

AGENDA PAPER

Item Number: 4
Date of Meeting: 27 November 2017
Subject: APES 325 *Risk Management for Firms*

Action required For discussion For noting For information

Purpose

To obtain the Board's approval to issue the revised APES 325 *Risk Management for Firms* (APES 325).

Background

APESB issued the Exposure Draft 03/17 *Proposed Standard: APES 325 Risk Management for Firms* in September 2017.

The key proposed revisions in the Exposure Draft are in respect of:

- (a) a requirement for a Firm to document its succession plan as part of its Risk Management Framework, and
- (b) guidance that a Firm's succession plan should include specific actions in the event of a Partner's unexpected incapacity to provide Professional Services to Clients.

Comments were due on 31 October 2017.

APESB received three submissions from stakeholders and they are tabulated in the General and Specific Comments tables in Agenda Item 4(b) and Agenda Item 4(c), respectively.

Consideration of Issues

Stakeholders were generally supportive of the proposed revisions to APES 325. Key issues raised by stakeholders and how they have been addressed is noted below.

1. Succession plans at the individual Partner Level

A stakeholder raised an issue in respect of the proposed guidance (paragraph 6.7) that state the need for Firms to document in their succession plans actions to be undertaken in the event of a Partners' unforeseen inability to work.

The stakeholder noted that the nature and extent of documentation of succession planning vary depending on Firm size and the level of key-person dependencies within the Firm. In the case of larger Firms, the risk of key-person dependency is mitigated by the size of the

Firm and its resources. The stakeholder was of the view that there is limited benefit in requiring succession plans to be developed at an individual partner level in larger firms.

Technical Staff agree with the stakeholder's view and propose the following revisions in paragraph 6.7:

The succession plan should include specific 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.

2. Reference to IFAC SMP Guide

A stakeholder suggested that APES 325 should refer to *Module 8: Succession Planning* of IFAC's *Guide to Practice Management for Small and Medium-sized Practices*. Technical Staff agree with the proposal and paragraph 4.7 has been updated to include the suggested reference.

3. Inclusion of cyber security

A stakeholder raised the need to include cyber security risks in the list of risks that Firms have to address in their Risk Management Framework (paragraph 4.2). Technical Staff agree and propose to include a specific reference to cyber security as part of technology risks listed at paragraph 4.2 (f).

A marked-up copy of APES 325 (changes post ED) incorporating the proposed revisions noted above is presented as Agenda Item 4 (a).

Staff Recommendation

The Board approve the issue of the revised APES 325 *Risk Management for Firms*.

Materials Presented

Agenda Item 4(a)	Marked-up Draft of APES 325 <i>Risk Management for Firms</i>
Agenda Item 4(b)	General Comments Table – ED 03/17
Agenda Item 4(c)	Specific Comments Table – ED 03/17

Author: Ruth Oliquino

Date: 6 November 2017