

# AN OVERVIEW 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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**Revised August 2014**

This guide is published by CPA Australia Ltd. ABN 64 008 392 452

[cpaaustralia.com.au](http://cpaaustralia.com.au)

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# SECTION 1

# INTRODUCTION TO

# QUALITY CONTROL

This section provides an introduction to this quality control guide. It describes the role of quality control in the profession, provides an overview of quality control, and summarises the professional pronouncements on quality control.

## QUALITY CONTROL AND THE ACCOUNTING PROFESSION

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The accounting profession views the matter of quality control as a high priority. 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 is committed to ensuring that members comply with professional standards as this is critical to the credibility of the profession. CPA Australia's Quality Review Program aims to ensure that accounting firms maintain a consistently high standard of quality and service to their clients. The program brings together professional guidance and assistance, with industry self-regulation.

## ABOUT THIS GUIDE

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For quality control to be effectively practised, it is important that the elements of quality control be known and applied by all staff. It is also important that staff are aware of the particular quality control system in your firm.

This quality control guide provides an overview of the quality control requirements and is designed as a quick-reference guide for two key purposes:

1. Training of new and existing staff on quality control; and
2. Review of the quality control system in your firm.

This guide should be read in conjunction with APES 320 *Quality Control for Firms*, which is included in the Members' Handbook and available on the APESB website ([www.apesb.org.au/](http://www.apesb.org.au/)).

For a more detailed commentary on the quality control requirements, you should refer to the CPA Australia Comprehensive Guide to Quality Control, which is available on the CPA Australia website. The CPA Australia website also contains a number of other useful resources on quality assurance, some of which are outlined in Section 4 below.

# WHAT IS QUALITY CONTROL?

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You may have heard of service mottos such as “Do it right the first time, every time”. In essence, this projects a policy or culture of quality control. For our purposes, 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.

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.

## BENEFITS TO YOUR FIRM INCLUDE:

- 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; and
- Highlighting procedural problems and implementing positive changes.

## BENEFITS TO THE ACCOUNTING PROFESSION INCLUDE:

- Enhancing the reputation in the business and social community of members; and
- Acceptance by government and the community of self-regulation of the accounting profession.

## BENEFITS TO YOUR CLIENTS AND THE COMMUNITY INCLUDE:

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

## RISK MANAGEMENT

The concept of 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 in respect of 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
- Enhance profitability and ensure the firm’s long-term viability.

# QUALITY CONTROL STANDARDS

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The quality control standards are contained in APES 320 *Quality Control for Firms*. This Standard contains the basic quality control principles and essential procedures (identified in bold type) which are mandatory, as well as related guidance. APES 320 has mandatory professional status for all engagements conducted by firms. It also has the force of law for audits conducted under part 2M of the *Corporations Act 2001* (Cwlth).

APES 320 describes quality control and professional standards which apply to 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.*

## APPLICATION REQUIREMENTS

APES 320 applies to all firms. However, there is a distinction between assurance and non-assurance services.

An **assurance practice** is defined as the assurance division or section of a firm, encompassing every assurance engagement conducted by the firm.

An **assurance engagement** is defined as an engagement in which a conclusion is expressed by a member in public practice designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. Examples of assurance engagements include financial report audits and opinions on the reliability of internal control systems.

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').

However, 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.

## ELEMENTS OF A SYSTEM OF QUALITY CONTROL

APES 320 identifies six elements of a system of quality control as follows:

- Leadership Responsibilities for Quality Within the Firm;
- Relevant Ethical Requirements;
- Acceptance and Continuance of Client Relationships and Specific Engagements;
- Human Resources;
- Engagement Performance; and
- Monitoring.

There are also overarching responsibilities for the quality control policies and procedures to be documented and communicated to the firm's personnel. These elements and responsibilities are discussed in Sections 2 and 3 below.

# CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

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Fundamental ethical principles are clarified and explained in APES 110 Code of Ethics for Professional Accountants ("the Code")<sup>1</sup>. 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. 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 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).

Where members experience an actual or perceived threat to compliance with the fundamental principles, they are required to apply appropriate safeguards to eliminate or reduce such threats to an acceptable level. Note that Part B of the Code specifically relates to Members in Public Practice.

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 the Code.

<sup>1</sup> APES 110 Code of Ethics for Professional Accountants replaced the Code of Professional Conduct (CPC) on 1 July 2006



# SECTION 2

## QUALITY CONTROL SYSTEMS

This section deals with some of the practical considerations involved in establishing and maintaining a system of quality control in your firm. It includes commentary on the requirements to document the quality control system and communicate the quality control policies and procedures to all staff.

