

Compilation Engagements—Issues and IAASB Task Force Proposals**I. Objective**

1. The objectives of this Paper are to:
 - (a) Consider significant issues to be addressed in the revision of ISRS 4410,¹ for engagements to compile historical financial information, and
 - (b) Request feedback on the proposed objectives, definitions and requirements for compilation engagements developed by the project Task Force.
2. Draft requirements of the proposed revised standard, as developed by the Task Force to date can be viewed in the Appendix to Agenda Items 3-A and 3-B. The material provided in the Appendix is currently under development by the Task Force, and accordingly is not for discussion, except as addressed in this Issues Paper. The Task Force believes that being able to view the set of draft requirements is useful for illustrative purposes.

II. Background**June 2009 IAASB Meeting**

3. At its meeting in June 2009, the IAASB agreed the priority of developing a revised standard on compilation of financial information.
4. The IAASB agreed that the revised standard should:
 - Be developed in tandem with development of a revised standard on reviews of financial statements.
 - Clearly distinguish an engagement to compile financial information from an assurance engagement.
 - Clarify the purpose of a compilation of financial information, (and the practitioner's objective to be achieved when undertaking a compilation).
 - Apply to compilation of financial information broadly, including financial statements prepared under different financial reporting frameworks (including fair presentation and compliance frameworks).
 - Address common aspects of performance of reviews and compilations on a consistent basis, as appropriate in the context of each type of service.
 - Guide practitioners in meeting the overarching ethical requirement contained in the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code),² that a practitioner may not be knowingly associated with information that is materially false or misleading.

¹ International Standard on Related Services (ISRS) 4410, "Engagements to Compile Financial Statements."

² The revised IESBA Code was issued in July 2009, and is effective from 1 January 2011.

5. The IAASB also agreed the Task Force should consider communications to promote practitioner and user awareness about compilations as services available to entities that are exempt from audits, including use of compilations in combinations of services that can be designed to meet a variety of user needs (see paragraph 7).

December 2009 IAASB Meeting

6. At its meeting in December 2009 the IAASB agreed the revised standard should:
 - Identify the scope of the standard as being compilation of historical financial information, that being the type of information professional accountants are most often engaged to compile.
 - Focus the practitioner’s objective on provision of a service: the compilation engagement, rather than attempt to address the range of different activities that “compilation” might involve.
 - Define the terms “compile” and “compilation engagement” to make it clear when practitioners perform services that are within the scope of the standard, and when they do not. The standard should also address the question of when a practitioner needs to apply the standard as a consequence of being associated with financial information by third parties, through the practitioner’s actions or involvements regarding the financial information.
 - Require an explanation of the non-assurance nature of the engagement in both the agreed terms of engagement and the report issued (i.e., in a compilation engagement the practitioner does not gather evidence to support the expression of a conclusion or opinion on the compiled financial information, and accordingly does not express a conclusion or an opinion on that information).
 - Be able to be applied proportionately in regard to requirements concerning the practitioner’s understanding of the entity and its environment needed to be able to compile financial information. This recognizes that the understanding needed for a compilation will differ between entities of different size and complexity.
 - Clarify how the practitioner discharges the ethical obligation of not knowingly being associated with materially false or misleading information. The IAASB considers that the revised standard should not require practitioners to apply work effort additional to that required for the compilation itself to be able to meet that obligation, absent any indications evident from performing the compilation that the compiled financial information is, or is likely to be materially false or misleading.
 - Require the practitioner to focus on whether there are indications that the compiled financial information is, or may be “materially false or misleading” (rather than whether the compiled financial statements contain material misstatements, as the latter is viewed as a concept that arises in assurance engagement).
 - Require the practitioner to withdraw from an engagement if the entity’s management or those charged with governance refuse amendments to the compiled financial information that the practitioner considers necessary for the information not to be materially false or misleading to users.

- Not permit modification of reports issued for compilation engagements (as that would amount to expression of an opinion or conclusion on the compiled financial information).
- Contain reporting requirements that clearly communicate the nature of the engagement performed to users of the compiled information, including:
 - (i) The work performed by the practitioner to compile the financial information; and
 - (ii) The fact that independence as described in the IESBA Code for assurance engagements is not required to perform a compilation engagement.

