

May 2018



## **Basis for Conclusions: APES 310 Client Monies**

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

## BASIS FOR CONCLUSIONS:

### Revised APES 310 *Client Monies* (2018)

This basis for conclusions has been prepared by Technical Staff of Accounting Professional & Ethical Standards Board Limited (“APESB”) and approved by the Board of Directors of APESB. It is provided for the benefit of stakeholders, so they may gain an understanding of the background to the development of the revised APES 310 *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 originally issued APES 310 *Dealing with Client Monies* in December 2010, and then revised it in July 2013. Subsequently, APESB initiated a project to address issues raised by stakeholders.

The significant changes to the revised APES 310 (2018) include:

- Recategorising the existing obligations of Members in Public Practice when Dealing with Client Monies (extant Sections 4 – 7) into three sections:
  - General obligations (Section 4);
  - Specific obligations in relation to Trust Accounts (Section 5); and
  - Specific obligations in relation to Client Bank Accounts (Section 6);
- Clarification on the reporting obligations of Members in Public Practice when the Client agrees to an alternative reporting period;
- A new professional obligation for Members in Public Practice to comply with access control requirements of the Financial Institutions as described in paragraph 4.5;
- Consistent with the Code, the new professional obligations in respect of *Non-Compliance with Laws and Regulations* (NOCLAR) as specified in paragraph 4.13;
- Clarifying the audit obligations of the Member in Public Practice and providing audit relief to perform a Limited Assurance Engagement in the circumstances noted in paragraph 7.3;
- A revised process for changing an Auditor of Client Monies;
- A revised example Reasonable Assurance Engagement report (Appendix 1) which aligns with the revised ASAE 3100 *Compliance Engagements* (2017); and
- The addition of an example letter to obtain the Client’s authority in relation to Trust Accounts (Appendix 2).

Other changes to the Standard to align with developments in other APESB pronouncements and to provide clarity on existing requirements in APES 310.

APESB issued an exposure draft of the proposed revised Standard in July 2016 with a comment deadline of 9 September 2016. APESB received five submissions, and in response to the comments received, APESB proposed a number of changes to APES 310 including restructuring the Standard to have two discrete sections on Members’ obligations in relation to Trust Accounts and for Client Bank Accounts.

Due to the substantive structural changes proposed by APESB in response to the issues raised in the initial exposure draft process, APESB re-exposed APES 310 in December 2017 with a comment deadline of 16 February 2018. APESB received four submissions, and further amendments were made to the revised APES 310.

The following summarises the key issues raised by respondents during the development of the revised APES 310 and how APESB addressed them.

### **Updates to terminology used in APES 310**

A respondent noted that some of the terms used in APES 310 needed to be refreshed. APESB agreed with this comment and made the following revisions:

- amended the name of the Standard to 'Client Monies';
- replaced references to 'audit' with 'Reasonable Assurance Engagement'; and
- clarified that 'Dealing with Client Monies' covers different methods of handling Monies including electronic fund transfers.

### **Application of APES 310 to Trust Accounts and Client Bank Accounts (Sections 4 - 6)**

A stakeholder raised the issue of whether APES 310 should be applicable to both Trust Accounts and Client Bank Accounts including dual Signatory situations.

Professional obligations in relation to Client Bank Accounts were first included in APES 310 in December 2010. The inclusion of Client Bank Accounts and dual Signatory situations was intended to ensure that Members in Public Practice have controls in place when in a position of being authorised to Deal with Client Monies. This provides a safeguard to protect the Member and their reputation when transacting Client Monies.

APESB is of the view that Client Bank Accounts and dual Signatory situations should be within the scope of APES 310 to the extent that where a Member in Public Practice is involved in the transactions, then they should be accountable for those transactions (i.e., it does not cover transactions that do not involve the Member).

