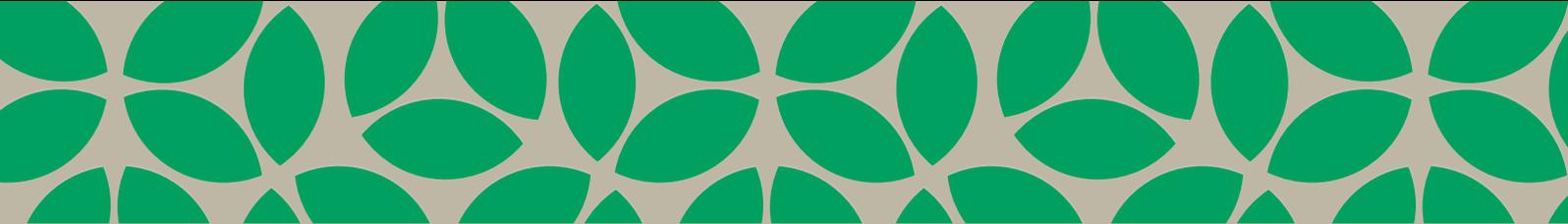




Joint Accounting Bodies

CPA Australia, The Institute of Chartered Accountants in Australia & The Institute of Public Accountants



Competency Requirements
for Assurance Practitioners
Undertaking Review Engagements

October 2013

The Joint Accounting Bodies

The major professional accounting bodies in Australia established the Joint Accounting Bodies to speak with a united voice to government bodies, standard setters and regulators on non-competitive matters affecting the profession. The members of the Joint Accounting Bodies are:



CPA Australia is one of the world's largest accounting and finance bodies, representing over 144,000 accounting and business professionals globally.

Our aim is to enhance our members' professional knowledge and support their career development. We do this in many ways, starting with the world-class postgraduate CPA Program, recognised internationally as a benchmark of quality and employability. Thereafter, we deliver a range of continuous learning programs, utilising our international networks to source leading-edge content and presenters.

What sets us apart from other similar bodies is our focus on strategy, leadership and international business. CPA Australia is the global professional accountancy designation for strategic business leaders.

We support our members and the profession internationally by advocating for change at the highest levels and contributing to leading networks worldwide in the finance, accounting and business arenas.

A strategic priority and commitment for CPA Australia is to not only advocate on behalf of members, but also to speak up on economic and political issues in the public interest.

CPA Australia's members are bound by a strict professional code of conduct, including an obligation to undertake continuous professional development to ensure that the highest professional standards are maintained.

Our commitment to excellence, integrity and innovative thinking means that CPAs will remain at the forefront of business and public service now and in generations to come. For further information about CPA Australia visit www.cpaaustralia.com.au



**Institute of
Chartered Accountants
Australia**

The Institute of Chartered Accountants in Australia (the Institute) is the professional body for Chartered Accountants in Australia and members operating throughout the world.

Representing more than 72,000 current and future professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest.

Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.

The Institute was established by Royal Charter in 1928 and today has more than 60,000 members and 12,000 talented graduates working and undertaking the Chartered Accountants Program.

The Institute is a founding member of the Global Accounting Alliance (GAA), which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide. For more information about the Institute visit charteredaccountants.com.au



IPA INSTITUTE OF PUBLIC
ACCOUNTANTS

The Institute of Public Accountants, established in 1923, provides guidance and insight into long-term future planning for its 24,000 members and students in Australia and more than 50 countries worldwide, as well as quality education and career progression pathways for members and graduates throughout Australia.

IPA members must meet prescribed standards of education, including the IPA Program leading to the degree of Masters of Commerce (Professional Accounting) and experience whilst at the same time displaying the highest ethical and professional standards. The IPA provides expert representation as well as the crucial technical tools and business support members require.

The IPA also provides members with an ongoing program of professional development and a host of social and business networking opportunities and online discussion forums.

IPA members benefit from the organisation's strong alliances and leadership reaching to the international and national business sectors, Australian State and Federal Governments and the wider public and private sectors.

Through these networks the IPA provides 'thought leadership' in addressing issues affecting accounting. As a full member of the International Federation of Accountants (IFAC), the IPA is well positioned in its work with national and international standard setters to ensure members are fully represented and fully informed.

For further information about the IPA visit www.publicaccountants.org.au

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Introduction

This document sets out the competency requirements that must be met by all members of CPA Australia (CPA), the Institute of Chartered Accountants in Australia (the Institute) and the Institute of Public Accountants (IPA) who are seeking to undertake a review engagement in accordance with Australian auditing and review standards, whether or not required by statute. Members who perform review engagements are considered to be assurance practitioners.

