

## PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES 4410 (REVISED)

### ENGAGEMENTS TO COMPILE HISTORICAL FINANCIAL INFORMATION

**[CLEAN]**

(Effective for compilation engagements for periods beginning on or after December 15, [date])

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Engagements to Compile Historical Financial Information—Proposed ISRS 4410 (Revised)  
*IAASB Main Agenda (September 2010)*

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International Standard on Related Services (ISRS) 4410, “Engagements to Compile Financial Information” should be read in conjunction with the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.”
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## **Introduction**

### **Scope of this ISRS**

1. This International Standard on Related Services (ISRS) deals with the practitioner's responsibilities when engaged to compile and report on historical financial information in accordance with this ISRS, and the form and content of the practitioner's report for the compilation engagement. (Ref: Para. A1)
2. This ISRS is directed towards compilation engagements for historical financial information. This ISRS is to be applied, adapted as necessary, to compilation engagements performed in accordance with this ISRS for financial information other than historical financial information. It may also be applied to compilation engagements performed in accordance with this ISRS for non-financial information. Hereinafter in this ISRS reference to "financial information" means "historical financial information." (Ref: Para. A2-A3)

### **The Engagement to Compile Financial Information**

3. Financial information of an entity may be required for various purposes. The operating and governance arrangements in which the responsibility for financial information of an entity is established include:
  - (a) Requirements to produce financial information for an entity in a specified form, as part of mandatory requirements for compliance or reporting purposes established in law or regulation; or
  - (b) Any requests to produce financial information of the entity, either as required for purposes established by the entity's owners or those charged with governance, or under other ongoing periodic reporting requirements, such as to report on use of funds received for purposes linked to a funding grant.
4. Management of an entity, or those charged with governance as appropriate, ordinarily has the responsibility to provide financial information of the entity as required for a particular purpose, and for its proper preparation in the required form. This responsibility requires:
  - (a) Identification of the financial reporting framework to be used in preparing the financial information, for example:
    - (i) As specified in the context of applicable law or regulation that requires provision of financial information by the entity; or
    - (ii) As specified in the context of a contract that requires provision of financial information by the entity; or
    - (iii) By selection of an acceptable financial reporting framework in other cases, for example when the requirement to provide financial information arises from operating or governance arrangements applicable to the entity;
  - (b) Preparation of the financial information in accordance with that framework; and
  - (c) Inclusion of an adequate description of, or reference to, that financial reporting framework as part of the financial information.

5. Preparation of financial information in accordance with the framework will often require management to apply judgment, for example in the selection and application of appropriate accounting policies and for developing reasonable accounting estimates.
6. Management may use a professional accountant in public practice to assist with the preparation of financial information. In doing so, however, management retains its responsibility for the financial information. (Ref: Para. A4)
7. The value of a compilation engagement to users of compiled financial information results from the application of the practitioner's professional expertise and ethical standards in compiling the information in accordance with relevant quality control and professional standards. Accordingly, in performing the engagement the practitioner is required to comply with relevant ethical principles, including integrity, objectivity, and professional competence and due care.
8. This ISRS does not impose responsibilities on management or those charged with governance, or override laws and regulations that govern their responsibilities. This ISRS does not relieve management or those charged with governance of their responsibilities regarding the provision of financial information of an entity, including its proper preparation in the required form. A compilation engagement performed in accordance with this ISRS is conducted on the premise that management, or those charged with governance where appropriate, have acknowledged certain responsibilities that are fundamental to the performance of the compilation engagement.
9. A compilation engagement is not an assurance engagement. As such, a compilation engagement does not involve gathering evidence for the purpose of expressing a review conclusion or audit opinion on the financial information. (Ref: Para. A5)

#### **Authority of this ISRS**

10. This ISRS applies to all practitioners engaged to compile financial information and to report on the compilation of the financial information as required in this ISRS.
11. This ISRS contains the objectives of the practitioner in following the ISRS, which provides the context in which the requirements of this ISRS are set, and is intended to assist the practitioner in understanding what needs to be accomplished in the compilation engagement.
12. This ISRS contains requirements, expressed using "shall," that are designed to enable the practitioner to meet the stated objectives.
13. In addition, this ISRS contains introductory material, definitions, and application and other explanatory material, that provides context relevant to a proper understanding of the ISRS.
14. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISRS that assist in the application of the requirements.

## Effective Date

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

## Objectives

16. The practitioner's objectives in a compilation engagement under this ISRS are:
  - (a) To apply accounting and reporting expertise to assist management in presenting financial information in accordance with an applicable financial reporting framework based on information provided by management; and
  - (b) To issue a report as required under this ISRS.

## Definitions

17. The following terms have the meanings attributed below for the purposes of this ISRS: (Ref: Para. A6)
  - (a) *Applicable financial reporting framework*—The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial information that is acceptable in view of the nature of the entity and the objective of the financial information, or that is required by law or regulation. (Ref: Para. A7-A13)
  - (b) *Compile*—To apply accounting and reporting expertise to present financial information in accordance with an applicable financial reporting framework.
  - (c) *Compilation Engagement*—An engagement in which a practitioner compiles financial information of an entity under the terms of an engagement and issues a report under this ISRS. (Ref: Para. A14)
  - (d) *Practitioner*—A professional accountant in public practice who conducts the compilation engagement. The term includes the practitioner or other members of the engagement team, or, as applicable, the firm. Where this ISRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.
  - (e) *Relevant ethical requirements*—Ethical requirements the engagement team is subject to, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (IESBA Code) together with national requirements that are more restrictive.
18. The terms “management” and “those charged with governance” are defined in the Handbook's Glossary of Terms<sup>1</sup> (the Glossary). For the purposes of this ISRS, references to

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<sup>1</sup> The Glossary of Terms relating to International Standards issued by the IAASB in the *Handbook of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* (the Glossary), published by IFAC.

“management” should hereafter be read as “management and, where appropriate, those charged with governance.” Where it is intended that requirements or guidance apply only to those charged with governance, the relevant text of this ISRS refers only to those charged with governance. (Ref: Para. A15-A16)

## **Requirements**

### **Conduct of a Compilation Engagement in Accordance with this ISRS**

19. The practitioner shall have an understanding of the entire text of this ISRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

#### *Complying with Relevant Requirements*

20. The practitioner shall comply with each requirement of this ISRS unless a particular requirement is not relevant to the compilation engagement, for example if the circumstances addressed by the requirement do not exist in the engagement.
21. The practitioner shall not represent compliance with this ISRS unless the practitioner has complied with all requirements of this ISRS relevant to the compilation engagement.

