

New and Onerous Rules for Compiled Financial Information from 1 January 2009

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Introduction

New professional rules on how we compile financial information for your use apply from 1 January 2009. These new requirements are contained in APES 315 'Compilation of Financial Information' (APES 315), will change the manner in which we deliver such services, the level of enquiry we make of you, the extent of document requirement required of us, as well as the type of the compilation report issued. These new and revised requirements will be discussed with you, and communicated in an engagement letter.

APES 315 sets the standards for members in public practice who undertake compilation engagements of historical or prospective financial information; and is applied to the extent practicable for engagements to compile non-financial information. It also applies to members in business to the extent practicable when they compile information for their employers (e.g., regulatory reporting requirements and compilation reports prepared under ASIC Class Order CO 98/1417 'Audit relief for proprietary companies').

APES 315 is effective for engagements commencing on or after 1 January 2009. APES 315 supersedes APS 9 'Statement on Compilation of Financial Reports (May 1996)'. While there are a number of similarities between these two standards; the new standard is more onerous for accountants and clients.

A Compilation Engagement

A compilation engagement is simply defined as an engagement to compile financial information. Its objective is to use *accounting expertise* to collect, classify and summarise financial information. The procedures undertaken are not designed and do not enable the expression of assurance on the financial information.

A compilation engagement *includes*:

- Preparation of financial statements (which may or may not be a complete set of financial statements), and
- Compilation of other financial information.

A compilation engagement *excludes*:

- Preparation of a taxation return and financial information prepared solely for inclusion in the taxation return,
- Analysis of figures provided by a client to report to the client, e.g., providing advice on a client's proposed purchase of another entity, using the other entity's financial statements, and
- Relaying information to a client, without collection, classification or summarisation of the information.

Understanding Key Requirements and Impacts

APES 315 'Compilation of Financial Information' has a broad scope; it applies to the compilation of financial information (also non-financial information) rather than solely financial statements. Accordingly, a number of existing engagements will fall within the requirements of this new ethical standard, e.g., forecast information, stock counts, income statement preparation, and non-financial information.

Compilation engagements must now explicitly comply with ethical standards and relevant legislation. These standards address the five fundamental principles (integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour); the conceptual approach; threat and safeguards; and ethical conflict resolution. The *public interest obligations* of the ethical standards must also be followed.

Independence is not a requirement for a compilation engagement but it must be assessed on each engagement. Where a member is not independent, a statement to that effect is made in the compilation report.

The terms of engagement must be documented and communicated to the client in accordance with ethical standards.

A compilation engagement must be planned to ensure that it is conducted in accordance with APES 315, and all applicable professional standards, laws and regulations. A general knowledge of the business and operations of the client needs to be obtained, including familiarity with the accounting principles and practices of the industry in which the client operates, and with the form and content of the financial information. The planning considerations are now more formalised and onerous.

The documentation requirements are now far more prescriptive. Working papers must be prepared that appropriately document the work performed. They must: provide a sufficient and appropriate record of the *procedures performed* for the engagement; identify the *sources* of significant information used; and *demonstrate* that the engagement was conducted in accordance with APES 315 and other professional standards, including policies and procedures and any applicable ethical, legal and regulatory requirements. There are also more stringent requirements for *internal review* before the compilation report is released.

Where false or misleading information is supplied by the client, there is now a requirement to make further inquiries and verify responses, request additional information, and consider acceptance and continuance of the client relationship.

Consideration needs to be given by the accountant as whether the compiled financial information is appropriate in form and content and free from *obvious* material misstatements. These include: material mistakes in the application of the applicable financial reporting framework; non-disclosure of the financial reporting framework and any material departures; non-disclosure of significant matters, and the financial reporting provisions of a contract.

For a compilation engagement of general purpose or special purpose financial statements, an acknowledgment must be obtained from the client of its responsibility for the reliability, accuracy and completeness of the accounting records and disclosure to us of all material and relevant information. A similar principle applies to 'other' compiled information.

In relation to the accountants' compilation report, new requirements have been introduced for prospective information (including identification of key assumptions), and identification of departures from the reporting framework. A compilation report is not required where the financial information is audited or reviewed in accordance with Australian Auditing Standards.

A compilation report must contain:

- A title
- An addressee
- A statement that the engagement was performed in accordance with APES 315
- When relevant, a statement that the member is not independent of the client
- Identification of the compiled financial information, noting that it is based on the financial information provided by the client (if applicable)

- The basis of any forecast information
- Key assumptions (applicable to prospective financial information only)
- A statement that the client is responsible for the financial information compiled by the member
- A statement that neither an audit nor a review has been carried out, and that accordingly no assurance is expressed on the compiled financial information
- If applicable, identification that the member is reporting on a special purpose financial statement and the specific purpose for which it has been prepared
- If applicable, a paragraph drawing attention to the disclosure of material departures from the applicable financial reporting framework
- The date of the compilation report
- The member's address
- The member's or firm's name and signature, and
- An appropriate disclaimer of liability.

The financial information compiled must contain a reference such as "Unaudited", "Compiled without Audit or Review", or "Refer to Compilation Report" on each page of the compiled financial information.

There are new reporting requirements to communicate to those charged with governance on significant matters arising from the compilation engagement. Also a specific requirement has been introduced to consider the impact of subsequent discovery of facts on the compiled financial information.

Conclusion

These onerous professional requirements come at time when many business and not-for-profit entities are struggling with the fallout out of the global financial crisis. As the compilation engagements are undertaken in 2009, particularly those for 30 June financial reporting period, you will experience first-hand the impact of APES 315 'Compilation of Financial Information'.

The new requirements will result in an increased cost for compilation engagements. Our revised policies and procedures are being finalised and our people trained in these new requirements. Whilst we have absorbed the costs in tooling up for these new requirements, there will be increased costs for the performance of individual compilation engagements in accordance with the mandatory requirements of APES 315. All public practitioners face similar challenges in coming to grips with APS 315.

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