conflicts of interest, and the integrity of the client
- That a partner decides to potentially accept or decline the prospective client, recording the decision on file:
 - If a prospective client is declined, a letter is sent informing them of the decision
 - If a prospective client is potentially accepted:
 - the client details are recorded in the firm's systems,
 - the client is sent a welcome letter,
 - the firm conducts a background search on the prospective client to further assess the areas documented above,
 - the firm sends a letter (with client consent) to their current or previous professional accountant to assess any outstanding professional or ethical issues.

- That a partner considers all relevant information and decides whether to formally accept or decline a prospective client, recording the decision on file:
 - If a prospective client is declined, a letter is sent informing them of the decision
 - If a prospective client is accepted:
 - the firm has the competence to perform the required engagements and the necessary capabilities, including time and resources, to do so;
 - the firm has eliminated, or reduced to an acceptable level, any threats to the fundamental principles of ethics;
 - the firm is satisfied with the integrity of the client.
- if the firm withdraws from the client relationship or specific engagement, the firm will document the reasons and all relevant discussions with the client, and send the client a disengagement letter

Engagement letters:

Continuing an existing engagement:

- That the firm will only continue an existing engagement where it would have accepted the client relationship or specific engagement had all relevant information been available at that time
- That, if the firm identifies any issues, the firm will document those issues and:
 - if the firm continues with the client relationship or existing engagement, the firm will document how those issues were resolved,
 - if the firm withdraws from the client relationship or existing engagement, the firm will document the reasons and all relevant discussions with the client, and send the client a disengagement letter.

Accepting a new engagement with an existing client:

- That the firm will only accept a new engagement with an existing client where it is able to satisfy the competence, ethical, and integrity prerequisites
- That, if the firm identifies any issues, the firm will document those issues and:
 - if the firm accepts a new engagement with an existing client, the firm will document how those issues were resolved
- That the firm recognises that engagement letters confirm:
 - acceptance of the terms of the appointment;
 - the objectives and scope of the work to be performed;
 - the extent of responsibilities; and
 - the form of any reports
- That the firm recognises APES 305 Terms of Engagement, and documents the terms of engagement in an engagement letter that is sent to the client, preferably before the commencement of the engagement
- That the firm recognises ASA 210 Agreeing the Terms of Audit Engagements, and ensures that an engagement letter is in place for all audit engagements
- That the firm recognises the need to identify and assess risk, as required by APES 325 Risk Management for Firms, when considering the purpose and content of engagement letters, for managing professional liability
- That a new engagement letter may be required where there is, for example:
 - any indication that the client misunderstands the objective and scope of the engagement;
 - any revised or special terms of the engagement;
 - a recent change in management;
 - a significant change in the nature or size of the client's business; or
 - a legal requirement to do so.
- That, for continuing engagements, if a new letter is not considered necessary, the client is reminded of the original letter and this is documented as a file note

SPECIFIC CONSIDERATIONS FOR ENGAGEMENT LETTERS

The form and content of engagement letters may vary for each client, but in general they should include specific reference to the following:

- **Purpose:** the purpose of the engagement letter, being to set out and confirm the terms of the engagement.
- **Objectives of the engagement:** a summary of the objectives and the exact nature of the work to be performed. For example, in the case of tax engagements, the type of service to be provided (such as tax return preparation, tax planning).
- **Scope of the engagement:** the specific inclusions and exclusions of the engagement (e.g. an explanation that tax advice is limited to an expression of opinion and not an assertion of fact), including the time periods covered by the engagement. Misunderstandings can arise about the range of services or the amount of work which you are expected to perform. Misunderstandings most commonly arise where the client assumes separate, but connected, services are to be included. For example, the client expects you to prepare statutory accounts, annual returns, and tax returns in an engagement to provide bookkeeping services. The engagement letter plays a major role in avoiding such problems and misunderstandings.
- **Engagement output:** the type of reports or other communication produced during the engagement. The engagement letter is a suitable place to get the client to advise if general or special purpose financial reports are needed. In cases where special purpose financial reports are prepared, they will not need to comply with all of the accounting standards, and it will be necessary to have the client agree on the accounting standards to be applied. Users of the manual should refer to the detailed guidance on this in Section 5 under 'The reporting entity concept'.
- **Relative responsibilities:** the responsibilities of the client, the member, and any third party. For clients, this includes maintenance of adequate accounting and internal control systems, prevention and detection of fraud and, in the case of tax return preparation, the client's responsibility under self-assessment to provide accurate and complete information conforming with taxation laws. Areas where the client may provide assistance include:
 - Preparing standard information schedules;
 - Gathering documents or files for you;
 - Preparing summaries of operating procedures; and
 - Extracting summary data.

By requesting that client assistance be given, you may avoid time consuming tasks that can be handled more quickly or economically by others. This will help keep the fee for the service at a level that represents efficient use of your time. Clients should be aware that there are areas in certain engagements where the client's responsibilities cannot be contracted or delegated to you due to specific statutory requirements.

- **Involvement of other members in public practice:** arrangements concerning the involvement of other specialists or experts. Where it is likely that you will use specialists to complete the agreed work, you should obtain the client's consent in advance and let them know of additional fees.
- **Fees and billing arrangements:** the basis on which fees are calculated and any billing arrangements. Fees are one of the most important aspects of job specification and will certainly be uppermost in the minds of both you and your clients. The most common complaints referred to CPA Australia are about fees. Clients are often unaware of the basis used by accountants to calculate the fees. You should always attempt to agree on a fee or a basis for charging a fee before commencing an assignment, and ensure that there is agreement about who pays for all incidental and out-of-pocket expenses. If significant additional work is required for you to satisfactorily complete the engagement, you should promptly advise the client. You should provide the client with an explanation of the additional work outlining why it was not included in the original quote and the likely additional fee if you are to perform the work. The client is then in a position to decide whether to engage you or allocate internal staff to perform the work.
- **Ownership of documents:** makes clear who owns any documents produced by the engagement.
- **Confirmation by the client:** a request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter.

HUMAN RESOURCES

REQUIREMENTS:

- APES 320 – Paragraph 47
A firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to:
 - perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
 - enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

ASSIGNMENT OF ENGAGEMENT TEAMS

- APES 320 – Paragraph 54
A firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that:
 - The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;
 - The engagement partner has the appropriate competence, capabilities and authority to perform the role; and
 - The responsibilities of the engagement partner are clearly defined and communicated to that partner.
- APES 320 – Paragraph 56
A firm shall establish policies and procedures to assign appropriate personnel with the necessary competence and capabilities to:
 - Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
 - Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

APPLICATION GUIDANCE:

- APES 320 – Paragraphs 48–53 Assignment of Engagement Teams

ASSIGNMENT OF ENGAGEMENT TEAMS

- APES 320 – Paragraphs 55 and 57

COMMENTARY:

Staff are the most valuable resource. In many cases, it is also the largest expense of the firm. Often the success of the firm, in general, and of its individuals in particular, directly correlates with the quality of the people hired. From a quality control perspective, the firm must document and implement steps to ensure it employs enough personnel possessing the required competence to undertake the position occupied.

Quality considerations address:

- Recruitment
- Performance evaluation
- Capabilities
- Competence
- Career development
- Promotion
- Compensation
- Estimation of personnel needs

An additional aim of these quality considerations is to provide job satisfaction for staff. This, combined with the establishment of staff retention strategies, will likely help to reduce staff turnover – saving the firm time, money and resources – whilst also helping to ensure that the quality control requirements are met.

It is important to stress the firm's commitment to a strong and effective quality control system through positive reinforcement and recognition of compliance, leadership, innovation, training, development, and co-operation — including individual involvement and contribution to quality control, ethics, and integrity. Recognition of, and reward for, compliance with the quality control system can be made through regular staff performance appraisals and/or regular firm staff meetings.

On the flipside, a quality control system enforcement process that includes consequences and corrective procedures for non-compliance, disregard, lack of due care and attention, abuse, and circumvention, should also be considered. The process for addressing such disciplinary issues should be objective, conscientious, open-minded, and reasonable in finding and facilitating a timely resolution to the matter. Nevertheless, the firm must defend its responsibility to manage risk, to uphold the professional responsibilities of independence, to avoid conflict of interest, and to act with professional competence and due care.

ASSIGNMENT OF ENGAGEMENT TEAMS

One of the easiest ways a firm can get into trouble is to undertake an engagement that it is not equipped to handle. The engagement team is responsible for delivering client services. The team must be balanced in training and experience. The firm should consider staff skills and development. It should continually do overall planning for assignments and consider client needs, staff availability, and development of the individual staff members. In assigning staff to engagements, consider:

- Their experience;
- Their understanding of the client and industry;
- The level of supervision needed;
- The nature of the engagement; and
- The need to further the experience of those assigned.

The firm must document the steps to be taken to ensure an appropriate engagement partner is assigned to each engagement. The documentation must also outline the engagement partner's responsibilities, how these responsibilities will be communicated to the partner, and how this information will be communicated to the rest of the firm.

HOW TO ADDRESS HUMAN RESOURCES:

- Document the firm's policy on human resources.

Consider the following areas:

- That the firm recognises human resources as a key element of the system of quality control;
- That the firm recognises staff as the most valuable resource and, as such, invests considerable time and resources into recruitment, training and staff-retention;
- That the firm has allocated responsibility for human resources issues to an appropriate partner.

Estimation of personnel needs and recruitment:

- That the firm plans for its staff needs at all levels to ensure that hiring is not done on a crisis basis, but that needs are identified before they arise;

- That the firm's partners review current and future staffing requirements on a regular basis, based on history of workflows and the engagement pipeline, to ensure sufficient staff are in place;
- That individuals involved in recruitment know the firm's staff needs and objectives;
- That each position in the firm has a documented job description;
- That each step in the recruitment process for candidates – including interviews, reference checks and formal offers/rejections – is documented, evaluated and assessed;
- That those persons employed possess the appropriate academic, intellectual and professional qualities to perform engagements with the required capabilities, competence, and commitment to ethical principles;
- That staff employment agreements include all relevant statutory provisions;
- That new staff receive a formal orientation of the firm, including a welcome pack with, among other things, the firm's key documented policies and procedures.

Performance evaluation, Promotion and Compensation:

- That the firm has developed staff level definitions that spell out the job titles for professional, paraprofessional and support staff and state the responsibilities, expected performance, qualifications and experience needed at each level;
- That feedback is provided to staff during their probation period;
- That a formal performance evaluation of each staff member is performed half-yearly to assess and advise them of their progress;
- That standardised forms are used for evaluating and documenting staff performance;
- That staff are periodically counselled about their progress and career opportunities;
- That personnel selected for advancement have the necessary technical, professional and personal attributes required for their responsibilities;

- That staff know what steps they need to take to progress professionally in the firm;
- That the firm has distinguishable levels of achievement to highlight advancement in knowledge, experience, and responsibilities;
- That ability, based on one's education, experience and potential, is a primary factor in determining remuneration, responsibilities, and advancement;
- That compensation is linked with the attainment of both individual and firm goals.

Capabilities, Competence and Career development:

- That the firm recognises the continued success of the firm depends on the experience and knowledge of its staff;
- That professional development is the joint responsibility of both the firm and individual employees to ensure that an appropriate level of capabilities and competence are developed;
- That each person in the firm is expected to be committed to a well-rounded program of professional development that includes self-study, on-the-job training, and continuing professional education;
- That professional staff comply with CPA Australia By- Laws 4.1 and 4.2:
 - Members are required to undertake at least 120 hours of Continuing Professional Development (CPD) per triennium of which at least 20 hours must be taken in each year of the triennium;
 - A contemporaneous, permanent personal record of CPD undertaken must be retained;
- That professional development policies and procedures are communicated to everyone in the firm;
- That the needs of staff at each level within the firm are regularly assessed, and programs are established that meet the requirements of the firm collectively and its staff individually;
- That professional staff maintain an appropriate training and development record.

ASSIGNMENT OF ENGAGEMENT TEAMS

- Document the firm's policy on assignment of engagement teams.

Consider the following areas:

- That the firm continually plans for assignments and considers client needs, staff availability, and development of the individual staff members;
- That engagements are properly planned, executed, supervised and reviewed, and that the reports comply with relevant legislation and standards;
- That thought and effort is directed to all three distinct phases of an engagement:
 1. Planning;
 2. Field work; and
 3. Review
- That responsibility for each engagement is assigned to a suitably appropriate engagement partner, having regard to their competence, capabilities and authority to perform the role;
- That the identify and role of the engagement partner is communicated to key members of the client management;
- That each engagement partner understands and accepts their responsibilities to both the firm and the client;
- That staff are assigned to engagement teams having given consideration to their competence, capabilities, time to perform the role, and the level of supervision required;
- That, in assessing staff capabilities and competence, the firm gives regard to:
 - Their experience and ability to apply professional judgement;
 - Their understanding of the client and its industry;
 - The complexity of the engagement and the technical knowledge required;
 - Their understanding of professional, regulatory and legal requirements;
- That the primary objective of assigning staff is to provide competent, timely and high quality service to clients;

ENGAGEMENT PERFORMANCE

- That a further objective is to produce well-rounded professional staff who receive adequate exposure to the various facets of the profession;
- That supervision of work at all organisational levels is required to ensure that the work performed meets the firm's standards of quality;

HELPFUL HINT:

The extent of supervision and review appropriate in a given instance depends on many factors, including:

- the complexity of the subject matter;
- the qualifications of persons performing the work;
- the extent of guidance and assistance available and used;
- the degree of authority delegated to assistants on an engagement;
- performance of staff assigned to an engagement; and
- risk factors inherent in the engagement.

REQUIREMENTS:

- APES 320 – Paragraph 58
A firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:
 - Matters relevant to promoting consistency in the quality of engagement performance;
 - Supervision responsibilities; and

REVIEW RESPONSIBILITIES.

- APES 320 – Paragraph 63
A firm's review responsibility policies and procedures shall be determined on the basis that work of less experienced team members is reviewed by more experienced engagement team members.

CONSULTATION

- APES 320 – Paragraph 64
A firm shall establish policies and procedures designed to provide it with reasonable assurance that:
 - Appropriate consultation takes place on difficult or contentious matters;
 - Sufficient resources are available to enable appropriate consultation to take place;

ASSURANCE PRACTICES ONLY

- The nature and scope of, and conclusions arising from, such consultations are documented and agreed by both the individual seeking consultation and the individual consulted; and
- Conclusions resulting from consultations are implemented*.

* Note that ASQC1 paragraph 34 and in particular AUS 34.1 has an additional requirement for consultations when compared to APES 320.64: AUS 34.1 the reasons alternative courses of action from consultations were undertaken, are documented.

ASSURANCE PRACTICES ONLY

Engagement Quality Control Review

- APES 320 – Paragraph 70 (paraphrased)
A firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report.
- APES 320 – Paragraph 72
A firm shall establish policies and procedures setting out the nature, timing and extent of an engagement quality control review. Such policies and procedures shall require that the engagement report not be dated until the completion of the engagement quality control review.
- APES 320 – Paragraph 73
A firm shall establish policies and procedures to require the engagement quality control review to include:
 - Discussion of significant matters with the engagement partner;
 - Review of the financial statements or other subject matter information and the proposed report;
 - Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and
 - Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.
- APES 320 – Paragraph 77
For audits of financial statements of listed entities, a firm shall establish policies and procedures to require the engagement quality control review to include consideration of the following:
 - The engagement team’s evaluation of the firm’s independence in relation to the specific engagement;
 - Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
 - Whether documentation selected for review reflects the work performed in relation to significant judgements and supports the conclusions reached.
- APES 320 – Paragraph 80
A firm shall establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through:
 - The technical qualifications required to perform the role, including the necessary experience and authority; and
 - The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer’s objectivity.
- APES 320 – Paragraph 83
A firm shall establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer.
- APES 320 – Paragraph 87
A firm’s policies and procedures shall provide for the replacement of the engagement quality control reviewer where the reviewer’s ability to perform an objective review may be impaired.
- APES 320 – Paragraph 88 (paraphrased)
A firm shall establish policies and procedures on documentation of the engagement quality control review which require documentation that the relevant procedures have been performed, the review was completed on or before the date of the report, and there are no unresolved matters making the significant judgments and conclusions inappropriate.

DIFFERENCES OF OPINION

- APES 320 – Paragraph 89
A firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer.
- APES 320 – Paragraph 90
Such policies and procedures shall require that:
 - Conclusions reached be documented and implemented; and
 - The report not be dated until the matter is resolved.

ENGAGEMENT DOCUMENTATION

- APES 320 – Paragraph 93
A firm shall establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalised.
- APES 320 – Paragraph 96
A firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.
- APES 320 – Paragraph 101
A firm shall establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

APPLICATION GUIDANCE:

- APES 320 – Paragraphs 59–62

CONSULTATION

- APES 320 – Paragraphs 65–68

ASSURANCE PRACTICES ONLY

- APES 320 – Paragraph 69

ASSURANCE PRACTICES ONLY ENGAGEMENT QUALITY CONTROL REVIEW

- APES 320 – Paragraphs 71, 74–76, 78–79, 81–82 and 84–86

ASSURANCE PRACTICES ONLY DIFFERENCES OF OPINION

- APES 320 – Paragraphs 91–92 Engagement Documentation

ENGAGEMENT DOCUMENTATION

- APES 320 – Paragraphs 94–95, 97–100 and 102–105

COMMENTARY:

It is important that firms seek to establish consistency in the quality of engagement performance and to demonstrate that they have not been negligent in performing their duties. To assist with this, APES 320 requires firms to document and implement the steps to be taken to ensure engagements are performed in accordance with all relevant professional, regulatory and legal requirements and that all reports issued by the engagement partner are appropriate. Such documentation should address the following:

- The briefing of staff and engagement teams;
- Processes that comply with applicable engagement standards;
- Engagement supervision, staff training and coaching;
- Reviews of work performance, including analysis of significant judgements made;
- The work performed and the form of reports issued;
- Processes to keep the policies and procedures up to date.

CONSULTATION

It is important that the firm encourages a culture of consultation and referral of difficult matters to continually develop the competence and capabilities of the staff and the firm. The firm shall establish and implement the required steps to ensure that appropriate consultation takes place when difficult situations are encountered and that the nature and conclusions of such consultations are documented. Consultation should be with those possessing appropriate levels of knowledge, competence, judgement and authority on significant technical, ethical and other matters. This may include colleagues, partners, or external sources, such as other firms, professional and regulatory bodies, or commercial organisations providing relevant quality control services.

ASSURANCE PRACTICES ONLY ENGAGEMENT QUALITY CONTROL REVIEW

For appropriate engagements, the firm is required to conduct an engagement quality control review (EQCR). This is generally termed the 'second partner review', although it can be conducted by any sufficiently qualified and experienced staff member or external consultant meeting the required technical and objectivity requirements.

The EQCR would include, as a minimum:

- A discussion with the engagement partner;
- A review of the financial statements or other subject matter information and the report;
- Consideration of whether the proposed report is appropriate in the circumstances; and
- A review of selected working papers relating to the significant judgments the engagement team made and the conclusions they reached.
- For listed entities, the EQCR shall also consider:
 - The engagement team's evaluation of the firm's independence in relation to the specific engagement;
 - Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
 - Whether documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

The firm's policies and procedures must establish when an EQCR is required. All audits of the financial statements of listed entities required an engagement quality control review (before the dating of the audit report). Guidance is provided in paragraph 71 of APES 320 for other engagements.

DIFFERENCES OF OPINION

Differences of opinion may be common in assurance engagements, especially where professional judgments are required.

HELPFUL HINT:

Practitioners should be aware of the more common circumstances of differences in opinion in practice:

Interpretations and applications of accounting standards; Ethics-related matters and/or the Code;

Economic substance of a transaction or series of transactions;

Levels of detail required in the documentation for engagement files; and

Suitability and competencies of engagement personnel.

Policies and procedures must be established and implemented to explain how the firm will deal with and resolve differences of opinion with clients, other members of the engagement team, consultants, engagement partners, or the engagement quality control reviewer. All partners and staff should strive to be objective, conscientious, open-minded, and reasonable in assisting, facilitating, or reaching a timely and non-confrontational resolution of any disputes or differences of opinion. Further, anyone who is party to a dispute or difference of opinion should attempt to resolve the matter in a timely, professional, respectful, and courteous manner through discussion, research, and consultation with the other individual(s). The audit/ assurance report must not be dated until differences of opinion have been documented and resolved.

