

**Compilation Engagements—
Significant Issues Raised by Respondents on the Exposure Draft and IAASB
Task Force Proposals dated June 2011**

Main Proposals in the Exposure Draft for Proposed ISRS 4410 (Revised)¹

1. Proposed ISRS 4410 (Revised) (ED-4410) is a substantive revision of extant ISRS.² It addresses the following topics:
 - Scope.
 - Compilation engagements where the practitioner is engaged to compile historical financial information in accordance with the proposed ISRS including providing the report required under the ISRS.
 - The practitioner's objectives for the engagement.
 - Definitions of key terms, including "compile" and "compilation engagement." The term "compile" is described with reference to the practitioner's role in assisting management to prepare and present financial information in accordance with the "applicable financial reporting framework" (a defined term in the IAASB Glossary).
 - Requirements relating to:
 - Relevant ethical requirements, professional judgment and quality control;
 - Engagement acceptance and continuance;
 - Performing the engagement;
 - Communication and documentation; and
 - The practitioner's report provided for the engagement.
 - Illustrative engagement letter and practitioner's reports.

Key Principles Applied in Developing the Proposed ISRS

2. The IAASB developed the proposed ISRS as a stand-alone engagement standard, intended for use by practitioners performing compilation engagements and who may not habitually use the ISAs. It is intended to be principles-based, while at the same time providing a robust framework for compilation engagements that is able to be adopted on an international basis. The IAASB has paid particular attention to the fact that compilation engagements are often an important activity for small and medium practices (SMPs).

¹ Proposed International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*

² ISRS 4410, *Engagements to Compile Financial Information*

Overview of Responses

3. Comment letters have been received from 48 respondents belonging broadly to the groups shown in Table 1 below. A list of the respondents to the ED is provided in the Appendix to this Paper.

Table 1: Respondents to the Exposure Draft (main groupings)

IFAC Boards and Committees	1
IFAC Member Bodies and Other Professional Bodies	25
National Standard Setters	7
Regulators and Oversight Authorities	2
Accounting Firms	9
Others (including individual)	4
Information Users	0
TOTAL RESPONSES	48

4. Overall, the responses were supportive of the proposed ISRS. Against the backdrop of that overall support, however, respondents provided comments directed to a number of key areas of the proposed ISRS that warrant further consideration. Many respondents also commented more widely on the proposed ISRS.
5. Overarching observations drawn from the Task Force’s review to date of the responses are:
- Practitioners engage in a wide range of activities that could be characterized as compiling financial information for an entity. There is clear benefit, however, in distinguishing from this wide range of possible services those compilation engagements where there is clear public interest need for the compilation of financial information to be done using a recognized, generally-accepted framework with:
 - (i) Clearly-defined principles addressing ethical considerations relevant to the practitioner’s involvement; and
 - (ii) A work effort suited to the nature of the engagement.

These are often, but not always, engagements to compile financial information for the purpose of compliance with relevant law or regulation (including compilation of statutory financial statements of corporate entities), and engagements to compile financial information that can be used by external parties (for example, in connection with an entity’s lending or financing activities).
 - Compilations are performed for a range of different types of financial information, using bases of preparation that match the intended use and intended users of the information. In some countries compilations are widely performed for audit-exempt entities and not only smaller entities although that is the typical context.

- Current practice for compilation of financial information varies considerably, as do existing national standards for compilations (where they exist). In particular, national standard-setters and practitioners use various approaches to address the non-assurance nature of the engagement in communicating with, and reporting to, the parties to the engagement and the intended users. These approaches, in general, are used as a way of offsetting the risk that the nature of the engagement and the extent of the practitioner’s involvement may be misunderstood.
 - There are different views about whether and how the practitioner should provide reports for these engagements and about the purpose and use of the report when reporting is used. A main concern is how to effectively distinguish the practitioner’s report for a compilation engagement from one for an assurance engagement.
6. This Paper highlights a number of significant issues arising from those comments along with the Task Force’s recommendations for the IAASB’s consideration. Resolution of these issues is essential to progression of the Task Force’s work. The Task Force will present an analysis of remaining issues noted in respondents’ comments, and proposed responses to them, at the September 2011 IAASB meeting.