### **Ethical Requirements**

22. The practitioner shall comply with relevant ethical requirements as they relate to compilation engagements. (Ref: Para. A17-A18)

### **Professional Judgment**

23. The practitioner shall exercise professional judgment in planning and performing a compilation engagement. (Ref: Para. A19-A20)

### **Quality Control**

#### *System of Quality Control*

24. Quality control systems, policies and procedures are the responsibility of the firm. ISQC 1<sup>2</sup> applies to firms of professional accountants in respect of a firm’s engagements to compile financial information. The provisions of this ISRS regarding quality control at the level of individual compilation engagements are premised on the basis that firms are subject to ISQC 1<sup>3</sup> or national requirements that are at least as demanding, when performing compilation engagements. (Ref: Para. A21-A24)

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<sup>2</sup> 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*

<sup>3</sup> ISQC 1, paragraph 4

*Role of the Engagement Team*

25. The engagement partner shall take responsibility for the overall quality of each compilation engagement to which that partner is assigned. Within the context of the firm's system of quality control, the engagement partner shall take responsibility for the compilation being performed in accordance with the firm's quality control policies and procedures, by: (Ref: Para. A25-A29)
- (a) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A30)
  - (b) Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the compilation engagement, and have complied with relevant ethical requirements;
  - (c) Directing, supervising and performing the compilation engagement in compliance with professional standards and applicable legal and regulatory requirements; and
  - (d) Maintaining appropriate engagement documentation.

**Engagement Acceptance and Continuance**

*Factors Affecting Continuance of Client Relationships and Engagement Acceptance*

26. Unless required by law or regulation, the practitioner shall not accept the engagement unless the practitioner is able to: (Ref: Para. A31-A32)
- (a) Identify the intended use of the financial information to be compiled, and be satisfied that there is a rational purpose for the engagement; (Ref: Para. A33-A34)
  - (b) Determine whether the financial reporting framework adopted by management for compilation of the financial information, is acceptable in the context of the intended use of the financial information; and (Ref: Para. A35-A41)
  - (c) Obtain the agreement of management that it acknowledges and understands that: (Ref: Para. A42-A44)
    - (i) In performing the engagement the practitioner will compile the financial information on behalf of management; and
    - (ii) Management has the following overall responsibilities which are fundamental to undertaking the compilation engagement in accordance with this ISRS:
      - a. Selection of the financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users;
      - b. Preparation of the financial information in accordance with the applicable financial reporting framework, including:
        - The fair presentation of the financial information, where relevant;

- Selection of appropriate accounting policies under the financial reporting framework where needed, and for management judgments needed to develop any accounting estimates required under the framework; and
- c. Providing the practitioner with:
  - All information of which management is aware that is relevant to the preparation of the financial information such as records, documents, explanations and other information; and
  - Additional information that the practitioner may request from management for the purpose of the compilation engagement;
- d. The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement as described in paragraph 26(c)(ii)c; and
- e. The financial information that the practitioner compiles on behalf of management in accordance with the applicable financial reporting framework.

#### *Agreeing the Terms of Engagement*

27. The practitioner shall agree the terms of engagement with management prior to performing the engagement. (Ref: Para. A45)
28. The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include: (Ref: Para. A46-A48)
  - (a) The objective and scope of the compilation engagement, including a statement that the engagement is not an assurance engagement and accordingly the practitioner does not express any audit opinion or review conclusion in respect of the compiled financial information;
  - (b) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements;
  - (c) The responsibilities of management, including those described in paragraph 26(c);
  - (d) Identification of the applicable financial reporting framework;
  - (e) The intended use and distribution of the compiled financial information, and any restrictions on either its use or its distribution; and
  - (f) The expected form and content of the practitioner's report.

#### *Recurring Engagements*

29. On recurring compilation engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of

engagement to be revised and whether there is need to remind management of the existing terms of engagement. (Ref: Para. A49)

### **Communication with Management and Those Charged with Governance**

30. The practitioner shall communicate with management or those charged with governance as appropriate, on a timely basis during the course of the compilation engagement. The practitioner shall address all significant matters concerning the compilation engagement that, in the practitioner's professional judgment, need to be communicated. (Ref: Para. A50)

### **Performing the Engagement**

#### *The Practitioner's Knowledge and Understanding*

31. To perform the compilation engagement the practitioner shall obtain:
  - (a) Knowledge and understanding of the entity's business and operations, including the entity's accounting system and accounting records; and
  - (b) An understanding of the applicable financial reporting framework, including its application in the entity's industry,sufficient to be able to compile the financial information. (Ref: Para. A51-A52)

#### *Compiling the Financial Information*

32. 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. (Ref: Para. A53-A54)
33. The practitioner shall discuss and agree with management those matters that require significant judgment in compiling the financial information. (Ref: Para. A55-A56)
34. If, in the course of the compilation engagement, the practitioner becomes aware that the records, documents, explanations or other information provided by management for the compilation are incomplete or inaccurate, or otherwise unsatisfactory, the practitioner shall bring this to the attention of management for appropriate action. (Ref: Para. A57)
35. If, during the compilation engagement, the practitioner determines that the financial reporting framework initially selected by management is not acceptable, but another financial reporting framework can be used that is acceptable in view of the intended use of the financial information so that the information will not be materially misstated or misleading, the practitioner shall:
  - (a) Recommend that management select another acceptable financial reporting framework; and
  - (b) If management agrees to select another financial reporting framework, issue an amended engagement letter to record the change to the terms of engagement. (Ref: Para. A58)

36. Prior to completion of the compilation engagement, the practitioner shall: (Ref: Para. A59-A60)
- (a) Read the financial information with the knowledge and understanding described in paragraph 31; and
  - (b) If on reading the compiled financial information, the practitioner becomes aware that:
    - (i) the compiled financial information does not adequately refer to, or describe, the applicable financial reporting framework; or
    - (ii) there are material misstatements in the compiled financial information or that the compiled financial information is misleading,
- the practitioner shall propose to management appropriate amendments to the compiled financial information.
37. The practitioner shall discuss and agree the proposed amendments with management, and then make those amendments to the compiled financial information. (Ref: Para. A60)
38. If management:
- (a) Does not agree to the practitioner's recommendation to use another financial reporting framework that is acceptable in view of the intended use of the financial information; or
  - (b) Declines the amendments proposed by the practitioner to the compiled financial information, including amendments needed for the applicable financial reporting framework to be properly referred to or described in the financial information,
- so that the compiled financial information is not materially misstated or misleading, the practitioner shall communicate with management about the implications for the compilation engagement. (Ref: Para. A61)
39. Unless prohibited by law or regulation the practitioner shall withdraw from the engagement, and inform management and those charged with governance, if applicable, of the reasons for withdrawing, if:
- (a) The practitioner is not able to complete the compilation because management has failed to provide records, documents, explanations or information that are complete and accurate for the purposes of the compilation, or additional information as requested by the practitioner; or
  - (b) The applicable financial reporting framework used to compile the financial information is not adequately referred to, or described, in the compiled financial information, and management declines the amendments proposed by the practitioner; or
  - (c) The compiled financial information is materially misstated or misleading, and management declines either:
    - (i) The amendments to the compiled financial information proposed by the practitioner; or

- (ii) The practitioner's recommendation to use another financial reporting framework that is acceptable in view of the intended use of the compiled financial information.

