

THE CPA AUSTRALIA LTD (ACCOUNTANTS) NSW SCHEME – SUMMARY

1. ABOUT THE PROPOSED SCHEME

1.1 OCCUPATIONAL ASSOCIATION

i. Who is CPA Australia?

CPA Australia (New South Wales) scheme (the scheme) is a scheme prepared by CPA Australia Ltd (CPA Australia) under the *Professional Standards Act 1994* (NSW) (the Act) for a scheme under the Act.

CPA Australia is seeking to have the scheme recognised in all State and Territory Professional Standards Act Mutual Recognition legislation.

CPA Australia is a national professional association whose registered office is Level 20, 28 Freshwater Place, Southbank, 3006. CPA Australia's website is www.cpaaustralia.com.au

CPA Australia is an occupational association for accountants who meet CPA Australia's educational and professional requirements, and is one of Australia's oldest and largest representative professional bodies. Limited by guarantee, it was incorporated in 1952. CPA Australia's affairs are managed through the Board of Directors, who manage and control the organisation within their policy guidelines.

CPA Australia currently has approximately 160,000 members (as at 31 December 2016), of which in excess of 41,000 reside in New South Wales. Of this, approximately 1,748 New South Wales members hold a CPA Australia Public Practice Certificate.

ii Who are the CPA Australia Public Practice Members?

CPA Australia public practice members are the public face of CPA Australia and provide a range of accounting services to the public. Public practitioners deal with a broad range of clients, from individual taxpayers to large businesses.

Members providing public accounting services must hold a Public Practice Certificate (PPC) and abide by the CPA Australia Constitution, By-Laws, technical standards, Code of Professional Conduct (APES 110) and any laws, statutes, regulations, ordinances, codes, standards and requirements of any government or semi-government body and policies which apply to a member providing public accounting services.

A PPC holder may only provide public accounting services via an approved practice entity which complies with CPA Australia By-Laws. An Approved Practice Entity is a practice entity which has been approved by the Board of CPA Australia. CPA Australia

will review the constituent documents of the practice entity as part of the assessment. To be an Approved Practice Entity all approved controllers (those who are Partners, Directors or equity holders) must be a member holding either a CPA Australia PPC or CA ANZ Public Practice Certificate; or CA ANZ member holding a PPC. A member holding a CA ANZ PPC will also be a member of the CA ANZ Professional Standards Scheme.

iii What type of services do CPA Australia Public Certificate holders provide?

Public practitioners can be involved in (but are not limited to offering services in) the following areas as defined in CPA Australia's By-Laws:

- accounting
- auditing and assurance services
- bookkeeping
- consumer and commercial credit services
- financial planning/advice
- financial reporting
- forensic accounting
- insolvency and corporate reconstruction
- management accounting
- management consulting
- taxation
- transactional accounting
- valuation services

Public accounting services do not include company secretarial or information technology services – unless such services are provided in conjunction with the activities listed above.

iv What is a Public Practice Certificate?

To apply for a PPC a member must have:

- obtained CPA status
- completed the Public Practice Program
- achieved a minimum of three years of work experience relevant to public practice
- meet fit and proper requirements
- have an approved practice structure which complies with CPA Australia By-Laws
- hold prescribed minimal levels of professional indemnity insurance
- have approved letterhead and stationery
- participate in periodic quality review including the requirement for members to maintain a quality control manual and risk management framework.

A CPA Australia PPC is only issued to individuals and not Approved Practice Entities. All CPA Australia PPC holders must offer public accounting services through an Approved Practice Entity. CPA Australia reviews the constituent documents of the practice entity as part of the assessment process.

To enrol in the Public Practice Program a member must have obtained CPA status which requires applicants:

- to hold an approved Bachelor or Master Degree from a CPA Australia accredited University
- have completed the CPA program (six examinable segments including Ethics & Governance, Financial Reporting, Strategic Management, Global Strategy & Leadership)
- have completed Advanced Taxation CPA Program segment
- have gained 36 months of relevant work experience via a structured program for developing and demonstrating professional skills which complies with the International Federation of Accountants' (IFAC) International Educational Standards.