ENGAGEMENT DOCUMENTATION

It is important that the firm maintains control over the engagement documentation, such that it is of professional quality, timely in its preparation, properly secured, and retained. The quality control standards require the firm to establish and implement steps:

- for engagement teams to follow to ensure engagement files are completed on a timely basis after the engagement reports have been finalised;
- to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation; and
- to ensure engagement documentation is retained for the required time.
- The relevant safeguards for engagement documentation will depend on whether the documentation is in paper, electronic or other media.

HOW TO ADDRESS ENGAGEMENT PERFORMANCE:

- Document the firm's policy on engagement performance.
Consider the following areas:
 - That the firm recognises engagement performance as a key area in the system of quality control;
 - That the firm seeks to establish consistency in the quality of engagement performance by using documented manuals, appropriate technologies, and a system of coaching and review;
 - That all members of the engagement team understand their roles and the work they are required to perform;
 - That supervision of the individual and the engagement is conducted throughout the progress of an engagement;
 - That reviews are conducted of engagements by suitably qualified and experienced personnel to ensure:

- the work has been performed in accordance with the professional standards and regulatory and legal requirements;
- significant matters have been raised for further consideration and that appropriate and documented consultations have taken place;
- the nature, timing, and extent of the work performed does not need to be revised;
- the work performed, and the evidence obtained, supports the conclusions reached, with appropriate documentation in place.

CONSULTATION

- Document the firm's policy on consultation.
Consider the following areas:
 - That the firm recognises consultation as a benefit to the firm and not a sign of weakness;
 - That the firm encourages personnel to seek timely consultation from persons having appropriate levels of knowledge, seniority and experience in technical, ethical and other matters;
 - That all staff are made aware of when to ask, whom to ask, and how to ask;
 - That special areas or specialised situations requiring guidance and assistance because of the nature or complexity of the subject matter have been identified and listed;
 - That benchmarks for mandatory consultation have been established, including situations where staff and/or the firm do not have necessary expertise in a specialist area, situations not previously encountered, or those that cause ethical problems;
 - That consultation is required for qualified reports, departures from law, including standards and concepts, limitations in scope, and special reports;

- That external consultants have been identified to provide consultation for certain specialist areas;
- That the firm recognises an essential ingredient of consultation is the maintenance of an adequate up- to-date library that covers the services provided by the firm;
- That whenever consultation is sought, it is documented and filed;
- That documentation consists of a memorandum stating the reasons for the consultation, the sources consulted, and the conclusions reached;
- That documentation is also made about the considerations involved in the resolution of differences of opinion.

ASSURANCE PRACTICES ONLY

- Document the firm's policy on consultation. Consider the following areas:
 - That documentation of consultations with other professionals involving difficult or contentious matters is agreed by both the individual seeking consultation and the individual consulted
 - That, for engagements covered by ASQC 1, where conclusions are not implemented, the reasons alternative courses of action from consultations were undertaken, are documented.

ENGAGEMENT QUALITY CONTROL REVIEW

- Document the firm's policy on EQCRs. Consider the following areas:
 - That the firm recognises the need for an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report;
 - That an EQCR is conducted for all audits of financial statements of listed entities;
 - That an EQCR is conducted on other engagements as follows:
 - Nature of the engagement: the greater the complexity of the engagement, the lower the level of engagement team experience and proficiency, and the

higher the level of public interest in the engagement, the more likely a review is required;

- Risk in the engagement: the greater the risk that the report might not be appropriate, the greater the number of issues revealed in a previous engagement review, and the longer it has been since a prior engagement review, the more likely a new review is required;
- Legal requirements for review: where any professional, legal or regulatory requirements exist, a review is required.

Nature, Timing and Extent:

- That the extent of the review depends largely on the criteria for conducting a review detailed above;
- That the review is completed on or before the report is dated and any differences of opinion between the reviewer and the engagement partner are resolved before dating the report.

Criteria for the Eligibility of Reviewers:

- That the reviewer has sufficient technical expertise, experience and authority to perform the role, giving consideration to both the engagement and the individual;
- That the reviewer of an audit of the financial statements of a listed entity has sufficient and appropriate experience and authority to act as an engagement partner for such audits;
- That the reviewer is not subject to any considerations that may impair or threaten their objectivity, including excessive consultation during an engagement.

Documentation:

- That the following aspects of the review are documented:
 - The firm's procedures on the review have been performed;
 - The review has been completed on or before the report is dated;
 - The reviewer is not aware of any unresolved matters leading to judgments or conclusions that are inappropriate.

DIFFERENCES OF OPINION

- Document the firm's policy on differences of opinion.

Consider the following areas:

- That the firm recognises that differences of opinion can and will occur during engagements and that appropriate policies and procedures are in place to resolve such differences;
- That staff are encouraged to identify differences of opinion at an early stage;
- That each step involved in the resolving of a difference of opinion is documented, including the implementation of the conclusions reached or, for engagements covered by ASQC 1, the reasons alternative courses of action from consultations were undertaken;
- That no reports shall be dated until the difference of opinion is resolved.

ENGAGEMENT DOCUMENTATION

- Document the firm's policy on engagement documentation.

Consider the following areas:

Completion of the Assembly of Final Engagement Files:

- That the assembly of final engagement files are completed within 60 days after the engagement reports have been finalised and, in any case, by the time limit prescribed by any law or regulation;
- Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of engagement documentation:
- That all staff respect the confidential nature of information contained in engagement documentation and that disclosure of such information will only be made with the client's consent, or where there is a legal or professional duty to do so;
- That the firm safeguards the integrity of the engagement documentation by:
 - Noting the creator and reviewer of any documentation;
 - Ensuring changes to the documentation are clearly marked and the changer identified;

- Preventing unauthorised access to the documentation.
- That the engagement documentation is safeguarded by employing the following controls:
 - Password protection of documents and systems;
 - Correct filing and storage of documentation when not in use;
 - File and folder back-ups, including scanning of hard-copy documentation.

Retention of engagement documentation:

- That the firm retains engagement documentation for as long as is necessary, having regard to:
 - the firm's needs, including whether an engagement or engagement client is continuing;
 - any relevant laws and regulations prescribing specific retention periods:

Corporations Act 2001	Financial Records Audit Working Papers	7 years 7 years
Income Tax Assessment Act 1997	Tax Records	5 years
Superannuation Industry (Supervision) Act 1993	Accounting Records	5 years

- generally accepted retention periods
- That where the firm retains engagement documentation, the documentation is accessible and retrievable;

Ownership of engagement documentation:

- That, subject to any laws or regulations, engagement documentation is the property of the firm.

MONITORING

REQUIREMENTS:

- APES 320 – Paragraph 106
A firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall:
 - Include an ongoing consideration and evaluation of the firm’s system of quality control, including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;
 - Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and
 - Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements.

ASSURANCE PRACTICES ONLY

- APES 320 – Paragraph 112 (paraphrased)
A firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either immaterial or material instances that require prompt corrective action.
- APES 320 – Paragraph 113
A firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.
- APES 320 – Paragraph 115 (paraphrased)
A firm’s evaluation of each type of deficiency shall result in appropriate recommendations.
- APES 320 – Paragraph 116
A firm shall establish policies and procedures to address cases where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the assurance engagement. Such policies and procedures shall require the firm to determine

what further action is appropriate to comply with relevant professional standards and applicable legal and regulatory requirements and to consider whether to obtain legal advice.

- APES 320 – Paragraph 117 (paraphrased)
A firm shall communicate at least annually the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm. This communication shall be sufficient to enable the firm and these individuals to take prompt and appropriate action where necessary.
- APES 320 – Paragraph 118 (paraphrased)
Where firms within a network operate under common monitoring policies and procedures designed to comply with this standard, and these firms place reliance on such a monitoring system, the firm’s policies and procedures shall require that:
 - At least annually, the network communicate the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and
 - The network communicate promptly any identified deficiencies in the system of quality control to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken.

COMPLAINTS AND ALLEGATIONS

- APES 320 – Paragraph 119
A firm shall establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:
 - Complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements; and
 - Allegations of non-compliance with the firm’s system of quality control.

As part of this process, the firm shall establish clearly defined channels for firm’s personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.

APPLICATION GUIDANCE:

- APES 320 – Paragraphs 107–AUST109
- APES 320 – Paragraph 122
If during the investigations into complaints and allegations, deficiencies in the design or operation of the Firm’s quality control policies and procedures or non-compliance with the Firm’s system of quality control by an individual or individuals are identified, the firm shall take appropriate actions as set out in paragraph 115.

ASSURANCE PRACTICES ONLY

- APES 320 – Paragraphs AUST108–111, 114

COMPLAINTS AND ALLEGATIONS

- APES 320 – Paragraphs 120 and 123

ASSURANCE PRACTICES ONLY

- APES 320 – Paragraphs 121

COMMENTARY:

The quality control policies and procedures are a key part of the firm’s internal control system. Monitoring consists primarily of understanding this control system and determining — through interviews, walk-through tests, and file inspections — whether, and to what extent, this control system is relevant, adequate, and operating effectively.

The monitoring of the quality control system provides the firm with added confidence that its policies and processes are working as designed, and meet the objectives of APES 320. As professional standards, legal and regulatory requirements change, so too must the firm’s system of quality control. The monitoring function assists with the identification of these changes. Additionally, the firm must determine whether there have been any system design flaws or implementation issues, so that improvements can be made and communicated to the teams.

Ensuring the quality control policies and procedures (including standard forms) are up-to-date is an important responsibility. Ideally the person responsible for the quality control system should be responsible for updating it. Updating the quality control system involves:

- Determining what changes are needed;
- Updating the forms, reproducing them and making them available;
- Ensuring that all personnel are notified of the changes;
- Ensuring that the original and all copies of the quality control policy manual and other manuals affected are updated with the new materials.

The system may need to be updated because of a diverse range of events, such as:

- Realisation that a change is needed in a form or procedure;
- Changes in technical principles, standards and legislation;
- New ideas gleaned from professional conferences and from association with other practitioners;
- Changes in your firm’s clientele, philosophy of operation or specialities.

A report on the results of monitoring should, at a minimum, include:

- A description of the monitoring procedures performed;
- The conclusions drawn from the monitoring procedures; and
- Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions recommended to resolve these deficiencies.

HELPFUL HINT:

As part of the monitoring function, it may also be valuable to conduct post-engagement reviews with clients, in order to:

- monitor the quality of the work as judged by the client;
- provide information for individual performance appraisals;
- signal early warning of performance problems of staff that could have significant negative impact on the firm’s reputation; and
- investigate cases of client dissatisfaction and report the action recommended, as well as report any general recommendations for avoiding similar problems in the future.

Since the quality control system is in place to protect the public interest, the firm must address wilful non-compliance transparently and rigorously. It can generally address wilful non-compliance in a number of ways, including instituting a plan to improve performance, performance reviews and reconsideration of opportunities for promotion and increased compensation, and ultimately termination of employment. In some circumstances, it may be appropriate to impose a temporary oversight regime for partners or staff who have difficulty complying with the quality control system.

ASSURANCE PRACTICES ONLY

The monitoring of the quality control system for firms is stricter than for other areas of the firm. There are additional requirements for inspection, documentation, communication, and remedial actions.

COMPLAINTS AND ALLEGATIONS

From time to time, a firm may receive complaints and allegations regarding non-performance or non-compliance with professional and legal requirements, or with its system of quality control.

Serious cases should be promptly dealt with and mechanisms put in place to reduce or eliminate the threat in future. The professional handling of a complaint or allegation provides the firm with an opportunity to turn the situation around, in the eyes of those both within and external to the firm.

ASSURANCE PRACTICES ONLY

The handling of a complaint or allegation in a firm has greater consequences than for other areas of the firm. As such, there are additional requirements for the supervision of investigations.

HOW TO ADDRESS MONITORING:

- Document the firm's policy on monitoring. Consider the following areas:
 - That the firm has established and implemented steps designed to assess the implementation and effectiveness of its system of quality control;
 - That, on an annual basis, the firm's quality control manager undertakes independent

monitoring of all elements of the firm's system of quality control and evaluates its compliance with the relevant policies and procedures;

- That the firm has appointed a partner responsible for supervising the monitoring function;
- That the firm has appointed competent staff with the requisite training to carry out the monitoring function;
- That the firm has segregation of duties between staff responsible for various functions in the quality control system and those involved in the monitoring function;
- That areas of non-compliance are dealt with effectively, including making appropriate changes to the existing policies and procedures;
- That the firm communicates any deficiencies in the quality control system, as well as recommendations for appropriate remedial action, to appropriate staff;
- That the firm monitors developments in professional standards and regulatory and legal requirements such that they can be reflected in the firm's quality control system;
- That the firm undertakes an inspection of selected completed engagements on a cyclical basis;
- That inspections:
 - are carried out on a test basis, but are representative of all work performed by the firm;
 - include a review of administrative and staff files, as well as engagement work papers, files, and reports;
 - consider the selection of new engagements, specialised engagements, and those of high public interest or high exposure;
- That the selected engagements are inspected for compliance with quality control policies and procedures and with professional standards;
- That the firm has in place procedures to resolve disagreements that may arise between reviewers and engagement or management staff.

ASSURANCE PRACTICES ONLY

- Document the firm's policy on monitoring. Consider the following areas:
 - That the firm has obtained written confirmation of compliance with policies and procedures on independence
 - That each engagement partner will have at least one engagement inspected every three years
 - That inspections are carried out both with and without prior notification to the engagement teams
 - That the inspection staff are not involved in the performance of the engagement or in the EQCR
 - That while the monitoring function is normally performed by the firm's staff, inspections and reviews may be performed by others acting on behalf of the firm
 - That deficiencies in the quality control system are evaluated to determine whether they are systemic, repetitive or otherwise significant, resulting in non-compliance with professional standards and regulatory and legal requirements
 - That all deficiencies identified are communicated to the engagement partner and all relevant personnel including recommendations on how the deficiency can be addressed
 - That recommendations on how deficiencies are to be addressed include:
 - taking remedial action to address the problem;
 - training to ensure the problem does not occur again in the future;
 - changes to the quality control policies and procedures; and
 - disciplinary action where required.
- That policies and procedures identify action to be taken when it is identified that inappropriate reports were provided or the engagement was not performed appropriately

- That the firm communicates the results of the monitoring process to all relevant partners and personnel on an annual basis, including:
 - the monitoring procedures performed;
 - the conclusions drawn; and
 - a description of significant breaches and the actions taken to resolve these breaches.

COMPLAINTS AND ALLEGATIONS

- Document the firm's policy on complaints and allegations. Consider the following areas:
 - That the firm deals with all serious complaints and allegations relating to non-performance or non-compliance with professional and legal requirements, or with the firm's system of quality control;
 - That the firm encourages staff to raise their concerns, without fear of reprisal, through clearly defined channels;
 - That the firm investigates such complaints and allegations and, if required, takes appropriate actions to both resolve the issue, and reduce or eliminate the threat in future;
 - That all complaints and allegations, and the resulting actions taken, are documented.

ASSURANCE PRACTICES ONLY

- Document the firm's policy on complaints and allegations. Consider the following areas:
 - That any investigations into complaints and allegations are supervised by a partner with sufficient and appropriate experience and authority, who is able to maintain objectivity in the investigation
 - That the firm involves legal counsel for the investigation of serious complaints and allegations
 - That the firm documents all complaints, allegations and the formal responses to them

APPENDIX 3

EXAMPLE STATEMENTS AND SAMPLE POLICY MANUAL

A policy manual should be designed to achieve the following:

- Communicate the firm's vision and core objectives;
- Clarify management structure and responsibilities;
- Provide an administrative guide for the firm;
- Standardise the office policies, processes, procedures and work instructions; and
- Provide standard job descriptions for administration staff.

Definitions of key terms used in the following example statements and sample policy manual are described below:

Policy: A policy is a generally accepted standard or approach to the way the firm undertakes its business and complies with ethical standards.

Process or Process Owner: A process is made up of procedures which when put together make the office run effectively. A process owner is someone who is responsible for the process from the start to finish.

Procedure: A procedure is all the steps that, put together, make the process. Procedures are of limited value if they are not integrated across the firm.

Work Instruction or Work Rules: Work instructions are the detailed instructions that provide guidance on how to undertake the procedure.

The example statements and sample policy manual provide guidance on the documentation of policies enunciated in APES 320. Suggestions as to how the policies can be addressed in a procedural sense are included at the foot of each of the individual elements.

Policies, procedures, and work instructions, including checklists and standard forms, should be created to suit the specific firm structure. Assistance in this regard can be obtained from the CPA Australia website, cpaaustralia.com.au, in the Practice Management section under Knowledge Portals.

APPENDIX 3.1 – EXAMPLE OF A STATEMENT ON ‘FIRM PHILOSOPHY, AREAS OF SERVICE AND ORGANISATION’

This statement is applicable to all firm sizes. Note, however, that this initial section is by way of simple example only. It is not suitable for adoption in its present form and should be translated to represent the actual visions and values of the firm.

	SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
<p>Philosophy of the Firm:</p> <p>Our philosophy represents the beliefs of the firm and our basic understanding of the way we work and provide services to our clients.</p>	✓	✓	✓
<p>The Goals of the Firm:</p> <p>As a firm, we acknowledge that we have an obligation to serve our clients and our profession. The primary goal of our firm is to fulfil these obligations. We seek these obligations also as challenges to us to do the quality work that is expected of all professionals:</p> <ul style="list-style-type: none"> To provide excellent personal service to our clients in all areas appropriate for the accounting profession; To assure excellence in client service through maintaining the highest level of competence, independence and integrity within the firm; To be involved in and contribute to the advancement of the accounting profession, our community, and our nation; To provide within the firm the opportunity for personal and professional advancement, growth in skills and personal interrelationships, and rewarding work experiences; To expand our scope of service and circle of clientele by developing and improving special skills and expertise. 	✓	✓	✓
<p>Our Approach to Client Service:</p> <p>Superior client service is our primary objective and operating guideline, within the confines of law and professional standards. We seek to provide this service by making available to each client the full extent of our professional capabilities, in order to meet their varying needs on a timely basis. In seeking to provide excellent professional service to each client, we approach each engagement, large or small, with the following objectives:</p> <ul style="list-style-type: none"> Attain thorough knowledge of the client and its industry, in order to properly assess the events and conditions affecting it and its financial position and progress; Accurately assess the strengths and weaknesses of the client’s internal accounting and administrative controls, its accounting and administrative information systems and its other features, in order to effectively advise the client and fulfil the engagement’s objectives; Identify and communicate situations and potential actions that suggest opportunities for improving the client’s operations and condition; Be alert to areas for personal assistance to the owner-manager of client firms, so that our services may be of maximum benefit to the client. 	✓	✓	✓

	SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
<p>Professional Services and Clientele:</p> <p>We offer competent, prompt, professional service in the traditional areas of audit services, financial reporting/compilation services, and tax services.</p> <p>Audit services include the audit of clients' financial statements, special investigation areas, and reports on the client's internal accounting controls.</p> <p>Included in financial reporting/compilation services are the maintenance of client accounting information systems, compilation of client financial statements, and special reports. We provide development of information systems, and assistance with reports required for regulatory agencies and for meeting contractual credit agreements.</p> <p>We provide tax planning and compliance services for both individuals and firms. We do this while working closely with the clients and making them aware of their tax responsibilities and opportunities. Our clientele is diverse and spans many industries. They are engaged in agriculture, construction, finance, manufacturing, health care and others. We seek to continue our service to these industries and to develop other industry competence over time.</p>	✓	✓	✓
<p>The firm's organisation is the foundation of the framework essential to maintaining quality control over all professional services. The framework is the set of policies and procedures that operate to assure quality control over the work done.</p>		✓	✓
<p>The relationships depicted in the organisation chart (not attached) reflect the lines of authority, responsibility, and accountability that govern the conduct and administration of professional services.</p> <p>The organisation structure is designed to fulfil the following objectives:</p> <ul style="list-style-type: none"> • Establish the authorities and responsibilities for specific areas of activity; • Describe the accountability and reporting relationships for those authorities; • Outline the scope of the firm's practice; • Provide efficient and effective relationships for establishing objectives, policies and procedures in both firm administration and provision of client services; • Provide a structure for interpersonal relationships that creates an atmosphere conducive to promoting planning, to servicing client needs, and to responding effectively to opportunities and problems. 		✓	✓
<p>Partners:</p> <p>The partners are responsible individually and collectively for all the firm's activities:</p> <ul style="list-style-type: none"> • For decisions and evaluations concerning promotions of personnel and admission of new partners; • For establishing and implementing the overall goals and plans of the firm; • For monitoring the firm's financial progress and position; • For other matters relevant to operating as a firm under the law and as members of the accounting bodies. 			✓
<p>Management Committee:</p> <p>The Management Committee has responsibility for determining, subject to approval by the partnership, the general direction of the affairs of the firm. It is responsible for overseeing the operations, monitoring developments affecting the client, staff and firm administration, proposing programs and courses of action for consideration by the partnership, and other relevant matters. The committee is responsible for all matters relating to the firm organisation. The Managing Partner is chairman of the Management Committee.</p>			✓

	SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
<p>Managing Partner:</p> <p>The Managing Partner is the senior executive officer of the firm, elected by and subject to the advice and consent of the partnership. The Managing Partner is responsible for supervising the activities of the firm, as directed and authorised by the partnership. This person is responsible for implementing all authorised programs and related activities, for all aspects of the operations of the office(s) and for all aspects of the delivery of service to clients. This position also carries the responsibility for all matters relating to the scope and conduct of the professional practice, to personnel recruitment, education and retention, to firm development and public relations and to relations with the accounting bodies and other professionals or groups.</p>			✓
<p>Professional Services:</p> <p>The delivery of service to a client is structured around a professional services team. The team is headed by a partner assigned to that client, known as the Engagement Partner. Others are assigned as are necessary to provide the service requested by the client. The engagement partner has full authority to act on behalf of the firm and is responsible for co-ordinating all relationships with and services for the client. This partner also monitors developments affecting the client.</p>			✓
<p>Firm Policies:</p> <p>Each service area is administered by a partner who services as the partner in charge of that area. They are responsible for determining policies and procedures relating to professional performance, technical competence, and standards of practice. Policies and procedures are communicated to the professional staff through special technical bulletins. A complete collection of these bulletins is kept in the library.</p>			✓
<p>Technical Support:</p> <p>The person in charge of technical services is responsible for supporting the quality control function and the professional services for clients. This includes maintaining the library, conducting special research, consulting on matters of ethics, and maintaining up-to-date files and manuals of standard forms and formats.</p> <p>The person in charge of quality control, known as the Quality Control Manager, is responsible for maintaining the quality control system according to professional standards. This includes technical reviews of financial reports issued by the firm, technical advice to the staff, dissemination of technical materials, consultation on matters of independence, and inspection program arrangements.</p>			✓
<p>Professional Personnel:</p> <p>The partner in charge of professional personnel is responsible for recruiting and relations with educators, job scheduling and assignments and personnel administration concerning career counselling and remuneration. This person is also responsible for recommending staff promotions to the partnership.</p>			✓
<p>Office Administration:</p> <p>The function of office administration includes directing the activities of the clerical and administrative support staff and maintaining proper physical facilities, client and office files, data and mail processing, supplies acquisition, storage and insurance.</p>			✓

	SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM										
<p>Firm Background Information:</p> <p>Our firm has four partners, nine professional staff, and four clerical staff. One partner has been designated as the managing partner and another as the administrative partner. Our managing partner founded the firm in 19xx and our growth has been derived entirely from internal expansion. The other partners joined the first as staff assistants and were subsequently promoted to partner level.</p> <p>Our objective is to provide quality financial reporting/compilation, auditing, and taxation services to our clients. To this end, we expect to limit our practice to those clients whom we can serve properly. We intend to develop expertise that will enable us to increase the number of clients in local government and car dealerships. We plan to hire and train professional personnel who will be able to contribute towards these goals.</p> <p>We expect our growth to continue to be internal and to be limited to our present geographic firm area, a community we have served since 19xx.</p> <p>We plan to retain our local identity and personal relationship with clients, which are the foundations of our firm.</p> <p>We plan to be a firm for which it is enjoyable and rewarding to work. We intend to continue our involvement in and contribution to community and professional activities and organisations.</p>		✓	✓										
<p>Our practice breakdown is as follows:</p> <table border="1"> <thead> <tr> <th>Specific Area:</th> <th>% of total</th> </tr> </thead> <tbody> <tr> <td>Audit:</td> <td>25</td> </tr> <tr> <td>Financial Reporting/Compilation:</td> <td>25</td> </tr> <tr> <td>Taxation:</td> <td>50</td> </tr> <tr> <td></td> <td>100</td> </tr> </tbody> </table> <p>Our practice is conducted from one office and is a general practice consisting of the following types of clients:</p> <p>Audit engagements:</p> <ul style="list-style-type: none"> • Local government • Manufacturing companies • Car dealerships <p>Other engagements:</p> <ul style="list-style-type: none"> • Local government • Retail establishments • Individuals and small personal businesses <p>For the benefit of our professional personnel, a technical manual and a personnel manual are maintained. Both manuals are referred to in this document and are, in effect, an integral part of our quality control system.</p>	Specific Area:	% of total	Audit:	25	Financial Reporting/Compilation:	25	Taxation:	50		100		✓	✓
Specific Area:	% of total												
Audit:	25												
Financial Reporting/Compilation:	25												
Taxation:	50												
	100												

APPENDIX 3.2

EXAMPLE POLICIES AND PROCEDURES FOR THE 6 ELEMENTS OF APES 320

The following policies and procedures are guidance only based on the paragraphs of APES 320.

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
14	The firm promotes an internal culture recognising that quality is essential in performing engagements.	✓	✓	✓
14.1	The partners/principals have ultimate responsibility for the firm's system of quality control.	✓	✓	✓
15	There are clear, consistent and frequent actions and messages from all levels of management, emphasising the firm's quality control procedures and policies and the requirement to: <ol style="list-style-type: none"> perform work that complies with professional standards and applicable legal and regulatory requirements; and issue reports that are appropriate in the circumstances. 	✓	✓	✓
15.1	These actions and messages are communicated by training seminars and meetings, formal or informal dialogue, mission statements, newsletters or briefing memoranda.		✓	✓
15.2	These actions and messages are incorporated into the firm's internal documentation and training materials, and in partner/ principal and staff appraisal procedures, so as to support and reinforce the firm's view on the importance of quality and how it is achieved in a practical sense.		✓	✓
16	The firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs.	✓	✓	✓
16.1	Policies and procedures addressing performance evaluation, compensation, and promotion (including incentive systems) with regard to personnel demonstrate the firm's overriding commitment to quality.		✓	✓
16.2	Management responsibilities are assigned so that commercial considerations do not override the quality of work performed.		✓	✓
16.3	Sufficient resources are available for the development, documentation and support of the firm's quality control policies and procedures.		✓	✓
17	Operational responsibility for the firm's quality-control system is assigned to a person or persons with sufficient and appropriate experience and ability and the necessary authority to assume that responsibility.		✓	✓
18	The responsible person or persons will therefore have sufficient and appropriate experience and ability to identify and understand quality control issues and to develop appropriate policies and procedures and will have the authority to implement those policies and procedures.		✓	✓

PROCEDURES:

Advise staff of firm policies, including professional, ethical and regulatory requirements and criteria for promotion on 'day one' as part of their induction.

Incorporate compliance with these policies into the staff appraisal process.

Address compliance with firm policies, including reports from the responsible person for overseeing compliance with the firm's quality controls, by means of standing meeting agenda items.

Partners to agree on the appointment of a suitably qualified person to have operational control of the firm's quality control system and review the appointment at agreed milestones.

Advise staff of the staff training program, including retention of staff training material, on 'day one' as part of their induction, and review as part of the staff appraisal process.

ETHICAL REQUIREMENTS

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
19	The partners/principals and personnel comply with relevant ethical requirements, including:	✓	✓	✓
20	a. integrity; b. objectivity; c. professional competence and due care; d. confidentiality; and e. professional behaviour.			
21	In particular, partners/principals and personnel address the requirements of the Code.	✓	✓	✓
22	The partners/principals emphasise and reinforce the fundamental principles, in particular by: <ul style="list-style-type: none"> • the leadership of the firm; • education and training; • monitoring; and • a process for dealing with non-compliance. 		✓	✓

INDEPENDENCE

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
24	The partners/principals, personnel and, where applicable, others subject to independence requirements maintain independence, where required by relevant ethical requirements.		✓	✓
24.1	The partners/principals: a. communicate independence requirements to personnel and, where applicable, others subject to them; and		✓	✓
24.2	b. identify and evaluate circumstances and relationships that create threats to independence and take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards or, if considered appropriate, withdrawing from the engagement where withdrawal is possible under applicable law or regulation.	✓	✓	✓
25	Assurance practices only a. Engagement partners/principals provide the firm with relevant information about client engagements, including the scope of services to enable the firm to evaluate the overall impact, if any, on independence requirements. b. Personnel are required to promptly notify the firm of circumstances and relationships that create a threat to independence, so that appropriate action can be taken. c. Relevant information is accumulated and communicated to appropriate personnel so that: i. the firm and its personnel are readily able to determine whether they satisfy independence requirements; ii. the firm is able to maintain and update its records relating to independence; and iii. the firm is able to take appropriate action regarding identified threats to independence that are not at an acceptable level.	✓	✓	✓

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
26	Breaches of independence requirements are notified to the firm to enable it to take appropriate actions to resolve such situations. a. All personnel promptly notify the firm of independence breaches of which they become aware. b. Identified breaches of these policies and procedures are communicated by the firm to: i. the engagement partner, who along with the firm will address the breach; and ii. other relevant personnel in the firm, including those subject to the independence requirements who are responsible for taking appropriate action; and c. Prompt communication is made to the firm, if necessary, of the actions taken to resolve the matter so that the firm can determine whether it should take further action.	✓	✓	✓
AUST 27	Threats to independence that are not clearly insignificant are documented and include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.	✓	✓	✓
AUST 28	On the receipt of notice of a breach of independence policies and procedures, the firm will promptly communicate the relevant information to engagement partners/principals and others in the firm as appropriate and, where necessary, experts contracted by the firm and network firm personnel, for appropriate action. Such action may include applying appropriate safeguards to eliminate the threats to independence or reducing them to an acceptable level, or withdrawing from the engagement.	✓	✓	✓
29	All firm personnel required to be independent by relevant ethical requirements are required to provide written confirmation of compliance with the firm's policies and procedures on independence at least annually.	✓	✓	✓
30	Written confirmation may be on paper or in electronic form.	✓	✓	✓
31.a	The firm has set criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time.	✓	✓	✓
31.b	The firm requires, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements.	✓	✓	✓
32	In particular, when looking at safeguards to reduce the familiarity threat, partners/principals and personnel refer to the discussion in the Code.	✓	✓	✓
33	Criteria to reduce familiarity threats to an acceptable level include:	✓	✓	✓
33.1a	the nature of the engagement, including the extent to which it involves a matter of public interest; and	✓	✓	✓
33.2b	the length of service of the senior personnel on the engagement;	✓	✓	✓
33.3	The firm implements appropriate safeguards, including the rotation of the senior personnel and requiring an engagement quality control review.	✓	✓	✓
34	In the case of financial statement audits of listed entities, the engagement partner/ principal is rotated after a predefined period, usually no more than five years.	✓	✓	✓

PROCEDURES:

Advise staff of compliance requirements with the Code and the firm's ethical standards on their induction and follow up as part of the staff appraisal process. Refer any evidence of non-compliance to partners for counselling of the employee(s) or any other appropriate action.

Address issues arising out of non-compliance as a standing partners' meeting agenda item.

Advise agents and consultants of the firm's ethical requirements, either on a periodic (e.g. annual) basis or on an assignment by-assignment basis.

For firms, address the following issues by means of standing partners' meeting agenda items, supported by checklists or formal certification where considered necessary:

- Information required from and about individual clients to determine the existence of any actual or perceived threats to independence;
- Independence certification by employees (at staff appraisal time and/or on commencement of a new assignment); and
- Rotation of audit partners.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
38	<p>The firm will only undertake or continue relationships and engagements where it:</p> <p>a. has the competence and capabilities, including time and resources, to perform the engagement;</p> <p>b. is able to comply with relevant ethical requirements; and</p> <p>c. has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity.</p>	✓	✓	✓
39	<p>In order to ensure the firm has the competence, capabilities and resources to undertake a new engagement from a new or an existing client, the firm considers the following issues:</p> <p>a. relevant industry or subject knowledge;</p> <p>b. experience with the relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;</p> <p>c. sufficient personnel with the necessary competence and capabilities;</p> <p>d. the availability of experts;</p> <p>e. the availability of individuals meeting the criteria and eligibility requirements to perform an engagement quality control review; and</p> <p>f. the capacity of the firm to complete the engagement within the required reporting deadlines.</p>	✓	✓	✓

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
40	<p>Information obtained by the firm includes:</p> <ul style="list-style-type: none"> a. the identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance; b. the nature of the client's operations, including its business practices; c. information concerning the attitude of the client's principal owners, key management, and those charged with its governance towards such matters as aggressive interpretation of accounting standards, and the internal control environment; d. whether the client is aggressively concerned with maintaining the firm's fee as low as possible; e. indications of inappropriate limitation on the scope of work; f. indications that the client might be involved in money laundering or other criminal activities; g. the reasons for the proposed appointment of the firm and non-reappointment of the previous firm; and h. the identity and business reputation of related parties. 	✓	✓	✓
41	<p>The information listed above is obtained from:</p> <ul style="list-style-type: none"> a. communications with existing or previous providers of professional accountancy services to the client in accordance with relevant ethical requirements, and discussions with other third parties; b. enquiries made of other firm personnel or third parties, including bankers, legal counsel and industry peers; and c. background searches of relevant databases. 	✓	✓	✓
42 (a)	The firm obtains such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.	✓	✓	✓
42 (b)	Where a potential conflict of interest is identified prior to accepting an engagement from a new or an existing client or during the conduct of an engagement, the firm determines whether it is appropriate to accept or continue the engagement.	✓	✓	✓
42 (c)	Where issues are identified, and the firm decides to accept or continue the client relationship or specific engagement, the firm documents how the issues were resolved.	✓	✓	✓

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
43	When deciding whether to continue a client relationship, the firm considers significant matters that have arisen during the current or previous engagements, and their implications for continuing the relationship.	✓	✓	✓
44	In the event that information is obtained that would have caused the firm to decline the engagement if that information had been available earlier, the firm considers the following issues: a. the professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to the regulatory authorities; and b. the possibility of withdrawing from the engagement or from both the engagement and the client relationship.	✓	✓	✓
45	In the event that it is necessary to consider withdrawing from an engagement or from both the engagement and the client relationship, the issues addressed by the firm include: a. discussions with the appropriate level of the client's management, and those charged with its governance, regarding the appropriate action the firm might take based on the relevant facts and circumstances; b. in the event that the firm determines that it is appropriate to withdraw from the engagement and/or the client relationship, discussing with the appropriate level of the client's management, and those charged with its governance, the reasons for the withdrawal; c. in the event that there is a professional, legal or regulatory requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to the regulatory authorities. d. documenting significant matters, consultations, conclusions and the basis for the conclusions.	✓	✓	✓

PROCEDURES:

Checklist for acceptance and continuation of client relationships addressing:

- Ethical issues;
- Conflict;
- Independence;
- Incompatibility of the client's business;
- Response from previous accountant to the firm's ethical letter;
- The firm's capacity to undertake or continue the assignment after considering:
 - qualifications;
 - experience; and
 - human resources.

A checklist is to be completed prior to the commencement of an engagement and at set milestones (e.g. annually or at the completion of individual assignments).

HUMAN RESOURCES

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
47	<p>The firm ensures that it has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to:</p> <p>(a) perform its engagements in accordance with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p>	✓	✓	✓
48	<p>To achieve this, and to ensure that the firm selects individuals of integrity with the capacity to develop the capabilities and competence necessary to perform the firm's work, the firm addresses the following personnel issues:</p> <p>a. recruitment;</p> <p>b. performance evaluation;</p> <p>c. capabilities, including time to perform assignments;</p> <p>d. competence;</p> <p>e. career development;</p> <p>f. promotion;</p> <p>g. compensation; and</p> <p>h. the estimation of personnel needs.</p>		✓	✓
49	<p>The firm develops competence of its personnel through a variety of methods including the following:</p> <p>a. professional education;</p> <p>b. continuing professional development, including training;</p> <p>c. work experience; and</p> <p>d. coaching by more experienced staff (e.g. other members of the engagement team); and</p> <p>e. independence education for personnel who are required to be independent.</p>		✓	✓
50	<p>The firm emphasises the need for continuing training for all levels of firm personnel and provides the necessary training resources and assistance to enable personnel to develop and maintain the required competence and capabilities.</p>		✓	✓
51	<p>Where appropriate, suitably qualified external trainers are employed.</p>		✓	✓
52	<p>The firm rewards development and maintenance of competence and commitment to ethical principles. In particular, the firm:</p> <p>a. communicates to personnel the firm's expectations regarding performance and ethical principles;</p> <p>b. provides personnel with evaluation of, and counselling on, performance progress and career development; and</p> <p>c. ensures that personnel understand the advancement to positions of greater responsibility depends, among other things, upon performance qualities and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action.</p>		✓	✓

PROCEDURES:

Address the adequacy of human resources, including qualifications and experience, by means of a standing partners' meeting agenda item. This agenda item can be extended to address the adequacy of the firm's staff training program.

Advise staff of the firm's requirements and expectations on induction.human resources.

ASSIGNMENT OF ENGAGEMENT TEAMS

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
54	<p>The firm assigns responsibility for each engagement to an engagement partner/principal and ensures that:</p> <p>a. the identity and role of the engagement partner is communicated to key members of the client management and those charged with governance;</p> <p>b. the engagement partner has the appropriate competence, capabilities and authority to perform the role; and</p> <p>c. the responsibilities of the engagement partner are clearly defined and communicated to that partner.</p>		✓	✓
55	The firm monitors the workload and availability of engagement partners/principals so as to ensure that these individuals have sufficient time to adequately discharge their responsibilities.		✓	✓
56	<p>The firm assigns appropriate staff with the necessary competence and capabilities to</p> <p>(a) perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) enable the firm or engagement partners/principals to issue reports that are appropriate in the circumstances.</p>		✓	✓
57	<p>In order to ensure that appropriate staff are assigned to engagements and that the appropriate level of supervision is provided, the firm considers the nominated personnel's:</p> <p>a. understanding of, and practical experience with, engagements of a similar nature and complexity, through appropriate training and participation;</p> <p>b. understanding of professional standards and applicable legal and regulatory requirements;</p> <p>c. technical knowledge and expertise, including knowledge of relevant information technology;</p> <p>d. knowledge of relevant industries in which the clients operate;</p> <p>e. ability to apply professional judgment; and</p> <p>f. understanding of the firm's quality control policies and procedures.</p>		✓	✓

PROCEDURES:

Address the assignment of partners and staff with adequate experience and qualifications to engagements by means of a standing partners' meeting agenda item.

Address ongoing compliance with the firm's quality control policies and procedures by means of a standing partners' meeting agenda item.

ENGAGEMENT PERFORMANCE

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
58	<p>The firm ensures that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements and the firm or the engagement partner issue reports that are appropriate in the circumstances. In doing so, the firm considers:</p> <p>(a) matters relevant to promoting consistency in the quality of engagement performance;</p> <p>(b) supervision responsibilities; and</p> <p>(c) review responsibilities.</p>	✓	✓	✓
59	<p>The firm promotes consistency in the quality of engagement performance by means of written or electronic manuals, software tools or other forms of standardised documentation and industry or subject matter-specific guidance materials.</p> <p>To achieve this consistency, the firm:</p>	✓	✓	✓
59.1	ensures that engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work;		✓	✓
59.2	ensures that applicable engagement standards are complied with;	✓	✓	✓
59.3	ensures that appropriate levels of engagement supervision, staff training and coaching are applied;		✓	✓
59.4	ensures that the work performed, the significant judgments made, and the form of reports being issued are reviewed;		✓	✓
59.5	reviews, at appropriate milestones, an appropriate level of documentation of the work performed; and		✓	✓
59.6	ensures that policies and procedures are kept current.	✓	✓	✓
60	The firm ensures that appropriate levels of team-work and training are in place to assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.		✓	✓
61	The firm ensures engagement supervision includes:			
61.1	tracking the progress of the engagement;		✓	✓
61.2	consideration of the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out the work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;		✓	✓

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
61.3	addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately;	✓	✓	✓
61.4	identifying matters for consultation or consideration by more experienced engagement team members during the engagement.	✓	✓	✓
62	Review responsibilities are determined on a peer basis and address the following:	✓	✓	✓
	(a) whether the work has been performed in accordance with professional standards and applicable legal and regulatory requirements;	✓	✓	✓
	(b) whether significant matters have been raised for further consideration;	✓	✓	✓
	(c) whether appropriate consultations have taken place and the resulting conclusions have been documented and implemented;	✓	✓	✓
	(d) whether there is a need to revise the nature, timing and extent of work performed;	✓	✓	✓
	(e) whether the work performed supports the conclusions reached and is appropriately documented;	✓	✓	✓
	(f) whether evidence obtained is sufficient and appropriate to support the report; and	✓	✓	✓
	(g) whether the objectives of the engagement procedures have been achieved.	✓	✓	✓
63	The firm's review responsibilities ensure that the work of less experienced team members is reviewed by more experienced engagement team members.		✓	✓

PROCEDURES:

Address the allocation of staff with appropriate qualifications, experience and understanding of the nature and objectives of individual assignments by having standing planning meeting agenda items. These should be supported by planning checklists which detail the actual tasks required to complete the assignment.

