

Constituents' Submissions – Specific Comments Table
Exposure Draft 02/11: APES 325 Risk Management for Firms

Note: General comments relating to APES 325 Risk Management for Firms are addressed in a separate table. This table excludes minor editorial changes.

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
1	1.1	GAAP	2. The operative date is unrealistic being approximately six months after the release of the standard; the operative date should be 1 January 2012. APESB needs to develop a formal policy on operative dates
2	1.2	TLS	<p>Risk management consists of the consideration of different types of risk such as market risk, credit risk, operational risk, legal risk, regulatory risk and other business risks. In terms of managing risk in “respect of the provision of quality and ethical Professional Services” (paragraph 1.2) it is most likely that firms will focus on addressing operational and ethical risks rather than enterprise wide risks as implied by the proposed definition of risk. It is also important to clearly articulate the benefits of risk management, especially when providing Professional Services. Reinforcement of the benefits of providing an engagement letter with a reference to APES 305 <i>Terms of Engagement</i> would be beneficial, particularly as a mechanism to manage risk.</p> <p>The existing guidance in <i>N3 Risk Management Guidelines</i> which provides guidance to its Members in Public Practice should be maintained as it provides clear procedures on how to manage risk in relation to the provision of Professional Services. Members can refer to <i>AS/NZS ISO 31000:2009 Risk management—Principles and guidelines</i> to implement enterprise wide risk management which is beyond the scope of ethical and professional standards.</p>
3	1.6	TLS	<p>Appendix A 1.6 Members in Public Practice shall be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.</p> <p>The word relevant should begin with a capital is it is a defined term. Perhaps “public interest obligations” could also be defined. Some may view meeting “public interest obligations” as complying with Relevant Professional Standards.</p>


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4	2	TLS	Risk is defined as “the effect of uncertainty on objectives”. This definition from <i>AS/NZS ISO 31000:2009 Risk management—Principles and guidelines</i> relies on an organisation establishing the context, as it is the context which allows the organization to articulate its objectives, define the external and internal parameters to be taken into account when managing risk, and set the scope and risk criteria. The context is not addressed in APES 325. The context here is provision of Professional Services and the risks associated with providing these from an ethical viewpoint; that is addressing the ethical threats in complying with APES 110 <i>Code of Ethics for Professional Accountants</i> and APES 320 <i>Quality Control</i>
5	2	GAAP	3. Public interest is not defined either in the Code or the proposed standard; it should be defined otherwise the requirements are difficult to enforce and litigate
6	3.1	TLS	<p>Further “objectives can have different aspects (such as financial, health and safety and environmental goals) and can apply at different levels (such as strategic, organization-wide, project, product and process)”. Objectives are not further defined in APES 325, other than to state that the “Risk Management Framework should consist of policies designed to achieve the objectives set out in paragraph 3.1”. However, paragraph 3.1 merely refers to meeting “business objectives by:</p> <ul style="list-style-type: none"> (a) Facilitating business continuity; (b) Enabling high quality services to be rendered to clients; and (c) Protecting the reputation and credibility of the Firm”. <p>The absence of a clear definition of “objectives” is therefore exacerbated by the absence of any discussion on “the context”.</p>
7	3.1	Deloitte	<p>Specific Comments</p> <p>Our specific comments to the proposed standard are set out below.</p> <p>Paragraph 3: Objectives of a Risk Management Framework</p> <p>Paragraph 3.1(b): We do not believe that the standard should refer to “<i>high quality services</i>” in this context. The term “<i>high</i>” is subjective and may cause confusion. We suggest removing the word “<i>high</i>”. The wording would then be consistent with the wording in paragraph 1.2.</p>

