

EXPOSURE DRAFT

ED XX/08
(Feb 2008)



**Proposed Standard: APES 315 Compilation of
Financial Information (Formerly APS 9)**

Prepared and issued by **Accounting Professional & Ethical Standards
Board Limited**

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by **18th April 2008**.

Comments should be addressed to:

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A copy of all non-confidential 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 18th April 2008 by contacting:

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Reasons for issuing Exposure Draft xx/08

Accounting Professional & Ethical Standards Board Limited (APESB) proposes to issue the Standard APES 315: *Compilation of Financial Information* setting out mandatory requirements and guidance for Members in Public Practice.

The predecessor Standard APS 9: *Statement on Compilation of Financial Reports* was issued in May 1996 to establish the responsibility of Members who undertake Engagements to compile financial reports. Since that time there has been significant change to the financial reporting framework and regulatory regime in Australia as well as developments in international equivalents which has necessitated a review and reissue of this Standard.

Key requirements and guidance in ED xx/08

The proposed APES 315 includes mandatory requirements and guidance in respect of:

- The Member's responsibility to follow APES 110: *Code of Ethics for Professional Accountants* in the context of Compilation Engagements;
- The requirement to document and communicate the Terms of Engagement;
- The obligation in respect of planning, performing, documenting and reporting on the Compilation Engagement;
- The obligations in respect of misstatements and errors;
- Communication of significant matters and
- Subsequent discovery of facts.

This exposure draft is based on the requirements of the International Standard on Related Services 4410 (ISRS 4410), *Engagements to Compile Financial Statements*. However, additional requirements and guidance are proposed in respect of *communication of significant matters* and *subsequent discovery of facts* based on the New Zealand equivalent SES 2 *Compilation of Financial Information* issued in 2006.

Proposed operative date

It is intended that this Standard will be operative from 01 July 2009.

Request for comments

Comments are invited on this Exposure Draft of *APES 315: Compilation of Financial Information* by **18th April 2008**. 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.

**ACCOUNTING PROFESSIONAL & ETHICAL STANDARDS BOARD
LIMITED**



**APES 315
Compilation of Financial Information**

Prepared and issued by **Accounting Professional & Ethical Standards Board Limited**

(Issued XXXX 2008)

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1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional standard APES 315 *Compilation of Financial Information (the Standard)*, which is effective from 01 July 2009.
- 1.2 APES 315 sets the standards for Members in Public Practice who undertake Compilation Engagements in the provision of quality and ethical Professional Services. The mandatory requirements of this Standard are in **bold** type, preceded or followed by discussion or explanations in grey type. APES 315 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.3 **Members in Public Practice in Australia shall follow the mandatory requirements of APES 315 when they undertake Professional Services to Clients that are Compilation Engagements.**
- 1.4 **Members in Public Practice practising outside of Australia shall follow the provisions of APES 315 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.5 **Members shall be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.6 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.7 All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.8 In applying the requirements outlined in APES 315, Members in Public Practice should be guided not merely by the words but also by the spirit of the Standard and the Code.
- 1.9 This Standard is directed towards Engagements to compile financial information. However, it should be applied to the extent practicable to Engagements to compile non-financial information, provided the Member in Public Practice has adequate knowledge of the subject matter in question. Engagements to provide limited assistance to a Client in the preparation of Financial Statements (for example, on the selection of an appropriate accounting policy), do not constitute an Engagement to compile financial information.

2. Definitions

For the purpose of this Standard:

Applicable Financial Reporting Framework means the financial reporting framework adopted by Those Charged with Governance in preparing the Financial Statements.

Australian Accounting Standards means the Accounting Standards (including Australian Accounting Interpretations) promulgated by the Australian Accounting Standards Board.

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*.

Compilation Engagement means an Engagement to compile financial information.

Compiled Financial Information means a presentation of financial information in a specified form in accordance with a specified basis of accounting, without undertaking to express any assurance on the information. For the purposes of this Standard financial information include Financial Statements.

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

Engagement Document means the document (i.e. letter, agreement or any other appropriate means) in which the Terms of Engagement are specified in a written form.

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 revenue 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.

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.

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 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.

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

Terms of Engagement means the terms and conditions that are agreed between the Client and the Member in Public Practice for the Engagement.

Those Charged with Governance means the persons with responsibility for overseeing the strategic direction of the Client and obligations related to the accountability of the Client. This includes overseeing the financial reporting process.

3. Objectives of a Compilation Engagement

- 3.1 The objective of a Compilation Engagement is for the Member in Public Practice to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarise financial information. This will usually entail reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information. The procedures employed are not designed and do not enable the Member in Public Practice to express any assurance on the financial information.
- 3.2 A Compilation Engagement may involve the preparation of Financial Statements (which may or may not be a complete set of Financial Statements) and may also include the collection, classification and summarisation of other financial information.
- 3.3 Activities which fall outside the scope of APES 315 include:
- (a) preparation of a taxation return without compiling financial information;
 - (b) analysis of figures provided by a Client, in order to report to the Client. For example, making recommendations on a Client's proposed purchase of another entity, using the other entity's Financial Statements;
 - (c) relaying information to a Client, without collection, classification or summarisation of the information.

