

APES 315

LIVE CHAT: QUESTIONS AND ANSWERS

INTRODUCTION

The Accounting Professional & Ethical Standards Board Limited (APESB) has revised APES 315 *Compilation of Financial Information* (APES 315).

Primarily, the changes are to:

- incorporate amendments from its international equivalent ISRS 4410 Compilation Engagements
- the objectives of an engagement to compile financial information
- the guidance to determine when an Engagement is a Compilation Engagement (Appendix 1) and when a Compilation Report needs to be issued (Appendix 2)
- provide additional guidance on the Applicable Financial Reporting Framework including General Purpose and Special Purpose Financial Statements
- further clarify the responsibilities of the client, the member in public practice, and the role of management
- additional requirements and guidance where Compilation Engagements may be performed in respect of regulatory requirements or contractual obligations
- addition of an example engagement letter for Compilation Engagements
- include further examples of Compilation Reports
- example of an Accountant's Report Disclaimer for Engagements which are not Compilation Engagements.

The revised APES 315 standard will take effect from 1 July 2015.

The experts responding to member questions were:

- Channa Wijesinghe FCPA, Technical Director, APESB and Chair of APES 315 Taskforce
- Michael Cain, Principal, Cain Consulting and APES 315 Taskforce Member
- Ram Subramanian, Policy Adviser – Reporting & Audit, CPA Australia

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RESOURCES

- Revised APES 315: [Standard](#)
- Revised APES 315: [Basis for conclusions](#)
- Revised APES 315: [Technical update](#)
- [APESB website](#)

QUESTIONS AND ANSWERS

Would you give some examples of the types of engagements for which I would issue an accountants' disclaimer rather than a compilation report?

Examples include:

- when you Compile Financial Information (including Special Purpose Financial Statements) for the purpose of submitting an entity's taxation return
- providing advice on a Client's proposed purchase of another entity, using the other entity's Financial Statements or
- preparing budgets/forecasts for a Client for internal use only. (*Refer paragraph 10.3*)

Refer to Section 2 Definitions: Compilation Engagement & Appendix 1: Decision tree to determine whether an Engagement is a Compilation Engagement.

A compilation report seems a more conservative approach. To save me having the trouble of switching my computer output from one form to another, would I be wrong to just issue compilations reports on all engagements?

Yes, it would be wrong to just issue Compilation Reports for all Engagements.

A Compilation Report is only issued if:

- an Engagement meets the definition of a Compilation Engagement
- the Compiled Financial Information is not for internal use only by a Client
- the Compiled Financial Information is not subject to a subsequent audit. (*Refer paragraph 10.4*)

A Compilation Report is issued for significant matters not covered by the audit if:

- not all significant subject matters are addressed in the audit. (*Refer paragraph 10.6*)

Refer to Section 2 Definitions: Compilation Engagement, Appendix 1 & Appendix 2: Decision tree to determine when a Compilation Report should be issued.

I am not expecting my compiled financial information to be seen by anyone other than my client when I provide them with a set of accounts accompanying their tax return. But I don't know if the client will show the financial statements to anyone else. Am I adequately protected if the statements say "Restricted for internal use" on each page but the Financial Statements are subsequently distributed by the client without my knowledge?

The Member is adequately protected if the Member issues an Accountant's Report Disclaimer and a reference such as "These financial statements are unaudited and restricted for internal use only and should be read in conjunction with the attached Accountant's Report Disclaimer" is included on each page of the Compiled Financial Information.

In the Accountant's Report Disclaimer the following matters are addressed to limit a Member's liability:

- the purpose and scope section states that the Compiled Financial Information was prepared for Those Charged with Governance of Client or management and was not prepared for use by third parties or any other purpose
- the disclaimer section states that, "To the extent permitted by law, the Member does not accept liability for any loss or damage which any other person, other than the Member's Client, may suffer arising from any negligence on the Member's part; and no person should rely on the unaudited Compiled Financial Information without having an audit or review conducted."

Refer to paragraph 10.3 & Appendix 5: Example of an Accountant's Report Disclaimer.

Would it make any difference if I distribute those internal use accounts? Clients sometimes ask me (and expect as part of my being a service provider) to send accounts to the bank.

Yes, it makes a difference as then the Compiled Financial Information is for external use and the Member should issue a Compilation Report.

Can you give examples of when I would do a compilation exercise but not issue either a compilation report or an accountant's disclaimer report? I am confused by the second flowchart and would have thought I would issue one report or the other.