If withdrawal from the engagement is not possible the practitioner shall determine the professional and legal responsibilities applicable in the circumstances. (Ref: Para. A62)

### **Documentation**

- 40. The practitioner shall include in the engagement documentation: (Ref: Para. A63-A64)
  - (a) Significant matters discussed with management and requiring their agreement;
  - (b) The sources from which the financial information was compiled including a record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information provided by management for the compilation; and
  - (c) A copy of the compiled financial information and the practitioner's compilation report.

### **The Practitioner's Report**

- 41. The practitioner's report issued for the compilation engagement shall be in writing, and shall contain the following elements: (Ref: Para. A65-A71)
  - (a) The report title;
  - (b) The addressee(s), being the engaging party, or otherwise as required by the terms of the engagement; (Ref: Para. A66)
  - (c) An introductory paragraph that:
    - (i) Identifies the compiled financial information, including the title of each element of the compiled financial information if it comprises more than one element, the date of the financial information and the period to which it relates;
    - (ii) Identifies the applicable financial reporting framework; and
    - (iii) States that the financial information has been compiled by the practitioner based on information provided by management, in accordance with the agreed terms of engagement;
  - (d) A description of the responsibilities of management, including an explanation of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement and in relation to the compiled financial information;
  - (e) A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this ISRS and in accordance with relevant ethical requirements;
  - (f) A description of what a compilation of financial information entails in accordance with this ISRS, and a statement that neither an audit nor a review has been carried out and

accordingly the practitioner does not express an audit opinion or a review conclusion on the compiled financial information;

- (g) If the compiled financial information is in the form of special purpose financial statements, under a separate heading in the report: (Ref: Para. A68-A69)
    - (i) A description of the purpose for which the financial information is prepared and, if necessary, the intended users, or a reference to a note in the compiled financial statements that contains that information; and
    - (ii) An alert to users of the practitioner’s report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose;
  - (h) The date of the practitioner’s report;
  - (i) The practitioner’s signature; and
  - (j) The practitioner or firm’s address.
42. The engagement is completed when management has accepted responsibility for the compiled financial information by approving that information. The practitioner shall date the report on the date the compilation engagement is completed. (Ref: Para. A70)

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## **Application and Other Explanatory Material**

### **Scope of this ISRS** (Ref: Para. 1-2)

- A1. Practitioners’ involvement with activities relating to the preparation or presentation of an entity’s financial information can take many different forms. A practitioner’s involvement in such activities falls within the scope of this ISRS if undertaken as part of performing a compilation engagement as defined in this ISRS. Such activities do not fall within the scope of this ISRS if they are provided for an entity when the practitioner is not engaged to perform a compilation engagement, or when the practitioner is engaged to collect, classify or summarize financial information of an entity, or to present financial information in accordance with a financial reporting framework, without providing a report as required in this ISRS, such as when a practitioner provides accounting services for management without providing the report required by this ISRS.
- A2. This ISRS addresses the compilation of historical financial information but is also to be applied, adapted as necessary, to the compilation of other financial information. Examples of other types of financial information that practitioners may compile are:
  - Pro forma financial information
  - Management budgets or forecasts
  - Prospective financial information

- A3. Practitioners may also perform engagements to compile non-financial information, for example greenhouse gas statements, statistical returns or information returns and may use this ISRS for those compilations, adapted as necessary.

**The Engagement to Compile Financial Information** (Ref: Para. 6 and 9)

- A4. In the course of a compilation engagement the practitioner may perform activities in addition to presenting the financial information, depending on the extent to which management has already prepared the underlying financial information. For example, the practitioner may compile the financial information from a preliminary trial balance provided by management. In other cases the practitioner may also process information about underlying transactions and events of the entity for the entity's accounting records, in the course of providing services to management of the entity. This is often the case for smaller entities that do not have well-developed accounting systems or that prefer to outsource preparation of accounting records to external providers.
- A5. A compilation engagement does not entail performance of the types of procedures that provide a basis for the practitioner to express assurance on the compiled financial information. To avoid misunderstanding the practitioner is required to communicate that the compilation engagement is not an assurance engagement when agreeing the terms of the engagement with management and in the practitioner's report.

**Definitions** (Ref: Para. 17)

- A6. This ISRS describes meanings attributed to certain terms for purposes of this ISRS. These are provided to assist practitioners in the consistent application and interpretation of this ISRS, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Handbook's Glossary of Terms<sup>4</sup> (the Glossary) includes the terms defined in this ISRS. The Glossary also includes descriptions of other terms found in this ISRS to assist in common and consistent interpretation and translation.

*The Applicable Financial Reporting Framework* (Ref: Para. 17(a))

- A7. Different financial reporting frameworks can be used to prepare and present financial information, depending on the intended purpose of the financial information and the nature of the entity. Financial information provided for financial reporting purposes may be characterized as being either "general purpose" or "special purpose."
- A8. General purpose financial information is intended to meet common financial information needs of a wide range of users, and is very often provided in the form of general purpose financial statements prepared in accordance with either a "fair presentation framework" or a "compliance framework." The term "fair presentation

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<sup>4</sup> The Glossary of Terms relating to International Standards issued by the IAASB in the *Handbook of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* (the Glossary), published by IFAC.

framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in sub-paragraphs A8(a) or A8(b) above.

A9. Special purpose financial information, which may be in the form of special purpose financial statements, is intended to meet the financial information needs of specific users, for example:

- Under the terms of a funding agreement with a grant provider, the financial information may comprise a statement of cash receipts and payments in relation to funds advanced;
- Under the terms of a financing agreement with a lending institution, the financial information required may be financial statements prepared in accordance with a recognized general purpose financial reporting framework, but modified in one or more respects to be customized for the institution’s requirements.
- The financial information may be a statement required by management of an entity for internal use, prepared on a basis specified by management to meet their particular needs.

A10. Financial reporting frameworks that encompass primarily the financial reporting standards established by an organization that is authorized or recognized to promulgate standards to be used by entities for preparing general purpose financial statements are often designed to achieve fair presentation, for example, International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

A11. In some cases, the financial reporting framework may encompass both financial reporting standards established by an authorized or recognized standards setting organization and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases, the applicable financial reporting framework may encompass such other sources, or may even consist only of such sources. Such other sources may include:

- The legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters

- Published accounting interpretations of varying authority issued by standards setting, professional or regulatory organizations
- Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organizations
- General and industry practices widely recognized and prevalent
- Accounting literature

Where conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained, or among the sources that encompass the financial reporting framework, the source with the highest authority prevails.