Significant Issues

I. Approach to Designing the Proposed ISRS and Scope

Issues

- (i) Scope of the proposed ISRS. In particular, mandating use of the proposed ISRS, and addressing circumstances of practitioner association with compiled financial information.

Task Force Recommendation:

- That the scope of the proposed ISRS, as set out in ED-4410, is appropriate for the reasons explained below and should be retained. However the Task Force recommends that paragraph 1 of the proposed ISRS should be made clearer. (See the Task Force’s proposed amendments to the ISRS set out below.)

Matters Raised by Respondents and the Task Force View

7. Broadly, respondents agreed with the scope of the proposed ISRS which includes, as an element of the engagement, provision of the report required under the ISRS.³ A number of respondents highlighted the pragmatic need for a flexible approach to the design of the standard in the interest of promoting its wide adoption on an international basis.⁴

³ ACCA, AICPA, CALCPA, CPAI, EFAA, FACPCE, FEE, FSR, ICAEW, ICAI, ICAP, ICPAS, IDW, IFAC SMPC, IRBA, JICPA, Mazars, MIA Malta, MIA, PwC, SAICA, SC-AOB, ZICA

⁴ ACCA; APB; ICAI

8. However several respondents disagreed with the scope of ED-4410.⁵ These respondents largely believed the scope of the proposed standard should not include reference to reporting; rather reporting should only be a part of the requirements of the ISRS.
9. Respondents comments are broadly considered under the following headings:
 - (a) Scope of the proposed ISRS – mandating use vs. a flexible approach; and
 - (b) Practitioner association with compiled information.

Scope of the Proposed ISRS: Mandating Use vs. a Flexible Approach

10. The approach adopted in ED-4410 for its application reflects the fact that conditions which would ordinarily require use of the proposed ISRS exist outside of the standard itself, for example under:
 - Relevant ethical requirements;
 - Applicable law or regulation;
 - The policies and procedures of the practitioner or firm; or
 - The terms of engagement agreed between contracting parties. The practitioner and the engaging party could agree on use of the proposed ISRS, including the practitioner's report, on a consideration of the engagement circumstances. (Absent circumstances that would trigger mandatory use of the ISRS, this can be viewed as “opting-in” to use of the ISRS).
11. The Task Force recognizes that the IAASB cannot mandate use of the proposed ISRS on a global basis, and that the IAASB's overarching aim is to develop an international standard reflecting best practice in compilation of historical financial information that is able to be applied on an international basis.
12. In view of existing national differences in standards applied to compilations, it is not possible to develop a standard that would necessarily encompass all possible approaches or variations. One respondent⁶ recognized the practical difficulty as follows:

We acknowledge that setting out criteria under which the ISRS is required to be used internationally might be problematic as there are a wide variety of compilation engagements undertaken in different circumstances arising as a result of both regulatory requirements and commercial practice.
13. A respondent⁷ noted, for example, that under the current standards that apply in Canada, engagements to compile financial information are undertaken for management only. Engagements that would involve reporting if the intended users are other than management (that is, external users) should be undertaken as assurance engagements. The underlying view for this is that when the intended use is for other than management, the level of responsibility of the practitioner and related work effort would have to go beyond that

⁵ AAP; APESB; CAASB; DTT; EY; GT; ICAS; KPMG; NBA; NZICA; SRA

⁶ APB

⁷ CAASB

which should reasonably be expected in a compilation engagement. In contrast, respondents from Australia⁸ and New Zealand⁹ noted that national standards in these countries include a presumption that the compiled financial information is to be used by external parties, or apply whenever such external use is foreseeable (either of which is commonly the case).

