

AGENDA PAPER

Item Number: 6
Date of Meeting: 20 November 2019
Subject: Proposed revised APESB pronouncements (ED 03/19)

Action required **For discussion** **For noting** **For information**

Purpose

To obtain the Board's approval, subject to the Board's review comments and editorials, to issue the revised:

- APES 205 *Conformity with Accounting Standards* (APES 205);
- APES 315 *Compilation of Financial Information* (APES 315); and
- APES GN 30 *Outsourced Services* (APES GN 30).

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 APESB in November 2018 and becomes effective 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. The second exposure draft relating to this project was released in June 2019 (ED 02/19 *Revision of APESB Pronouncements*) with revisions proposed to 5 pronouncements.

In August 2019, APESB released the third exposure draft relating to this project (ED 03/19 *Revision of APESB Pronouncements*) with revisions proposed to APES 205, APES 315, and APES GN 30. The comment period for ED 03/19 closed on 15 October 2019.

Consideration of Issues

APESB received two submissions from stakeholders on ED 03/19, which are tabulated in a General Comments table and Specific Comments tables for APES 205 and APES GN 30 in Agenda Items 6(a) to 6(c).

Stakeholders were generally supportive of the proposed revisions to the pronouncements. The key issues raised by stakeholders in the submissions and how these responses have been addressed are noted below by the pronouncement commented on.

All Three Pronouncements – Digital Technology & Artificial Intelligence

APESB sought respondents' specific comments and feedback on whether the existing provisions in these standards require amendments due to the use of digital technology and artificial intelligence. Respondents were of the view that no changes were required.

One respondent's view is that the most appropriate way to address ethical issues relating to digital technology and artificial intelligence is via the Code. As Technical Staff are commencing a project on the impact of technology and artificial intelligence on ethics and are monitoring the progress of the IESBA Technology Working Group, this comment will be considered during this process. For completeness, this matter has been added to the APESB's Issues Register under APES 110.

APES 205 Conformity with Accounting Standards

APESB sought respondents' specific comments and feedback on whether APES 205 should require additional disclosures in Special Purpose Financial Statements (SPFS) as per the Australian Accounting Standards Board's (AASB) ED 293¹ for other entities in addition to those required to lodge with ASIC or ACNC.

Stakeholders were of the view that it is the AASB's role to establish disclosures required in financial statements and that this should not be required via APES 205.

While APES 205 does require certain disclosures in SPFS (that it is a SPFS, the purpose of the SPFS, and significant accounting policies applied), Technical Staff believes that the AASB or the relevant regulator should determine which accounting standards apply to financial statements to be lodged for regulatory purposes.

Further, at the [AASB September 2019 Board meeting](#), it was determined that the additional disclosures proposed in ED 293:

- Will **not apply** to for-profit entities (required to lodge with ASIC) unless the proposals in ED 297² (proposed removal of SPFS) do not proceed. Stakeholder feedback included that the costs of the proposals would likely outweigh the benefits as the changes were temporary in nature; and
- Will **apply** to not-for-profit entities (NFPs) (required to lodge with ACNC), with some amendments to ED 293 proposals, as the proposals in ED 297 do not apply to NFPs.

Technical Staff do not recommend any changes to APES 205.

¹ AASB ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (ED 293).

² AASB ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (ED 297).

ED 297 and ED 295³ are currently out on exposure, and comments are due on 30 November 2019. If the proposed changes in ED 295 and ED 297 are implemented they will become effective from 1 July 2020 (2021 financial year). As such, APES 205 may need to be reviewed in 2020.

APES GN 30 Outsourced Services

APESB sought respondents' specific comments and feedback on whether there should be a mandatory requirement to disclose the use of outsourced services and the geographical location of the service provider.

Both respondents did not support the inclusion of mandatory requirements in APES GN 30.

One stakeholder commented that the provisions in APES GN 30 are sufficient, and a mandatory requirement to disclose the use of outsourced services and the geographical location of the outsourced service provider is unnecessary. While the other stakeholder noted that clients might have concerns about the security of personal information and quality control with outsourced services, no compelling argument was presented to require these disclosures.

Technical Staff do not recommend any changes to APES GN 30 at this stage.

Respondents noted several optional standards in which a mandatory requirement could be included. Technical Staff are of the view that if such a requirement was included in an APESB pronouncement, APES 305 would be the most appropriate standard as disclosure of the use of outsourced services and the geographical location of the service provider is directly relevant to the terms of engagement.

Technical Staff does not support the creation of new standards. During the recent review of APES GN 30, there have been no clear arguments or reasons presented that indicate there is a compelling reason to convert APES GN 30 into a standard. Refer to the background to the review of APES GN 30 in the [Agenda Paper](#) at the August 2019 Board Meeting.

Technical Staff have included this matter in the APESB's Issues Register under APES 305, to be considered further when this standard is next reviewed.

Changes from ED 03/19 version

Technical Staff recommends the following minor amendments to APES 205, APES 315 and APES GN 30 to the versions presented to the [Board in ED 03/19](#):

- Add "or suspected non-compliance" to paragraph 11.3 of APES 315 to be consistent with the Code:
A Member in Public Practice who becomes aware of instances of non-compliance or suspected non-compliance with laws and regulations during the performance of a **Compilation Engagement shall comply with Section 360 *Responding to Non-Compliance with Laws and Regulations of the Code*.**
- Include a section for the Member in Public Practice to sign in the Example Engagement Letter for a Compilation Engagement in Appendix 3 of APES 315.
- Add '*or suspected non-compliance*' to paragraphs 3.3 and 3.12 of APES GN 30 (as detailed above for paragraph 11.3 of APES 315) to be consistent with the Code.
- Relocating paragraph 5.6 (including the heading 'Insurance') of APES GN 30 to paragraph 5.4 to group it with paragraphs 5.2 and 5.3 relevant to *Members providing*

³ AASB ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (ED 295).

Outsourced Services. This change will result in paragraphs 5.4 and 5.5 relocating to paragraphs 5.5 and 5.6 and simplifications to the contents page.

- Minor consequential editorials.

Based on the above, Technical Staff have not reproduced these pronouncements in this agenda paper.

Recommendation

Subject to the Board's review comments, the Board approves the issue of the revised APES 205, APES 315, and APES GN 30.

Materials Presented

Agenda Item 6(a)	General Comments Table – ED 03/19
Agenda Item 6(b)	Specific Comments Table (ED 03/19) in relation to APES 205
Agenda Item 6(c)	Specific Comments Table (ED 03/19) in relation to APES GN 30

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Date: 4 November 2019