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Basis for Conclusions: APES 315 Compilation of Financial Information (Formerly APS 9)

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

BASIS FOR CONCLUSIONS:

APES 315 Compilation of Financial Information (Formerly APS 9)

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 APES 315.

The basis for conclusions **does not** form part of APES 315 Compilation of Financial Information and is not a substitute for reading the standard.

Background

Accounting Professional & Ethical Standards Board Limited (APESB) has issued the Standard APES 315: *Compilation of Financial Information* setting out mandatory requirements and guidance for members in public practice. Members in business should apply this standard to the extent practicable especially in relation to compilation of financial reports in accordance with ASIC Class Order CO 98/1417 *Audit relief for proprietary companies*.

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 which has necessitated a review and reissue of this Standard. Further, APES 315 has extended the scope from financial reports to financial information.

APES 315 includes mandatory requirements and guidance in respect of:

- The responsibility of a member in public practice to follow APES 110: *Code of Ethics for Professional Accountants* (the Code) in the context of compilation engagements;
- The requirement to document and communicate the terms of engagement;
- The obligations 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.

It is intended that the Standard will be operative from 1 January 2009.

APESB issued an exposure draft of the proposed standard on 4 March 2008 with a comment deadline of 22 April 2008. APESB received submissions from the professional bodies, seven professional firms and the Australian Securities & Investments Commission. As a result of the comments received, APESB made a number of changes when finalising the text of APES 315 Compilation of Financial Information. The following narrative summarises the more significant issues raised by respondents and how APESB addressed them.

Compilation of Financial Information (Formerly APS 9)

Independence disclosure (Paragraph 3.4 & 3.5)¹

Respondents noted that the ED was silent about disclosure of whether the member undertaking a compilation engagement is independent of the client. The importance of this disclosure was highlighted by respondents who noted key benefits such as the promotion of transparency and as a risk management strategy for the member. The ED excluded the independence disclosure as independence is not a requirement for a member to perform a compilation engagement. However, this disclosure is a mandatory requirement in the existing APS 9 and is included in the international equivalent as guidance. APESB considered this issue and decided to follow the international approach and included the independence disclosure as guidance in APES 315.

Inclusion of the planning requirement in the standard (Paragraph 5.1)

Respondents raised the issue of a need to include a planning requirement particularly given the detailed documentation requirements of APES 315 in paragraph 10. There is a general expectation that members in public practice should plan all engagements. Accordingly, APESB amended the standard to include a mandatory planning requirement to ensure that the engagement is conducted in accordance with this standard and all applicable professional standards and regulations. The extent of the required planning for an engagement is not discussed as this is a matter for professional judgement by the member and will depend on the circumstances of each engagement.

Information supplied is materially false or misleading (Paragraph 8.3)

The intention of this paragraph is to ensure that the member in public practice considers performing appropriate additional procedures when the member is of the view that the information supplied is materially false or misleading. One respondent raised a concern that the member may not have sufficient skills to perform such procedures and that the procedures will expand the scope of the compilation engagement. APESB considers that the procedures outlined in paragraph 8.2 would generally fall within the expected skill set of a member in public practice. Further, the member is not required to perform a comprehensive review or form an opinion on internal controls. The procedures performed are intended to help the member become familiar with the internal controls that exist in the client's business which monitor and control the relevant financial information.

Compilation engagement procedures and the review requirement (Paragraph 8.5)

One respondent raised a concern that APES 315 does not specifically state that the member should review the engagement prior to issuing the compilation report. APESB considered this comment and notes that the review requirement is covered in the Code as well as APES 320 *Quality Control for Firms*. Accordingly a new paragraph was drafted to include an appropriate cross reference to Section 130 *Professional Competence and Due Care* of the Code and paragraphs 46-50 *Engagement Performance* of APES 320 *Quality Control for Firms*.

¹Paragraph numbering reflects the numbering in APES 315 and may not reflect ED 01/08.

Compilation of Financial Information (Formerly APS 9)

Obvious material misstatements (Paragraph 9.1)

Paragraph 9.1 of APES 315 requires the member in public practice to consider whether the compiled financial information is free from obvious material misstatements. Generally when an audit or review is performed a member tests or reviews the financial information to identify misstatements. When performing a compilation engagement a member does not perform any verification procedures. Thus the use of the term “obvious” requires the member to use professional judgement, and make an assessment based on knowledge gained from the procedures outlined in paragraph 8.1 (knowledge of the business, industry accounting principles & practices, form and content of information). Obvious material misstatements include material misstatements identified by the member in accordance with paragraph 9.2.

Appropriate amendments for material misstatements (Paragraph 9.4)

One respondent noted that in recurring compilation engagements (e.g. financial reports compiled monthly), where a material misstatement is identified, the most appropriate course of action may be to correct that misstatement in a subsequent period (i.e. next month). This paragraph does not prohibit such a correction; rather the intention is that reasonable steps are taken to agree with the client what the member considers to be an appropriate amendment.

Obtaining client acknowledgement (Paragraph 11.2)

Some respondents noted that the member is required to obtain an acknowledgement from the client when undertaking compilation engagements of general purpose and special purpose financial statements but not for other compilation engagements. Respondents noted that in certain circumstances it may be important for the member in public practice to obtain a representation from the client, which acknowledges the client’s responsibility for the reliability, accuracy and completeness of the accounting records and disclosure to the member of all material and relevant information. APESB considered this issue and included a guidance paragraph which states that a member should obtain an acknowledgement from the client for other compilation engagements.

Compiled information restricted for internal use (Paragraph 12.2)

The term “restricted for internal use” was raised as confusing by a respondent. The introductory sentence of paragraph 12.2 refers to information that is only compiled for internal use by a client. A compilation report is not required if the compiled financial information is for internal use only.

Clarification of what is included in a compilation engagement (Paragraph 12.7)

The standard requires each page of compiled information to be identified with a reference such as “unaudited” or “compiled without audit or review”. The purpose of this is for the member in public practice to clearly identify the compiled financial information that is the subject of the compilation engagement.

Compilation of Financial Information (Formerly APS 9)

Inclusion of examples of compilation reports (Appendix 1)

Several respondents requested that APES 315 include examples of compilation reports for the benefit of members. APESB considered the merits of providing examples of compilation reports for general purpose and special purpose financial statements and determined that this would be beneficial. Further, this will also achieve greater consistency in the format of compilation reports attached to general purpose and special purpose financial statements. Accordingly, example compilation reports have been included as an appendix to the standard.