

APES 205 Conformity with Accounting Standards

[Supersedes APES 205 Conformity with Accounting Standards issued in December 2007]

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

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Conformity with International Pronouncements

Appendix 1: Summary of revisions to the previous APES 205 (Issued in December 2007)

1. Scope and application

- 1.1 The objectives of APES 205 *Conformity with Accounting Standards* are to specify a Member's professional and ethical obligations in respect of:
- fundamental responsibilities when the Member prepares, presents, audits, reviews or compiles Financial Statements;
 - the requirement to take reasonable steps to ensure a Reporting Entity prepares General Purpose Financial Statements; and
 - the disclosures in an entity's Special Purpose Financial Statements.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional standard APES 205 *Conformity with Accounting Standards* (**the Standard**), which is effective from 1 January 2016 and supersedes APES 205 issued in December 2007. Earlier adoption of this Standard is permitted.
- 1.3 APES 205 sets the standards for Members involved with the preparation, presentation, audit, review or compilation of Financial Statements, which are either General Purpose Financial Statements or Special Purpose Financial Statements, of entities in the private and public sectors. The mandatory requirements of this Standard are in **bold-type**, preceded or followed by discussion or explanations in normal type. APES 205 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.4 **Members in Australia shall follow the mandatory requirements of APES 205 when they prepare, present, audit, review or compile Financial Statements.**
- 1.5 **Members outside Australia shall comply with the financial reporting framework applicable to the relevant jurisdiction when they prepare, present, audit, review or compile Financial Statements. However, where the Financial Statements are prepared in accordance with the Australian Financial Reporting Framework, Members shall comply with the requirements of this Standard.**
- 1.6 **Members shall be familiar with relevant Professional Standards and guidance notes when performing Professional Activities. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.7 The Standard does not detract from any responsibilities which may be imposed by law or regulation.
- 1.8 All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.9 In applying the requirements outlined in APES 205, Members should be guided not merely by the words but also by the spirit of this Standard and the Code.
- 1.10 In this Standard, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

2. Definitions

For the purpose of this Standard:

AASB means the Australian statutory body called the Australian Accounting Standards Board that was established under section 226 of the *Australian Securities and Investments Commission Act 1989* and is continued in existence by section 261 of the *Australian Securities and Investments Commission Act 2001*.

Applicable Financial Reporting Framework means the financial reporting framework adopted by management and, where appropriate, Those Charged with Governance in the preparation of the financial report that is acceptable in view of the nature of the entity and the objective of the financial report, or that is required by law or regulation.

The term *fair presentation framework* means a financial reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report. Such departures are expected to be necessary only in extremely rare circumstances.

In the context of financial reporting, the term *Compliance Framework* means a financial reporting framework that requires compliance with the requirements of the applicable framework, but does not contain the acknowledgements in (a) or (b) above.

Assurance Engagement means an Engagement in which a Member in Public Practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).

This includes an Engagement in accordance with the *Framework for Assurance Engagements* issued by the AUASB or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements.

AuASB means the Auditing and Assurance Standards Board which issued Australian auditing and assurance standards up to 30 June 2004, under the auspices of the Australian Accounting Research Foundation, a joint venture of CPA Australia and the Institute of Chartered Accountants in Australia.

AUASB means the Australian statutory body called the Auditing and Assurance Standards Board established under section 227A of the *Australian Securities and Investments Commission Act 2001*.

Audit Engagement means a reasonable Assurance Engagement in which a Member in Public Practice expresses an opinion whether Financial Statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an Applicable Financial Reporting Framework, such as an Engagement conducted in accordance with Auditing and Assurance Standards. This includes a statutory audit, which is an audit required by legislation or other regulation such as the *Corporations Act 2001*.

Auditing and Assurance Standards means:

- (a) the AUASB standards, as described in ASA 100 *Preamble to AUASB Standards*, ASA 101 *Preamble to Australian Auditing Standards* and the *Foreword to AUASB Pronouncements*, issued by the AUASB, and operative from the date specified in each standard; and

- (b) those standards issued by the AuASB which have not been revised and reissued (whether as standards or as guidance) by the AUASB, to the extent that they are not inconsistent with the AUASB standards.

Australian Accounting Standards means the Accounting Standards (including Australian Accounting Interpretations) promulgated by the AASB.

Australian Financial Reporting Framework means the framework that uses Australian Accounting Standards as the Applicable Financial Reporting Framework and is adopted by Those Charged with Governance when preparing Financial Statements.

Client means an individual, firm, entity or organisation to whom or to which Professional Activities are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

Code means APES 110 *Code of Ethics for Professional Accountants*.

Compliance Framework means:

- (a) a financial reporting framework that requires compliance with the requirements of the applicable framework, but does not contain the acknowledgements in respect of a fair presentation framework (refer Applicable Financial Reporting Framework); or
- (b) a framework (not related to financial reporting) used by the entity, which is designed to ensure that the entity achieves compliance, and includes governance structures, programs, processes, systems, controls and procedures.

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Financial Statements means a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of Financial Statements, but it can also refer to a single Financial Statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes. The requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements.

Firm means:

- (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
- (b) An entity that controls such parties, through ownership, management or other means;
- (c) An entity controlled by such parties, through ownership, management or other means; or
- (d) An Auditor-General's office or department.

General Purpose Financial Statements means a financial report prepared in accordance with a General Purpose Framework.

General Purpose Framework means a financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a Compliance Framework.

Member means a member of a Professional Body that has adopted this Standard as applicable to their membership, as defined by that Professional Body.

Member in Public Practice means a Member, irrespective of functional classification (e.g., audit, tax or consulting) in a Firm that provides Professional Services. This term is also used to refer to a Firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable Professional Body.

Professional Activity means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.

Professional Bodies means Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

Professional Services means Professional Activities performed for Clients.

Professional Standards means all standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable Professional Body.

Reporting Entity means an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's General Purpose Financial Statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A Reporting Entity can be a single entity or a group comprising a parent and all of its subsidiaries.

Review Engagement means an Assurance Engagement in which a Member in Public Practice expresses a conclusion whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the attention of the Member that causes the Member to believe that the historical financial information is not prepared in all material respects in accordance with an Applicable Financial Reporting Framework such as an Engagement conducted in accordance with Auditing and Assurance Standards on Review Engagements.

Special Purpose Financial Statements means a complete set of Financial Statements, including the related notes, and an assertion statement by those responsible for the financial report, prepared in accordance with a Special Purpose Framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the Applicable Financial Reporting Framework determine the format and content of a financial report prepared in accordance with a Special Purpose Framework.

Special Purpose Framework means a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a Compliance Framework.

Statements of Accounting Concepts mean SAC 1 *Definition of Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting* issued by the AASB.

Those Charged with Governance means the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, Those Charged with Governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

3. Fundamental responsibilities of Members

Public interest

3.1 In accordance with Section 100 *Introduction and Fundamental Principles of the Code*, Members shall observe and comply with their public interest obligations when they prepare, present, audit, review or compile Financial Statements.

Professional competence and due care

- 3.2** In accordance with Section 130 *Professional Competence and Due Care* of the Code, a Member in Public Practice who is performing a Professional Service based on an Applicable Financial Reporting Framework shall ensure that the Member or the Firm has the requisite professional knowledge and skill or shall engage a suitably qualified external person. If a Member in Public Practice is unable to engage a suitably qualified person when required, the Member shall decline the Engagement.

4. Responsibilities of Members in respect of the Reporting Entity concept

- 4.1** Members should take all reasonable steps to apply the principles and guidance provided in the Statements of Accounting Concepts and the *Framework for the preparation and presentation of Financial Statements* issued by the AASB when assessing whether an entity is a Reporting Entity.
- 4.2** Statement of Accounting Concepts SAC 1 *Definition of Reporting Entity* provides guidance on circumstances in which an entity or economic entity should be identified as a Reporting Entity.
- 4.3** Members who are involved in, or are responsible for, the preparation and/or presentation of Financial Statements of a Reporting Entity shall take all reasonable steps to ensure that the Reporting Entity prepares General Purpose Financial Statements.

