



Professional Standards Scheme

What is a Professional Standards Scheme?

A Professional Standards Scheme (“**Scheme**”) is a legal instrument that binds professional associations to monitor, enforce, regulate and improve the professional standards of members. It identifies the IPA and IPA members as recognised professionals who demonstrate a commitment to regulation under the professional standards legislation.

The IPA Scheme protects most Professional Practice Certificate (“**PPC**”) holders from financial loss as the Scheme has a \$2 million cap from 1 January 2019 that limits the amount of damages to \$2 million that a PPC holder (or underwriter) has to pay a client in the event a claim is upheld in court against that PPC holder. This is very important in an increasingly litigious environment.

New IPA Scheme gazetted for 2019 - 2020

The Professional Standards Councils (“**PSC**”) have approved the new IPA Professional Standards Scheme (“**Scheme**”).

All state and territory governments have published the new Scheme in their respective government gazettes. A uniform commencement date throughout Australia will be the 1 January 2019. The existing Scheme will expire on the 31 December 2018. The new Scheme will be valid for two years, from 1 January 2019 to 31 December 2020.

There are differences between the old and new Scheme, the main differences are:

- The Scheme cap has been lifted from \$1 million to \$2 million, and
- Limited Australian Financial Service (“**AFS**”) licence holders, their authorised representatives and employees are now protected under the new Scheme.

A new Scheme cap of \$2 million

The PSC have requested a lift in the IPA Scheme cap from \$1 million to \$2 million to reflect changed market conditions around Professional Indemnity (“**PI**”) litigation, notifications and settlements, and also to create consistency across the three professional accounting bodies.

As a result of this lift in the Scheme cap, all IPA PPC holders will need to ensure their PI insurance provides a minimum of \$2 million cover for each reinstatement (any one claim) commencing 1 January 2019.



The IPA appreciate this will create an additional cost for members, which is unfortunate and we estimate in the vicinity of \$150 - \$250 per year, however this cost should be tax deductible.

IPA By-law 9.1.11 lists members PI insurance requirements. Clause's 9.1.11(a) and 9.1.11(b) are included below for your information and confirm a 1 January 2019 commencement date of the new Scheme, and state that members are required to hold PI insurance of at least \$2 million per reinstatement (any one claim).

9.1.11 Professional indemnity insurance cover must provide:

- (a) cover for an amount as specified by the Board of Directors for each and every claim, currently until 31 December 2018, not being less than \$1,000,000 for each reinstatement (any one claim) being the cap of the current Professional Standards Scheme;
- (b) The insured amount rising to not less than \$2,000,000 for each reinstatement (any one claim) from 1 January 2019 being the cap for the new Professional Standards Scheme;
- (c) for a policy excess or deductible of no more than an amount determined by the Board of Directors from time to time, currently being no more than 2% of the policy limit of indemnity or \$200,000, whichever is the lower amount;
- (d) The policy to be obtained from an Australian Prudential Regulation Authority (APRA) regulated insurer, which can be verified at: <https://www.apra.gov.au/register-general-insurance>;
- (e) The policy to include a minimum of one reinstatement, preferably unlimited reinstatements;
- (f) Be defence cost exclusive, however if the policy is defence cost inclusive, the policy sets an additional 25% above the policy limit of indemnity amount to fund defence costs;
- (g) unlimited retroactive cover;
- (h) cover for libel and slander;
- (i) that claims arising out of the dishonesty of an employee are not excluded;
- (j) cover for the cost of replacing or repairing documents lost, damaged or destroyed;
- (k) cover for any civil legal liability or any act, error or omission, subject to reasonably common exceptions; and
- (h) provides run-off cover for claims against the Member after ceasing to offer professional practice services or ceased to hold a Professional Practice Certificate for a period of at least seven years.

Note that all PI policies offered by *IPA Insure* comply with By-law 9.1.11. You can contact IPA Insure on 03-8665-3139.



Members are pre-warned that failure to hold a minimum of \$2 million PI insurance will mean a non-compliance with IPA By-laws and may be viewed by the Courts as a serious non-compliance with IPA rules. As a result, a member is unlikely to be covered by the Scheme in the event that a claim is successfully upheld against the member. Unfortunately members will receive no prior warning of this, therefore it is imperative members pro-actively comply with IPA By-laws.

New Scheme and limited AFS licence holders

The new Scheme provides extended coverage for IPA members and now includes:

- limited AFS licence holders,
- authorised representatives of limited AFS licence holders, and
- employees of limited AFS licence holders.

