

October 2022



Basis for Conclusions: APES 205 Conformity with Accounting Standards

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

BASIS FOR CONCLUSIONS:

Revised APES 205 Conformity with Accounting Standards

This basis for conclusions has been prepared by the Technical Staff of Accounting Professional & Ethical Standards Board Limited ("APESB") and approved by the Board of Directors of APESB. It is provided for the benefit of stakeholders to gain an understanding of the background to the revised APES 205 *Conformity with Accounting Standards* (APES 205).

The basis for conclusions **does not** form part of APES 205 and is not a substitute for reading the Standard.

Background

The APESB originally issued APES 205 in December 2007, and then revised it in October 2015 and December 2019.

APES 205 specifies professional accountants' professional and ethical obligations when they prepare, present, audit, review or compile financial statements, including taking reasonable steps to ensure Reporting Entities prepare General Purpose Financial Statements (GPFS) and Special Purpose Financial Statements (SPFS) include the required disclosures.

Recent amendments by the Australian Accounting Standards Board (AASB) have resulted in the following outcomes:

- for annual reporting periods beginning on or after 1 July 2021, the removal of the Reporting Entity concept and the ability to prepare SPFS for:
 - for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards (AAS) or accounting standards; and
 - other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS, provided that the relevant document was created or amended on or after 1 July 2021¹; and
- specific disclosures in SPFS (exceeding those required in APES 205) are required for:
 - for-profit private sector entities that are required only by their constituting document or another document (being a document created before 1 July 2021 and not amended on or after that date) to prepare financial statements that comply with AAS, for annual periods ending on or after 30 June 2022²; and
 - not-for-profit (NFP) private sector entities lodging SPFS with the Australian Securities and Investments Commission (ASIC) or the Australian Charities and Not-for-profits Commission (ACNC) for annual reporting periods ending on or after 30 June 2020.³

(These specific disclosures are collectively referred to as the 'AASB SPFS disclosures')

¹ [AASB 2020-2](#) Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.

² [AASB 2022-4](#) Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities.

³ [AASB 2019-4](#) Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements.

Appendix 1 to this basis for conclusions sets out a 'GPFS & SPFS Disclosure Requirements Decision Tree' to illustrate at a high level how the above AASB amendments are expected to apply in practice.

To address the AASB amendments, APESB issued Exposure Draft 03/22 *Proposed Standard: APES 205 Conformity with Accounting Standards* (ED 03/22) on 28 June 2022 with a comment deadline of 15 August 2022. APESB received seven submissions (including one joint submission). In response to the comments received, APESB has made the following changes from the proposals in ED 03/22 in finalising the revision of APES 205.

Changes to APES 205

The significant changes made in the revised APES 205 (2022) include:

- a) amending the definition of Assurance Engagement to align with *Amendments to Part 4B of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*;
- b) including footnotes to the definitions of Reporting Entity and Statement of Accounting Concepts 1 to highlight that the assessment of whether an entity is a Reporting Entity does not apply to the types of entities set out in paragraph 2A of the Statement of Accounting Concepts 1;
- c) amending paragraph 4.1 to remove the reference to the AASB's *Framework for the Preparation and Presentation of Financial Statements* and to include the same footnote as per b) above;
- d) changing 'significant accounting policies' to 'material accounting policies' in the definitions of Financial Statements, Special Purpose Financial Statements and subparagraph 6.1(c); and
- e) adding paragraph 6.2 to require professional accountants to take reasonable steps to ensure that an entity's SPFS comply with any applicable AAS.

The following sections of this basis for conclusions include details of significant changes made and the key issues raised by respondents and stakeholders during the development of the revised APES 205 and how APESB addressed them.

Removal of the Reporting Entity concept for certain entities

The AASB amendments impact the AASB's Statement of Accounting Concepts 1 *Definition of the Reporting Entity* (SAC 1) and the *Framework for the Preparation and Presentation of Financial Statements* (the Framework). SAC 1 defines and explains the Reporting Entity concept and establishes the minimum quality of financial reporting for such entities. The Framework sets out the concepts that underlie the preparation and presentation of financial statements.