- A12. The requirements of the applicable financial reporting framework determine the form and content of the financial information. Regarding presentation of the financial information in the required form, although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework. Regarding the presentation of required content, many financial reporting frameworks concern the preparation of a set of financial statements that are intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a complete set of financial statements would include a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial statements.
- A13. The applicable financial reporting framework may be either relatively more or less complex in different financial reporting settings, depending on the intended use of the information and the needs of the intended users. For example, the applicable financial reporting framework may be:
- The cash receipts and disbursements basis of accounting, to present cash flow information required for a creditor; or
  - The balance sheet of an entity as at a reporting date and the income statement for the year then ended, on the historical cost basis, reflecting all cash transactions with the addition of trade accounts payable, trade accounts receivable, inventory accounted for on an average cost basis, and capitalization of significant long-lived assets amortized over their estimated useful lives; or
  - IFRS for preparation of full general purpose financial statements. This is an example of a financial reporting framework which is more complex, and accordingly requires a significantly higher level of knowledge and expertise of the practitioner.

*Compilation Engagement* (Ref: Para. 17(c))

- A14. As applicable in the circumstances, the compilation engagement may include collecting, classifying or summarizing underlying information of the entity in addition to presentation of the financial information in accordance with a financial reporting framework.

*Use of Terms “Management” and “Those Charged with Governance”* (Ref: Para. 18)

- A15. The way the practitioner applies the requirements of this ISRS regarding management or those charged with governance is affected by the fact that the responsibilities of management and those charged with governance are likely to differ between various types of entities, and between jurisdictions. In small entities where one or more owners also manage the business, the roles of management and those charged with governance coincide. The words “where appropriate” used in the phrase “management and, where appropriate, those charged with governance” signal that in different entity environments the practitioner will need to take into account the relevant management and governance structure and arrangements of the entity for which the practitioner is compiling financial information.
- A16. Various responsibilities relating to preparation of financial information and external financial reporting will fall to either management or those charged with governance according to factors such as:

- The resources and structure of the entity;
- The respective roles of management and those charged with governance within the entity as set out in relevant law or regulation or, if the entity is not regulated, in any formal governance or accountability arrangements established for the entity (for example, as recorded in contracts, or a constitution or other type of document by which an entity is established).

For example, in small entities there is often no separation of the management and governance roles for the entity, or those charged with governance of the entity may also be involved in managing an entity. In most other cases, especially in larger entities, management is responsible for execution of the business or activities of the entity and reporting thereon, while those charged with governance have oversight of management. In larger entities, those charged with governance will often have or assume responsibility for approving the financial information of the entity, particularly when it is intended for use by external parties. In large entities often a subgroup of those charged with governance such as an audit committee, is charged with certain oversight responsibilities. In different jurisdictions the legal responsibility for preparation of financial statements for an entity in accordance with a specified framework is the legal responsibility of those charged with governance, and in other jurisdictions it is a management responsibility.

**Ethical Requirements** (Ref: Para. 22)

- A17. Part A of the IESBA Code establishes the fundamental principles of professional ethics that practitioners must comply with, and provides a conceptual framework for applying those principles. The fundamental principles are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

Part B of the Code illustrates how the conceptual framework is to be applied in specific situations. In complying with the IESBA Code, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.

- A18. Notwithstanding that the IESBA Code does not require independence in a compilation engagement, national ethical codes and laws or regulations may require the practitioner to be independent in order to perform a compilation engagement, or may specify disclosure rules or requirements, for example concerning impairment of the practitioner's independence when that is the case.

**Professional Judgment** (Ref: Para. 23)

- A19. Professional judgment is essential to the proper conduct of a compilation engagement. This is because interpretation of relevant ethical requirements and the requirements of this ISRS, and the informed decisions that are required throughout performance of a compilation cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:
- The acceptability of the financial reporting framework that is to be used to compile the financial information of the entity in view of the intended purpose and intended users of the financial information.
  - The application of the applicable financial reporting framework, such as when the practitioner provides assistance to management regarding:
    - (i) Selection of appropriate accounting policies under the applicable financial reporting framework, and
    - (ii) Development of accounting estimates that are needed for the financial information being compiled.
  - Performance of procedures under the requirements specified in this ISRS to complete the compilation of the financial information.
- A20. The exercise of professional judgment in individual compilation engagements is based on the facts and circumstances that are known to the practitioner up to the date of the practitioner's report, including:
- Knowledge acquired from performance of other engagements undertaken for the entity, where applicable (for example, taxation services);

- The practitioner’s knowledge and understanding of the entity’s business and operations including its accounting system, and understanding of the application of the applicable financial reporting framework in the industry in which the entity operates; and
- The extent to which preparation of the underlying financial information requires exercise of management judgment.

## **Quality Control**

### *System of Quality Control* (Ref: Para. 24)

- A21. ISQC 1 deals with the firm’s responsibilities to establish and maintain its system of quality control for related services engagements, including compilation engagements. Those responsibilities are directed at establishing quality control system, policies and procedures at the level of the firm.
- A22. A jurisdiction that has not adopted ISQC 1 in relation to compilation engagements may have national standards that set out requirements for quality controls in firms performing such engagements. The provisions of this ISRS regarding quality controls at the level of individual engagements are premised on the basis that such national requirements are at least as demanding as those of ISQC 1. National requirements are at least as demanding as ISQC 1 when they impose obligations on the firm that achieve the aims of the objectives to which the requirements of ISQC 1, including in relation to the elements of a system of quality control set out in ISQC 1.
- A23. Under ISQC 1 the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
- (a) The firm and its personnel comply with professional standards and regulatory and legal requirements; and
  - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>5</sup>
- A24. The firm’s system of quality control includes policies and procedures that address each of the following elements:
- Leadership responsibilities for quality within the firm;
  - Relevant ethical requirements;
  - Acceptance and continuance of client relationships and specific engagements;
  - Human resources;
  - Engagement performance; and
  - Monitoring.

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<sup>5</sup> ISQC 1, paragraph 11

*Role of the Engagement Team* (Ref: Para. 25)

- A25. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.
- A26. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. For example, the engagement team may rely on the firm's system of quality control in relation to:
- Competence of personnel through their recruitment and formal training.
  - Maintenance of client relationships through acceptance and continuance systems.
  - Adherence to regulatory and legal requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the compilation engagement, the engagement partner may have regard to measures taken by the firm to rectify the situation that the engagement partner considers are sufficient in the context of that compilation engagement.

- A27. A deficiency in the firm's systems of quality control does not necessarily indicate that a compilation engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.
- A28. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement emphasize the importance of achieving quality in the engagement, including with regard to:
- (a) Performing work that complies with professional standards and regulatory and legal requirements;
  - (b) Complying with the firm's quality control policies and procedures as applicable;
  - (c) Issuing the practitioner's report for the engagement; and
  - (d) The engagement team's ability to raise concerns without fear of reprisals.