The terms assurance practitioner and review (limited assurance) engagement are defined in the *Framework for Assurance Engagements* issued by the Australian Auditing and Assurance Standards Board.

APES 110 *Code of Ethics for Professional Accountants* requires that members comply with the fundamental principle of professional competence and due care when they provide professional services.

The principle of professional competence and due care imposes the obligation on members to:

- a. Maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service
- b. Act diligently in accordance with applicable technical and professional standards when providing professional services

Competency refers to the knowledge and skills required to perform tasks in particular work contexts. A competency requirement describes the specific capabilities needed to competently perform a particular task by reference to performance criteria, environmental factors and individual skills and knowledge.

For assurance practitioners, competency is evaluated by assessing whether a person has acquired the necessary knowledge and skill to perform a review engagement. The assurance practitioner must be able to demonstrate to a quality control reviewer or an assessor that they are able to competently perform the review engagement. Such an assessment will form part of the quality review process for the engagement.

Assurance Practitioners conducting review engagements must meet the professional standards requirements set out in Appendix 1 and the requirements for minimum continuing professional development set out in Appendix 2.

Assurance practitioners will need to display their ability to complete the tasks of planning, evidence gathering, evidence evaluation, decision-making and documentation in five key areas set out below, in the context of a review engagement:

1. Client acceptance and retention
2. Planning
3. Controls evaluation
4. Testing
5. Conclusion

Application

This document sets out the minimum requirements to be followed by members who are not registered company auditors (RCAs) and are undertaking engagements to review historical financial information. These requirements are mandatory for members of CPA, the Institute and IPA who undertake review engagements. The experience and competencies that RCAs are required to obtain prior to their registration, along with their continuing professional development obligations, means they are considered to have the appropriate competencies to perform review engagements.

Members must also comply with the requirements of the professional accounting body of which they are a member in relation to holding a Certificate of Public Practice and maintaining appropriate professional indemnity insurance when the circumstances of the engagement (including any law or regulation applicable to the engagement) requires them to do so.

The competency requirements are effective for review engagements in relation to financial reporting periods commencing on or after 1 October 2013.

Background

Since 2010, when changes were made to the *Corporations Act 2001* to introduce a review requirement for second-tier companies limited by guarantee, a number of other statutory requirements have been introduced requiring a similar review of financial statements of entities that meet certain criteria.

Assurance practitioners conducting review engagements will need to have, and be able to demonstrate, competencies in the five key areas of: client acceptance and retention, planning, controls evaluation, testing and conclusion.

In order to address these areas adequately the assurance practitioner must be familiar with the requirements of Australian Auditing Standards (ASAs) (refer to Appendix 3 for further information), Standards on Review Engagements (ASREs) and ASQC 1 *Quality Control for Firms That Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

Assurance practitioners must also comply with the requirements of the pronouncements of the Accounting Professional and Ethical Standards Board (APESB) – such as APES 110 *Code of Ethics for Professional Accountants* and the quality control obligations imposed on firms by APES 320 *Quality Control for Firms*.

APES 210 *Conformity with Auditing and Assurance Standards* imposes the obligation to utilise the ASAs and ASREs in the conduct of all Australian audit or review engagements.

Working papers are a key element of any engagement and are required by the auditing standards. Paragraph 8 in ASA 230 *Audit Documentation* contains the following requirement:

The auditor shall prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand:

- a. the nature, timing, and extent of the audit procedures performed to comply with Auditing Standards and applicable legal and regulatory requirements;
- b. the results of the audit procedures and the audit evidence obtained; and
- c. significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching the conclusions.

For review engagements, paragraph 93 of ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who Is Not the Auditor of the Entity* contains the following requirement with respect to working papers:

The preparation of documentation for the review provides evidence that the review was performed in accordance with this ASRE, and legal and regulatory requirements where relevant, and a sufficient and appropriate record of the basis for the assurance practitioner's report. The assurance practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced assurance practitioner, having no previous connection with the engagement, to understand:

- a. *The nature, timing, and extent of the procedures performed to comply with this ASRE and applicable legal and regulatory requirements;*
- b. *Results obtained from the procedures, and the assurance practitioner's conclusions formed on the basis of those results; and*
- c. *Significant matters arising during the engagement, the assurance practitioner's conclusions reached thereon, and significant professional judgements made in reaching those conclusions.*

Working papers also assist in being able to demonstrate competency in the five key areas mentioned above, as well as engagement quality control, supervision and review.