A Compilation Report is not required if:

- the Compiled Financial Information is for internal use only by a Client (e.g. budgets, forecasts). In these circumstances it is recommended that the Member issue an Accountant's Report Disclaimer but it is not a requirement
- the Compiled Financial Information is subject to subsequent audit where all significant subject matters are addressed. (*Refer paragraphs 10.4 & 10.6*)

Refer to Appendix 2.

When I prepare accounts from client records, I have to accept that they give me all the information to be reported. Reading this statement, it seems to suggest I have to do more work and have some responsibility for their data? If I am not auditing, how do I draw the line on how far I go to check client information?

Whilst performing the Compilation Engagement, the Member should assess whether the Compiled Financial Information is appropriate. If the Member forms a view that the information supplied by the Client to the Member is not appropriate or may contain a Misstatement, then the Member has a professional obligation to make further inquiries.

Refer to paragraphs 7.2-7.3.

There is another firm that audits the financial statements that I compile for my client. The final statements don't have the compilation report as they have the audit report on them. If all we do is send the draft accounts to the auditor for them to audit, and our firm name is never shown on the financial statements, can we avoid ever issuing a compilation report?

Yes, you can avoid issuing a Compilation Report as long as the audit report addresses the same subject matter. (*Refer to the questions above and Appendix 2*)

Reading the Appendix 2 flowchart, if I leave my firm name off the financial statements, should I never attach any kind of compilation or accountants' report?

No, it depends on whether the Member performs a Compilation Engagement as that will determine whether the Member needs to comply with the requirements of APES 315.

Refer to paragraph 10.2 and Appendix 2.

Does it make any difference if the client doesn't sign either report (for example it is a trust that does not require a director's report?)

No, it does not make any difference.

We have received a request from a financier to fill in various financial information about our client on their loan assessment form. We don't supply financial statements. Is this a compilation engagement? Should I attach some form of report to their form?

Potentially yes, as the activity is likely to meet the definition of a Compilation Engagement. It is not necessary for the output of a Compilation to be financial statements.

Refer to paragraph 1.10, section 2 Definitions: Compilation Engagement and Appendix 1.

I create journal entry adjustments for things the client doesn't know how to do (e.g. tax depreciation, lease accounting) and also fixing any errors we find when we do reconciliations and review the client file as part of assembling accounts to get the information that feeds through into the tax return on our practice software. Do I have to provide the journals to the client?

Yes, the Member should inform the client.

Should the compilation report be on the firm's letterhead?

Yes, as the Compilation Report must contain the Member's or Firm's name, address and signature. The Client has engaged the Member to perform a Professional Service and it is a general expectation that the report should be on the Firm's letter head.

Refer to paragraph 10.10 (k).

Is a digital signature by the practitioner acceptable on a compilation report?

Yes, the digital signature is acceptable.

Where a compilation report is made on a Special Purpose Financial Report (e.g. 2 in APES 315) there is a reference to the note in financials that set out the specific purpose of the SPFR. Does this mean there is an indirect reference in the compilation report to who might be the users of the compilation report?

Potentially yes, as the Client is required to state the specific purpose for which the Special Purpose Financial Statements have been prepared in note 1.

Refer to paragraph 10.10 (i).

Does the disclaimer further on in the report restrict who the users might be (those charged with governance)?

The Compilation Report specifies that the Compiled Financial Information was prepared for the sole use of the Client or Those Charged with Governance; and the use of the Compiled Financial Information is restricted to those users.

Refer to paragraph 10.10 (i) & Appendix 3: Example Engagement Letter.

Do I only need to use the new formats once I compile financial statements for the year ended 30 June 2016?

That depends on the commencement date of the engagement (refer Engagement document).

For example, if a 30 June 2015 compilation commences after 1 July 2015 (under Paragraph 1.2) then the new APES 315 will be applicable.

Are there many disputes over compiled financial information that reveal weaknesses in compilation reports - i.e. do readers seem to show they act on them?

The quality of the compilation report will be subject to CPA Australia's Quality Review processes with public practitioners.

Are members of an Incorporated Association taken to be included as the Client?

Yes.

Would the answer be any different if the engagement was specifically to provide information for the committee and this was stated in Note 1 and in the compilation report?

Those charged with governance would be the client and members of the association would have an interest in what is produced. Ultimately it is those charged with governance of the entity who are responsible for the financial information, although there may be different structures, for example, a committee.

Is it OK to use the report formats that come with my practice software? Do I have to make changes on an engagement by engagement basis if I am just producing financial statements mainly as part of clients' tax returns?

As long as they are compliant with the revised APES 315 standard. If they are not compliant please contact your software provider.

What is the most appropriate date to use for a compilation report for a small private company? Is this to be the current date or should it be before the last six months of the financial year?

This will be the date that you completed the engagement and issued the compilation report.