Project Update

7. The IAASB staff anticipates issuing a project update in early March to keep stakeholders advised of progress made in the project to establish standards for assurance and other services that relate to financial information or financial statements, other than audits. The project update explains the approach the IAASB and the project Task Force are following to achieve the project aims, identify project priorities, and progress being made with revision of ISRS 4410 and ISRE 2400.³

III. Significant Issues

Matters Considered by the Task Force Relating to Objectives, Scope and Definitions

Objectives of the Practitioner

8. The Task Force believes the revised standard should state the following objectives to be achieved by the practitioner performing a compilation engagement:

“In conducting an engagement to compile financial information, the practitioner’s objectives are to:

 - (a) Compile the financial information, and
 - (b) Issue a report to accompany the compiled financial information which states that the practitioner does not express an assurance opinion or conclusion on the compiled financial information.”
9. The term “compile” will be defined in the revised standard in the context of a practitioner (see paragraph 17), recognizing that persons other than professional accountants in public practice may also undertake activities that are described as “compiling.” The definition includes reference to the agreed terms of the engagement, recognizing that what “compile” entails for the practitioner will very likely differ between engagements. The introductory paragraphs in the revised standard will state that references to “financial information” in the standard mean historical financial information.⁴

³ International Standard on Review Engagements (ISRE) 2400, “Engagements to Review Financial Information.”

⁴ Reflecting the direction provided by the IAASB in September 2009, the revised standard will state that it is to be applied, to the extent practicable, to engagements to compile financial information other than historical financial information. It may also be applied, adapted as necessary, to engagements to compile non-financial information. The term ‘historical financial information’ is as defined in the IAASB Glossary (for the ISAs): *Historical financial information*—Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

10. The Task Force considered that the clarification given in part (b) of the suggested statement of objectives in paragraph 8 is needed to make it clear that the compilation is not an assurance engagement. A potential drawback is that highlighting this aspect of the engagement objectives associated with the practitioner's report could be perceived as being somewhat defensive. On balance, the Task Force views the clarification as necessary for maximum clarity about the nature of the engagement.

Matters for IAASB Consideration

- Q1. Does the IAASB agree with the proposed statement of the practitioner's objectives?

Practitioner's Association with Financial Information

11. From a public interest perspective, when users of financial information perceive that a practitioner is associated with financial information that the practitioner has had some involvement with, it is important that the nature of the practitioner's involvement should be clear both to the users and to other third parties who may obtain the information.
12. A practitioner may be perceived by third parties as being associated with financial information when the practitioner consents to use of the practitioner's name, or the name of the practitioner's firm in connection with the financial information. The Task Force believes that in such situations, if the nature of the practitioner's involvement with the financial information is not clear for the benefit of third parties, the practitioner should be required to apply this standard in respect of their involvement with that information.
13. Practitioners often issue reports in respect of activities they undertake with regard to an entity's financial information, including with regard to involvement with its preparation or some aspect thereof. Such reports ordinarily describe the nature, extent, and purpose of the practitioner's activities or involvement with the relevant financial information. For example, reports are required to be issued under the International Standards on Auditing, International Standards on Review Engagements, and International Standards on Related Services. Alternatively a report may be issued without reference to any standards or regulations, but simply to clarify the nature of the practitioner's involvement with the financial information in view of their association with it.
14. The extant standard addresses the question of association through a requirement to issue a report when the practitioner's name is associated with financial information compiled by the practitioner⁵⁶ The Task Force believes the existing requirement should be broadened so that when a practitioner is, or is likely to be associated with the financial information of an entity by third parties, and the nature of the practitioner's involvement with the financial information is not clear, the practitioner will be required to comply with the requirements of the revised standard in respect of that financial information.

⁵ ISRS 4410.06, "In all circumstances when an accountant's name is associated with financial information compiled by the accountant, the accountant should issue a report."

⁶ The International Framework for Assurance Engagements (paragraph 61) explains a practitioner's association with a subject matter in the context of reporting on information about that subject matter, or consenting to use of the practitioner's name in a professional connection with that subject matter.

15. The Task Force proposes the following definition and scoping requirement in the revised standard:

“Definition

‘Association with Financial Information,’ means circumstances when the practitioner is, or is likely to be associated by third parties with historical financial information through the practitioner’s actions or involvement in relation to that financial information, including when the practitioner consents to use of the practitioner’s name or the name of the practitioner’s firm in connection with the information.

Requirement

In circumstances where the practitioner may be associated by third parties with an entity’s financial information with which the practitioner has had some involvement, and

- (a) The practitioner consents to the use of the practitioner’s name or the name of the practitioner’s firm in connection with that information; and
- (b) The nature of the practitioner’s activities or involvement regarding the financial information is not clear to third parties,

the practitioner shall apply this ISRS in respect of the financial information.”

16. The Task Force intends that this proposed requirement will be explained in application guidance that sets out the public interest rationale for the requirement, and gives examples of situations when practitioners are required to apply the ISRS. An example the Task Force considered is where a practitioner is engaged to prepare monthly financial statements for an entity, which are subsequently presented to the entity or its management on the practitioner’s or the practitioner’s firm’s letterhead paper, or in a binder that carries the practitioner or firm’s logo or brand name. In this situation the practitioner is associated with the information by use of their name, and the practitioner would need to comply with the revised standard to avoid association with the information by third parties in a manner that is not intended or not appropriate, in view of the nature of the practitioner’s actual involvement.

