

Constituents' Submissions – Specific Comments Table
Exposure Draft 02/14: APES 315 Compilation of Financial Information

Note: General comments relating to APES 315 are addressed in a separate table. This table excludes minor editorial changes.

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
1	1.1	WK	<p>Throughout the exposure draft (and also the current APES 315), there seems to be an uncomfortable tension between the assertion that a compilation engagement provides no assurance and the fact that clients are paying a member firm for a professional service and the comfort of that professional firm's expertise in financial reporting and the preparation of financial statements.</p> <p>The removal of the Objectives section (Section 4) in the current version of the standard exacerbates this tension, as the Objectives of a Compilation Engagement is a succinct positive statement that sets the tone for the standard that follows. The section sets out what the engagement was designed to achieve and clarifies from the outset why such an engagement is not an assurance engagement. While much of the material is also in 1.1 of the ED, the impact is lost within the objectives of the standard as a whole.</p>
2	Definition	CPA/Chartered Accountants ANZ	<p>Special purpose financial statements</p> <p>We acknowledge that the definition of <i>special purpose financial statements</i> in the proposed standard is the same as that in ASA 800 <i>Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i>. However, we do not consider this definition is appropriate because it appears to prescribe the requirements of a special purpose framework. By way of example, the definition refers to the inclusion of an assertion statement, when this may not be a requirement of all special purpose frameworks. We recommend the definition be amended to “<i>means a financial report prepared in accordance with a special purpose framework</i>” to align it with the international definition.</p>
3	Definition	CPA/Chartered Accountants ANZ	<p>Other matters</p> <ul style="list-style-type: none"> The term <i>fair presentation framework</i> and <i>compliance framework</i> are defined within the definition for <i>applicable financial reporting framework</i>. However, in addition to this the term <i>compliance framework</i> is also defined separately. We recommend consistency in the approach to defining these terms to avoid any misunderstanding.
4	Definition	CPA/Chartered Accountants ANZ	<ul style="list-style-type: none"> The IAASB's exposure draft; <i>Addressing Disclosures in the Audit of Financial Statements</i> proposes changes to the definition of <i>financial statements</i> (ISA 200, Para. 13(f)). We would encourage the APESB definition to be reconsidered upon changes that may incur at the international level, thereby ensuring that Australia is not misaligned.

Exposure Draft 02/14: Proposed Revised Standard: APES 315 Compilation of Financial Information

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
5	Definition	WK	However, we are puzzled as to why compilation of financial statements for a tax return is excluded from the scope of a compilation report. These statements also require the knowledge of standards and regulations and exercise of judgement and are more than the relaying of information excluded by subparagraph (c) of the definition of a compilation engagement. In our view, (c) would constitute the only reason for a disclaimer report.
6	Section 5	WK	We note that Section 5 encourages a member in public practice to consider his/her obligations under APES 320 <i>Quality Control for Firms</i> if he or she is of the view that the financial framework selected by the client is not appropriate. In our view, it would also be helpful if members were reminded that they have the option to decline to issue a compilation report where the client wants a general purpose financial report, but is unwilling to comply with accounting standards.
7	5.1 - 5.3	IPA	<p>Paragraph 5.1 is a new paragraph that states, inter alia, "...that it is the Client's responsibility to <u>determine</u> the Applicable Financial Reporting Framework to the adopted..." (our <u>emphasis</u> added). In relation to the use of the word "determine" we question if the intent was for the Member in Public Practice (Member) not to be able to assist the Client in making the determination?</p> <p>The wording of paragraph 5.3 indicates that the Member should not assist the client in that determination when it states that the framework is "...selected by a Client...". Was it the intention of the APESB that Members not be allowed to provide assistance to the Client in when determining the Applicable Financial Reporting Framework? It is our contention that rather than reminding Members at paragraph 5.2 and 5.3 that the Client's incorrect choice of reporting framework needs to be considered, that Members should be encouraged to assist the Client ensure that the correct Financial Reporting Framework be chosen in the first place.</p> <p>Elsewhere in APES 315 Members are permitted to assist the Client with judgements regarding amounts and disclosures, we suggest that Members assist the Client with ensuring the Applicable Financial Reporting Framework is determined correctly, as long as the Client acknowledges ultimately responsibility for the determination.</p>
8	Section 8 Section 9	WK	When a client pays a firm of chartered accountants to compile a set of financial statements, there is an expectation of expertise in the application of accounting standards and principles, preparation of financial statements, use of disclosures to provide meaningful information to users and the associated exercise of professional judgement where necessary. The reports function in a bookkeeping package such as MYOB is capable of generating basic financial statements from primary data. The accountant's judgment comes into play and adds value for the client in determining whether the client has met more complex accounting standards requiring estimation, such as AASB 136 and AASB 139 relating to impairment, or standards relating to accounting for groups of entities. In exercising professional judgment, the accountant does not need to perform the verification work required by an audit, but he or she does need to apply common sense and make sufficient enquiries to be satisfied that the standards have been complied with. There is already a requirement to do this in Sections 8 and 9 of the current APES 315, but in our experience these Sections are not given the attention they deserve at present.

