

Proposed Standard: APES 205 – Conformity with Accounting Standards

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

EXPOSURE DRAFT **04/12**
ISSUED: July 2012

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Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by **31 August 2012**.

Comments should be addressed to:

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A copy of all submissions will be placed on public record on the APESB website:
www.apesb.org.au.

Obtaining a copy of this Exposure Draft

This Exposure Draft is available on the APESB website: www.apesb.org.au. Alternatively, any individual or organisation may obtain one printed copy of this Exposure Draft without charge until **31 August 2012** by contacting:

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Reasons for issuing Exposure Draft 04/12

As part of the Differential Reporting project, AASB 1053 *Application of Tiers of Australian Accounting Standards* was issued in June 2010 to establish a second Tier of requirements for preparing general purpose financial statements (GPFSSs). The standard requires those entities that prepare GPFSSs to determine whether they are Tier 1 or Tier 2 entities to establish disclosure requirements for financial reporting.

To ensure consistency with AASB 1053, APES 205 needs to be amended to reflect the revised differential reporting framework.

Key requirements and guidance in ED 04/12

Overview of the proposed changes

The following summary provides an overview of the proposed revisions to the existing professional standard APES 205. Respondents should not rely on this summary of differences to determine what changes, if any, are required to their current practices, policies or methodologies. Respondents should read the entire Exposure Draft to determine the significance of its proposals.

Definitions

The definition of 'Australian Accounting Standards' has been edited to include reference to those standards that apply to entities reporting under Tier 1 and Tier 2 reduced disclosure requirements, as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*.

Responsibilities of Members in respect of the Reporting Entity Concept

Members involved in the preparation and presentation of General Purpose Financial Statements are required to consider whether the requirements of AASB 1053 *Application of Tiers of Australian Accounting Standards* have been complied with.

Members are able to early adopt the requirements of the Standard or alternatively apply the Standard from its effective date of 1 July 2013.

Proposed operative date

It is intended that this Standard will be operative from 1 July 2013.

Request for comments

Comments are invited on this Exposure Draft of APES 205 – *Conformity with Accounting Standards* by **31 August 2012**. APESB would prefer that respondents express a clear overall opinion on whether the proposed Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed Standard.

APES 205 Conformity with Accounting Standards

[Supersedes APES 205 Conformity with Accounting Standards Issued in
December 2007]

Revised  2012

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Conformity with International Pronouncements

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1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) has revised issues professional standard APES 205 *Conformity with Accounting Standards (the Standard)*, which is effective from 1 July 2013~~1 July 2008~~. Earlier adoption of this Standard is permitted.
- 1.2 APES 205 sets the standards for Members involved with the preparation, presentation, audit, review or compilation of Financial Statements, which are either General Purpose Financial Statements or Special Purpose Financial Statements, of entities in the private and public sectors. The mandatory requirements of this Standard are in **bold** type, preceded or followed by discussion or explanations in grey type. APES 205 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.3 **Members in Australia shall follow the mandatory requirements of APES 205 when they prepare, present, audit, review or compile Financial Statements.**
- 1.4 **Members practising outside Australia shall comply with the financial reporting framework applicable to the relevant jurisdiction when they prepare, present, audit, review or compile Financial Statements. However, where the Financial Statements are prepared in accordance with the Australian Financial Reporting Framework, Members shall comply with the requirements of this Standard.**
- 1.5 **Members shall be familiar with relevant professional standards and guidance notes when performing professional work. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.6 The Standard is not intended to does not detract from any responsibilities which may be imposed by law or regulation.
- 1.7 All references to accounting, auditing and professional standards are references to those provisions as amended from time to time.
- 1.8 In applying the requirements outlined in APES 205, Members should be guided not merely by the words but also by the spirit of the Standard and the Code.

2. Definitions

For the purpose of this Standard:

AASB means the Australian statutory body called the Australian Accounting Standards Board that was established under section 226 of the *Australian Securities and Investments Commission Act 1989* and is continued in existence by section 261 of the *Australian Securities and Investments Commission Act 2001*.

