

AGENDA PAPER

Item Number: 3
Date of Meeting: 4 April 2014
Subject: Proposed ED 01/14 APES 315 *Compilation of Financial Information*

Action Required **For Discussion** **For Information Only**

Purpose

To provide the Board with an update on the proposed ED 01/14 APES 315 *Compilation of Financial Information* project and to obtain the Board's approval to issue APES 315 ED and the accompanying APES 315 ED *At a Glance* document for public comment.

Background

Accounting Professional and Ethical Standards Board (APESB) issued APES 315 *Compilation of Financial Information* (the Standard) in July 2008, and the revised Standard in November 2009 with an effective date of 1 January 2010.

IAASB issued its revised international standard on related services ISRS 4410 (Revised) *Compilation Engagements* (ISRS 4410) in March 2012. The Board agreed to revise APES 315 due to the issue of the revised ISRS 4410 in May 2012. The project was delayed due to completion of other APESB projects which had a higher priority. The project recommenced in April 2013 and the Taskforce has met five times since then to discuss the proposed revised exposure draft.

At the May 2013 Board meeting, the initial proposed exposure draft of the revised APES 315 was presented for the Board's consideration. As determined by the Board at the May 2013 Board meeting, the proposed APES 315 Exposure Draft uses the APES 315 (2009) standard as the base. Thereafter it incorporates selected requirements and guidance from ISRS 4410. A comparison table was also provided at this meeting with the mapping of requirements between ISRS 4410, APES 315 Exposure Draft, and APES 315 (2009).

August 2013 Update

Technical Staff presented the Board with key issues from the Taskforce meeting of 13 August 2013 as follows:

- Whether the Board was comfortable with the drafting style of the new additions to the proposed APES 315 which are based on ISRS 4410 (2012);

- The Standard should be made more scalable for SMPs and for use on Clients of varying complexities, e.g. sole traders, complex private companies, or those filing Compilation Reports under ASIC Class Order CO 98/1417 *Audit relief for proprietary companies*;
- Some of the requirements and guidance related to the Applicable Financial Reporting Framework apply solely to the compilation of financial reports. Therefore it may be more appropriate to group all relevant requirements under a separate section titled *Applicable Financial Reporting Framework* (i.e. section 6 *General Purpose or Special Purpose Financial Statements*) to minimise the risk of misunderstanding by the Member, the Client or in legal proceedings;
- Requirement to plan the Compilation Engagement requires some guidance as to what constitutes appropriate planning, especially in the context of small or non-complex Clients and recurring Engagements;
- The International Auditing and Assurance Standards Board (IAASB) has drafted ISRS 4410 in a manner to elevate the work performed in a Compilation Engagement. The IAASB's key objective is to develop Compilation Engagements as an alternative service offering for Clients rather than a Member performing an assurance or review engagement. Further in the SME sector performance of a Compilation Engagement is likely to be more cost effective as well as meeting the requirements of the user of that information. This is the primary reason for the additional procedures in the revised ISRS 4410 compared to the predecessor version of ISRS 4410;
- The activities listed in paragraph 4.3 of the existing APES 315 which fall outside of the scope of APES 315 should be moved from the current *Objectives of a Compilation Engagement* section to either *Scope and Application* or *Definitions* under the term 'Compilation Engagement';
- The requirement for a Member in Public Practice to understand a Client's business should not be made mandatory as per ISRS 4410 but rather should remain as guidance as per APES 315 (2009);
- References to AASB 1053 are unnecessary as APES 205 *Conformity with Accounting Standards* adequately covers this subject matter; and
- The taskforce discussed paragraph 9.5 and the level of a Member's understanding of the concept of going concern. The taskforce raised concerns on the degree of understanding and the work Members need to perform to determine and document the Client's ability to continue as a going concern. It was agreed that this matter is relevant only when the engagement is to compile a financial report and therefore should be relocated to the section dealing with the 'Applicable Financial Reporting Framework'. Further guidance may be required in circumstances where a Member identifies a going concern issue.

At the August 2013 meeting, the Board directed the APES 315 Taskforce and Technical Staff to consider these issues and provide a revised draft of APES 315 for the November 2013 Board meeting. The Board directed Technical Staff to consider guidance on planning issues, the scalability of the Standard (for SMPs), the importance of identifying objectives for APES 315 and the approach adopted in the Standard to address the going concern matter.

November 2013 Update

Technical Staff and the Taskforce met twice in September and October 2013 to discuss the Board's directions on the key issues and to make the necessary amendments to the proposed APES 315 Exposure Draft.

Summary of key matters and outcomes from September/October 2013 Taskforce meetings

- A guidance paragraph on planning was added as 5.2;
- The use of the term 'material' was removed from misstatement (and elsewhere in the proposed Standard) as the taskforce was of the view that the definition of 'Misstatement' in Section 2 provides sufficient guidance for Members on this matter;
- The paragraph on 'going concern' was deleted since it is sufficiently addressed in the Accounting Standards which are referred to due to the reference to APES 205;
- Requirements and guidance determined relevant to the Applicable Financial Reporting Framework were moved to section 6 *General Purpose or Special Purpose Financial Statements*;
- Activities which fall outside of the scope of APES 315 have been moved to section 2 *Definitions* under the term 'Compilation Engagement';
- An example Disclaimer Report was added to the Appendices section for use when a Member is performing an Engagement which is not a Compilation Engagement. A guidance paragraph 4.4 was added to clarify this point;
- The Standard was clarified to indicate that Members must not assume responsibility for significant judgements, the final responsibility for those judgements should be with the Client; and
- The Taskforce discussed the upcoming issuance in October/November 2013 of 3 AICPA exposure drafts concerning Compilation Engagements. There may be matters of interest in these documents which could affect the content of the proposed Exposure Draft (ED). Therefore the Taskforce determined that it is prudent to wait and analyse the potential impact of these 3 EDs prior to issuing the proposed revised APES 315 ED.

