

CPAA (NSW) Scheme

This scheme commenced on 8 October 2007 and ceases on 7 October 2012.

THE CPA AUSTRALIA LTD (NSW) SCHEME

Professional Standards Act 1994 (NSW)

PREAMBLE

- A. CPA Australia Limited ("**CPA Australia**") is a national occupational association.
- B. CPA Australia has made an application to the Professional Standards Council, appointed under the *Professional Standards Act 1994 (NSW)* ("**the Act**") for a scheme under the Act.
- C. The scheme is prepared by CPA Australia for the purposes of limiting occupational liability to the extent to which such liability may be limited under the Act.
- D. The scheme propounded by CPA Australia is to apply to all participating members referred to in clauses 2.2 and 2.3 of the Scheme.
- E. CPA Australia has furnished the Council with a detailed list of the risk management strategies intended to be implemented in respect of its members and the means by which those strategies are intended to be implemented.
- F. The scheme is intended to remain in force for a period of five (5) years from its commencement unless it is revoked, extended or ceases in accordance with section 32 of the Act.

THE CPA AUSTRALIA LIMITED (NSW) SCHEME

- 1. **Occupational Association**
 - 1.1 The CPA Australia Limited (NSW) Scheme (the "**Scheme**") is a scheme under the *Professional Standards Act 1994 (NSW)* ("**the Act**") of CPA Australia Limited ("**CPA Australia**"), Level 28, 385 Bourke Street, Melbourne VIC 3000.
 - 1.2 Definitions of terms used in the Scheme appear in the Scheme, including in Part 4.
- 2. **Persons to Whom the Scheme Applies**
 - 2.1 This Scheme applies to participating members, being those CPA Australia members referred to in clauses 2.2 and 2.3 of the Scheme, and to all persons to whom the Scheme applied at the

time of the relevant act or omission on which a cause of action for damages for occupational liability is founded.¹ Each such participating member and person is referred to in the Scheme as a "participant".

2.2 All members who hold a current Public Practice Certificate issued by CPA Australia and affiliate members of CPA Australia other than financial services licensees.

2.3 All practice entity members other than financial services licensees.²

2.4 No person to whom the Scheme applies may choose not to be subject to the Scheme, provided that CPA Australia may, on application by a person, exempt the person from the Scheme if CPA Australia is satisfied that he or she would suffer financial hardship in obtaining professional indemnity insurance to the levels set out in clause 3.1 below.

3. **Limitation of Liability**

3.1 This Scheme only affects the liability of a participant for damages³ arising from a single cause of action to the extent to which the liability results in damages exceeding:

- (a) \$500,000 where the act or omission giving rise to the cause of action occurred on or before 30 June 2008;
- (b) \$750,000 where the act or omission giving rise to the cause of action occurred between 1 July 2008 and 30 June 2009;
- (c) \$1 million where the act or omission giving rise to the cause of action occurred after 1 July 2009.

¹ Sections 18 and 19 of the Act provide that if the Scheme applies to a body corporate, the Scheme also applies to each officer of the body corporate and if the Scheme applies to a person, the Scheme also applies to each partner of a person, and if the Scheme applies to a person, the Scheme also applies to each employee of that person, provided that if such officer of the corporation or partner of the person or employee of the person is entitled to be a member of the same occupational association, such officer, partner or employee is a member of the occupational association. Section 20 provides that the Scheme may also apply to other persons as specified in that section. Sections 18 to 19 do not expressly extend the application of a scheme to employees of a body corporate although that would logically be the intention. Section 20A extends the limitation of liability of persons to whom the Scheme applies by virtue of sections 18 to 20.

² A practice entity member is a practice entity which has been admitted to membership of CPA Australia. This category of membership is available for practice entities which are entitled to use the CPA Australia description, having satisfied the necessary requirements.

³ Damages as defined in section 4 of the Act means

- (a) damages awarded in respect of a claim or counter-claim or by way of set-off; and
- (b) costs in or in relation to the proceedings ordered to be paid in connection with such an award (other than costs incurred in enforcing a judgment or incurred on an appeal made by a defendant); and
- (c) any interest payable on the amount of those damages or costs.