Applicable Financial Reporting Framework means the financial reporting framework adopted by those charged with governance in preparing the Financial Statements.

Assurance Engagement means an Engagement in which a conclusion is expressed by a Member in Public Practice designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

This would include an Engagement in accordance with *Framework for Assurance Engagements* issued by the Auditing and Assurance Standards Board (AUASB) or in accordance with specific relevant standards for Assurance Engagements.

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AUASB means the Australian statutory body called the Auditing and Assurance Standards Board established under section 227A of the *Australian Securities and Investments Commission Act 2001*.

Audit Engagement means an Assurance Engagement to provide a reasonable level of assurance that a financial report is free of material misstatement, such as an Engagement in accordance with Australian auditing standards. This includes a statutory audit which is an audit required by legislation or other regulation, and other audits conducted for the purposes of the Corporations Act.

Australian Accounting Standards means the Accounting Standards (including Australian Accounting Interpretations) promulgated by the AASB. For the purposes of this Standard, reference to Australian Accounting Standards includes reference to those standards that apply to entities reporting under Tier 1 and Tier 2 reduced disclosure requirements, as defined in AASB 1053 Application of Tiers of Australian Accounting Standards.

Australian Financial Reporting Framework means the framework that uses Australian Accounting Standards as the Applicable Financial Reporting Framework and is adopted by those charged with governance when preparing Financial Statements.

Client means an individual, firm, entity or organisation to whom or to which Professional Services are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

Code means APES 110 *Code of Ethics for Professional Accountants*.

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of services by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Financial Statements means a structured representation of historical financial information, which ordinarily includes explanatory notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term can refer to a complete set of Financial Statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes. The requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements.

For the purposes of this Standard financial report is considered to be an equivalent term to financial statements.

Firm means (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
(b) An entity that controls such parties;
(c) An entity controlled by such parties; or
(d) An Auditor-General's office or department.

Framework means the *Framework for the preparation and presentation of financial statements* issued by the AASB.

General Purpose Financial Statements means those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

Member means a member of a professional body that has adopted this Standard as applicable to their membership as defined by that professional body.

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Member in Public Practice means a Member, irrespective of functional classification (e.g. audit, tax, or consulting) in a Firm that provides Professional Services. The term is also used to refer to a Firm of Members in Public Practice and means a practice entity as defined by the applicable professional body.

Professional Bodies means the Institute of Chartered Accountants in Australia, CPA Australia and the National Institute of Accountants.

Professional Services means services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

Professional Standards mean all standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable Professional Body.

Reporting Entity means an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's General Purpose Financial Report for information that will be useful to them for making and evaluating decisions about the allocation of resources. A Reporting Entity can be a single entity or a group comprising a parent entity and all the entities it controls.

Review Engagement means an Assurance Engagement to express a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the attention of the Member in Public Practice that causes the Member to believe that the historical financial information is not prepared in all material respects in accordance with an Applicable Financial Reporting Framework, which is an Engagement conducted in accordance with applicable assurance standards on Review Engagements.

Special Purpose Financial Statements means financial statements other than General Purpose Financial Statements.

Statements of Accounting Concepts mean SAC 1 *Definition of Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting* issued by the AASB.

3. Fundamental responsibilities of Members

Public interest

- 3.1 In accordance with Section 100.1 of the Code, Members shall observe and comply with their public interest obligations when they prepare, present, audit, review or compile Financial Statements.

Professional competence and due care

- 3.2 In accordance with Section 130 *Professional Competence and Due Care* of the Code, a Member in Public Practice who is performing professional work based on an Applicable Financial Reporting Framework shall ensure that the Member or the Firm has the requisite professional knowledge and skill or shall engage a suitably qualified external person. If a Member in Public Practice is unable to engage a suitably qualified person when required, the Member shall decline the Engagement.