4. General principles of a Compilation Engagement

- 4.1 **When undertaking a Compilation Engagement in respect of General Purpose Financial Statements or Special Purpose Financial Statements, a Member in Public Practice shall comply with the requirements of APES 205 *Conformity with Accounting Standards*.**
- 4.2 **Where the Member in Public Practice is not independent, a statement to that effect shall be made in the Member's report.**

5. Defining the Terms of Engagement

- 5.1 **A Member in Public Practice shall provide the Client with an Engagement Document outlining the relevant terms of the Engagement to provide Professional Services in accordance with APES 305 *Terms of Engagement*.**
- 5.2 In addition to the matters in paragraph 4 of APES 305 *Terms of Engagement*, a Member in Public Practice should consider the following matters for inclusion in the Engagement Document:
- (a) nature of the Engagement including the fact that neither an audit nor a review will be carried out and that accordingly no assurance will be expressed;
 - (b) fact that the Engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist;
 - (c) nature of the information to be supplied by the Client;
 - (d) fact that the Client is responsible for the accuracy and completeness of the information supplied to the Member in Public Practice;
 - (e) basis of accounting on which the financial information is to be compiled and the fact that it, and any known departures there from, will be disclosed;
 - (f) the requirement for General Purpose Financial Statements to be prepared in accordance with Australian Accounting Standards;
 - (g) intended use and distribution of the information, once compiled;

- (h) form of report to be rendered regarding the financial information compiled, when the Member's name is to be associated therewith; and
- (i) nature of any disclaimer or limitation of liability clause between a Member and the Client or a Member and any user of the Compiled Financial Information.

6. Planning

- 6.1 A Member in Public Practice shall plan the work so that an effective Engagement will be performed.**

7. Documentation

- 7.1 A Member shall prepare working papers in accordance with this Standard that appropriately document the work performed, including aspects of the Compilation Engagement that have been provided in writing. The documentation prepared by the Member in Public Practice shall:**

- (a) provide a sufficient and appropriate record of the procedures performed for the Engagement;
- (b) identify the sources of significant information the Member has used in the compilation of financial information; and
- (c) demonstrate that the Engagement was carried out in accordance with this Standard and all other Professional Standards applicable to the Engagement, including *APES 320 Quality Control for Firms*, and any applicable ethical, legal and regulatory requirements.

8. Procedures

- 8.1 A Member in Public Practice shall obtain a general knowledge of the business and operations of the Client and shall be familiar with the accounting principles and practices of the industry in which the Client operates and with the form and content of the Financial Statements that are appropriate in the circumstances.**

- 8.2 Other than as noted in this Standard, a Member in Public Practice is not ordinarily required to:**

- (a) make any inquiries of management to assess the reliability and completeness of the information provided;
- (b) assess internal controls;
- (c) verify any matters; or
- (d) verify any explanations.

- 8.3 A Member in Public Practice who becomes aware that the information supplied by the Client is materially false or misleading or the Client has omitted material information, shall consider performing the procedures noted in paragraph 8.2 and request the Client to provide any additional information required to complete the Engagement.**

- 8.4 If the Client refuses to provide the additional information as requested under paragraph 8.3, the Member in Public Practice shall consider the Firm's policies and procedures established in accordance with paragraphs 28-35 *Acceptance and Continuance of Client Relationships and Specific Engagements* of *APES 320 Quality Control for Firms* in determining whether to continue acting for the Client in a professional capacity.**

9. Misstatements

9.1 A Member in Public Practice shall consider whether the Compiled Financial Information is appropriate in form and free from obvious material misstatements.

9.2 In this Standard, misstatements include the following:

- (a) mistakes in the application of the Applicable Financial Reporting Framework;
- (b) non-disclosure of the financial reporting framework and any known departures there from;
- (c) non-disclosure of significant matters of which the Member in Public Practice has become aware.

9.3 A Member in Public Practice shall identify and disclose within the Financial Statements the Applicable Financial Reporting Framework and material known departures from this framework, though their effects need not be quantified.

9.4 If the Member in Public Practice becomes aware of material misstatements in the Compiled Financial Information, the Member in Public Practice shall take all reasonable steps to agree appropriate amendments with the Client.

9.5 If such amendments are not made as requested under paragraph 9.4 and the Compiled Financial Information is considered to be misleading, the Member in Public Practice shall consider the Firm's policies and procedures established in accordance with paragraphs 28-35 *Acceptance and Continuance of Client Relationships and Specific Engagements* of APES 320 *Quality Control for Firms* in determining whether to continue acting for the Client in a professional capacity.

10. Responsibility of the Client

10.1 A Member in Public Practice shall obtain an acknowledgment from the Client of its responsibility for the appropriate presentation of the Compiled Financial Information and of its approval of the Compiled Financial Information.

10.2 Such acknowledgment may be provided by representations from the Client which cover the accuracy and completeness of the underlying accounting data and the complete disclosure of all material and relevant information to the Member in Public Practice.