Review completion of the checklist, including compliance with the stated objectives, at predetermined milestones over the course of the assignment, and at the conclusion.

CONSULTATION

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
64	The firm ensures that:	✓	✓	✓
	a. appropriate consultation takes place on difficult or contentious matters;			
	b. sufficient resources are available to enable appropriate consultation to take place;	✓	✓	✓
	<i>Assurance Practices only</i>	✓	✓	✓
	c. the nature and scope of, and conclusions arising from, such consultations are documented and agreed by both the individuals seeking consultation and the individual consulted; and			
	d. conclusions resulting from consultations are implemented or, for engagements covered by ASQC 1 only, and therefore for assurance practices only the reasons alternative courses of action from consultations were undertaken are documented.	✓	✓	✓
65	Consultations include discussion at the appropriate professional level, with individuals within or outside the firm who have specialised expertise.	✓	✓	✓
66	The firm encourages personnel to consult on difficult or contentious matters, and in doing so, seeks to establish a culture in which consultation is recognised as a strength.	✓	✓	✓
67	Effective consultation on significant technical, ethical and other matters is achieved by ensuring that those consulted:	✓	✓	✓
	a. are given all the facts that will enable them to provide informed advice; and			
	b. have appropriate knowledge, seniority and experience, and that conclusions resulting from consultations are appropriately documented and implemented.			
68	Where external consultation is deemed necessary, the firm, in seeking consultation from other firms, professional and regulatory bodies or commercial organisations, ensures that the external provider has the necessary competence and capabilities and is suitably qualified for that purpose.	✓	✓	✓
69	<i>Assurance practices only</i>	✓	✓	✓
	Any documentation created as a result of consultation with other professionals that involve difficult or contentious matters is sufficiently complete and detailed to ensure that there is an understanding of:			
	a. the issue on which consultation was sought; and			
	b. the results of the consultation, including any decisions taken, the basis for those decisions, and how they were implemented.			

ENGAGEMENT QUALITY CONTROL REVIEW

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
70	<p>Assurance practices only</p> <p>Where appropriate, the firm undertakes an engagement quality control review in order to provide an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report.</p> <p>The engagement quality control review:</p> <p>a. extends to all audits of financial statements of listed entities;</p> <p>b/c. is performed on other audits and reviews of historical financial information and other assurance and related services engagements when those engagements meet certain established criteria.</p>	✓	✓	✓
71	<p>Criteria for determining which engagements, other than audits of financial statements of listed entities, are to be subject to an engagement quality control review include:</p> <p>a. the nature of the engagement, including the extent to which it involves a matter of public interest.</p> <p>b. the identification of unusual circumstances or risks in an engagement or class of engagements.</p> <p>c. whether laws or regulations require an engagement quality control review.</p>	✓	✓	✓
NATURE, TIMING AND EXTENT OF THE ENGAGEMENT QUALITY CONTROL REVIEW:				
72	<p>The firm has policies and procedures setting out the nature, timing and extent of an engagement quality control review. These policies and procedures require that the engagement report not be dated until the completion of the engagement quality control review.</p>	✓	✓	✓
73	<p>The firm requires the engagement quality control review to include:</p> <p>a. discussion of significant matters with the engagement partner;</p> <p>b. review of the financial statements or other subject matter information and the proposed report;</p> <p>c. review of selected engagement documentation relating to significant judgements the engagement team made and the conclusions it reached; and</p> <p>d. evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.</p>		✓ ✓ ✓ ✓	✓ ✓ ✓ ✓
74	<p>Engagement reports are not dated until the completion of the engagement quality control review, although documentation of the engagement quality control review may be completed after the date of report.</p>	✓	✓	✓
75	<p>The firm ensures that engagement quality control reviews are conducted in a timely manner at appropriate stages during the engagement to allow significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of report.</p>	✓	✓	✓
76	<p>The extent of the engagement quality control review depends, among other things, on the complexity of the engagement, whether the entity is a listed entity, and the risk that the report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner.</p>	✓	✓	✓

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
77	An engagement quality control review for audits of financial statements of listed entities includes consideration of the following: a. the engagement team's evaluation of the firm's independence in relation to the specific engagement; b. whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and c. whether documentation selected for review reflects the work performed in relation to the significant judgments and support the conclusions reached.	✓	✓	✓
78	Other matters relevant to evaluating the significant judgements made by the engagement team that are considered in an engagement quality control review of an audit of financial statements of a listed entity, as well as reviews of other engagements, include: a. significant risks identified during the engagement and the responses to those risks; b. judgments made particularly with respect to materiality and significant risks; c. the significance and disposition of corrected and uncorrected misstatements identified during the engagement; d. the matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies;	✓	✓	✓
CRITERIA FOR THE ELIGIBILITY OF ENGAGEMENT QUALITY CONTROL REVIEWERS:				
80	Quality control reviewers are appointed using the following criteria: a. technical qualifications required to perform the role, including necessary experience and authority; and b. degree to which an engagement quality control reviewer can be consulted on an engagement without compromising the reviewer's objectivity.	✓	✓	✓
81	The level of appropriate technical expertise, experience and authority will depend upon the circumstances of the assurance engagement. Where the engagement quality control review relates to an audit of the financial statements of a listed entity, the reviewer must have sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.	✓	✓	✓
82	The engagement partner may consult the engagement quality control reviewer during the engagement and, in doing so, may not necessarily compromise the engagement quality control reviewer's eligibility to perform the review. In the event that the nature and extent of the consultations become significant, and the reviewer's objectivity is threatened, another individual within the firm, or a suitably qualified external person, will be appointed to take on the role of the engagement quality control reviewer, or the person to be consulted on the engagement, so that the objectivity of the review is not impaired.	✓	✓	✓
83	The firm has established policies and procedures to maintain the objectivity of the engagement quality control reviewer.	✓	✓	✓

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
84	In order to maintain the objectivity of the engagement quality control reviewer, the reviewer: a. is not selected by the engagement partner/principal; b. does not otherwise participate in the engagement during the period of review; c. does not make decisions for the engagement team; and d. is not subject to other considerations that would threaten the reviewer's objectivity.	✓	✓	✓
85	Where appropriate, suitably qualified external persons are contracted to carry out engagement quality control reviews. Such external persons may be other firms. In the event that the quality control review is contracted to external persons, the requirements and guidance in paragraphs 80-83 and 87 are followed.	✓	✓	✓
87	The firm provides for the replacement of the engagement quality control reviewer where the reviewer's ability to perform an objective review may be impaired.	✓	✓	✓
DOCUMENTATION OF THE ENGAGEMENT QUALITY CONTROL REVIEW				
88	The following steps are documented: a. the procedures required by the firm's policies on engagement quality control reviews have been performed; b. the engagement quality control review has been completed on or before the date of report; and c. the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made, and the conclusions they reached, were not appropriate.	✓	✓	✓
DIFFERENCES OF OPINION				
89	The firm has policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner/principal and the engagement quality control reviewer.	✓	✓	✓
90	Where such differences of opinion exist, the firm requires that: a. conclusions reached be documented and implemented; and b. the report not be dated until the matter is resolved.	✓	✓	✓
91	These procedures encourage early identification of differences of opinion, provide clear guidelines as to the successive steps to take thereafter, and require documentation regarding the resolution as well as implementation of conclusions.	✓	✓	✓
92	In the event that differences of opinion occur, the firm, where appropriate, consults with another practitioner or firm or a professional or regulatory body to assist in the resolution of such differences.	✓	✓	✓
COMPLETION OF THE ASSEMBLY OF FINAL ENGAGEMENT FILES				
93	Final engagement files are completed within designated time limits by the engagement teams after the engagement reports have been finalised.	✓	✓	✓
94	These procedures encourage early identification of differences of opinion, provide clear guidelines as to the successive steps to take thereafter, and require documentation regarding the resolution as well as implementation of conclusions.	✓	✓	✓

ENGAGEMENT DOCUMENTATION

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
94	In the event that differences of opinion occur, the firm, where appropriate, consults with another practitioner or firm or a professional or regulatory body to assist in the resolution of such differences.	✓	✓	✓
95	In the event that two or more different reports are issued in respect of the same matter information of an entity, with regard to time limits for assembly of final engagement files, each report is treated as if it were a separate engagement.	✓	✓	✓
CONFIDENTIALITY, SAFE CUSTODY, INTEGRITY, ACCESSIBILITY AND RETRIEVABILITY OF ENGAGEMENT DOCUMENTATION:				
96	The firm maintains the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.	✓	✓	✓
97	The firm's personnel observe at all times the confidentiality of information contained in engagement documentation, unless its disclosure is authorised by the client or there is a legal duty to do so.	✓	✓	✓
98	The firm has implemented appropriate controls for engagement documentation to: <ul style="list-style-type: none"> a. enable the determination of when and by whom engagement documentation was created, changed or reviewed; b. protect the integrity of the information at all times, particularly where the information is shared within the engagement team or transmitted to other parties electronically; c. prevent unauthorised changes to the engagement documentation; and d. allow access to the engagement documentation by the engagement team and other authorised parties as necessary to properly discharge their responsibilities. 	✓	✓	✓
99	The firm employs the following controls to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation: <ul style="list-style-type: none"> a. passwords restricting access to authorised users; b. backup routines at designated milestones; c. control over distribution, processing and collation; and d. restricted access. 	✓	✓	✓
100	Where hard copy documentation is included in engagement files, the following procedures are applied: <ul style="list-style-type: none"> a. the entire contents of the hard copy document are scanned; b. the scanned copies are integrated into the engagement files, indexed and signed off for completeness; and c. scanned copies may be retrieved and printed as required. <p>A decision is made at principal level as to the retention or otherwise of the original hard copy documentation for legal, regulatory or other reasons.</p>	✓	✓	✓

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
RETENTION OF ENGAGEMENT DOCUMENTATION:				
101	The firm retains engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.	✓	✓	✓
102	Issues taken into account when determining the retention period include: a. whether the documentation is needed to provide a record of matters of continuing significance to future engagements; b. specific legal or regulatory requirements; and c. generally accepted retention periods.	✓	✓	✓
103	In the case of audit engagements, the retention period is no less than seven years from the date of the auditor's report or, if later, the date of the group auditor's report.	✓	✓	✓
104	The firm ensures that: a. it can retrieve, and have access to, engagement documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be changed or upgraded; b. any changes to engagement documentation made after the engagement files are completed are recorded; and c. authorised external parties have access to and can review specific engagement documentation for quality control or other purposes.	✓	✓	✓
OWNERSHIP OF ENGAGEMENT DOCUMENTATION:				
105	Engagement documentation remains the property of the firm unless otherwise specified by law or regulation. The firm may, at its discretion, make portions of, or extracts from, the engagement documentation available to clients. In the event that any documentation is disseminated to clients, the firm ensures that such dissemination or disclosure does not undermine the validity of the work performed or, in the case of assurance engagements, the independence of the firm or its personnel.	✓	✓	✓

PROCEDURES:

Identify and address the following issues by means of checklist items:

- contentious or difficult issues and their resolution; and
- the use of external agents or consultants with the appropriate qualifications, experience and independence;

Confirm acceptance of the ultimate resolution of such contentious or difficult issues by means of a standing partners' meeting agenda item, which would include:

- a review of the nature of the issue;
- identification of any conflicting internal opinions;
- the need for a quality review (by either an internal or external party);
- the need to seek advice from external experts;
- the need to refer the issue to a professional or regulatory body; and
- sign off that appropriate documentation existed in support of the steps taken.

Where applicable, resolve these issues prior to any report being issued.

MONITORING

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
106	<p>The firm monitors its system of quality control to ensure it is relevant, adequate, and operating effectively. The monitoring process:</p> <ul style="list-style-type: none"> a. includes an ongoing consideration and evaluation of the firm's system of quality control, including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner; b. requires responsibility to be assigned to a partner/ principal or other person with sufficient and appropriate experience and authority in the firm to assume the responsibility; and c. requires that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements. 	✓	✓	✓
107	<p>The monitoring process provides an evaluation of:</p> <ul style="list-style-type: none"> a. adherence to professional standards and applicable legal and regulatory requirements; b. whether the quality control system has been appropriately designed and effectively implemented; and c. whether the firm's quality control policies and procedures have been appropriately applied so that reports that are issued by the firm or engagement partners are appropriate in the circumstances. 			
108	<p>The ongoing consideration and evaluation of the system of quality control includes the following:</p> <ul style="list-style-type: none"> • analysis of: <ul style="list-style-type: none"> – new developments in professional standards and applicable legal and regulatory requirements, and how they are reflected in the firm's policies and procedures where appropriate; • Assurance practices only <ul style="list-style-type: none"> • written confirmation of compliance with policies and procedures on independence; <ul style="list-style-type: none"> – continuing professional development, including training; and – decisions related to acceptance and continuance of client relationships and specific engagements. • determination of corrective action to be taken and improvements to be made in the system, including the provision of feedback into the firm's policies and procedures relating to education and training; • communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it; and • follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures. 	✓	✓	✓

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
AUST 109	In determining the scope of the inspections, CPA Australia's Quality Assurance Review Program is taken into account.	✓	✓	✓
	<p>Assurance practices only</p> <p>Engagements for inspection are selected from each engagement partner/principal over an inspection cycle not exceeding a period of three years. The manner in which the inspection cycle is organised, including the timing of selection of individual engagements, depends on the following factors:</p> <ul style="list-style-type: none"> • the size of the firm; • the number and geographical location of offices; • the results of previous monitoring procedures; • the degree of authority both personnel and offices have (e.g. whether the individual offices are authorised to conduct their own inspections or whether only the head office may conduct them); • the nature and complexity of the firm's practice and organisation; and • the risks associated with the firm's clients and specific engagements. 			
110	<p>The inspection process includes the selection of individual Assurance engagements, some of which may be selected without prior notification to the engagement team.</p> <p>When determining the scope of the inspections, the scope or conclusions of an independent external inspection program, such as CPA Australia's Quality Assurance Review Program, is taken into account. However, the firm recognises that CPA Australia's Quality Assurance Review Program does not act as a substitute for the firm's own internal monitoring program, but rather an element of that program.</p>	✓	✓	✓
111	Suitably qualified external personnel or other firms are used to carry out engagement inspections and other monitoring procedures where appropriate.	✓	✓	✓
112	<p>In the event that deficiencies are noted as a result of the monitoring process, a determination is made as to whether they are either:</p> <p>a. instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or</p> <p>b. systemic, repetitive or other significant deficiencies that require prompt corrective action.</p>	✓	✓	✓
113	Deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action are communicated to the relevant engagement partner(s) and other appropriate personnel.	✓	✓	✓
114	When reporting identified deficiencies to individuals other than the relevant engagement partners, the firm determines whether it is necessary to identify the specific assurance engagements concerned to ensure the proper discharge of the responsibilities.		✓	✓

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
115	<p>Upon evaluation of each type of deficiency, recommendations for remedial action include one or more of the following:</p> <p>a. taking appropriate remedial action in relation to an individual assurance engagement or member of personnel;</p> <p>b. communication of the findings to those responsible for training and professional development;</p> <p>c. changes to the quality control policies and procedures; and</p> <p>d. disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.</p>	✓	✓	✓
116	<p>In the event that the result of the monitoring procedures indicates that a report may be inappropriate, or that procedures were omitted during the performance of the assurance engagement, a determination is made as to what further action is appropriate to comply with relevant professional standards and applicable legal and regulatory requirements and whether to obtain legal advice.</p>	✓	✓	✓
117	<p>The results of the monitoring of the firm's quality control system are reported to engagement partners and other appropriate individuals within the firm, at least annually, so that prompt and appropriate action can be taken when necessary. The following information is provided:</p> <p>a. a description of the monitoring procedures performed;</p> <p>b. the conclusions drawn from the monitoring procedures; and</p> <p>c. where relevant, a description of systemic, repetitive or other significant deficiencies, and the actions taken to resolve or amend those deficiencies.</p>	✓	✓	✓
118	<p>As the firm operates as part of a network and some or all of the monitoring procedures are implemented on a network basis, the firm places reliance on that system as follows:</p> <ul style="list-style-type: none"> the overall scope, extent and results of the monitoring process are communicated at least annually; and any identified deficiencies in the quality control system are communicated promptly so that the necessary action can be taken. 	✓	✓	✓

PROCEDURES:

Monitor the firm's quality control system by means of a standing partners' meeting agenda item linking to an index of the individual elements and their projected review dates, which would be diarised. Include in the agenda item reference to any issues arising out of the monitoring exercise:

- completion of the respective reviews;
- indications of non-compliance; and
- any system upgrades deemed necessary.

COMPLAINTS AND ALLEGATIONS

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
119	<p>The firm ensures that it deals appropriately with:</p> <p>a. complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements; and</p> <p>b. allegations of non-compliance with the firm's system of quality control.</p> <p>The firm has established clearly defined channels for the firm's personnel to raise any concerns in a manner that enables them to come forward without fear of reprisal.</p>	✓	✓	✓
120	The firm acknowledges that complaints and allegations may originate from a number of sources including firm personnel, clients or other third parties, and they may be received by engagement team members or other firm personnel.	✓	✓	✓
121	<p>Assurance practices only</p> <p>In the event that a complaint or allegation is received, the investigation is supervised by a partner/principal with sufficient and appropriate experience and authority within the firm, but who is not otherwise involved in the engagement. If necessary, the investigation may include the involvement of legal counsel.</p>		✓	✓
122	In the event that the results of the investigations indicate deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control by an individual or individuals, action appropriate in the circumstances is taken.	✓	✓	✓
123	Where appropriate, the services of a suitably qualified external person, or other firm, is utilised to carry out the investigation into complaints and allegations.	✓	✓	✓

PROCEDURES:

Address any complaints or allegations of inadequate performance by means of a standing partners' meeting agenda item including the following issues:

- counselling the partner/staff member involved;
- updating the relevant policy or procedure; and
- reinforcing the relevant policy/procedure.

DOCUMENTATION

POLICY:

APES 320 GUIDE LINES		SOLE PRACTITIONER NO STAFF	SOLE PRACTITIONER WITH STAFF	MULTI PARTNER FIRM
124	The operation of each element of the firm's system of quality control is evidenced by appropriate documentation.	✓	✓	✓
125	The following factors are taken into account when determining the form and content of documentary evidence in the operation of each of the elements of the quality control system: a. the size of the firm and the number of offices; b. the nature and complexity of the firm's practice and organisation.	✓	✓	✓
126	The following documentation is maintained in relation to monitoring: a. monitoring procedures, including the procedure for selecting completed engagements to be inspected; b. a record of evaluation of: i. adherence to professional standards and applicable legal and regulatory requirements; ii. whether the quality control system has been appropriately designed and effectively implemented; and iii. whether the firm's quality control policies and procedures have been appropriately applied so that reports that are issued by the firm or engagement partners/principals are appropriate in the circumstances; and c. identification of the deficiencies noted and evaluation of their effect and the basis for determining whether and what further action is necessary.	✓	✓	✓
127	More informal methods of documentation are used where appropriate.	✓	✓	✓
128	Documentation is retained for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.	✓	✓	✓
129	The firm requires the documentation of complaints and allegations and the responses to them.	✓	✓	✓

PROCEDURES:

Retain client files as follows:

- Tax/compilation:
 - previous year – in office
 - prior years – in archive storage, marked for security destruction after (X) years
- Audit:
 - previous year – in office
 - prior years – in archive storage, marked for security destruction after (X) years
 - permanent file – in office
- Other:
 - as required by legislation

SECTION 4

QUALITY CONTROL

IN A SMALL FIRM

OUTLINE

The following section covers the general quality control areas in a small firm.

For the purpose of this section, a small firm is defined as a member or members in public practice who do not employ any professional staff, although such firms would likely employ para-professional and/or support staff.