The AASB amendments mean that SAC 1 and the Framework cannot be applied by certain for-profit private sector entities (as detailed in the Background section), or other for-profit (private or public sector) entities that elect to prepare GPFS, and makes the AASB's *Conceptual Framework for Financial Reporting* applicable to those entities instead.

To increase professional accountants' awareness of the AASB amendments when they prepare, present, audit, review or compile financial statements, APESB proposed in ED 03/22 to include footnotes to the definition of SAC 1 and paragraph 4.1 of APES 205 to highlight that the Reporting Entity concept no longer applies to certain entities and to remove the reference in paragraph 4.1 to the Framework.

Respondents did not object to these amendments. However, one respondent suggested including the same footnote to the definition of Reporting Entity. APESB agrees with this suggestion and accordingly has added the same footnote to the definition of Reporting Entity.

Alignment of APES 205 with the AASB SPFS disclosures and accounting policies

APESB proposed in ED 03/22 not to align paragraph 6.1 of APES 205 with the terminology and requirements in AAS, including not to amend '*significant accounting policies*' in subparagraph 6.1(c) to '*material accounting policies*' or '*material accounting policy information*' to align with recent AASB amendments.⁴

Although alignment would create consistency between standards, APESB believed that for entities required to comply only with APES 205, there potentially would be additional compliance costs without empirical evidence to suggest APES 205's existing requirements are deficient. However, APESB included two Requests for Specific Comment in ED 03/22 to seek stakeholders' views on these matters.

Overall alignment with the AASB SPFS disclosures

Most respondents supported APESB's approach, with some respondents noting that the AASB SPFS disclosures were developed to address user needs where entities claim compliance with AAS and that the additional requirements are not appropriate on a cost-benefit basis to apply to all other SPFS.

One respondent suggested paragraph 6.1 of APES 205 should be consistent with AASB 1054 *Australian Additional Disclosures* (AASB 1054), where there are commonalities between required disclosures and should be expanded to require disclosure of changes in accounting policies and information about consolidation and equity accounting. APESB disagrees as such additional disclosures have not been required by APES 205, or its predecessor standards, for several decades, and to date, other stakeholders have not requested their inclusion.

Another respondent suggested that paragraph 6.1 of APES 205 should align with the additional AASB SPFS disclosures, but with some simplifications. APESB believes this would make APES 205 unnecessarily onerous for entities that need to comply only with APES 205.

Accordingly, APESB has not amended paragraph 6.1 to align with the terminology and requirements in AAS, except as discussed in the following section.

Change to 'material accounting policies'

Some respondents supported APESB retaining the term '*significant accounting policies*' in subparagraph 6.1(c) of APES 205, as a shift to '*material accounting policies*' would require changes to existing practices. However, most respondents disagreed with APESB's proposal, believing subparagraph 6.1(c) of APES 205 should be amended to '*material accounting policies*' or '*material accounting policy information*' primarily due to the following reasons:

- there is an international shift away from 'significant' and 'material' is more readily understood and provides more meaningful information;
- retaining 'significant' could create diversity in interpretation and require preparers to apply knowledge based on two separate concepts;

⁴ [AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates](#) and [AASB 2021-6 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards](#).

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- 'material' is widely used, includes quantitative and qualitative factors and promotes consistency, whereas 'significant' may have different interpretations and is more focused on quantitative factors; and
- to improve consistency and remove any ambiguity associated with the undefined term 'significant' and to enable preparers to use AASB information and frameworks on materiality concepts.

On balance, APESB agrees with the majority view of the respondents and has amended '*significant accounting policies*' to '*material accounting policies*' in subparagraph 6.1(c) and the definitions of Financial Statements and Special Purpose Financial Statements in APES 205.