Matters for IAASB Consideration

- Q2. Does the IAASB agree with the Task Force’s rationale for the proposed requirements regarding practitioner association set out in paragraphs 11-16?
- Q3. Does the IAASB agree with the proposed definition and requirement (paragraph 15)?

Other Definitions

17. The Task Force proposes the following definitions to explain the meaning of the words “compile” and “compilation engagement” used in the proposed revised standard:

“Compile’ means, in relation to the practitioner, as applicable in the circumstances of the engagement, to collect, classify, summarize or present financial information in accordance with the agreed terms of the engagement.

‘Compilation Engagement’ means an engagement in which a practitioner compiles financial information in respect of an entity in accordance with the agreed terms of engagement, and issues a report to accompany the compiled financial information.”

Matters for IAASB Consideration

Q4. Does the IAASB agree with the proposed definitions of “compile” and “compilation engagement”?

Professional Judgment

18. The Task Force notes that the term “professional judgment” is defined as follows the IAASB *Glossary* (Glossary):

The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement. [Emphasis added]

19. The Task Force believes this definition is equally applicable for a practitioner performing a compilation, except for the references to auditing standards and the audit engagement. Accordingly the Task Force suggests the following change to the definition contained in the Glossary.

*“The application of relevant training, knowledge and experience, within the context provided by ~~auditing~~, relevant **professional standards**⁷ and accounting standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the ~~audit~~ engagement.”*

20. The proposed amendment to the Glossary definition would make the definition generic to all engagements that require practitioners to apply professional judgment.

21. The Task Force does not see this change as posing a significant issue in the context of audit engagements. If the proposed change were made, the definition of professional judgment contained in ISA 200.13(k)⁸ would not change, as it properly focuses what would then be a more generic definition to the particular context of the audit engagement.

Matters for IAASB Consideration

Q5. Does the IAASB agree that the Glossary definition of professional judgment should be changed, as proposed in paragraph 19? If the IAASB does not agree with the proposed change what alternative approach can be followed to define professional judgment in the context of all engagements where practitioners are required to exercise professional judgment?

⁷ The Glossary defines professional standards in relation to the ISAs as “International Standards on Auditing (ISAs) and relevant ethical requirements”, and in relation to ISQC 1 as “IAASB Engagement Standards, as defined in the IAASB’s Preface to the International Standards on Quality Control, Auditing, Review and Other Assurance and Related Services, and relevant ethical requirements.”

⁸ International Standard on Auditing (ISA) 200, “Overall Objectives of the Independent Auditor and the Conduct of An Audit in Accordance with International Standards on Auditing.”

Use of Terms “Practitioner,” “Engagement Partner,” and “Engagement Team”

22. The Task Force has developed the requirements in the revised standard to be applied by a “practitioner,” as defined in the Glossary. However requirements concerning quality control for a compliance engagement need to align with the terms used and defined in ISQC 1,⁹ i.e. the “engagement partner” and “engagement team.” For the time being the Task Force has used the term “practitioner” for all requirements other than those that relate to ethical requirements and quality control requirements. The Task Force is aware that use of these different terms in the requirements will need to be properly clarified in the revised standard, but is not addressing that matter in this Issues Paper.

Matters Considered by the Task Force relating to Requirements in the Revised Standard

23. Many compilations are performed for smaller entities by professional accountants operating in small and medium practices. From a policy perspective the Task Force believes that compilation engagements need to be accessible by a wide range of entities. Their usefulness in a wide range of settings (including those arising in the SME context) will be enhanced if they are designed to be straight forward and cost-effective. The Task Force has applied this perspective to develop the requirements for the revised standard.

Matters for IAASB Consideration

- Q6. Does the IAASB agree with the perspective the Task Force has used to develop requirements for practitioners in the revised standard?

24. In the remainder of this Paper, The Task Force requests the IAASB’s feedback on questions about the proposed requirements in the revised standard.

Ethical Requirements

25. The Task Force believes the structure of the ethical requirements in the revised standard should mirror the structure of the requirements contained in the ISAs.¹⁰

26. The Task Force proposes the following requirements:

“The engagement team shall comply with relevant ethical requirements relating to compilation engagements.

The engagement partner shall take responsibility for the engagement team’s compliance with the relevant ethical requirements in individual engagements.”

Matters for IAASB Consideration

- Q7. Does the IAASB agree with the proposed ethical requirements?

⁹ 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.”

¹⁰ ISA 200.14 read with ISA 200.A14-A17.

