

AGENDA PAPER

Item Number: 12
Date of Meeting: 31 May 2016
Subject: Project Status update - Revision of APES 310 *Dealing with Client Monies*

Action Required For Discussion For Noting For Information

Purpose

To obtain the Board's approval to issue the proposed revised APES 310 *Client Monies* Exposure Draft (APES 310 ED) for public consultation for a 45 day comment period, subject to the Board's editorials and review comments.

Background

APES 310 *Dealing with Client Monies* was originally issued in December 2010 to replace APS 10 *Trust Accounts* and GN 3 *Operation of Trust Accounts*. Due to the matters raised in the Annual Review process, APES 310 was subsequently revised and re-issued in July 2013.

APES 310 sets out mandatory requirements and guidance for Members in Public Practice who deal with Client Monies or who act as an Auditor of Client Monies. Part A of the Standard specifies the professional obligations of a Member in Public Practice who deals with Client Monies whilst Part B specifies the professional obligations of an Auditor of Client Monies.

A project on the review of APES 310 has been ongoing since 2014/15 (refer to *Project Development* section below for the details). The key issue with the review has been for the consideration of e-commerce and other technological developments. The APESB Board agreed at their February 2016 meeting that digital disruption and other technological advancements will be dealt with in a more holistic manner as a separate project as it is likely to impact on a number of other APESB standards. The Board also agreed that the review of APES 310 should progress based on addressing the current issues listed on the Issues Register.

Project Development

During the 2013/14 annual review process, the Board discussed the impact of developments in e-commerce (i.e. electronic communication, electronic record keeping and electronic data processing) and considered whether the current APES 310 standard appropriately addressed these developments. The Board identified a need to review and potentially amend

APES 310 to incorporate the impact of developments in e-commerce. The timeline of key developments in this project are set out below:

Period	Development
September 2014	APES 310 Review Taskforce consisting of Professional Body representatives and practising members was established.
October 2014	Technical Staff met with taskforce participants from the Professional Bodies to identify practical issues and concerns that were experienced by the current users of APES 310. Technical Staff summarised the issues raised and developed proposals for further consideration by the taskforce.
March 2015	Technical Staff and representatives of the taskforce met with the Australian Bankers Association (ABA) to discuss issues Members were experiencing in respect to opening Trust Accounts with financial institutions. ABA agreed to discuss this matter with the retail banks and update the APESB on any developments.
July 2015	A full taskforce meeting was held to discuss the potential amendments to APES 310. Based on this meeting a proposed revised standard was drafted for presentation to the Board.
November 2015	<p>The Board considered an Agenda paper on APES 310 which included a proposed exposure draft of APES 310, including changing the name of the standard to APES 310 <i>Client Monies</i>.</p> <p>The Board did not finalise the revisions to APES 310. Technical staff were to consider the broader issues that impact the standard such as technological developments and digital disruption and present options to the Board at the February 2016 meeting.</p>
February 2016	The Board were presented with an Agenda paper which proposed a two phase approach to reviewing APES 310. The Board acknowledged that a project to consider technological advances and digital disruption would be lengthy and could impact more APESB pronouncements than APES 310. The Board then agreed to the two phase step proposed by Technical Staff.

Consideration of issues

1. Engagement with Australian Banking Association (ABA)

In 2015, APESB and the Professional Bodies engaged with the ABA about issues members were facing when trying to open a trust account that complies with APES 310 requirements. The discussions and correspondence lead to ABA staff planning to present this issue to ABA members for consideration. At this point the matter was left with the ABA who were to advise of any developments post the issue being raised at the ABA members meeting.

Technical staff started follow up procedures for a response late last year and early this year. Unfortunately, the ABA staff member we were dealing with is now on maternity leave, but her replacement advised that the issue was raised at the ABA members meeting. However, there were other more pressing issues that were given priority over this matter, and since that meeting further issues in the banking industry have developed that have taken a higher priority.

ABA has advised the APESB that based on the complexity and significance of these other issues (i.e. potential regulatory review into the banking industry), this matter is unlikely to be considered in the short term.

The ABA suggested that to find a practical resolution to this matter, the best approach would be for the professional bodies to approach a bank, which they have an existing relationship with, to develop a product or other solution that makes it easy for professional accountants to establish trust accounts.

APESB has advised the professional bodies of this suggestion from the ABA and has also offered to be involved in these discussions. CPA Australia has proposed that if the banks are unwilling to open Trust Accounts that members should be allowed to open transaction accounts that could be operated in a similar manner. It is not clear in these circumstances whether the bank would be aware that the monies are actually held in trust and cannot be set-off against another liability of the accountant. This matter is currently under consideration.

2. APES 310 ED revisions (from November 2015 version)

The attached proposed APES 310 ED (agenda item 12 (a)) highlights changes from the November 2015 version of the Exposure Draft only. The Board has already considered the proposals from the Taskforce to address matters noted in the Issues Register in respect of the existing APES 310 at its November 2015 meeting.

The biggest change to the revised APES 310 ED is the inclusion of a new paragraph (paragraph 8.3) that will allow a review of Client Monies to be conducted, rather than an audit, when the following conditions are met:

- (a) The Member in Public Practice does not have to maintain a Trust Account to comply with APES 310; and
- (b) The member can only co-authorise transactions in a Client Bank Account in conjunction with the Client.

This change was in response to feedback from stakeholders and the Board that the requirements and cost of imposing an audit on Members who were only ever co-authorising transactions in conjunction with a client was too onerous.

Other changes in the revised exposure draft include:

- Inclusion of the rationale for issuing the exposure draft;
- Objectives in paragraph 1.1 have been drafted for review;
- Modification of the Auditing and Assurance Standards definition (as all AUS standards now been updated and replaced with ASAs) and deletion of AuASB definition as it is no longer relevant;
- Inclusion of the definition Assurance Engagement (to cover both audit and reviews);
- Clarification of requirements for access controls to specifically exclude the use of a Client's login details (paragraph 4.5);
- Clarification of the guidance around the timing of depositing Client Monies (Paragraph 6.2);
- Paragraph 6.14 has minor wording changes to refer to all disbursements rather than highlighting just electronic funds transfers;
- Updates throughout the Exposure Draft to reflect the inclusion of a review engagement in paragraph 8.3;

- Relocation of paragraphs 9.4 and 9.5 in the extant APES 310 as 9.1 and 9.2 in this ED as independence issues needs to be considered first when considering an Assurance Engagement; and
- Other minor editorial changes as marked up.

These changes help clarify a Member in Public Practice's responsibilities under APES 310 and, where possible, address current issues on the Issues Register.

Staff Recommendation

That the Board approve the issue of APES 310 ED for public consultation for a 45 day comment period.

Material presented

Agenda Item 12 (a) Proposed standard APES 310 *Client Monies* – Marked up

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