All CPA Australia members who hold a Public Practice Certificate must comply with the CPA Australia quality review program. This program monitors that the work performed meets the relevant mandatory requirements of the standards issued by the Accounting Professional and Ethical Standards Board (APESB), and the Auditing and Assurance Standards Board (AUASB). The nature of the policies and procedures developed by a member to comply with the standards will vary and accordingly the extent of review work undertaken will differ, but the methodology of the review process remains consistent across all reviews.

1.2 INDEPENDENT REVIEW PANEL

i What is the Review?

The Review is an independent process established by CPA Australia's Board to conduct a review of claims raised by members and other stakeholders. The review is being conducted by an independent panel chaired by former Auditor-General for Australia Ian McPhee AO PSM. The panel consists of independent professionals bringing expertise across accounting, governance and the law.

The Review has broad terms of reference that will allow issues around governance, remuneration, marketing strategy and expenditure and strategy and performance of member services and engagement to be examined.

More detail about the review, the panel members and the terms of reference can be found at www.cpaaustaliareview.com

ii Why has the Review been established?

The Board of CPA Australia has established the Independent Review to conduct a review of claims raised by members and other stakeholders. The terms of reference for the review allow for a comprehensive assessment of the governance of CPA Australia.

iii Timeline for the Review deliverables

The preliminary report will be posted on the Independent Review Panel's website in the week ending 15 September. CPA Australia members will be sent a direct email advising the report has been published as soon as it is available.

The preliminary report will capture and distil the nature of the issues being raised with the panel through the review process. The Panel's more complete conclusions and recommendations will be included in its final report which is expected to be delivered in December 2017.

iv What can consumers and the public expect from the Review?

Recommendations that relate to governance arrangements, including those in relation to the Constitution, will be brought to the 2018 Annual General Meeting for consideration by members.

In the interim, CPA Australia's Board has announced plans for the orderly transition of current Directors from the Board.

Four of the current six Directors will retire on 30 September 2017 and the two remaining Directors will retire by 31 December, allowing a fully refreshed Board to lead CPA Australia. Nine new Board members will be appointed from 1 October. Additionally, the Board has implemented changes to the composition of the Nomination and Remuneration Committee to ensure all new Directors are appointed through a rigorous executive search process and by a majority-external panel.

v Where can I get more information about the Review?

The Independent Review panel has established a web presence at www.cpaaustraliareview.com

1.3 PROFESSIONAL STANDARDS LEGISLATION (PSL)

i Background

PSL is Australian state-based legislation designed to:

- improve standards of professionalism
- provide greater protection for consumers
- enable the creation of schemes to limit the civil liability of professionals to whom the schemes apply for occupational liability
- ensure that PII coverage held by professionals meets required standards

Professional standards legislation is in place in all states and territories and Professional Standards Councils exist for each state and territory. There are also mutual recognition provisions in place in all mainland states and territories to provide automatic recognition of schemes approved in other locations i.e. a process whereby a scheme in one state or territory is recognised in another state or territory.

ii What is a professional standards scheme?

PSL allows the registration of professional standard schemes by professional associations, which are known as liability limited schemes (LLS).

These schemes are approved and monitored by the Professional Standards Council (PSC) in each state and territory, in consultation with the relevant professional association.

The schemes limit the occupational liability of those members of professional associations who meet the scheme's requirements (e.g. a member of CPA Australia who holds a CPA Australia Public Practice Certificate), to damages arising from civil liability only.

The schemes do not limit liability for death, personal injury, a breach of trust, fraud or dishonesty.

iii What is the CPA Australia Scheme? How long has CPA operated a Professional Standards Scheme?

A CPA Australia 'Accountants' scheme was first introduced in 1997 for New South Wales limiting liability for public accounting services. Different Schemes have been continually in operation since this date. In 2007, the Scheme received Federal recognition.