The requirement to take reasonable steps for certain SPFS to comply with AAS

To avoid unnecessary duplication, in ED 03/22, APESB proposed a new paragraph 6.2 of APES 205 that scoped-out those entities with SPFS required to comply with AAS from the SPFS disclosure requirements in paragraph 6.1 of APES 205. APESB also included a Request for Specific Comment in ED 03/22 to seek stakeholders' views on whether any other entities should be exempted.

APESB received mixed responses to this proposal, including that:

- any exemption should be based on compliance with the relevant AAS and not entity type as proposed in ED 03/22, however, there was no consensus on how to achieve this;
- all entities preparing SPFS should disclose the information in paragraph 6.1 of APES 205, which will ensure that the objective of APES 205 for consistency in critical disclosures is maintained;
- the proposed paragraph does not incorporate other entities that prepare similar disclosures to paragraph 6.1 of APES 205 under AAS;
- the proposed paragraph should be removed as paragraph 6.1 of APES 205 should apply to all SPFS and be consistent with the AASB SPFS disclosures; and
- three respondents supported the proposal but did not identify any additional entities to be exempted.

APESB acknowledges the advantages of referring to AAS rather than listing specific entities, which would enable scope changes within AAS without the need to revise APES 205. However, APESB is not in a position to state that compliance with AAS satisfies the requirements of APES 205.⁵

Accordingly, APESB amended paragraph 6.2 of APES 205 to require the professional accountant to take reasonable steps to ensure that an entity's SPFS complies with any applicable AAS.

APESB has also added a footnote to paragraph 6.2, noting that some entities are permitted to prepare SPFS with reference to AAS. The footnote includes a non-exhaustive list of relevant references to paragraphs 7(a), 18A(a) and 18A(e) of AASB 1057 *Application of Australian Accounting Standards* (AASB 1057) and section 60.30 of the Australian Charities and Not-for-

⁵ Refer to clause 7.2 of APESB's [Due process and working procedures for the development and review of APESB pronouncements](#).

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profits Commission Regulations.⁶ APESB believes this will assist professional accountants to understand their obligations under AAS.

Paragraphs 7(a) and 18A(a) of AASB 1057 state that the following AAS apply to NFPs required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* (such as companies limited by guarantee), which includes NFPs that are not Reporting Entities and therefore permitted to prepare SPFS:

- AASB 101 *Presentation of Financial Statements* (AASB 101) (unless the entity applies AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060));
- AASB 107 *Statement of Cash Flows* (AASB 107) (unless the entity applies AASB 1060);
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108);
- AASB 1048 *Interpretation of Standards* (AASB 1048); and
- AASB 1054.

