

Risk Management Report to Professional Standards Council (Year 2)

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Public Domain



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The Institute of
Chartered Accountants
in Australia

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Executive summary

The Institute of Chartered Accountants in Australia (the Institute) is submitting this Risk Management Report (RMR) to meet its obligations under Professional Standards legislation (PSL).¹

We are continuing to use the risk assessment process of this RMR across the Institute to design strategies to assist and support our members to meet the challenges of practice they face within the changing economic and regulatory environment. In this second year of reporting, an awareness of these risks has clearly been embedded in the decision making processes of all divisions at the Institute. These enhanced processes have also led to a reallocation of some responsibilities within the organisation to address the risks identified and implement additional safeguards.

We have included in this RMR a detailed analysis across the Institute of risks within the consumer protection context, the results of the 2009 Scheme Compliance Survey and a report on Claims data over the two years of the schemes' operation.

We have prepared the risk analysis in this RMR according to the Institute's Risk Management Framework and:

- > Undertook a Risk Management review across the business in relation to consumer protection
- > Conducted a cross-divisional review of member resources in relation to consumer protection
- > Implemented a national Schemes Compliance Survey
- > Analysed the aggregated survey responses and claims data to inform future process reviews and audits.

Risk assessment in Year 2

We have assessed the residual risks identified in this 2009 RMR as being tolerable ie. an acceptable level of risk with strong controls in place. We have managed to maintain this overall rating in a particularly challenging environment by responding with significantly enhanced and innovative controls. We will continue to monitor the risks and controls in place and implement additional controls where required.

Benefits to consumers

Our members and their clients are operating in an environment of increasing complexity and frequent change. Challenging economic conditions, global pressures for heightened regulation, frequent legislative and regulatory as well as technological change all contribute to the business risks for our members who are financial service providers. As their professional body, it is essential that the Institute assists members to mitigate those risks for reputational reasons as well as the protection of the public interest.

We are committed to addressing these risks and implementing a strong risk management framework.

The significant year on year changes you will see in this report relate not only to the responsiveness and quality of our technical support on key relevant issues but to the strategies we use to communicate these to our members. For example we used social networking and electronic communication, with technical blogs, Youtube presentations, online training, interactive tools and podcasts. In particular our LiveOne – online realtime training – is providing training on current issues to rural and regional members.

Ultimately it is the consumer who benefits from the quality of service provided and the certainty of dealing with adequately insured professionals. In this second year of reporting, the minimum level of PI cover required by members and available to consumers has doubled to \$1million from the \$500,000 amount required at the commencement of the schemes.

1. s.37 of the Professional Standards Act 1994(NSW), s.49 of the Professional Standards Act 1997 (WA), s.39 of the Professional Standards Act 2003 (Vic), s.38 of the Professional Standards Act 2004 (NT), s.38 of the Professional Standards Act 2004 (Qld), s.39 of the Professional Standards Act 2004 (SA) and s.4.33 of the Civil Law (Wrongs) (Proportionate Liability and Professional Standards) Act 2004 (ACT)

Key strategies addressing quality of service in 2009

We have engaged in a range of activities to support members within the current environment including:

Global – contribution to debate and communication regarding global regulatory changes

- > Participation in international forums to contribute to debate regarding global regulatory changes to ensure that members have early awareness of key issues which will impact their services: *ASEAN Accounting conference, G20 Accountancy Summit, Prince of Wales Sustainability Forum, IASB, IAASB, IFRIC, IAESB, IESBA and IFAC representation*
- > Engaging with global partners to ensure reciprocity of membership obligations and benefits: *GAA (Global Accounting Alliance)*.

Professional leadership – leadership regarding key issues, engaging with legislators and regulators and communication of issues through emerging channels

- > Continuation of Thought leadership projects which give members the benefit of the expertise of leading thinkers in their field on topics of relevance to the profession: *The Benefit of Audit: A guide to audit quality, Broad Based Business Reporting in practice, Enhancing not-for-profit annual & financial reporting*
- > Engaging with media to promote better understanding of key issues throughout the membership and business community: *AFR Roundtable on audit*
- > Engaging with Government and regulators to provide expertise in consultations regarding legislative and regulatory change, to provide members with early and informed awareness of key issues and to provide feedback to members regarding issues identified by

regulators which impact the provision of professional services: *ATO, Tax Practitioners Board, ASIC, APRA, Dept. of Climate Change/Australian Climate Change Regulatory Authority, Bureau of Meteorology/Water Accounting Standards Board*