### ESTABLISHING A SYSTEM OF QUALITY CONTROL

#### APES 320 REQUIREMENTS:

PARA	DESCRIPTION
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.
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.
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.
9	...because circumstances vary widely and all such circumstances cannot be anticipated, 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.
10	A firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements: <ol style="list-style-type: none"> <li>Leadership responsibilities for quality within the firm.</li> <li>Relevant ethical requirements.</li> <li>Acceptance and continuance of client relationships and specific engagements.</li> <li>Human resources.</li> <li>Engagement performance.</li> <li>Monitoring.</li> </ol>

#### COMMENTARY:

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

- Firm philosophy and strategy;
- Organisational structure, size and geographic details;
- Nature of the professional services provided and types of clients;
- Degree of operating autonomy of the principals and staff in delivering service to clients.

## 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<sup>2</sup>. 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.

## 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. The following is a brief checklist that will assist you with the development and implementation of your system of quality control:

- Set objectives for the quality control program;
- Determine the present quality control policies and procedures in operation;
- Determine and document your required quality control policies, based on the elements of quality in APES 320 (described in Section 3 of this guide);
- 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; and
- 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.

Establishing a definitive timetable for accomplishing the various steps in the program will provide a better foundation for the system and will lead to a more effective quality control system.

<sup>2</sup> Note that it is advisable for firms to have an appropriate succession plan, to ensure that expertise in quality control is not lost to the firm.

# DOCUMENTING THE QUALITY CONTROL SYSTEM

## APES 320 REQUIREMENTS:

PARA	DESCRIPTION
11	A firm shall document its policies and procedures and communicate them to the firm's personnel.
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.
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.
129	A firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.

### COMMENTARY:

Documentation of quality control policies and procedures is an important overarching requirement of APES 320.

Documentation ensures the firms' policies and processes are visible and accessible to staff, providing guidance whilst instilling discipline in organisational practices. Documentation can also be used to protect members in the event of a negligence claim.

Your firm must formalise its quality control policies and procedures. This requires documentation that adequately describes 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 both the APES 320 requirements and therefore the requirements of CPA Australia's Quality 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; and
- The nature and complexity of your firm.

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, hard-copy or a combination of both, your firm is required to retain the documentation at least until an evaluation of your firm's compliance with its quality control system has taken place.

To satisfy APES 320, your firm should develop 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; and
- Provide standard job descriptions for administration staff.

Section 4 of this guide outlines some useful resources to assist with the documentation of your quality control system.

### Preparing standard forms and formats

Proper documentation will be more consistent and easier to accomplish if standardised forms and formats are used for all routine activities. Firms should also ensure these forms are readily accessible. It is important that:

- the standardised forms and formats are technically correct;
- the forms reflect current policies and procedures;
- the 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

## APES 320 REQUIREMENTS:

PARA	DESCRIPTION
11	A firm shall document its policies and procedures and communicate them to the firm's personnel.

### 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.

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 the need for quality conscious staff. 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

## ELEMENTS OF A QUALITY CONTROL SYSTEM

This section describes the six elements of a system of quality control referred to in APES 320. Each element must be applied to the extent that each one is applicable to your firm, or to particular practices within your firm (e.g. financial reporting/ compilation, audit, taxation, etc.). This is especially important when separating non-assurance services from assurance services for the purposes of APES 320. 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, 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.

As discussed in Section 2, there are also overarching responsibilities for the quality control policies and procedures to be documented and communicated to the firm’s personnel.

# LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

## APES 320 REQUIREMENTS:

PARA	DESCRIPTION
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.
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.

### 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.

### Minimum documentation recommendations:

Document the firm's policies and procedures for Leadership responsibilities for quality within the firm, including:

- the firm's commitment to a culture of quality;
- the person(s) ultimately responsible for the firm's system of quality control;
- the firm's compliance with professional standards and legislative requirements;
- the firm's commitment to review quality control policies and procedures at least annually; and
- the firm's assignment of operational responsibility to the quality control manager.

For a more comprehensive list of areas to consider, you should consult Section 3 of the CPA Australia Comprehensive Guide to Quality Control, which is available at the CPA Australia website ([cpaaustralia.com.au](http://cpaaustralia.com.au)).

