

January 2015



## **Basis for Conclusions: APES 315 Compilation of Financial Information (Revised and Reissued)**

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*Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board*

### BASIS FOR CONCLUSIONS:

#### Revised APES 315 Compilation of Financial Information

This basis for conclusions has been prepared by technical staff of Accounting Professional & Ethical Standards Board (“APESB”). This document has been reviewed and approved by the Board of Directors of APESB and is provided for the benefit of stakeholders to gain an understanding of the background to the development of the revised APES 315 Compilation of Financial Information (APES 315). The basis for conclusions **does not** form part of APES 315 and is not a substitute for reading the standard.

#### Background

APESB originally issued APES 315 in July 2008, then revised and re-issued APES 315 in November 2009. Subsequently, APESB initiated a project to revise APES 315 due to the International Auditing and Assurance Standards Board’s (IAASB’s) revision of ISRS 4410 *Compilation Engagements* (revised ISRS 4410).

The significant changes to the revised APES 315 include:

- Revision or addition of the following definitions (section 2): Applicable Financial Reporting Framework, Assurance Engagement, Auditing and Assurance Standards, Compilation Engagement, Compliance Framework, General Purpose Financial Statements, General Purpose Framework, Misstatement, Professional Activity, Professional Bodies, Professional Services, Special Purpose Financial Statements, Special Purpose Framework and Those Charged with Governance.

The changes were primarily due to the revised ISRS 4410, revisions to APES 110 *Code of Ethics for Professional Accountants* or to be consistent with the current definitions in the pronouncements of the Auditing and Assurance Standards Board (AUASB);

- Revision of the objectives of an Engagement to Compile Financial Information (paragraph 1.1);
- Additional requirements and guidance in respect of the Applicable Financial Reporting Framework (section 5);
- Additional guidance on matters to be included in the Engagement Document such as responsibilities of the Client and the Member in Public Practice (paragraph 6.2) and an example Engagement Document in Appendix 3;
- Amended requirements and guidance in respect of procedures to be performed in a Compilation Engagement by merging section 8 *Procedures* and section 9 *Misstatements* in the extant APES 315 as a new section 7 dealing with Procedures in the revised APES 315 (2015);
- Additional requirements and guidance in respect of the documentation and quality control obligations of a Member in Public Practice (paragraphs 8.2 to 8.4);
- Further clarification on the responsibilities of the Client, the Member in Public Practice and the role of management (section 9);
- Clarification that the Compilation Report must disclose the Client’s and the Member in Public Practice’s responsibilities in relation to the Compilation Engagement and Compiled Financial Information (section 10);
- Two new appendices (Appendix 1 and Appendix 2) which contain decision tree schematics to assist Members in Public Practice determine whether an Engagement

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is a Compilation Engagement and to ascertain circumstances in which a Compilation Report should be issued.

- Inclusion of three additional examples of Compilation Reports in Appendix 4; and
- Addition of an example Accountant's Report Disclaimer in Appendix 5.

APESB issued an exposure draft (ED 02/14) of the revised APES 315 and an accompanying APES 315 ED 'At a Glance' on 23 July 2014 with a comment deadline of 12 September 2014. APESB received four submissions from the professional bodies and Firms. In response to the comments received, APESB made appropriate changes when finalising the revised APES 315 *Compilation of Financial Information*.

The revised APES 315 will be effective from 1 October 2015.

### Rationale for using the APES 315 (2009) as the base pronouncement rather than ISRS 4410

APESB determined to revise APES 315 (2015) by incorporating additional requirements and guidance based on the revised ISRS 4410 as opposed to revamping APES 315 to mirror the structure and drafting style of the revised ISRS 4410. APESB considered the following matters in its decision to use the APES 315 (2009) format:

- Compilation Engagement Clients are generally small to medium entities and the approach to performing Compilation Engagements vary across jurisdictions to reflect the local practices and legislative environment. Some of the major jurisdictions have not adopted ISRS 4410 verbatim nor used the same format;
- APES 315 (2009) was effective since 1 January 2009 and its contents were mainly derived from APS 9 *Statement on Compilation of Financial Reports* issued in 1996. Members in Public Practice in Australia who perform Engagements to Compile Financial Information are familiar with its content and format for nearly two decades; and
- ISRS 4410's structure and drafting conventions differ from APES 315 (2009)'s structure as well as from APESB's drafting conventions. Since no significant issues have been reported with APES 315 (2009)'s structure and drafting conventions, APESB determined to follow its [Due process and working procedures for the development and review of APESB pronouncements](#) to revise APES 315 (2015).

Some of the respondents to APES 315 ED acknowledged APESB's rationale for using the extant APES 315 as the base standard and did not raise any significant concerns in respect of this approach.

### Definition of a Compilation Engagement (section 2)

The revised APES 315 (2015) clarifies that when performing a Compilation Engagement, a Member in Public Practice is required to apply the Member's **expertise in accounting and/or financial reporting**, and in contrast to an Assurance Engagement, the Member is not required to verify the accuracy and completeness of the information provided by the Client. The definition also includes examples of excluded activities (i.e. activities which are not within the scope of a Compilation Engagement), such as the preparation of financial statements solely for inclusion in the taxation return. Where a Member in Public Practice prepares financial information in respect of these excluded activities, the revised APES 315 (2015) recommends that the Member issues an Accountant's Report Disclaimer. An example of an Accountant's Report Disclaimer is provided as a **new Appendix 5**.