- > Appointment of Prof. James Guthrie as Head of Academic Relations to contribute to thought leadership agenda
- > Communication of issues through technical blogs, podcasts and electronic communications in addition to our customary publications and journals: *Business Leader TV, Number 1 in Numbers Blog, Youtube presentations, Facebook, LinkedIn member group, Without Fear or Favour podcast series as well as providing RSS feeds.*

Technical leadership and support – timely and comprehensive support for members regarding issues relevant to practice in the current environment

- > Providing comprehensive support in the *Global Economic Downturn factsheet* series which provides practical tools and advice as well as specific guidance in relation to liquidation and insolvency issues for small to medium enterprises
- > Providing comprehensive resources regarding sustainability reporting: fact sheets on topics including *National Greenhouse Energy Reporting Scheme, Accounting for Water, Carbon Pollution Reduction Scheme*
- > Publication of standards, manuals and toolkits to support members in practice: *Audit & Assurance Handbook, Financial Reporting Handbook, Audit Manual & Toolkit, SMSF Audit Guide & SMSF Administration Guide, Quality Control Guide, Chartered Accountants Practice Workpapers, Independence guide: Interpretations in a co-regulatory environment*

- > Highlighting key issues for preparers of financial statements and auditors in the *Global Economic Downturn* from research and feedback from regulators: *Essential Guides for Financial year and Calendar year 2009*
- > Co-ordinating presentations from regulators and panel discussions regarding issues of significant change: *Capital city 'Clarity' briefing sessions hosted by the AUASB and Institute Head of Audit*
- > Provision of training programs designed by technical experts and informed by the Institute's engagement with government and regulators as well as members' practice experience: in addition to the customary seminar, workshop, discussion group and conference format, the availability of *LiveOne in-house and online training* has substantially increased in 2009
- > Tailored electronic newsletters providing weekly updates for members on legislative and regulatory changes, key issues identified by regulators and practical issues of relevance to members in practice: *Tax Bulletin, Accounting and Assurance News Today, Superannuation Bulletin, Practice & Regional e-bulletins*
- > Direct communication on key issues: *Letter to all auditors of listed companies other than Big 4 and mid-tier regarding auditor rotation requirements*
- > Providing guidance and support for technical, ethical and practice issues: *Quality review process, Reporting & Assurance helpline, Superannuation helpline, Professional Standards helpline, referral to specialist taxation advice, Chartered Accountants Advisory Group confidential counselling service, free legal service.*

Compliance Survey

The responses to the Scheme Compliance Survey (the Survey) illustrate an improvement in the already high level of member compliance with the Institute's Professional Indemnity (PI) requirements. This is pleasing given that it is the second consecutive year in which the Institute's minimum PI insurance requirements were increased. This amounts to a total increase of 100% over the two years in the minimum amount of PI cover required for members in practice.

The Survey results confirmed our feedback from PI brokers that the relatively soft market for PI insurance has continued throughout 2009. There was no sustained pressure on premiums and excesses. Continuing favourable terms for the payment of defence costs has been evident.

We have tailored the timing of our communications to members to coincide with their annual PI renewal period. Our aim has been to improve their awareness of the level and quality of PI cover required by the Institute and the Institute limitation of liability schemes. Our communications with members regarding this Survey have provided a valuable opportunity to educate and assist them regarding PI insurance issues. There is evidence from the Survey results that the level and quality of cover held by members continues to improve, which provides better protection to consumers.

Claims data

The claims which have been reported to us to date relate to pre-scheme services. We are reluctant to draw conclusions from data collected over only two years. However, we are starting to see trends develop which we will continue to monitor over the life of the schemes. We are seeing that the final outcome of all claims, including the largest, is significantly lower than the amount of the original claim. Few of the settled claims fall over the threshold for the minimum cap on liability and to date the monetary ceilings in the Institute schemes have not been challenged.

Risk Management Report

Introduction

This RMR:

- > Addresses the implementation and monitoring of risk management strategies by the Institute. The period covered is the year to 31 March 2010, being the second year of the 5 Year Risk Management Plan as set out in the Institute's application for Limitation of Liability schemes in NSW, WA, SA, NT, ACT, Victoria and Queensland
- > Identifies controls implemented by the Institute, to address the risks that non-compliance with Institute requirements may present, within the context of consumer protection. The report also sets out additional measures arising out of the implementation and monitoring of these controls. In addressing these risks, it must be recognised that Institute members in public practice are subject to a broader range of compliance obligations implemented by regulatory and oversight bodies within the co-regulatory environment in Australia.

The Institute identified the following risks within the context of consumer protection:

- > Risk 1: Technical competence
- > Risk 2: Legal / professional / ethical obligations
- > Risk 3: Institute's practice requirements

Risk management

The Institute regards business risks as 'threats' to the achievement of the Institute's objectives and strategies and includes threats of unfortunate events arising as well as positive events not occurring.