Quality control procedures at the firm level and at the engagement level are an overarching requirement to the conduct of the engagement.

The five key assurance areas and the knowledge and skill required for a competent assurance practitioner conducting a review engagement are detailed below.

Tasks

The tasks set out below are intended to be the minimum competencies required of assurance practitioners conducting review engagements. The description of each task sets out the procedures that the assurance practitioner must be able to perform, as well as meet the knowledge requirements.

The tasks set out in Tables 1 to 5 below are not intended to be a substitute for a review methodology, nor for the need for each assurance practitioner conducting a review engagement to be familiar with the requirements of the ASAs, ASREs, ASQC 1 and professional and ethical standards.

1. Client acceptance and retention

Task	Practitioner must demonstrate competency to:
1.1 – Planning	Identify the criteria for client acceptance/retention decision on a potential/existing review engagement.
1.2 – Evidence gathering	Gather evidence related to the client acceptance/retention decision. Gather information about the entity to ensure that the assurance practitioner is able to make an objective assessment regarding assurance practitioner independence, and assess whether the assurance practitioner has the knowledge and skill to undertake the required review engagement.
1.3 – Evidence evaluation	Evaluate the evidence related to the client acceptance/retention decision. Evaluate the information and document any difficulties which may be encountered in the assurance engagement and their potential resolution. This information will include: <ul style="list-style-type: none">• any identified independence issues and how they may be mitigated• whether the financial reporting framework to be applied is acceptable• the steps the assurance practitioner has taken to ensure they have the skills to address complex issues which may exist
1.4 – Decision-making	Decide whether to accept or reject a particular review engagement. Make an objective decision regarding the appropriateness of accepting an appointment giving appropriate regard to any independence matters, potential risks and the assurance practitioner's skills and knowledge.
1.5 – Documentation	Prepare and retain documentation that is sufficient and appropriate to demonstrate the planning, evidence gathering, evidence evaluation and decision making in concluding whether to accept (or refuse) the review engagement.

Knowledge requirements

The assurance practitioner must have knowledge of:

- Professional and ethical requirements (especially independence)
- The applicable legislation or other financial review requirements giving rise to the engagement
- Applicable audit, assurance and review standards
- Terms of assurance engagements

The concept of professional independence is fundamental to compliance with the principles of integrity and objectivity, which are consistent with objective and impartial judgement. Assurance practitioners conducting review engagements are required to be independent of their clients both in appearance and mind. Where an assurance practitioner is unable to satisfy the independence requirements in respect of a review engagement, the engagement must be declined. Assurance practitioners also need to be mindful of independence issues arising during the conduct of the engagement. If such issues arise care needs to be taken to either implement appropriate safeguards, or ultimately resign from the engagement if no safeguards are appropriate.

The assurance practitioner will need to be particularly aware of:

- An advocacy threat created where they have provided advice in connection with a transaction
- A self-interest threat created where they have an interest in the entity whose financial statements are being reviewed
- A self-review threat created where they are essentially reviewing their own work

2. Planning

Task	Practitioner must demonstrate competency to:
2.1 – Planning	Identify the objectives of the engagement and any risks to be addressed. The plan must be tailored to suit the review being undertaken.
2.2 – Evidence gathering	Gather evidence relevant to the development of the plan. This evidence includes financial statements, minutes and other relevant supporting documents.
2.3 – Evidence evaluation	Evaluate the evidence having regard to significant risks. Determine an appropriate materiality level.
2.4 – Decision-making	Determine the types of review procedures to be performed based on the knowledge gained and the risks identified. Document the plan.
2.5 – Documentation	Prepare and retain documentation that is sufficient and appropriate to demonstrate the planning, evidence gathering, evidence evaluation and decision making in planning the review engagement.

Knowledge requirements

The assurance practitioner must have knowledge of the requirements of ASRE 2400, ASRE 2410 or ASRE 2415, including:

- Understanding the entity and its environment, including internal control, to identify the types of potential material misstatements
- Consideration that the financial statements may be materially misstated due to fraud
- Materiality
- Enquiries, analytical and other review procedures

3. Controls evaluation

Task	Practitioner must demonstrate competency to:
3.1 – Planning	Understand the internal control environment to assist in determining the procedures to be performed.
3.2 – Evidence gathering	Obtain responses from enquiries and other procedures about the internal control environment.
3.3 – Evidence evaluation	Evaluate the information obtained, including consideration of any control deficiencies.
3.4 – Decision making	Consider the extent and nature of testing to be performed from the evaluations made.
3.5 – Documentation	Prepare and retain documentation that is sufficient and appropriate to demonstrate their planning, evidence gathering, evidence evaluation and decision-making in evaluating the internal control environment.

