

AGENDA PAPER

Item Number: 5
Date of Meeting: 19 May 2017
Subject: Update on revision of APES 310 *Client Monies*

Action required For discussion For noting For information

Purpose

To:

- obtain the Board's approval on proposed provisions relating to the example assurance report in Appendix 1, client acceptance procedures and amending references to the financial position of client monies;
- seek the Board views on the proposed options in relation to approval when changing an Auditor of Client Monies and also dual signatory situations; and
- provide the Board with an update on the APESB's collaboration with the ABA and TPB in respect of an Information Sheet on opening Trust Accounts with Financial Institutions.

Background

At its February 2017 meeting, the Board considered the developments relating to the following key issues in respect of the revision of APES 310 *Dealing with Client Monies* (APES 310):

- opening of Trust Accounts;
- AUASB proposed revision of ASAE 3100 *Compliance Engagements* (ASAE 3100);
- approval of Professional Bodies to change an Auditor of Client Monies; and
- a Member in Public Practice with a dual signatory role on a Client Bank Account.

The Board requested Technical Staff consider further the issues relating to changing an Auditor of Client Monies and whether dual signatory situations (where the client is a co-signatory) should be within the scope of APES 310. The Board requested Technical Staff provide the Board with alternative options for consideration at its May 2017 meeting.

The Board agreed that the APESB should collaborate with the Australian Bankers Association (ABA) and the Tax Practitioners Board (TPB) to develop an Information Sheet

that Members in Public Practice can use to assist them open Trust Accounts with Financial Institutions.

Consideration of Issues

1. Revisions to incorporate AUASB's revisions to ASAE 3100 *Compliance Engagements*

The AUASB issued a revised ASAE 3100 *Compliance Engagements* (ASAE 3100) on 21 February 2017. APESB Technical Staff have liaised with the AUASB Technical Staff in relation to the format of the assurance report set out in Appendix 1 of APES 310, and updated the assurance report format as required.

Refer to Agenda Item 5(a) for a revised example assurance report (marked up with changes to the [previous version](#) presented at the November 2017 Board meeting).

Technical Staff seek Board approval for the proposed revisions to APES 310 Appendix 1 *Example of a Reasonable Assurance Engagement report*.

2. Processes for changes of Auditor of Client Monies

The Board requested Technical Staff review the extant provisions on changing an Auditor of Client Monies and consider whether existing obligations relating to engagement acceptance should be emphasised or included in APES 310.

The extant provisions in APES 310 relating to the change of an Auditor of Client Monies are paragraph 8.8 on changing the existing Auditor of Client Monies and paragraph 9.9 on resigning from the role of Auditor of Client Monies. Refer to Agenda Item 5(b) for an extract of these provisions.

In response to the Board's request, Technical Staff have reviewed the above extant provisions and considered them in view of:

- relevant provisions in APESB pronouncements applicable to acceptance of professional engagements such as those prescribed by APES 110 *Code of Ethics for Professional Accountants* (the Code); and
- current practice for an engagement acceptance process.

Engagement acceptance process

Technical Staff note that Section 210 *Professional Appointment* of the Code prescribe professional obligations to Members in Public Practice in respect of changes in professional appointments. This includes the requirement to communicate, in writing, with the existing Auditor to determine relevant information about the client and the relevant engagement prior to acceptance of the engagement. This obligation is satisfied in practice by Members using ethical clearance letters as part of their engagement acceptance procedures. However, a strict reading of these provisions indicate that it is only a requirement for assurance engagements relating to financial statements.

There is currently no reference in APES 310 to remind an Auditor of Client Monies to specifically complete an engagement acceptance process. Technical Staff are of the view that APES 310 could be strengthened by replicating this requirement as a provision in the Standard.

Technical Staff therefore propose to insert a new sub-section and paragraph in Part B: *Professional obligations of an Auditor of Client Monies* of APES 310 to include a requirement to complete a client acceptance process when considering the acceptance of new Auditor of Client Monies engagements.

The proposed change is as follows:

Professional Appointment

9.X A Member in Public Practice who is approached by a potential Client to accept an Auditor of Client Monies role shall determine whether there are any reasons, professional or otherwise, for not accepting the engagement. A Member shall, after receiving permission from the prospective client, request in writing from the existing auditor any known information which the Member needs to be aware of before deciding to accept the engagement.