14. The Task Force believes that the approach of being neutral on the question of who the intended users of the compiled financial information are (and therefore silent on that matter in the proposed ISRS) is optimal. This enables the proposed ISRS to have a focus on the requirements and guidance that represent generally-accepted best practice for compiling historical financial information, as a distinct professional service where providing a report with a particular purpose and form is a necessary (and mandatory) element of the engagement.
15. Under this approach the proposed ISRS can be used whenever the engagement circumstances warrant application of the standards set out in the proposed ISRS. The Task Force does not believe it is possible, for purposes of the international standard, to categorically state what those circumstances are in the ISRS itself. Rather, the scope paragraphs of the proposed ISRS specify that the ISRS addresses compilation engagements (as defined) when the practitioner claims compliance with the proposed ISRS. The practitioner's report serves to communicate that the compilation was performed in accordance with internationally-accepted standards for such compilations, and therefore the value of the engagement, to the intended users.
16. Mandatory application is possible either at national level or at the firm level, as may be necessary or appropriate. Mandating compliance may be necessary in national settings for certain types of activities ordinarily undertaken in the public interest. (For example, in the case of financial information required for compliance purposes, such as periodic financial statements prepared in a specified form by corporate entities under applicable law or regulation.) Further, practitioners or firms may adopt the policy of only accepting compilations engagements if performed in accordance with the proposed ISRS (including the practitioner's report as specified).
17. A few respondents¹⁰ believed practitioners should be required to use the proposed ISRS even when no report is to be provided in the interest of promoting best practice in compilations. Other respondents¹¹ expressed the view that the proposed ISRS should contain requirements to report that are premised on whether or not the auditor may be associated with the financial information. One of these respondents¹² suggested that the

⁸ AAP, APESB

⁹ NZICA

¹⁰ DTT; EY; SRA

¹¹ AAP, APESB, DTT

¹² APESB. For example, in Australia national standards specify application of the Australian standards for compilation engagements in any of the following conditions broadly addressing questions of practitioner association: (i) where the practitioner's name is identified with the compiled financial information, or (ii) where the compiled financial information is for external use, or (iii) where it is more likely than not that the intended

circumstances when the proposed ISRS should *always* apply ought to be set out in the proposed ISRS.

18. The Task Force earlier considered this approach but believes it would introduce undue complexity to the proposed ISRS because it would require the proposed ISRS to address the question of when the practitioner is, or is likely to be associated with the compiled information (see discussion on the issue of practitioner association that follows below). The Task Force has a strong preference for keeping the proposed ISRS as clear and as straightforward as possible to promote clarity of the practitioner's understanding of the engagement and the standards to be applied. In any event, nothing would preclude practitioners from electing to follow the requirements and guidance of the proposed ISRS (excluding those on reporting in accordance with the ISRS) when compiling information in the situation where the ISRS does not apply; with the proviso that the practitioner does not claim compliance with the ISRS.
19. Respondents interpreted the scope set out in ED-4410, however, as meaning that it will permit "opting-out."¹³ For example, the practitioner could compile information without reporting to *avoid* having to comply with the proposed ISRS where it would not be appropriate. That is not intended, as explained above.
20. The Task Force does not disagree that there are situations where it is in the public interest that the proposed ISRS be applied on a mandatory basis as some respondents pointed out. However, given the variations that exist in national settings, and to preserve flexibility of use of the proposed ISRS, the Task Force recommends that situations where mandatory application is justified are best identified at national level in the light of applicable law or regulation.

Practitioner Association with Compiled Financial Information

21. Some respondents¹⁴ emphasized the risk that exists when practitioners are, or may be associated with information in conditions when the nature and extent of the practitioner's involvement is not clear to the users. For example, without a formal communication (such as a report) that describes the nature and extent of the practitioner's involvement in compiling financial information, the compiled financial information may be assumed by users to imply a level of assurance that is not warranted.
22. A respondent¹⁵ suggested that the proposed ISRS might include application guidance cautioning practitioners about the business risks involved when compiling financial information (or performing any other non-assurance engagement for that matter) if the practitioner may be associated with financial statements upon which the practitioner has not reported. For example, if the practitioner is aware that the financial information is intended for use, or will be used by a third party the practitioner may want to establish

user of the compiled financial information may not understand the nature and scope of the practitioner's involvement with that information.