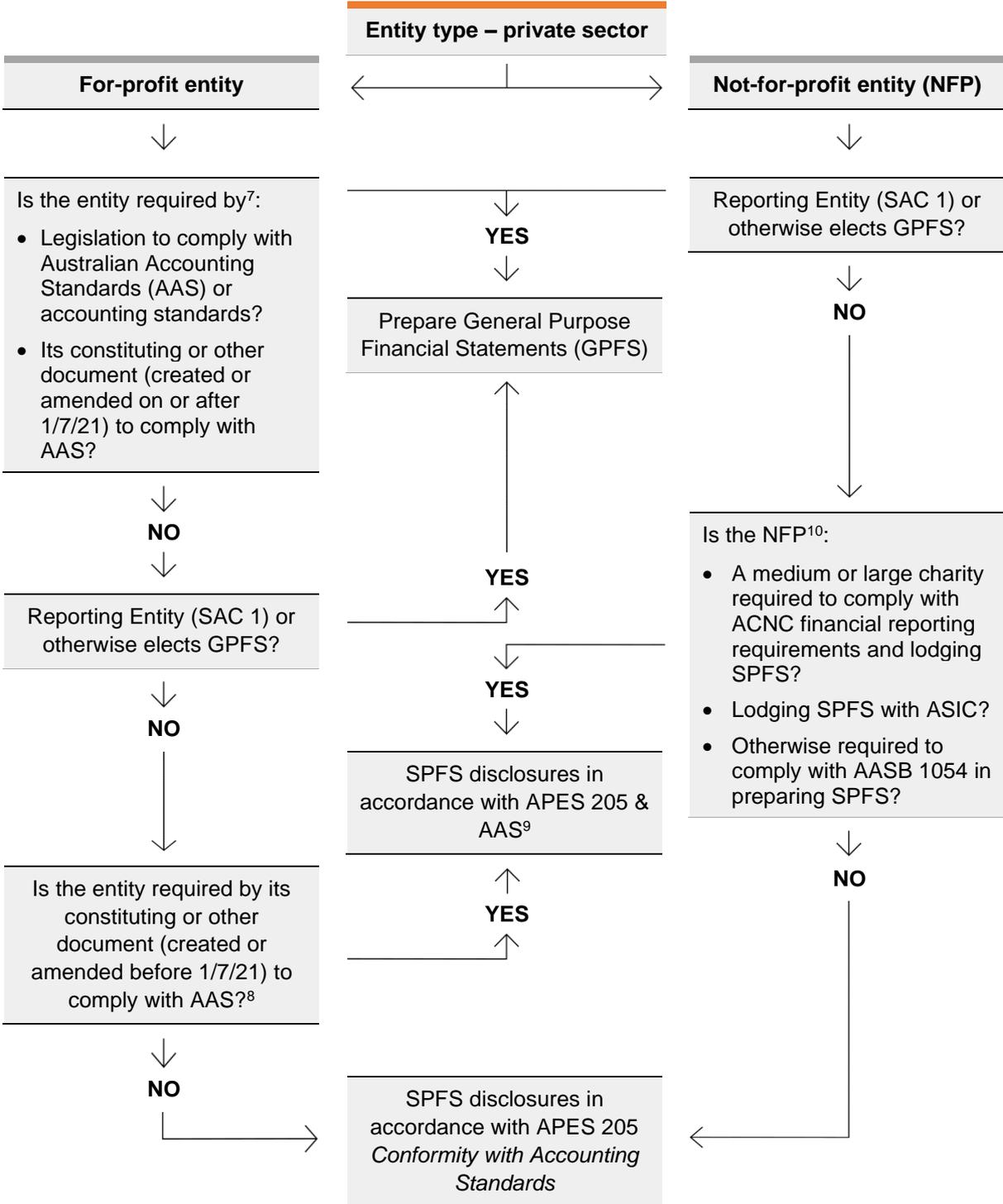
Paragraph 18A(e) of AASB 1057 states that AASB 1054 applies to other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS. Where that document was created before 1 July 2021 and not amended on or after that date, such an entity is permitted to prepare SPFS if it is not a Reporting Entity.

Section 60.30 of the ACNC Regulations sets out specific AAS that medium or large registered charities (that are required to follow ACNC financial reporting requirements) must comply with when preparing SPFS. The relevant standards are AASB 101, AASB 107, AASB 108, AASB 124 *Related Party Disclosures*, AASB 1048 and AASB 1054 (subject to the clarifications and exceptions set out in section 60.30).

APESB acknowledges that entities other than those detailed above that prepare SPFS may have additional requirements under AAS. For example, this may occur where a constituting document, contract or agreement requires compliance with one or more AAS. In such circumstances, paragraph 6.2 of APES 205 would apply.

⁶ [Australian Charities and Not-for-profits Commission Regulation 2013](#) is currently effective, however, the [Australian Charities and Not-for-profits Commission Regulations 2022](#) were made on 29 September 2022 and commence on 1 April 2023. Paragraph 6.2 of APES 205 uses 'Australian Charities and Not-for-profits Commission Regulations' to refer to both sets of regulations.

Appendix 1 – GPFS & SPFS Disclosure Requirements Decision Tree



⁷ [AASB 2020-2](#) Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.
⁸ [AASB 2022-4](#) Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities.
⁹ See paragraphs 7(a), 18A(a) and 18A(e) of AASB 1057 Application of Australian Accounting Standards and section 60.30 of the Australian Charities and Not-for-profits Commission Regulations.
¹⁰ [AASB 2019-4](#) Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements.