

AGENDA PAPER

Item Number: 8
Date of Meeting: 27 November 2017
Subject: Project status update: APES 310 *Dealing with Client Monies*

Action required For discussion For noting For information

Purpose

To obtain the Board's views and approval on:

- a) the proposed amendments to the provisions relating to the appointment and resignation of the Auditor of Client Monies;
- b) the proposed alternative version of APES 310 and the approach to dealing with Client Bank Accounts; and
- c) the format and content of the Trust Account Information Sheet and associated Template letter on opening Trust Accounts with financial institutions, subject to final consultation with the ABA and TPB.

Background

APESB is undertaking a project to revise APES 310 *Dealing with Client Monies* (APES 310) which was last revised in July 2013.

At its August 2017 meeting, the Board considered the following key issues in respect of the revision of APES 310:

- AUASB's revision of ASAE 3100 *Compliance Engagements* and the impact on the example audit report provided in APES 310;
- the ongoing project to create an information sheet on opening Trust Accounts;
- whether to retain the requirements on seeking approval of the Professional Bodies to change an Auditor of Client Monies; and
- whether the scope of APES 310 applies to a Member in Public Practice with a dual signatory role on a Client Bank Account.

The Board approved the amended format of the example audit report and the inclusion of a paragraph about completing an engagement acceptance process when considering acting as an Auditor of Client Monies.

The Board noted the progress made in relation to the project to develop an information sheet and the update on the issues relating to changes in the Auditor of Client Monies and the scope of APES 310.

Consideration of Issues

There are three key issues that need to be resolved to progress the APES 310 project. The key issues and the progress made to date are set out below.

1. Processes for changes of Auditor of Client Monies

Over the past few meetings, the Board has been considering the extant provisions on the appointment and resignation of the Auditor of Client Monies.

The Board agreed at the August 2017 meeting to include a requirement in the revised APES 310 to require an engagement acceptance process to be undertaken when there is a change of the Auditor of Client Monies. This change reinforces the application of safeguards to address the risks related to changes in the Auditor of Client Monies. Refer to proposed paragraph 8.3 in the extract from the revised APES 310 at Agenda Item 8(a).

APESB has also been considering the option to either retain the existing provisions requiring approval from the professional bodies or to alter the provisions so that the professional bodies are notified of changes, but are not required to provide approval to the Member in Public Practice for the change to occur. This originated from a request from CA ANZ, as part of their submission on the APES 310 ED, to remove paragraph 8.9 from the standard which requires a Member to obtain approval from a professional body to change the auditor of client monies

Feedback from Professional Bodies

In analysing the proposed change to APES 310, Technical Staff have liaised with the Professional Bodies about the current systems, processes and documents they have in place to address the existing requirements in the standard. The Professional Bodies were also asked to consider how risks are mitigated and the key concerns or matters that need to be considered.

The Professional Bodies had differing views in relation to the extant requirements and how it mitigates risk. The role of the APESB in setting requirements that impose an implied obligation on Professional Bodies was another matter raised by the Professional Bodies. These views are provided for the Board's consideration at Agenda Item 8(e).

APESB Constitution

Based on the feedback received from the Professional Bodies, Technical Staff have conducted further research into the role of the APESB and its mandate in the Constitution.

The Constitution states in clause 2.1 that the primary objective of the APESB is “...(t)o develop and issue in the public interest professional and ethical standards that will apply to the membership of the Professional Bodies.”

The Constitution does not include a clause that allows the APESB to set requirements on the Professional Bodies themselves nor a clause where a standard puts a requirement on the Member which creates an implied obligation on the Professional Bodies, such as in the case with the Change of Auditor provisions in APES 310. The relevant provisions (extant paragraphs 8.8 and 9.9) put a direct obligation on the Member to seek approval, but there is also an implied obligation put on the Professional Bodies to provide that

approval. Anecdotal evidence suggest that these provisions are not strictly adhered to and it is difficult to monitor members compliance.

Technical Staff note that we have previously received a submission (dated 28 May 2010) from the Joint Accounting Bodies¹ (JAB) on the 2010 exposure draft for APES 310 that supported the requirement to seek approval from the relevant Professional Body when changing the auditor of Client Monies. In the submission JAB specifically requested APES 310 include an additional requirement for the auditor to seek approval if they wanted to resign from an audit of Client Monies engagement (extant paragraph 9.9).