Quality Control in a Compilation Engagement

27. The Task Force believes quality control requirements need to be sufficient so that practitioners will perform compilations in compliance with relevant professional standards. The requirements should not impose costs on either the practitioner or the entity that would not be likely to have commensurate benefit regarding the quality of the engagement.
28. The Task Force has identified the following proposed requirements:
- “The engagement partner shall take responsibility for the overall quality of the compilation engagement. This responsibility includes:
- Following appropriate procedures regarding the acceptance and continuance of client relationship and engagements.
 - Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the compilation engagement in accordance with professional standards and applicable legal and regulatory requirements.
 - Directing, supervising, planning and performing the compilation engagement to achieve compliance with professional standards and applicable legal and regulatory requirements.
 - Maintaining appropriate engagement documentation to provide evidence of achievement of the practitioner’s overall objectives for the compilation engagement and that the engagement was performed in accordance with this ISRS.”
29. The Task Force considers that application guidance is needed to explain how the requirements can be met in each area, for example on decisions about the extent of engagement documentation needed.

Matters for IAASB Consideration

- Q8. Does the IAASB agree with the proposed requirements for quality control in a compilation engagement? Are there other requirements that the IAASB considers ought to be specified?

Considerations when Accepting the Engagement

30. The Task Force considers there are preconditions for a compilation engagement that should be addressed in the requirements of the revised standard. The extant standard does not establish preconditions for acceptance of a compilation engagement, and doing so in the revised standard would create new requirements for practitioners in countries where national standards and guidance do not contain similar requirements. The purpose for having such requirements is that the practitioner should firstly be sure that the engagement can be done, and secondly, be clear, prior to accepting the engagement, that it will be done on the proper basis. This includes acceptance by management or those charged with governance, as appropriate, of their responsibility for the compiled financial statements, notwithstanding the practitioner’s involvement. The requirements apply to the practitioner; they do not impose requirements on management or those charged with governance. This mirrors the approach followed in the ISAs regarding the preconditions for an audit engagement.
31. The Task Force has identified the following proposed requirements:

“In order to establish whether the preconditions for a proposed compilation engagement are present, prior to accepting an engagement the practitioner shall obtain the agreement of management and, where appropriate, those charged with governance that they acknowledge and understand that they have the following overall responsibilities that are fundamental to undertaking the compilation engagement in accordance with this ISRS. That is, responsibility for:

- (i) Selection of the applicable financial reporting framework to be used to compile the financial information that is acceptable in view of the purpose(s) for which the compiled financial information will be used or applied, and for preparation of the financial information applying the identified framework,
- (ii) The financial information compiled by the practitioner in accordance with the applicable financial reporting framework, and
- (iii) Providing the practitioner with:
 - a. All relevant documentation and other information or explanations needed for the purpose of the compilation engagement, and
 - b. Additional information that the practitioner may request from management or those charged with governance for the purpose of the compilation engagement,

on the understanding that management is responsible for the accuracy and completeness of the documentation and information provided to the practitioner for the compilation engagement.

If the preconditions for a compilation engagement are not present, the practitioner shall discuss the matter with management or, where appropriate, those charged with governance. Unless required by law or regulation, the practitioner shall not accept the proposed compilation engagement if:

- Prior to commencing the engagement it comes to the practitioner’s attention that the applicable financial reporting framework that is to be used to compile the financial information is not acceptable, or may result in the practitioner failing to comply with relevant ethical requirements, including the requirement not to knowingly be associated with information that is misleading, or
- The agreement referred to in paragraph [insert relevant reference] has not been obtained.”

Matters for IAASB Consideration

Q9. Does the IAASB agree with the proposed requirements regarding the preconditions for compilation engagements? Are there other requirements the IAASB considers ought to be specified?

Q10. Regarding acceptability of the applicable financial reporting framework to be used in a compilation, does the IAASB believe the wording of the proposed requirement set out in paragraph 31 is adequate, i.e., “*if it comes to the practitioner’s attention that the applicable financial reporting framework to be used to compile ...is not acceptable*” the practitioner should not accept the proposed engagement? Does the IAASB believe the suggested wording reflects the appropriate effort to be applied by the practitioner to address this aspect of engagement acceptance?

Agreeing the Terms of Engagement

32. The Task Force has identified the following requirements for a practitioner regarding agreement of the terms of a compilation engagement.

“The practitioner shall agree the terms of engagement with management or those charged with governance as appropriate.

The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include:

- 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 an audit opinion or review conclusion in respect of the compiled financial information;
- The responsibilities of the practitioner;
- The responsibilities of management;
- Identification of the applicable financial reporting framework that is to be used to compile the financial information;
- The intended use and distribution of the compiled financial information, and any restrictions on either its use or its distribution;
- The expected form and content of the practitioner’s written report that will be provided, to be attached to the compiled financial information.

On recurring compilation engagements, the practitioner shall assess whether circumstances, including changes in the engagement acceptance considerations in paragraphs [insert relevant reference], require the terms of engagement to be revised and whether there is need to remind management or those charged with governance, as appropriate, of the existing terms of the engagement.”