The Institute's Risk Management Framework is based on AS/NZS 4360/2004 / HB221:2004. The framework drives a risk culture through defined and communicated policies and values, assigned risk responsibilities, appropriately delegated authorities and review procedures. Risk Management continues to be integrated in all areas of our business.

Risks once identified are assessed in terms of their likelihood and impact, and decisions are then made to accept the risk, avoid, share or reduce the risk. Where the risk lies above the agreed risk appetite, controls are reviewed and improved or other appropriate actions are planned or undertaken. Such high residual assessed risks are subjected to increased scrutiny in terms of reporting and monitoring.

The continual monitoring of risks is an essential part of this framework operating effectively, and this takes the form of regular risk self-assessment by management, and independent reviews on the higher level risks on a planned rotational basis as required.

Institute of Chartered Accountants Strategic Plan

The Board has developed a Strategic Plan for the period 2009–2011 which identifies key issues and strategic objectives to promote the core purpose of the Institute which is set out as follows:

'Through its leadership, the Institute enhances and promotes the reputation and role of Chartered Accountants, both individually and collectively, and ensures the highest professional quality of its current and future members, for the benefit of the business community and the public interest.'

The Strategic Objectives set out in the 2009–2011 Strategic Plan can be found at Attachment 1 and underpin the risk management strategies in the RMR.

The 2009–2011 Strategic Plan has been developed within the context of the continuing economic pressures of the Global Economic Downturn (GED) to ensure that key objectives will be met throughout this period.

2009/10 operating environment for Institute members

Our members in practice have been subject to a range of pressures during the last year which impact the risks addressed in this report.

The economic environment continues to be challenging. Although Australia has managed to avoid the depths of the economic woes experienced in the US, UK and Europe, the downturn in Australia is playing out in an increase in both high profile and smaller business failures, and personal bankruptcies. These will inevitably lead to an increase in claims being made against financial service providers as owners and investors seek to recover losses. We have already seen high profile cases involving members in relation to ABC Learning, Westpoint and Great Southern in the media but not yet the courts. The time taken for claims to be initiated and to work their way through the courts contributes to the 'long tail' nature of PI claims.

Our members are also subject to a plethora of legislative and regulatory changes. In addition to the constant changes to tax legislation, tax agents must also deal with the changes to the regulatory environment which have arisen from the *Tax Agent Services Act 2009*. This new Tax agents' regime will impact members providing BAS services. There is also the prospect that significant change to the tax system may come out of the Henry Review. Auditors must comply with a new suite of standards in 'clarity' format issued during 2009 by the AUASB. This comes shortly after the auditing standards took on the 'force of law'. Members involved in the administration or audit of self managed superannuation funds have had to manage legislative change as well as the prospect of further change through the Cooper Review into Australia's superannuation system.

Risk management strategies

The key developments during 2009 which are set out in the risk tables attached were:

- > Engaging in global forums
- > Expanding the electronic communication and networking streams
- > Furthering engagement with Government and regulators
- > Building on the existing technical expertise in identifying issues and developing material to support members in the current economic, legislative and regulatory environment

- > Providing feedback to the Institute and its members from regulators and our Quality Review process
- > Addressing identified weaknesses within the responsible service delivery divisions and reallocating monitoring responsibilities
- > Promoting greater understanding of PI issues and schemes through member communication, Scheme Compliance Survey and insurance industry media articles

As a result of the effectiveness of the controls, the identified risks have been assessed as follows:

Description of specific risk	Category	Objective	Last residual rating	Residual rating at year 1	Residual rating at year 2	Status of progress
1. Technical competence	PSC	A	Not rated	Tolerable	Tolerable	Accept risk – monitor for change
2. Legal / professional / ethical obligations	PSC	A	Not rated	Tolerable	Tolerable	Accept risk – monitor for change
3. Practice requirements	PSC	A	Not rated	Tolerable	Tolerable	Accept risk – monitor for change

Impacted objectives

- A. Relevance
- B. Leadership
- C. Growth
- D. Global positioning
- E. Fit for the future

Risk severity = Impact likelihood

- Risk rating: **Very high**
- Risk rating: **High**
- Risk rating: **Tolerable**
- Risk rating: **Low**
- Risk rating: **Very low**

The 'tolerable' risk rating for Risk 1 reflects the assessment that with both Institute and external controls in place, it is possible that a member could fail to comply with the Institute's training and development requirements. As we concluded that the consequences of such a failure are likely to be moderate, the residual rating is determined to be tolerable.