A new NSW Scheme commenced on 8 October 2013, replacing the previous scheme. This Scheme has been mutually recognised and replaces the existing schemes for new schemes throughout the rest of mainland Australia from the following commencement dates:

- New South Wales – 8 October 2013
- Australian Capital Territory – 1 February 2014
- Queensland – 1 February 2014
- Western Australia – 1 February 2014
- South Australia – 13 February 2014

- Victoria – 21 April 2014
- Northern Territory – 1 February 2014

The Schemes were renewed for a year from 8 October 2017.

There is currently no scheme in Tasmania. As a result of amendments to the Tasmanian Professional Standards Act early this year, aligning the Tasmanian legislation with the rest of Australia, CPA Australia will now also seek approval of a Tasmanian scheme.

iv Scheme Management Resources / Personnel of CPA Australia

The Board of CPA Australia is responsible for the oversight of CPA Australia's Professional Standards Scheme including the review and approval of the annual Scheme Professional Standards Improvement Program (PSIP).

The COO Member Services has responsibility for staff within CPA Australia managing the administration of the Scheme.

CPA Australia Public Practice Advisory Committee acts as a Scheme Administration Committee ("**SAC**") which monitors CPA Australia's Professional Standards Scheme obligations. This includes monitoring PII claims made against members and any relevant outcomes of disciplinary matters to determine trends in the nature of complaints and put in place remedial actions, such as publishing case studies or conducting special professional development training activities, to reduce the incidence of future complaints when required.

v Where does a Scheme operate

The new scheme will operate in all Australian States and Territories.

vi Who will the CPA Australia scheme be available to?

Participation in the scheme is mandatory for all CPA Australia members in Australia who hold a CPA Australia Public Practice Certificate.

vii Who will the CPA Australia Scheme exclude

The scheme excludes any credit services or services provided by an Australian Financial Services Licensee (AFSL) and their representatives, but includes members holding a Limited AFSL who are authorised only to provide:

- financial product advice on SMSFs;
- financial product advice on superannuation products in relation to a person's existing holding in a superannuation product but only to the extent required for:
 - making a recommendation that the person establish a SMSF; or
 - providing advice to the person on contributions or pensions under a superannuation product;
- class of product advice on the following:

- superannuation products;
- securities;
- simple managed investment schemes;
- general insurance products;
- life risk insurance products;
- basic deposit products;
- arrange to deal in an interest in a SMSF.

viii The likely proportion and numbers to whom the scheme will apply?

The scheme will apply to approximately:

Location of Members	No of members to whom the Accountants scheme will apply
NSW	1,748
Victoria	2,371
Queensland	1,272
WA	782
SA	292
ACT	77
NT	23
Tasmania	70
Total	6,635

ix When will the Scheme apply?

The scheme will apply for a two-year period commencing on gazettal of the scheme in all states and territories except for Victoria and Tasmania where it will apply in each of those states 2 months after the respective gazettal dates.

x Does the Scheme apply to all accountants and financial planners?

The scheme applies to all CPA Australia members in Australia holding a CPA Public Practice Certificate but excludes any financial planning services provided by an Australian Financial Services Licensee (AFSL) and their representatives. But includes services provided by a member holding a Limited AFSL.

xi CPA Australia qualifications and track record in administering a Scheme

CPA Australia has had a Professional Standards Scheme since 1997 and has continued to be committed to process improvement as demonstrated via lodgment of annual Professional Standards Improvement Programs.

All CPA Australia members offering services to the public, are bound by the CPA Australia Code of Ethics for Professional Accountants and other professional, ethical and quality assurance requirements and must hold a current Public Practice Certificate.

CPA Australia imposes additional responsibilities on members taking up public practice. As a CPA Australia Public Practice Certificate holder, members must complete the CPA Australia Public Practice Program. Relevant knowledge must be maintained and professional indemnity insurance must be held.