33. The extant standard does not address identification of the applicable financial reporting framework to be applied to compile the financial information as a matter to be agreed in the engagement terms. The Task Force believes this is an important aspect of the engagement terms, which needs to be clear in the interest of properly establishing the respective responsibilities of the parties to an engagement (ordinarily the practitioner and either management or those charged with governance). The requirement the Task Force is proposing will be a new requirement for practitioners in those countries where this requirement does not already exist in national standards and guidance for compilations.
34. The Task Force recognizes that in some circumstances there may be parties to the engagement other than management or those charged with governance. For example a third party may require the compiled financial information, which could mean that the engagement terms also require agreement by the third party. This situation will be addressed in additional explanatory material. For simplicity, however, the requirements will be written to address the ordinary circumstance where the practitioner and management or those charged with governance, as appropriate, are the parties to the engagement.

Matters for IAASB Consideration

- Q11. Does the IAASB agree with the proposed requirement that the written record of the agreed terms of engagement needs to identify the applicable financial reporting framework to be

used to compile the financial information?

Q12. Does the IAASB agree that the situation where there are more than two parties to the engagement is best addressed in application guidance?

The Practitioner's Knowledge and Understanding

35. The Task Force believes that in the ordinary circumstances of a compilation engagement the practitioner needs to have or obtain an understanding of the entity and its environment, including the entity's accounting system and accounting records, sufficient to be able to compile the financial information. The practitioner also needs to have an understanding of the applicable financial reporting framework that is to be used, and its application in the entity's industry.
36. The Task Force acknowledges that the circumstances of compilations vary widely, for example from a simple "shoe-box" engagement for a small owner-managed business applying the cash-basis of accounting, to application of a comprehensive basis of accounting (e.g. International Financial Reporting Standards) to compile financial statements for an entity operating in an industry where the compilation may involve relatively complex accounting measurements or disclosures that require significant accounting judgments or estimates. Recognizing this, the Task Force believes that the requirements of the revised standard in this area need to be scalable to be able to be applied in both simple reporting environments, and also more complex reporting situations.
37. The Task Force has identified the following requirements:
- "The practitioner shall have or obtain:
- Knowledge of the entity and its environment, including the entity's accounting system and accounting records, and
 - An understanding of the applicable financial reporting framework, including its application in the industry in which the entity operates,
- sufficient to be able to compile the financial information in accordance with the terms of the engagement."
38. The Task Force believes these requirements will need to be supplemented by application guidance that explains how to interpret what is "sufficient to be able to compile" in situations that are more challenging or involve greater complexity. For example when the terms of the engagement require use of a financial reporting framework designed for use in preparation of comprehensive financial statements (e.g. the International Financial Reporting Standards).

Matters for IAASB Consideration

Q13. Does the IAASB agree with the proposed requirements regarding the practitioner's 'knowledge and understanding' for the purpose of compiling financial information?

Q14. Does the IAASB agree with the Task Force's approach explained in paragraphs 35-36?

Engagement Procedures

39. In the Task Force’s view, the following procedures are necessary procedures for a practitioner to perform a compilation with due care and competence:
- Agree or reconcile the compiled financial information to the information provided to the practitioner by management or those charged with governance for the purpose of the compilation;
 - Read the compiled financial information and, based on the [practitioner’s] knowledge and understanding of the entity and understanding of the applicable financial reporting framework as described in paragraph 37, consider whether:
 - (i) The applicable financial reporting framework used is adequately referred to or described in the compiled financial information; and
 - (ii) The compiled financial information contains no obvious material misstatements, and, if a compliance framework is used in the financial statements, that the financial information is not obviously misleading to the intended users.

The Task Force considers that the descriptors “obvious” and “obviously” are appropriate to describe the practitioner’s reading of the financial information (in context of the practitioner’s knowledge and understanding), in line with how the requirement in the extant standard is expressed. Application material will explain the practitioner’s reading of the financial information with a view to identifying whether there is anything that is an *obvious* misstatement or *obviously* misleading.

40. In line with the requirements of the extant standard,¹¹ the Task Force considers that the compiled financial information should adequately refer to or describe the applicable financial reporting framework that management or those charged with governance identifies for the purpose of the compilation under the terms of the engagement (see paragraph 32). Although the practitioner compiles the financial information in accordance with the terms of the engagement, management or those charged with governance remain responsible for the financial information including adequate disclosure of the applicable financial reporting framework (i.e. basis of preparation) used in the financial information. The Task Force’s aim is to state existing requirements more explicitly in the revised standard. Application guidance would be needed to explain what is intended by “adequate” in the context of different financial reporting frameworks.
41. The Task Force proposes the following requirements in the revised standard:

“The practitioner shall agree or reconcile the compiled financial information to the information provided to the practitioner by management or those charged with governance for the purpose of the compilation.

