

Proposed Standard: 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

EXPOSURE DRAFT
ISSUED:

xx/15
May 2015

Copyright © 2015 Accounting Professional & Ethical Standards Board Limited ("APESB"). All rights reserved. Apart from fair dealing for the purpose of study, research, criticism and review as permitted by the *Copyright Act 1968*, no part of these materials may be reproduced, modified, or reused or redistributed for any commercial purpose, or distributed to a third party for any such purpose, without the prior written permission of APESB.

Any permitted reproduction including fair dealing must acknowledge APESB as the source of any such material reproduced and any reproduction made of the material must include a copy of this original notice.

Commenting on this Exposure Draft

This Exposure Draft, *APES 205 Conformity with Accounting Standards* was developed and approved by Accounting Professional & Ethical Standards Board Limited (APESB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by 10 July 2015.**

Comments should be addressed to:

The Chairman
Accounting Professional & Ethical Standards Board Limited
Level 7, 600 Bourke Street
MELBOURNE VIC 3000
AUSTRALIA

APESB would prefer that respondents express a clear overall opinion on whether the proposed Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed Standard.

Respondents are asked to submit their comments electronically through the APESB website, using the link www.apesb.org.au/apesb-exposure-drafts-open-for-comment.

Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website www.apesb.org.au.

APESB prefers that comments are submitted via its website. However, if there are practical difficulties comments can also be sent to sub@apesb.org.au or mailed to the address noted above.

Obtaining a copy of this Exposure Draft

This Exposure Draft is available on the APESB website: www.apesb.org.au. Alternatively, any individual or organisation may obtain one printed copy of this Exposure Draft without charge until **10 July 2015** by contacting:

Accounting Professional & Ethical Standards Board Limited
Level 7
600 Bourke Street
Melbourne Victoria 3000
Australia
E-mail: enquiries@apesb.org.au
Phone: (03) 9670 8911
Fax: (03) 9670 5611

Reasons for issuing Exposure Draft xx/15

Accounting Professional & Ethical Standards Board Limited (APESB) proposes to revise APES 205 *Conformity with Accounting Standards* (APES 205) primarily due to revisions made by the International Ethical Standards Board (IESBA) to definitions in the International Code in March 2013 and APESB's subsequent amendments to APES 110 *Code of Ethics for Professional Accountants* (the Code) in November 2013.

Overview of the proposed changes

The following summary provides an overview of the proposed revisions to the existing professional standard APES 205:

- Addition of the objectives of APES 205 (Paragraph 1.1);
- Effective date of APES 205 (Paragraph 1.2);
- Amendment of the following definitions: Applicable Financial Reporting Framework, Assurance Engagement, Audit Engagement, Australian Financial Reporting Framework, Client, Financial Statements, Firm, General Purpose Financial Statements, Member, Member in Public Practice, Professional Bodies, Professional Services, Review Engagement and Special Purpose Financial Statements; and
- Addition of the following definitions: Auditing and Assurance Standards, Compliance Framework, General Purpose Framework, Professional Activity, Special Purpose Framework and Those Charged with Governance.

Respondents should not rely on this summary of differences to determine what changes, if any, are required to their current practices, policies or methodologies. Respondents should read the entire Exposure Draft to determine the significance of its proposals.

Proposed operative date

It is intended that this Standard will be operative from 1 January 2016 with early adoption permitted.

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

REVISED: [Month/Year]

Copyright © 2015 Accounting Professional & Ethical Standards Board Limited (“APESB”). All rights reserved. Apart from fair dealing for the purpose of study, research, criticism and review as permitted by the *Copyright Act 1968*, no part of these materials may be reproduced, modified, or reused or redistributed for any commercial purpose, or distributed to a third party for any such purpose, without the prior written permission of APESB.

Any permitted reproduction including fair dealing must acknowledge APESB as the source of any such material reproduced and any reproduction made of the material must include a copy of this original notice.