Compliance with Ethical Requirements in relation to the Engagement

- A29. ISQC 1 set out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This ISRS sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including evaluating whether members of the engagement team have complied with relevant ethical requirements, and determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements.

Acceptance and Continuance of Client Relationships and Compilation Engagements (Ref: Para. 25(a))

- A30. ISQC 1 requires the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance or continuance of client relationships and compilation engagements is appropriate may include information concerning the integrity of the principal owners, key management and those charged with governance. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the compilation, it may not be appropriate to accept the engagement to perform a compilation as doing so may lead to the practitioner being associated with the entity's financial statements in an inappropriate manner.

**Engagement Acceptance and Continuance**

*Factors Affecting Continuance of Client Relationships and Engagement Acceptance* (Ref: Para. 26)

- A31. Under the IESBA Code the practitioner must not knowingly be associated with financial information that is materially false or misleading, including by omission of relevant information or disclosures. If the practitioner is not satisfied that the requirements of this ISRS regarding continuation of client relationships and engagement acceptance are met, the threat from being knowingly associated with materially false or misleading information is considered so significant it is not able to be mitigated through safeguards, and in accordance with paragraph 26 the practitioner is required to decline the engagement.
- A32. Other factors may also influence the practitioner's decision about whether to accept a compilation engagement, for example, if the practitioner has cause to suspect that management may lack integrity to a degree that may affect proper performance of the compilation engagement.

Identifying the Intended Use of the Financial Information (Ref: Para. 26(a))

- A33. The intended use of financial information to be compiled is identified with reference to applicable law, regulation, or other arrangements established concerning the provision of financial information of the entity, bearing in mind the financial information needs of parties internal or external to the entity who are the intended users. Examples are financial information required to be provided by an entity in connection with undertaking transactions or financing applications with external parties such as suppliers, banks or other providers of finance or funding.
- A34. The practitioner's identification of the intended use of the financial information also involves understanding such factors as the engaging party, or management's particular purpose(s) that are intended to be served through requesting the compilation engagement. For example a grant funding body may require compilation of financial information by a professional accountant to obtain that information prepared in a specified form about certain

aspects of an entity's operations or activities in support of the provision or continued provision of a grant.

Acceptability of the Financial Reporting Framework (Ref: Para. 26(b))

- A35. The practitioner's determination of the acceptability of the financial reporting framework that management identifies for use in the compilation engagement is made in the context of the practitioner's understanding of the intended use of the financial information that is to be compiled, as described in the agreed terms of the engagement.
- A36. Factors that may be relevant to the practitioner's determination of the acceptability of the financial reporting framework to be used to compile the financial information required include:
- The nature of the entity, and whether it is a regulated form of entity, for example, whether it is a profit-oriented business enterprise, a public sector entity or an organization not for profit;
  - The purpose of the financial information to be compiled and the intended users, for example, the financial information may be compiled for use only by management or it may be intended for external users, or it could be intended to be either general purpose financial information or financial information for a special purpose;
  - The nature and form of the financial information to be compiled under the applicable financial reporting framework, for example, a complete set of financial statements, a single financial statement, or financial information compiled in a format agreed between the parties to an agreement; and
  - Whether the applicable financial reporting framework is prescribed or specified in applicable law or regulation, or specified as part of governance or accountability arrangements adopted voluntarily by the entity.
- A37. The engaging party generally agrees the nature and form of financial information that is intended to be used for a "special purpose" with the intended users of the information, for example under the financial reporting provisions of a contract or a project grant. The relevant contract may require use of a recognized financial reporting framework, such as a fair presentation framework established by an authorized or recognized standard-setting organization or by law or regulation, but modified or adapted in certain respects in consideration of the financial information needs of the contracting parties. In this example the applicable financial reporting framework may be described as "the financial reporting provisions of the contract" rather than being described with reference to the recognized financial reporting framework used on the modified or adapted basis. The special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework, because the special purpose framework may not comply with all the requirements of the financial reporting framework necessary to achieve fair presentation.
- A38. An entity may only need to prepare special purpose financial information, for example if it is not subject to general purpose financial reporting requirements under applicable

law or regulation. In such circumstances the compiled special purpose financial information may be used by users other than those for whom the applicable financial reporting framework is designed. Notwithstanding the broader distribution of the financial information in those circumstances, under the agreed terms of the engagement the financial statements are still required to be treated as special purpose financial statements for purposes of this ISRS. The requirements for the practitioner's report are designed to avoid misunderstandings about the purpose for which the financial information are prepared and the intended users of the financial information.

- A39. In many cases the practitioner may presume, in the absence of any indications to contrary, that the applicable financial reporting framework is acceptable, for example a financial reporting framework that is prescribed by law or regulation in a jurisdiction to be used in the preparation of general purpose financial statements for certain types of entities.
- A40. Management may decide to select another financial reporting framework that is acceptable in view of the intended use of the financial information being compiled if, during the engagement, there are indications that the applicable financial reporting framework is not acceptable. This could occur, for example, if use of that framework would result in material misstatements in the compiled financial information, which would not occur if another framework were used. Management may want to select another financial reporting framework that is acceptable in view of the intended use of the compiled financial information, to avoid the compiled financial information being materially misstated or misleading. When management agrees to select another financial reporting framework as the applicable financial reporting framework, new terms of engagement are agreed to reflect the change as the previously agreed terms will no longer be accurate.
- A41. When the applicable financial reporting framework is a special-purpose framework, the practitioner is required by this ISRS to record any restrictions on either use or distribution of the compiled financial information in the engagement letter, and to include an alert in the practitioner's compilation report that the financial information is prepared for a special purpose and as a result may not be suitable for another purpose.

#### Responsibilities of Management (Ref: Para. 26(c))

- A42. The form of the information provided by management for the purpose of the compilation will vary in different engagement circumstances. In broad terms it will comprise records, documents, explanations and other information relevant to the preparation of the financial information. The information provided may include, for example, information about management assumptions, intentions or plans underlying development of accounting estimates needed to compile the information under the applicable financial reporting framework. The practitioner is entitled to rely on management to provide all relevant information for the compilation on an accurate, complete and timely basis.
- A43. Because of the significance of the premise that applies when a compilation engagement is performed, regarding management's responsibilities for the financial information and in relation to its compilation by the practitioner on management's behalf, the practitioner is required to obtain agreement from management before accepting the engagement that

management acknowledges and understands its responsibilities. Notwithstanding the practitioner's responsibility in the engagement to compile the financial information in accordance with this ISRS, management remains responsible for the financial information.

- A44. If management does not acknowledge its responsibilities as described under paragraph 26(c), the practitioner is not able to undertake the engagement and it is not appropriate to accept the engagement unless law or regulation requires the practitioner to do so. In circumstances where the practitioner is nevertheless required to accept the compilation engagement, the practitioner may need to communicate with management about the importance of these matters and the implications for the engagement.