The practitioner shall read the compiled financial information and, based on the practitioner’s knowledge and understanding described in paragraph [insert relevant reference], consider whether:

¹¹ ISRS 4410.15 states: “The accountant should read the compiled information and consider whether it appears to be appropriate in form and free from obvious material misstatements. In this sense misstatements include: ... non-disclosure of the financial reporting framework and any known departures therefrom.”

- The applicable financial reporting framework used to compile the financial information is adequately referred to or described in the compiled financial information, and
- The compiled financial information contains no obvious material misstatements and, if a compliance framework is used to compile the financial information, the compiled financial information is not obviously misleading to the intended users.

If the practitioner concludes that the applicable financial reporting framework is not adequately referred to or described in the compiled financial information, or that the compiled financial information contains material misstatements or is misleading to the intended users, the practitioner shall make appropriate amendments to the financial information.”

42. The Task Force has debated whether misstatements (as defined in the Glossary,¹² with appropriately amended wording to remove references that appear to audits and the auditor) can occur notwithstanding that the practitioner compiles the financial information. In earlier discussions the Task Force expressed the preliminary view that the concept of material misstatements, as discussed in the ISA literature, does not apply to compilations because it is a concept associated with assurance engagements. However the definition of “misstatement” in the Glossary states that misstatements arise in the context of applying an applicable financial reporting framework, whether due to error or fraud. On reconsideration the Task Force has concluded that misstatements can occur in a compilation notwithstanding that the practitioner is compiling the financial information, and so is ordinarily in a position to change or amend the financial information to avoid or remove any misstatements (see paragraph 43).

Matters for IAASB Consideration

- Q15. Does the IAASB agree with the proposed requirements in paragraph 41 regarding the procedures the practitioner performs in a compilation engagement?
- Q16. Does the IAASB agree with the Task Force’s view that the concept of “misstatement” is also relevant in compilation engagements (paragraph 42)? Or, does the IAASB consider, in the alternative, that the test to be applied by a practitioner in a compilation (regardless of the financial reporting framework used) is simply whether or not the financial information is, or is likely to be materially false or misleading (i.e. the wording that expresses the practitioner’s ethical obligation as contained in the IESBA Code)?¹³

¹² Glossary definition of “misstatement” (for the ISAs): “A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. Where the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor’s judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to give a true and fair view.”

¹³ IESBA Code, Section 110 paragraph 110.2: “ A practitioner should not be associated with reports, returns, communications or other information where they believe 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.”

43. If a practitioner becomes aware of material misstatements in the compiled financial information that the practitioner considers cause the financial statements to be misleading to the intended users, and management or those charged with governance refuse appropriate amendments to the financial statements, the Task Force proposes the following requirements:
- “Unless prohibited by law or regulation, the practitioner shall withdraw from the engagement, and inform management or those charged with governance of the reasons for withdrawing, when:
- (a) The practitioner believes the compiled financial information is misleading to the intended users, and management or those charged with governance refuse amendments to the compiled financial information that the practitioner considers are necessary so that it will not be misleading, including amendments needed for the applicable financial reporting framework to be adequately referred to or described in the compiled financial information, or
 - (b) The practitioner becomes aware that accounting records, documents, or other information provided by management for the compilation engagement are incorrect, incomplete or otherwise unsatisfactory, so that the practitioner is unable to make a proper consideration of whether the compiled financial information is, or is likely to be misleading to the intended users, and management does not respond to a request made by the practitioner to provide correct, complete or sufficient additional information or explanations to enable the practitioner to comply with the requirements in paragraphs [insert relevant reference].”
44. The requirement to withdraw from the engagement in either of the circumstances reflected in paragraph 43 is in line with the requirements of the extant standard.¹⁴
45. The Task Force has considered the question of how far the practitioner needs to go, to avoid being knowingly associated with information that is, or may be materially false or misleading. The Task Force believes the procedures set out in paragraphs 41 and 43 are adequate and appropriate in view of the practitioner’s objectives in a compilation engagement, which are clearly distinct from those of an assurance engagement. This approach is also proportionate in the context of the policy objective of ensuring the availability of meaningful and cost-effective services solutions for audit-exempt entities.

Matters for IAASB Consideration

- Q17. Does the IAASB agree with the proposed requirements concerning the practitioner’s reaction when circumstances exist that cause the practitioner to believe the compiled financial statements contain material misstatements or are misleading to the intended users?
- Q18. Does the IAASB agree with the Task Force’s view on the question of how far the practitioner needs to go to avoid being knowingly associated with financial information that is materially false or misleading, as explained in paragraph 45?

Financial Information That Is For a Special Purpose

46. The Task Force considered the situation of an engagement where the financial information to be compiled is “special purpose” in nature. The extant standard is silent on this subject, although the Task Force heard from practitioners that financial information is often compiled for a special purpose or for use only by specific users (for example, information

¹⁴ ISRS 4410.16 and ISRS 4410.14 respectively.

compiled for management use only). Given that financial information based on use of a special purpose financial reporting framework is intended for specific users only, the use and distribution of the information should also be explicitly restricted to the specific intended users.