As noted above, our members are functioning in a challenging, changing but highly regulated environment. The Institute has strengthened its controls to address this environment. The risk rating for Risk 2 in this second year of reporting reflects the assessment that after the application of Institute and external regulators' controls, it is still possible to likely that some members could fail to comply with their legal/professional or ethical obligations. However, the consequences of such failures are assessed as likely to be minor to moderate.

The Institute's controls regarding members' compliance with practice requirements have been strengthened with the implementation of the Scheme Compliance Survey, the benefits of which will be more fully reflected over the life of the schemes. The tolerable risk rating for Risk 3 reflects the assessment that it is possible that a member could fail to comply with the Institute's practice requirements. However, the consequences for a member of the public are considered as likely to be minor to moderate.

Overall, the Institute continues to seek improvements in our control environment to reduce the likelihood that a member could fail to comply with the Institute's training and development requirements, legal/professional/ethical obligations or practice requirements. It is unlikely that the Institute could have any control over the severity of the consequences.

Conclusions

The core purpose of the Institute, to ensure the highest professional quality of current and future members, is evidenced in the controls and strategies identified in the Risk Analysis Tables (Appendices 1, 2 & 3), which have been assessed as generally adequate to strong. This assessment also recognises the additional controls and verification provided by regulators in the Australian co-regulatory environment (See Appendix 8). These external controls are assessed as strong as the ultimate sanction applied by these external regulators is de-registration which would remove the individual's ability to provide the regulated services.

Appendix 1: Risk assessment criteria

Likelihood	Severity/Impact				
	Insignificant	Minor	Moderate	Major	Catastrophic
Almost certain (Occurs more than 20 times per year or >90%)	Tolerable	High	High	Very high	Very high
Likely (Occurs up to 20 times per year or 50 – 90%)	Low	Tolerable	High	Very high	Very high
Possibly (Occurs up to five times a year or 10 – 50%)	Low	Low	Tolerable	High	Very high
Unlikely (Occurs once during the year or 5 – 10%)	Very low	Low	Tolerable	Tolerable	High
Rare (Very unlikely in next five years or <5%)	Very low	Very low	Low	Tolerable	Tolerable

Level of risk / Mitigation response

Note: Mitigation rests with the accountable manager and for cross divisional boundaries, responsible managers may implement specific mitigations.

Very high	Requires the prompt attention of management – undertake detailed research, identify risk reduction options and prepare a detailed risk management plan. Reporting and monitoring of the risk and its mitigation strategies is essential.
High	Requires appropriate controls to be set in place. High residual risk to be referred for monitoring that the associated controls are working. Identify additional risk reduction options and prepare a detailed risk management plan. Reporting and monitoring the risk mitigation strategies is required.
Tolerable	This threshold delineates the higher-level risks from those of less threat. Assess whether the level of risk could increase and consider additional cost-effective mitigations. Monitoring of response procedures to occur.
Low	Look to accept, monitor and report on the risk or manage it through the implementation / enhancement of procedures.
Very low	These risks would be not considered any further unless they contribute to a scenario that could pose a serious event, or they escalate in either likelihood and / or consequence.

