

TECHNICAL STAFF PAPER

Subject: Position Paper: Structure of APES 315

Purpose

The purpose of this paper is to provide:

- A summary of Taskforce comments raised during the meeting to discuss the revision of APES 315 *Compilation of Financial Information*; and
- Technical staff views and recommendations.

A summary of the Taskforce comments and Technical staff views/recommendations on the issues raised is given below.

1. Taskforce Comments

(i) Structure of the proposed Revised APES 315

At the second Taskforce meeting the Taskforce considered a draft of the proposed revised APES 315 *Compilation of Financial Information*. Technical Staff had prepared the draft adopting a similar approach taken by APESB when adopting ISQC 1 for the Australian environment as APES 320.

At the time APES 320 was revised in 2009, the APESB Board considered the structure the Board would adopt (the IAASB Clarity format vs. APESB's format of having the guidance immediately follow the requirements) in respect of ISQC 1. The Board determined that it is useful for Members when the guidance immediately follows the requirements and determined to use APESB's format rather than adopting the IAASB's clarity format.

Analysis of Taskforce Comments

Some Taskforce members presented the view that the proposed Revised APES 315 should be structured in the same manner as the *International Standard on Related Services* (ISRS 4410) upon which it is based. That is, the requirements are listed all in sequences with reference to guidance material which is listed at the back of the standard. This is the standard structure for pronouncements of the IAASB (i.e. clarity format). The primary reasons for this view are summarised below:

- Due to auditing standards as well as the Code having the force of law in Australia, regulatory inspections of Audit Firms and the professional accounting bodies' quality review processes are quite rigorous and they often focus on the requirements therefore it is useful to have them upfront;
- Regulatory reviews and inspections have become much more sophisticated and rigorous and consequentially accounting practices have needed to develop their internal control and monitoring processes.

- One of the features of a quality control system is to map the Firm's internal quality controls to the requirements in the applicable standards. This task is facilitated through structuring standards to segregate requirements and guidance. This also means that when there are regulatory inspections, there is less scope for differences of opinion between a firm and a regulator as the "must do" requirements are clearly identifiable.
- For Firms following both international and Australian standards there is scope to leverage from systems and processes through international affiliations and thereby reduce compliance costs of a practice.

Refer to further details in the taskforce member's attached email.

Technical staff views are:

Technical Staff are of the view that the structure of a standard does not affect its content and that the international structure is not necessarily superior to APESB's structure in terms of identifying the requirements of a standard. The primary reasons for this view are summarised below:

- Two of the three international standards setting Boards for accountants follow the structure of mandatory paragraphs immediately followed by grey letter paragraphs (IESBA and IASB).
- Of the three local standards setting Boards, only the AUASB follows the IAASB structure of requirements upfront and guidance at the back of the standard. AASB standards follow a similar structure and approach as the APESB standards.
- The AUASB standard *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, Paragraph 19 requires the auditor to:

"have an understanding of the entire text of an Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly".

Accordingly whilst the clarity format may be adopted it is clear that the entire text needs to be reviewed and understood. Whilst the importance of the regulators or oversight body reviews on the requirements is acknowledged, the Member must read the whole Standard to properly apply the entirety of Standard. Therefore it is reasonable to place the guidance directly alongside the requirements to which it pertains to assist the Member to not overlook matters of relevance. Further, whilst from a risk based approach the regulator may be focussing on the requirements as represented by the taskforce member, where there is an issue invariably the regulator will review the guidance as well.

- Some guidance applies only in certain contexts especially in cases of stand-alone matters or circumstances that require the application of significant professional judgment, for example the Natural Justice clause in APES 215 *Forensic Accounting Services*. Another example is that in most APES Standards the Members in Business provisions appear as guidance due to the restrictions on these Members through conditions of employment. Therefore it is important for Members to not only focus on the mandatory requirements.
- The continual focus only on mandatory requirements may lead to poor practice as the focus is on whether the Member has complied with the mandatory requirements.
- Structure is a matter of presentation and does not affect the substance or content of the proposed Standard. Further, the conformity paragraphs that are included in all APESB Standards will notify the user of variations from the International Standard (where applicable).