Technical Staff seek Board approval of the proposed paragraph to be included as requirement to undertake an ethical clearance letter process in relation to acceptance of engagements.

Process to gain approval for changes in Auditors of Client Monies

Technical Staff also reviewed the existing requirements relating to the change of auditor of client monies in APES 310. At the February 2017 Board meeting the issue of whether approval from the relevant professional body was still necessary was considered but not resolved by the Board.

The option that is being considered by APESB is 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 for the change to occur.

The option to notify the professional bodies of changes in auditors would be consistent with the practice implemented across other professions that require audits of trust accounts (as discussed at the [Nov 2017 Board meeting](#)). The professional bodies are made aware of the changes and can undertake further action if required.

However, the oversight of the professional body over the change of auditors has existed in the accounting professional standards for nearly 20 years¹. Based on the discussions at the last Board meeting and feedback provided from stakeholders, Technical Staff do not believe a compelling case has been made as to why this requirement should be removed, thus diluting the existing standard. We understand that this could be an administrative burden on the professional bodies and anecdotal evidence suggests that this is not strictly adhered to in practice.

Technical Staff seek the Board's views on the option to either retain the existing provisions that require approval from the professional bodies when the Auditor of Client Monies changes or modify the provisions so the professional bodies are notified of the change (but no approval is required).

¹ The requirements are contained in paragraphs 44 and 45 of APS 10 which was issued in 1997 and revised in 2003.

3. Application of APES 310 when a Member in Public Practice is a dual signatory with a Client

The Board has asked Technical Staff to consider issues relating to a Member's dual signatory role (where a Member is a co-signatory on a Client Bank Account) and provide alternative options for the Board consideration as to whether dual signatory situations fall either inside or outside of the scope of APES 310.

Technical Staff believe there are three options available for the Board to consider:

- a) exclude dual signatory situations from the scope of APES 310;
- b) retain dual signatory situations with the scope of APES 310 with no changes; or
- c) retain dual signatory situations with the scope of APES 310 with additional guidance or processes to consider.

In consideration of these issues and options Technical Staff has performed research on the development of APES 310 and the inclusion of client bank accounts (including dual signatory situations).

Historical development

APES 310 was initially issued in December 2010 to replace Miscellaneous Professional Standard APS 10 *Trust Accounts* and GN 3 *Operation of Trust Accounts*. It was at this point that professional obligations relating to trust accounts were expanded to cover client bank accounts. The proposal to expand the scope was considered as part of the exposure draft process. It should be noted that at the time the NZICA had revised their professional standard to incorporate client bank accounts.

Technical Staff note that while there was some concern by practitioners in Australia in 2010 about how the expansion of scope would affect the audit required under APES 310, the professional bodies were supportive of the expansion.

Retain or exclude from Scope?

Technical Staff have considered the rationale for including or excluding the dual signatory roles with the scope of APES 310. These are set out in Agenda Item 5(c).

The most significant points that need to be considered or resolved are:

- If a member is engaged by the Client to perform the service and there are fees associated with provision of this service what would be the rationale as to why this service should be excluded from a professional standard?
- Why would an accountant not be held responsible for a transaction simply because a client also approved the transaction? Refer to Agenda Item 5(d) for a recent case where both the accountant and client were held responsible for the underpayment of wages even though the accountant argued they were just acting on the client's instructions.

Relief proposed from extant Standard

The current proposals for the revision of APES 310 do provide some relief to members in specific situations, such as bookkeepers who do not authorise transactions and

allowing a review engagement if the member is only involved in authorising transactions in client bank accounts. The details of these proposed provisions are included in Agenda Item 5(b).

These proposed provisions will provide some relief and flexibility to Members in the specified circumstances and may assist in solving a number of stakeholder concerns. But at this stage, these provisions are not in force.

Technical Staff are of the view that these provisions should be tested in practice before determining if further changes are required for dual signatory situations.