10.3 The acknowledgment by the Client should be obtained prior to the signing of the Member's report.

11. Reporting on a Compilation Engagement

11.1 When a Member in Public Practice issues Compiled Financial Information, the Member shall issue a report subject to the requirements of paragraph 11.2.

11.2 The Member in Public Practice shall consider the necessity to issue a compilation report in circumstances where the Client has subsequently obtained an audit or review report of the Compiled Financial Information in accordance with Australian auditing standards applicable to audit or review Engagements.

11.3 Generally in the circumstances described in paragraph 11.2, the issue of an audit or review report will override a compilation report (if issued) or the requirement to issue a compilation report.

- 11.4 Where the circumstances described in paragraph 11.2 apply and the scope of the Compilation Engagement extends to subject matter not covered under the audit or review Engagement, the Member in Public Practice shall consider issuing a compilation report for the subject matter not covered under the audit or review Engagement.
- 11.5 A Member in Public Practice shall prepare a report on the Compilation Engagement that contains the following:
- (a) a title;
 - (b) an addressee;
 - (c) a statement that the Engagement was performed in accordance with this Standard;
 - (d) when relevant, a statement that the Member in Public Practice is not independent of the Client;
 - (e) identification of the Compiled Financial Information noting that it is based on the financial information provided by the Client;
 - (f) a statement that the Client is responsible for the financial information compiled by the Member in Public Practice;
 - (g) a statement that neither an audit nor a review has been carried out and that accordingly no assurance is expressed on the financial information;
 - (h) In the event of material departures from the Applicable Financial Reporting Framework, disclosure consistent with the requirements of paragraph 9.3;
 - (i) if applicable, identification that the Member in Public Practice is reporting on a Special Purpose Financial Statement and the specific purpose for which it has been prepared;
 - (j) the date of the report;
 - (k) the Member's or Firm's address;
 - (l) the Member's or Firm's name and signature;
 - (m) an appropriate disclaimer of liability.
- 11.6 The financial information compiled by a Member in Public Practice shall contain a reference such as "Unaudited", "Compiled without Audit or Review", or "Refer to Compilation Report" on each page of the Compiled Financial Information or on the front of the Financial Statements.

12. Communication of significant matters

- 12.1 A Member in Public Practice shall communicate in writing to Those Charged with Governance of the Client significant matters arising from the Compilation Engagement.
- 12.2 If the Member in Public Practice has obtained information that indicates that a material fraud or illegal act exists, the Member shall communicate these matters as soon as practicable to Those Charged with Governance of the Client.

12.3 Matters which should be communicated by the Member in Public Practice include:

- (a) material misstatements identified during the Compilation Engagement and the appropriate amendments agreed with the Client in respect of the misstatements;
- (b) additional information sought by the Member as a result of information supplied which contained material misstatements or was otherwise unsatisfactory;
- (c) if additional information sought by the Member is not supplied:
 - (i) the effect that the lack of additional information may have on the Compiled Financial Information;
 - (ii) the effect of the lack of additional information on the Member's report; and
 - (iii) if appropriate, the fact that the Member proposes to withdraw from the Compilation Engagement as a result of the lack of additional information;
- (d) any other matters that, in the Member's opinion, are significant in the context of the Compilation Engagement.

13. Subsequent discovery of facts

13.1 Subsequent to the completion of the Compilation Engagement, the Member in Public Practice may become aware of facts that existed at the date of completion of the Compilation Engagement which may have caused the Member to believe that information supplied was materially false or misleading had the Member been aware of such facts. The Member in Public Practice should consider the impact of these findings on the Compiled Financial Information, discuss the matter with the Client, and take action appropriate in the circumstances. The action taken by the Member in Public Practice will depend on the Member's legal rights and obligations.

13.2 If the Member in Public Practice believes that the Compiled Financial Information referred to in paragraph 13.1 needs to be revised the Member shall take all reasonable steps to ensure that the Client take the necessary steps to ensure that anyone who received the previously issued Compiled Financial Information is informed of the situation.

13.3 The Member in Public Practice shall notify Those Charged with Governance of the Client if the Client does not take appropriate action and fails to revise the Compiled Financial Information.

Conformity with International Pronouncements

APES 315 and ISRS 4410

The basic principles and essential procedures of APES 315 and of ISRS 4410 *Engagements to Compile Financial Information* issued by the International Auditing and Assurance Standards Board (IAASB) are consistent in all material respects, with the exception that the Scope and application and Definitions of APES 315 are unique to this standard and that ISRS 4410 does not specifically require the following:

- When undertaking a Compilation Engagement in respect of a General Purpose or Special Purpose Financial Statements, the need to comply with APES 205 *Conformity with Accounting Standards*;
- Documentation and communication of Terms of Engagement in accordance with APES 305 *Terms of Engagement*;
- Compilation reports include, where applicable, identification that the Member in Public Practice is reporting on Special Purpose Financial Statements and the specific purpose for which it has been prepared;
- Inclusion of appropriate disclaimers of liability in compilation reports
- Communication of significant matters arising to Those Charged With Governance of the Client;
- Procedures to follow when there is subsequent discovery of facts which suggest that the Compiled Financial Information may be materially misstated.