*Agreeing the Terms of Engagement* (Ref: Para. 27)

- A45. In cases where the engaging party is someone other than management or those charged with governance of the entity, the terms of engagement are agreed with the engaging party.

*Engagement Letter or Other Form of Written Agreement* (Ref: Para. 28)

- A46. It is in the interests of both the entity and the practitioner that the practitioner sends an engagement letter prior to performing the compilation engagement to help avoid misunderstandings with respect to the engagement. An engagement letter confirms the practitioner's acceptance of the engagement and confirms such matters as the objectives and scope of the engagement, the extent of the practitioner's responsibilities and the form of the report to be issued, and the responsibilities of management in relation to the compilation and in relation to the financial information to be compiled.

*Form and content of the engagement letter*

- A47. The form and content of the engagement letter may vary for each entity. In addition to the matters required by this ISRS an engagement letter may make reference to, for example:
- Arrangements concerning the involvement of other practitioners and experts in some aspects of the compilation.
  - Arrangements to be made with the predecessor practitioner, if any, in the case of an initial compilation engagement.
  - That management may be requested to confirm certain information or explanations conveyed orally to the practitioner during the engagement, in writing.
  - The agreement of management to inform the practitioner of facts that may affect the compiled financial information, of which management may become aware in the course of the compilation up to the date of completion of the compilation engagement.
  - Ownership of the information used for the compilation, distinguishing between documents and information of the entity provided for the compilation and the practitioner's engagement documentation, and having regard to applicable law and regulation.

- A request for management to acknowledge receipt of the engagement letter and to agree to the terms of the engagement outlined therein.

#### Illustrative engagement letter

A48. An illustrative engagement letter is set out in Appendix 1 to this ISRS.

#### *Recurring Engagements* (Ref: Para. 29)

A49. The practitioner may decide not to send a new engagement letter or other written agreement each period. However, the following factors may indicate that it is appropriate to revise the terms of the compilation engagement, or to remind management of the existing terms of the engagement:

- Any indication that the entity misunderstands the objective and scope of the compilation engagement.
- Any revised or special terms of the engagement.
- A recent change of senior management.
- A significant change in ownership.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements.
- A change in the financial reporting framework or other basis of accounting to be used to compile the financial information that is the subject of the engagement.

#### **Communication with Management and Those Charged with Governance** (Ref: Para. 30)

A50. The purpose of the practitioner's communications in the course of the engagement with management, or those charged with governance as appropriate, includes obtaining information and management comments relevant for the compilation. The appropriate timing for communications with management will vary with the circumstances of the compilation engagement. Relevant circumstances include the significance and nature of the matter and any action expected to be taken by management or those charged with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the compilation as soon as practicable if management or those charged with governance are able to assist the practitioner to overcome the difficulty.

#### **Performing the Engagement**

##### *The Practitioner's Knowledge and Understanding* (Ref: Para. 31)

A51. The breadth and depth of the knowledge and understanding the practitioner has or obtains about the entity and its business is less than that which is possessed by management. It is directed at the level that is sufficient for the practitioner to be able to present the compiled financial information in accordance with the applicable financial reporting framework and the terms of the engagement, and to comply with this ISRS.

- A52. Some examples of relevant factors the practitioner considers in developing a knowledge and understanding of the entity's business and operations are:
- The size and complexity of the entity and its operations;
  - The complexity of the applicable financial reporting framework;
  - The entity's financial reporting obligations or requirements, whether they exist under applicable laws and regulation or in the context of voluntary financial reporting arrangements, for example with third parties;
  - The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin the preparation of financial information for financial reporting purposes;
  - The degree of complexity or otherwise of the entity's financial accounting and reporting systems; and
  - The level of development and proper design or relative sophistication of the entity's accounting systems and related controls through which the entity's accounting records and related information is maintained.

*Compiling the Financial Information* (Ref: Para. 32)

- A53. The scope of a compilation engagement will vary depending on the circumstances of the engagement, but will in every case involve assisting management to present the entity's financial information in accordance with the applicable financial reporting framework, based on the information provided by management. In some engagements management may have already prepared the financial information in draft or preliminary form, and may request only that the practitioner complete the compilation of the financial information in accordance with the applicable financial reporting framework. In other cases the practitioner may undertake further activities on behalf of management, for example collecting, classifying and summarizing information from source documents in the form of accounting records through to the production of a trial balance, as needed prior to being able to present the information in accordance with the applicable financial reporting framework.
- A54. The engagement documentation is required to include a record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information provided by management. The practitioner may, for example, keep a schedule showing the reconciliation of the entity's general ledger account balances to the compiled financial information, including management's adjusting journal entries made in the course of the engagement.

*Matters Requiring Significant Management Judgment* (Ref: Para. 33)

Assisting Management with Development of Accounting Estimates

A55. The practitioner may assist management in developing accounting estimates required for the financial information under the applicable financial reporting framework. The practitioner's discussions with management may include agreeing the basis used for significant accounting estimates with management, and confirming those estimates in writing.

Consideration of Going Concern

A56. Where the applicable financial reporting framework requires uncertainties that exist regarding an entity's ability to continue as a going concern to be addressed in the financial information, the practitioner may, for example, discuss significant issues affecting the entity's status as a going concern with management, and management's assessment of the entity's ability to continue as a going concern. Using this information the practitioner may, where relevant, suggest an appropriate presentation under the applicable financial reporting framework and related disclosures concerning the entity's ability to continue as a going concern.

Accuracy and Completeness of Information Provided by Management for the Purpose of the Compilation (Ref: Para. 34)

A57. The practitioner does not perform procedures designed to assess or evaluate the accuracy and completeness, or otherwise, of the records, documents, explanations, and other information provided by management. The practitioner is, however, required to respond as required under this ISRS if the practitioner becomes aware that the information provided is incomplete, inaccurate or otherwise unsatisfactory to an extent that affects the practitioner's ability to complete the engagement in accordance with this ISRS.

Acceptability of the Financial Reporting Framework (Ref: Para. 35)

A58. The practitioner may propose to management use of another financial reporting framework that is acceptable for the compilation of the financial information in view of its intended use. For example, the compiled financial information may be presented using the general purpose financial reporting framework of a particular jurisdiction on a modified basis, with appropriate reclassification of the financial information to special purpose financial information. In this situation the practitioner's report would signal the special purpose nature of the financial information and that the financial information may not be suitable for purposes other than those described in the accompanying financial information. When appropriate, this disclosure may be supplemented by an additional clause that restricts either or both the distribution and the use of the report and the compiled financial information to the intended users only.

