

APES 325

Risk Management for Firms

CPA Tax Discussion Group

20th August 2012

*Rob Nickel
CA (Canada)
Senior Project Manager*



Overview

- Background on APES 325 development
- Potential impact of APES 325 on Members in Public Practice

What is a Risk Management Framework?

Per APES 325, a risk management framework means:

- the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the firm.

Risk Management for Firms (APES 325)

- Applies to Firms from 1 January 2013
- Links in with APES 320 *Quality Control for Firms*
- Cross refers to other Risk Management Standards/Guidance
- Includes mandatory requirements and guidance in respect of
 - ❖ Objectives of a Risk Management Framework for a Firm
 - ❖ Establishing and Maintaining a Risk Management Framework for a Firm
 - ❖ Monitoring a Firm's risk management policies and procedures
 - ❖ Documentation

Potential impact of APES 325

- Establishment of a Risk Management Framework for the Firm
 - ❖ Policies and procedures identifying key organisational risks are mandatory requirements and are to be documented and communicated to the Firm's personnel
- The Firm's chief executive officer/principal assumes responsibility for the Risk Management Framework
- Establishment of a monitoring process that identifies and escalates instances of non-compliance to the Firm's leadership
 - ❖ Sufficient records are to be maintained for evaluation of the Risk Management Framework including all instances of non-compliance and the relevant actions to resolve them

Understanding Risk



Reference material

- Reference material for developing a Risk Management Framework (as included in APES 325):
 - ❖ AS/NZS ISO 31000:2009 *Risk Management – Principles and Guidelines*
 - ❖ International Federation of Accountants *Guide to Practice Management for Small and Medium Sized Practices – Module 7: Risk Management*

AS/NZS ISO 31000:2009 Risk Management

- Provides principles and generic guidelines on risk management.
- Can be used by any public, private or community enterprise, association, group or individual. Therefore, this International Standard is not specific to any industry or sector.
- Can be applied throughout the life of an organization, and to a wide range of activities, including strategies and decisions, operations, processes, functions, projects, products, services and assets.
- Can be applied to any type of risk, whatever its nature, whether having positive or negative consequences.

IFAC's Guide as it relates to APESB Standards

- 7.1 Introduction
 - 7.2 Professionalism and ethics within the firm > APES 110
 - 7.3 Risk management within the firm > APES 325
 - 7.4 Client engagement > APES 320
 - 7.5 Quality control processes > APES 320
 - 7.6 Business continuity and disaster recovery > APES 325
 - 7.7 Liability and insurance > APES 325
 - 7.8 Conclusion
 - 7.9 References, further reading, and IFAC resources
- Appendices

Relevant excerpts from IFAC's Guide

7.3 Risk management within the firm

7.3.1 Identifying risk within an accounting firm

Risk management is an area of life within a firm that has increased in importance over the last few years. There are a number of reasons it is essential for a firm to have a risk management program in place, including:

- To protect the assets, finances and firm operations;
- To contribute to satisfactory legal compliance, corporate governance and due diligence;
- To improve the services offered by the firm;
- To protect the reputation, credibility and status of the firm; and
- To enhance confidence in the firm.

Implementing a risk management program provides many benefits to accounting firms. These include:

- More effective strategic planning in their firms;
- Better cost control through better workflows and client evaluation and engagement processes;
- Increased profitability through better client and job controls;
- Reduced risks of litigation as a consequence of better processes and contingency plans;
- Increased knowledge and understanding of exposure to risk;
- A systematic, well informed and thorough method of decision-making;
- Less disruption and less rework through better understanding of process by all staff in the firm; and
- Sets the scene for continual improvement within a firm.

Sources of risk for an accounting firm



Reproduced from the IFAC Guide to Practice Management

Further excerpts from IFAC's Guide

7.6 Business continuity planning and disaster recovery

The key to business continuity planning and disaster recovery is to look at it as an entire function, as whole and complete in itself. The most effective way to coordinate your thinking and planning in this area is to document the various components required in one central document. This is called the Business Continuity Plan.

The purpose of developing a Business Continuity Plan is to ensure the continuation of your firm during and following any critical incident that result in disruption to your normal operational capability.

This section will assist you to prepare a Risk Management Plan and Business Impact Analysis, and create Incident Response and Recovery Plans for your business.



Further excerpts from IFAC's Guide

7.7 Liability and insurance within your firm

This module has focused on the topic of risk management and discussed strategies to manage or mitigate that risk. You can eliminate some of these risks, however, many risks you have to manage and, over time, try to reduce.

Practitioners in public practice should consider insurance as an important component of their overall risk management strategy. In the process of managing their business risks, practitioners will identify certain risk exposures that could have a significant impact on their firm. As discussed throughout this module, the approach to take is to identify the risk, quantify the risk, and treat the risk.

However, when you reach the conclusion that a risk is too great to hold, the option is to transfer the risk. Insurance is one of the oldest forms of risk transfer and professional indemnity insurance is a mandatory requirement for members of some professional bodies and regulators.

Questions?



Accounting Professional & Ethical Standards Board

For more information visit:

www.apesb.org.au



Accounting Professional & Ethical Standards Board