Knowledge requirements

The assurance practitioner must have knowledge of the requirements of ASRE 2400, ASRE 2410 or ASRE 2415 regarding understanding the client's internal control environment.

4. Testing

Task	Practitioner must demonstrate competency to:
4.1 – Planning	Identify the enquiries, analytical procedures and other review procedures to be performed. This should provide a basis of reporting as to whether anything has come to the attention of the assurance practitioner regarding the preparation of the financial reporting framework.
4.2 – Evidence gathering	Obtain responses from enquiries of relevant personnel and perform the analytical and other review procedures identified. Obtain evidence that the financial statements agree or reconcile with the underlying accounting records.
4.3 – Evidence evaluation	Document the results of work performed and conclude on the findings. Conclusions must be supported by appropriate audit documentation.
4.4 – Decision-making	Consider whether any further procedures are required.
4.5 – Documentation	Prepare and retain documentation sufficient and appropriate to enable a peer, who has no previous involvement with the engagement, to gain an understanding of the work performed and the conclusion reached.

Knowledge requirements

Understand the different procedures that can be performed in order to meet certain objectives.

5. Conclusion

Task	Practitioner must demonstrate competency to:
5.1 – Planning	Identify the nature, timing and extent of review procedures necessary to form a conclusion on the financial statements.
5.2 – Evidence gathering	Prepare a summary of the review findings relating to the financial statements.
5.3 – Evidence evaluation	Determine the conclusion on the financial statements using the information gathered during the review.
5.4 – Decision-making	Determine the appropriate form of review report on the financial statements.
5.5 – Documentation	Prepare and retain documentation sufficient and appropriate to enable a peer who has no previous involvement with the engagement to gain an understanding of the conclusion reached.

Knowledge requirements

The assurance practitioner must have sufficient knowledge of assurance procedures, assurance reports and financial reporting requirements to be able to understand the evidence obtained and apply the requirements of the relevant standards to form their conclusion and draft the appropriate review report.

Appendices

Appendix 1 – Professional standards

A member undertaking a review engagement must meet the following requirements:

- Where required, the member must hold a practising certificate issued by the professional accounting body of which they are a member – CPA Australia, the Institute of Chartered Accountants in Australia, or the Institute of Public Accountants
- Have appropriate Professional Indemnity Insurance
- Complete the required Continuing Professional Development as set out in Appendix 2
- Ensure that those who undertake work on their behalf have appropriate knowledge and experience, and are properly supervised in the conduct of the review

Appendix 2 – Minimum continuing professional development standard

Initial requirement – all members who are not registered company auditors must ensure that they meet the knowledge requirements set out in Appendix 4, prior to conducting review engagements.

Ongoing requirements – all members who perform review engagements must complete at least 30 hours of relevant professional development activity in each rolling three-year period, comprising any combination of courses on reviewing or auditing financial statements and financial accounting training.

Before undertaking courses provided by other than the professional accounting bodies, members are encouraged to contact their respective professional accounting body to determine whether the course(s) is (are) recognised under the body's continuing professional development guidelines.

Appendix 3 – Standards of particular importance

Auditing standards

When performing a review engagement, a general knowledge and understanding of the auditing standards is important as some of the requirements and guidance in the auditing standards can assist in certain aspects of the review engagement. The key auditing standards that assurance practitioners should have an understanding of are:

- **ASQC 1 Quality Control for Firms That Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements** – requires a firm to establish and maintain a system of quality control.¹
- **ASA 101 Preamble to Australian Auditing Standards** – sets out how audit and review standards should be understood, interpreted and applied.
- **ASA 102 Compliance with Ethical Requirements When Performing Audits, Reviews and Other Assurance Engagements** – requires compliance with ethical requirements.
- **ASA 210 Agreeing the Terms of Audit Engagements** – requires the auditor to issue an engagement letter setting out the terms of the engagement. The engagement letter may cover a period greater than one year. However the standard sets out when this is inappropriate.
- **ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information** – requires quality control procedures that are applicable to the individual audit engagement.
- **ASA 230 Audit Documentation** – requires the auditor to prepare work papers which support the audit conclusion. This includes work programs which address financial and compliance sections of the audit as well as work papers which address the findings of the audit, including how the financial statement assertions have been addressed.
- **ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report** – requires the auditor to specifically address the risk of material misstatements in the financial report due to fraud.
- **ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report** – requires the auditor to consider laws and regulations when conducting an audit of a financial report.
- **ASA 260 Communication with Those Charged with Governance** – requires the auditor to communicate audit matters of governance matters with those charged with governance.

