

APESB

Accounting
Professional and
Ethical Standards Board

Six monthly review of APES 315 *Compilation of Financial Information* issued in July 2008

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1. Executive Summary

1.1. Background

APESB issued APES 315 *Compilation of Financial Information* in July 2008 with an effective date of 1 January 2009. APES 315 replaced APS 9: *Statement on Compilation of Financial Reports*.

1.2. Reason for this report

In accordance with the constitution of the APESB, a review needs to be performed six months after a new standard is effective. This report presents a review of the issues reported to the APESB and proposed recommendations to address the issues.

1.3. Issues identified

The following issues have been reported to the APESB:

1. APES 315 do not refer to professional obligations in respect of Confidentiality in Section 3 *Fundamental responsibilities of Members in Public Practice* similar to other APES Standards.
2. The terminology used in respect of the income statement and balance sheet has changed in the revised AASB 101 *Presentation of Financial Statements*, which is applicable to reporting periods commencing on or after 1 January 2009.
3. The example compilation report in respect of special purpose financial statements in Appendix 1 of APES 315 is unlikely to be appropriate for a small proprietary company or small businesses. These entities may not prepare reports which include all the statements noted in example 2 of Appendix 1.
4. A stakeholder has commented that the term “accounting expertise” contained within paragraph 4.1 and the example compilation reports in Appendix 1 of APES 315 is onerous and misleading. The stakeholder has noted that it also contradicts paragraph 8.2 of the standard.

1.4. Summary of Recommendations

It is recommended that:

1. In the next revision of APES 315 include professional obligations in respect of Confidentiality in Section 3 *Fundamental responsibilities of Members in Public Practice*.

2. In the next revision of APES 315 amend the terminology relating to the income statement and balance sheet to statement of comprehensive income and statement of financial position to reflect the requirements of the revised AASB 101 *Presentation of Financial Statements*.
3. Present references to components of the financial statements in Appendix 1 of APES 315 in square brackets to signify that they are only examples and members need to tailor the compilation report to suit the requirements of the relevant entity and engagement.
4. No changes are proposed in respect of paragraph 4.1, 8.2 or the example compilation reports presented in Appendix 1 of APES 315.

2 Review of Implementation Issues

2.1 APES 315 do not refer to a Member in Public Practice's professional obligations in respect of Confidentiality.

Issue

During the course of a compilation engagement it is possible for a Member to obtain confidential information. However, Section 3 *Fundamental responsibilities of Members in Public Practice* of APES 315 do not address a member in public practice's professional obligations in respect of Confidentiality similar to other APES Standards.

Impacted Stakeholders

Members in public practice, firms and professional accounting bodies.

Recommendation

In the next revision of APES 315 include professional obligations in respect of Confidentiality in Section 3 *Fundamental responsibilities of Members in Public Practice*.

2.2 Financial statement components referred to by APES 315 do not reflect the terminology required by the revised AASB 101 *Presentation of Financial Statements*.

Issue

The terminology used in respect of the income statement and balance sheet has changed in the revised AASB 101 *Presentation of Financial Statements* to statement of comprehensive income and statement of financial position. The revised AASB 101 is applicable to annual reporting periods beginning on or after 1 January 2009. Appendix 1 of APES 315 does not currently reflect the new terminology.

Impacted Stakeholders

Members in public practice, firms and professional accounting bodies.

Recommendation

In the next revision of APES 315 amend Appendix 1 to reflect the new terminology in accordance with the requirements of the revised AASB 101.

2.3 The example compilation report in respect of special purpose financial report in Appendix 1 of APES 315 is likely to be inappropriate for small proprietary companies or small businesses.

Issue

Example 2 in Appendix 1 of APES 315 refers to a compilation report in respect of special purpose financial statements. Stakeholders note that not all the statements noted in the compilation report will be provided in respect of a small proprietary company. Whilst the compilation reports in Appendix 1 are examples only, some software providers are copying the examples verbatim and are not indicating that these need to be tailored depending on the circumstances.

Impacted Stakeholders

Members in public practice, firms and professional accounting bodies.

Recommendation

All references to components of financial statements contained within the Appendix 1 of APES 315 should be presented in square brackets. This will indicate the need to tailor the wording of the compilation report to the suit the relevant entity or the requirements of the engagement.

2.4 The term “accounting expertise” contained in paragraph 4.1 and in the example compilation reports in the Appendix 1 of APES 315 is onerous and misleading. This phrase also contradicts paragraph 8.2 of the standard.

Issue

A stakeholder has raised concern that the term “accounting expertise” in paragraph 4.1 of APES 315 and the example compilation report implies a sophisticated collection process of information.

Paragraph 4.1 notes that the objective of a compilation engagement is for the member to use accounting expertise as opposed to audit expertise, to collect, classify and summarise financial information. The intention of this wording is not to imply a sophisticated collection process. The intention is to state that a member needs to apply relevant accounting knowledge to the engagement to obtain information that is appropriate and relevant to the compilation of financial information (as opposed to the auditing of that information).

Another related concern raised is that the wording of the suggested compilation report in APES 315 refers to the “use of accounting expertise” and that this phrase is in potential conflict with paragraph 8.2 of APES 315. Paragraph 8.2 of APES 315 states that “a Member in Public Practice is not ordinarily required to make any inquiries of management to assess the reliability and completeness of the information provided”. Paragraph 8.2 includes procedures that are generally performed in an audit or review engagement. Accordingly, it should be read in context of the whole standard as it states that these procedures will generally be not performed in a compilation engagement.

Whilst paragraph 8.2 states that specific inquiries need not be made (similar to an audit process), it does not absolve a member from applying accounting expertise to the engagement. Further, paragraph 3.3 mandates that the member “shall maintain professional competence and take due care”, both requirements which imply a level of expertise being applied to the engagement.

Consistent with APES 315, the international standard, ISRS 4410 also makes reference to the term “accounting expertise” in the objective of financial statements. Further, the equivalent New Zealand standard SES-2 *Compilation of Financial Information* (issued in 2006), similarly refers to the term “accounting expertise” in the standard as well as in the example compilation reports.

Impacted Stakeholders

Members in public practice, firms and professional accounting bodies.

Recommendation

Given the consistency of APES 315 with international equivalents noted above, and that the member is expected to use a certain degree of accounting expertise when involved in a compilation engagement, no changes are proposed to paragraph 4.1, 8.2 or the example compilation reports in APES 315.