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<b>APESB</b>	Accounting Professional and Ethical Standards Board
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## **Basis for Conclusions: APES 205 Conformity with Accounting Standards (Formerly APS 1)**

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*Prepared by the Technical Staff of the Accounting Professional & Ethical  
Standards Board*

## **BASIS FOR CONCLUSIONS:**

### **APES 205 Conformity with Accounting Standards (Formerly APS 1)**

This basis for conclusions has been prepared by technical staff of Accounting Professional & Ethical Standards Board (“APESB”). This document has been reviewed and approved by the Board of APESB and is provided for the benefit of stakeholders to gain an understanding of the background to the development of APES 205. However, the basis for conclusions **does not** form part of APES 205 Conformity with Accounting Standards (Formerly APS1) and is not a substitute for reading the standard.

### **Background**

Accounting Professional & Ethical Standards Board Limited (APESB) proposes to issue the Standard APES 205: Conformity with Accounting Standards. The proposed APES 205 sets out mandatory requirements and guidance for members in respect of the preparation and presentation of general purpose and special purpose financial statements as well as the professional obligations of members in public practice who perform audit or review engagements of financial statements or who compile financial statements.

Key changes in the revision to the former APS 1 are:

- updated to reflect changes in the Australian financial reporting framework that have occurred since June 1995; and
- reference to APES 110 : Code of Ethics for Professional Accountants (“the Code”).

APESB issued an exposure draft of the proposed standard in August 2007, with a comment deadline of October 19, 2007. The APESB received submissions from a variety of respondents, including professional accounting bodies, firms and individual members. In response to the comments received, APESB effected a number of changes to ED 05/07 in finalising the text of APES 205. The following summarises the more significant issues raised by respondents, and how APESB addressed them.

### **Use of the term Financial Statements (Paragraph 1.4 and 2 Definitions<sup>1</sup>)**

APES 205 is concerned with the application of accounting standards in the preparation of general purpose and special purpose financial statements. Given the focus of the standard, it is necessary that terminology be consistent with the accounting standard AASB 101 *Presentation of Financial Statements (AASB 101)*. Recently the Australian Accounting Standards Board reissued AASB 101 which will be applicable to financial periods commencing on or after 1 January 2009. The new AASB 101 refers to “financial statements” whereas the existing AASB 101 refers to “financial reports”. Accordingly some respondents suggested

<sup>1</sup>Paragraph numbering reflects the numbering in APES 205 and may not reflect ED05/07.

## **Conformity with Accounting Standards (Formerly APS 1)**

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that the term “financial reports” (in ED 05/07) should be replaced by “financial statements”.

APESB was mindful that Auditing and Assurance Standards and the Corporations Act still refer to “financial reports” in standards and legislation. APESB agreed to amend the terminology in line with the new AASB101 applicable for periods commencing 01 January 2009. APESB also resolved to include in the definition section of APES 205 a statement that for the purposes of APES 205 the terms “financial statement” and “financial report” should be read as being synonymous terms.

### **Responsibilities of Members in respect of the Reporting Entity Concept (Paragraphs 4.1, 4.2 and 4.3)**

The purpose of section 4 of the standard is to stipulate members’ responsibilities in terms of the reporting entity concept and also to refer members to appropriate principles and guidance when undertaking financial reporting responsibilities with respect to general purpose and special purpose financial statements. Some respondents were concerned that the location of these paragraphs, could lead to an interpretation that the principle applies only where a member has already decided to prepare general purpose financial statements, rather than situations, for example, where a director of a reporting entity decides to prepare special purpose financial statements.

To improve the clarity of the requirement, “Responsibilities of Members in respect of the Reporting Entity Concept” was placed in a separate section of APES 205.

A number of respondents were also concerned about paragraph 4.1 giving mandatory status to Statement of Accounting Concepts (SACs) and the Framework. This was not the intention of the paragraph as drafted in ED 05/07. The intention of the paragraph was to ensure that members referred to the SACs when identifying whether an entity is a reporting entity. This concern should also be addressed by having a separate section on “Responsibility of Members in respect of the Reporting Entity Concept” as noted above.

### **Compliance with Legislative Requirements (Paragraph 5.3)**

Instances may arise where members are required to comply with relevant legislative requirements which may not be consistent with certain aspects of an accounting standard.

Some respondents were concerned that in the above situation, members should not be seen as being in breach of the standard due to their compliance with relevant legislation and prescribed legal requirements. Paragraph 5.3 of the standard was included to address this concern and provide an alternative for

## **Conformity with Accounting Standards (Formerly APS 1)**

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members to disclose any departures from Australian Accounting Standards and the reasons for such departures.

### **References to AUASB and Professional Standards (Paragraphs 5.6 and 6.2)**

The intention of paragraphs 5.6 and 6.2 in ED05/07 was to refer Members in Public Practice to Australian auditing standards or applicable professional standards when they are unable to ensure client compliance with Australian accounting standards. A number of respondents were concerned that reference to specific pronouncements within APES 205 would lead to the standard being outdated if the pronouncements were changed or updated. To address this issue, generic references to Australian auditing standards and professional standards have been adopted in the final version of the standard.

### **Guidance for members who are unable to ensure compliance with an applicable financial reporting framework when preparing special purpose financial statements (Paragraph 6.3)**

A new paragraph was inserted to provide guidance to members in public practice who may not be providing an opinion (for example if they are on secondment to an entity) and members in business who are also involved in the preparation of financial statements. The new paragraph states that where a member is unable to ensure compliance with an applicable financial reporting framework, the member should discuss the matter with an appropriate level of management and document the results of these discussions.