Annual Audit process

A common argument raised by stakeholders in relation to why dual signatory situations should be outside of the scope of APES 310 is the difficulty in having audits completed in relation to Client Bank Accounts, in particular gaining approval from the Client and access to Client records

The section *Inclusion of Client Bank Accounts in Annual Audit (Section 8)* of the [Basis for Conclusion](#) issued in conjunction with the release of the 2010 version of APES 310 contains relevant analysis of the issue when the scope of APES 310 expanded to client bank accounts. The issues raised in this section are consistent with the issues currently being raised by stakeholders.

In analysing this issue Technical Staff also considered the general requirements imposed under APES 310 in relation to dual signatory roles on client bank accounts. Refer to Agenda Item 5(e) for a summary of the requirements and activities relevant to a Member in Public Practice and an Auditor of Client Monies in dual signatory situations.

Technical Staff are of the view that the activities outlined in Agenda Item 5(e) would not be onerous to comply with. However, the issues raised indicate that additional guidance could be provided to Members in Public Practice to outline the documentation required to prove compliance with APES 310 and further education may be required for Auditors of Client Monies about compliance engagements.

This additional guidance could include:

- adding a new guidance paragraph on documentation requirements to meet audits/ reviews conducted in accordance with APES 310 and ASAE 3100;
- A statement about the differentiation between a financial statement audit and a compliance audit; and
- Inclusion of processes around reporting of disbursements e.g. additional reports to clients, more verification work (on both client and Member's part), a register specific to dual signatory transactions which would help satisfy the requirements of a compliance audit.

Based on the analysis conducted, Technical Staff are of the view that dual signatory situations should remain within the scope of APES 310 as it is in the public interest. There is no compelling evidence that dual signatory roles should be excluded from the standard when providing a professional service to a client. The issues raised by stakeholders highlight that there is an opportunity for the APESB and the professional bodies to provide additional guidance or support to Members to help them understand their roles and responsibilities under APES 310.

Technical Staff seek the Board's view as to which of the three alternative options (refer page 4), the Board believes is preferable to address the issues relating to dual signatory situations.

Reference to financial position of client monies

As part of the review of the existing requirements Technical Staff noted that there is a reference to the financial position of Client Monies which could imply a Member or an Auditor of Client Monies needs to do more than consider the compliance of the Member with the requirements of APES 310.

These references are in paragraphs 7.2 and 7.5(c). Full details of the paragraphs are included in Agenda Item 5(b).

Technical Staff propose to alter the reference to Client Monies to refer to only Trust Accounts.

Technical Staff seek Board approval for the proposed revisions to amend references to 'the financial position of Client Monies' to 'the financial position of the Trust Account'.

Technical staff believe that this will elevate some of the issues associated with the annual audit process referred to above.

4. Information Sheet on Opening of Trust Accounts

Technical Staff have commenced the project to prepare an information sheet that highlights the requirement for a professional accountant to have a trust account. Technical Staff have prepared an initial preliminary draft of the Information Sheet. This was circulated in April 2017 to the TPB and ABA for their review and input.

At the time of writing this report we have received a formal response from the TPB and are working on their comments. APESB is still waiting to receive feedback from the ABA.

Technical Staff propose to circulate the draft Information Sheet to the Board out of session, once it has been updated to incorporate ABA's and TPB's feedback.

Way forward

Subject to the Board's views on the matters outlined in this paper, Technical Staff propose to draft amendments to APES 310 to reflect the Board's preferred options in relation to approval when changing an Auditor of Client Monies and dual signatory situations.

A revised version of APES 310 will then be presented to the Board out of session for their approval to issue a revised APES 310.

Technical Staff Recommendations

That the Board:

- approve the proposed revisions relating to the example assurance report in Appendix 1, client acceptance procedures and amending references to the financial position of client monies;
- determine the preferred option in relation to approval when changing an Auditor of Client Monies and dual signatory situations; and
- note the update in respect of the creation of an Information Sheet in collaboration with the ABA and TPB.

Material Presented

Agenda Item 5 (a)	Proposed APES 310 Appendix 1 (marked up);
Agenda Item 5 (b)	Extracts from the proposed APES 310;
Agenda Item 5 (c)	Analysis of dual signatory situations and the scope of APES 310;
Agenda Item 5 (d)	AFR article ' <i>Accountancy firms liable for underpayments</i> ' 2/5/17; and
Agenda Item 5 (e)	Requirements relevant to dual signatory situations.

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