3.2 Where a participant against whom a proceeding is brought relating to occupational liability in connection with Category 1 services is able to satisfy the court of (a), (b) or (c) below, the participant is not liable in damages in relation to that cause of action above the lesser of the Category 1 limitation amount determined under clause 3.4 and the Category 1 monetary ceiling specified in clause 3.3:

(a) the participant has the benefit of an insurance policy insuring the participant against the occupational liability and the amount payable under the insurance policy in respect of the occupational liability relating to the cause of action (including any amount payable by the person by way of excess under or in relation to the policy) is not less than the amount of the Category 1 monetary ceiling or the Category 1 limitation amount;

OR

(b) the participant has business assets the net current market value of which is not less than the amount of the Category 1 monetary ceiling or Category 1 limitation amount;

OR

(c) the participant has business assets and the benefit of an insurance policy insuring the participant against that occupational liability, and the net current market value of the business assets and the amount payable under the insurance policy in respect of that occupational liability relating to that cause of action (including any amount payable by the participant by way of excess under or in relation to the policy), if combined, is not less than the amount of the Category 1 monetary ceiling or Category 1 limitation amount.

3.3 The Category 1 monetary ceiling is \$75 million.

3.4 The Category 1 limitation amount is an amount equal to a reasonable charge⁴ for the Category 1 services provided by the participant or which the participant failed to provide and to which the cause of action relates, multiplied by the multiplier specified in clause 3.4.2 below.

⁴ Section 23(2) of the Act provides that in determining the amount of a reasonable charge, a court is to have regard to any amount actually charged and to:

(a) the amount that would ordinarily be charged in accordance with a scale of charges accepted by the occupational association of which the person is a member; or

3.4.1 In determining the amount of a reasonable charge a court is to have regard to any amount actually charged and to:

- (a) the amount that would ordinarily be charged in accordance with a scale of charges prescribed or accepted by CPA Australia; or
- (b) if there is no such scale, the amount that a competent person of the same qualifications and experience as the participant would be likely to charge in the same circumstances.

3.4.2 The multiplier is 10.

3.5 Where a participant against whom a proceeding is brought relating to occupational liability in connection with Category 2 services is able to satisfy the court of (a), (b) or (c) below, the participant is not liable in damages in relation to that cause of action above the monetary ceiling specified in clause 3.6:

- (a) the participant has the benefit of an insurance policy insuring the participant against the occupational liability, and the amount payable under the insurance policy in respect of the occupational liability relating to that cause of action (including any amount payable by the person by way of excess under or in relation to the policy) is not less than the amount of the Category 2 monetary ceiling;

OR

- (b) the participant has business assets the net current market value of which is not less than the amount of the Category 2 monetary ceiling;

OR

- (c) the participant has business assets and the benefit of an insurance policy insuring the participant against that occupational liability, and the net current market value of the business assets and the amount payable under the insurance policy in respect of that occupational liability relating to that cause of action (including any amount payable by the participant by way of excess under or in relation to the policy), if combined, would total an amount that is not less than the amount of the Category 2 monetary ceiling.

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- (b) if there is no such scale, the amount that a competent person of the same qualifications and experience as the person would be likely to charge in the same circumstances.

3.6 The Category 2 monetary ceiling is the lesser of:

- (a) \$20 million; and
- (b) the highest fee (or the highest total of fees) billed by a participant or if the participant is a member of a practice entity (whether a practice entity member of CPA Australia or not), by all participants who are members of or part of the practice entity in a single financial year for a Category 2 engagement:
 - (i) over the three (3) full financial years immediately prior to the financial year in which the participant commences to provide Category 2 services which are the subject of the proceeding against the participant; or
 - (ii) if the participant has less than three (3) full financial years' Category 2 services fee history immediately prior to the financial year in which the participant commences to provide the Category 2 services which are the subject of the proceeding against the participant, over the two full financial years or that full financial year immediately prior to the financial services year in which the participant commences to provide the Category 2 services which are the subject of the proceeding

multiplied by 10;

OR

- (c) if the participant has no, or less than one full financial year's Category 2 services fee history immediately prior to the financial year in which the participant commences to provide the Category 2 services which are the subject of the proceeding against the participant, the applicable amount specified in clause 3.6 (a) above.