To clarify this position, APESB has included the following revisions in the revised APES 310:

- The segregation of responsibilities relating to Trust Accounts and Client Bank Accounts into two discrete sections (sections 5 and 6). The general principles relating to Dealing with Client Monies have been retained in Section 4.
- Clarifying that Client Bank Account transactions are those transactions that the Member was involved with and not all transactions that may occur in the Client Bank Account (paragraphs 6.1, 6.11 and 6.16).
- The addition of guidance clarifying the Standard does not apply to Members who have no responsibility or authority to transact Client Monies and are only involved in the preparation of transactions (paragraph 1.7).
- The addition of new definitions for the terms 'Control' and 'Signatory' (Section 2).
- The addition of an exemption on reporting to a Client on transactions in a Client Bank Account where specified conditions are met (paragraph 6.23).
- Providing audit relief by allowing a Limited Assurance Engagement to be performed to check the Member's compliance in respect of Client Bank Accounts in circumstances where the Member does not have Trust Account transactions (paragraph 7.3).

- The removal of audit requirements which referred to the financial position of the Client Bank Account.

### **The ability of Members to open Trust Accounts (Section 5 and Appendix 2)**

A respondent raised the issue of some Members in Public Practice experiencing difficulties opening a Trust Account with Financial Institutions that complies with the requirements of APES 310.

APESB consulted with stakeholders on this matter, including the Professional Bodies, the Australian Bankers Association (ABA), and the Tax Practitioners Board (TPB). As part of the consultation, it was determined that a written authority from the Client should be held by Members in Public Practice. To address this, the Board has included an example of a Trust Account authority letter in Appendix 2 to the revised APES 310.

Based on the feedback received from ABA, the matter of opening APES 310 compliant bank accounts is a commercial matter for individual Financial Institutions to determine with the Member in Public Practice.

To assist Members in Public Practice communicating their need to open a Trust Account with the Financial Institutions, APESB has developed two resources, (i) an information sheet and (ii) template letter, which are available on the APESB website at [www.apesb.org.au](http://www.apesb.org.au).

### **Reporting to Clients (paragraphs 5.33, 5.34, 6.21, 6.22 and 6.23)**

A respondent was concerned that the annual reporting deadline in the extant APES 310 did not allow sufficient time for Members in Public Practice to complete the necessary year-end procedures before reporting to the Client. The respondent also noted that in practice the Client might be happy with an alternative reporting period if they are regularly updated throughout the year.

APESB has addressed this concern by including in the reporting requirements paragraphs the option of agreeing to an alternative reporting period with the Client in circumstances where there is ongoing periodic reporting.

### **Relief available on Reasonable Assurance Engagements (paragraph 7.3)**

A stakeholder raised the issue that the requirement and costs of imposing a Reasonable Assurance Engagement were too onerous on Members in Public Practice who are only co-authorising transactions in conjunction with a Client.

The Board agreed to provide some relief to Members in Public Practice in circumstances where the Member only co-authorises transactions in a Client Bank Account in conjunction with the Client and the Member's other activities do not require the maintenance of a Trust Account. In these circumstances, a Limited Assurance Engagement can be conducted on the Member's compliance with APES 310, rather than a Reasonable Assurance Engagement.

### **Process revised for changes in the appointment of an Auditor of Client Monies (Sections 7 and 8)**

A respondent requested the removal of the requirement that a Professional Body approves the change of an Auditor of Client Monies.

The pre-approval process in the extant APES 310 is one method of monitoring changes in the Auditor of Client Monies. APESB considered other alternatives and developed alternative safeguards to achieve a similar outcome.

The incoming Auditor of Client Monies is now explicitly required to undertake an Engagement acceptance process (paragraph 8.3). The new provisions also allow an Auditor of Client Monies to consult with the auditee's Professional Body if they have concerns about resigning or being removed from an Engagement (paragraphs 8.4 and 8.11).

In addition, Members in Public Practice will be required to notify the Professional Body of the membership details of the new Auditor of Client Monies within 20 Business Days of the appointment (paragraph 7.9).

As part of the review of the Members' responsibilities relating to the appointment of a new Auditor of Client Monies, The Board has decided to:

- extend the appointment deadline for a new auditor from 10 Business Days to 20 Business Days (paragraph 7.9); and
- provide guidance on obtaining a representation from the new Auditor of Client Monies about their membership status (paragraph 7.10).

### **Revised example of Reasonable Assurance Engagement report (Appendix 1)**

The Auditing and Assurance Standards Board issued a revised ASAE 3100 *Compliance Engagements* (ASAE 3100) in February 2017. APESB has updated the example Reasonable Assurance Engagement report in Appendix 1 to reflect the revised ASAE 3100.