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*Suggested Response: Risk Management Framework*

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| Version History |
| **Version No.** | **Date Last Reviewed** | **Reviewed By** | **Notes** |
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# Ownership of the Risk Management Framework

1. <Please identify the person and/or personnel who is ultimately responsible for your firms’s Risk Management Framework>
* Related Mandatory Provision: APES 325.4.4

*Suggested Response:*

*The Principal/ Principals/ Director/ Directors/ Mr. John Citizen/ Ms. Jane Citizen is the ultimate responsible personnel for this firm’s Risk Management Framework.*

1. <Please explain why the ultimate person who is responsible for your firm’s Risk Management Framework, been selected to assume this role. Do consider his/her skills, experience, commitment and authority>
* Related Mandatory Provision: APES 325.4.6

*Suggested Response:*

*The Principal/ Principals/ Director/ Directors/ Mr. John Citizen/ Ms. Jane Citizen has managed this practice for more than 20 years. During this period, he/she provided accounting and tax services to both business and individual clients across various sectors as service, retail, manufacturing etc.*

# Key Organisational Risks

1. <The mandatory provision APES 325.4.2 requires you to develop policies and procedures, related to the **identification, assessment and management** of key organisational risk/s. I recommend that you consider the following steps when addressing this mandatory provision:-
2. Please define the **objective/s** of your business (*e.g. is it for profit, not-for profit, to support the community, to assist family members etc.*).
3. **Identify** the most likely **circumstance/s or event/s** that will prevent your business from achieving its objective/s (*this process is called* ***Identification of Key Organisational Risks***) You may consider organising these circumstance/s or event/s under one or more of the following Risk Categories:-
4. Strategic risks;
5. Reputational risks;
6. Governance risks;
7. Business continuity risks (including succession planning);
8. Financial risks;
9. Regulatory risks;
10. Technology risks; AND/OR
11. Human resources risks
12. For each circumstance or event that you have identified, explain howthe occurrence or recurrence of each circumstance or event prevents your firm from achieving its objective/s (*this process is called* ***Assessment of Key Organisational Risks***).

Note:

For larger practices with a more comprehensive list of Identified Key Organisational Risks, you may further assess these risks according to the consequence and likelihood of its occurrence – using a Risk Matrix. A Risk Matrix is a matrix that is used during risk assessment to define the various levels of risk according to the consequence and likelihood of its occurrence. This is a simple mechanism to increase visibility of risks and assist management in decision making. Please refer to **Appendix A** for an example of a **Risk Matrix**.

The result of this assessment (e.g. *Extreme, High, Moderate or Low)* can be documented in the Risk Register under the column entitled Risk Rating (*for example, please refer to the Suggested Response section below*).

1. Once you have completed the assessment of key organisational risks, describe how you are currently mitigating each of the circumstance or event (*this process is called* ***Management of Key Organisational Risks***). You may consider the following questions in your mitigating strategies:-
2. What initiative/s has my firm undertaken to minimise the occurrence or recurrence of this circumstance/event?
3. What initiative/s has my firm undertaken to eliminate the occurrence or recurrence of this circumstance/event?
4. What initiative/s has my firm undertaken to share or transfer the consequence resulting from the occurrence or recurrence of this circumstance/event? OR
5. Have I decided that my firm will accept all consequences resulting from the occurrence or recurrence of this circumstance/event?
6. You can consider organising your responses to 1 (i) – (iv) in the Risk Register provided within the Suggested Response section below.>
* Related Mandatory Provision: APES 325.4.2

*Suggested Response:*

*<Insert Firm’s name> has developed procedures related to the identification, assessment and management of key organisational risks. For details, please refer to the Risk Register below. The Risk Matrix (located in Appendix A) has been used as reference in the determination of the Risk Ratings (e.g. Extreme, High, Moderate or Low):-*

