

**Engagements to Compile Historical Financial Information—
Issues and IAASB Task Force Proposals****Introduction**

1. This Paper sets out the Task Force’s deliberations and its recommendations in regard to remaining significant issues in the revision of clarified ISRS 4410.¹
2. A clean version of the proposed revised ISRS 4410 showing the Task Force’s proposed changes to the draft revised ISRS is presented in **Agenda Item 2-B**. Throughout this Paper, references to the proposed revised ISRS should be read as meaning the proposed revised ISRS as presented in Agenda Item 2-B.

Significant Issues**Management’s Responsibilities for the Compiled Financial Information**

3. At its June 2010 meeting, the IAASB requested that the Task Force clarify management’s responsibilities for the compiled financial information both in the body of proposed revised ISRS and in the illustrative examples of compilation reports provided in **Appendix 2** of the ISRS.
4. The Task Force considers it vital that management’s responsibilities are communicated in the practitioner’s report as clearly as possible. Specifically, it needs to be clear that while the practitioner is engaged to compile the financial information, management always retains responsibility for the financial information and the basis on which it is compiled.
5. Paragraphs 4-8 in the proposed revised ISRS 4410 in Agenda Item 2-B set out an explanation of management’s responsibilities. The Task Force has also worded the illustrative practitioner’s reports to clearly communicate those responsibilities to users of the compiled financial information.

Matters for IAASB’s Consideration

- Does the IAASB agree that paragraphs 4-8 in the introductory section of proposed revised ISRS 4410 set out the responsibilities of management sufficiently clearly?
- Does the IAASB agree that the description of management’s responsibilities in the illustrative practitioner’s reports contained in Appendix 2 of proposed revised ISRS 4410 is in line with the position as described in ISRS 4410?

¹ International Standard on Related Services (ISRS) 4410, *Engagements to Compile Historical Financial Information*

Quality Control in Compilation Engagements

6. At its June 2010 meeting, a number of IAASB members commented on the Task Force's proposal that the requirements and application material be premised on application of ISQC 1² or national requirements that are at least as demanding.
7. ISQC 1 establishes firm-level quality controls for firms which undertake audits and reviews of financial statements, and other assurance and related services engagements, which includes compilation engagements performed under ISRS 4410. A number of countries that have adopted ISQC 1 have not applied it to the full scope of engagements, for example, it is only applied in respect of assurance engagements. Some countries have not adopted it at all. A few IAASB members were of the view therefore that it may be difficult for such countries to adopt ISRS 4410 in those circumstances.
8. The Task Force concluded that the quality control requirements of ISRS 4410 must be predicated on ISQC1. Accordingly, in a country adopting ISRS 4410 where ISQC 1 is not adopted within the national standards for related service engagements, engagement partners performing compilations will need to extend engagement-level quality controls to take ISQC 1 firm-wide requirements into account. The Task Force has heard from some practitioners that this may not be a significant burden. The extent to which this would be required will vary between countries not adopting ISQC 1, as some national standards on firm-level quality controls may partly satisfy ISQC 1. The Task Force has added paragraph A22 in the application material of proposed revised ISRS 4410 to explain this position in broad terms.
9. The Task Force does not consider that it should seek to draft an international engagement standard that addresses firms that may not have adopted ISQC 1. This approach is consistent with that taken in the ISAs.
10. See paragraphs 24 and A22 in the proposed revised ISRS 4410.

Matters for IAASB's Consideration

Does the IAASB agree with the Task Force's view that proposed revised ISRS 4410 should be drafted with the premise contained in paragraph 24 of ISRS 4410?

Performing the Compilation Engagement

Significant Management Judgments

11. At the June 2010 IAASB meeting, some IAASB members expressed views that the compilation engagement should include minimum requirements for procedures in respect of:
 - Assisting management with development of accounting estimates required under the applicable financial reporting framework.

² International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- Considering the going concern assumption, whether explicitly addressed by the applicable financial reporting framework or not.
12. The Task Force has considered how these points can be addressed using the “think small first” approach.
 13. The Task Force has included an additional requirement paragraph in the section of ISRS 4410 on compiling the financial information (paragraph 33), as follows:

The practitioner shall discuss and agree with management those matters that require significant judgment in compiling the financial information.

This requirement is supplemented by application material explaining considerations relevant for the practitioner in assisting management to develop accounting estimates, and in management’s consideration of the entity’s ability to continue as a going concern.
 14. The Task Force’s approach is in line with the introductory section of the proposed revised ISRS 4410 which emphasizes management’s overriding responsibility for the financial statements, including judgments required to compile the financial information in accordance with the applicable financial reporting framework.
 15. See paragraphs 33 and A55-A56 in the proposed revised ISRS 4410.

Reconciling the Compiled Financial Information to Information Provided by Management for the Purpose of the Compilation

16. At the June 2010 IAASB meeting, some IAASB members commented on the proposed requirement to document a record of the practitioner’s agreement of the compiled financial information with the underlying records, documents, explanations and other information provided by management for the purpose of the compilation. It was felt that an additional requirement was needed for the practitioner to actually agree or reconcile the compiled financial information to the underlying information.
17. The Task Force is of the view that such a requirement already exists implicitly in paragraph 32 of proposed revised ISRS 4410:

The practitioner shall compile the financial information using the records, documents, explanations and other information provided by management, in accordance with the applicable financial reporting framework as specified in the agreed terms of the engagement.