Exposure Draft 02/14: Proposed Revised Standard: APES 315 Compilation of Financial Information

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
9	Section 8	WK	We also welcome the expansion of Section 8 to give further guidance in paragraphs 8.2 and 8.3 as to how the documentation requirements might be complied with.
10	9.1 – 9.4	CPA/Chartered Accountants ANZ	Para. 9.1—9.4 relating to the responsibility of the client appears to duplicate some of the requirements in Para. 6.2(f) with regards to the content of the engagement letter, but they are not entirely consistent. We recommend that these requirements are clarified and cross-referenced to avoid uncertainty.
11	9.2	WK	As an example of the inherent tension, on the one hand, paragraph 9.2 states that the member should inform the client “that the Client retains responsibility for the reliability, accuracy and completeness of the accounting records and disclosure to the Member of all material and relevant information.” On the other hand, paragraph 7.2 states that the member “shall assess whether the Compiled Financial Information in respect of the Compilation Engagement is appropriate in form and content and free from Misstatements”. In our experience, member firms have been emphasising the client’s responsibility for the financial information and focussing less on their firm’s obligation to prepare financial statements that make sense in the context of the client’s business. Applying accounting standards to compile financial statements with meaningful disclosures requires the exercise of professional skill and judgment, but in a different way from auditing.
12	10.3 Appendices 2 & 5	CPA/Chartered Accountants ANZ	<p>Compilation report</p> <p>The proposed standard does not require a compilation report to be issued in certain circumstances (i.e. where a member compiles financial information for internal use only by the client). The compilation report communicates the nature and scope of the work undertaken for the compilation engagement, including its limitations, and outlines the respective roles and responsibilities in respect of the engagement. On the basis of this communicative value, we note it would be unusual for a member not to provide a report at the conclusion of an engagement, and in practice it is likely that a member will issue a compilation report regardless.</p>
13	10.10 Section 2 (Applicable Financial Reporting Framework) Conformity Appendix 4 Example 3	CPA/Chartered Accountants ANZ	<p>Departures from the applicable financial reporting framework</p> <p>We support the use of the compilation report to draw attention to the disclosure of departures from the applicable financial reporting framework. We are concerned this may be misinterpreted to mean that any departures from the applicable financial reporting framework are permitted so long as they are communicated in the compilation report. The standard needs to be clear this is not an acceptable approach. Therefore, we recommend that the circumstances under which departures from the applicable financial reporting framework may be permitted is clarified in the standard.</p> <p>In addition, further guidance would be well received on what a member should do if they identify errors or omissions in the client’s underlying accounting records.</p>

Exposure Draft 02/14: Proposed Revised Standard: APES 315 Compilation of Financial Information

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
14	10.10 (o)	CPA/Chartered Accountants ANZ	The requirement in Para. 10.10(o) that refers to <i>“the engagement being performed in accordance with this standard”</i> is a duplication of the requirement in Para. 10.10(c). We also consider that the requirement in Para. 10.10(o) that <i>“the member has complied with relevant ethical requirements”</i> is better placed in Para. 10.10(c).
15	11.3	IPA	<p>Paragraph 11.3 (which appears to be extant paragraph 13.3 amended), has had the word “material” removed from Misstatement. The new definition of “Misstatement” does not make direct reference to materiality.</p> <p>Was it the intention of the APESB to amend paragraph 11.3 to require Members to communicate ALL Misstatements as soon as practicable to Those Charged with Governance? Or is the intention that only Misstatements related to fraud or illegal acts be communicated to Those Charged with Governance as soon as practicable? Whilst we agree that fraud and illegal acts should be reported as soon as practicable, we believe the reporting of ALL Misstatements (either material or not) is an unintended consequence of the redrafting.</p> <p>During the performance of a Compilation Engagement the Member will encounter numerous Misstatements made by management of the Client, and indeed that is the reason why these engagements are performed by Members in the first place. It would therefore be an unreasonable burden on Members, management and Those Charged with Governance if every Misstatement, regardless of its nature, were reported by the Member as it reads in paragraph 11.3 as drafted.</p>
16	Appendix 1	CPA/Chartered Accountants ANZ	In the decision tree in Appendix 1 the terms “included activity” and “excluded activity” are used, however they are not defined. We believe this is referring to activities which are inside and outside the scope of a compilation engagement respectively, but this linkage is not made in the proposed standard.
17	Appendix 1	IPA	<p>Appendix 1 contains a new decision tree for determining whether an Engagement is a Compilation Engagement.</p> <p>The last bullet point of the first decision diamond asks. <i>“Is the activity an included activity?”</i>. We question what an “included activity” means as this term is not defined or referred to anywhere else in the ED?</p>
18	Appendix 2	CPA/Chartered Accountants ANZ	The second question in the decision tree in Appendix 2 would benefit from clarification that it is internal use <u>by the client</u> to avoid any potential confusion.
19	Appendix 2	IPA Accountants ANZ	<p>Appendix 2 contains a new decision tree for determining when a Compilation Report should be issued.</p> <p>The decision tree begins with a very large diamond that asks four distinct and separate questions? We suggest there may be value in splitting the diamond into separate diamonds in order to assist readers understand that the questions are distinct and separate. See attached for suggested example.</p>

Exposure Draft 02/14: Proposed Revised Standard: APES 315 Compilation of Financial Information

Staff Instructions:

- Comments of a “general” nature should be dealt with first, followed by paragraph specific comments.
- Respondents’ comments must be copied verbatim into this table.
- Comments should be dealt with in paragraph order, not respondent order. Use acronyms only for respondents. Update the attached table with details of additional respondents.

RESPONDENTS

1	CPA/Chartered Accountants ANZ	CPA Australia & Chartered Accountants Australia and New Zealand
2	PwC	PricewaterhouseCoopers
3	IPA	Institute of Public Accountants
4	WK	Westworth Kemp Consultants