## *Risk Register*

|  | ***Risk Register for <Insert Firm’s Name>*** |
| --- | --- |
| ***Firm’s Objectives:-***1. ***For profit.***
2. ***To provide high quality compliant service.***
3. ***To provide a reliable, honest and respectable accounting service to the community.***
 |
| ***No*** | ***Risk Category*** | ***No*** | ***Circumstance/ Event*** | ***Risk Assessment*** | ***Risk Rating*** | ***Mitigating Actions*** | ***Date of Identification*** | ***Action Plan*** | ***Date of Resolution*** | ***Responsible Person*** | ***Next Update*** |
| *A* | *Strategic risks* | *1* | *Decrease in demand for accounting/ taxation services due to increase competition.* | *Decrease in demand results in loss of revenue. This will reduce overall business profitability.* | ***High*** | *Minimise Risk**Maintain or increase the quality of deliverables by keeping up to date with clients’ demands.* | *23 August 2007* | 1. *On-going peer & client discussion.*
2. *Attendance at seminars/ trainings organised by CPA Australia and NTAA.*
 | *On-going* | *Mr. X* | *On-going* |
| *2* | *Pricing pressure due to increase competition.* | *Increase in pricing pressure lowers business profit margins. This will reduce overall business profitability.* | ***High*** | *Minimise Risk**Periodic review of pricing structure against competitors.* | *15 September 2010* | *Annually, review pricing structure against competitors through market surveys and/or enquiries. Where required, pricing updates are performed within 24 hours.* | *On-going* | *Ms. X* | *20 October 2017* |
| ***High*** | *Minimise Risk**On-going product/service level review against competitors.* | *Assess the performance of service level and quality of deliverable to clients on an on-going basis. Assessments are documented in the Service & Deliverables Assessment Form.* | *On-going* | *Ms. X* | *On-going* |
| *3* | *The introduction of new accounting services (e.g. financial planning, audit etc.) received poor response from potential clients.* | *Poor response may adversely impact upon forecasted revenue and reputation amongst the community.* | *Low* | *Accept Risk**The firm has decided to accept this risk and not implement any mitigating actions. Reason being, it was assessed that the cost of research in forecasting the potential market take up of these new accounting services outweigh the potential additional revenue derived.* | *16 April 2017.* | *No action plan.* | *16 April 2017.* | *Mr. X* | *On-going* |
| *B* | *Reputational risks* | *4* | *Damage to business reputation due to dealings with unethical clients.* | *Damage to the business reputation results in the loss of revenue. This will reduce overall business profitability.* | *Moderate* | *Minimise Risk**For new clients, assess reputation and integrity before the commencement of engagement.* | *23 August 2007* | *Assessment is documented in the New Client Assessment Form and reviewed by the Principal.* | *On-going* | *Ms. X* | *On-going* |
| *Moderate* | *Minimise Risk**For existing clients, assess reputation and integrity before commencement of engagement for a new financial period.* | *23 August 2007* | *Assessment is documented in the Existing Client Assessment Form and reviewed by the Principal.* | *On-going* | *Ms. X* | *31 December 2017.* |
| *5* | *Damage to business reputation due to mismatch expectations between clients and the business.* | *Damage to the business reputation results in the loss of revenue. This will reduce overall business profitability* | ***High*** | *Avoid Risk**All engagements will be accompanied with engagement documents before commencement.* | *23 August 2007* | *Engagement documents (e.g. engagement letter, engagement brochure etc.) to be issued to all clients before the commencement of any engagements. Clients’ acknowledgement of the terms of engagement in writing is required.* | *On-going* | *Ms. X* | *On-going* |
| *C* | *Governance risks* | *6* | *Firm’s personnel not adhering to business policies and procedures.* | *Non-adherence to business policies and procedures reduces the quality in service delivery.* | *Low* | *Minimise Risk**Review the accuracy of working paper files before deliverables are provided to clients.* | *23 August 2007* | *All working paper files will be reviewed by the Principal before deliverables are provided to clients. Any discrepancies will be rectified by the preparer immediately.* | *On-going* | *Mr. X* | *31 December 2017.* |
| *7* | *Conflict of interests between the management and oversight committees.*  | *This reduces the effectiveness of the management in making decisions to the best interest of the business. This will reduce the overall profitability of the business.* | *Low* | *Minimise Risk**Review the level of independence of the management and oversight committees.* | *23 August 2007* | *Annually, the management and oversight committees’ members are required to disclose all relationships related to the business by completing and submitting the Independence Checklist form. These disclosures will be reviewed by the Principal/Owner of the business.* | *On-going* | *Mr. X* | *31 December 2017.* |
| *D* | *Business continuity risks* | *8* | *The death, disability, retirement, or “divorce” of business owner/s.* | *The death, disability, retirement, or “divorce” of business owners will interrupt all on-going engagements. This reduces the reliability of service delivery to the community.* | *Low* | *Minimise Risk**Establish a Business Succession Agreement, such as the Buy-sell agreement with another accounting firm.* | *23 August 2007* | *Established a Buy-Sell Agreement with ABC Accounting Pty Ltd. For details, please refer to the agreement which is located at Cabinet Reference C.3. Agreement to be reviewed annually.* | *26 November 2007.* | *Mr. X* | *31 December 2017.* |