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4. Responsibilities of Members in respect of the Reporting Entity concept

4.1 Members should take all reasonable steps to apply the principles and guidance provided in the Statements of Accounting Concepts and the Framework when assessing whether an entity is a Reporting Entity-

4.2 Statement of Accounting Concepts SAC 1 “Definition of the Reporting Entity” provides guidance on circumstances in which an entity or economic entity should be identified as a Reporting Entity.

4.3 **Members who are involved in, or are responsible for, the preparation and/or presentation of Financial Statements of a Reporting Entity shall take all reasonable steps to ensure that the Reporting Entity prepares General Purpose Financial Statements.**

4.4 Members who are involved in, or are responsible for, the preparation and/or presentation of General Purpose Financial Statements shall consider whether the requirements of AASB 1053 Application of Tiers of Australian Accounting Standards have been complied with.

5. Responsibilities of Members in respect of General Purpose Financial Statements

5.1 **Members shall take all reasonable steps to apply Australian Accounting Standards when they prepare and/or present General Purpose Financial Statements that purport to comply with the Australian Financial Reporting Framework.**

5.2 **Where Members are unable to apply Australian Accounting Standards pursuant to paragraph 5.1, they shall take all reasonable steps to ensure that any departure from Australian Accounting Standards, the reasons for such departure, and its financial effects are properly disclosed and explained in the General Purpose Financial Statements.**

5.3 If legislation, ministerial directive or other government authority requires a departure from Australian Accounting Standards, a Member should disclose that fact in the General Purpose Financial Statements as a reason for the departure.

5.4 Where a Member is unable to ensure proper disclosure of a departure from Australian Accounting Standards pursuant to paragraph 5.2, the Member should discuss the matter with the appropriate level of management of the relevant entity and document the results of these discussions.

5.5 **Members in Public Practice shall take all reasonable steps to ensure that Clients have complied with Australian Accounting Standards when they perform an Audit or Review Engagement or a compilation Engagement of General Purpose Financial Statements which purport to comply with the Australian Financial Reporting Framework.**

5.6 **Where a Member in Public Practice is unable to ensure that a Client complies with Australian Accounting Standards pursuant to paragraph 5.5, the Member shall consider Australian auditing standards applicable to Audit or Review Engagements or Professional Standards applicable to compilation Engagements.**

6. Responsibilities of Members in respect of Special Purpose Financial Statements

- 6.1 Members who are involved in, or are responsible for, the preparation, presentation, audit, review or compilation of an entity's Special Purpose Financial Statements (except where the Special Purpose Financial Statements will be used solely for internal purposes) shall take all reasonable steps to ensure that the Special Purpose Financial Statements, and any associated audit report, review report or compilation report clearly identifies:
- (a) that the Financial Statements are Special Purpose Financial Statements;
 - (b) the purpose for which the Special Purpose Financial Statements have been prepared; and
 - (c) the significant accounting policies adopted in the preparation and presentation of the Special Purpose Financial Statements.
- 6.2 Where a Member in Public Practice is unable to ensure that a Client complies with an Applicable Financial Reporting Framework pursuant to paragraph 6.1, the Member shall consider Australian auditing standards applicable to Audit or Review Engagements or Professional Standards applicable to compilation Engagements.
- 6.3 For all other Members, where the Member is unable to ensure that an entity complies with an Applicable Financial Reporting Framework pursuant to paragraph 6.1, the Member should discuss the matter with the appropriate level of management of the relevant entity and document the results of these discussions.

Conformity with International Pronouncements

The International Ethics Standard Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 205.

APPENDIX 1

Summary of Revisions to the previous APES 205 Conformity with Accounting Standards (Issued December 2007)

APES 205 Conformity with Accounting Standards originally issued in December 2007 has been revised by APESB in XXXX 2012. A summary of the revisions is given in the table below.

Table of revisions*

<u>Paragraph affected</u>	<u>How affected</u>
<u>1.1</u>	<u>Amended</u>
<u>1.4</u>	<u>Amended</u>
<u>1.6</u>	<u>Amended</u>
<u>2 – Definition of Australian Accounting Standards</u>	<u>Amended</u>
<u>4.4</u>	<u>Added</u>

* Refer Technical Update 2012/XX

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