# RELEVANT ETHICAL REQUIREMENTS

## APES 320 REQUIREMENTS:

PARA	DESCRIPTION
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.
<b>INDEPENDENCE</b>	
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...
<b>ASSURANCE PRACTICES ONLY</b>	
25	A firm shall establish policies and procedures that require: Engagement partners to provide the firm with relevant information about client engagements...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 The accumulation and communication of relevant information to appropriate personnel...
26	A 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...
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.
31	A 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.

## COMMENTARY:

The firm must develop policies and procedures outlining how the firm and its personnel are to comply with ethical requirements.

The importance of ethics cannot be underestimated. Strong leadership from the top of the organisation is required, as the actions of senior leaders will largely determine how the rest of the organisation behaves. Requirements are contained in various professional standards, including APES 110 *Code of Ethics for Professional Accountants* ("the Code").

Part A of the Code establishes the fundamental principles of professional ethics:

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

## 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.

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## 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.

### **Minimum documentation recommendations:**

Document the firm's policies and procedures for Relevant ethical requirements, including:

- personnel's compliance with the fundamental principles of ethics; and
- personnel's compliance with independence requirements.

For a more comprehensive list of areas to consider, you should consult Section 3 of the CPA Australia Comprehensive Guide to Quality Control, which is available at the CPA Australia website ([cpaaustralia.com.au](http://cpaaustralia.com.au)).



# ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

## APES 320 REQUIREMENTS:

PARA	DESCRIPTION
38	<p>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:</p> <ol style="list-style-type: none"> <li>Is competent to perform the engagement and has the capabilities, including time and resources, to do so;</li> <li>Can comply with relevant ethical requirements; and</li> <li>Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity.</li> </ol>
42	<p>A firm shall establish policies and procedures that require:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>
44	<p>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...</p>

## COMMENTARY:

A firm's system of quality control must identify steps to be taken to evaluate the integrity of any new or continuing client, the firm's ability to perform the new or continuing engagement, and the firm's ability to meet all ethical requirements before undertaking or continuing an 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. 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 capacity to staff the engagement. Additionally, the engagements must not conflict with professional or practice standards, including conflicts among clients, or conflicts of interest.

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.

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.

### Minimum documentation recommendations:

Document the firm's policies and procedures for Acceptance and continuance of client relationships and specific engagements, including:

- the consideration of client integrity, ability to service the client, and ethical requirements for all engagements;
- the initial and ongoing assessments of clients and engagements; and
- the communications with potential and existing clients, including use of engagement letters.

For a more comprehensive list of areas to consider, you should consult Section 3 of the CPA Australia Comprehensive Guide to Quality Control, which is available at the CPA Australia website ([cpaaustralia.com.au](http://cpaaustralia.com.au)).

# HUMAN RESOURCES

## APES 320 REQUIREMENTS:

PARA	DESCRIPTION
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: <ol style="list-style-type: none"> <li>Perform engagements in accordance with professional standards and applicable legal and regulatory requirements;</li> <li>and</li> <li>Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</li> </ol>
<b>ASSIGNMENT OF ENGAGEMENT TEAMS</b>	
54	A firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that: <ol style="list-style-type: none"> <li>The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;</li> <li>The engagement partner has the appropriate competence, capabilities and authority to perform the role;</li> <li>and</li> <li>The responsibilities of the engagement partner are clearly defined and communicated to that partner.</li> </ol>
56	A firm shall establish policies and procedures to assign appropriate personnel with the necessary competence and capabilities to: <ol style="list-style-type: none"> <li>Perform engagements in accordance with professional standards and applicable legal and regulatory requirements;</li> <li>and</li> <li>Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</li> </ol>

### COMMENTARY:

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 and compensation;
- Capabilities and competence;
- Career development and promotion; and
- Estimation of personnel needs.

#### 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 must be balanced in training and experience. The firm should plan for assignments and consider the nature of the client's business, the client's needs, staff availability, skills and experience, the need for supervision, and the development of the individual staff members.

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.

#### Minimum documentation recommendations:

Document the firm's policies and procedures for Human resources, including:

- the allocation of responsibility for human resources issues to an appropriate partner;
- the review of current and future staffing requirements;
- the recruitment process for candidates, including position descriptions and staff orientation;
- the performance review process, including links to promotion and remuneration;
- the professional development and career advancement of personnel; and
- the assignment and responsibility of engagement teams, including supervision and review.

For a more comprehensive list of areas to consider, you should consult Section 3 of the CPA Australia Comprehensive Guide to Quality Control, which is available at the CPA Australia website ([cpaaustralia.com.au](http://cpaaustralia.com.au)).