Co-regulatory environment

The Australian accounting profession exists in a co-regulatory environment, which involves APESB, the three professional accounting bodies and applicable regulatory authorities (e.g. ASIC). As the independent standards setter, APESB's role is to set the standards, but the Professional Bodies (and the regulatory authorities) can also set requirements for Members through rules and regulations. Professional standards are also defined as APESB Standards and the professional and ethical requirements of the applicable professional body.

A strict reading of the APESB constitution means that APESB should not include this requirement in APES 310. However, the Professional Bodies can continue to uphold the current high standards and the public interest by including a similar requirement in their regulations.

Taskforce views

At their November 2017 meeting, the APES 310 Taskforce considered the proposed change to replace 'first obtain the approval of' with 'notify in proposed paragraphs 7.9 and 8.4 as well as the new paragraph requiring an engagement acceptance process to be conducted (refer to Agenda Item 8(b) for the minutes of this meeting).

The Taskforce was generally supportive of the proposed changes to APES 310 subject to editorial amendments and to place the responsibility to notify the professional body on the new auditor (rather than the Member wishing to resign). These amendments are included in the extract from APES 310 (refer to Agenda Item 8(a)).

Conclusion

Technical Staff seek the Board's approval of the proposed amendments to paragraphs 7.9 and 8.4 to change the requirement for a Member to seek approval from a Professional Body to a requirement to notify the Professional Bodies of changes in the appointment of an Auditor of Client Monies.

2. Application of APES 310 to Trust Accounts and Client Bank Accounts

APESB is currently considering the application of APES 310 to both Trust Accounts and Client Bank Accounts (including dual signatory situations). Professional obligations in relation to Client Bank Accounts were first included in APES 310 in December 2010. The inclusion of Client Bank Accounts, and dual signatory situations, was intended to ensure that Members in Public Practice have controls in place when in a position of being authorised to deal with client monies. This provides a safeguard to protect the accountant and their reputation when transacting client monies.

¹ The Joint Accounting Bodies refers to Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

Dual Signatories and Client Bank Accounts

The issue of dual signatories was raised by the Taskforce at its November 2016 meeting after the 2016 exposure draft process was completed, and was also reported to the Board at the November 2016 Board meeting.

The Board discussed this issue at its February, May and August 2017 Board Meetings. The overall view of the Board from these discussions was that client bank accounts and dual signatory situations should be within the scope of APES 310. The purpose of having client bank accounts (and dual signatory situations) within the scope of APES 310 is to ensure that Members in Public Practice have appropriate controls in place when in a position of being authorised to deal with Client Monies/ sign-off on client bank accounts. However, there was some concern about whether the extant APES 310 clearly sets out this purpose and the relevant controls required.

To clarify the scope of APES 310 and to highlight the specific requirements when dealing with client monies through trust accounts and client bank accounts Technical Staff have drafted an alternative version of APES 310.

The most significant change proposed in the alternative version is the segregation of responsibilities relating to Trust Accounts and Client Bank Accounts into two discrete sections (proposed sections 5 and 6). The general principles relating to dealing with Client Monies has been retained in Section 4. Refer to Agenda Item 8(a) for the extract of the sections that have changed in the alternative version.

Taskforce views

The APES 310 Taskforce considered the alternative version of APES 310 at their November 2017 meeting. The Taskforce was of the view that the alternative version was a positive outcome and it was easier to understand the obligations and responsibilities of the Member when dealing with the two distinct circumstances.

The Taskforce suggested the following amendments:

- include additional definitions for the terms 'Control' and 'Signatory'; and
- an exemption on reporting to a Client on transactions in a Client Bank Account with specific provisos (refer to proposed paragraph 6.21).

Technical Staff have included these amendments in the extract from the alternative version of APES 310 at Agenda Item 8(a). Technical staff have also included a guidance paragraph which provides the opportunity for the previous auditor to communicate with the applicable Professional Body if the Member has concerns in respect of the circumstances in which they were removed from the engagement.

While the Taskforce were supportive of the changes to the format of APES 310, there were still divergent views in the Taskforce about whether the Standard should apply to dual signatory situations.

