



INSTITUTE OF
**PUBLIC
ACCOUNTANTS®**

Professionals Standards Scheme FAQ's

What is a Professional Standards Scheme?

A Professional Standards Scheme (“**Scheme**”) is a legal instrument that bind Professional Associations such as the IPA to monitor, enforce, regulate and improve the professional standards of its members. It identifies the IPA and members as a recognised professional association and demonstrates a commitment to being regulated under professional standards legislation.

Every member who is part of a Scheme must have insurance or assets in place to meet any damages awarded at or below the Scheme cap. This gives consumers confidence that, if they take legal action and their claim is upheld in court, there will be compensation available up to Scheme cap.

In return for being part of a Scheme, IPA members have their civil liability capped if a court successfully upholds a professional indemnity claim against an IPA member.

Who are Professional Standards Councils?

Professional Standards Councils (“**PSC**”) are state based independent statutory bodies that approve, monitor and enforce the Scheme’s that are currently in operation throughout Australia. More information can be obtained from their website psc.gov.au.

Why have a Professional Standards Scheme?

One of the key advantages of operating under a Scheme is that it identifies the IPA and its members as a recognised profession. This is particularly important in a competitive market because it’s increasingly difficult for consumers and governments to be able to tell a professional from the growing field of people claiming to be a professional.

The Scheme protects IPA PPC holders from significant financial loss as the Scheme has a cap that limits the amount of damages a member (or underwriter) has to pay a client in the event a claim is upheld in court against an IPA PPC holder. This is important in an increasingly litigious environment.

A Scheme is also a marketing tool for IPA PPC holders as it demonstrates IPA members are truly professional as a Scheme is only available to association members that uphold the highest professional and ethical standards. This flows through to better consumer confidence as consumers are aware the IPA PPC holder is operating to the highest professional and ethical standards.

Does the IPA have a Professional Standards Scheme in place?

Yes, the IPA have a Scheme in place for NSW PPC holders only.

How does the existing IPA Professional Standards Scheme work?

For NSW IPA PPC holders, the Scheme cap is \$1m. If a claim is upheld in court against an NSW IPA PPC holder, the maximum amount of damages that can be awarded to the client is \$1m regardless of the notification amount.

To be part of the Scheme, a NSW IPA PPC holder must:

- (a) have insurance which complies with the standards determined in the IPA By-Laws,
- (b) have insurance against that occupational liability (work type) meaning the member is only providing client services that are listed on the member's PI policy,
- (c) have a minimum of a \$1m PI policy for each reinstatement.

NSW IPA PPC holders not complying with these requirements will mean the court is likely to determine the member is not be part of the Scheme.

Changes to the IPA Professional Standards Scheme?

There are a number of changes planned for the existing and proposed IPA Scheme's.

The existing IPA Scheme for NSW PPC holders commenced on the 1st January 2013. The Scheme was valid for 5 years, expiring on 31st December 2017. Last month the Hon. Matthew Kean MP approved a 1 year extension to the existing Scheme extending the expiry date out to the 31st December 2018.

In addition to the current Scheme extension, last month the IPA applied to the PSC to 'mutually recognise' the existing NSW Scheme into all other states and territories including Tasmania. If approved, this will afford all Australian based IPA PPC holders the benefit of a Scheme cap from the date of approval until the 31st December 2018. The IPA are anticipating the PSC will make a decision on the mutual recognition application in August 2017.

In parallel with the mutual recognition application, in February 2017 the IPA applied to the PSC for a new Scheme. This application will be ongoing for some months and the IPA expect further information will need to be provided to the PSC. Once approved, the new Scheme will take precedence over the existing Scheme with a seamless change over. This is anticipated to take place in the 2018 calendar year.

Extensive communication will be held with all IPA PPC holders to ensure familiarity with the compliance requirements of being part of a Scheme and to understand the benefits to them and their clients.

What are the member costs associated with a Professional Standards Scheme?

For the 2016 / 2017 financial year all PPC holders (excluding NSW) were charged \$75.00 as an implementation fee for preparing the new Scheme application document. This partially funded legal, actuary, staff and contractor costs associated with preparing the application for the new Scheme.

NSW members were charged the standard \$88.00 annual fee for being part of the existing Scheme.

For the 2017 / 2018 financial year, all PPC holders were charged the full annual Scheme fee amount of \$88.00. The IPA anticipates a national Scheme will be operational during the 2017 / 2018 financial year. The Professional Standards Council do not pro-rata their annual fees, so regardless of when IPA PPC holders are admitted into the Scheme, the Professional Standards Council will charge a full year's fee. As a result, it was decided to invoice members the full Scheme fee as part of their annual membership subscription invoice.

Are IPA PPC holders required to retain their Professional Indemnity insurance?

Yes.

All members that hold an IPA PPC are required to hold Professional Indemnity (“**PI**”) insurance with a minimum of \$1m cover per reinstatement as stipulated in IPA By-Law 9.1.11, membership policy BMC2051 and the Scheme instrument.

PI insurance policies with indemnity limit of \$500,000 or \$750,000 per reinstatement do not meet the requirements of the Scheme and contravene IPA By-Law 9.1.11, membership policy BMC2051 and the Scheme instrument. Members not complying with these requirements will mean the court is likely to determine the member is not be part of the Scheme and these members will be subject to IPA disciplinary action.

PI Insurance vs. Professional Standards Scheme

PI Insurance will fund damages and legal costs on behalf of an IPA PPC holder up to the Scheme cap.

Professional Standards Schemes cap the damages a court can award. This cap is currently set at \$1m for NSW PPC holders, but this may change with the introduction of the new Scheme next year. Members will be advised accordingly or any changes.

The IPA Professional Standards Scheme works in conjunction with the members PI policy to ensure the IPA PPC holder is adequately covered in the event that damages are awarded against this member.

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