Do we have to prepare a Compilation report for an SMSF which is audited by an independent auditor?

See the answer provided earlier. Refer to paragraphs 10.4 - 10.6. Also see Appendices 1 and 2.

I would normally just prepare the financial statements to complete the tax return. Is it appropriate to issue an accountants disclaimer and if the client then requests a copy to go to the bank to add a compilation report? Or should I be considering what the client may potentially do?

Yes as initially it will be an excluded activity for which you can issue an Accountant's Report Disclaimer. Subsequently if it goes to a bank then you must issue a Compilation Report.

Why do we need to have an accountant's disclaimer as well - what is the difference from the client's perspective or a reader's to the compilation report?

An Accountant's Report Disclaimer is different to a Compilation Report. The Accountant's Report Disclaimer protects the member. The most common example is preparation of financial statements for the tax return only. Refer to definition of Compilation Engagement in section 2 of the standard.

Does it matter that the clients (my clients any way) do not understand or care at all about what we say in these reports. Are we just ticking boxes to satisfy legal requirements? We service the very small SME's and increased compliance increase costs. New Zealand reporting for the small entities will be bare bones from 1 April. There is real concern among my colleagues that we will be forced out of the market by new tax practitioners sprouting like

mushrooms all over Auckland. What real relevance does governance etc. have to the guy who runs a lawn moving business as company?

A compilation report serves many purposes, for both you and your client. It confirms that the financial statements have been prepared solely for their use and that no audit or review of those financial statements has been performed, among other declarations in the compilation report. This serves as a protection not only for you but also for your client. Particularly in the instance those financial statements are forwarded on to an external third party who may rely on those financial statements if those disclaimers are not made. So it forms part of your risk management procedures.

The point was raised that you don't know what the client will do with the information. Doesn't this indicate that you should tend towards using a compilation report?

Yes.

Further to the above - we may not know if a client will send a copy of the financial reports to a bank - if we reasonably believe that the report may be sent to a bank should this then be a Compilation?

Yes if you believe that an external third party is going to receive the financial report. See Appendix 2.

Surely we cannot be liable if we prepare SP financials to help prepare the tax return, issue a disclaimer and the client themselves subsequently take the report to the bank?

The purpose of the disclaimer report is to protect you in these circumstances. However, you would want to ensure that the financial statements had the appropriate reference on every single page (see paragraph 10.3).

I am assuming the banks will request a compilation report, if they require one, and there isn't one attached?

Not necessarily, it depends on the bank's level of assurance required.

To clarify: I may not believe that a client WILL send to a bank but I may believe that they COULD send it to a bank - the reality is clients from time to time refinance , so it's on the cards that they will send financial reports to a bank - so in these circumstance is a Compilation justified?

Yes, refer to Appendix 2.

Most of my clients will most likely present the financial statements to the bank during the year. Is there any downside to my always preparing a compilation report?

If it is going to go to an external party a compilation report is required. Refer to Appendix 2.

Do we not have protection if a compilation report is used? I'm inclined to continue using compilation reports on the assumption that most clients will use their financials for refinancing or the like during the year, and to save going back and reworking.

If you believe your client is going to give these financials to an external party you are required to issue a compilation report.

From the small practitioner's view point, what is the advantage of using the disclaimer instead of the compilation report?

If it is an excluded activity then the procedures you need to perform is less than a compilation engagement.

If you perform a compilation then you will have to perform sufficient work to comply with APES 315.

The advantage is that you will have a more efficient practice and your risk management procedures are in place.

On the point of uncertainty about whether the client will distribute - if a disclaimer rather than compilation report is issued initially, and the engagement terms say distribution to others should not occur, does this represent adequate procedures by the accountant? So it is a judgement to be made up front by the accountant as to what the client needs and which report will be issued.

As noted above, if you believe your client is going to give these financials to an external party you are required to issue a compilation report.

What is an example of a procedure that is not required under an excluded activity?

For example, you are not required to have an acknowledgement or perform planning procedures. Planning is referred to in Section 4. Acknowledgement is referred to in Section 9.

My procedures and documentation are normally over the top. Does section 8.1 on documentation and quality control mean that I would have to run a log of how the work was done? Would my WIP for the job comply if this is fully notated?

WIP is not enough. You need to comply with the quality control standard APES 320 and APES 315 (particularly the mandatory requirements).

I really do not understand how issuing a disclaimer rather than a compilation report will make my practice more efficient. Almost all of my SME clients will provide the financials that we produce to their bank. Seems to me like I should just continue to issue compilation reports.

Based on your circumstances, as it is going externally, you should continue to issue compilation reports.

FOR HELP

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