¹³ AAP, APESB, NZICA, SRA

¹⁴ AICPA, EY, KPMG

¹⁵ AICPA

agreement with the engaging party (or engaging parties, where applicable) to apply the proposed ISRS in order to reduce the risk that a user may misunderstand the practitioner's involvement with the financial information. While the Task Force agrees that this suggestion has merit as guidance for practitioners in situations when there is no requirement for the practitioner to report or to undertake the engagement in accordance with the proposed ISRS and is a useful consideration for practitioners to be aware of, it would have no impact on the proposed ISRS which by design is an engagement that always includes a report in the form required by the ISRS.

23. The Task Force recognizes that practitioners may become associated with financial information compiled for entities in a wide range of situations linked to an entity's commercial activities or transactions. That includes situations where practitioners provide services relating to an entity's routine business activities (for example accounting services), or relating to an entity's compliance with applicable law or regulation (for example in conjunction with submission of income tax returns, or relating to an entity's participation in less routine matters, such as planning or executing a merger or business acquisition).
24. Not all services or engagements in these diverse situations need to be undertaken applying the requirements and guidance set out in the proposed ISRS. For example, a practitioner may simply prepare management accounts for an entity summarizing the entity's business transactions for a particular period. The practitioner may also provide those accounts to the client in manner that associates the practitioner with them, for example in a folder that bears the practitioner's name or branding.
25. The IAASB's prior discussions of the question of association in the context of compilations supported the view that the question of practitioners' association with financial and other information needs to be considered generically, across a broader range of situations where there can be a lack of clarity. A number of respondents¹⁶ mentioned the need for a consistent international approach to be able to address questions of association across different types of situations where scope for practitioner association exists.
26. In summary, the Task Force does not believe the proposed ISRS should extend to addressing situations where the practitioner is associated with financial information other than by issuance of the report for the engagement required by the ISRS. Broader mandatory application could impose excessive or unnecessary requirements and work effort in situations where the practitioner's intended level of involvement or responsibility is lower than envisaged in the proposed ISRS.
27. As the following respondents expressed it:

“It is important that the scope is not drafted in such a way as would require the standard to be applied irrespective of the needs of the client and the users of the compiled financial information. That would deter clients from utilizing the services of a professional accountant, which would be against the public interest.”¹⁷

¹⁶ FAR, FEE, KPMG

¹⁷ ACCA

“The standard, with the scope as drafted, will apply to a broad range of engagements – and to those for which having the work effort established in a standard is in the public interest. There are, however, many circumstances in which professional accountants provide accounting support to clients that are not, in our view, compilation engagements. Focusing on those in which there is a report and, therefore, clear association of the professional accountant with that financial information, will ensure that such engagements are distinguishable from the provision of accounting “advice” to clients.”¹⁸

28. The Task Force’s proposed amendments to the scope of ED-4410 are as follows:

(additions to the wording are shown in underlined red font, and deletions in ~~strike-through text~~)

Scope of this ISRS

1. This International Standard on Related Services (ISRS) deals with the practitioner’s responsibilities when compiling and reporting ~~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)

Application Material

Scope of this ISRS (Ref: Para. 1–2)

- A1. The practitioner’s involvement with activities relating to the preparation or presentation of an entity’s financial information can take many different forms. ~~The 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 the engagement does not involve the practitioner making a report in accordance with the requirements of this ISRS. An example of such a situation is when a practitioner provides accounting services, including assisting management with the preparation and presentation of financial information without a report as required by this ISRS.

Matters for IAASB Consideration

- Q1. Does the IAASB agree with the Task Force’s view that the scope of the proposed ISRS is appropriate, considering the overall aim of developing the proposed ISRS as a standard reflecting best practice for compilation of historical information that is sufficiently flexible in design to be able to be applied as widely as possible on an international basis?
- Q2. Does the IAASB agree that conditions or requirements for mandatory application should be left to be set at national or firm level?

Q3. Does the IAASB agree that the proposed amendment to the text of paragraph 1 of ED-4410 (and the related application material paragraph A1) will help to better and more clearly convey the intended scope of the ISRS?

II. Distinguishing the Compilation Engagement from Assurance Engagements

Issues

(i) The compilation engagement is not clearly distinguished from assurance engagements in the proposed ISRS in respect of the work effort required for the engagement and in respect of the practitioner's report.

