

December 2010



Basis for Conclusions: APES 310 Dealing with Client Monies (Formerly APS 10 and GN 3)

Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board

BASIS FOR CONCLUSIONS:

APES 310 Dealing with Client Monies (Formerly APS 10 and GN 3)

This basis for conclusions has been prepared by technical staff of Accounting Professional & Ethical Standards Board Limited (“APESB”). It has been reviewed and approved by the Board of Directors of APESB and is provided for the benefit of stakeholders to gain an understanding of the background to the development of APES 310 *Dealing with Client Monies* (APES 310).

The basis for conclusions **does not** form part of APES 310 and is not a substitute for reading the Standard.

Background

APESB has issued APES 310 to take effect from 1 July 2011 with early adoption permitted. APES 310 sets out mandatory requirements and guidance for Members in Public Practice who deal with Client Monies or who acts as an Auditor of Client Monies. The scope and application, definitions and fundamental responsibilities of APES 310 are common to all Members in Public Practice who deal with Client Monies or who act as Auditors of Client Monies. Thereafter Part A of APES 310 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.

APES 310 includes mandatory requirements and guidance in respect of:

- Fundamental responsibilities of Members in Public Practice

Part A: Professional obligations of a Member in Public Practice who Deals with Client Monies

- General principles
- Opening a Trust Account
- Dealing with Client Monies
- Documentation
- Audit of a Member in Public Practice’s compliance with APES 310

Part B: Professional obligations of an auditor of a Member in Public Practice’s compliance with this Standard

- Professional obligations of an Auditor of Client Monies
- Example of an audit report

APESB issued an exposure draft (ED 01/10) of the proposed standard in April 2010, with a comment deadline of 31 May 2010. APESB received submissions from the Australian Bankers Association, Firms and the professional accounting bodies. In response to the comments received, APESB made a number of changes to APES 310. The following summarises the more significant issues raised by respondents, and how APESB addressed them.

Definitions (Paragraph 2)

Applicable Year-End

A respondent to APES 310 Exposure Draft (APES 310 ED) raised a concern in respect of the undefined term “applicable year-end” in paragraph 8.1. The respondent noted a number of ways in which this term can be interpreted and suggested that “applicable year-end” should be a defined term. Following consideration of the issue, APESB determined to include the following definition :

***Applicable Year-End Date** means a date, which once determined cannot be changed without the approval of the applicable Professional Body. The Applicable Year-End Date must occur within 12 months of the month-end following the Member in Public Practice opening a Trust Account or the Member obtaining the authority to operate a Client Bank Account.*

Client Monies

A respondent noted that the definition of Client Monies did not incorporate trust money that belonged to someone other than the Client, thereby excluding such Monies from the scope of APES 310, for example, where Money from a business associate of a Client is deposited into a Member’s Trust Account. APESB considered the issue and amended the definition of Client Monies to include Monies where the Member or the Member’s Personnel have no present entitlement to such Monies.

Personnel

A respondent was concerned that there are circumstances in which Members in Public Practice are utilising outsourced service providers to manage Trust Accounts and that such arrangements may not come within the scope of APES 310 ED. APESB considered the issue and determined that these circumstances should be brought within the scope of APES 310. Accordingly, a new definition of Personnel was included in the Standard which, in addition to personnel in a Member’s practice, captures “contractors or agents”. The definitions of Client Monies and Trust Accounts were also amended to capture these outsourced arrangements.

Acknowledgement in writing from the financial institution (Paragraph 5.5)

A respondent was concerned with the requirement for a Financial Institution to acknowledge in writing to the Member in Public Practice that it confirms its understanding that Monies held in the Trust Account are Client Monies. The respondent noted that for the Financial Institutions to confirm this it would require significant system changes at each Financial Institution and in the respondent’s opinion the implementation of such a system change would be costly. The respondent suggested that another approach would be for the Financial Institution to acknowledge the existence of Client Monies in its terms and conditions and for the Member in Public Practice to verify this when opening a Trust Account with a

APES 310 Dealing with Client Monies

Financial Institution. APESB agreed with the approach proposed and made appropriate amendments to paragraph 5.5 of APES 310.

Disbursement of Client Monies (Paragraph 6.12)

Where the Member in Public Practice is not available to authorise Trust Account transactions, APES 310 ED stated that it can be delegated to another Member in Public Practice or to two people from certain specified categories. A respondent noted that the requirement to have two people from specified categories is excessive compared to the other option of one other Member in Public Practice authorising transactions. APESB considered the issue and has amended APES 310 to specify that the responsibility can be delegated to any one person from the specified categories.

Inclusion of Client Bank Accounts in Annual Audit (Section 8)

Some respondents raised concerns in respect of the extension of the annual audit requirement to encompass both Trust Accounts and Client Bank Accounts. The requirement to include Trust Accounts in the annual audit currently exists in APS 10 and Members in Public Practice who deal in Client Monies are familiar with this requirement. However, some of the respondents were of the view that the extension of this audit requirement to Client Bank Accounts would result in significant time and cost implications for Members in Public Practice. The professional accounting bodies were supportive of APESB extending the scope to include Client Bank Accounts.

APESB considered the issue and determined that it is in **the public interest** to include all transactions a Member in Public Practice has executed in respect of Client Monies in the scope of the annual audit. Accordingly, no change to APES 310 ED has been made.

Another concern raised was how an Auditor of Client Monies can audit transactions where the Member being audited may not have access to all the records of the Client Bank Account. However, for a Member in Public Practice to execute transactions on a Client Bank Account, the Member should possess appropriate documentation to support the relevant transactions. The Member in Public Practice being audited ought to be able to provide these supporting documents to the Auditor of Client Monies.

Finally, it should be noted that the requirement to audit Trust Accounts and Client Bank Accounts is an audit of compliance by a Member in Public Practice with the requirements of APES 310 relating to Client Monies and not a financial statement audit.