Reading the Compiled Financial Information (Ref: Para. 36)

A59. The practitioner's reading of the compiled financial information with knowledge and understanding of the entity's business and operations, and the applicable financial reporting framework, enables the practitioner to consider whether the financial information is materially misstated or misleading. This reading is ordinarily adequate to fulfill the practitioner's ethical obligation to not knowingly be associated with financial information that is materially false or misleading.<sup>6</sup> The practitioner's reading involves consideration of materiality as described or required to be applied by the applicable financial reporting framework. If the compiled financial information uses a fair presentation framework, the practitioner's reading involves consideration of whether additional disclosures are needed for the financial information to be fairly presented, in all material respects, or to give a true and fair view.

Proposing Amendments to the Compiled Financial Information (Ref: Para. 37)

A60. If, on reading the compiled financial information the practitioner becomes aware that the compiled financial information as presented:

- (a) Does not adequately describe the applicable financial reporting framework; or
- (b) Is materially misstated or misleading,

the practitioner is in a position to propose amendments to the compiled financial information to address those matters so that the compiled financial information adequately refers to or describes the applicable financial framework, and is not materially misstated or misleading.

Conditions that Require the Practitioner to Withdraw from the Engagement (Ref: Para. 38-39)

A61. If management declines the practitioner's proposed amendments to the compiled financial information so that the financial information is not materially misstated or misleading, the practitioner is required to communicate with management about the implications for the engagement. Such communications provide opportunity to explain the practitioner's ethical obligations in performing the engagement and being associated with the compiled financial information.

A62. The practitioner's report is not used as a vehicle to communicate information about whether the practitioner is aware the compiled financial information is material

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<sup>6</sup> IESBA Code, Part A, paragraph 110.2 states: "A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information furnished recklessly; or
- (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information".

misstated or misleading. Doing so would amount to expressing an opinion or a conclusion on the compiled financial information, which is not the purpose of a compilation engagement.

**Documentation** (Ref: Para. 40)

A63. The practitioner may consider including the following in the engagement documentation in addition to that required under this ISRS, in relation to any significant matters regarding the engagement:

- (a) A copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.
- (b) A record of adjustments proposed by the practitioner but not accepted by management.
- (c) Notes of the practitioner's consultations undertaken with other suitably competent persons about any difficult or contentious areas.
- (d) Notes of any significant aspects of the engagement, or matters that required exercise of significant professional judgment by the practitioner.

A64. Regarding the practitioner's communications with management and those charged with governance as appropriate in the course of the engagement, the practitioner may consider documenting the following matters concerning those communications:

- (a) Amendments made to the description of the applicable financial reporting framework in the compiled financial information, and any amendments that were proposed but not accepted by management.
- (b) Information and explanations provided by management in relation to any areas of significant management judgment reflected within the compiled financial information as presented, including information relevant to management's assessment of the entity's ability to continue as a going concern when the applicable financial reporting framework addresses how the entity's status as a going concern affects the way the financial information is prepared and presented under that framework.

**The Practitioner's Report** (Ref: Para. 41-42)

A65. The written report encompasses reports issued in hard copy format and those using an electronic medium.

A66. Law or regulation may specify to whom the practitioner's report is to be addressed in that particular jurisdiction. The practitioner's report is normally addressed to the party for whom the financial information is compiled under the terms of the engagement. The engaging party is ordinarily the management of the entity.

A67. When the practitioner is aware that the compiled financial information will be included in a document that contains other information, such as a financial report, the practitioner may consider, if the form of presentation allows, identifying the page numbers on which

the compiled financial information is presented. This helps users to identify the compiled financial information to which the practitioner's report relates.

*Financial Information Compiled for a Special Purpose, or That Has Restricted Use or is for Restricted Distribution* (Ref: Para. 41(g))

- A68. Compiled special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the compiled special purpose financial statements on public record. To avoid misunderstandings, the practitioner alerts users of the practitioner's report that the financial statements are compiled in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

*Restriction on Distribution and Use of the Practitioner's Report*

- A69. The practitioner may consider it appropriate to indicate that the practitioner's report is intended solely for the specific users in addition to the alert that they have been prepared for a special purpose. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the practitioner's report. In these circumstances, the alert required by this ISRS may be expanded to include these other matters.

*Approval of the Compiled Financial Information by Management*

- A70. Processes that exist within the entity regarding the approval of the financial information by management, or by those charged with governance as appropriate, are relevant further considerations for the practitioner when completing the compilation engagement. Depending on the nature and purpose of the information compiled by the practitioner, there may be an established approval process that management or those charged with governance are required to follow, or that is prescribed in applicable law and regulation, for preparation and finalization of the financial information or financial statements of the entity. The practitioner takes account of whether such an approval process exists, and whether it applies to the compiled financial information. (Ref: Para. 42)

*Illustrative Reports*

- A71. Appendix 2 to this ISRS contains illustrations of practitioners' compilation reports incorporating the required elements of the report.

## Appendix 1

(Ref: Para. A48)

### Illustrative Engagement Letter for a Compilation Engagement

The following is an example of an engagement letter for a compilation engagement that illustrates the relevant requirements and guidance contained in this ISRS. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISRS. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the compilation of financial information for a single reporting period and would require adaptation if intended or expected to apply to a recurring engagement as described in this ISRS. It may be appropriate to seek legal advice that any proposed letter is suitable.

This engagement letter illustrates the following circumstances:

- The financial information is to be compiled for sole use by the directors of a company (ABC Company), and use of the financial information will be restricted to the company directors. Use and distribution of the practitioner’s report is also restricted to the directors.
- The compiled financial information will comprise only the balance sheet of the company as at 31 December 20X1 and the income statement for the year then ended, without notes. The directors have requested that the financial information be prepared on a full accruals basis.

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To the Directors of ABC Company:

*[The objective and scope of the compilation engagement]*

You<sup>7</sup> have requested that we provide the following services:

On the basis of information that management will provide we will compile the balance sheet of ABC Company as of 31 December 20X1 and the income statement for the year then ended, on the historical cost basis, reflecting all cash transactions with the addition of trade accounts payable, trade accounts receivable, inventory accounted for on an average cost basis, income taxes payable as at the reporting date, and capitalization of significant long-lived assets amortized over their estimated useful lives. These compiled financial statements will not include explanatory notes.

The purpose for which the compiled financial statements will be used is to provide full year financial information showing the entity’s financial position and financial performance at the financial reporting date of 31 December 20X1. The compiled financial statements will be for the sole use of the directors, and will not be distributed to other parties.

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<sup>7</sup> Throughout this illustrative engagement letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

## Our Responsibilities

We will perform the compilation engagement in accordance with the International Standard on Related Services (ISRS) 4410, *Engagements to Compile Historical Financial Information* and comply with the *Code of Ethics for Professional Accountants* of the International Ethics Standards Board for Professional Accountants.

We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

A compilation involves applying expertise in accounting and reporting to present financial information in accordance with the applicable financial reporting framework. A compilation does not include gathering evidence for the purpose of expressing an audit opinion or a review conclusion. Accordingly, we will not express an audit opinion or a review conclusion on the compiled financial statements.