Task Force Recommendations:

- ***Regarding the practitioner's responsibilities and required work effort for a compilation engagement under the proposed ISRS:***
 - To amend the definition of the term 'compile' to make it clear that it means the practitioner *assists management* in preparing and presenting financial information in accordance with the applicable financial reporting framework.
 - To re-examine the requirements for the engagement to identify instances where the requirements may be perceived as extending too far (i.e. responsibilities and requirements that are beyond what is reasonable for a compilation engagement, may possibly be perceived as evidence-gathering, i.e. obtaining assurance). For example, change the requirement in paragraph 29 concerning significant management judgments into application material for paragraph 28 on compiling the financial information.
- ***Regarding the practitioner's report for the engagement under the proposed ISRS:***
 - To amend the illustrative practitioner's reports with a view to better distinguishing the report from assurance engagement reports. (See the proposed amended illustrative report below.)

Matters Raised by Respondents

29. Broadly, respondents believed the distinction between compilations and assurance engagements is sufficiently clear to be understood by practitioners, engaging parties and users.¹⁹
30. However, several respondents acknowledged that, in relation to users, even if the distinction is sufficiently clear in the proposed ISRS, there is nevertheless significant scope for user misunderstanding. As expressed by some of these respondents:

¹⁹ DTT; EY; GT; PwC; AICPA; CALCPA; CGA Canada; CMA; APESB; NZICA; ICPAS; MIA; ICAP; IRBA; SAICA; ZICA; FEE; ICAS; ICAEW; ICAI; CPA Ireland; IDW; MIA Malta

.. it is challenging in practice to impress upon users and other stakeholders the non-assurance nature of a compilation engagement mainly due to the mass perception that practitioners are customary services providers for assurance engagements.²⁰

...it is imperative that compilation ... engagements are clearly distinguished from the audit service. This is particularly important, as these services are commonly provided by a practitioner who is also an auditor and the users of SME financial statements will be familiar with an ‘audit level of assurance.’ As a result there may be confusion in the mind of both the practitioner and user of the financial statements as to the service which is being provided.²¹

31. Respondents mainly focused their comments about properly distinguishing compilations from assurance engagements in the following two areas:
- (a) The practitioner’s responsibilities and required work effort for a compilation. Some respondents viewed the standard as being “over-engineered” for a compilation engagement.²² These engagements are not assurance engagements where a practitioner obtains assurance regarding the compiled financial information. As such the proposed ISRS should not include requirements that can be construed as being ‘evidence-gathering’ procedures, as that will undermine the distinction between compilations and assurance engagements.
 - (b) The practitioner’s report for the compilation engagement. Some respondents held that the illustrative practitioner’s reports are not sufficiently distinguishable from assurance engagement reports;²³ and reporting requirements in the proposed ISRS are not effective in promoting users’ understanding of the non-assurance nature of the engagement (including wording to expressly communicate that the engagement is not an assurance engagement).²⁴
32. Other matters respondents raised that are viewed as undermining the distinction between compilations and assurance engagements are:
- (a) Lack of sufficient clarity throughout the proposed ISRS that in a compilation engagement the practitioner is *assisting* management to prepare and present the entity’s financial information in accordance with an applicable financial reporting framework. Respondents drew attention to the need to clearly reflect this in the definition of the term ‘compile’ for purposes of the proposed ISRS.²⁵
 - (b) Use of the same terms used in the ISAs with the same meanings as apply in the ISAs (for example, “applicable financial reporting framework” and “material misstatements”);²⁶ and

²⁰ MIA

²¹ APB

²² KPMG; Mazars; EvansMartin; CAASB; KMSS

²³ APB; CNDCEC;

²⁴ S.Huot; CCASB; PwC; MIA; IRBA; SC-AOB

²⁵ IFAC SMPC; FEE; FSR; IRBA

²⁶ KMSS

- (c) Failure to draw attention to the fact that independence is not required to perform a compilation engagement in the proposed ISRS and in the practitioner's report required under the standard.²⁷ A few respondents emphasized that independence should not be required for performing compilations (i.e. the 'status quo' condition).²⁸

