

## AGENDA PAPER

**Item Number:** 6 (b)  
**Date of Meeting:** 22 August 2017  
**Subject:** Annual review of APES 325 *Risk Management for Firms*

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Action required     For discussion     For noting     For information

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### Purpose

In accordance with APESB's Constitution, an annual review of APES 325 *Risk Management for Firms* (APES 325) has been performed to identify and resolve any issues identified by stakeholders.

### Background

APES 325 was originally issued in December 2011 with an effective date of 1 January 2013. It was revised in October 2015, and the revisions became effective on 1 January 2016.

### Consideration of Issues

The following procedures were performed as part of the annual review of APES 325:

- Consultation with the Professional Bodies to identify whether Members or other stakeholders have raised any issues in respect of APES 325;
- Reviewed the APESB Issues Register to identify whether stakeholders have reported any matters in relation to APES 325;
- Performed an internal technical review of APES 325 including considering the technological neutrality of the Standard; and
- Considered the results of the Quality Reviews conducted by the Professional Bodies in respect of APES 325.

The issues identified through completion of the above procedures are noted below.

### Succession Planning

*[This issue is carried forward from the prior year.]*

A Professional Body has raised the issue of some Members in Public Practice (mostly sole practitioners) not preparing formal succession plans, contrary to APES 325 requirements. APES 325 identifies business continuity risks (including succession planning) as a matter to be addressed (paragraph 4.2) and documented (paragraphs 6.1 and 6.2) in a Firm's Risk Management Framework and related policies and procedures.

The Professional Body has indicated that this issue has at times impacted the provision of efficient and timely Professional Services to Clients, particularly in circumstances of Members' sudden and/or unexpected inability to work. The Professional Body has therefore suggested that APES 325 include a specific requirement for Firms to formally document a succession plan to highlight its importance.

Technical Staff agree that succession plans are an important risk management tool to ensure continuity in the provision of required Professional Services to Clients. Technical Staff propose the following additional requirement and guidance paragraphs in APES 325:

***A Firm shall document its succession plan as part of its Risk Management Framework.***

*[new paragraph 6.6, section 6 Documentation]*

*The succession plan should include actions that a Firm will undertake in the event of a Partner's unexpected incapacity to work in order to enable the Firm to continue performing its professional obligations to its Clients.*

*[new paragraph 6.7, section 6 Documentation]*

Technical Staff are of this view that this would be a substantive change to APES 325 and recommend that an exposure draft be issued to seek feedback on this proposed revision. The exposure draft could also incorporate the suggested editorial amendments noted in this annual review. Subject to the Board's approval, the exposure draft would be issued by Technical Staff with a 45 days comment period.

Terms and concepts not defined/addressed in APES 325

A Professional Body has suggested that APES 325 could provide more clarity around risk management terms and specific operational considerations that Firms should consider in relation to risk management. In particular the following terms could be included or addressed in APES 325:

- Risk appetite
- Expected loss and unexpected loss
- Concentration risk
- Operational risk
- Risk-based pricing
- Stress testing and back testing of risk metrics

Further suggestions/ comments included:

- Providing additional guidance on how the risks in paragraph 4.2 apply to firms;
- Clarifying the financial implications of risk management for Firms such as the financial structure, insurance cover required and the effects of losses and liquidity risk on Firms' accounts.
- Clarifying how risk management outcomes should be linked to remuneration structures; and
- Limiting the references to ISO 3000 and IFAC Module 7 Risk Management as these do not provide sufficient guidance on risk management specific to Firms.

Technical Staff note that APES 325 was developed to address risk management in Firms at strategic and enterprise wide level and was not intended to cover detailed operational matters. It was developed in a manner that enables Firms to meet its objectives without being prescriptive.

By including some of the matters listed above, Technical Staff are concerned that the standard will change from being principles-based to almost a checklist that must be addressed in the Firm's risk management framework.

Technical Staff note that some of the Professional Bodies have developed risk management materials that define the above terms/concepts and provide guidance on their implications in a Firm's operations. These resources are publicly available and are excellent resources for Members in Public Practice.

Based on the specificity of the proposed changes and the availability of existing resources that address these concepts, Technical Staff believe that no revisions to APES 325 are required for this matter.

### Editorial Amendments

Technical Staff have noted that editorial amendments are required to two of the definitions in APES 325, as set out below:

**Staff** means professionals, other than Partners, including any experts the Firm [engages employs](#).

**Professional Standards** means all standards issued by [the](#) Accounting Professional & Ethical Standards Board [Limited](#) and all professional and ethical requirements of the applicable Professional Body.

Technical Staff are of the view that these amendments should be addressed in the next planned revision of APES 325.

### **Staff Recommendation**

The Board approve the issue of an exposure draft for APES 325 which proposes revisions for succession planning and noted editorial amendments.

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**Date:** 31 July 2017