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8	3.2	TLS	Risk management is closely aligned to quality control, the subject of APES 320 <i>Quality Control</i> . Paragraph 3 requires that “[a] Firm shall establish and maintain a system of quality control designed to provide it with Reasonable Assurance that the Firm and its Personnel comply with Professional Standards and applicable legal and regulatory requirements”. APES 325 implies an enterprise risk management framework, whereas APES 320 restricts quality control to compliance with Professional Standards and applicable legal and regulatory requirements. This latter approach is consistent with the stated objective of a standard, which “is to promote competent, professional and ethical practice by applying fundamental values and principles” rather than the broader scope of managing “the effect of uncertainty on objectives”.
9	3.2	Deloitte	Paragraph 3.2: We recommend replacing the words “ <i>embedded within</i> ” with “ <i>part of</i> ” or similar wording.
10	3.2	JAB	<p>➤ Paragraph 3.2</p> <p>As set out in our general comments, the opportunity to leverage off the existing requirements as set out in APES 320 is present and should be adopted within the proposed standard. We propose that a new paragraph 3.2 be inserted, as set out below:</p> <p>“A Firm’s quality control policies and procedures, developed in accordance with APES 320 Quality Control for Firms, should be embedded within the Risk Management Framework. This will facilitate a Firm complying with this standard and APES 320, and ensure consistency within the Firm’s policies and procedures.”</p>
11	3.2	GAAP	7. The nexus with relevant other standards e.g. APES 320 and ASA 220 ‘Quality Control for an Audit of a Financial Report and Other Historical Financial Information’ is not explained.
12	4.1	TLS	<p>Appendix A</p> <p>4.1 A Firm shall establish and maintain a Risk Management Framework taking into consideration its public interest obligations. The Firm shall periodically evaluate the design and effectiveness of the Risk Management Framework.</p> <p>This paragraph highlights the confusion over the objective of this exposure draft; is it managing risk to meet public interest obligations? Or business objectives as stated in paragraph 3.1? Or merely identifying and managing the ethical risks associated with providing a professional service?</p> <p>The risk management approach in <i>Module 7: Risk Management</i> of the <i>Guide to Practice Management for Small and Medium-sized Practices</i> “discusses ethical issues and their impact on the risk exposure of your firm” (p. 4). <i>Module 7</i> provides guidance on how to manage ethical risks using the conceptual framework contained in The Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. This approach is more consistent with the development of ethical standards in that risk is directly related</p>

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			to compliance with ethical principles contained in the Code.
13	4.2	TLS	<p>4.2 The Firm's Risk Management Framework shall include policies and procedures that identify, assess and manage:</p> <ul style="list-style-type: none"> (a) Governance risks; (b) Business continuity risks (including succession planning); (c) Business risks; (d) Financial risks; (e) Regulatory risks; (f) Human resources risks; and (g) Technology risks. <p>This paragraph does not emphasize the importance of a Member in Public Practice analysing and evaluating the Firm's risks on a continuing basis. Nor does it provide the likely sources of risk in a Firm providing Professional Services.</p>

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			<p>DIAGRAM 1 SOURCES OF RISK AREAS APPLICABLE TO YOUR PRACTICE</p>  <p>A similar diagram is included in <i>Module 7: Risk Management of the Guide to Practice Management for Small and Medium-sized Practices (p 19)</i>, which clearly addresses risk management in relation to the provision of Professional Services. However, the definition of risk is different to that contained in APES 325 and has a particular emphasis on establishing a “risk management culture” within the Firm. Again this inconsistency in defining and managing risk may be confusing to those who use Module 7 as guidance.</p>
14	4.2	Deloitte	<p>Paragraph 4: Establishing and maintaining a Risk Management Framework for a Firm</p> <p>Paragraph 4.2: We recommend that this paragraph be changed from a black letter requirement to guidance, and consequential changes be made to reflect it as guidance. Inclusion as guidance would allow firms flexibility to add or remove risks which are relevant to their own environment and the list would be less likely to be viewed as definitive.</p> <p>Another potential risk category that could be added includes Stakeholder risk.</p>

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			It may also be helpful to include reference here to AS/NZS ISO 31000:2009 Risk Management - Principles and guidelines, for inclusion of other risk categories that may be relevant to a particular organisation.
15	4.2	JAB	<p>Specific Comments</p> <p>We offer the following specific comments about the draft standard for your consideration.</p> <ul style="list-style-type: none"> ➤ Paragraph 4.2 <p>This paragraph sets out the list of risks that must be considered in developing the Risk Management Framework. While we agree with the risks identified, we are of the view that these risks are not sufficiently defined or explained, and as such run the risk of not providing members with sufficient clarity. We believe the proposed standard needs to define - either in the definition section or following paragraph 4.2 – in greater detail what each of these risks encapsulate.</p>
16	4.2	GAAP	4. The seven risks are identified but not defined; they should be
17	4.3	TLS	<p><i>4.3 The nature and extent of the policies and procedures developed by a Firm to comply with this Standard will depend on various factors such as the size and operating characteristics of the Firm, and whether it is part of a Network.</i></p> <p>Reference to Network in paragraph 4.3 is confusing as it implies application of APES 325 to a Network Firm which is defined as “a Firm or entity that belongs to a Network”¹; however, APES 325 only requires a Firm to establish a Risk Management Framework.</p>
18	4.4	JAB	<p>Specific Comments</p> <p>We offer the following specific comments about the draft standard for your consideration.</p> <ul style="list-style-type: none"> ➤ Paragraph 4.4 <p>We are of the view that the wording in this paragraph is unnecessarily complicated and excessive. The intent is that those responsible for the governance and management of the firm assume ultimate responsibility for the Risk Management Framework. It would be more effective in our view to change the paragraph to say “Ultimate responsibility for the Firm’s Risk Management Framework rests with the Firm’s leadership.”</p>

