

AGENDA PAPER

Item Number: 10.2
Date of Meeting: 10 May 2010
Subject: Project status update on Proposed Standard APES 325 *Risk Management for a Firm*

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Purpose

To provide a project status update to the APES Board on the progress of the APES 325 *Risk Management* project and to seek the Board's approval on the Proposed Principles to be addressed in the Proposed Standard APES 325 *Risk Management for a Firm*.

Background

CPA Australia (CPAA) and the Institute of Chartered Accountants in Australia (ICAA) presented a project proposal to the APES Board meeting in February 2008 (refer attachment – APESB Project Proposal). Following the APES Board meeting in May 2008, CPAA and ICAA provided a further memo addressing issues arising out of legislative developments impacting on members (refer attachment – CPAA and ICAA Memo). At the August 2008 meeting, the Board agreed that a Taskforce be convened to oversee the development of a pronouncement on risk management for a Firm.

The APES 325 Risk Management Taskforce has met three times since inception. At its first meeting, members of the Taskforce identified broad principles that could be addressed in a risk management standard. These principles were further discussed at the second Taskforce meeting and categorised into three broad categories – framework for a standard, potential content for a standard focusing on certain risk management policies and particular risks that could be identified or used as illustrative examples.

Following the second meeting, APESB Technical Staff prepared an early draft of potential black letter and commentary paragraphs that could form the basis of a proposed standard. This draft was modelled on APES 320 *Quality Control for* and was presented to the APES Board's November 2009 meeting. At that meeting the Board agreed that:

- The proposed standard needs to be written from the public interest perspective and have application to all practice sizes;
- Further exploration of the integration and any potential overlap of APES 325 and APES 320 (for non assurance practices) is required; and
- The Taskforce consider the application of the risk management principles articulated in the International Federation of Accountants (IFAC) Small and Medium Practices Committee (SMP) *Practice Management Guide* to the proposed standard.

Project Status Update

The APES 325 *Risk Management* Taskforce held its third meeting on 22 April 2010. The Taskforce considered the issue of whether Firm level risk management should be addressed in a stand-alone standard or through inclusion of relevant paragraphs in another existing standard such as APES 320 *Quality Control for Firms*.

On balance the Taskforce recommend that the APES Board proceeds with a separate pronouncement addressing the matters set out in the attached Proposed Principles document. The Taskforce noted that a separate pronouncement would provide an overarching standard that mandates the obligations of a Member in Public Practice to consider overall enterprise level risks of a Firm. As engagement level and client risks are also covered in the Code (APES 110) and APES 320 *Quality Control for Firms*, this proposed pronouncement is not expected to impose onerous new obligations on members.

The majority view of the Taskforce is that a standard is preferable to a guidance note as it would create a mandatory obligation and thus assist the professional bodies from a disciplinary perspective. An alternate view was expressed by the NIA that issuing a standard would not necessarily assist them in disciplinary proceedings and therefore from their perspective a Guidance Note was preferred. The Taskforce noted that once a standard on Firm level risk management has been established within the APES series of professional standards, at some point in the future there is merit in giving further consideration to amalgamating the requirements of the risk management standard into APES 320.

Technical Staff have also prepared a mapping document which compares the Proposed APES 325 *Risk Management for a Firm* and Other APES Standards to CPAA's Risk Management Statement (RMS 1) and ICAA's N3 *Risk Management Guidelines*.

IFAC SMP Practice Management Guide

As noted in the Proposed Principles paper, there has been a delay in the release of the IFAC SMP *Practice Management Guide* which is now expected to be released in the second quarter of 2010. A review of the risk management principles and/or guidance contained in this Guide will be undertaken once it is released.

Staff Recommendation

Subject to the Board's review comments on the Proposed Principles, Technical Staff recommend the Board approve the Proposed Principles which will be used as the basis to prepare a proposed standard APES 325 *Risk Management for a Firm*.

Material Presented

- APESB Project Proposal Risk Management Standard (from CPA Australia Ltd and the Institute of Chartered Accountants in Australia);
- CPAA and ICAA Memo – Issues to consider for development of Risk management standard;
- Proposed Principles to be addressed in APES 325 *Risk Management for a Firm*;
- Comparison of Proposed APES 325 *Risk Management for a Firm* and Other APES Standards to CPAA's Risk Management Statement (RMS 1) and ICAA's N3 *Risk Management Guidelines*;
- Minutes of Taskforce meeting held on 6 October 2009.

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Date: 29 April 2010