

# ESTABLISHING AND MAINTAINING A RISK MANAGEMENT FRAMEWORK

## LIVE CHAT: QUESTIONS AND ANSWERS

### INTRODUCTION

APES 325 *Risk Management for Firms* requires members in public practice to establish and maintain a risk management framework covering how the firm's key organisational risks are identified, assessed and managed, and how the document is monitored to ensure compliance with regulatory and legislative requirements.

The Standard was revised in December 2017, introducing a new mandatory provision requiring the establishment of a succession plan and documentation of the specific actions to enable the firm to continue its operations as part of the firm's risk management framework.

A recent live chat provided members with the opportunity to ask about the recent succession planning and cyber security inclusion, as well as other questions about APES 325 *Risk Management for Firms*, including the role of risk management, the integral elements required for compliance with the Standard, and how to prepare and maintain a compliant and effective risk management framework.

### PRIMARY RESOURCES

- [APES 325 Risk management for firms](#)
- [Guide for Establishing a Risk Management Framework Tool](#) (DOC)
- [APES 325: A guide for CPA Australia members](#) (PDF)
- [Succession planning](#)

Below is an edited transcript of the questions asked of our experts on the day.

### QUESTIONS AND ANSWERS

#### **Where do we start?**

Firstly, you need to recognise and identify the main objectives of your practice. After which, with other staff (if applicable), whiteboard any risk which would impede in the achievement of these objectives.

### **Should firms also be following not just APES Standards for risk but also the Australian Standards? What Australian Standards may be relevant?**

We are aware that some members may be required to comply with ISO 31000 however this is outside the scope of our quality review program. There may be synergies between the requirements of APES 325 *Risk Management for Firms* and other risk management standards which members would need to make their own assessments on.

### **Is there any format or sample or resources that that we can use as a reference to establish and maintain a Risk Management Framework for newly setup sole practitioner?**

We have recently completed out 'Guide to the Establishment of a Risk Management Framework', which is available on the CPA Australia website's page on APES 325 *Risk Management For Firms* [here](#). You can find the guide as part of the references at the bottom of the page.

### **How often would you recommend reviewing the risk management documents for a sole practitioner?**

As you may be aware APES 325 *Risk Management for Firms* paragraph 5.1 requires you to establish a monitoring process. Supporting this, paragraph 5.3 guides members that a review should occur on a regular basis. What is regular will be determined by the member but we guide that at the least you should be reviewing it on an annual basis, to ensure that it is reflective of your practice.

### **Can risk management be put into perspective from the most important to the least important?**

Determining what is most important to least important is dependent on your own assessment and how you choose to set up your framework. As per APES 325 *Risk Management for Firms* paragraph 4.2 you need to include policies and procedures that identify, assess and manage key organisational Risks, which may include:

- (a) Governance Risks;
- (b) Business continuity Risks (including succession planning);
- (c) Business Risks;
- (d) Financial Risks;
- (e) Regulatory Risks;
- (f) Technology Risks (including cyber security);
- (g) Human resources Risks; and
- (h) Stakeholder Risks.

How you set up your framework and the risks identified under each of these categories should be something that works in with the structure of your practice.

### **Is risk management something that we should also be doing for our clients?**

While the Professional Standards only applies to members in public practice, members are encouraged to discuss risk management with any client operating a business.

### **Is it advisable to get another accounting practice to review our risk management processes?**

While we always encourage members to leverage off each other's experience, a Risk Management Framework should meet the specific risks of an individual firm, as such, each firm will face different risk.

That being said, a similar firm both in size, structure, demographic location and services may be able to offer feedback on your Risk Management Framework.

### **Is blockchain going to change the risk profile of firms?**

We believe that blockchain will have an impact both on firms and the client they service. While blockchain provides added security, any development in technology can be subject to misuse. The initial risk with blockchain evolves around members and clients obtaining a good understanding of how the process actually works.

For members looking for further information on blockchain, we have the following articles available on In The Black:

- [Blockchain technology: what you need to know](#)
- [Blockchain: how does it work?](#)
- [Blockchain: the future of record keeping](#)
- [4 innovative businesses using blockchain](#)

### **Not keeping up with the latest development is a risk. Is there any way to obviate that risk such as turning the accounting practice into a learning organisation?**

The objectives of an accounting practice are generally different to those of an education institution. However, for all organisations to be adaptive, responsive, resilient and proactive, having a learning culture within the organisation is imperative for success and survival.

This means that the practice must make time for professional learning as well as to seek the input of specialised business skills to continually develop the practice.

### **In practice does maintaining a risk management framework limit potential claims against practitioners?**

It doesn't limit claims, but it does potentially reduce the liability of the practice assuming that the risk management procedures are adhered to.

### **How do you best identify emerging risks? For example, a banker friend of mine is using blockchain to substantially reduce risks for complex derivatives when he did not do this twelve months ago.**

Regular assessment of your firm and the environment you are operating in can help to identify emerging risks.

Keeping up to date with changes to the professional Standards, legislative and regulatory environment will also assist in this process. Being aware of news, publications and research material may also help you to identify emerging risks. Finally, engaging with other members in public practice may also highlight risks that you had not previously been aware of.

### **What is the best succession plan for sole practitioner given that the private and confidential issue that may create a conflict if this involve a third party in the plan without the client's consent?**

Succession planning is about the practitioner and the practice. It does not involve clients (and the sharing of any confidential client information) at this planning stage.

If it comes to pass that a successor becomes involved in your practice, the succession plan should provide a process of obtaining client consent for the incoming practitioner. It is at this point that the client will have the opportunity to remain with the practice.

INPRACTICE will be featuring internal succession case studies and articles over the next three months. Members can access these at [inpractice@cpaaustralia.com.au](mailto:inpractice@cpaaustralia.com.au).

### Does the sole practitioner need to inform clients for his/her succession plan?

There is no requirement under the professional Standards to inform your clients about your succession plan. APES 325 *Risk Management for Firms* paragraph 6.6 requires only that you document your succession plan as part of your Risk Management Framework.

As a minimum, we would recommend that key stakeholders are informed of the succession plan's existence in the event they need to refer to it.

## POLLS

### Why do you think a risk management framework is an important tool to your practice?



In response to the poll, the least important reason to have a Risk Management Framework is to complete your Quality Review.

A Risk Management Framework is an integral tool for managing risks in your practice. Your Risk Management Framework should be referred to when making changes to your practice structure, your operating environment, staffing, determination of the services you will provide and preparing for the future.

### What do you consider to be the most challenging risks that accountants would face in future?



While regulatory risk is a significant challenge, members are encouraged to not discount the risks presented from automation, in general, and automation of tax compliance services.

CPA Australia discusses this further on the [Sustainable Firms](#) page of the CPA Australia website.

## What is one of the biggest risks to a sole practitioner?



By far, the biggest risk to a sole practitioner is something happening which incapacitates them.

When APES 325 *Risk Management for Firms* was revised in December 2017, it was revised to include the requirement in paragraph 6.6 to include the firm's succession plan as part of its risk management framework, recognising that it is an area often overlooked by members.

CPA Australia often fields questions from loved ones needing assistance due to their partner/spouse being unable to work. Accounting for the risk and putting plans in place can help ensure continued operations and clients being serviced should anything happen to the practitioner.

Data breaches do also constitute a large risk, and we have guidance and resources available on CPA Australia website [here](#).

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