| *9* | *Loss of information due to natural disasters.* | *Critical business information are destroyed due to occurrence of natural disasters (e.g. fire, flood etc.). This will disrupt the operation of the business and negatively impact on the overall business profitability.*  | *Moderate* | *Transfer Risk**Ensure areas of business where critical information are held – are insured adequately and renewed timely.* | *23 August 2007* | *The following business areas have been insured by XYZ Insurance Ltd and the policy reviewed and updated annually:-*1. *Back-up servers at location A, B and C;*
2. *Building E where the main office is located; and*
3. *Desktop IDs 145, 167 and 199.*
 | *On-going* | *Mr. X* | *31 December 2017.* |
| *E* | *Financial risks* | *10* | *The business is highly-dependent on a small number of major clients.*  | *Overall business profitability and cash flow will be affected if one of the major clients falls short in meeting payment obligations.* | *Moderate* | *Minimise Risk**Seeking new smaller clients to reduce income dependency on major clients.* | *23 August 2007* | *To maintain overall profit contribution by smaller clients at 60% or more. This ratio will be reviewed annually.*  | *On-going* | *Ms. X* | *31 December 2017* |
| *11* | *The business is dependent on its current location.* | *Overall business profitability will be affected when majority of customers move away from the current location.*  | *Moderate* | *Minimise Risk**Gradually transition to a paperless working environment.* | *4 September 2015* | *To fully transition to a paperless working environment by the end of 2016.* | *31 December 2016* | *Ms. X* | *31 December 2017* |
| *12* | *Litigation from staff and/or clients due to unsafe work environment.* | *The increase chances of litigation by staff and/or clients – if the work environment does not meet the minimum standards of the local occupational health and safety requirements. These litigations will have a negative implication on the firm’s bottom line.* | ***High*** | *Minimise Risk**Ensure that the work environment consistently meet the requirements of the local occupational health and safety standards.* | *23 August 2007* | *Ensure that the Work, Health and Safety (WHS) insurance with ABC Insurance Co. Pty Ltd is updated timely and reviewed annually.**Engaged DEF Co. Pty. Ltd. to perform WHS assessment annually.* | *On-going* | *Ms. X* | *31 December 2017* |
| *13* | *Clients do not pay for services rendered.* | *Non-payment for services rendered, negatively impact upon the financial position of the practice.* | *Extreme* | *Eliminate Risk**Prepayment for all services before the commencement of engagements.* | *14 September 2013* | *Prepayments are required for all services before the commencement of engagements.* | *31 December 2016* | *Ms. X* | *31 December 2017* |
| *F* | *Regulatory risks* | *14* | *The business is not able to keep up to date with regulatory requirements in a timely manner.* | *Non-compliance with regulatory requirements may prevent the business from providing a highly compliant quality service.*  | *Extreme* | *Minimise Risk**Ensure that working paper files and business policies & procedures are kept up to date with requirements of AASB, APES and the Taxation Act.* | *23 August 2007* | *The Principal to review all working paper files against relevant requirements of AASB, APES and the Taxation Act, before engagements are signed-off.* | *On-going* | *Mr. X* | *On-going* |
| *Address all suggested remedial actions related to breaches identified during the Quality Reviews performed by the CPA Australia.* | *In-progress* | *Mr. X* | *4 November 2017* |
| *G* | *Technology risks* | *15* | *Hardware and software failure as a result of power loss or data corruption.* | *Overall business reliability will be compromised when hardware and software fails.* | *High* | *Transfer Risk**Engage an external IT firm to maintain all IT hardware and software.* | *23 August 2007* | *Engaged XYZ IT Consulting Pty. Ltd. to maintain all IT hardware and software in the business.*  | *24 September 2007* | *Mr. X* | *31 December 2017* |
| *Minimise Risk**Perform periodic data backups and consistently maintain at least 2 computer systems that mirror one another.* | *23 August 2007* | *Data backups are performed daily after the close of business. Any discrepancies are recorded in the Data Error Log Book and rectified immediately.**The mirror image of C: in Computer A is maintained and updated in Computer B on a daily basis.*  | *On-going* | *Mr. X* | *31 December 2017* |
| *16* | *Cyber-attacks on the firm’s information systems.* | *Client’s financial and personal information will be compromised.*  | *High* | *Transfer Risk**Consult and engage an external IT firm to establish and maintain security measures on the firm’s information systems.* | *23 August 2007* | *Engaged XYZ IT Consulting Pty. Ltd. to establish and maintain security measures on the firm’s information systems.* | *24 September 2007* | *Mr. X* | *31 December 2017* |
| *Minimise Risk**Perform periodic review on the reliability and integrity of information systems.* | *23 August 2007* | *As part of the initial agreement, XYZ Consulting Pty. Ltd. to review the firm’s information systems every 3 months.* | *Once every 3 months.* | *Mr. X* | *1 June 2017* |
| *H* | *Human resources risks* | *17* | *High staff turnover rate* | *Overall business reliability will be compromised due to difficulty in completing engagements in a timely manner.* | *Low* | *Minimise Risk**Establish and implement effective selection procedures that increase the probability of finding the right staff for the business.* | *23 August 2007* | *Developed selection procedures Refer to detailed Employee Selection Procedure manual located at Folder A.1.* | *16 September 2007* | *Ms. X* | *31 December 2017* |