1.4 ADDITIONAL INFORMATION ABOUT THE SCHEME

i How is the Scheme constituted?

The scheme is constituted by prescribing minimum levels of insurance (which are set by reference to Approved Practice Entity's fees earned in the prior year) that must be held for different categories of public accounting services.

Category 1 services relate to Audit Services where:

- (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" relate to Insolvency services where:

- (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*;
- (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 other public accounting services provided by a participant in the performance of his, her or its occupation, which are not Category 1 or Category 2 services except for the provision by members of Financial Services.

ii How does the scheme operate?

The scheme operates for the purpose of improving the occupational standards of accountants, and to protect the consumers of their services. It also limits the civil liability of persons to whom the scheme applies.

iii Nature of Liability to be Limited

The scheme applies to all CPA Australia members who hold a current Public Practice Certificate issued by CPA Australia and all Approved Practice Entities owned, managed or controlled by members who hold a current Public Practice Certificate issued by CPA Australia (limited to liability for an act or omission by a member of CPA Australia) and all persons to whom the Scheme applies by virtue of the Professional Standards Act 1994 (NSW) other than members who also hold an Australian Financial Services Licence granted in accordance with section 913B of the Corporations Act 2001 (Cth) and their authorised representatives and members, (other than a license to provide only limited financial services as defined in Regulations 7.8.12A and 7.8.14B of the Corporations Regulations 2001). The scheme covers services performed by a scheme participant in the performance of their occupation. The wide ranging nature of occupational services provided by an accountant include but are not limited to auditing and assurance, taxation, management accounting, financial reporting and insolvency services.

The liability limited by the scheme includes, to the extent permitted by the Act, all civil liability arising (in tort, contract or otherwise) directly or vicariously from anything done or omitted by any person to whom the scheme applies in acting in the performance of his or her occupation. The scheme does not apply to liability for damages arising from any matter to which the Act does not apply, including but not limited to, liability for damages arising from death of, or personal injury to, a person, any negligence or other fault of an Australian legal practitioner (within the meaning of the *Legal Profession Act 2004*) in acting for a client in a personal injury claim, a breach of trust, fraud or dishonesty.

The scheme does not affect liability for damages which are below \$2 million where the act or omission giving rise to the cause of action occurred on or after the date of commencement of the Scheme.

Liability is limited by reference to the Category of services provided by the member with reference to the Approved Practice Entity's fees earned in the prior year, as detailed in the Scheme.

iv Can an eligible member opt-out of a Scheme?

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 the Scheme.

v How will consumers know if a CPA Member is covered by a Scheme?

A member is required to notify clients (and potential clients) of their limited liability through their client engagement process. This includes disclosure on a member's business stationery and website. This notification is in the form of a disclosure statement, which is:

'Liability limited by a scheme approved under Professional Standards Legislation.'

CPA Australia requires additional disclosure where a business stationery is shared with an AFS licensee. This takes the form of the following disclosure:

*'Liability limited by a scheme approved under Professional Standards Legislation. **

**Other than for the acts or omissions of financial services licensees.*

vi How long does the scheme operate?

The scheme will operate for two years from the commencement date in New South Wales.

1.5 BENEFITS OF A PROFESSIONAL STANDARDS SCHEME

i How will consumers benefit from the Scheme?

Professional Standards schemes are designed to:

- improve standards of professionalism
- provide greater protection for consumers
- enable the creation of schemes to limit the civil liability of professionals to whom the schemes apply for occupational liability
- ensure that PII coverage held by professionals meets required standards and are appropriate to the services they provide
- maintains appropriate levels of Professional Indemnity Insurance appropriate to the risk profile of the services they provide.

As a consumer, you are protected by the insurance and risk management standards, which are compulsory by CPA Australia and recognized under Professional Standards Legislation.

Consumers benefit because the public practitioner is a member of a professional body which is committed to continuously improving public accounting standards.

ii How does the Scheme enhance the professional standards of CPA members?