At the November 2013 Board meeting, the Board agreed on editorial amendments to the revised ED and directed Technical Staff to monitor the AICPA's impending release of exposure drafts on Compilation Engagements. The Board was supportive of the taskforce reconsidering the proposed APES 315 Exposure Draft subsequent to the release of the AICPA EDs.

January 2014 Update

In late October 2013 the AICPA issued three exposure drafts as noted below:

- Preparation of Financial Statements;
- Compilation Engagements; and
- Association with Financial Statements.

Technical Staff reviewed the AICPA material and sought the taskforce's guidance whether the 3rd Exposure Draft dealing with *Association with Financial Statements* is applicable in Australia. This refers to circumstances in the American context where a Member has not audited, reviewed or compiled the financial statements, but allows a Client to associate the Member's name with the financial statements. The majority of the taskforce believed that this circumstance was not applicable in Australia.

The material in the first two EDs were considered and they were materially consistent with the current APES 315 ED. The AICPA has separated preparation and compilation of financial reports whilst APES 315 addresses both aspects.

Technical Staff identified two aspects that may provide useful material to enhance the proposed Exposure Draft:

- The AICPA's description of *Special Purpose Frameworks* (i.e. Alternative Financial Reporting Framework in APES 315) is more informative and whether to incorporate additional text to the proposed APES 315;
- Guidance paragraphs on the contractual and regulatory basis of preparing financial information (Paragraphs 15, 16 and A25 in Compilation Engagements ED).

Technical Staff communicated the above matters to the taskforce. Whilst there is some support for the inclusion of the guidance paragraphs, a clear view has not emerged in respect of the definition of *Special Purpose Frameworks*.

The current issues the taskforce is dealing with are:

- Terminology and the application of the Applicable Financial Reporting Framework, Alternative Financial Reporting Framework and Special Purpose Financial Reporting Framework;
- Paragraph 4.1 – Objectives of the Compilation Engagements to be redrafted;
- Paragraph 4.4 – Compilation disclaimer and example in Appendix 3. The taskforce is keen to retain this and will revise and redraft these sections for the Board's consideration;
- Other matters as noted in the AICPA material.

March 2014 Update

The matters raised by the Board at its 29 January 2014 Board Meeting have either been addressed below or have been attended to by Technical Staff.

The Taskforce held a taskforce meeting in February 2014 to discuss the Board's directions on the key issues and to make the necessary amendments to the proposed APES 315 Exposure Draft.

The key issues arising from the Taskforce meeting held on 20 February 2014 are listed below:

- The taskforce noted that the *Reporting Framework* diagram provided guidance to Members with an overview of the decision making process involved in respect of various Reporting Frameworks. The taskforce proposed that the diagram should be included as an appendix to APES 315 ED. The diagram is presently set out on page 6 of APES 315 *At A Glance* (refer to Attachment 2(c));
- The taskforce is keen to retain paragraph 4.4 and to refer Members to an Accountant's Report and Disclaimer where Members compile financial information which is not within the scope of a Compilation Engagement. Technical Staff has redrafted APES 315 ED to address both Compilation Engagements and Other Engagements to Compile Financial Information (e.g. an Engagement to compile Financial Statements which is to be used as a basis to prepare an entity's annual tax return);
- The taskforce discussed the possibility of paragraph 4.1 being shown in bold type black lettering because the current drafting of the "Objectives of an Engagement to Compile Financial Information" does not prescribe a mandatory obligation on the Member. However, APESB's drafting convention stipulate that the paragraphs

containing explanatory guidance are shown in normal type grey lettering and only paragraphs containing mandatory requirements which are imposed on Members are shown in bold type;

- The taskforce discussed whether the options available in paragraph 12.11 in relation to the references to be stated in the Compilation Report i.e. “Unaudited”, “Compiled without Audit or Review” or “Refer to Compilation Report” are excessive and whether the reference to ‘Unaudited’ is sufficient; and
- The inclusion of paragraphs 15, 16 and A25 of the AICPA ED ‘Proposed Statement on Standards for Accounting and Review Services – *Compilation Engagements*’ in respect to Compilation Reports prepared in accordance with a regulatory or contractual basis of accounting as paragraphs 12.8 – 12.10 of APES 315 ED.

Staff Recommendation

Subject to the Board’s review comments and editorials on APES 315 ED and APES 315 ED *At a Glance* document, the Board approve APES 315 ED for an Exposure period of not less than 60 days.

Material Presented

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| Attachment 2 (a) | Proposed APES 315 <i>Compilation of Financial Information</i> Exposure Draft 01/14 (Marked up); |
| Attachment 2 (b) | Proposed APES 315 <i>Compilation of Financial Information</i> Exposure Draft 01/14 (Clean version); |
| Attachment 2 (c) | Proposed APESB ‘ <i>At a Glance</i> ’ document on APES 315 ED; |
| Attachment 2 (d) | Draft minutes from Taskforce meeting on 20 February 2014; and |
| Attachment 2 (e) | Comparison Table to develop conformity paragraph. |

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Date: 26 March 2014