This section assumes that members will offer taxation, company secretarial and financial statement preparation/ compilation services, general advice to clients and financial planning. This section does not cover audit or assurance engagements. If professional staff are employed and/or other services such as audit or assurance engagements are offered, you should also refer to other applicable sections of the manual. This section covers the following general elements of quality control as they apply to a small firm:

- Ethical requirements.
- Client acceptance and continuance.
- Human resources.
- Engagement performance.

Users of the manual should read the warning and disclaimer that appears on the second page of the manual prior to reading each section.

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ETHICAL REQUIREMENTS

APES 320 Quality Control for Firms requires that personnel comply with relevant ethical requirements. The fundamental principles of professional ethics include:

- Integrity;
- Objectivity;
- Professional competence and due care;
- Confidentiality; and
- Professional behaviour.

In addition, as detailed by the Code of Ethics for Professional Accountants (the Code), independence is a characteristic that is crucial to the accounting profession. The characteristics of objectivity and integrity are essential to maintaining independence, both in mind and in appearance.

CPA Australia has rules to help practitioners maintain their independence in mind and in appearance. The criterion is whether a reasonable person, having knowledge of all the facts and taking into consideration normal strength of character and normal behaviour in the circumstances, would conclude that a particular relationship between a practitioner and a client poses an unacceptable threat to integrity or objectivity.

INDEPENDENCE:

You must be familiar with the sections of the code that relate to integrity, objectivity and independence. The general requirements of these pronouncements are summarised below:

Members must not compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others.

Relationships that bias or unduly influence the professional judgement, or impair objectivity, of the member should be avoided.

Members have a duty to be, and be seen to be, free of any interest that is incompatible with objectivity when carrying out professional work.

It is not possible to specifically state circumstances where small firms may be seen as lacking objectivity.

An individual determination will need to be made after careful consideration of the facts of each situation. It is recognised that many members act as tax agents for close or immediate family. An immediate family member is defined as including a spouse (or equivalent) or dependant, and a close family member includes a parent, child or sibling who is not an immediate family member. However this alone does not indicate a lack of objectivity.

Some guidance can be provided by listing examples of situations where it is more likely that independence may be impaired. Special care will have to be applied in these cases to ensure that members act objectively.

Examples include:

- Acting as tax agent when the member has borrowed money from or lent money to a client.
- Purchases of goods and services from a client on more favourable terms than generally available to customers of the client whilst acting as a tax agent.
- Hospitality or gifts from clients on a scale which is not commensurate with normal courtesies.
- Advice on software or other products you have developed, or with which you have some relationship, which are sold or otherwise provided to clients.
- You need to advise clients of your professional responsibilities for submissions to, or provision of evidence to, courts of law, tax-related tribunals, etc.
- Conflicts of interest or duty, either between the firm and the client or between two clients, must be explained and disclosed to the client(s). You must ensure independence is not compromised where two clients are involved. (An example of this type of situation is the purchase or sale of a business when both parties to the transaction are clients).
- When providing financial planning services to clients, you must:
 - Inform the client in writing of any commission arrangement;

-
- Disclose the basis and terms of the arrangement to the client; and
 - Ensure that advice given is independent, objective and in the best interests of the client.
 - Memoranda should be completed to support the position taken in situations where independence may be questioned.
 - Where you employ part-time clerical assistance, including close or immediate family, those persons should also understand the importance of independence.
 - In the case of continuing clients, independence should be addressed and documented where necessary during the planning process. An example of a matter that should be addressed at this stage would be any long outstanding fees that may take on some of the characteristics of a loan to the client.
 - When the firm acts as a principal, and engages another firm to perform segments of an engagement (for example, consultation on the interpretation of a tax ruling), representations as to the independence of the other firm should be obtained.

Situations may arise where fees

- from a client, or a group of connected clients, represents a large proportion of the total gross fees of a firm. This mix of fees should be monitored to ensure that professional independence is not compromised by the firm being economically dependent on one or a small number of clients.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

APES 320 requires the member to avoid the risks of association with a client whose management lacks integrity.

Maintaining a quality firm requires that prospective clients be carefully evaluated before they are accepted as clients, and that continuing clients be re-evaluated periodically.

These evaluations are made for the following purposes:

- To determine the perceived risk of professional liability claims.
- To determine whether the firm is competent to serve the client.
- To avoid potential conflicts of interest or professional embarrassment.

Important considerations in deciding whether or not to accept or continue client relationships include the identity, business reputation and stability of management, the nature of the business, the attitude of management towards the interpretation of accounting standards, limitations in the scope of work or in keeping the firm's fees low, its sources of financing and financial needs, its financial strength and stability, indications of money laundering, terrorism financing or other criminal activities, and its system of administration and internal controls.

These matters determine the extent to which you can rely on the representations and statements made by the client's management during the engagement.

Again, the extent to which a formal evaluation is prepared is dependent upon the size of the client and the type of work being performed. As an example, a straightforward salary and wages return would not support a detailed evaluation of the prospective client. In this circumstance you should consider having the client confirm that the details of income and expenditure provided are complete and that substantiation required is maintained by the taxpayer.

The ability to serve the client is a mandatory requirement of professional standards, and this must also be considered when deciding whether to accept or continue a client relationship. The ability to serve depends on your availability as well as having the expertise to meet the client's requirements. Additionally, the engagements must comply with ethical requirements.

Avoiding potential conflicts means declining client relationships that may involve conflicts among clients or conflicts of interest, including those involving questions of independence.

In summary, certain conditions must exist in order to have effective client relationships. These include the client's willingness to provide reliable financial information, ethical management and activities that comply with the law.

CLIENT EVALUATION:

Adequate procedures should be followed to reduce the risk of accepting a client engagement that does not meet your acceptance criteria. The procedures to be followed will depend on the size and type of engagement. Examples of procedures that could be followed are set out below:

- Obtain and review available financial information on the prospective client, such as annual reports, interim financial statements and income tax returns.
- With the client's approval, ask third parties for information about the prospective client and its management and principals which may have a bearing on evaluating the prospective client.
- Enquiries may be directed to the prospective client's banker, legal advisers, investment banker, and others in the financial or business community. It is accepted that the extent of the reference checking will be dependent upon the size of the engagement and the nature of the work. A confirmation of the completeness of material provided may well be sufficient for straightforward compliance tax work, so long as you have taken reasonable steps to ensure material provided is correct.
- Communicate with the predecessor accountant as required by Section 210 'Professional Appointment' of the Code, to establish if there are any reasons why the engagement should be declined. Examples of such reasons would include unreasonable expectations of the accountant and significant disputes about treatment of items in the tax return or financial statements.

AGREEING THE TERMS OF AN ENGAGEMENT:

- Consider circumstances that would cause you to think the engagement needs special attention or presents unusual risks. For example, very aggressive tax practices may be a concern, since an adverse ruling by the ATO can create substantial tax underpayments, possible litigation, and ill will. In addition, particular industries or cash businesses may require special attention.
- Evaluate your firm's independence and ability to service the prospective client. Consider needs for technical skills, knowledge of the industry and other practices.
- Determine that acceptance of the client would not violate the fundamental principles of professional ethics, or the law, or other relevant regulations.

Similar procedures need to be considered in determining whether you should continue to serve a particular client.

Matters that should be considered in the process include:

- A significant change since the last evaluation, including a major change in one or more of the following:
 - Management.
 - Directors.
 - Ownership.
 - Legal advisers.
 - Financial condition.
 - Litigation status.
 - Nature of the client's business.
 - Scope of the engagement.
 - Policy, including accounting principles.
- The existence of conditions which would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.

APES 305 Terms of Engagement states that it is in the interest of both client and member that the member documents and communicates the terms of engagement, preferably before the commencement of the engagement, to help in avoiding misunderstandings in the engagement. Many small practitioners will be concerned with the cost of providing engagement letters to small compliance tax return clients. Note, however, that the terms of engagement need not be in the form of a letter or agreement – they may be in a standard format handout, brochure, leaflet or electronic communication. As an alternative to an engagement letter obtained before the work is commenced, you can provide a transmittal letter explaining the work done and the responsibilities of the client. The letter would be forwarded to the client at the time the tax return is forwarded for review and signature. However, the format and contents of the letter must be modified to suit the particular requirements of the engagement.

ENGAGEMENT LETTERS:

It is recommended that you send a letter to the client confirming the terms of the engagement as outlined above, preferably before work commences, or at the latest at the time the tax return is signed, or in other situations, a report delivered. It is important to confirm that the client has understood the terms of the engagement by requesting that a copy of the letter be signed and returned to you as acknowledgement of the terms of the engagement. The letter should be addressed to an officer who has power

to sign on behalf of the client. For recurring work you may consider issuing new letters each time the services are performed. The following factors might cause you to decide to send a new letter:

- Any indication that the client misunderstands the objective and scope of the engagement.
- Any revised or special terms of the engagement.
- A recent change of management.
- A significant change in the nature or size of the client's business.
- Any change in the client's extent of involvement in the preparation of the accounts.
- Legal requirements.

HUMAN RESOURCES

If a new engagement letter is not considered necessary, the member should remind the client of the original letter. This should be documented by way of a file note. Many firms have a policy of reissuing letters of engagement on recurring engagements periodically, say every three to five years. For further details on the form and content of engagement letters see the discussion in Section 3 'Acceptance and continuance of client relationships and specific engagements.'

APES 320 requires a firm to have sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements.

EMPLOYMENT:

Of importance in small firms is the employment of para- professionals and support staff. APES 320 promotes the employment of individuals with integrity and with the capacity to develop the necessary skills to enable them to discharge their responsibilities. The quality of a firm's professional services ultimately depends on the integrity, competence and motivation of staff who perform and supervise the work. Thus, recruitment is a factor in maintaining such quality.

Matters that should be addressed in recruiting for the staff requirements of a small firm include:

- Hiring should not be done on a crisis basis. Needs should be identified in advance.
- Qualifications and guidelines for evaluating potential employees must be established.
- Identify the attributes sought in employees, such as intelligence, integrity, honesty, motivation, and aptitude for the work involved.
- Identify achievements and experience of the applicant, including academic background, personal achievements, work experience, and personal interests.
- Set guidelines to be followed when engaging individuals in unusual situations, such as employing relatives, or relatives of clients, re-employing former employees, or employing client employees.
- Obtain background information about the applicant's qualifications, such as resumes, application forms, interviews, statement of academic record and references (written or oral).
- Evaluate the qualifications of new staff, to determine whether they meet the firm's requirements and standards.
- Maintain staff files. The files should contain an application form and a resume or a similar document for quality control purposes. Other material may be filed for administration purposes. Evidence of reference checks should preferably be maintained.
- Inform applicants and casual staff of the firm's policies and procedures.

PROFESSIONAL DEVELOPMENT:

APES 320 recognises that professional capabilities and competence are developed through a variety of methods, including professional education and continuing professional development.

Your continued success depends on your experience and knowledge. That dependence is becoming more important as the profession's requirements expand and client needs grow.

Professional development for a small practitioner can typically be viewed as comprising two main activities.

- Self-study – from discussions; reading books, technical materials and journals; completing self-study courses; and participating in professional association discussion groups, committees and activities.
- Continuing professional education – from group conferences, programs, workshops, courses, seminars and other relevant formal sources.

You should establish a target number of hours to be spent on professional development for the year and the broad areas in which that time should be spent. The target should at least ensure professional staff comply with CPA Australia By-Laws 4.1 and 4.2. A summary of these requirements is as follows:

- Members are required to undertake at least 120 hours of Continuing Professional Development (CPD) per triennium of which at least 20 hours must be taken in each year of the triennium.
- A contemporaneous, permanent record of CPD undertaken must be retained.

Your continuing professional education program should include a monitoring system for assessing its effectiveness. Monitoring compliance involves keeping records, which are also needed for documenting your professional development efforts for CPA Australia. Other issues for consideration are:

Include appropriate coverage of personal management skills in your professional development. Education should include not only technical training but exposure to courses that will enhance your ability to evaluate broad issues. Education courses also facilitate networking.

Self-education should be continuous because there are always new developments in accounting and business. You should establish a structured program of self-education, which should include:

- Participation in external continuing professional education programs, including tertiary-level and self-study courses; and
- Membership of professional organisations.
- Certain material should be maintained and you should read appropriate publications including:
 - Professional literature on current developments in professional technical standards.
 - Pronouncements by CPA Australia.

Pronouncements in areas of specific interest, such as those issued by the ASIC, ATO, and regulatory bodies.

Perhaps the most important part of self-development is attending formal continuing education courses and conferences. While self-study and other types of learning are of value, formal courses and conferences are the mainstay of the continuing education program.

Many members find that membership of a regular discussion group is an effective way of maintaining professional competence and discussing concerns with peers. CPA Australia has discussion groups on a wide range of topics, which members are welcome to join.

A periodic self-review procedure should be established to monitor continuing professional development to determine compliance with the firm's requirements.

ENGAGEMENT PERFORMANCE

APES 320 requires firms to perform engagements in accordance with professional standards and regulatory and legal requirements and to issue reports that are appropriate. APES 320 promotes the establishment of consistency in the quality of engagement performance. This means you should plan, conduct, supervise and review the work so that it complies with professional standards.

CONDUCT OF ASSIGNMENTS:

You should develop some basic policies and procedures to ensure that engagements are properly planned and executed. This may involve procedures such as:

- Using a planning checklist for assignments.
- Using a completion checklist for financial statement or tax return completion.
- Using a standard index and standard work papers for engagement files.

SUPERVISION:

Small firms often employ para-professional and support staff. Members should ensure that the level of supervision of para-professional and support staff is enough to ensure the standard of work meets professional standards of quality. Para-professional and support staff should understand their role in maintaining the overall standards of the firm. It is your responsibility to ensure that the standards are understood and maintained. Clients interact with para-professional and support staff employed by the member. Staff communication skills and overall presentation are part of the client's impression of the quality of the firm. To help staff achieve high quality work, you must provide training and meaningful performance standards so that they know what you mean by quality. For example, standard turnaround times should be established for:

- Answering and returning telephone calls;
- Processing correspondence; and
- Delivering tax returns.

Many small firms employ casual staff at peak times during the year and similar considerations should apply for supervising staff.

CONSULTATION:

It is important for members to seek timely and requisite guidance and assistance from people with appropriate levels of knowledge, competence, judgement and authority as required. Consultation refers to the guidance you should request from others because of the nature of a professional situation, or because your knowledge and experience in a particular area is limited. In such instances, you should seek consultation from authoritative sources, such as professional literature or fellow professionals who might be more knowledgeable about a particular subject than you. You should develop arrangements for consultation with another firm, professional or regulatory bodies, or commercial organisations when a situation is beyond your level of knowledge and/or experience. To research a matter or to use the knowledge of others to solve the various issues encountered is not a sign of weakness but a benefit to your clients and your firm.

- Areas requiring consultation because of the nature or complexity of the subject matter include:
 - Ethical issues.
 - Specialist topics in which you have limited or no experience.
 - Applications of new tax legislation, or technical pronouncements.
 - Emerging problems, tax rulings.
 - Disputes with clients over technical issues.
 - Obtaining a second opinion on complex issues.
- CPA Australia can put you in contact with another practitioner who has experience in a particular area.
- Whenever consultation is sought, it should be documented and filed. As a minimum, documentation should include a memorandum stating the reasons for the consultation, the sources consulted, and the conclusions.

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

REFER TO SECTION 3

MONITORING

REFER TO SECTION 3

DOCUMENTATION

REFER TO SECTION 2

PRACTICAL GUIDANCE ON THE APPROACH TO AN ENGAGEMENT

This section illustrates how quality control could be applied to an engagement within a small firm. The elements of quality control which primarily relate to the conduct of an engagement are:

- Acceptance and continuance of client relationships and specific engagements; and
- Engagement performance.

ACCEPTANCE PROCEDURES:

- Before accepting an invitation to provide professional services, you should comply with the independence and acceptance procedures detailed earlier in this section.
- You should be satisfied that you have the necessary qualifications, skills and experience to perform the work. This includes holding the appropriate registration.
- Assuming there are no ethical and/or technical reasons not to accept the appointment, the nature, scope, and terms of the engagement should be clarified. Preferably this should be in the format of an engagement letter, guidance on which has been provided earlier in this section.

Where relevant, the legal, professional and administrative procedures must be completed.

For example:

Taxation

- Lodgement of an Appointment of Tax Agent form with the ATO.
- Consider whether correspondence from the ATO should be sent to you.

Corporate secretarial

- Consider the independence and objectivity ramifications of acting as company secretary.
- Lodgement of appropriate forms with ASIC and assumption of the responsibility to advise them of changes.

PLANNING:

- Planning provides the means to adopt a consistent and coordinated approach to an engagement. The planning should establish the client service objectives, identify problems and areas of high and low risk, and formulate the approach for all engagements over a pre-established fee level.

- To effectively plan an engagement, it is recommended that some background information about the client be obtained and documented. This information would generally be obtained through discussions with the client and may include:
 - Financial report preparation
 - The business structure;
 - Business activities;
 - Reporting requirements (e.g. Corporations Act, Associations Incorporation Act);
 - How significant account balances are derived; and
 - Areas of risk relating to the completeness and accuracy of financial statements.

Taxation

- The status of prior years' income tax returns;
- Whether there are any notices of objection, requests for amended assessment, ruling requests, outstanding disputes, or outstanding requests for information from audit activity with the ATO;
- Whether there are any outstanding tax liabilities, and if so the arrangements to meet such liabilities;
- The approach adopted by the client in prior years to returning income and claiming expenditure;
- The availability of franking credits; and
- The availability of either revenue or capital losses.
- Establish a timetable for performing the work.
 - Failure to plan can result in difficulties by creating an unmanageable backlog, which is irritating to clients and could lead to unacceptable short-cuts.
 - The timetable should take into account any statutory reporting deadlines, for example, the due dates for ASIC company reviews, and the tax return lodgement program of the ATO.

- Once the timetable has been established, the important dates should be put in a diary, filed as a reminder in an expanding file in date order or flagged in a computer software package.
- When an assignment is being planned you should also consider setting up a preliminary budget of the expected hours and costs. The budget should include your own time as well as the costs of clerical activities. Time and cost budgets assist in controlling the time spent on engagements.

DOCUMENTATION/WORK PAPERS:

- Documentation/work papers are an essential part of every assignment. An effective quality control system should include work papers that are clear, concise and complete. Work papers are a permanent record of the quality and extent of work performed and provide evidence that:
 - A reasonable approach and process has been applied.
 - All required work has been carried out.
 - There were appropriate degrees of professionalism and care.
 - Conclusions and recommendations were based on sound and logical reasoning.
- You should determine the extent and nature of the information necessary to enable you to perform the engagement. The extent of documentation necessary will depend on the scope and size of the engagement. For example, in a taxation assignment, different levels of information will be required for tax return preparation from that necessary for tax advice. When preparing financial statements, bank statements, cash books, and major suppliers' statements are the prime source of information and clients should be advised what data they need to provide.
- You should keep a record of the source of significant information used to perform the work and arrive at the relevant conclusions.
- Examples of suggested working paper requirements are:

FINANCIAL STATEMENT PREPARATION

Work papers should generally record what detailed records, listings or calculations have been used to support the figures in the financial statements. Where appropriate and practicable, copies of supporting information should be filed with working papers (e.g. bank and general ledger reconciliations).

INCOME TAX RETURNS

Preparation and/or review of individual income tax returns involve working through the return item by using appropriate checklists. You must ensure that the client is aware that documentation must be kept for each item of expenditure claimed. Summary calculations of how the return was calculated, and a reconciliation of the taxable income in the income tax return to the provision for income tax per the financial statements (if applicable), should also be maintained.

- Notes of meetings and discussions A summary of all significant discussions with clients should be prepared and filed in a working engagement file. This would include:
 - Problems raised during the assignment (e.g. lack of information, likely fee overrun, potential errors).
 - Matters you raised that need possible further action, but the client does not wish to pursue.
 - Contentious issues which need to be resolved either with the client or with a Ruling Request.
 - Discussions with the ATO.
 - Discussions with other people who have supplied information that was used.

It is a good practice, wherever possible, to avoid taking messages from, or leaving messages with, anyone other than the client. If this is unavoidable, you should confirm the client's awareness of the request having been made or information having been provided, either by telephone shortly thereafter or in writing.

- Obtaining expert opinions
In some cases, an expert opinion may need to be obtained as part of the engagement. For example, in a taxation assignment this would include situations where advice is required from:

- A foreign tax specialist about the tax laws of another country.
- A solicitor or a barrister.
- An accountant versed in the particular area of concern.
- A valuer.
- Another expert.