¹ APES 320 and ASQC 1 are based on ISQC 1, the quality control standard issued by the International Auditing and Assurance Standards Board. This means APES 320 and ASQC 1 are essentially the same despite different drafting formats that make them appear quite different. A practice that conducts assurance engagements, and therefore needs to comply with both APES 320 and ASQC 1, should find that once it is complying with APES 320, it is also complying with ASQC 1

- **ASA 300 Planning an Audit of a Financial Report** – requires the auditor to plan the audit in order to perform the engagement effectively.
- **ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment** – requires the auditor to obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial report whether due to fraud or error, and sufficient to design and perform further audit procedures.
- **ASA 320 Materiality in Planning and Performing an Audit** – requires the auditor to consider materiality and its relationship with audit risk.
- **ASA 330 The Auditor’s Responses to Assessed Risks** – requires the auditor to reduce audit risk to an acceptably low level by determining overall responses to assessed risks and designing and performing further audit procedures to respond to risks at the assertion level.
- **ASA 450 Evaluation of Misstatements Identified during the Audit** – requires the auditor to evaluate the effect of misstatements on the audit, including communicating and correcting misstatements.
- **ASA 500 Audit Evidence** – requires the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base their opinion.
- **ASA 501 Audit Evidence – Specific Considerations for Inventory and Segment Information** – requires the auditor to obtain sufficient appropriate audit evidence in relation to inventory and segment information to be able to draw reasonable conclusions on which to base their opinion.
- **ASA 502 Audit Evidence – Specific Considerations for Litigation and Claims** – requires the auditor to obtain sufficient appropriate audit evidence in relation to litigation and claims to be able to draw reasonable conclusions on which to base their opinion.
- **ASA 520 Analytical Procedures** – requires the auditor to apply analytical procedures as risk assessment procedures.
- **ASA 530 Audit Sampling** – requires the auditor to determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures.
- **ASA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures** – requires the auditor to obtain sufficient appropriate audit evidence that estimates and fair value measurements (and related disclosures) are in accordance with the entity’s financial reporting framework.
- **ASA 550 Related Parties** – requires the auditor to obtain sufficient appropriate audit evidence about related party relationships.
- **ASA 560 Subsequent Events** – requires the auditor to consider the effect of subsequent events on the financial report and on the auditor’s report.
- **ASA 570 Going Concern** – requires the auditor to assess whether the use of the going concern assumption is appropriate.

- **ASA 580 Written Representations** – requires the auditor to seek management representations in relation to the preparation of the accounts, internal controls and compliance matters such as record retention.

Review standards

Assurance practitioners performing a review engagement must apply ASRE 2415 *Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation* which prescribes the use of either ASRE 2400 or ASRE 2410, depending on whether the assurance practitioner was also the auditor of the company or entity.

Accounting professional and ethical standards

Assurance practitioners conducting review engagements, who are members of one of the three professional accounting bodies, need to comply with the relevant standards issued by the APESB, which currently include:

- APES 110 *Code of Ethics for Professional Accountants*. While all sections of the Code are important, section 290 Independence – Audit and Review Engagements is particularly significant
- APES 205 *Conformity with Accounting Standards*
- APES 210 *Conformity with Auditing and Assurance Standards*
- APES 320 *Quality Control for Firms*²

² APES 320 and ASQC 1 are based on ISQC 1, the quality control standard issued by the International Auditing and Assurance Standards Board. This means APES 320 and ASQC 1 are essentially the same despite different drafting formats that make them appear quite different. A practice that conducts assurance engagements, and therefore needs to comply with both APES 320 and ASQC 1, should find that once it is complying with APES 320, it is also complying with ASQC 1.

Appendix 4 – Knowledge requirements

In order to perform a review engagement an assurance practitioner must meet some key knowledge requirements:

Financial statements

Accounting

- An understanding of the Australian Accounting Standards issued by the Australian Accounting Standards Board
- Skills to prepare journals to correct misstatements
- These skills are developed when obtaining an accounting degree and the professional qualification. Where it has been a number of years since obtaining the qualification, the assurance practitioner should consider undertaking a refresher in the topics.

Assurance

- An understanding of the applicable audit and assurance standards as outlined in Appendix 3

These skills are developed when obtaining an accounting degree and obtaining the professional qualification. The assurance practitioner should ensure that their knowledge and skills are current.

Where it has been a number of years since obtaining the qualification the assurance practitioner should consider undertaking a refresher course in the topic.