Practitioner's Responsibilities and Required Work Effort for a Compilation

33. A number of respondents believed that the requirements for performing a compilation engagement go significantly beyond what should reasonably be expected in a compilation engagement under extant ISRS 4410.²⁹ The following areas of the proposed ISRS were cited as examples:
- (a) Ascertaining the needs of users;
 - (b) Determining whether the financial reporting framework is appropriate;
 - (c) Obtaining knowledge and understanding of the entity, its environment and the financial reporting framework sufficient to compile the information under the engagement; and
 - (d) Considering whether the records, documents, explanations or other information provided by management are complete, accurate or satisfactory.
34. These respondents also expressed their belief that it is not necessary for the practitioner to actively perform procedures aimed at considering whether the financial information is materially false or misleading (under paragraphs 31 and A47 of ED-4410). Rather the practitioner should have the responsibility, in view of the fact that only a compilation is being performed and not an assurance engagement, only to respond if something comes to the practitioner's attention that the information is likely to be misleading.
35. A respondent explained³⁰ that applying this approach would imply, for example, that the practitioner is able to:
- Assume there is a rational purpose for the engagement unless the practitioner becomes aware that management is using the compiled information to mislead users;
 - Accept the financial reporting framework selected by management as appropriate unless the practitioner becomes aware that management is selecting a financial reporting framework to mislead users; and
 - Accept documentation from records, documents, explanations or other information provided by management as complete, accurate or satisfactory unless the situation is such that the practitioner becomes aware that he or she would be associated with materially false or misleading information.

²⁷ APB; SAICA

²⁸ APESB; SAICA; CNDCEC

²⁹ KPMG; Mazars; EvansMartin; CAASB; SAICA

³⁰ KPMG

36. A few respondents³¹ noted that the requirements of ED-4410 could imply that the practitioner has obtained a level of understanding and assurance regarding matters such as: the acceptability of the financial reporting framework; the knowledge of the entity's business; the significant judgments made by management; and the validity of the records, documents, or explanations provided by management. It was noted that this goes beyond what is done in practice today and also beyond what should be reasonably expected of the practitioner in view of the nature and purpose of the engagement.
37. Two respondents³² noted that, albeit that the work effort reflected in the requirements of the proposed ISRS is intended for the purpose of practitioners being satisfied that they are properly meeting the ethical requirement to avoid being knowingly associated with materially false or misleading information, the work effort will not necessarily be viewed by other stakeholders in the same light. The intended distinction could well become unclear if requirements are construed as evidence-gathering procedures that enable the practitioner to obtain some level of assurance about the compiled financial information.

The Task Force View – Practitioner's Responsibilities and Required Work Effort

38. In setting the standards for a compilation engagement there is a significant challenge in balancing the nature and extent of the effort required of the practitioner. On the one hand, the practitioner must do enough to not knowingly be associated with information that is materially false or misleading (and in that context the practitioner should be able to be perceived by a reasonable and informed third party not to have been willfully blind). On the other hand, what is required of the practitioner should not cross the line into the realm of assurance procedures. Stakeholders should not perceive the practitioner as having obtained assurance that would entitle a user to take a level of assurance on the presentation of the compiled financial information, notwithstanding any statements to the contrary in the accompanying practitioner's report.
39. The Task Force recognizes that the cautions expressed by respondents require consideration to ensure that the practitioner's work effort cannot be construed as obtaining assurance on the compiled financial information.
40. The Task Force intends to re-examine the requirements for instances where the requirements may be perceived as extending too far.
41. For example, the Task Force considers that the requirement in paragraph 29 of the proposed ISRS relating to the practitioner's work effort on significant management judgments may be an example of something that could be construed as 'evidence-gathering'. To address that perception, the Task Force tentatively proposes the amendment shown below. The Task Force does not yet have a consensus view about whether, or the extent to which, similar amendments might be needed elsewhere in the requirements to demonstrate the appropriate balance of work effort required of the practitioner to achieve the intended purpose under the proposed ISRS.