Details of the consultation should be recorded and maintained in the work papers.

- You should use checklists as an overall control over the completeness and accuracy of the work performed. The use of checklists reduces the possibility of forgetting a step and saves time. The checklists could be either internally produced using your own experience, produced with the help of other practitioners, or obtained from some of the larger accounting firms.
- You may also consider whether working papers should be established in a standard format and sequence that includes an index to work papers, interview notes, findings, conclusions and recommendations.

INCORRECT OR MISLEADING INFORMATION:

- You should not knowingly be associated with any information that is found to be incorrect or misleading. Be careful when completing work papers to ensure that they do not include any misleading statements. Examples in particular situations include:

Financial statement preparation

The member does not test for the occurrence of illegal acts. However, if a member becomes aware that the information supplied by the client contains any material misstatements or is otherwise unsatisfactory, APES 315 Compilation of Financial Information requires that the member take all reasonable steps to agree appropriate amendments with the client. If the client refuses to make such amendments as is necessary, then the member must consider whether to continue acting for the client in a professional capacity.

Taxation

Members should be aware of the serious consequences of being associated with the lodgement of an incorrect return in view of the provisions of Part III of the Taxation Administration Act 1953.

The professional requirement in APES 220 Taxation Services states 'A member shall not provide a taxation service to a client or employer if the member finds that information on which the taxation service is to be based contains false or misleading information or omits material information and the client or employer is not prepared to appropriately amend it'. A similar requirement is set out in the tax agents' requirements. The self assessment system has increased the onus on both the taxpayer and the practitioner to ensure that income tax returns are not incorrect or misleading. An effective system of quality control should ensure that sound practices are implemented. You must ensure that:

The client has confirmed

- correctness of information included in the tax return;
- The work papers show that you took reasonable care preparing the returns;
- Where applicable, the return or advice discloses that the client has a 'reasonably arguable position' on the position adopted; and
- All relevant elections and notices are kept with the file copy of the return and submitted as a package when the client is audited.

There are statutory guidelines that reduce the penalties applicable where a taxpayer voluntarily discloses an understatement of income. Thus, there is a positive reason for ensuring that a return is corrected if necessary.

CLARIFICATION OF WORK PERFORMED:

The end product of the engagement should accurately reflect the work you performed. It should leave the user in no doubt as to what work has been done. Examples in particular situations include:

Financial statement preparation

APES 315 requires a member to issue a report on a compilation engagement unless the financial report is audited by another member in Public Practice. This report must ensure that readers of the financial report understand the scope of the engagement, the client's responsibilities for the information in the report, and the work that has been undertaken by the member. The report will also include an appropriate disclaimer of liability. In addition, a financial report compiled by a member must contain a note on every page stating that the financial report is not audited. Where the members decides not to issue a compilation report, the member should document the rationale for that decision.

Advisory services

A formal report or sign-off letter should be considered for all projects stating clearly that the project has been completed and specifying the output of the project (e.g. progress reports, oral presentations, procedures manuals, formal reports).

TIME RECORDING AND BILLING:

Before submitting an invoice to the client for the services rendered, reference should be made to the estimated time and cost budget and the actual time and costs incurred. Comparisons with the budget are performed to identify variances and the explanations for the variances. Reference to the actual costs is performed to ensure the fee adequately covers the costs incurred. Many firms have under-recovered their time costs because billings have been performed on a 'gut-feeling' basis.

RECORD RETENTION:

- Section 262A of the Income Tax Assessment Act 1936 obliges every person carrying on a business to retain records for a period of at least five years.
- Section 100.70 of the Income Tax Assessment Act 1997 (ITAA 1997) requires records for assets to which Capital Gains Tax would be applicable to be retained for five years after the CGT event has happened.
- Section 900.75 of ITAA 1997 requires records substantiating car expenses to be retained for a period of five years.
- Section 132 of the Fringe Benefits Tax Assessment Act 1986 requires an employer to retain records relating to Fringe Benefit Tax transactions for a period of five years.
- Section 1101C of the Corporations Act 2001 requires a company register or a record other than a financial record to be preserved for a period of five years and company financial records to be maintained for a period of seven years.
- Section 103 of the Superannuation Industry (Supervision) Act 1993 requires trustees to keep minutes of trustee meetings and a record of all changes of trustee for a period of 10 years.

CLIENT CONFIDENTIALITY:

The confidential relationship between you and the client is paramount to the quality standards of the accounting profession. A firm should treat all client matters with utmost confidentiality. Reference to the work of specific clients should not be made without the client's permission. Paragraph 3.6 of APES 220 states 'In accordance with Section 140 Confidentiality of the Code, a member who acquires confidential information in the course of professional work for a client or employer shall not use that information for any purpose other than the proper performance of professional work for that client or employer'.

You should be aware of the Commissioner of Taxation's ability to access information from you. Particular attention should be given to the Commissioner's guidelines for the exercise of access to professional accounting adviser's papers. If you are not experienced in this area, you should consider obtaining specialist assistance.

You should also consider whether documents may be subject to legal professional privilege. Again, if necessary, legal assistance should be obtained in determining such claims. It is important this is done before any disclosure is made – as privilege is lost immediately a document is disclosed to the ATO.

STAYING IN TOUCH:

Knowledgeable clients make better decisions, provide better input, and ultimately gain greater satisfaction. Nothing is worse for a client than waiting and wondering. The willingness to communicate indicates to the client that their interests are important. It creates trust. Whenever a critical decision point on the assignment is reached, call the client, set out the alternatives, make a recommendation, then ask for the client's opinion and instructions. This will create a desire by the client to maintain and develop the relationship.

Details should be recorded in file notes and where the matter is sufficiently significant, confirmed to the client in writing.

SECTION 5

QUALITY CONTROL FOR SPECIFIC PRACTICE AREAS – FINANCIAL REPORTING/COMPILATION

OUTLINE

This section deals with quality control issues applicable to Financial Reporting/Compilation engagements. In order for the system of quality control to be effectively established, the following aspects should be considered:

- Planning.
- Control and review procedures.
- Formal reporting.

This section also contains guidance on small and large proprietary companies and the application of the reporting entity concept, including the determination of the status of the entity as reporting or non-reporting, and the effect of that determination on the engagement. The material presented in this section is a guide only. It is your responsibility to ensure that the material is modified to meet the requirements of each engagement and the relevant quality control objectives.

Users of the manual should read the warning and disclaimer that appear on the second page of the manual prior to reading each section.

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PLANNING

UNDERSTANDING THE CLIENT:

In order to effectively plan the engagement, it is recommended that some background information about the client is documented. This might include the business structure, business activities, reporting requirements (e.g. Corporations Act, Associations Incorporation Act), significant account balances, and risk affecting the completeness and accuracy of financial statements. You must consider the risk of material misstatement or error for individual account balances and any other information used in preparing financial statements and returns. Factors that may affect risk include:

- The nature of the industry in which the client operates;
- The internal control structure;
- The level of knowledge and experience of staff;
- The tax practices adopted; and
- The client's history and background.

A firm may consider implementing a standard 'Client Information Form' to document the knowledge gained about the client. This information should be reviewed and updated regularly.

It is also important to distinguish between compilation engagements, review engagements, assurance engagements, and audits. Section 6 deals with some aspect of this distinction.

TERMS OF ENGAGEMENT AND STAFF PLANNING:

The terms of engagement should be documented and communicated to the client so that both parties are clear about the work that will be done on the financial report or other compiled reports. You should get your clients to acknowledge in writing the contents of the engagement letter. A copy of the engagement letter should be filed in the working engagement file.

You should carefully consider who will carry out the work and who will review it, bearing in mind the complexity of the assignment, the nature of the services, and the risks. You should also consider if a specialist should carry out or review some or all of the work. A budget of time and costs should also be prepared for each engagement.

WORK PROGRAM:

When you plan the work program for a compilation engagement, determine the extent and nature of information you need from the client. The records for a particular engagement would be based on your understanding of the client's recording of transactions, controls and systems (e.g. sales journals, aged debtors listing, accounts payable listings, valued stock counts). Where an area of risk has been identified and additional work is to be performed (either by you or the client), it may be considered necessary to record additional procedures such as detailed checks, or obtaining confirmation that the client has carried out the work. At the planning stage, consider whether the work program should be approved by the principal and placed in the working engagement file. In any event, the working engagement file for the completed engagement should generally record what detailed records, listings or calculations were seen and/or used to support the figures in the financial report.

CONTROL AND REVIEW PROCEDURES

NOTES OF MEETINGS AND DISCUSSIONS:

It is recommended that a summary record of all discussions relevant to the engagement be prepared and filed in the working engagement file. For example:

- Tax, business, financial management or other advice given;
- Information provided, particularly in response to questions from the client;
- Problems encountered during an assignment (e.g. lack of information, potential errors);
- Matters you raise that may need further attention but the client does not wish to pursue; and
- Opinions provided verbally by a consultant.

In some cases, it may be desirable to confirm in writing conversations you have with clients during meetings or over the telephone.

REVIEW PROCEDURES:

It may be appropriate that the staff responsible for the assignment monitor its progress against the plan and the budget. A review ensures that the terms of the engagement have been carried out completely and accurately, and that due care and skill has been exercised. Reviews also help to guide, or provide a benchmark for, future engagements. It may be appropriate for certain areas of the work to be reviewed by a specialist. This depends on the complexity of the assignment. You should consider the need for reviews at the planning stage of the assignment.

COMPLETION MEMORANDUM:

Although the responsibility for monitoring an engagement may often be delegated to staff, the final responsibility rests with the principal of the firm. To review the work of others and add to the quality of the documentation of the completed work, it may be appropriate for the staff responsible for the assignment to prepare a completion memorandum recording:

- The scope of the engagement (e.g. compilation, or agreed-upon procedures);
- Any outstanding or unresolved matters;
- Significant decisions made by staff in completing the assignment, particularly if they affect the financial reports or tax returns;
- Matters requiring the attention of the principal arising from the work carried out; and
- Conclusion.

Staff responsible for the assignment may sign the completion memorandum as confirmation that the work and final product have been completed and reviewed and that, subject to the resolution of matters specifically recorded as outstanding, the final product can be issued and the report signed. If matters have been raised for determination by the principal, their resolution should be recorded in the completion memorandum. The principal should sign the completion memorandum to indicate approval of the final product.

PERIODIC INDEPENDENT INSPECTION:

Independent reviews should be carried out on a sample number of engagements by someone other than the people directly involved in the work. In the case of small firms, it may be beneficial to consider involvement in some type of peer-review arrangement with associated firms or regular consultation with other practitioners.

FORMAL REPORTING

The end product of the engagement should accurately reflect the work you have performed. Your compilation report must make specific reference to the purpose of the financial report, including clarification of whether it is a general purpose or special purpose financial report. A disclaimer of liability must appear in your compilation report, which is attached to an unaudited financial report, and is referred to on each page of the financial report. Any liability disclaimer should be carefully worded. The wording of particular disclaimers will vary depending on whether the financial statements are relied upon by third parties.

SMALL AND LARGE PROPRIETARY COMPANIES:

Whether a client is a small or large proprietary company must be clarified when compiling or auditing financial reports for a client. To be classed as a small proprietary company, a company must meet at least two of the following criteria:

- consolidated revenue for the financial year of the company and the entities it controls (if any) is less than \$25m;
- the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any) is less than \$12.5m;
- the company and the entities it controls (if any) have fewer than 50 employees at the end of the financial year (Section 45A of the Corporations Act).

Small proprietary companies are not required to prepare and lodge financial statements unless requested by the shareholders or ASIC (special rules apply to foreign controlled companies). Large proprietary companies must prepare and lodge financial statements. The disclosures required will depend on whether the company is a reporting entity or not (see discussion below on 'The reporting entity concept').

THE REPORTING ENTITY CONCEPT:

Whether or not a client entity is a reporting entity must be clarified when compiling or auditing financial reports for a client. In accordance with SAC 1 Definition of the Reporting Entity, a reporting entity can be identified by reference to the existence of users who are dependent on general purpose financial reports for information for making and evaluating resource allocation decisions. Conversely, an entity is not a reporting entity where there is no such expectation.

A general purpose financial report is defined in SAC 2 Objective of General Purpose Financial Reporting, as a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. Such reports must comply with applicable Accounting Standards and other mandatory professional reporting requirements.

It follows, therefore, that where all the expected users of a financial report are able to determine and command the information they require, the entity is not a reporting entity and need not prepare a general purpose financial report. The reporting entity concept is intended to simplify the level of reporting imposed on entities where there are no general purpose users of the financial report. The concept recognises that in many cases the effort to produce general purpose financial reports is not justified for the added value to the users of the reports.

Accordingly, to fulfil their reporting requirements, non-reporting entities may prepare special purpose financial reports that need not comply with all aspects of accounting concepts and standards (i.e. the directors must determine the accounting standards to be applied). It will be necessary to liaise closely with clients to determine whether or not they are reporting entities.

Some of the factors to be considered (as discussed in SAC 1 and SAC 2) include:

- For the entity:
 - separation of management from economic interests;
 - economic or political importance/influence; and
 - financial characteristics.
- For potential users:
 - resource providers;
 - recipients of goods and services;
 - parties performing a review or oversight function; and
 - managements and governing bodies.

These are only guidelines. If the entity exhibits one or more of the above factors it does not necessarily mean it is a reporting entity. The specific facts of each case must be examined before a decision is made.

NON-REPORTING ENTITIES:

A non-reporting entity is an entity for which there is no expectation of the existence of users dependent on general purpose financial reports. The reporting entity concept means that entities such as:

- small proprietary companies;
- family trusts;
- partnerships; and
- sole traders,

are unlikely to be reporting entities, and so will be relieved from the burden of compliance with all accounting standards in their financial reports.

DETERMINATION OF THE STATUS OF A COMPANY:

It is the responsibility of the directors of the company to determine whether the company is a reporting entity. If you are involved in the preparation or presentation of the company's reports you should review the directors' decision.

The details that may be documented to reflect the directors' reasons for determining that a company is not a reporting entity will vary. In the case of a small family investment company, the reasons

may be self-evident and little detail other than the resolution is required. In marginal cases, it may be necessary to detail the director's decision-making process.

NON-CORPORATE ENTITIES:

The principles outlined for preparing special purpose financial reports for companies apply equally to non-corporate entities such as trusts, partnerships, joint ventures, and superannuation funds. Regardless of the type of entity, the entity's Board of Management is responsible for preparing and presenting the financial report. The entity's constituent document (e.g. trust deed, partnership or joint venture agreement) may require the financial statements to present a 'true and fair' view, or 'present fairly', and therefore the entity's Board of Management will face similar issues to company directors with the application of accounting standards. In addition, any relevant regulatory requirements must be adhered to (e.g. the ATO/APRA requirements for superannuation funds).

RESPONSIBILITIES OF MEMBERS FOR SPECIAL PURPOSE FINANCIAL REPORTS:

In accordance with Section 6 of APES 205 Conformity with Accounting Standards, members who are involved in, or are responsible for, the preparation, presentation, audit, review or compilation of a special purpose financial report shall take all reasonable steps to ensure that the special purpose financial report, and any associated audit report, review report or compilation report clearly identifies:

- That it is a special purpose financial report;
- The purpose for which the special purpose financial report has been prepared; and
- The significant accounting policies adopted in its preparation and presentation.

This is required unless it is reasonable to expect that the special purpose financial report will be used solely for internal purposes.

SECTION 6

QUALITY CONTROL FOR SPECIFIC PRACTICE AREAS – AUDIT & ASSURANCE

OUTLINE

This section firstly describes the difference between Audits, Reviews, Assurance, and Related Services. It provides guidance on which services are covered by which standards, and also on how APES 320 applies to them. This section then specifically deals with quality control issues applicable to audit engagements. In order for the system of quality control to be effectively established, the following should be considered:

- Accepting an audit engagement.
- Planning and design of the audit.
- Conducting the audit engagement.
- Conclusion and reporting.

In addition to APES 320, Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* should be consulted. This standard deals with important quality control considerations at the engagement level.

The material presented in this section is a guide only. It is your responsibility to ensure that the material is modified to meet the requirements of each engagement and the relevant quality control objectives.

Users of the manual should read the warning and disclaimer that appears on the second page of the manual prior to reading each section.

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DIFFERENTIATING TYPES OF ENGAGEMENTS

The type of engagement will have a significant impact on the extent and type of work and on the format of the report issued.

The Foreword to AUASB Pronouncements explains the distinction between audits, reviews, assurance, and related services, as well as how the relevant standards are to be applied. Key factors of each are explained below:

AUDIT

Auditing Standards (ASAs), whilst developed in the context of financial report audits, are to be applied also, as appropriate, to all audits of other historical financial information. An audit is designed to provide reasonable assurance.

According to ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, one of the objectives of an audit of a financial report is to enable the auditor to express a 'positive' opinion as to whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework. Quality control requirements for audit engagements are discussed in detail in the following parts of this Section 6.

REVIEW

Standards on Review Engagements (ASREs) are to be applied to the review of a financial report and are to be applied also, as appropriate, to the review of other historical financial information. A review provides a lower level of assurance than an audit (limited assurance). The objective of such engagements is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with an applicable financial reporting framework. In contrast to an audit, a review provides a 'negative' statement of assurance on the information in the financial report.

Reviews are generally less extensive than audits, and consist of making enquiries and applying analytical and other review procedures.

The suite of standards relating to review engagements ASRE 2400, ASRE 2405, and ASRE 2410) apply to reviews of historical financial information only. For reviews of non-

historical financial information (e.g. compliance, performance, and prospective financial information), refer to the Standards on Assurance Engagements (ASAEs) – see below.

The ASREs require members to implement quality control procedures that are applicable to the individual engagement. Review engagements provide a level of assurance and so, for the purposes of APES 320, are deemed to be part of the firm's assurance practice. This means that firms that provide review engagements are required to apply the whole of APES 320 as applicable to such engagements. Note that ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information may also be helpful in determining quality control procedures relevant to a review engagement.

ASRE 2400 REVIEW OF A FINANCIAL REPORT PERFORMED BY AN ASSURANCE PRACTITIONER WHO IS NOT THE AUDITOR OF THE ENTITY

ASRE 2400 applies to the review of a financial report comprising historical financial information, performed by an assurance practitioner who is not the auditor of the entity. ASRE 2400 reviews are of complete financial reports, which are prepared in accordance with a financial reporting framework designed to achieve fair presentation.

In ASRE 2400 it is recognised that the assurance practitioner does not initially have the same level of knowledge of the client's business as the auditor. Reviews under ASRE 2400 are not required by the Corporations Act 2001.

APPLICATION	CRITERIA
<ul style="list-style-type: none"> Review of a financial report comprising historical financial information, performed by an assurance practitioner who is not the auditor of the entity. 	<ul style="list-style-type: none"> The assurance practitioner must not be the auditor of the entity;
	<ul style="list-style-type: none"> Must be a financial report comprising historical financial information; and
	<ul style="list-style-type: none"> The financial report may be for any period.

ASRE 2405 REVIEW OF HISTORICAL FINANCIAL INFORMATION OTHER THAN A FINANCIAL REPORT

ASRE 2405 applies to a review of historical financial information, other than a financial report. ASRE 2405 reviews can be of specific components, elements, accounts or items of a financial report; other information derived from financial records; or financial statements prepared in accordance with a financial reporting framework not designed to achieve fair presentation (e.g. condensed; internal).

ASRE 2405 therefore applies to reviews of historical financial information other than those covered by ASRE 2400 and ASRE 2410. As with ASRE 2400, reviews under this standard are not required by the Corporations Act 2001.

APPLICATION	CRITERIA
<ul style="list-style-type: none"> Review, by the independent auditor of the entity, of a financial report for a half-year in accordance with Part 2M.3 of the Corporations Act 2001; and Review, by the independent auditor of the entity, of a financial report, comprising historical financial information, for any other purpose. 	<ul style="list-style-type: none"> Used only by the auditor of the entity;
	<ul style="list-style-type: none"> Must be a finalised report, or a complete set of financial statements, comprising historical financial information
	<ul style="list-style-type: none"> The financial report may be for any period.

ASRE 2415 REVIEW OF A FINANCIAL REPORT – COMPANY LIMITED BY GUARENTEE

ASRE 2415 is to be applied to a review of a financial report for a financial year for a company limited by guarantee. The Corporations Amendment (Corporate Reporting Reform) Act 2010 enables certain companies limited by guarantee to elect for their financial report for a financial year to be reviewed instead of audited. ASRE 2415 is operative for financial reports ending on or after 30 June 2010.