Severity / Consequence

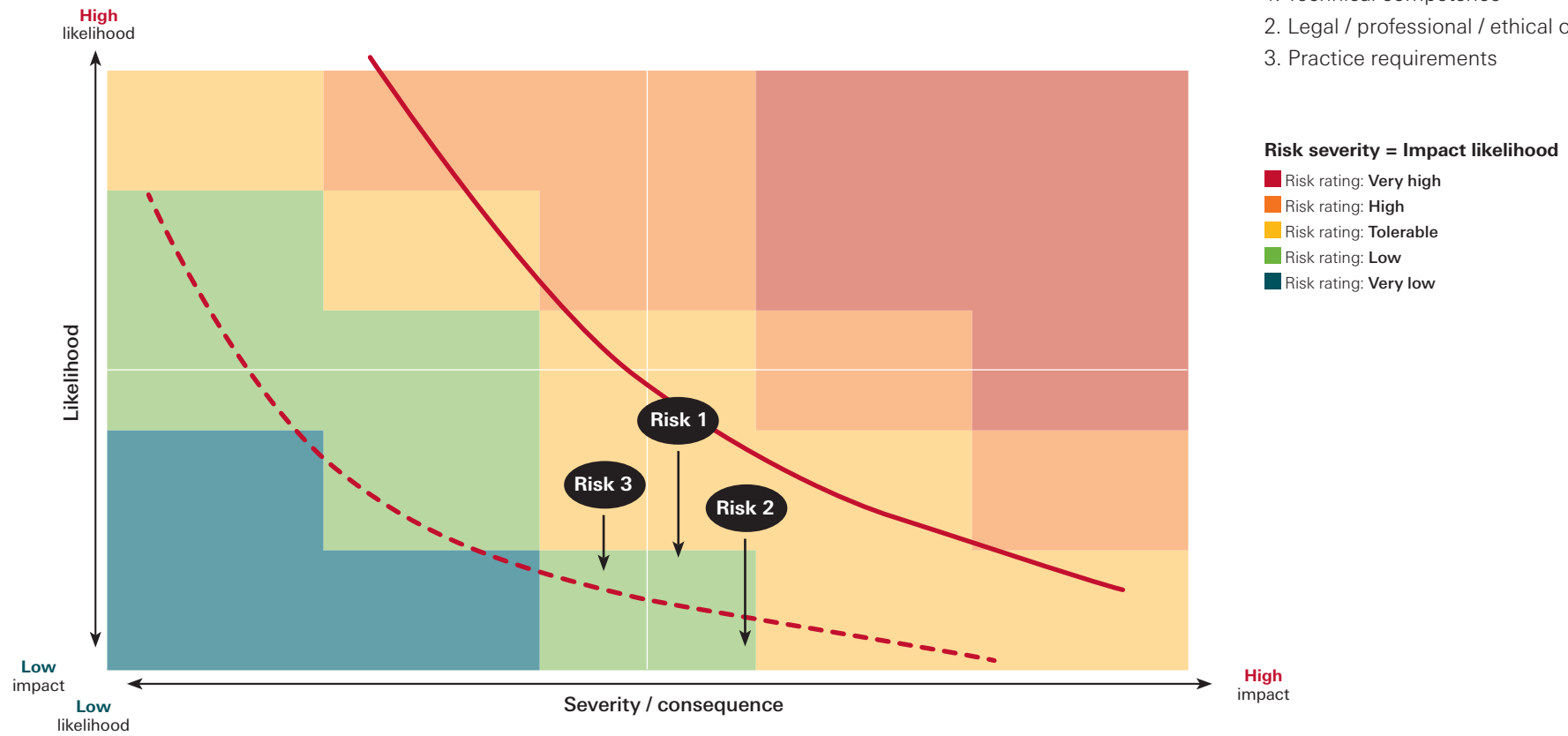
Criteria	General	Financial	Reputation	Regulatory	Internal
Catastrophic	> Very high impact with consequences that could shut down that part of the business/objectives not achieved at all.	> Direct loss of >\$5 million. Sustained negative return on investment. Significant loss of business opportunities.	> Adverse global/national media coverage; Parliamentary inquiry; Major public concerns raised; Major loss of member support and confidence. Loss of significant number of members.	> Loss of further confidence and more laws/regulation introduced; further control lost. Major breach.	> Large number of key executives/directors leave > An event that Management is not able to impact.
Major	> Important objectives cannot be achieved in current situation. Major material impacts.	> Direct loss or cost \$3 – \$5 million > Negative return on investment > Loss of key business opportunities.	> Adverse capital city media coverage > Significant decrease of member support and confidence > Loss of some members.	> Regulator requires immediate action/press statement > Regulator imposes significant fines.	> Some key Executives leave. Institute is not perceived as an employer of choice > A critical event that can be managed with escalation and significant management effort.
Moderate	> Noticeable impacts on the business with clearly visible consequences – objectives impacted.	> Direct loss or cost \$1 – \$3 million > Zero return on investment > Potential loss of key business opportunities.	> Adverse local media coverage > Concerns raised by members > Members are demonstrating dissatisfaction and could move business.	> Regulator issues formal breach notice.	> Poor reputation as employer; A key employee leaves; A significant event that can be managed under normal circumstances.
Minor	> Some minor impact easily remedied.	> Direct loss or cost \$500,000 – \$1 million > Reduction in business opportunities from key players.	> Industry knowledge of incident, but no media attention > Member/stakeholder concerns.	> Regulator issues verbal warning.	> Low staff turnover > An event of which impact can be absorbed but management effort is required to minimise impact > Some staff morale issues.
Insignificant	> Consequences not readily visible to others around the Institute.	> Direct loss or cost of < \$500,000.	> Reputation intact, internal knowledge only > Minimal impact on Members.	> Regulatory requirements not met > No reprimand or other action.	> Events that are absorbed into normal activity.

