

APESB

Accounting
Professional and
Ethical Standards Board

**Comments on the proposed Exposure Draft
ISQC 1 - Quality Control for Firms That Perform Audits & Reviews
of Financial Statements, and Other Assurance and Related Services
Engagements**

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1. Introduction

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to comment on the exposure draft ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.

APESB is pleased that the International Auditing and Assurance Standards Board (IAASB) has issued an exposure draft on ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements*, with a view to updating and revising the existing requirements in the standard.

2. Background to the APESB

APESB was established as an initiative of the Institute of Chartered Accountants in Australia (ICAA) and CPA Australia. In November 2006, the National Institute of Accountants (NIA) was admitted to the APESB (these three organisations are collectively known as the professional accounting bodies). The primary role of APESB is to:

- Develop and issue in the public interest, professional and ethical standards that will apply to the applicable professional body's membership; and
- Provide a formal and rigorous forum for the consideration, promulgation and approval of professional and ethical standards, which is performed in an open, timely, independent and proactive manner.

The Australian equivalent to the ISQC 1, APES 320 *Quality Control for Firms* was issued by APESB in May 2006.

3. General Comments

APESB supports the redrafting of all ISA's and ISQC1 in accordance with the new clarity drafting conventions of the IAASB. We also support the IAASB's desire for all ISA's to be consistently drafted and subject to a single statement of their authority and effect.

APESB has considered the overall layout of the standard, in particular the separation of the mandatory requirements from the application and other explanatory material. In the current technological environment users often refer to standards and other reference material on-line or on their personal computers as opposed to a hard copy form. Separation of the two sections will make it difficult for users to obtain clarification from the application guidance (if required) whilst keeping the mandatory requirements in view.

In most instances the context of the requirements/principles in professional standards are provided by the explanatory material or guidance. The disconnection of having the requirements separate from the application guidance could potentially lead to:

- Users having to regularly refer back and forth between the principles/requirements and application which may be cumbersome; and
- Potential for users to only focus on the principles and not look at the application guidance;

The separation will also mean that it will not be consistent with the majority of the international pronouncements which have the explanatory material adjacent to the principles/requirements of the standard.

APESB believes that the IAASB should consider this issue further prior to finalising their approach to ISQC 1.

4. Specific Comments

APESB would like to offer the following specific comments for consideration by the IAASB:

(i) Are the objectives stated in the proposed redrafted ISQC appropriate?

The objectives stated in the draft ISQC 1 articulate the primary reasons for a firm to establish a system of quality control. APESB would like to propose that another objective of establishing a system of quality control is that it enables firms to have a process to manage and address engagement risks. Thus it may be appropriate to incorporate a risk management perspective in to the objectives. The current objectives appear to be drawn from a client perspective and IAASB should consider incorporating a risk management objective from a firm perspective.

When reviewing the objectives of ISQC 1, we reviewed paragraph 16 which lists the required elements of a quality control system. Whilst the included items are appropriate, the standard does not appear to promote inclusion of additional elements that may be appropriate in the specific circumstances of some firms (eg: environmental auditing or auditing non financial information). APESB suggest that the scope of paragraph 16 be extended so that firms are encouraged to consider implementing and documenting other relevant elements that will enable a firm to meet the objectives of the standard.

We suggest the inclusion of an explanatory paragraph that encourages firms to consider their unique structure and businesses when determining whether any additional elements, outside of the minimum requirements listed, should be included. This paragraph should make reference back to the objectives of the standard as stipulated in paragraph 11

(ii) Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting and the use of professional judgment by auditors?

APESB reviewed the requirements of ISQC 1 in light of IAASB's criteria for determining the requirements of a Standard. We believe that the IAASB has identified the requirements appropriately and if adhered to these requirements would contribute to the improved quality of audit, review and other assurance related engagements.

(iii) Comment on special considerations in the audit of small entities and considerations specific to smaller practices.