For companies previously audited, the auditor who conducted an audit of the previous financial year, shall in the first financial reporting period under the revised legislation, conduct the review in accordance with ASRE 2410, *Review of a Financial Report Performed by the Independent Auditor of the Entity*, for financial periods commencing on or after 1 January 2010.

Where the auditor has not previously conducted an audit for the previous financial report of the company, shall conduct the review in accordance with ASRE 2400.

APPLICATION	CRITERIA
<ul style="list-style-type: none"> Review of historical financial information, other than a financial report. 	<ul style="list-style-type: none"> Used by an auditor of the entity or assurance practitioner who is not the auditor of the entity;
	<ul style="list-style-type: none"> Financial information is not in the form of a financial report; and
	<ul style="list-style-type: none"> Financial information must be historical.

ASRE 2410 REVIEW OF A FINANCIAL REPORTS PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY

ASRE 2410 is to be applied by the independent auditor of the entity in the review of a financial report for any period. ASRE 2410 reviews are of complete financial reports, which are prepared in accordance with a financial reporting framework designed to achieve fair presentation.

ASRE 2410 is part of the suite of Auditing Standards made under section 336 of the Corporations Act 2001.

APPLICATION	CRITERIA
<ul style="list-style-type: none"> Review of a financial report for a financial year of a company limited by guarantee. 	<ul style="list-style-type: none"> company limited by guarantee must be elected to have their financial reports reviewed;
	<ul style="list-style-type: none"> must be for full financial year; and
	<ul style="list-style-type: none"> used by an auditor of the entity or assurance practitioner who is not an auditor of the entity.

ASSURANCE

Standards on Assurance Engagements (ASAEs) are to be applied to assurance engagements dealing with subject matters other than historical financial information. These engagements may provide either reasonable or limited assurance, depending on the nature of the engagement.

The objective of a ‘reasonable assurance engagement’ is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for a positive form of expression of the assurance practitioner’s conclusion. Reasonable assurance means a high, but not absolute, level of assurance. The objective of a ‘limited assurance engagement’ is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance practitioner’s conclusion.

The suite of standards relating to assurance engagements (ASAE 3000, ASAE 3100, ASAE 3402 and ASAE 3500) apply to audit or review engagements not covered by the Auditing Standards (ASAs) or Standards on Review Engagements (ASREs).

Such engagements include reviews of information relating to performance, compliance, and prospective financial information. The ASAEs require members to implement quality control procedures that are applicable to the individual engagement. Assurance engagements provide a level of assurance and so, for the purposes of APES 320, are deemed to be part of the firm’s assurance practice.

This means that firms that provide assurance engagements are required to apply the whole of APES 320 as applicable to such engagements. Note that ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information may also be helpful in determining quality control procedures applicable to an assurance engagement.

ASAE 3000 ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION

ASAE 3000 applies to the undertaking and reporting on assurance engagements other than audits or reviews of historical financial information covered by ASAs or ASREs. ASAE 3000 provides general application to assurance engagements even though other ASAEs (e.g. ASAE 3100 or ASAE 3500) may relate to specific topics, such as compliance or performance.

ASAE 3000 is not part of the Auditing Standards made under the Act. Inter alia, it is to be applied in the review of prospective financial information. AUS 804 The Audit of Prospective Financial Information establishes requirements and guidance in relation to audits of prospective financial information.

APPLICATION	CRITERIA
<ul style="list-style-type: none"> Assurance engagements other than audits or reviews of historical financial information. 	<ul style="list-style-type: none"> Used by an auditor of the entity or an assurance practitioner who is not the auditor of the entity.
	<ul style="list-style-type: none"> General application to assurance engagements other than audits or reviews of historical financial information covered by ASAs or ASREs.
	<ul style="list-style-type: none"> If the subject of the engagement is financial information, the financial information must not be historical.
	<ul style="list-style-type: none"> Applies to reviews of prospective financial information.

ASAE 3100 COMPLIANCE ENGAGEMENTS

Compliance engagements are assurance engagements in which the member expresses a conclusion, after evaluating an entity’s compliance with the requirements as measured by the suitable criteria.

ASAE 3100 applies to the performing and reporting on compliance engagements other than audits or reviews of historical financial reports. Compliance may be with externally and/or internally imposed requirements (e.g. through law and regulation, contractual arrangements, or company policies). ASAE 3100 has been developed as an adjunct standard to ASAE 3000 for specific application to compliance engagements, and applies to both review engagements and audit engagements. When an assurance engagement includes a number of subject matters on which there are topic specific ASAEs, the member needs to apply the relevant topic specific ASAEs, as well as ASAE 3000, in performing the assurance engagement.

APPLICATION	CRITERIA
<ul style="list-style-type: none"> Assurance Reports on controls at a service organisation. 	<ul style="list-style-type: none"> Used by auditor of the service entity or an assurance practitioner who is not the auditor of the service entity;
	<ul style="list-style-type: none"> Assertion-based engagements (i.e. not direct reporting engagements).
	<ul style="list-style-type: none"> Convey reasonable assurance (i.e. not limited assurance); and
	<ul style="list-style-type: none"> Assurance conclusion worded directly in terms of the subject matter and the criteria (i.e. not in terms of the responsible party’s assertion).

APPLICATION	CRITERIA
<ul style="list-style-type: none"> Compliance Engagements. 	<ul style="list-style-type: none"> Used by the auditor of the entity or an assurance practitioner who is not the auditor of the entity; and
	<ul style="list-style-type: none"> Provide assurance on an entity’s compliance with internally or externally imposed requirements as measured by the suitable criteria.

ASAE 3500 PERFORMANCE ENGAGEMENTS

Performance engagements include performance audits or performance reviews of all or a part of the activities of an entity (or entities) to assess economy, efficiency or effectiveness.

- Economy means the acquisition of the appropriate quality and quantity of resources at the appropriate times and at the lowest cost.
- Efficiency means the use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.
- Effectiveness means the achievement of the objectives or other intended effects of activities at a program or entity level.

ASAE 3500 applies to the undertaking of and reporting on performance reviews and performance audits, and is a composite revision of both AUS 806 Performance Auditing and AUS 808 Planning Performance Audits. When an assurance engagement includes a compliance component, the member needs to apply both ASAE 3100 and ASAE 3500, as well as ASAE 3000, in conducting the assurance engagement.

ASAE 3402 ASSURANCE REPORTS ON CONTROLS AT A SERVICE ORGANISATION

This standard applies to an assurance engagement to provide an assurance report for use by the user entities and their auditors on the controls at a service organisation. Where those controls are likely to be relevant to the user entities’ internal control as it relates to financial reporting. ASAE 3402 is operative for service auditors’ assurance reports covering periods commencing on or after 1 July 2010.

APPLICATION	CRITERIA
<ul style="list-style-type: none"> Performance Engagements. 	<ul style="list-style-type: none"> Used by the auditor of the entity or an assurance practitioner who is not the auditor of the entity; and Reasonable and acceptable standards of performance against which the extent of economy, efficiency or effectiveness of an activity may be assessed.

RELATED SERVICES

Standards on Related Services (ASRSs) are to be applied to engagements involving agreed upon procedures to information and other related services engagements as specified by the AUASB.

These engagements do not provide any assurance. As such, only the non-assurance parts of APES 320 are applicable to related services engagements. According to ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, an engagement based on agreed-upon procedures is one where you carry out the procedures agreed with the client and report the findings. Typical procedures may include inspection, observation, inquiry, confirmation, computation or analytical procedures. It is up to the recipients of the report to draw conclusions and derive assurance based on the factual findings that you have reported from agreed-upon procedures. Such engagements can either be very specific or general in nature. They can also be more or less extensive than an audit or review engagement depending on the terms and scope of the engagement and the procedures to be performed.

The following sections discuss quality control issues applicable to audit engagements, although much of the discussion could also be applied to review and assurance engagements.

ACCEPTING AN AUDIT ENGAGEMENT

The issues in client acceptance for audit engagements include all those covered in the general discussion on Acceptance and Continuance of Client Relationships and Specific Engagements in Section 3.

An effective quality control procedure may be that an audit engagement is accepted only when the auditor has an understanding of the client's business, ownership and management, and has established that the auditor is independent of the client and has the skills and resources available to perform the engagement. In setting up a quality control system, you should also consider appropriate documentation of this process. Further guidance on independence requirements applicable to audit practitioners is contained in Section 290 of the Code of Ethics for Professional Accountants with further guidance for members in the Fourth Edition of Independence Guide released by the Joint Accounting Bodies.

Quality control procedures require that where a prospective client contemplates a change in auditors, the reasons for the change are determined and considered before the audit engagement is accepted. Controls should be sufficient to ensure that professional standards are met.

UNDERSTANDING THE TERMS OF THE ENGAGEMENT:

One of the aspects of undertaking an audit engagement is to determine the terms of the engagement and any statutory responsibilities. Clarifying the objectives, scope and extent of the auditor's responsibilities before starting an engagement avoids misunderstandings with the client. The engagement letter is a suitable place to check if the client requires general or special purpose financial reports. There is also detailed guidance on this issue in Section 5 under 'Small and large proprietary companies' and 'The reporting entity concept'.

INDUSTRY LEGISLATION:

It is necessary in audit engagements to have a thorough knowledge of legislation relevant to the entity being audited. Many organisations, industries and associations have specific legislative requirements for methods of reporting and disclosures. Trade unions, travel agents, solicitors, accredited advertising agencies, real estate agents, publicly listed companies, charities, clubs and associations, and semi-government bodies are examples of entities where specific requirements apply. In addition, you may be involved in the audit of superannuation funds; these audits require specific consideration of the superannuation reporting and compliance requirements, and the related specific audit reporting requirements. It is essential that you fully understand all the obligations of the engagement, and that you accept only those engagements for which you have, or are able to obtain, the appropriate resources and expertise.

PLANNING AND DESIGN OF THE AUDIT

Adequate audit planning helps to ensure that appropriate attention is devoted to important areas of the audit, that potential risk areas and problems are promptly identified, and that the work is completed effectively. Planning also assists in proper use of assistants and, if appropriate, in the co-ordination of work done by other auditors and experts. Extensive guidance on planning audit engagements is provided in ASA 300 Planning an Audit of a Financial Report. The key requirement is that the auditor shall plan the audit so that the engagement will be performed in an effective manner. Planning an audit involves:

1. Establishing the overall audit strategy for the engagement;
2. Developing an audit plan in order to reduce audit risk to an acceptably low level;
3. Updating and changing the audit plan as necessary during the course of the audit; and
4. Planning the nature, timing and extent of direction and supervision of engagement team members and review of their work.

Documentation of the overall audit strategy, the audit plan, and any significant changes to the audit plan, is also required.

DEVELOPING THE AUDIT PLAN:

To comply with ASA 300, you should include the following in the audit plan:

- Nature, timing and extent of planned risk assessment procedures (see ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment).
- Nature, timing and extent of planned further audit Procedures at the assertion level (see ASA 330 The Auditor's Response to Assessed Risks).
- Such other planned audit procedures required to comply with Australian Auditing Standards.

The extent of planning varies according to the size and complexity of the audit, and the auditor's previous experience with the client and knowledge of the client's business.

DOCUMENTING THE AUDIT PLAN:

The form and extent of the documentation will vary depending on the size and complexity of the entity, materiality, the extent of other documentation, and the circumstances of the specific audit engagement. You should prepare a written audit strategy and plan. The documentation should set out the procedures required to implement the audit plan as well as the audit objectives for each area. The audit plan should include sufficient detailed instructions for staff involved in the audit and as a means to control the proper execution of the work. For smaller engagements, the level of detail of the overall audit strategy need not be complex and time consuming.

ALLOCATION OF STAFF AND PROPOSED SUPERVISION ARRANGEMENTS:

For quality control, the reporting principal who is ultimately responsible for the expression of an opinion on the financial report needs to be satisfied that the work is being performed to an acceptable standard. Important elements of control of an audit include the direction and supervision of staff and the review of the work they have done.

The degree of supervision depends on the complexity of the assignment and the experience and proficiency of staff. It is important for quality control that staff members on an assignment understand their roles and responsibilities, including how their role fits into the audit overall.

ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information contains detailed guidance on the direction, supervision, and review of audit work.

GAINING AN UNDERSTANDING OF THE CLIENT'S BUSINESS:

Quality control procedures should ensure that an understanding of the client's business is obtained, so that the audit can be conducted effectively. Knowledge of the client's business enables the auditor to identify the events, transactions and practices that may have a significant effect on the financial information.

CONDUCTING THE AUDIT ENGAGEMENT

It is generally advisable to consider matters or issues raised for special consideration in previous years as well as to identify recent changes.

ASA 315 provides further detailed guidance in this area.

ASSESSMENT OF MATERIALITY:

From an accounting perspective, materiality refers to errors or omissions which would be likely to change or influence the decision of a reasonable person reading and relying on the financial report. Within the context of an audit engagement, the auditor is seeking reasonable assurance that the financial report is not materially misstated.

Establishing the level of materiality is a matter of professional judgement. The auditor should make a preliminary assessment of materiality in accordance with ASA 320 Materiality in Planning and Performing an Audit. Quality control procedures should address the working papers needed to document the level of materiality determined and the qualitative and quantitative considerations affecting that decision.

DOCUMENTATION OF THE CLIENT'S INTERNAL CONTROL STRUCTURE:

Quality control procedures are required to ensure that the auditor's understanding of the internal control structure of the client is appropriately documented. As a result of obtaining this understanding, the auditor may have suggestions for improving existing controls, or introducing new ones. These suggestions are likely to be communicated to the client in the form of a management letter. ASA 315 provides further guidance in this area.

ASSESSMENT OF RISK:

Quality control procedures are required to ensure that audit risk is appropriately assessed and documented at the planning stage of the audit. This allows the identification of those clients that are 'high risk' before starting any field work, and enables the auditor to tailor the field work accordingly.

SUFFICIENT, APPROPRIATE AUDIT EVIDENCE:

Standard

ASA 500 Audit Evidence states that the auditor shall obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. Quality control procedures are required to ensure appropriate audit evidence is obtained.

Application

The auditor is required to assess both the sufficiency (quantity) and appropriateness (quality, or relevance and reliability) of evidence gathered. This evidence may come from a combination of tests of controls and substantive tests, or exclusively from the latter. The reliability of audit evidence should be considered by reference to its source (internal or external) and nature (documentary or oral). The auditor should avoid unwarranted reliance on management representations and internally generated documents.

DOCUMENTING PROCEDURES, RESULTS AND CONCLUSIONS:

Standard

ASA 230 Audit Documentation states that the auditor shall prepare, on a timely basis, audit documentation that provides a sufficient and appropriate record of the basis for the auditor's report, and evidence that the audit was performed in accordance with Australian Auditing Standards and applicable legal and regulatory requirements. Quality control procedures are required to ensure audit evidence is appropriately documented.

Work papers

Work papers provide the principal source of support for the auditor's opinion, and constitute the first line of defence in legal proceedings. An effective quality control system ensures that work papers are clear, complete and concise. Audit work papers are a permanent record of the work performed, including evidence of conformity with auditing standards.

For quality control, work papers should generally provide:

- Evidence of work performed, and conclusions reached, in support of the auditor's opinion.

- Evidence of review by the principal, to determine the adequacy of work done and the appropriateness of
- conclusions reached.
- A reference for planning future audit engagements.

Work papers should be self-explanatory and the following should be evident:

- The source of information
 - For example, information obtained from client records should indicate the source and location of the client information.
- A clear statement of the audit work completed
 - Work papers should include a description of all supporting documents examined and discussions held from which evidence was obtained.
- A conclusion
 - Each section of the working papers should contain a conclusion indicating whether the audit objectives for that section have been met and, if not, what follow up action was taken.

Consideration should also be given to the benefits that can be obtained from maintaining effective filing systems, using standard indexes and appropriately cross-referencing relevant data in audit files. The standardisation of work papers (checklists and specimen letters) and indexing and filing systems is likely to improve the efficiency and quality of the work papers, and allow for more effective review.

CLIENT INVOLVEMENT

The client may be requested to gather necessary records, and prepare certain analyses and work papers for the auditor. This policy saves time and reduces audit fees. However, to maintain appropriate standards of documentation it is recommended the following procedures be considered:

- When requesting the preparation of work papers by client staff, it is recommended that pro-forma documents or examples be provided.
- Any work papers prepared by the client should be marked as such.
- Sufficient supporting evidence should be obtained to verify the financial information contained in client- prepared schedules.

SECURITY OF WORK PAPERS

Quality control procedures should ensure that the requirements of the Privacy Act are observed and that client permission is obtained before an auditor permits access to audit work papers by any third party, except when the auditor is required to give access by law. Precautions should be taken to prevent unauthorised access to work papers. Adequate physical storage and other safeguards, including encryption and/or password protection for electronic files, should be in place to prevent unauthorised access to confidential information in work papers.

REVIEW, SUPERVISION AND CONSULTATION:

The principal who signs the opinion is ultimately responsible for the expression of the opinion on the audited financial statements and needs to be satisfied that on each audit the work has been performed to an acceptable standard.

As a standard quality control procedure on high risk or 'problem' engagements, you should consider the need to discuss complex issues either within the firm, or with other members outside the firm. Wherever practicable, it is recommended that the nature and timing of any specialist assistance is identified at the initial planning stage of the audit.

CONCLUSION AND REPORTING

An effective quality control system needs to address the overall conclusion reached on the audit, and the drafting and signing of the audit opinion.

EVALUATING TEST RESULTS/ DRAWING CONCLUSIONS:

Evaluating the results of audit procedures and documenting conclusions are important aspects of the audit process. For effective quality control, the results of audit procedures and the overall conclusion reached should be clearly evidenced on the audit file.

AUDIT DIFFERENCES:

Known and estimated differences which remain unadjusted in the financial statements should be recorded and summarised. The impact of unadjusted differences on the financial statements should be evaluated and documented.

REVIEW AND CLEARANCE:

Review of staff audit work papers is an integral part of a quality control system and helps minimise the risk of not detecting material errors in the financial statements. Before issuing clearance on the financial report, the audit work papers should be reviewed and an overall assessment made as to the adequacy of the audit evidence as a whole.

FINAL OVERALL REVIEW:

It is generally recommended that a final overall review of the financial report be performed at or near the conclusion of the audit. The purpose of the review is to ensure that:

- the financial information is consistent with the understanding gained of the client's business and industry;
- all significant fluctuations have been explained and supported; and
- interrelated information or findings are consistent. Note that an engagement quality control review is required for all audits of financial statements of listed entities.

SIGNING THE AUDIT OPINION:

An integral part of a firm's quality control system involves controls over the actual signing of the auditor's report.

The auditor should not sign the audit report until after the adoption of the financial report by the persons responsible for their preparation, such as directors, partners, trustees and managers. The audit report should not be signed until the field work has been completed, all material representations have been received, and the final version of the financial report has been thoroughly checked.

The auditor is required to form an opinion on whether the client's financial report complies with applicable accounting standards and other mandatory professional reporting requirements, including proper determination of whether the accounts are a general or special purpose financial report and other disclosure requirements (such as AASB 101 Presentation of Financial Statements). Use of disclosure checklists or model accounts should be considered.

SECTION 7

QUALITY CONTROL FOR SPECIFIC PRACTICE AREAS – TAXATION

OUTLINE

This section deals with quality control issues for taxation engagements. The areas covered are:

- Accepting a taxation engagement.
- Planning a taxation engagement.
- Staffing, control and supervision.
- Technical approach to a taxation engagement.
- Education and updates for tax practitioners.
- Confidential relationship between the practitioner and client.
- Incorrect or misleading information.

APES 220 Taxation Services describes the principles that govern the tax practitioner's responsibilities and which must be complied with in the course of providing tax related professional services. An effective system of quality control should consider these principles.

The material in this section is a guide only. It is your responsibility to ensure that the material is modified to meet the requirements of each engagement and the relevant quality control objectives.

Users of the manual should read the warning and disclaimer that appears on the second page of the manual prior to reading each section.

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ACCEPTING A TAXATION ENGAGEMENT

Users of the manual should refer to the guidelines on acceptance of professional appointments outlined in Section 3 under both 'Ethical Requirements' and 'Acceptance and Continuance of Client Relationships and Specific Engagements.'

The client may also wish to have you act as tax agent. This requires lodgement of an Appointment of Tax Agent form with the ATO. All tax agents are required to meet the requirements of the Tax Agent Service Regulations 2009.