³¹ KMSS; EvansMartin; CMA; KPMG; Mazars

³² FRS; ICAEW

42. The Task Force also agrees that the definition of the term ‘compile’ can be clearer about the point that the practitioner’s responsibility is always to *assist management*, and accordingly recommends amending that definition (as shown below). The definition of “compilation engagement” would be changed accordingly to align with the amended definition of “compile.”
43. The Task Force’s proposed amendments to ED-4410 in regard to the above are as follows:

(additions to the wording are shown in underlined red font, and deletions in ~~strike-through text~~)

Definitions

15. The Handbook’s Glossary of Terms³³ (the Glossary) includes the terms defined in this ISRS and also includes descriptions of other terms found in this ISRS, to assist in common and consistent interpretation and translation. The following terms have the meanings attributed below for the purposes of this ISRS:

...

- (b) *Compile*—To apply accounting and financial reporting expertise to assist management in prepare preparing and present presenting financial information in accordance with an applicable financial reporting framework.

(The above change would mean that the definition of ‘compilation engagement’ should also change as follows:

- (c) *Compilation Engagement*—An engagement in which a practitioner ~~assists management in preparing and presenting financial information of an entity by compiling that~~ compiles financial information of an entity under the terms of the engagement, and issuing a report in accordance with the requirements of this ISRS.)

...

Performing the Engagement

...

Compiling the Financial Information

28. The practitioner shall compile the financial information using the records, documents, explanations and other information provided by management. (Ref: Para. A44)

A44-1 [To be moved to application material for par 28] In certain circumstances it may be necessary for the The practitioner shall to discuss and agree with management significant judgments required to compile the financial information including, where applicable, the basis for significant accounting estimates and use of the going concern assumption. For example, if the applicable accounting framework requires management to form

³³ 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 Handbook), published by IFAC.

accounting estimates in order to be in compliance with that framework.

Matters for IAASB Consideration

- Q4. Does the IAASB agree with the Task Force’s view that the practitioner’s responsibilities and work effort for a compilation engagement can be better distinguished? For example, by:
- (a) Re-considering requirements that may be perceived as being evidence-gathering procedures, rather than procedures necessary to complete the compilation engagement in accordance with the practitioner’s ethical obligations. For example, in the case of paragraph 28 of ED-4410, whether that requirement can be redrafted in the form of application material, as shown above?
 - (b) Amending the definition of “compile” and “compilation engagement” as shown above?

Distinguishing the Practitioner’s Compilation Report from Assurance Engagement Reports

44. Broadly, respondents³⁴ agreed that the illustrative practitioner’s compilation reports provided in Appendix 2 of ED-4410 are clear and appropriate.
45. However some respondents questioned whether the practitioner’s report is sufficiently distinguishable from an assurance engagement report. This was despite the fact that the report expressly disclaims the expression of an audit opinion or a review conclusion. Among matters raised by these respondents are that the report:
- Looks too much like an assurance engagement report.³⁵
 - Uses wording that undermines clear communication that the engagement is not an assurance engagement, or omits wording that would better promote user understanding of that fact.³⁶
 - Expanded descriptions of the nature of the engagement, including about the practitioner’s expertise and professional and ethical standards applied in performing the engagement, may give readers cause to attach assurance to the practitioner’s report even though provision of an opinion or conclusion on the compiled financial information is expressly disclaimed.³⁷
 - With the “Alert to Reader” sub-title as per the illustrated reports (drawing readers’ attention to the use of special purpose financial reporting frameworks) may be read as containing an opinion or a conclusion.³⁸

³⁴ EvansMartin; CALCPA; CGA Canada; NBA; NZICA; ICPAS; MIA; ICAP; ZICA; ACCA; CPAI; IDW; MIA-Malta; SC-AOB

³⁵ APB; CNDCEC

³⁶ KPMG; Mazars; IFAC SMPC; AICPA; CAASB; CMA; AAP; NZICA; IRBA; NASBA; ACCA; EvansMartin