### **Section 5 - Applicable Financial Reporting Framework (previously General Purpose or Special Purpose Financial Statements)**

The revised APES 315 (2015) provides additional requirements and guidance in respect of the considerations of the Applicable Financial Reporting Framework. A Member in Public Practice may provide advice to assist a Client to determine the appropriate Applicable Financial Reporting Framework when undertaking a Compilation Engagement.

Section 5 of the revised APES 315 (2015) also includes new professional obligations in respect of:

- factors a Member in Public Practice should consider when evaluating the Client's decision to adopt a particular Applicable Financial Reporting Framework;
- the professional obligations of the Member in circumstances where the Member believes the chosen Applicable Financial Reporting Framework is not appropriate; and
- the professional obligations of the Member when assisting the Client with significant judgements regarding amounts and disclosures.

### **Respondents' comments**

The following summarises the significant issues raised by respondents on the Exposure Draft and how APESB addressed them.

### **Explanatory statement that the Member in Public Practice or the Firm is not independent of the Client (paragraphs 3.5 and 10.10 (d))**

During the development process it was noted that it would be useful for the Member in Public Practice to provide an explanatory statement on why the Member was not independent rather than simply making a statement to this effect. Thus, APESB has now clarified this requirement by adding the word 'explanatory' to the statements in paragraphs 3.5 and 10.10(d).

### **Guidance that a Member in Public Practice may provide assistance to a Client in determining the Applicable Financial Reporting Framework (paragraph 5.1)**

A respondent noted that the drafting of paragraph 5.1 in ED 02/14 could be interpreted in a manner that a Member in Public Practice is prohibited from assisting a Client to determine the Applicable Financial Reporting Framework to be adopted. Accordingly, APESB amended paragraph 5.1 to clarify that, subject to the Terms of Engagement, the Member in Public Practice may provide advice to assist a Client determine the Applicable Financial Reporting Framework.

### **Consistency of requirements in section 9 *Responsibility of the Client* with paragraph 6.2 (f)**

A respondent noted that there were some inconsistencies between section 9 *Responsibility of the Client* and paragraph 6.2 (f) in relation to the contents of an Engagement Document. APESB agreed with the respondents' comments and made appropriate amendments to ensure consistency between these sections of the Standard as well as the example Engagement Document.

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### **Requirement to obtain a written acknowledgement from the Client (paragraph 6.2)**

Some respondents noted that when a Member in Public Practice undertakes a Compilation Engagement in respect of a General Purpose or Special Purpose Financial Statements, it is generally important for the Member to obtain written representations from the Client, which acknowledges the Client's responsibility for the reliability, accuracy and completeness of the accounting records and disclosures provided to the Member.

APESB considered whether to develop an example acknowledgement letter or to include additional guidance in APES 315 (2015). APESB also considered the various challenges associated with obtaining a written acknowledgement from the Client for Compilation Engagements and determined that it would be difficult to develop a template to suit all the different circumstances in which Compilation Engagements are performed.

Accordingly, APESB included additional guidance in paragraph 6.2 (f) to clarify the Client's responsibilities when undertaking a Compilation Engagement in respect of General Purpose Financial Statements or Special Purpose Financial Statements.

### **Departures from the Applicable Financial Reporting Framework (paragraph 10.10(i))**

Some respondents were concerned that a Compilation Report which includes a paragraph drawing attention to the disclosure of departures from the Applicable Financial Reporting Framework may be misinterpreted to mean that departures from the Applicable Financial Reporting Framework are permissible.

Paragraph 5.4 of revised APES 315 (2015) requires a Member in Public Practice to comply with APES 205 *Conformity with Accounting Standards* when undertaking a Compilation Engagement in respect of General Purpose Financial Statements or Special Purpose Financial Statements. Where the Applicable Financial Reporting Framework is a Special Purpose Framework, it is likely to have departures from a General Purpose Framework such as a General Purpose Financial Statements prepared in accordance with Australian Accounting Standards.

As a majority of the Compilation Engagements are in respect of Special Purpose Financial Statements, the preparation of Special Purpose Financial Statements should not be interpreted as being a departure from an Applicable Financial Reporting Framework. Accordingly, APESB reviewed the definition of Applicable Financial Reporting Framework to ensure its consistency with AUASB's definition and redrafted paragraph 10.10 (i) to be consistent with the revised ISRS 4410 which specifies that where a Compilation Report is prepared in respect of a Special Purpose Framework, it is required to include a paragraph which draws attention to the fact that the financial information is prepared in accordance with a Special Purpose Framework. In order to improve clarity of APES 315 (2015), APESB determined to delete paragraph (paragraph 10.10 (j)) in ED 02/14 which obligated the Member in Public Practice to disclose departures from the Applicable Financial Reporting Framework.

### **Removal of duplicate requirements in paragraph 10.10 (paragraph 10.10 (c))**

A respondent noted that the Member in Public Practice's obligation to comply with the fundamental principles of the Code and relevant ethical requirements when performing a Compilation Engagement appears to be duplicated (paragraphs 10.10 (c) and 10.10 (o)) in ED 02/14). APESB agreed with this comment and removed the duplication by deleting paragraph 10.10 (o) in ED 02/14 and by redrafting paragraph 10.10 (c) in the revised APES 315 (2015).