All associations that operate under a Professional Standards Scheme are obliged to expect and enforce high standards of practice by their members.

All CPA Australia members offering services to the public, are bound by the CPA Australia Code of Ethics for Professional Accountants and other professional, ethical and quality assurance requirements and must hold a current Public Practice Certificate. Through ongoing monitoring processes which form an important part of CPA Australia's engagement with members in public practice, adherence to expected professional standards can be measured and maintained.

iii How does limiting participant liability help consumers?

CPA Australia believes that the implementation of PSL and capped liability on claims has led to the lowering of PII premiums in the long term through a reduction in the number of claims and the amount paid to settle claims.

In addition, risk management practices have been designed to minimise the risk of claims arising in the first place.

iv Is the Scheme professional indemnity insurance?

No. A scheme provides capped liability for public accounting services. A member must hold and maintain minimum levels of Professional Indemnity Insurance under a scheme which complies with CPA Australia Professional Indemnity Insurance Standards (By-Law 9.8).

Participating members, as defined in clause 2.1 of the scheme, are required to maintain a current professional indemnity (PI) insurance policy that meets the standards specified by CPA Australia.

v Standards of Insurance and mandatory requirements

A member to whom the scheme applies must have the benefit of an insurance policy which complies with the standards set from time to time by CPA Australia in accordance with section 27 of the Act. The amount payable under the insurance policy in respect of occupational liability is to be not less than the member's limitation of liability.

CPA Australia, with assistance from indemnity insurance brokers, regularly reviews and monitors liability claims to identify areas for improvement in order to reduce claims against scheme members.

vi Compliance with Continuing Professional Development

CPA Australia members are required to keep up-to-date on the many aspects of accounting and business today. The Continuing Professional Development Program ("**CPD**") helps to ensure that the professional knowledge of all CPA Australia members is current. All members must undertake at least 120 hours CPD per triennium, with a minimum of 20 hours of CPD per Year. A minimum of 90 hours must be structured with defined learning outcomes. A maximum of 30 hours per triennium can be claimed for unstructured professional development (relevant reading, video or audio) with a maximum of 10 claimable hours per year.

vii Complaints and Discipline

Members to whom the scheme applies are subject to the complaints and discipline systems administered by CPA Australia under the Constitution and By-Laws. CPA Australia has complaints and discipline procedures in respect of members who have acted contrary to CPA Australia's general or specific requirements including those set out in the Constitution and By-Laws. These procedures, including the imposition of sanctions and penalties, are regularly reviewed to reflect community expectations and changing commercial circumstances. Investigations may be commenced as a result of a complaint received from any member of the public, or from a fellow member, or by CPA Australia itself on its own initiative.

1.6 WHERE CAN I FIND MORE INFORMATION?

More information about all aspects of CPA Australia's operations can be found on its website www.cpaaustralia.com.au

2. ADDITIONAL INFORMATION CONCERNING CPA AUSTRALIA

The following information is provided to provide clarification to questions which may be raised via the Public Consultations Process regarding CPA Australia.

2.1 Establishment of CPA Australia Advice

CPA Australia Advice is a wholly owned subsidiary of CPA Australia and was incorporated on 27 May 2015. CPA Australia Advice Pty Ltd ABN 21 606 084 806 (CPA Australia Advice) holds AFSL No. 482657 and, Australian Credit Licence No. 482657.

CPA Australia is not seeking to bring within the CPA Australia Scheme those activities that are conducted by CPA Australia members in the capacity of authorised representatives under the AFSL held by CPA Australia Advice.

CPA Australia Advice was established in the public interest and in the best interests of the profession. Its establishment provides options for current and future members in public practice to position themselves in the advice market.

Practical issues of conflict may arise in the day to day management of CPA Australia Advice and its authorised representatives, which need to be effectively managed. Accordingly, effective separation of functions and a conflicts policy supported by appropriate processes to address management of these is required and is in place.

