

AGENDA PAPER

Item Number: 7

Date of Meeting: 16 August 2019

Subject: Proposed revisions to APES 205 *Conformity with Accounting Standards* and APES 315 *Compilation of Financial Information*

Action required For discussion For noting For information

Purpose

To obtain, subject to the Board's feedback and review comments, the Board's approval to issue an exposure draft (and Explanatory Memorandum) on:

- APES 205 *Conformity with Accounting Standards* (APES 205); and
- APES 315 *Compilation of Financial Information* (APES 315).

Background

The Board approved a [project plan](#) in March 2018 to revise all APESB pronouncements to incorporate changes required due to the release of the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code). The restructured Code was issued by the APESB in November 2018 and becomes effective on 1 January 2020.

In March 2019, APESB released the first exposure draft relating to this project (ED 01/19 *Revision of APESB Pronouncements*) with revisions proposed to ten pronouncements. In June 2019, APESB released the second exposure draft relating to this project (ED 02/19 *Revision of APESB Pronouncements*) with revisions to five pronouncements.

Consideration of Issues

Technical Staff have prepared Exposure Drafts for APES 205 (Agenda Item 7(a)) and APES 315 (Agenda Item 7(b)) to be revised as part of the restructure project. Technical Staff propose to issue these Exposure Drafts together with the Exposure Draft for APES GN 30 *Outsourced Services* (refer Agenda Item 8) in ED 03/19 *Revision of APESB Pronouncements* (ED 03/19). However, due to the different issues to be considered, these pronouncements are being presented to the Board separately.

AASB Proposals to Remove the Reporting Entity Concept

The current Australian financial reporting framework is unique as it includes the reporting entity concept, which enables entities that are required to prepare financial statements in accordance with Australian Accounting Standards (AAS) (by legislation or other means, such as, a constitutional document) to self-assess whether they are a Reporting Entity or not.

Under Statement of Accounting Concept 1 *Definition of the Reporting Entity* (SAC 1), if there are users that are dependent on General Purpose Financial Statements (GPFS) to make and evaluate resource allocation decisions, the entity is a reporting entity and GPFS must be prepared which comply with all relevant AAS. If no such users exist, the entity may self-assess as a non-reporting entity and prepare Special Purpose Financial Statements (SPFS), which do not need to comply with all AAS.

The Australian Accounting Standards Board (AASB) are proposing to remove SAC 1, the reporting entity concept and, therefore, the ability for entities to self-assess as non-reporting entities and preparing SPFS. The AASB's view is the use of SPFS has resulted in disparate reporting practices and lack of trust and transparency. These proposals, if implemented, will have a direct impact on APES 205 and APES 315, as these standards refer to and are structured around the reporting entity concept, which in turn determines whether an entity prepares GPFS or SPFS.

The AASB proposals included stages of implementation that will affect the 30 June 2020 and 30 June 2021 reporting periods.

Proposals Relevant to the Year Ended 30 June 2020 – Additional Disclosure in SPFSs

In July 2019 the AASB released Exposure Draft 293 [Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements](#) (ED 293) (with comments due by 19 August 2019) which proposes amendments to AASB 1054 *Additional Australian Disclosures* (AASB 1054) to require additional disclosures in SPFSs.

The proposals in ED 293 would only apply to entities required to lodge financial statements with the Australian Securities and Investments Commission (ASIC) and the Australian Charities and Not-for-profits Commission (ACNC), which self-assess as non-reporting entities and lodge SPFS. The proposals do not intend to require changes to existing accounting policies adopted by such entities, however, they include the following additional disclosures¹:

- The basis on which the decision to prepare SPFS was made;
- Where the entity has subsidiaries, investments in associates or investments in joint ventures, to disclose whether they have been consolidated or equity accounted in accordance with AAS and, if not, disclose the reasons why;
- If the entity is a not-for-profit which has not determined whether or not its interests in other entities gives rise to interests in subsidiaries, associates or joint ventures, to disclose that fact; and
- An explicit statement as to whether the entity has complied with all recognition and measurement requirements of AAS and, if not, where they do not comply (there is no requirement to quantify or reconcile the extent of non-compliance).

The AASB expects to issue the amended AASB 1054 prior to 31 December 2019, to be applicable to annual periods ending on or after 30 June 2020 (impacting 30 June 2020 year ends). The AASB considers this to be an interim measure before the proposed removal of the

¹ Proposed paragraphs 5 & 6 in ED 293.

reporting entity concept (discussed below) which will assist users of SPFS to understand the level of compliance with AAS.