It will also be important at this point to consider whether all correspondence from the ATO will be directed to you or the client. If you are the tax agent it is preferable that you receive all correspondence.

PLANNING A TAXATION ENGAGEMENT

In considering the quality control aspects of planning for a taxation engagement, it is necessary to consider the scope of the engagement. This may vary between clients and should be discussed and agreed before starting the engagement, and then reviewed on a regular basis. You should confirm the agreement and the services you will provide in the terms of engagement documentation. The extent of documentation necessary for the implementation of an appropriate system of quality control depends on the scope of the engagement. You should consider the following issues:

- Whether the tax practitioner will be acting as the client's tax agent;
- Whether ATO correspondence and notices about the client should be directed via the tax agent, and if so, what procedure should be adopted for the correspondence and notices;
- Whether the client or tax practitioner will be responsible for preparing income tax returns;
- Whether the client is expecting the tax practitioner to provide advice over and above the lodgement of the tax return (e.g. advice on changes to taxation law that affect the client);
- If the client is responsible for preparing the return, whether the tax practitioner will do a detailed review of the return; and
- Whether the refund cheque is to be negotiated to deduct fees.

Similarly, in planning for the taxation engagement, it will be necessary to ascertain the status of prior year income tax returns. It might be necessary to determine:

- What income tax returns have been lodged;
- Whether there are any notices of objection, requests for amended assessments, ruling requests, outstanding disputes, or outstanding requests for information from audit activity with the ATO;
- Whether there are any outstanding tax liabilities and, if so, the arrangements to meet such liabilities;
- The approach adopted by the client in prior years to the returning of income and the claiming of expenditure;
- The availability of franking credits; and
- The availability of either revenue or capital losses.

It will also be necessary to assign appropriate staff to the engagement and to determine the timing of the preparation, review and lodgement of the client's income tax returns, which will be important in scheduling the work.

STAFFING, CONTROL AND SUPERVISION

An effective system of quality control ensures that work is assigned to staff with the proper level of experience and expertise required in the circumstances. However, it is the engagement principal who is ultimately responsible for the expression of a tax opinion, or agreement to the calculation of taxable income disclosed in the client's income tax return. As a general rule, it is recommended that the review of work is done by someone more experienced or, at least, with a similar level of experience as the preparer of the work.

The number of staff responsible for the assignment depends on the technical and practical difficulty of the assignment, and the level of supervision that can be provided for the assignment. These two variables must be balanced to ensure the assignment is properly handled and the appropriate level of skill and care is used. Further, the staff member involved in preparing the work should attend relevant meetings and be briefed on the client history.

TECHNICAL APPROACH TO A TAXATION ENGAGEMENT

The quality controls to be adopted for a taxation engagement vary significantly, depending on the type of engagement. Taxation engagements can generally be classified into three major categories:

- Preparation of income tax returns;
- Preparation of notices of objection, ruling requests and amendment requests; and
- Advice on taxation and related legislation.

PREPARATION OF INCOME TAX RETURNS:

Preparation and/or review of individual income tax returns involves working through the return item by item. It is a matter of querying the client about every source of income and detail of expenditure. Make sure that the client knows they are required, by the law and ATO, to keep all documentation for each item of expenditure claimed. To establish an appropriate system of quality control, a tax checklist should be used when you are preparing or reviewing tax returns. The checklist may be designed as a control function, to ensure both the preparer and the reviewer of the income tax return have considered the relevant issues. It should also be considered whether a review copy of the income tax return should be prepared.

This copy may include:

- All file notes and relevant documentation which have been used in the preparation of the return;
- Cross-referencing of schedules;
- The income tax return preparation checklist;
- Summary calculations of how certain numbers in the return have been calculated;
- A financial report (if applicable);
- A reconciliation of the taxable income for the income tax return to the provision for income tax per the financial report (if applicable); and
- A summary of any contentious issues that must be resolved either with the client or by a ruling request.

In addition, all returns may need to be reviewed by a more experienced colleague, or the engagement principal. Further, a master tax client list and list of all clients subject to the ATO lodgement program should be established, to be used as a basis for work scheduling. You should

also routinely monitor the lodgement program performance during the year, and on dates specified by the Commissioner of Taxation.

PREPARATION OF NOTICES OF OBJECTION, RULING REQUESTS AND AMENDMENT REQUESTS:

Like income tax returns, you should decide if someone other than the preparer needs to review notices of objection, ruling requests, and amendment requests. You should also decide if you need to consult a specialist adviser for technically complex issues.

A review copy of the notice of objection, ruling request or amendment request may need to include all documentation that assisted in the preparation of the notice or submission. For notices from the Commissioner of Taxation, you should decide if a register should be maintained, recording disputed or amended assessments and the date of issue of such notices. The register may then be reviewed regularly to ensure that the appropriate follow-up action is taken. This will assist in ensuring various statutory time limits are met.

ADVICE ON TAXATION LEGISLATION:

Written advice

There are a number of matters to be considered by practitioners who are giving advice in respect of taxation legislation:

- Letters of advice should set out the facts on which the advice is given, to ensure that all parties are aware of the basis upon which the advice is given.
- An explanation that tax advice is limited to an expression of opinion and not an assertion of fact.
- Consideration should be given to whether a private or public ruling has been issued for the principle of law the tax practitioner is advising on. To the extent that the opinion is contrary to the public or private ruling, the tax practitioner should advise the client of the implications of the client adopting the contrary stance.
- The advice should take into account any rulings and other interpretations of the Commissioner of Taxation.

EDUCATION AND UPDATES FOR TAX PRACTITIONERS

- In accordance with quality control practices, it may be necessary that the advice is reviewed by someone other than the preparer of the advice, and should be discussed with the preparer if a similar view is not shared. Where the advice is particularly complex or of an unusual nature, practitioners may find it appropriate to consult other principals within their professional network or another principal in public practice. The technical department of CPA Australia may be able to advise how to obtain consulting advice on specialist topics.

ORAL ADVICE

For tax issues not the subject of written advice, it is recommended that, for quality control and risk management purposes, you document the advice and the facts on which such advice was based.

This may include preparation of detailed file notes of discussions with:

- the client or the client's employees;
- the ATO; and
- other people who have supplied information which has been relied upon.

The documentation should be a dated and signed file note, prepared by the person who gave the advice and signed by the principal, where appropriate.

OBTAINING EXPERT OPINIONS

As a standard quality control procedure you should consider the need to discuss complex issues either within the firm, or with other practitioners.

Wherever practicable, it is recommended that the nature and timing of any specialist assistance is identified as early as possible in the engagement. This includes situations where advice is required from:

- a foreign tax specialist in relation to the tax laws of another country;
- a solicitor or barrister;
- an accountant versed in the particular area of interest;
- a valuer; or
- another expert.

Members engaged in providing taxation services shall maintain professional competence and take due care in the performance of their work in accordance with Section 130 'Professional Competence and Due Care' of the Code' (APES 220, paragraph 3.11). Procedures that may be adopted to ensure that the appropriate level of skill and competence are maintained by the tax practitioner and their staff may include review of:

- Professional journal articles, and weekly tax updates;
- Proposed legislative changes as announced;
- Court and Administrative Appeals Tribunal (AAT) decisions as reported; and
- Rulings and determinations, as released.

The above review may be done on a regular basis and perhaps a specific time should be allocated to undertake this review. The time could be allocated by way of:

- A personal allocation of time to undertake such a review;
- An organised meeting of colleagues to go through recent developments; or
- Attendance at external seminars dealing with topical tax matters.

CONFIDENTIALITY

INCORRECT OR MISLEADING INFORMATION

'In accordance with Section 140 'Confidentiality' of the Code, a member who acquires confidential information in the course of professional work for a client or employer shall not use that information for any purpose other than the proper performance of professional work for that client or employer' (APES 220, paragraph 3.6). You should consider the following:

- The Commissioner of Taxation's ability to access information from you. Particular attention should be given to the Commissioner's guidelines for the exercise of access to adviser's work papers. If you are not experienced in this area, consideration should be given to obtaining specialist assistance.
- Whether documents may be subject to legal professional privilege. Again, if necessary, legal assistance should be obtained in determining such claims. It is important this is done before any disclosure as privilege is lost immediately a document is disclosed to the ATO.
- Care should be exercised in completing work papers to ensure that they do not include any misleading statements.
- Ensure that adequate procedures are in place to comply with the restrictions on the release of Tax File Numbers (note the Privacy Act requirements).

'A member shall not provide a taxation service to a client or employer if the member finds that information on which the taxation service is to be based contains false or misleading information or omits material information and the client or employer is not prepared to appropriately amend it' (APES 220, paragraph 7.1).

You should be aware of the serious consequences of knowingly being associated with the lodgement of an incorrect return. The self-assessment system has increased the onus on the tax practitioner to ensure that income tax returns are not false or misleading and a system of quality control should ensure that sound practices are implemented. You must ensure that:

- All relevant elections and notices are kept with the file copy of the return and submitted as a package when the client is audited;
- The work papers show that you took reasonable care preparing the returns;
- Where applicable, the return or advice discloses that the client has a 'reasonably arguable position';

There are clear statutory guidelines which reduce the penalties applicable where a taxpayer voluntarily discloses an understatement of income. Thus, there is a positive reason for ensuring that a return is corrected if necessary.

SECTION 8

QUALITY CONTROL FOR SPECIFIC PRACTICE AREAS – INSOLVENCY

OUTLINE

This section deals with quality control issues for insolvency engagements. The areas covered are:

- Independence.
- Types of appointments.
- Conduct of an appointment.
- Documenting procedures, results and conclusions.

CONFIDENTIALITY

The professional responsibilities of a registered insolvency practitioner in accepting and conducting insolvency engagements are described in APES 330 Insolvency Services. Procedures and conduct for formal insolvency appointments are specifically set out in the Corporations Act 2001 (Cwlth), the Bankruptcy Act 1966 (Bankruptcy Act) and the Bankruptcy Regulations 1996 (Bankruptcy Regulations), Regulatory Guides, Court Rules and common law. Further guidelines are provided in the Code of Professional Practice (COPP) for Insolvency Professionals, under the guidance of the Insolvency Practitioners Association of Australia (IPAA).

The material in this section is a guide only. It is your responsibility to ensure that the material is modified to meet the requirements of each engagement and the relevant quality control objectives.

Users of the manual should read the warning and disclaimer that appears on the second page of the manual prior to reading each section.

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INDEPENDENCE

An effective system of quality control should ensure the professional independence of an insolvency practitioner for all engagements. Further guidance on independence requirements is contained in Section 3 under the 'Ethical Requirements'.

TYPES OF APPOINTMENTS

An insolvency practitioner can be appointed in a formal capacity as a liquidator, provisional liquidator, receiver, receiver and manager, agent for the mortgagee, scheme administrator, administrator, administrator of a deed of company arrangement, controlling trustee under Parts IX and X of the Bankruptcy Act, or trustee in bankruptcy. The guidelines for accepting such appointments are clearly set down in the Corporations and Bankruptcy statutes. In informal assignments, the insolvency practitioner may be appointed by the debtor or by a secured creditor pursuant to the powers contained in their security documents.

FORMAL APPOINTMENTS:

The terms of engagement for formal appointments are specifically set out in the relevant statute. However, most insolvency engagements require written consent to act. In many administrations, this will usually be in the form of a letter from you, the practitioner. However, in receiverships, schemes of arrangement, administration, and agent for the mortgagee appointments, the consent will usually be contained in the Deed of Appointment. A court appointed liquidator must consent to act under Section 532(9) of the Corporations Act and the relevant Supreme and Federal Court Rules. In some State Supreme Courts, official liquidators are required to give a general consent. In the case of appointments by secured creditors, a Deed of Indemnity should be provided. These deeds are usually prepared by the appointor's solicitor and should be independently reviewed by the appointee's solicitor. Controlling trustees sign an authority to take control of property, while trustees in Bankruptcy provide consent to act in accordance with the Bankruptcy Act.

INFORMAL APPOINTMENTS:

Quality control principles indicate that the terms of engagement for informal appointments must be documented and communicated. Particular attention should be given to corporate investigations to ensure that you, as the insolvency practitioner, are not appointed or act in any way that could be construed as being an officer of the company, thereby avoiding implications of carrying on a business while the company is insolvent.

CONDUCT OF AN APPOINTMENT

The objectives differ between appointments. For example, a provisional liquidator has a duty to preserve the assets whereas a liquidator's role is to wind up the affairs of a company and distribute assets. A receiver's primary duty is to the secured creditor. The liquidator for the same company is responsible to all the creditors and, where appropriate, the shareholders of the company. The conduct of any appointment can be summarised into the following broad categories:

- Appointment.
- Ascertain debtor's affairs.
- Exercise control over assets.
- If applicable: realisation of assets; proving of creditors' claims; assessing priority claims; distribution of assets; and investigations.
- Remuneration.
- Statutory reporting.
- Retirement.

It may involve:

- Bankruptcy.
- Arrangements with creditors under Part X of the Bankruptcy Act.
- Receivership.
- Liquidations:
 - Members Voluntary.
 - Creditors Voluntary.
 - Court Liquidations.
 - Provisional.
- Administration or Deed of Company Arrangement.

A firm should establish checklists for the above.

ASCERTAIN DEBTOR'S AFFAIRS:

There are no specific criteria to ascertain the affairs of the debtor. In most appointments, it is the debtor's responsibility to submit to the appointee a Statement or Report as to Affairs. Often the appointee will provide advice to the debtor on completing these documents. However the information contained in the document is the responsibility of the debtor.

The failure of the debtor to keep adequate books and records makes it difficult to determine the full extent of the debtor's affairs, thus necessitating further investigation. Some examples of procedures used to identify the debtor's affairs are:

- Questionnaires and interviews with the debtor or representative;
- Company searches;
- Letters to the debtor's bank, finance companies, insurers and creditors;
- Meetings of creditors;
- Land title searches;
- Physical inspection of the business premises;
- Review of invoices and correspondence files;
- Review of the existing books and records, and reconstruction of records where necessary; and
- Public examinations, held either under the Bankruptcy Act or the Corporations Act.

EXERCISE CONTROL OVER ASSETS:

A quality control system should address whether comprehensive insurance cover should be arranged immediately upon appointment. Some practitioners have arrangements with insurers for automatic insurance cover upon appointment. This covers the assets to the extent of the insurable risks in the short term, pending identification of those risks and the placing of adequate insurance cover.

Control should be exercised only over those assets and undertakings over which you have been appointed.

Encumbrances on the assets, such as registered charges, and retention of title, should be identified. Equity in such assets should be assessed immediately and the appointee should form an opinion on their continued use, sale or return.

Control may take many forms, including changing locks, using security guards, informing concerned parties of restricted access to, and use of, the assets. The appointee must ultimately make a commercial judgement based on the circumstances as to the appropriate level of control. The appointee is ultimately responsible for the assets. The quality control system should ensure that there are appropriate procedures in place to record the above practices.

REALISATION OF ASSETS:

In establishing a quality control system, procedures for the realisation of assets should be considered. Assets must be realised in a manner that achieves the best possible outcome in the circumstances. The duty of care to the debtor in some appointments may impose a higher obligation than in other appointments. The appointee should be familiar with the common law duty required in selling assets. All assets, tangible and intangible, should be identified and realised. The method of sale adopted and the values achieved will be governed by the prevailing market conditions. Procedures should be put in place to properly account for the trade debtors of a business.

As the insolvency practitioner, you must remain independent and not gain from any transaction.

PROVING CREDITORS' CLAIMS:

The procedures for admitting creditors' claims are set down in the relevant legislation and you should have a system of quality control to ensure the procedures are followed.

PRIORITY CLAIMS/DISTRIBUTION OF ASSETS:

The priority of certain creditors varies between types of appointments. You must have a clear understanding of the priority creditors who may have a claim and the order of priority. The debts of priority creditors should be discharged, or sufficient funds retained for later payment, before distributing funds to other creditors with a lower ranking in priority. Some exceptions to this may be payments to 'creditors of necessity', which supply goods/services critical to the continued operations or protection of the assets of the business.

INVESTIGATIONS:

Investigations are conducted to locate and recover assets, to help explain to interested parties the circumstances leading to the debtor's current state of affairs, and to enable you to report to the relevant authorities (where applicable) whether there have been any offences committed under the relevant legislation. Other matters requiring consideration are whether business assets have been transferred or sold preferentially (i.e. not at market value) to related persons or entities and whether any other antecedent transactions require investigation leading to recoveries for the benefit of creditors.

ASIC Regulatory Guide 16 External administrators: reporting and lodging and Schedule 4A 'Performance standards for trustees' of the Bankruptcy Regulations provide guidance for the contents of the various reports required by statute.

The extent of an investigation is governed by your assessment of initial findings and the attitude of the interested parties, such as the creditors, ASIC and the Insolvency and Trustee Service Australia (ITSA).

REMUNERATION:

Insolvency practitioners are often able to draw their own fees from the funds realised. The law provides procedures to be adopted in certain appointments, and these must be strictly adhered to. Under no circumstances should fees be drawn prior to receipt of the appropriate approval. This is clearly outlined in APES 330 (paragraph 8.13) and the COPP for Insolvency Practitioners.

STATUTORY REPORTING:

The Corporations and Bankruptcy statutes require reports for some appointments to be submitted to the relevant authorities. The purpose of these reports is to:

- advise of any offences which are identified during the course of the appointment;
- determine the reasons for business failure; and
- account to the public for your receipts and payments.

A system of quality control should be implemented to ensure that statutory reports are lodged within the statutory time limits and, where applicable, within the guidelines provided in ASIC Regulatory Guide 16 and the Bankruptcy Regulations.

CREDITORS' CONTROL:

A system of quality control should be implemented to ensure compliance with resolutions passed by creditors or committees of inspection and other directions of the Court.

CONSULTANTS/INDUSTRY EXPERTS:

Insolvency practitioners will encounter appointments covering a wide range of industries and therefore industry specialists may be required. If you are an insolvency practitioner, you should be satisfied with the suitability of the expert's qualifications before being guided by their advice. This does not relieve you of responsibility for the appointment, and for making decisions about the appointment. You should also ensure that you do not contract out of any functions that you are legally required to perform.

LEGAL ADVICE:

The commercial issues that arise may be complex and require legal opinion. You should ensure that appropriate legal advice is obtained, documented and acted upon where appropriate.

CONFIDENTIALITY:

Engagement files are generally confidential. Care should be taken to ensure that information obtained over the course of an engagement is accessible only by authorised staff and is used only for the purposes of fulfilling statutory and professional obligations for the engagement, as set out in APES 330 (paragraph 3.11). Note also the Privacy Act requirements.

COMPLIANCE GENERALLY:

You should ensure that you are familiar with and comply with statutory obligations and other pronouncements and statements issued by ASIC, IPAA and ITSA.

RETIREMENT:

Once the objectives of an appointment have been achieved, the appointee should retire, issuing the relevant notices and advertisements required by law. A system of quality control should be implemented to ensure that all statutory and professional obligations have been addressed prior to retiring.

A report detailing the outcome should be provided to creditors and other interested parties at the conclusion of the engagement. Any issues or questions raised by creditors or other parties should be responded to forthwith.

DOCUMENTING PROCEDURES, RESULTS & CONCLUSIONS

WORK PAPERS:

In order for a quality control system to function effectively, you should establish procedures for managing engagements. For instance:

- Each appointment should be allocated a separate file.
- Each engagement file should be supported by a checklist addressing the statutory duties for the engagement and, where applicable, other commercial and engagement specific obligations.
- All funds must be banked into a separate account, opened and styled in the manner prescribed by law.
- The file should evidence the rationale behind selecting the particular method of sale of assets and the final price attained.
- Work papers and checklists should be reviewed by the appointee.
- Work papers provide the principal source of support for your opinion. They should be clear, complete and concise, as they are a permanent record of the work performed. For quality control, work papers should generally provide:
 - Evidence of work performed, and conclusions.
 - Evidence of review of the work completed by staff, to determine the adequacy of work done and the appropriateness of conclusions.

CONTENT

The following aspects should be considered in the content of work papers. Work papers should be self-explanatory and the following should generally be evident:

- The source of information
 - For example, information obtained from client records should indicate the source and location.
- A clear statement of work done
 - Work papers should include a description of all supporting documents examined and discussions held from which evidence was obtained.
- A conclusion
 - Each section should generally contain a conclusion indicating whether the objectives for that section have been met and if the result is acceptable.

FILING AND INDEXING

Consideration should be given to the benefits that can be obtained from maintaining effective filing systems, using standard indexes and appropriately cross-referencing relevant data in the files.

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