Controls: Effectiveness and setting the values of the controls

Control values	Description	Reduction value
None	No controls are in place.	0%
Needs improvement	The controls that have been applied are not adequate for the job as they only go part of the way to reduce the risk or impact.	40%
Adequate	The controls that have been applied go a reasonable way to reduce the risk or impact.	80%
Strong	The controls that have been applied are reliable to reduce the risk or impact.	95%

Appendix 2: Risk matrix

PSC – Risk Management Report 2009–2013: Year 2



Timeframe – 12 months

Appendix 3: Co-regulatory environment for accountants in Australia

The Australian accounting profession exists within a co-regulatory environment. This means the Institute works with other bodies to regulate and govern the work of Chartered Accountants. Other bodies include, but are not limited to:

Accounting Professional and Ethical Standards Board (APESB)

The APESB is an independent board established by the Institute and CPA Australia in 2006. It is responsible for developing and issuing appropriate professional and ethical standards which aim to regulate members' ethical conduct and the performance of professional services across various types of professional engagements. Compliance with the standards issued by the APESB is mandatory for Institute members. The Institute, CPA Australia and the National Institute of Accountants are all now members of APESB and all adopt and enforce the standards promulgated by the APESB.

Auditing and Assurance Standards Board (AUASB)

The AUASB is an independent, statutory agency of the Australian Government, established under the *ASIC Act 2001*, responsible for developing, issuing and maintaining auditing and assurance standards. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. Institute members must also comply with APES 210 – *Conformity with Auditing and Assurance Standards*, which extends compliance of AUASB standards to non *Corporations Act* audits.

Since 2006, the AUASB has adopted a policy of releasing Australian Auditing Standards based on those issued by the International Auditing and Assurance Standards Board (IAASB) as well as developing standards addressing issues identified by Australian stakeholders.

Compliance with Australian auditing and assurance standards is monitored by:

- > The Australian Securities and Investments Commission (ASIC)
- > The Australian Prudential Regulation Authority (APRA)
- > The professional bodies
- > Other Federal, State and Territory Government regulators.

Australian Accounting Standards Board (AASB)

The AASB is an Australian Government agency under the *ASIC Act 2001*. Under that Act, the statutory functions of the AASB are:

- > To develop a conceptual framework for the purpose of evaluating proposed standards
- > To make accounting standards under section 334 of the *Corporations Act 2001*
- > To formulate accounting standards for other purposes
- > To participate in and contribute to the development of a single set of accounting standards for worldwide use
- > And to advance and promote the main objects of Part 12 of the *ASIC Act*, which include reducing the cost of capital, enabling Australian entities to compete effectively overseas and maintaining investor confidence in the Australian economy.

Since 2005 Australia has adopted International Financial Reporting Standards (IFRSs) in line with the strategic direction of the Australian Financial Reporting Council.

Compliance with Australian accounting standards and interpretations by reporting entities is mandatory under the *Corporations Act* Section 296 and APES 205 – *Conformity with Accounting Standards* and is monitored by:

- > The Australian Securities and Investments Commission (ASIC)
- > The Australian Prudential Regulation Authority (APRA)
- > The professional bodies
- > Other Federal, State and Territory Government regulators.

Australian Securities and Investments Commission (ASIC)

The *Corporations Act 2001* establishes a comprehensive statutory regime in relation to financial reporting and audit regulation, including auditor registration requirements, extensive auditor independence requirements and a strong disciplinary framework.

ASIC is established under the *Australian Securities and Investments Commission Act 2001* (the ASIC Act). ASIC regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit.

In its role as key corporate regulator, ASIC has responsibility under the *Corporations Act* for setting auditor and liquidator competency requirements, PI for authorised audit companies, liquidators and Australian Financial Services licensees. It is also responsible for the surveillance, investigation and enforcement of audit independence and audit standards as well as quality control systems.

ASIC's audit inspection program commenced after the passing of the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9). ASIC has the power to inspect all Registered Company Auditors (RCAs) for compliance with auditing standards, which have the force of law for *Corporations Act* audits as well as compliance with the independence requirements of the *Corporations Act* and *Section 290 of APES 110: Code of Ethics for Professional Accountants*. ASIC deals directly with the audit firm in conducting these annual inspections and any infringements are mentioned in the report published without identifying the firms responsible. Its audit inspection program is currently focussed primarily on auditors of listed entities and has been extended in its most

recent round of inspections to include Big 4, mid-tier and smaller mid-tier auditors of listed entities.

In December 2007 the ASIC Regulations were amended to include the Institute as a prescribed disciplinary body for the purposes of Paragraph 127(4)(d) of the *ASIC Act*. This allows the Chairperson of ASIC to disclose confidential information, obtained in the course of an ASIC investigation, to the Institute to facilitate their internal disciplinary procedures.