A limited AFS licence holder is permitted under the Corporations Act 2001 to provide a scope of services to a client that is similar to the scope of services provided previously to a client under the 'Accountants Exemption' (Corporations Regulations 2001, reg 7.1.29A). The Accountants Exemption was removed on 1 July 2016.

Members who hold a limited AFS licence with ASIC, are an authorised representative of limited AFS licence holder or an employee of limited AFS licence holder are now included in the new Scheme. Previously these members were not included in the Scheme.

Please note that members who hold a full AFS licence with ASIC, authorised representatives of a full AFS licence holder and employees of a full AFS licence holder are still excluded from the Scheme. This decision has been taken by the PSC, and is not negotiable. This exclusion has been applied equally across the three professional accounting bodies.

The IPA suggest members in this category consult with their legal practitioner in relation to their business structure which may permit a pathway into the new Scheme.

Members must display the Limited liability disclosure statement

All IPA members who are in the Scheme must include on their correspondence the following statement:

Liability limited by a scheme approved under Professional Standards Legislation.



This statement is designed to give the public clear notice that you operate under an approved Professional Standards Scheme. The statement must be printed in a size not less than Times New Roman 8-point font.

The statement must appear on all materials that are or could be given to current or prospective clients to promote your business.

Examples include:

- Letterhead and letters signed by the company or on its behalf,
- Fax cover sheets,
- Newsletters and other publications,
- Your website(s),
- Written advice, plans, drawings, specifications and any other client documents not accompanied by a separate document with the disclosure statement,
- Memorandum of fees and invoices unaccompanied by a separate document with the disclosure statement.

The statement does not need to appear on:

- Advertisements in print media, directory listings and similar forms of promotion,
- Business cards,
- Social media networks, blogs, etc. that are accessed voluntarily by consumers, rather than being given, or caused to be given, by professionals to their clients or prospective clients.

For more information about disclosing your limited liability, visit [here](#).

Important note: *Cover of Excellence*® logo.

The Cover of Excellence® logo applies to Schemes that came into force prior to February 2014. The use of this trademark has now ceased, so please do not use the Cover of Excellence® logo.

Member obligations as a Scheme participant

As stated above, members are pre-warned that failure to comply with IPA By-laws may be viewed by the Courts as a serious non-compliance with IPA rules and may void a member's participation in the Scheme. IPA By-laws require members to comply with all IPA rules including IPA Pronouncements.

Listed below are some of the IPA rules the PSC review as part of the annual reporting process back to the PSC. Members need to be aware of these obligations and are advised to contact the IPA if assistance is needed to ensure member compliance.



Pronouncement 7: Continuing Professional Development (CPD)

All IPA members are required to comply with Pronouncement 7 Continuing Professional Development to ensure members are up to date with legislative, technical and other pertinent changes. All members must undertake at least 120 hours of CPD every three years, with a minimum of 20 hours CPD completed in any one financial year.

See [Pronouncement 7](#) for more details.

Pronouncement 4: Quality Assurance Reviews (PPQA)

All IPA PPC holders are required to undertake a Professional Practice Quality Assurance (“PPQA”) review every three to six years as required by the International Federation of Accountants (“IFAC”). The IPA have reduced the review period to every three to five years and each review is designed to assess a member’s compliance with the APES standards with emphasis on:

- APES 110 – Code of Ethics for Professional Accountants (2017),
- APES 305 – Terms of Engagement,
- APES 310 – Dealing with Client Monies,
- APES 320 – Quality Control for Firms, and
- APES 325 – Risk Management for Firms.

The IPA will assist members to meet these standards if a non-compliance is identified, but members are expected to have appropriate systems already in place and available for review.

See [Pronouncement 4](#) for more details.

By-law 9.1.9(b): Requirements for Holders of Professional Practice Certificates

A Member who holds a Professional Practice Certificate must participate in professional practice survey(s) and / or Declarations as requested by the Institute.

Each year, the PSC request IPA members declare some of their business activities including information around any PI notifications, claims or settlements and also Scheme compliance awareness. This information must be reported back to the PSC by the end of March each year and the PSC report the information from the three professional accounting bodies back to government.



IPA members are required to complete an annual Declaration in February each year. Members will be sent the Declaration which comprises of around 20 questions. In February 2019 however, the Declaration will be about 60 questions as the IPA prepare a new Scheme application for the 2021 – 2022 calendar year. Members will be sent more information on this shortly.

Can a IPA PPC holder opt out or change the Scheme cap?

Clause 3.1 permits a member to be exempted from the Scheme if they are able to satisfy the IPA Board that they are a member of another association of accountants and they are not exempted from that association's Scheme

Clause 6.1 empowers the Board with the discretionary authority to specify, on application by a member, a higher monetary ceiling not exceeding \$20 million.