The differing views of the Taskforce on dual signatories were on a continuum. At one end the view is that APES 310 should not apply at all if the Client is involved in the transaction through to the view that APES 310 applies to all transactions within the Client Bank Account (regardless of Member involvement).

The moderate view is that when the Member in Public Practice is dealing with Client Monies in Client Bank Accounts they must have appropriate controls in place and be

accountable for only the transactions that they were involved with (i.e. it is not intended to cover all transactions that occur in the Client Bank Account).

In order to clarify this position Technical Staff have proposed a number of revisions to APES 310 (from the extant requirements) that include:

- changing the focus to the controls and authorisations that the Member needs to have in place in respect of Client Bank Accounts;
- clearly identifying the scope for Client Bank Account transactions as those transactions that the Member was involved with and not all transactions that may occur in the Client Bank Account;
- allowing a review to be performed to check the Member's compliance for Client Bank Accounts in circumstances where the Member does not have Trust Account transactions (i.e. reduces the auditor's efforts); and
- removed requirements relating to the financial position of the Client Bank Account.

The discussion with the Taskforce has highlighted that the application of APES 310 to Client Bank Accounts and the resultant audit process is not generally well understood in practice. It appears that Members and Auditors of Client Monies are applying the current requirements more broadly than they were intended.

Technical Staff are of the view that the proposed amendments to APES 310 will assist in clarifying the requirements when Members deal with Client Monies in Client Bank Accounts This also potentially represents an opportunity for APESB to work with the Professional Bodies on raising awareness of Members about the scope and application of APES 310.

Conclusion

Based on the consultations conducted, Technical Staff are of the view that the alternative version of APES 310 is the preferred format going forward. This is a substantive change to the previously proposed revisions to APES 310, and therefore Technical Staff believe that the APESB needs to re-expose APES 310.

Technical Staff seek the Board's view on the alternative version of APES 310 and whether the proposed approach addresses the concerns raised by some taskforce members. The Board's views on the re-exposure of APES 310 is also sought.

3. Information Sheet on Opening of Trust Accounts

Technical Staff have been working on the development of an information sheet that summarises the requirement for a professional accountant to have a Trust Account. To complement the information sheet, a template letter has also been drafted which Members in Public Practice can use to communicate with a financial institution about this matter.

Technical Staff have consulted with the Professional Bodies about the content of the Information Sheet and the Template Letter. The summary of their feedback has been considered in the development of the final draft.

Taskforce views

These resources were considered by the APES 310 Taskforce at their recent meeting (refer to the minutes at Agenda Item 8(b)). The Taskforce were of the view that these resources would be useful for Members and provided minor comments on the format.

Conclusion

Based on the feedback from the Professional Bodies' and the APES 310 Taskforce, Technical Staff have prepared revised versions of the Information Sheet (refer to Agenda Item 8(c)) and the template letter (refer to Agenda Item 8(d)).

Technical Staff are also planning to circulate the information sheet to the Tax Practitioners Board (TPB) and the Australian Bankers Association (ABA) for any final feedback or comments.

Technical Staff believe these resources should be issued in conjunction with the revised version of the Standard. Therefore, Technical Staff are seeking the Board's approval on the content and format of the Information Sheet and the template letter, subject to final comments from the ABA or TPB.

Staff Recommendations

That the Board:

- a) approve the proposed amendments to the provisions relating to the appointment and resignation of the Auditor of Client Monies;
- b) approve the proposed approach in the alternative version of APES 310 and provide the Board's approval to re-expose APES 310; and
- c) approve the format and content of the Trust Account Information Sheet and associated Template letter on opening Trust Accounts with financial institutions, subject to final consultation with the ABA and TPB.

Material Presented

Agenda Item 8 (a)	Extract from alternative version of APES 310;
Agenda Item 8 (b)	Draft Taskforce minutes;
Agenda Item 8 (c)	Draft Information Sheet on opening Trust Accounts;
Agenda Item 8 (d)	Draft Template Letter re opening Trust Accounts; and
Agenda Item 8 (e)	Professional Bodies feedback on Approval of Change of Auditors – CONFIDENTIAL

Authors: Channa Wijesinghe
Jacinta Hanrahan

Date: 21 November 2017