ASIC conducts Accounting Liaison Meetings with the Institute and other bodies to share the results of:

- > The Accounts Surveillance program
- > The Audit Inspection Program
- > Types of s.311 notices received
- > Updates in policies, class orders and regulatory guides
- > International regulatory developments.

Australian Tax Office (ATO)

The role of the ATO is to manage and shape tax, excise and superannuation systems in Australia. The activities of tax agents and the auditors of self-managed superannuation funds (SMSFs) are closely monitored as part of the ATO's compliance program.

The ATO acknowledges the crucial role played by tax agents in an effective system of tax administration. The ATO's extensive compliance program includes the audit of tax returns lodged by registered tax agents on behalf of taxpayers. Currently the ATO may disclose information obtained in the course of this compliance program regarding the services provided by tax agents to the Tax Agents Registration Board.

Approved auditors of SMSFs are subject to an 'approved auditor compliance program' to ensure compliance in relation to Australia's tax and superannuation laws.

Under the *Superannuation Industry (Supervision) Act 1993*, the approved auditor of a SMSF must be a member of a prescribed association. The Institute is a prescribed association. The ATO then relies on the competency requirements and professional obligations imposed by the Institute on its members. Those approved auditors who are Institute members and who the ATO identifies as failing to adequately perform the duties of an approved SMSF auditor are reported directly to the Conduct team at the Institute for disciplinary action. The ATO also has the power to disqualify an SMSF auditor who has been identified as failing to adequately perform their duties.

Australian Transaction Reports and Analysis Centre (AUSTRAC)

AUSTRAC is the administrator and regulator of the *Anti-money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF). Institute members are awaiting the 2nd tranche of AML/CTF legislation which will impose compliance obligations on them as providers of designated services.

Companies Auditors and Liquidators Disciplinary Board (CALDB)

The CALDB is appointed under the *Corporations Act* to consider disciplinary matters regarding registered company auditors and registered company liquidators referred from ASIC and APRA. The CALDB considers both conduct and administrative matters.

A CALDB panel conducts Hearings to determine whether a registered auditor or liquidator:

- > Has failed to carry out their duties and functions adequately and properly
- > Is not a fit and proper person to remain registered
- > Is subject to disqualification
- > Is otherwise ineligible to remain registered.

Where the panel is satisfied that some or all of the issues referred have been established under the Act the following sanctions may apply:

- > Cancellation or suspension of registration; and/or
- > Reprimand; and/or
- > The requirement to provide an undertaking.

Financial Reporting Council (FRC)

The FRC is a statutory body established under the *ASIC Act*. It provides broad oversight of the process for setting accounting and auditing standards, monitors the effectiveness of auditor independence requirements in Australia and advises and reports to the Minister regarding these matters.

In relation to auditor independence, the FRC has responsibility for monitoring the nature and overall adequacy of:

- > The systems and processes used by Australian auditors to ensure compliance with auditor independence requirements
- > Systems and processes used by professional accounting bodies for planning, performing and following up quality assurance reviews of audit work undertaken by Australian auditors in relation to auditor independence requirements
- > The investigation and disciplinary procedures of professional accounting bodies as those procedures apply to Australian auditors
- > The adequacy of the teaching of professional and business ethics by or on behalf of professional accounting bodies to the extent to which this relates to auditor independence.

Consultants are engaged to survey auditors regarding the application of independence requirements. A report is published annually on the FRC website.

Financial Reporting Panel (FRP)

The FRP was established under the *Corporate Law and Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* and formally commenced its operations on 3 July 2006. The FRP's function is to resolve disputes between ASIC and companies concerning accounting treatments in their financial reports.

The FRP was established to remove the need to initiate legal proceedings in Court in order to resolve disputes about financial reporting matters. The FRP is designed to provide an efficient and cost effective way of dealing with disputes, the opportunity to be heard by persons with relevant expertise, and remove concerns of courts' limited understanding of accounting standards.

Referrals to the FRP may be lodged by either ASIC or the company. A company must acquire ASIC's consent to the referral before lodging an application with FRP.

Bill Palmer, the Institute's Director Asia and former General Manager – Standards and Public Affairs was appointed to the FRP in September 2009.

International Federation of Accountants (IFAC)

IFAC supports the development of international accounting standards on ethics, auditing and assurance, education and public sector accounting standards. It promotes ethical values and encourages quality practice worldwide.

The Institute is subject to *IFAC's Statements of Membership Obligations (SMOs)* which establish requirements for members to promote, incorporate and assist in implementing international standards issued by IFAC and the International Accounting Standards Board. The SMOs also establish requirements for quality assurance and investigation and discipline activities. Under these SMOs, the Institute must use its best endeavours to ensure that

its members are subject to rules of professional conduct that, as a minimum, are based on the ethical and professional standards developed by IFAC.