# Monitoring Process of the Risk Management Framework

1. <Please explain how is the design and effectiveness of the Risk Management Framework evaluated; and what is the frequency of this evaluation process. Also, please explain how instances of non-compliance are detected, documented, communicated and resolved?

*Note: Please be advised that an effective Risk Management Framework should meet its intended objectives, which is an establishment of a document that presents the currency of the firm’s risk management initiatives; and compliance with mandatory provisions of APES 325*>

* Related Mandatory Provisions: APES 325.4.1, APES 325.5.1, APES 325.5.2 and APES 325.6.9

*Suggested Response:*

*The evaluation on the design and effectiveness of the Risk Management Framework is conducted by Mr. B and reviewed by the Principal/Director.*

*The evaluation process is conducted on an on-going basis whereby procedures in the Risk Management Framework are reviewed against latest requirements of the Professional Standards (i.e. APES 325) and actual risk management practises within the business. The evaluation process is aimed at ensuring that procedures in the Risk Management Framework remain relevant, accurate and compliant.*

*Instances of non-compliance are identified whenever procedures in the Risk Management Framework are not kept up to date with changes to the requirements of the Professional Standards (i.e. APES 325) and actual risk management practises within the business. Instances of non-compliance and details of associated remedial actions are recorded in the Risk Management Framework Update Log Book; and subsequently communicated to all personnel during the monthly staff meetings.*

# Succession Plan

1. <Please explain the specific actions that will be undertaken (*in instances whereby the owner is unable to continue providing agreed services to his/her clients*) to enable the firm to continue to perform its professional obligations to its clients.>
* Related Mandatory Provision: APES 325.6.6

*Suggested Response:*

*In circumstance where the owner is unable to continue to perform its professional obligations to its clients (due to reasons such as health or death), the practice has finalised a service agreement with ACB Accounting pty ltd to continue providing all professional obligations to the practice’s current clients.*

# Retention of Documentation

1. <Please define the retention period of all relevant documentation required for the Monitoring Process of the Risk Management Framework and for compliance with applicable legal and regulatory requirements of record retention.>
* Related Mandatory Provision: APES 325.6.8

*Suggested Response:*

*All documentation required for the Monitoring Process of the Risk Management Framework such as the Risk Management Framework and the Risk Management Framework Update Log Book are retained indefinitely until such time the business ceases operation. The Professional Standard document APES 325 will not be retained in-house as it is maintained online via the APESB website.*

*All documentation required for compliance with the taxation act will be retained for up to 7 years.*

# APPENDIX A: risk matrix

|  |  |
| --- | --- |
|  | **Consequence** |
| **Insignificant****(1)** | **Minor****(2)** | **Moderate****(3)** | **Major****(4)** | **Catastrophic****(5)** |
| **Likelihood** | **A** | **Almost Certain** | High | High | Extreme | Extreme | Extreme |
| **B** | **Likely** | Moderate | High | High | Extreme | Extreme |
| **C** | **Moderate** | Low | Moderate | High | Extreme | Extreme |
| **D** | **Unlikely** | Low | Low | Moderate | High | Extreme |
| **E** | **Rare** | Low | Low | Moderate | High | High |