# ENGAGEMENT PERFORMANCE

## APES 320 REQUIREMENTS:

PARA	DESCRIPTION
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...
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.
<b>CONSULTATION</b>	
64	A firm shall establish policies and procedures designed to provide it with reasonable assurance that: <ol style="list-style-type: none"> <li>Appropriate consultation takes place on difficult or contentious matters;</li> <li>Sufficient resources are available to enable appropriate consultation to take place;</li> </ol> <b>Assurance Practices only</b> <ol style="list-style-type: none"> <li>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</li> <li>Conclusions resulting from consultations are implemented.</li> </ol>
<b>ASSURANCE PRACTICES ONLY</b>	
<b>ENGAGEMENT QUALITY CONTROL REVIEW</b>	
70	A firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review (EQCR) that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall: <ol style="list-style-type: none"> <li>Require an EQCR for all audits of financial statements of listed entities;</li> <li>Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements shall be evaluated to determine whether an EQCR should be performed; and</li> <li>Require an EQCR for all engagements, if any, meeting the criteria established in compliance with subparagraph 70(b).</li> </ol>
72	A firm shall establish policies and procedures setting out the nature, timing and extent of an EQCR. Such policies and procedures shall require that the engagement report not be dated until the completion of the EQCR.
73	A firm shall establish policies and procedures to require the EQCR to include: <ol style="list-style-type: none"> <li>Discussion of significant matters with the engagement partner;</li> <li>Review of the financial statements or other subject matter information and the proposed report;</li> <li>Review of selected engagement documentation relating to significant judgements the engagement team made and the conclusions it reached; and</li> <li>Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.</li> </ol>
77	For audits of financial statements of listed entities, a firm shall establish policies and procedures to require the EQCR to include consideration of the following: <ol style="list-style-type: none"> <li>The engagement team's evaluation of the firm's independence in relation to the specific engagement;</li> <li>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</li> <li>Whether documentation selected for review reflects the work performed in relation to significant judgements and supports the conclusions reached.</li> </ol>
80	A firm shall establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through: <ol style="list-style-type: none"> <li>The technical qualifications required to perform the role, including the necessary experience and authority; and</li> <li>The degree to which an engagement quality</li> </ol>

PARA	DESCRIPTION
83	A firm shall establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer.
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.
88	A firm shall establish policies and procedures on documentation of the EQCR which require documentation that: <ol style="list-style-type: none"> <li>The procedures required by the firm's policies on EQCR have been performed;</li> <li>The EQCR has been completed on or before the date of report; and</li> <li>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 it reached were not appropriate.</li> </ol>
<b>DIFFERENCES OF OPINION</b>	
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.
90	Such policies and procedures shall require that: <ol style="list-style-type: none"> <li>Conclusions reached be documented and implemented; and</li> <li>The report not be dated until the matter is resolved.</li> </ol>
<b>ENGAGEMENT DOCUMENTATION</b>	
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.
96	A firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.
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.

## 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. 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.

## 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, especially for assurance practices, that the nature and conclusions of such consultations are documented. Consultation should be with those possessing appropriate levels of knowledge, competence, judgment and authority on significant technical, ethical and other matters.

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## ASSURANCE PRACTICES ONLY

### Engagement Quality Control Review

For appropriate engagements, the firm is required to conduct an engagement quality control review. This is generally termed the 'second partner review'.

The firm's policies and procedures must establish when an engagement quality control review is required. All audits of the financial statements of listed entities require an engagement quality control review.

### Differences of Opinion

Differences of opinion may be common in assurance engagements, especially where professional judgments are required. Policies and procedures must be established and implemented to explain how the firm will deal with and resolve differences of opinion with clients, others members of the engagement team, consultants, engagement partners, or the engagement quality control reviewer. The audit/assurance report must not be issued 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.

### Minimum documentation recommendations:

Document the firm's policies and procedures for Engagement performance, including:

- planning, conduct and supervision of engagements;
- the handling of consultations;
- the use of engagement quality control reviews (Assurance Practices only);
- the handling of differences of opinion (Assurance Practices only); and
- the management of engagement documentation.

For a more comprehensive list of areas to consider, you should consult Section 3 of the CPA Australia Comprehensive Guide to Quality Control, which is available at the CPA Australia website ([cpaaustralia.com.au](http://cpaaustralia.com.au)).