The Institute participates in IFAC's Compliance Program which enables IFAC to determine whether and how the SMO requirements are being fulfilled.

Tax Agents Registration Board (TARB)

The TARB administers Part VIIA of the *Income Tax Assessment Act 1936* and Part 9 of the *Income Tax Regulations 1936* which govern tax agent registration. The TARB maintains the Register of Tax Agents which is a publicly accessible listing of all tax agents currently registered. Only registered tax agents are entitled to offer and charge a fee for the provision of tax agent services to members of the public. The TARB also has a disciplinary function, being responsible for investigating complaints against registered tax agents.

When considering applications for registration, the Board has regard to such matters as the academic qualifications and experience, and personal integrity and propriety of applicants.

The laws provide that agents may be de-registered if they have:

- > Prepared and lodged false tax returns
- > Engaged in misconduct as a tax agent
- > Neglected client taxation affairs
- > Undertaken activities which call into question their integrity, character, fitness and propriety, such as criminal or fraudulent conduct.

Tax Practitioners Board (TPB)

In the coming year the regulatory environment for tax agents and Business Activities Statement (BAS) agents will be significantly impacted by the *Tax Agent Services Act 2009 (TAS Act)*. Tax agents will now be registered and regulated by a national TPB which will implement a new legislative regime for tax agents which includes:

- > A legislated code of professional conduct
- > Application of civil penalties for certain misconduct
- > A new range of powers to require agents to meet minimum standards of competence and conduct.

The new regime has been proclaimed to commence on 1 March 2010. Members of the TPB were appointed in November 2009 and have been working with professional bodies to develop regulations and guidelines for implementation of the *TAS Act* to meet this deadline.

Institute support for standard setting bodies

While Institute members are subject to the co-regulatory environment outlined above, the Institute, together with the other professional accounting bodies also provide ongoing support for the timely development and review of standards through its funding of the AASB, the AUASB and the APESB.

	2008 financial year	Contributions 2009 financial year	Estimated contribution 2010 financial year
Australian Accounting Standards Board (AASB)	\$133,000	\$33,333	\$22,000
Auditing and Assurance Standards Board (AUASB)	\$342,000	\$300,000	\$198,000
Australian Professional & Ethical Standards Board (APESB)	\$320,000	\$329,000	\$415,628

Appendix 4: Glossary of Acronyms/Abbreviations

Acronym/ abbreviation	Definition
AASB	Australian Accounting Standards Board
Affiliate	A person who participates with members in a Chartered practice entity
AFR	Australian Financial Review
AML/CTF	Anti-money laundering and Counter-terrorism financing
ANT	Accounting and Assurance News Today – Institute technical newsletter
APESB	Accounting Professional and Ethical Standards Board
APRA	Australian Prudential Regulation Authority
AQRB	Audit Quality Review Board
ASEAN	Association of Southeast Asian Nations
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AUASB	Auditing and Assurance Standards Board
AUSTRAC	Australian Transaction Reports and Analysis Centre
BAS	Business Activity Statements
Chartered Accountants Candidates	Participants enrolled in the Chartered Accountants Program
CALDB	Companies Auditors and Liquidators Disciplinary Board
Chartered Accountants Program	Chartered Accountants Program
CLERP	Corporate Law Economic Reform Program
CPP	Certificate of Public Practice
CPP Holder	Principal in public practice
CPAA	Certified Practising Accountants of Australia
Deakin	Deakin University
FRC	Financial Reporting Council
FRP	Financial Reporting Panel
FSR	Financial Services Regulations

Acronym/ abbreviation	Definition
GCCAF	Graduate Certificate of Chartered Accounting Foundations
GED	Global Economic Downturn
GFC	Global Financial Crisis
IAASB	International Audit and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting and Interpretations Committee
IFRSs	International Financial Reporting Standards
MOU	Memorandum of Understanding
PII	Professional Indemnity Insurance
PPAC	Public Practice Advisory Committee
PPP	Public Practice Program
QR	Quality Review Program
RCA	Registered Company Auditor
RCL	Registered Company Liquidator
SCC	Superannuation Consultative Committee
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SMEs	Small and medium enterprises
SMO	Statements of Member Obligations
SMSF	Self Managed Superannuation Fund
T&D	Training and Development
TARB	Tax Agents Review Board
The Institute	The Institute of Chartered Accountants in Australia
TOFA	Taxation of Financial Arrangements
TPB	Tax Practitioners Board

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