All legal obligations of CPA Australia Advice and its authorised representatives under Chapter 7 of the Corporations Act and other applicable law must always be complied with, but subject to that and in all other respects, any actual or perceived commercial interests of CPA Australia Advice must be subordinated to the interests of CPA Australia in light of its obligations to represent the interests of the membership as a whole.

CPA Australia has provided a non-current interest free loan of \$5.6m to CPA Australia Advice as at 31 December 2016 to be fully repaid by 2025. CPA Australia has also provided an equity capital contribution of \$2.8m to CPA Australia Advice as at 31 December 2016. A further investment of \$4m was made in February 2017.

2.2 Disclosure of remuneration of governance and key personnel

On 31 May 2017 CPA Australia sent a communication to members including an audited Schedule of Directors Remuneration disclosing the remuneration paid to each director of CPA Australia Ltd and its subsidiary, CPA Australia Advice Pty Ltd, for the financial year ending 31 December 2016.

On 30 June CPA Australia sent a supplementary communication to members with an audited schedule of remuneration paid to each director of CPA Australia Limited's foreign subsidiaries, CPA Australia (M) Sdn. Bhd. and CPA Australia (Shanghai) Co., Ltd. (together the "Foreign Subsidiaries" and each a "Foreign Subsidiary") for the year ended 31 December 2016.

CPA Australia has also committed that from 2017 CPA Australia's annual reports will include remuneration disclosures for Directors, Key Management Personnel and senior management.

2.3 Governance and member influence over the Director appointments and Board decisions

Since the establishment of the Representative Council following the EGM in 2006 the following process has existed for the nomination and appointment of Directors.

On an annual basis, CPA Australia calls for nominations openly and transparently through member channels and public advertisements.

Members are involved at all stages of the election process:

- As a member in the state, territory or country where they live, members elect their Divisional Councils
- Divisional Councils then elect a number of their members to the Representative Council
- The Representative Council elects the Board from the applications submitted by voting members

CPA Australia's Board has recently implemented changes to the composition of the Nomination and Remuneration Committee by adding three external members to enhance transparency of the process.

There have also been changes to the composition of the Representative Council. It is currently comprised of 12 members all appointed by Divisional Councils. The remaining five Board-appointed members of the Representative Council have stepped-down so it's now comprised only of Divisional representatives.

CPA Australia's President will act as chair of the Representative Council to facilitate the meetings but not vote in the current process.

2.4 Ongoing professional development

CPA Australia is committed to supporting our members through lifelong learning ensuring their knowledge remains relevant and current in today's competitive market. Maintaining appropriate levels of continuing professional development is integral to maintaining professional standards.

CPA Australia offers a broad range of CPD options for members including conferences, networking events, face-to-face workshops, webinars, self-paced learning, publications and online libraries and communities.

2.5 Managing Risk as a result in a gap in scheme coverage

CPA Australia has arranged a group Member's Professional Indemnity Excess Insurance Policy for CPA Australia Public Practice Certificate holders, at no additional cost to them, effective 8 October 2017 following the lapse of the current PSC Scheme on 7 October.

The Member's Professional Indemnity Excess Insurance Policy will provide CPA Australia PPC holders with an additional layer of protection over and above the existing levels of professional indemnity insurance (PII) they are already required to hold as part of the requirements of having a public practice certificate.

The new Member's Professional Indemnity Excess Insurance Policy will remain in place for CPA Australia PPC holders until any new PSC scheme is in place.

CPA Australia has been communicating directly with members in public practice on these changes and providing support strategies. A series of public practice forums have been held in each state and territory (except NT) and a number of webinars and live chats have been, and will continue to be, held. InPractice, the newsletter for members in public practice, has included regular updates as has the weekly member communication CPA Update.

2.6 CPA Australia subsidiaries

CPA Australia only has one commercial subsidiary in CPA Australia Advice. CPA Australia's other subsidiaries exist to meet the regulatory operating frameworks in international markets where CPA Australia operates.