

December 2011



## **Basis for Conclusions: APES 325 Risk Management for Firms**

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

### BASIS FOR CONCLUSIONS:

#### **APES 325 Risk Management for Firms**

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 325 *Risk Management for Firms* (APES 325).

The basis for conclusions **does not** form part of APES 325 and is not a substitute for reading the standard.

#### **Background**

APESB has issued the Standard APES 325 setting out mandatory requirements and guidance for Firms to establish, maintain, monitor and document a Risk Management Framework for a Firm. An effective Risk Management Framework should assist a Firm to meet its overarching public interest obligations as well as its business objectives by facilitating business continuity, enabling the delivery of quality and ethical services to clients, and protecting the reputation and credibility of the Firm.

APES 325 includes mandatory requirements and guidance in respect of:

- Objectives of a Risk Management Framework;
- Establishing and maintaining a Risk Management Framework for a Firm;
- Monitoring a Firm’s Risk Management policies and procedures; and
- Documentation.

APESB issued an exposure draft of the proposed standard (APES 325 ED) in June 2011 with a comment deadline of 22 August 2011. Submissions were received from the professional accounting bodies, Firms, and Members. In response to the comments received, APESB has made a number of changes to APES 325. The following summarises the significant issues raised by respondents, and how APESB addressed them.

#### **The link between a Risk Management Framework for a Firm and its quality control policies and procedures - paragraph 3.3**

A respondent noted that a Risk Management Framework for a Firm does not stand on its own and that there is a close link between developing a Risk Management Framework for a Firm and its quality control policies and procedures established in accordance with APES 320 *Quality Control for Firms* (APES 320). Accordingly, the respondent proposed that there should be an explicit recognition of the link between APES 325 and APES 320.

The Board agreed with this view and a new paragraph 3.3 was added to APES 325 to state that the Firm's quality control policies and procedures developed in accordance with APES 320 should be embedded within the Firm's Risk Management Framework.

### **Identification of key stakeholder risks - paragraph 4.2**

A respondent noted that the key organisational risks should include stakeholder risks and human resources risks. Amendments were made to incorporate these risks within key organisational risks.

### **Reference to *AS/NZS ISO 31000: 2009 Risk Management – Principles and guidelines* – paragraph 4.7**

A respondent noted that whilst the reference to *Module 7: Risk Management* of the *Guide to Practice Management for Small and Medium-sized Practices* issued by the Small and Medium Practices Committee of the International Federation of Accountants (IFAC) is useful for smaller Firms, a more robust framework for Risk Management is the *AS/NZS ISO 31000: 2009 Risk management – Principles and guidelines* (AS/NZS ISO 31000).

Accordingly, the Board determined to include a reference to AS/NZS ISO 31000 in paragraph 4.7. AS/NZS ISO 31000 and the document issued by IFAC referred to above will provide guidance to Members in Public Practice in the development of an appropriate Risk Management Framework for their Firm taking into consideration the Firm's size, operating characteristics and whether the Firm is part of a Network.

### **Dealing with non-compliance – paragraphs 5.1, 5.2 and 6.7**

APESB determined that the procedures for dealing with non-compliance with a Firm's Risk Management policies and procedures and the related documentation needed to be strengthened in APES 325. Accordingly, amendments were made to paragraphs 5.1 and 5.2 to address non-compliance issues and paragraph 5.2 was elevated to mandatory status. A new paragraph 6.7 has been included to mandate that a Firm is not only required to document all instances of non-compliance detected through its monitoring process but also must document the actions taken by the Firm's leadership to address those instances of non-compliance.

### **Firm's Monitoring process – paragraph 5.3**

A respondent noted that a Firm's Monitoring process should include regular reviews of the Risk Management Framework of a Firm and that this responsibility should be assigned to a person in the Firm's leadership who has the appropriate skills, experience and authority. The Board considered this issue and included a new guidance paragraph in respect of regular reviews of the Risk Management Framework and the designation of the responsibility for regular reviews to an appropriate person.