The task of compiling the financial information from records, documents, explanations and other information provided by management requires agreement or reconciliation with the underlying information, including adjustments made in the course of the compilation. The Task Force is of the view that inclusion of a further requirement for the practitioner to agree or reconcile the compiled financial information to underlying records would add unnecessary complexity to the ISRS, suggesting that such an action is further to that already achieved in paragraph 32.
18. The Task Force has introduced application material attached to this requirement to explain that, under the requirement to compile the financial information, the practitioner performs tasks associated directly with the compilation, such as reconciling or agreeing the compiled information to underlying information provided by management.

19. See paragraphs 32 and A54 in the proposed revised ISRS 4410.

Matters for IAASB’s Consideration

Does the IAASB agree with the Task Force’s amendments in proposed revised ISRS 4410 to address:

- (a) What the practitioner is required to do when assisting management to develop accounting estimates and in relation to the consideration of going concern?
- (b) The requirement to document that the compiled financial information agrees with or reconciles to the information provided by management for the compilation?

Avoiding Association with Information that is Materially Misstated or Misleading – the Applicable Financial Reporting Framework

20. At the June 2010 IAASB meeting, some IAASB members discussed the overall importance of the term “applicable financial reporting framework” to proposed revised ISRS 4410, and requested that the Glossary definition of the term be added to the standard. The definition has been added in paragraph 17(a) of proposed revised ISRS 4410.
21. A few IAASB members discussed the inclusion of provisions that envisage the practitioner recommending to management a change to the applicable financial reporting framework if, in the course of the compilation engagement it becomes clear to the practitioner that:
- (a) The financial reporting framework initially selected by management for the compilation is not acceptable, and
 - (b) Use of another financial reporting framework that is acceptable in view of the intended use of the financial information would help resolve material misstatements arising from use of the originally accepted framework.
- The requirements addressing these circumstances were not considered sufficiently clear, and the Task Force was asked to reconsider the wording.
22. The IAASB also requested that the Task Force develop an example that would adequately illustrate this circumstance for inclusion in the application material supporting the relevant requirement paragraph.
23. The Task Force has reworded this requirement in paragraph 35 of proposed revised standard as presented in Agenda Item 2-B. Application material is provided in paragraph A58, including an example. This application material is supplementary to the application material at A40 for the requirements addressing engagement acceptance and continuance.

Matters for IAASB’s Consideration

Does the IAASB agree with the reworded requirements and additional application material included in proposed revised ISRS 4410, regarding recommendations made by the practitioner to management to change the applicable financial reporting framework and explaining the circumstances where the practitioner would consider making such recommendations to

management of the entity?

Provisional Effective Date

24. The Task Force recommends that the effective date for the proposed revised ISRS be specified as follows:

“This ISRS is effective for compilation engagements performed for periods beginning on or after December 15, 20[date]”.

Form of the Effective Date

25. The Task Force recognizes that this form of effective date is different to that which the Board recently established in respect of the exposure draft for ISA 610³, which uses the form “... effective for audits of financial statements for periods ending on or after ...”.
26. The Task Force believes that in view of the nature of compilation engagements, on an intuitive basis, reference to the commencement of a period for which a compilation engagement is undertaken, rather than the end, is more appropriate.
27. The form agreed for ISA 610 took into account the need to avoid inadvertent application of ISAs to audits for periods of less than one year in the first year of application. The issue of application of the standard to a partial period does not have the same implications with regard to a compilation engagement.

Adoption and Implementation

28. The Task Force believes an estimated 18-24 months would likely be a reasonable provision for effective adoption and implementation of the revised ISRS at the national level, once it is approved as a final standard. This takes into account the fact that the variety of national circumstances that exist in relation to compilation engagements — in some countries compilations are an established form of professional service with extant national standards, but in other countries they may not be as common, or there may be no extant national standards.
29. This anticipated period for adoption and implementation would be signaled in the Explanatory Memorandum and respondents’ input sought. Whilst recognizing that a much extended period for adoption and implementation at the national level is provided with this option, early adoption of the revised ISAs will be permitted

Matters for IAASB’s Consideration

- Does the IAASB agree with the Task Force’s recommended form of the effective date of the proposed revised ISRS 4410?
- The IAASB is asked for its views on the period that would be appropriate for adoption and implementation of the ISRS, when released in final form, at the national level.

³ Proposed International Standard on Auditing (ISA) 610, “Using the Work of Internal Auditors.”

Consideration by IAASB of Significant Matters Identified by Task Force

30. In the Task Force's view, all significant matters the Task Force has identified as a result of its deliberations since the beginning of this project, and the Task Force's considerations thereon, have been reflected in the issues papers presented to the IAASB at its meetings.

Consideration by IAASB of Need for Further Consultation

31. Based on the Task Force's deliberations to date, and taking account of the nature of the proposed revisions to ISRS 4410, the Task Force does not believe that there are specific issues on which there is need, prior to exposure, to obtain views on particular matters under consideration, for example, through a public forum or roundtable, or need to conduct a field test of the application of the proposed revised ISRS.