## Responsibilities of Management<sup>8</sup>

The compilation to be performed is conducted on the basis that management acknowledges and understands that the financial statements will be compiled on their behalf. Accordingly they have the following overall responsibilities that are fundamental to undertaking the compilation engagement in accordance with ISRS 4410:

- (a) Selection of the financial reporting framework to be used (that is, as described above) that is acceptable in view of the purpose for which the compiled financial information will be used, and selection of appropriate accounting policies under the applicable framework that are to be applied in compiling the financial statements; and
- (b) Preparation of the financial statements in accordance with the applicable financial reporting framework (that is, as described above) and the selected accounting policies; including management judgments needed to develop any accounting estimates required for the compiled financial information; and
- (c) Providing to us all relevant records, documents, explanations and other information needed to compile the financial information, and any additional information or explanations we may require to complete the compilation engagement; including responsibility for the accuracy and completeness of those records, documents, explanations and other information; and
- (d) Acceptance of responsibility for the financial statements that we compile on management's behalf in accordance with the applicable financial reporting framework (that is, as described above).

As part of our compilation of the financial information, we may request from management and, where appropriate, from the directors, written confirmation of information and explanations conveyed to us orally in connection with the compilation engagement.

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<sup>8</sup> References to management in this engagement letter should be read as “management or those charged with governance as appropriate.”

We look forward to full cooperation from management and staff during our engagement.

**Compilation Report**

As part of our engagement we will issue our report attached to the compiled financial statements, which will describe the compiled financial statements and the work we performed for this compilation engagement. The report will also note that the use of financial statements is restricted to the purpose set out in this engagement letter, and that use and distribution of our report provided for the compiled financial statements is restricted to you, as the company directors.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to compile the financial statements described herein, and our respective responsibilities.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]*

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by  
(signed)

.....  
Name and Title  
Director  
Date

## **Appendix 2**

(Ref: Para. A71)

### **Illustrative Practitioners' Compilation Reports**

#### *Financial information prepared for a special purpose*

Illustration 1: Practitioner's compilation report for an engagement to compile financial information for use only by the management of a company

Illustration 2: Practitioner's compilation report for an engagement to compile special purpose financial statements required under the terms of a contract

#### *Financial information prepared for a general purpose*

Illustration 3: Practitioner's compilation report for an engagement to compile general purpose financial statements

**Illustration 1**

- **Practitioner’s compilation report for an engagement to compile financial information that is intended for the special purpose of use only by the management of a company**
- **The financial information comprises historical financial statements incorporating certain accruals, compiled without notes for management’s use, for management’s own purposes.**

**PRACTITIONER’S COMPILATION REPORT**

To Management of ABC Company

We have compiled the accompanying financial statements of ABC Company in accordance with the terms of our engagement, based on information you have provided. These financial statements comprise a balance sheet as at December 31, 20X1 and an income statement for the year then ended.

Management is responsible for these financial statements, including selection of the financial reporting framework, and the accuracy and completeness of the information used to compile the financial statements on management’s behalf.

We performed our compilation engagement in accordance with International Standard on Related Services 4410, *Engagements to Compile Historical Financial Information*. This Standard requires that we comply with quality control standards and relevant ethical requirements, including observing ethical standards relating to integrity, objectivity, professional competence and due care.

A compilation engagement involves applying expertise in accounting and reporting to present financial information in accordance with the applicable financial reporting framework. A compilation engagement does not involve gathering evidence for the purpose of expressing an audit opinion or a review conclusion. Accordingly, we do not express an audit opinion or a review conclusion on these financial statements.

*Restriction on Distribution and Use*

The specific purpose for which this financial information has been prepared is described in the engagement letter that contains the terms of our engagement agreed with you. This financial information is for the exclusive use of management of ABC Company, and may not be suitable for other purposes. Our report is intended solely for the management of ABC Company, and should not be distributed to or used by any other parties.

[Practitioner’s signature]

[Date of Practitioner’s report]

[Practitioner’s address]

**Illustration 2**

**Practitioner’s compilation report for an engagement to compile special purpose financial statements required under the terms of a contract**

PRACTITIONER’S COMPILATION REPORT

[To the Engaging Party]

We have compiled the accompanying financial statements of ABC Company in accordance with Clause Z of the provisions of ABC Company’s contract with ZYX Limited dated [*insert date of relevant contract/agreement*], based on information provided by management. These financial statements comprise [*name all the elements of the financial statements prepared under the agreed special purpose financial reporting framework and the period/ date to which they relate*].

Management is responsible for these financial statements, including selection of the financial reporting framework, and the accuracy and completeness of the information used to compile the financial statements on management’s behalf.

We have performed this compilation engagement in accordance with International Standard on Related Services 4410, *Engagements to Compile Historical Financial Information*. This Standard requires that we comply with quality control standards and relevant ethical requirements, including observing ethical standards relating to integrity, objectivity, professional competence and due care.

A compilation engagement involves applying expertise in accounting and reporting to present financial information in accordance with the applicable financial reporting framework. A compilation does not include gathering evidence for the purpose of expressing an audit opinion or a review conclusion. Accordingly, we do not express an audit opinion or a review conclusion on these financial statements.

*Restriction on Distribution and Use*

The specific purpose for which these special purpose financial statements have been prepared is described in [*insert reference to the applicable note to the special purpose financial statements*]. These financial statements are for the exclusive use of [*insert the specified intended users identified under the terms of engagement*], and may not be suitable for other purposes. Our report is intended solely for [*the specified intended users*], and should not be distributed to or used by any other parties.

[Practitioner’s signature]

[Date of Practitioner’s report]

[Practitioner’s address]

**Illustration 3**

**Practitioner's compilation report for an engagement to compile general purpose financial statements**

PRACTITIONER'S COMPILATION REPORT

[To the Engaging Party]

We have compiled the accompanying financial statements of ABC Company in accordance with *[insert reference to the applicable financial reporting framework]* based on information provided by management. These financial statements comprise the balance sheet of ABC Company as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for these financial statements, including selection of the applicable financial reporting framework, and for the accuracy and completeness of the information we used to compile the financial statements on management's behalf.

We have performed this compilation engagement in accordance with International Standard on Related Services 4410, *Engagements to Compile Historical Financial Information*. This Standard requires that we comply with quality control standards and relevant ethical requirements, including observing ethical standards relating to integrity, objectivity, professional competence and due care.

A compilation involves applying expertise in accounting and reporting to present financial information in accordance with the applicable financial reporting framework. A compilation does not include gathering evidence for the purpose of expressing an audit opinion or a review conclusion or audit opinion. Accordingly, we do not express an audit opinion or a review conclusion on these financial statements.

[Practitioner's signature]

[Date of Practitioner's report]

[Practitioner's address]