47. Following the approach of the ISAs regarding special purpose financial statements, the Task Force proposes the following requirements for the revised standard:

“If the compiled financial information uses a special purpose financial reporting framework the practitioner shall be satisfied that:

- (a) The compiled financial information:
 - (i) Properly describes (for example in a note to the financial information) the purpose(s) for which the financial information is prepared and, where applicable, the specified intended users of the financial information, and
 - (ii) Is clearly marked or labeled as special purpose financial information that has restricted use and distribution, and
- (b) Appropriate measures are taken so that the compiled financial information is distributed only to the specified intended users.”

Matters for IAASB Consideration

Q19. Does the IAASB agree with the proposed requirements for the practitioner when financial information is compiled using a special purpose financial reporting framework?

Reporting Considerations

48. The Task Force considered the following aspects of communications and disclosures in the practitioner’s report provided for a compilation engagement:

- Identification of the compiled financial information and the applicable financial reporting framework.
- Description of the nature and extent of the work performed to compile the financial information.
- Communications on independence.

49. As explained in paragraph 40, the extant standard does not contain a direct requirement about disclosing the applicable financial reporting framework used to compile the financial information in the compiled financial information. The Task Force considers that such disclosure is significant to users’ proper understanding of the compiled financial information. In addition to the requirement for the practitioner to consider whether the applicable financial framework is adequately referred to or described in the compiled financial information itself (see paragraphs 39-41), the Task Force believes the practitioner’s report should also either (i) describe the financial reporting framework used to compile the financial information or (ii) refer to the place where that information is provided in compiled financial information (for example, a note disclosure). An alternative view expressed in the Task Force’s discussions is that the practitioner’s report should simply refer to the fact that the financial information has been compiled on the basis agreed in the terms of the engagement. The Task Force would like to obtain the IAASB’s views about whether or not the alternative approach is appropriate.

50. The Task Force discussed how much information about the nature and extent of the work performed by the practitioner to compile the financial information should be provided in the practitioner's report. The Task Force recognized that such information may be of interest to users, and noted that the extant standard does not contain any requirements about that. However practitioners are not prevented from communicating information about the work performed to users if considered useful and practicable. The Task Force agreed the approach in the extant standard is best given that the work performed for a compilation can vary widely, from preparation of financial information from underlying accounting records to merely reading compiled financial information which the client provides to the practitioner for the purpose of the compilation engagement.
51. The Task Force considered disclosure requirements relevant to the practitioner's objectivity and independence for the compilation engagement. At its December 2009 meeting the IAASB suggested that including a statement in the report along the lines that "Independence in the sense required for an assurance engagement is not required to perform a compilation engagement." On further reflection the Task Force considers that users may have a valid interest in knowing about factors that might impact the practitioner's ability to be objective for the purpose of the compilation. The Task Force suggests this can be addressed through a requirement for the practitioner to disclose in the report, the existence of any significant interests or relationships that the practitioner believes are of interest to the intended users of the compiled financial information. The Task Force would like the IAASB's view on whether this is a more constructive approach to reporting for compilation engagements taking a user perspective.¹⁵
52. The Task Force has identified the following requirements for practitioner's report for a compilation engagement:

"The practitioner's report issued for a compilation engagement shall contain the following:

- Report Title;
- Addressee(s);
- A statement that the engagement was performed in accordance with this ISRS;
- Unless not relevant due to the effect of applicable national laws or regulations, or other relevant of code of ethics,¹⁶ a statement that independence, as described in the IESBA Code for assurance engagements, is not required to perform a compilation engagement;
- If the practitioner has any significant interests or relationships with the entity that the compiled financial information relates to, which the practitioner believes are of interest to the intended users of the compiled financial information, disclosure of the fact that such interests or relationships exist;
- Identification of the compiled financial information, noting that it is based on information provided by management or those charged with governance as appropriate;

¹⁵ The IESBA had a preliminary discussion about the question of independence and objectivity in compilation engagements at its meeting held in February 2010. The Task Force Chair will provide a verbal report of that discussion as part of the IAASB's consideration of this Agenda Item.

¹⁶ Applicable laws or regulations, or the national code of ethics in some countries do require a practitioner performing a compilation to be independent. In those situations the proposed requirement would not be relevant.

- Description of the applicable financial reporting framework used to compile the financial information;
- For financial information compiled using a special purpose framework, a description of the purpose for which the financial information is prepared, and where applicable the specific intended users (or reference to a note to the financial information where that information appears), and a statement that as a result the compiled financial information may not be suitable for another purpose;
- A statement that management or those charged with governance, as appropriate, is responsible for the compiled financial information;
- 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;
- Date of the report;
- Address of the practitioner or firm; and
- Signature of the practitioner or the practitioner’s firm.”

