

## AGENDA PAPER

**Item Number:** 4.2  
**Date of Meeting:** 11 August 2008  
**Subject:** APES 350 *Risk Management*

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**Action Required**

**For Information Only**

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### Purpose

To obtain Board's approval to develop a professional standard on risk management i.e. APES 350 *Risk Management*.

### Background

Following presentation of the Risk Management Standard Project Proposal by CPA Australia and the Institute of Chartered Accountants in Australia in February 2008, the APES Board requested that further research in relation to international developments in this area be conducted.

Research was performed in relation to risk management professional standards in other countries (USA, UK, and Canada) and staff were unable to locate professional standards on risk management issued by the accounting bodies of these jurisdictions.

Locally Risk Management Statement RMS 1 issued by CPA Australia is currently being used by CPA Australia's Members in Public Practice in conjunction with APES 320 *Quality Control for Firms*. The Quality Review Panel of CPA Australia presently reviews compliance of Members in Public Practice against these standards.

### Consideration of Issues

Whilst there are no apparent international developments in this area, the issue of risk management in the current environment is becoming an increasingly a significant issue. Presently only members of CPA Australia are bound by RMS1 however the importance of risk management and current guidance in this area for the entire profession needs to be considered.

Risk Management is defined as the process of identifying, measuring and assessing risks and developing strategies to manage them (Source: *Business Risk Management Handbook: A Sustainable Approach*, CIMA Publishing, 2008). There are direct and intangible/indirect costs of a firm not being able to manage its organisational risks.

The direct costs are fines, penalties, lost materials, down time or lost engagements.

The intangible costs are harder to estimate but nevertheless could have a significant impact on the firm or its continuity in business. Some intangible factors to consider are:

- Firm's or Member's reputation;
- Corporate reputation i.e. the perception of the company's strength, corporate governance, credibility, reliability and trustworthiness;
- Loss of business opportunities;
- Stakeholder value which is a function of the Firm's relationships with stakeholders such as employees, clients, government, and regulatory agencies.

The benefits of having an appropriate risk management framework and appropriate strategies are:

- Enhanced reputation and brand value in the market place;
- An improved risk assessment and management process and the corresponding reduction in risk which should improve reputation in the market place;
- Improved stakeholder relationships;
- Improved recruitment and retention of staff; and
- Improved financial position from reduction in insurance premiums, reduced fines, fewer enforcement action costs, and access to capital.

Recent legislative developments that also act as drivers for members in public practice to have an appropriate risk management framework are (Refer attached Memo from Professional bodies for further information);

- Anti-Money Laundering and Counter-Terrorism Financing legislation;
- Professional Standards legislation.

### **Staff Recommendation**

Board approve the creation of a taskforce to develop a professional standard on risk management i.e. APES 350 *Risk Management*.

### **Material Presented**

Professional bodies' submission on Risk Management

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**Date:** 31 July 2008