¹ APES 110

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19	4.5	Deloitte	<p>Paragraph 4: Establishing and maintaining a Risk Management Framework for a Firm</p> <p>Paragraph 4.5: We recommend that this paragraph should be deleted from the proposed standard. Leadership responsibilities are addressed as part of <i>APES 320 Quality Control for Firms</i> and we do not believe they need be repeated here.</p>
20	4.5	JAB	<p>Specific Comments</p> <p>We offer the following specific comments about the draft standard for your consideration.</p> <p>➤ Paragraph 4.5</p> <p>While we agree that the culture of a firm is important in developing an effective risk management framework, as it is with all internal policies, we believe that the wording adopted requires amendment. In particular we are of the view that the use of the word “internal” in relation to the firm’s culture is redundant.</p> <p>We recommend that the paragraph be amended to say “The Firm’s leadership, and the examples it sets significantly influence the culture of the Firm. An appropriate culture is important for the development of an effective Risk Management Framework and is dependent on clear, concise and frequent actions and messages from all levels within the Firm that emphasise the Firm’s Risk Management policies and procedures.”</p>
21	4.7	Deloitte	<p>Paragraph 4: Establishing and maintaining a Risk Management Framework for a Firm</p> <p>Paragraph 4.7: As well as reference to <i>Module 7: Risk Management</i> of the Guide to Practice Management for Small and Medium-sized Practices, we suggest it would also be helpful to include reference here to AS/NZS ISO 31000:2009 Risk Management - Principles and guidelines which provides a generic guide to managing risk and may be applied to organisations of all sizes.</p>
22	4.7	GAAP	<p>6. While there is cross reference to ‘Module 7: Risk Management of the Guide to Practice Management for Small and Medium-sized Practices’ issued by the International Federation of Accountants for assistance, ISO 3100 ‘Risk Management – Principles and Guidelines’ provides a more robust framework for accounting firms to apply, and</p>
23	5.1	JAB	<p>➤ Paragraph 5.1</p> <p>We are of the view that it would be preferable to replace the term “reasonable confidence” with the well established term “reasonable assurance” as set out in APES 320. Members are comfortable with the term “reasonable assurance” and adopting this term will ensure greater consistency within the APES framework of standards.</p>

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24	5.2 & 5.3	JAB	<p>➤ Proposed Paragraph 5.3</p> <p>So as to be consistent with APES 320, we recommend the insertion of a new paragraph after paragraph 5.2.</p> <p>“A Firm’s Monitoring process should include the following:</p> <ul style="list-style-type: none"> (a) A requirement for the Firm to undertake a review of the Firm’s Risk Management Framework on a regular basis; and (b) The Firm to designate from within the Firm’s leadership a person or persons with sufficient and appropriate experience and authority the responsibility for ensuring such regular review of the Firm’s Risk Management Framework.”
25	6.5	TLS	<p><i>Appendix A (continue)</i></p> <p><i>6.5 The documentation of the Firm should include:</i></p> <p><i>The Risk Management Framework;</i></p> <p><i>Procedures for regularly reviewing the Risk Management Framework;</i></p> <p><i>Procedures for identifying potential risks;</i></p> <p><i>Procedures for assessing and managing risks;</i></p> <p><i>Risks identified;</i></p> <p><i>Documentation processes; and</i></p> <p><i>Training of Staff.</i></p> <p>Perhaps documentation should also document how and if the <u>risks identified were treated</u>.</p> <p>If the definition of risk is retained perhaps there should also be a reference to the ASX Corporate Governance Council’s <i>Corporate Governance Principles and Recommendations Principle 7: Recognise and Manage Risk</i></p>
26	6.5	JAB	<p>➤ Paragraph 6.5</p> <p>We are of the view that the list contained in paragraph 6.5 should be amended. We recommend the following changes be made to paragraph 6.5:</p>

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			<p>6.5 The documentation of the Firm's Risk Management Framework should include:</p> <ul style="list-style-type: none"> • Procedures for regularly reviewing the Risk Management Framework; • Procedures for identifying potential risks; • Procedures for assessing and managing risks; and • Risks identified.
27	Other	GAAP	<p>1. There is no basis of conclusion that gives the reader a context for the propositions proposed; the APESB 'due process' should be at least as rigorous as that applied by other standards-setters</p> <p>5. APES 325 is a principle-based standard but does not contain much in the way of application guidance (contrast this with APES 110 'Code of Ethics for Professional Accountants' and APES 320 'Quality Control of Firms'); more guidance is necessary.</p>

Staff Instructions

- Comments of a “general” nature should be dealt with first, followed by paragraph specific comments.
- Respondents’ comments must be copied verbatim into this table.
- Comments should be dealt with in paragraph order, not respondent order.
- Use acronyms only for respondents. Update the attached table with details of additional respondents.

RESPONDENTS

1	TLS	Tiina-Liisa Sexton
2	Deloitte	Deloitte
3	GT	Grant Thornton
4	EY	Ernst and Young
5	JAB	The Joint Accounting Bodies
6	GAAP	GAAP Consulting