- APESB's 15 standards issued to date follow the structure of applicable guidance (or grey letter paragraphs) immediately following the mandatory requirements (or black letter paragraphs) and to date there are no comments recorded in the Issues Register that this structure is of significant concern to Members and stakeholders.
- The majority of Members in Public Practice who perform Compilation Engagements in Australia will belong to national Firms, SMPs or sole practitioners who have limited technical resources. They will find the existing approach in APES 315 useful as the guidance immediately follows the requirements. This is the approach in the existing APES 315 which was issued in 2008 replaced the previous APS 9 issued in 1996.
- Further the standards to which the Members performing compilation engagements are most likely to refer are AASB standards (e.g. General Purpose and Special Purpose Financial Reporting), which are structured in a similar manner to APESB standards with grey letters immediately following the black letters. Most Members who perform compilation engagements will be comfortable with the existing APESB structure which has existed since 1996 (in APS 9 and APES 315).
- The Compilation Engagement Standard is largely a self-contained standard (excluding the references to the Code and quality control which are applicable to all services) compared to an Audit Engagement where a Member will likely have to comply with a significant number of Auditing Standards when they perform an Audit Engagement. If internationally a Firm has developed a work program to comply with ISRS 4410 then it is a matter of mapping the proposed APES 315 with the work program developed by the international Firm and to do this once. Thereafter the work program can be used for Compilation Engagements in Australia.
- To assist international firms map the requirements ISRS 4410 with the proposed APES 315 with this process, Technical Staff will develop a detailed mapping of ISRS 4410 to the proposed and existing APES 315. This will assist the international firms in keeping costs down. A preliminary working draft of the mapping table is included in these agenda papers for illustration purposes.
- Further at this stage it is not clear that major jurisdictions such as USA, UK, Germany and Canada are going to adopt ISRS 4410 verbatim and in the same format. The likely outcome is that each jurisdiction will have its own version of a compilation standard. This is due to the fact that unlike Audit Engagements where there are uniform practices, the approach to Compilation Engagements is more varied across jurisdictions. Most major jurisdictions are likely to evaluate the new ISRS 4410 and then ensure that their standard is not less than the International Standard.
- The above is also a legacy of the fact that the IAASB's previous version was issued in 1990. Between 1990 and 2012, most major jurisdictions (USA, UK, Australia and New Zealand) developed their own version of the Compilation Engagement Standard that was more advanced than the previous ISRS 4410. As a result different practices emerged and each jurisdiction tailored the Compilation Engagement Standard to suit their own jurisdiction.
- Accordingly, the respective local office of an international firm will have to invariably perform some work even if an international work program is used in the local jurisdiction for Compilation Engagements.

2. Summary

Based on Technical Staff analysis of the Taskforce members' views and comments, the Board has three options to consider:

- Option 1: Structure the proposed Revised APES 315 in a similar format to the international standard;
- Option 2: Structure the proposed Revised APES 315 following a similar structure to the existing APES 315 and APES 320 *Quality Control for Firms* (which is based on IAASB's Standard ISQC1); or
- Option 3: Structure the proposed Revised APES 315 following the structure of other APESB drafted standards, i.e. with numbered sections and subsections.

Technical Staff Recommendation

There have been no significant issues noted with the existing structure of APES 315, APES 320 or of the structure of other APESB standards. Therefore Technical Staff recommend that the Board support either Option 2 or Option 3 due to:

- The suite of APESB Standards should follow the same structure;
- The majority of Members who perform Compilation Engagements will be national Firms, SMPs or sole practitioners who will benefit from the continuation of the existing approach which they have been used to for decades;
- The Member who perform Compilation Engagements is most likely to refer to the AASB Standards which are structured in a similar manner to the APESB Standards;
- There are divergent practices across jurisdictions in respect of Compilation Engagements and thus invariably an international firm will need to tailor their work program to suit the local jurisdiction even where a work program is available from an international firm;
- To assist an international firm to map the requirements APESB Technical Staff will develop a mapping document between the ISRS 4410, the proposed revised APES 315 and the existing APES 315;
- The majority of Members who perform Compilation Engagements will be national firms, SMPs and sole practitioners who will be disadvantaged if a new structure is adopted.

Technical Staff recommend that the Board maintain the existing APESB structure and at the time the Exposure Draft is issued request specific comments from stakeholders in respect of the structure.

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