Contents

Paragraphs

Scope and application	1
Definitions	2
Fundamental responsibilities of Members	3
- Public interest	
- Professional competence and due care	
-	
Responsibilities of Members in respect of the Reporting Entity concept	4
Responsibilities of Members in respect of General Purpose Financial Statements.....	5
Responsibilities of Members in respect of Special Purpose Financial Statements.....	6

Conformity with International Pronouncements

| [Appendix 1: Summary of revisions to the previous APES 205 \(Issued December 2007\)](#)

1. Scope and application

1.1 The primary objectives of APES 205 *Conformity with Accounting Standards* are to specify a Member's professional obligations when the Member prepares, presents, audits, reviews or compiles Financial Statements in respect of:

- fundamental ethical obligations;
- a Member's obligation to take reasonable steps to ensure a Reporting Entity prepares General Purpose Financial Statements; and
- a Member's obligations in respect of the disclosures in an entity's Special Purpose Financial Statements.

~~1.1.2~~ Accounting Professional & Ethical Standards Board Limited (APESB) issues professional standard APES 205 *Conformity with Accounting Standards (the Standard)*, which is effective from 1 January 2016 ~~01 July 2008~~ and supersedes APES 205 issued in December 2007. Earlier adoption of this Standard is permitted.

~~1.32~~ 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 (black lettering)**-type, preceded or followed by discussion or explanations in normal type (grey typelettering). APES 205 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.

~~1.43~~ **Members in Australia shall follow the mandatory requirements of APES 205 when they prepare, present, audit, review or compile Financial Statements.**

~~1.54~~ **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.**

~~1.65~~ **Members shall be familiar with relevant professional standards and guidance notes when performing professional work. All Members shall comply with the fundamental principles outlined in the Code.**

~~1.76~~ The Standard does not detract from any responsibilities which may be imposed by law.

~~1.87~~ All references to accounting, auditing and professional standards are references to those provisions as amended from time to time.

~~1.98~~ In applying the requirements outlined in APES 205, Members should be guided not merely by the words but also by the spirit of the Standard and the Code.

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 ~~those~~ those ~~charged with~~ charged with ~~Governance~~ Governance in preparing the Financial Statements.

Assurance Engagement means an Engagement in which a ~~conclusion is expressed by a~~ Member in Public Practice ~~expresses a conclusion~~ designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

This ~~would~~ includes an Engagement in accordance with ~~the~~ Framework for Assurance Engagements issued by the ~~Auditing and Assurance Standards Board (AUASB)~~ or in accordance with specific relevant standards, ~~such as International Standards on Auditing~~, for Assurance Engagements.

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 ~~an 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.), to provide a reasonable level of assurance that a financial report is free of material misstatement, such as an Engagement~~ in accordance with ~~an Applicable Financial Reporting Framework, such as an Engagement conducted in accordance with Australian a~~ Auditing and Assurance Standards. This includes a statutory audit, which is an audit required by legislation or other regulation, ~~and other audits conducted for the purposes of the Corporations Act.~~

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 ~~Services 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 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, which ordinarily includes explanatory 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 ~~refer~~ relate to a complete set of Financial Statements, but it can also refer to a single ~~f~~Financial ~~s~~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.

For the purposes of this Standard financial report is considered to be an equivalent term to ~~f~~Financial ~~s~~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.

Framework means the *Framework for the preparation and presentation of financial statements* issued by the AASB.

General Purpose Financial Statements means a financial report prepared in accordance with a General Purpose Framework. ~~those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.~~

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 ~~p~~Professional ~~b~~Body that has adopted this Standard as applicable to their membership as defined by that ~~p~~Professional ~~b~~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. ~~The~~ 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 ~~p~~Professional ~~b~~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 the ~~Institute of Chartered Accountants in Australia Chartered Accountants Australia and New Zealand~~, CPA Australia and the ~~National~~ Institute of Public Accountants.

Professional Services means ~~services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services~~ Professional Activities performed for Clients.

Professional Standards mean 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 Report 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 entity and all the entities it controls.

Review Engagement means an Assurance Engagement in which a Member in Public Practice ~~to express~~ expresses a conclusion on 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 ~~in Public Practice~~ 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 which is an Engagement conducted in accordance with Auditing and Assurance Standards applicable 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, other than General Purpose Financial Statements. 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 100.1 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 professional work 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 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 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 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 XX 2015. A summary of the revisions is given in the table below.

Table of revisions*

<u>Paragraph affected</u>	<u>How affected</u>
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
2 – Definition of Applicable Financial Reporting Framework	Amended
2 – Definition of Assurance Engagement	Amended
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 Financial Statements	Amended
2 – Definition of Firm	Amended
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
Appendix 1	Added

* Refer Technical Update 2015/x