5. Responsibilities of Members in respect of General Purpose Financial Statements

- 5.1** Members shall take all reasonable steps to apply Australian Accounting Standards when they prepare and/or present General Purpose Financial Statements that purport to comply with the Australian Financial Reporting Framework.
- 5.2** Where Members are unable to apply Australian Accounting Standards pursuant to paragraph 5.1, they shall take all reasonable steps to ensure that any departure from Australian Accounting Standards, the reasons for such departure, and its financial effects are properly disclosed and explained in the General Purpose Financial Statements.
- 5.3** If legislation, ministerial directive or other government authority requires a departure from Australian Accounting Standards, a Member should disclose that fact in the General Purpose Financial Statements as a reason for the departure.
- 5.4** Where a Member is unable to ensure proper disclosure of a departure from Australian Accounting Standards pursuant to paragraph 5.2, the Member should discuss the matter with the appropriate level of management of the relevant entity and document the results of these discussions.
- 5.5** Members in Public Practice shall take all reasonable steps to ensure that Clients have complied with Australian Accounting Standards when they perform an Audit or Review Engagement or a compilation Engagement of General Purpose Financial Statements which purport to comply with the Australian Financial Reporting Framework.

- 5.6 Where a Member in Public Practice is unable to ensure that a Client complies with Australian Accounting Standards pursuant to paragraph 5.5, the Member shall consider Australian Auditing and Assurance Standards applicable to Audit or Review Engagements or Professional Standards applicable to compilation Engagements.

6. Responsibilities of Members in respect of Special Purpose Financial Statements

- 6.1 Members who are involved in, or are responsible for, the preparation, presentation, audit, review or compilation of an entity's Special Purpose Financial Statements (except where the Special Purpose Financial Statements will be used solely for internal purposes) shall take all reasonable steps to ensure that the Special Purpose Financial Statements, and any associated audit report, review report or compilation report clearly identifies:
- (a) that the Financial Statements are Special Purpose Financial Statements;
 - (b) the purpose for which the Special Purpose Financial Statements have been prepared; and
 - (c) the significant accounting policies adopted in the preparation and presentation of the Special Purpose Financial Statements.
- 6.2 Where a Member in Public Practice is unable to ensure that a Client complies with an Applicable Financial Reporting Framework pursuant to paragraph 6.1, the Member shall consider Australian Auditing and Assurance Standards applicable to Audit or Review Engagements or Professional Standards applicable to compilation Engagements.
- 6.3 For all other Members, where the Member is unable to ensure that an entity complies with an Applicable Financial Reporting Framework pursuant to paragraph 6.1, the Member should discuss the matter with the appropriate level of management of the relevant entity and document the results of these discussions.

Conformity with International Pronouncements

The International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 205.

Appendix 1

Summary of revisions to the previous APES 205 (Issued in December 2007)

APES 205 *Conformity with Accounting Standards* was originally issued in December 2007. APES 205 has been revised by APESB in October 2015. A summary of the revisions is given in the table below.

Table of revisions*

Paragraph affected	How affected
1.1	Added
1.2 – Paragraph 1.1 of existing APES 205 relocated	Amended
1.3 - Paragraph 1.2 of existing APES 205 relocated	Amended
1.6 - Paragraph 1.5 of existing APES 205 relocated	Amended
1.7 - Paragraph 1.6 of existing APES 205 relocated	Amended
1.8 - Paragraph 1.7 of existing APES 205 relocated	Amended
1.9 - Paragraph 1.8 of existing APES 205 relocated	Amended
1.10	Added
2 – Definition of Applicable Financial Reporting Framework	Amended
2 – Definition of Assurance Engagement	Amended
2 – Definition of AuASB	Added
2 – Definition of Audit Engagement	Amended
2 – Definition of Auditing and Assurance Standards	Added
2 – Definition of Australian Financial Reporting Framework	Amended
2 – Definition of Client	Amended
2 – Definition of Compliance Framework	Added
2 – Definition of Engagement	Amended
2 – Definition of Financial Statements	Amended
2 – Definition of Firm	Amended
2 – Definition of Framework	Deleted
2 – Definition of General Purpose Financial Statements	Amended
2 – Definition of General Purpose Framework	Added
2 – Definition of Member	Amended
2 – Definition of Member in Public Practice	Amended
2 – Definition of Professional Activity	Added
2 – Definition of Professional Bodies	Amended
2 – Definition of Professional Services	Amended
2 – Definition of Review Engagement	Amended
2 – Definition of Special Purpose Financial Statements	Amended
2 – Definition of Special Purpose Framework	Added
2 – Definition of Those Charged with Governance	Added
3.1	Amended
3.2	Amended
4.1	Amended
5.6	Amended
6.2	Amended

* Refer Technical Update 2015/3