There are important issues for the APESB to consider in relation to the impact of ED 293 on APES 205 and APES 315 as the AASB states:

- a) Entities required to lodge with ASIC and the ACNC are currently required to disclose significant accounting policies² which is also required in APES 205;³
- b) Although other entities required to prepare financial statements in accordance with AAS are not affected, these entities are subject to APES 205 and that the APESB is considering amending APES 205 to be consistent with the proposed amendments to AASB 1054 (to mandate the additional disclosures for these other entities). APESB Technical Staff met with the AASB in April 2019, however, the current proposed additional disclosures are far more substantial than was discussed at that time, which was a binary statement about whether recognition and measurement requirements of AAS had been complied with or not⁴; and
- c) APES 205 requires disclosure of the purpose for which the SPFS have been prepared, which is consistent with the proposal to require disclosure of why the preparation of SPFS was considered appropriate.⁵

[AASB Research Report 10 Legislative and Regulatory Financial Reporting Requirements Entities](#) includes a list of approximately 45 different pieces of legislation which require preparation of financial statements in accordance with AAS. As such, there is a significant number of entities (other than those required to lodge with the ASIC or ACNC) which would be impacted if APES 205 was amended to be consistent with the proposed amendments to AASB 1054, including:

- Franchisors;
- Funeral funds;
- Indigenous corporations;
- Incorporated associations;
- Co-operatives; and
- Higher education providers

Technical Staff have the following concerns regarding amending APES 205 to require the additional disclosures for entities required to comply with AAS in addition to those required to lodge financial statements with the ASIC and ACNC:

- Mandating which accounting standards entities should apply is not within the APESB's remit (this is more relevant to the AASB and/or relevant legislation/regulators);
- Stakeholders have not raised concerns with APESB regarding the existing disclosure requirements for SPFS in APES 205;
- Any benefits of the additional disclosures are unlikely to outweigh implementation costs for entities;
- The temporary nature of the proposals does not warrant the additional requirements. If the reporting entity concept is removed by the AASB, these requirements would only be relevant for one year (2020);

² Paragraph BC14 of ED 293 in reference to paragraph 17 of AASB 101 *Presentation of Financial Statements*.

³ Paragraph BC14 of ED 293 in reference to paragraph 6.1 of APES 205.

⁴ Paragraph BC28 of ED 293, Option 3 which was not adopted by the AASB.

⁵ Paragraph BC26 of ED 293 in reference to paragraph 6.1(c) of APES 205.

- The AASB considered whether these additional disclosures should apply to all entities required to prepare financial statements in accordance with AAS⁶ and decided it was not warranted in line with the scope of AAS⁷; and
- The large number of entities that would be impacted⁸.

Technical Staff consider this to be an important issue to seek stakeholder views on. Therefore, it is proposed to maintain paragraph 6.1 in APES 205 as per the extant standard and include commentary in the explanatory memorandum (EM) to ED 03/19 in relation to this issue, requesting specific feedback from stakeholders on this matter.

Other Changes Relevant to the Year Ended 30 June 2021

The AASB also propose the following changes applicable for the year ended 30 June 2021:

- Removal of SAC 1, the reporting entity concept and, therefore, the ability for entities to self-assess as non-reporting entities and to prepare SPFS. The AASB intend to exempt certain entities including trusts, partnerships, certain joint arrangements and SMSFs. The proposals will initially only apply to for-profit entities, however, not-for-profit entities will be included at a later stage. The Exposure Draft is expected to be released in August 2019, with comments due in mid-November 2019; and
- New Tier 2 Standard disclosures based on International Financial Reporting Standards for Small to Medium Enterprises. The Exposure Draft was issued in early August 2019 with a comment period closing 15 November 2019.

The above proposals, in particular, the removal of the reporting entity concept, will have a marked impact on APES 205 and APES 315. Technical Staff note this issue is recorded on the APESB Issues Register and will monitor the progress of these proposals. APES 205 and APES 315 will need to be revisited and likely amended once the AASB project is finalised.

Proposed Amendments in Exposure Drafts

While Technical Staff are not proposing specific amendments for the AASB proposals, APES 205 and APES 315 require revision to align with the restructured Code. The key proposed amendments incorporated into the Exposure Drafts for APES 205 and APES 315 include:

- updating of cross-references to the new restructured Code;
- updating or revising paragraphs and definitions to ensure consistency with the restructured Code;
- revisions to address matters noted on APESB's Issues Register;
- revisions to address matters identified by Technical Staff from review of the standards;
- revisions to ensure consistency with other APESB pronouncements;
- updating the effective date of the standards to be operative from 1 January 2020 with early adoption permitted (aligning to the effective date of the restructured Code); and
- addressing minor editorial matters.

The details of these revisions and how they affect APES 205 and APES 315 are set out in the EM to ED 03/19.

In addition to the question on the AASB proposals noted above, the Exposure Drafts also include requests for specific comments for respondents to comment on whether the proposed

⁶ Paragraph BC20 of ED 293.

⁷ Paragraphs BC21 and BC23 of ED 293.

⁸ Paragraph BC22 of ED 293.

provisions in these pronouncements require amendment due to the use of digital technology and artificial intelligence.

Recommendation

Subject to the Board's feedback and editorial comments, the Board approve for release the Exposure Drafts for APES 205 and APES 315 and the EM to ED 03/19.

Materials Presented

Agenda Item 7 (a)	Proposed Exposure Draft of APES 205
Agenda Item 7 (b)	Proposed Exposure Draft of APES 315
Agenda Item 7 (c)	Proposed Explanatory Memorandum for ED 03/19

Authors: Jacinta Hanrahan
Jon Reid

Date: 2 August 2019