3.7 Where a participant against whom a proceeding is brought relating to occupational liability in connection with Category 3 services is able to satisfy the court of (a), (b) or (c) below, the participant is not liable in damages in relation to that cause of action above the lesser of the Category 3 limitation amount determined under clause 3.9 and the amount of the Category 3 monetary ceiling specified in clause 3.8:

- (a) the participant has the benefit of an insurance policy insuring the participant against the occupational liability, and the amount payable under the insurance policy in respect of the occupational liability relating to that cause of action (including any amount payable by the person by way of excess under or in relation to the policy) is

not less than the amount of the Category 3 monetary ceiling or the Category 3 limitation amount;

OR

- (b) the participant has business assets the net current market value of which is not less than the amount of the Category 3 monetary ceiling or Category 3 limitation amount;

OR

- (c) the participant has business assets and the benefit of an insurance policy insuring the participant against that occupational liability, and the net current market value of the business assets and the amount payable under the insurance policy in respect of that occupational liability relating to that cause of action (including any amount payable by the participant by way of excess under or in relation to the policy), if combined, would total an amount that is not less than the amount of the Category 3 monetary ceiling or Category 3 limitation amount.

3.8 The Category 3 monetary ceiling is \$20 million.

3.9 The Category 3 limitation amount is an amount equal to a reasonable charge for the Category 3 services provided by the participant or which the participant failed to provide and to which the cause of action relates, multiplied by the multiplier specified in clause 3.9.2 below.

3.9.1 In determining the amount of a reasonable charge a court is to have regard to any amount actually charged and to:

- (a) the amount that would ordinarily be charged in accordance with a scale of charges prescribed or accepted by CPA Australia; or
- (b) if there is no such scale, the amount that a competent person of the same qualifications and experience as the participant would be likely to charge in the same circumstances.

3.9.2 The multiplier is 10.

3.10 Pursuant to section 24 of the Act, this Scheme confers on CPA Australia a discretionary authority to specify, on application by a participant, a higher maximum amount of liability not exceeding \$75 million than would otherwise apply under the Scheme in respect of any specified case or class of case of Category 2 services or Category 3 services, where the fee for the service or services is, or is reasonably expected to be, \$2 million or greater. The higher

maximum amount of liability will apply if CPA Australia exercises its discretion and approves the higher maximum amount of liability prior to the participant beginning to provide the relevant services.

3.11 In circumstances where the services provided by a participant comprise a combination of Category 1 services and any of:

- (a) Category 2 services;
- (b) Category 3 services;
- (c) Category 2 services and Category 3 services,

the participant's liability under this Scheme for damages in respect of a proceeding in relation to occupational liability in excess of the applicable amount specified in clause 3.1 brought against it will be determined in accordance with those provisions of the Scheme relating to Category 1 services only, that is, clauses 3.2 to 3.4.

3.12 In circumstances where the services provided by a participant comprise a combination of Category 2 services and Category 3 services, the participant's liability under this Scheme for damages in respect of a proceeding in relation to occupational liability in excess of the applicable amount specified in clause 3.1 brought against it will be determined (subject to clause 3.10) in accordance with those provisions of the Scheme relating to Category 2 services only, that is clauses 3.5 and 3.6.

3.13 Nothing in this scheme is intended to increase, or has the effect of increasing, a participant's liability for damages to a person beyond the amount that, other than for the existence of this Scheme, the participant would be liable in law.

3.14 This Scheme only limits the amount of damages for which a participant is liable if and to the extent that the damages exceed the applicable amount specified in clause 3.1. Where the amount of damages in relation to a cause of action exceeds the applicable amount specified in clause 3.1 but the damages which may be awarded as determined by this scheme are equal to or less than the applicable amount specified in clause 3.1, liability for those damages will instead be limited to the applicable amount specified in clause 3.1.

4. **Definitions**

4.1 In this Scheme, the following words and phrases have the following meanings:

"Category 1 services" means:

- (a) all services required by Australian law to be provided only by a registered company auditor;
- (b) all other services provided by a registered company auditor in his or her capacity as auditor;
- (c) all services the deliverables from which:
 - (i) will be used in determining the nature, timing and extent of audit procedures in the context of an audit of a financial report; or
 - (ii) will be incorporated into the financial report of an entity; or
 - (iii) are required by law or regulation to be filed with a regulator (excluding returns signed by a registered tax agent).

"Category 2 services" means:

- (a) services to which Chapter 5 or Chapter 5A of the *Corporations Act* 2001 (Cth) applies;
- (b) services provided pursuant to section 233(2) of the *Corporations Act* 2001 (Cth);
- (c) services to which the *Bankruptcy Act* 1966 (Cth) applies; or
- (d) services arising out of any court appointed liquidation or receivership.

"Category 3 services" means any services provided by a participant in the performance of his, her or its occupation, which are not Category 1, Category 2 or financial planning services.

"Occupation liability" has the same meaning as is ascribed to that term in the Act.