# MONITORING

## APES 320 REQUIREMENTS:

PARA	DESCRIPTION
106	<p>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:</p> <ol style="list-style-type: none"> <li>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;</li> <li>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</li> <li>Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements.</li> </ol>
<b>ASSURANCE PRACTICES ONLY</b>	
112	<p>A firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:</p> <ol style="list-style-type: none"> <li>Instances that do not necessarily indicate that the firm's system of quality control is insufficient...; or</li> <li>Systemic, repetitive or other significant deficiencies that require prompt corrective action.</li> </ol>
113	<p>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.</p>
115	<p>Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following:</p> <ol style="list-style-type: none"> <li>Taking appropriate remedial action in relation to an individual assurance engagement or member of personnel;</li> <li>The communication of the findings to those responsible for training and professional development;</li> <li>Changes to the quality control policies and procedures; and</li> <li>Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.</li> </ol>
116	<p>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.</p>
117	<p>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 in accordance with their defined roles and responsibilities...</p>
118	<p>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:</p> <ol style="list-style-type: none"> <li>At least annually, the network communicate the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and</li> <li>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...</li> </ol>
<b>COMPLAINTS AND ALLEGATIONS</b>	
119	<p>A firm shall establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:</p> <ol style="list-style-type: none"> <li>Complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements; and</li> <li>Allegations of non-compliance with the firm's system of quality control.</li> </ol> <p>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.</p>
122	<p>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.</p>

**COMMENTARY:**

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. Similarly, as the firm's clientele, philosophy of operation or specialties change, it is important to update 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.

Ensuring the quality control policies and procedures are up-to-date is an important responsibility. This is ideally a role for the firm's quality control manager.

**ASSURANCE PRACTICES ONLY**

The monitoring of the quality control system for assurance practices 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.

**Minimum documentation recommendations:**

Document the firm's policies and procedures for Monitoring, including:

- the assessment of the implementation and effectiveness of the firm's system of quality control;
- the implementation of appropriate changes to deal with deficiencies or areas of non-compliance;
- the inspection of selected completed engagements for compliance; and
- how the firm deals with complaints and allegations relating to non-performance or non-compliance.

For a more comprehensive list of areas to consider, you should consult Section 3 of the CPA Australia Comprehensive Guide to Quality Control, which is available at the CPA Australia website ([cpaaustralia.com.au](http://cpaaustralia.com.au)).

## SECTION 4 HELPFUL RESOURCES

The following helpful resources on quality control and can be found at the CPA Australia website (cpaustralia.com.au). From the CPA Australia home-page, follow the links to:

Professional Resources > Practice Management  
> Quality Review

## RESOURCES

RESOURCE	DESCRIPTION	LOCATION
APES 320 <i>Quality Control for Firms</i>	Professional Standard APES 320, reissued by the Accounting Professional and Ethical Standards Board (APESB) in May 2009, effective 1 January 2010.	Professional Resources > Practice Management > Quality Review > APES 320 Quality control for firms
Comprehensive Guide to Quality Control	A comprehensive guide for use by firms to establish policies and procedures to ensure compliance with professional standards.	Professional Resources > Practice Management > Quality Review > APES 320 Quality control for firms
A Practical Guide to Quality Control	Summarises each of the elements of quality control, provides example policies and procedures for guidance on developing a manual suitable for sole practitioner, sole practitioner with staff and multi partner firms.	Professional Resources > Practice Management > Quality Review > APES 320 Quality control for firms
Quality Control for Firms: Comparison Guide	Compares APES 320 to the AUASB standard on quality control ASQC 1 for use by members who provide auditing and assurance services.	Professional Resources > Practice Management > Quality Review > APES 320 Quality control for firms
Forms for members under review	Forms Questionnaires and Information about the quality review program designed for members under review including FAQs about the CPA Australia Quality Review Program.	Professional Resources > Practice Management > Quality Review > Forms for members under review
Forms for quality reviewers	Tools and resources used by CPA Australia reviewers to perform quality reviews including Specific Engagement Questionnaires, Review Report Templates and other forms and guides.	Professional Resources > Practice Management > Quality Review > Forms for quality reviewers
APES 325	Fact sheet designed to provide an overview on the requirements of the professional standard APES 325 issued by the Accounting Professional and Ethical Standards Board (APESB) in December 2011.	Professional Resources > Practice Management > Toolkit > Risk Management > APES 325
APES 325 Risk Management for Firms	A guide providing an explanation and introduction to APES 325 Risk Management for Firms.	Professional Resources > Practice Management > Toolkit > Risk Management > APES 325 risk management for firms



CPAH1110\_09/14