APESB is supportive of the application statement in paragraph 4 acknowledging that the nature of policies and procedures will depend on individual firm size and operating characteristics. However, we believe that this message should be reconveyed in paragraphs 16 – 18 (or in application guidance) to emphasise that the intention of the standard is to achieve the objectives in paragraph 11, in a manner which is appropriate to the individual firm.

Paragraph 17(a) requires that policies and procedures be documented and communicated. Whilst the requirement is clear, APESB is of the opinion that smaller practices would benefit by additional guidance on what would be acceptable documentation.

Paragraph 55(c) requires that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements as part of the monitoring process. However, paragraph 55(c) is cross referenced to explanatory paragraphs A60-A61 and these paragraphs do not make any mention of small firms. We believe that the paragraph A64 should also be referred to in paragraph 55 (c).

APESB noted that the standard does not provide guidance in relation to the timing of the appointment of the quality control reviewer. We believe that users would benefit from the suggestion that firms consider appointing such reviewers, where possible, at the commencement of an engagement. This will help to avoid circumstances where the quality reviewer is inappropriately sought for advice on the engagement to assist the engagement partner in forming their opinion. Whilst relevant to all practices, the greatest benefit would be to smaller practices that may not have easy access to alternative, appropriately qualified, personnel and therefore require more planning when it comes to appointment of quality control reviewers (whether internal or external).

(iv) Comment on special considerations in the audit of public sector entities and considerations specific to public sector audit organisations.

When considering application of ISQC 1 to the audit of public sector entities, APESB reviewed the defined terms in section 12 of the exposure draft. We note that whilst the definition of firm includes sole practitioners, partnerships, corporations and other entities of professional accountants, no reference has been made to public sector audit organisations. To overcome the absence, we suggest that the following definition of “firm” used by APESB in Australian professional standards be considered for inclusion:

Firm is defined as;

- (a) A sole practitioner, partnership, corporation or other entity of professional accountants;*
- (b) An entity that controls such parties;*
- (c) An entity controlled by such parties; or*
- (d) An Auditor-General’s office or department*

(v) Changes made to date of completion of engagement quality control review

Review of ISQC 1 found that the reference to the “date of the report” was made in the following paragraphs:

12(c) – definition of engagement quality control review requiring that objective evaluation be provided before the date of the report

49(b) – requiring that the engagement quality control review be completed before the date of the report

In both of the above cases, APESB believe it is appropriate to refer to the date of the report as opposed to the date of issuance. Referral to the date of the report requires that all findings arising from the engagement including those from quality control procedures are considered prior to an opinion being formed and the report being dated. Whilst the undefined term “date of issuance” conveys a similar message, it does leave scope for potential misinterpretation.

Accordingly, APESB is supportive of IAASB’s decision to remove references to “the issuance of reports” and replace them with the “date of the report”.

(vi) Changes made to the definition of engagement team

The proposed definition of engagement team includes partners, staff and individuals that perform procedures on an engagement. The word “procedure” is not defined in the standard therefore leaving some scope for interpretation. To ensure that all intended procedures are covered, such as performance of engagement, testing, calculations etc. as well as quality review procedures and the provision of advice by parties both internal and external to the firm, we present the following extended definition for consideration by the IAASB:

Engagement team – Partners and staff performing the engagement and any individuals engaged by the firm who perform procedures on that engagement. Procedures include but are not limited to audit procedures, consultation procedures, advisory procedures, review procedures, and other procedures connected with the performance of the engagement.

Alternatively IAASB may also consider defining procedures in paragraph 12.

(vii) Other items noted

Paragraph 51(b) currently states that policies and procedures dealing with differences of opinion shall require that “the report not be dated until the matter is resolved”. It appears that the intention here is that the differences of opinion are resolved before the date of the report, however as currently drafted, this message is ambiguous. APESB present the following alternative wording for consideration:

“resolution of the matter is required prior to the report being dated and issued”.

5. Further Information

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