Matters for the IAASB’s Consideration

- Q20. Does the IAASB support the Task Force’s view that the applicable financial reporting framework should be disclosed in the practitioner’s report on the compiled financial information (paragraph 49)? Does the IAASB prefer the alternative view that the practitioner’s report should simply note that the financial statements are compiled on the basis agreed in the terms of the engagement?
- Q21. Does the IAASB agree with the Task Force’s view that the reporting requirement concerning the practitioner’s objectivity and independence can be addressed appropriately as explained in paragraph 51, and as reflected in paragraph 52?
- Q22. Does the IAASB agree with the proposed requirements for the practitioner’s report set out in paragraph 52?
- Q23. Does the IAASB have any views or comments on the example reports provided in paragraph 53?

53. Examples of reports for compilation engagements showing how these reporting requirements may be compiled with are provided below. The Task Force welcomes feedback from the Board on these examples.

Example 1:

Report for an engagement to compile general purpose financial statements

[Note: This example does not utilize sub-headings in the report]

REPORT ON COMPILED FINANCIAL STATEMENTS

[Appropriate Addressee(s)]

We have compiled the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, 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, applying [*insert name of applicable general purpose financial reporting framework, e.g. International Financial Reporting Standards*].

Management, or those charged with governance where appropriate, is responsible for these financial statements.

Under terms of the engagement agreed with management, or those charged with governance as appropriate, we have compiled the accompanying financial statements on the basis of information provided by management in accordance with International Standard on Related Services 4410, “Engagements to Compile Historical Financial Information” [*including reference to relevant laws or regulations where applicable*]. We have not audited or reviewed these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on the financial statements.

[Under [the IESBA’s *Code of Ethics for Professional Accountants* or other relevant code of ethics] Independence in the sense required for an assurance engagement is not required to perform a compilation engagement.¹⁷

During this engagement the practitioner/firm was also engaged to undertake professional services for a significant shareholder of ABC Company Limited.]

[Practitioner’s signature]

[Date of Practitioner’s report]

[Practitioner’s address]

Example 2:

Report for an engagement to compile special purpose financial statements

[*Note: This example utilizes sub-headings, mirroring the ISAs*]

REPORT ON COMPILED FINANCIAL STATEMENTS

[*Appropriate Addressee(s)*]

We have compiled the accompanying special purpose financial statements of ABC Company, which comprise [*name all the elements of the financial statements prepared under the agreed special purpose financial reporting framework*].

Management’s Responsibility [or Those Charged with Governance, as appropriate] for the Financial Statements

Management, or those charged with governance where appropriate, is responsible for these financial statements.

Our Responsibility

Under terms of the engagement agreed with management or those charged with governance as appropriate, the accompanying special purpose financial statements have been compiled on the basis of information provided by management in accordance with International Standard on Related Services 4410, “Engagements to Compile Historical Financial Information” [*including reference to relevant laws or regulations where applicable*]. We have not audited or reviewed these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on the financial statements.

Purpose of the Financial Statements and 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

¹⁷ This paragraph would not be relevant in any country or jurisdiction where the practitioner is required to be independent to perform a compilation engagement.

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statements were compiled exclusively for the benefit of [*insert the specified intended users identified under the terms of engagement*]. As a result, they may not be suitable for another purpose. Our report is intended solely for [*the specified intended users*] and should not be distributed to or used by other parties.

Independence

[Under [the IESBA's *Code of Ethics for Professional Accountants* or other relevant code of ethics] Independence, in the sense required for an assurance engagement, is not required to perform a compilation engagement.

During this engagement the practitioner/firm was also engaged to undertake professional services for a significant shareholder of ABC Company Limited.]

[Practitioner's signature]

[Date of Practitioner's report]

[Practitioner's address]

Example 3:

Report for an engagement to compile financial information to be used for a specific purpose, for use only by the directors of a company

(e.g. Accrual-based financial statements compiled without notes for the directors of an entity, to be used for a private purpose)

REPORT ON COMPILED FINANCIAL INFORMATION

To the Directors of ABC Company

We have compiled the accompanying financial information of ABC Company, which comprises a balance sheet as at December 31, 20X1 and an income statement for the year then ended prepared in accordance with the terms of engagement agreed with you as the directors of ABC Company.

You are responsible for this financial information.

Under the terms of the engagement the accompanying financial information has been compiled on the basis of information provided by management of ABC Company, and in accordance with International Standard on Related Services 4410, "Engagements to Compile Historical Financial Information". We have not audited or reviewed this financial information. Accordingly we do not express an audit opinion or a review conclusion on the financial information.

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

[Practitioner's signature]

[Date of Practitioner's report]

[Practitioner's address]