

AGENDA PAPER

Item Number: 6
Date of Meeting: 17 February 2016
Subject: Proposed approach to revise APES 310 *Dealing with Client Monies*

Action Required **For Discussion** **For Noting** **For Information**

Purpose

To obtain the Board's views on the proposed approach and scope of the project to revise APES 310 *Dealing with Client Monies*.

Background

At the November 2015 Board meeting, the Board discussed the project status update on the APES 310 revision project.

The Board considered the proposed amendments to APES 310 developed by the working party and Technical Staff to address:

- matters raised by practitioners which were creating challenges in the application of the existing APES 310;
- definitional and other matters due to amendments to APES 110 *Code of Ethics for Professional Accountants* (the scope); and
- matters noted on the APESB Issues Register.

The Board acknowledged that further work need to be undertaken to consider futuristic aspects of dealing with Client Monies such as digital disruption and to consider whether the standard works in its current format (i.e. having one standard that addresses both Trust Accounts and Client Bank accounts).

This paper considers the issues related to the project review to date and sets out a proposed approach and a revised project scope that would incorporate all aspects of the review considered necessary by the Board.

Consideration of issues

1. Status of current standard

APES 310 *Dealing with Client Monies* was originally issued in December 2010 to replace APS 10 *Trust Accounts* (1997) and GN 3 *Operation of Trust Accounts* (2003). The standard sets out mandatory requirements and guidance for Members in Public Practice who deal with Client Monies or who act as an Auditor of Client Monies.

Accordingly, since 1997 Members in Public Practice have had professional obligations imposed upon them when they deal with Client Monies. The professional obligations imposed by APES 310 on Members in Public Practice is also generally consistent with the New Zealand Professional Standard No 2 – *Client Monies* which was used by the APESB as a key reference document in the drafting of the original APES 310 and the incorporation of the professional obligations dealing with Client Bank Accounts.

APES 310 has been in force for 5 years and was last revised in 2013. Since this revision, except APES 230 which only became fully effective on 1 July 2015, all of the APESB pronouncements have been updated for definitional changes to the Code and reissued in 2015.

This project to review APES 310 commenced in late 2014. A working party was established to consider issues raised by Members in Public Practice, matters noted on the Issues Register and any other amendments required to address developments in e-commerce. This review is ongoing with the latest update provided to the Board at the November 2015 meeting.

There are a number of matters raised by Members in Public Practice that have been flagged as requiring amendment to the existing APES 310. Refer to Agenda item 1 - *Review of 2016 Issues Register* for the full list of unresolved issues in respect of APES 310.

2. E-commerce, other technological advances and digital disruption

An area that the Board continues to be concerned about, in particular because of the significant impact it could have on pronouncements like APES 310, is technological advances, including e-commerce, cloud computing and the impact of digital disruption on the accounting profession. Digital disruption is being discussed at Agenda item 7 of the February 2016 Board meeting.

Feedback received from the Board at November 2015 meeting notes that the following matters need to be addressed:

- effect of electronic Records versus paper Records;
- access to Records (whether in electronic form via the cloud, internet banking or paper bank statements) and effect on the reporting and auditing requirements in APES 310;
- electronic signatures and the security around user IDs and access security;
- adequacy of engagement letters to spell out the responsibilities of the Member in Public Practice and the Client in relation to Client Bank Accounts;
- authority levels for electronic transactions;
- the volume of transactions undertaken by a Client versus the Member in Public Practice and whether this impacts the requirements in respect of reporting and auditing obligations in the standard;
- additional professional indemnity insurance requirements for transacting on Client Bank Accounts; and
- Evaluation of whether in certain circumstances instead of an audit, a review or an agreed upon procedures engagement could be performed to review the Member's compliance with the requirements of the Standard.

There is also a need to canvas expert opinion as to whether there are other technological advances that should be addressed in this standard.

The parameters around how to address these matters in APES 310 need to be determined before Technical Staff or a Taskforce could work on these matters. There may also be a need to have Information Technology experts on the Taskforce to assist with this topic.

3. Client Bank Accounts vs Trust Accounts

The Board has discussed whether the content in the standard would be easier for Members to understand if it was broken up into two standards – one that dealt with Trust Accounts and another dealing with Client Bank Accounts.

Having the content covered in two standards may make it easier for practitioners to find the information they are after and also to understand that there are specific requirements for both Trust Account and Client Bank Accounts.

It should be noted that Members in Public Practice have not specifically raised issues around the existing structure of APES 310. Given that over the last year 5 years Members in Public Practice have got used to the existing APES 310 structure, and that education material has been developed based on the standard, it may not be advisable to make structural changes to the existing APES 310 without significant stakeholder demand for change.

The current APES 310 deals with circumstances where a Member deals with Trust Accounts or Client Bank Accounts and also incorporates the auditing requirements to review Member's compliance. The scope of the matters dealt with in the existing APES 310 is similar to the scope of matters dealt with in NZ Professional Standard PS – 2.

4. International and other developments

As far as we are aware, no other national standard setting organisation is currently working on a review of their respective Client Monies ethical pronouncement.

However, the International Ethics Standards Board for Accountants (IESBA) has released an exposure draft relating to improving the structure of the Code and in respect of safeguards in the Code. Technical Staff are expecting that any finalised revisions to the Code will ultimately have an impact on other APESB Pronouncements.

Proposed project scope

APESB Technical staff believe that the best approach to progress the project on APES 310 is to break it down into two phases.

Phase I

Phase I will complete the current review of APES 310. This means addressing the outstanding items on the issues register, matters noted by the Board in respect of the electronic environment to enhance the existing APES 310 and bringing the standard into line with the rest of the APESB suite of pronouncements.

The planned approach or process would be as follows:

- Technical staff prepare a revised draft of APES 310 to be considered by the working party and the Board at the May 2016 meeting.
- Draft standard updated for Board comments and any other required changes.
- Draft standard is exposed for a two month period.
- Consideration of respondents' comments to be presented at the August or November 2016 Board meeting.
- Revised APES 310 issued by the end of 2016.

The timing of this process may vary depending on feedback received from the Board and respondents' to the exposure draft. However the aim of Phase I is to refresh APES 310 by the end of 2016.

Phase II

Phase II of this project will consider the broader/long term issues relating to APES 310. This phase will focus on reviewing the structure of the existing APES 310 and also addressing the impact of digital disruption on the accounting profession.

The planned approach or process would be as follows:

- Technical staff develop a detailed project proposal which sets out the scope of the project and any parameters for the appointment of Taskforce members for the Board to consider.
- The Board approve the project proposal.
- Taskforce group is established and taskforce develops proposals for the Board's consideration
- Revisions are drafted to extant APES 310 and presented to the Board.
- Draft standard updated for Board comments and any other required changes.
- Draft standard is exposed for a two month period.
- Consideration of respondents' comments will be addressed and presented to Board.
- Subject to review comments from the Board, the restructured APES 310 will be issued.

The exact timing of this phase is hard to estimate at this stage and will most likely commence in later 2016 or early 2017 subsequent to the completion of phase 1.

Recommendation

Technical Staff request that the Board approve the two phase approach to the revision of APES 310 and the proposed project scope in each phase.

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Date: 29 January 2016