³⁷ S.Huot; CAASB

³⁸ PwC; MIA; IRBA; SC-AOB

The Task Force View – The Practitioner’s Compilation Report

46. The Task Force has considered respondents views and comments against the illustrative reports, and accepts that the practitioner’s reports and reporting requirements can go further to better distinguish the report for a compilation engagement from assurance reports.
47. The Task Force believes the proposed amended illustrative practitioner’s report at the end of this section will reinforce the distinction between the practitioner’s report for a compilation engagement under proposed ISRS 4410 and assurance reports. The proposed amendments include:
 - Deleting the sentence in the first paragraph that reads, “*These financial statements are presented in accordance with the financial reporting framework referred to in Note X to these financial statements*” (emphasis added);
 - Adding wording to expressly say that the compilation engagement is not an assurance engagement; substitute the phrase “basis of preparation” for “financial reporting framework;” and
 - Removing the ‘Alert to Reader’ sub-heading in the report.
48. The Task Force’s proposed amendments to the illustrative practitioner’s reports in ED-4410 are shown below (using Illustration 4 in ED-4410).

(additions to the wording are shown in underlined red font, and deletions in ~~strike through text~~)

- Practitioner’s compilation report for an engagement to compile financial statements intended for use only by the management of a company, for management’s own purposes.
- The financial statements incorporate certain accruals and are compiled with a single note that refers to the financial reporting framework described in the terms of engagement.
- Use and distribution of the compiled financial statements is restricted to management.

PRACTITIONER’S COMPILATION REPORT

[To Management of ABC Company]

We have compiled the accompanying financial statements of ABC Company based on information you have provided. ~~These financial statements are presented in accordance with the financial reporting framework referred to in Note X to these financial statements.~~ The These financial statements comprise the balance sheet of ABC Company as at December 31, 20X1 and an income statement for the year then ended.

Management is responsible for the preparation of these financial statements on the basis described in Note X to these financial statements, ~~including adoption of the financial reporting framework,~~ and for the accuracy and completeness of the information used to compile them the financial statements.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*. This Standard requires that we comply with quality control standards and relevant ethical requirements, including ethical principles of integrity, objectivity, professional competence and due care.

A compilation engagement involves applying expertise in accounting and financial reporting to assist management in preparing and presenting financial information. A compilation engagement **is not an assurance engagement because it** 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.

Alert to Reader and Restriction on Distribution and Use

We draw attention to Note X to the financial statement that ~~refers to the financial reporting framework used in~~ **describes the basis of** the preparation and presentation of these financial statements. The financial statements are prepared for the management of ABC Company, for management's own purposes. As a result the financial statement(s) may not be suitable for another purpose.

Our compilation report is intended solely for management of ABC Company and should not be distributed to parties other than ABC Company.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

Matter for IAASB Consideration

Q5. Does the IAASB agree with the Task Force' views that the practitioner's report for a compilation engagement may be better distinguished from the reports for assurance engagements? Does the IAASB believe that the proposed amendments to the illustrative practitioner's report help to make the distinction clearer?

III. Compiling in Accordance with the Applicable Financial Reporting Framework

Issues

- (iii) Requirements and guidance in ED-4410 include unnecessary emphasis on the applicable financial reporting framework that is overcomplicated by what is viewed as a desire to achieve consistency with the ISAs regarding identification and use of different types of frameworks that is not warranted for the ISRS.
- (iv) Further, this trend in the requirements of ED-4410 could imply more responsibility than is intended or reasonable in view of the nature and purpose of the engagement performed under the ISRS.

Task Force Recommendations:

- To include an additional paragraph in the introductory section of the ISRS together with application material to promote better understanding of the Glossary term “applicable financial reporting framework.” Specifically, to clarify that the term does not restrict management’s choice of financial reporting framework in relation to the financial information to be compiled. (See amendment proposed by the Task Force shown below.)
- To substitute the phrase “basis of preparation” in the illustrative practitioner’s reports in Appendix 2 of ED-4410, as a more appropriate “plain language” term that can be used instead of “applicable financial reporting framework” to improve the readability of the report for users. (As shown in the proposed amended illustrative practitioner’s report in Section II above.)
- To amend the requirements and guidance of ED-4410 that determine the practitioner’s responsibilities in the engagement regarding the applicable financial reporting framework, to better align with the nature and purpose of the compilation engagement. (See amendments proposed by the Task Force shown below.)

Matters Raised by Respondents

Use of the Term “Applicable Financial Reporting Framework”

49. For the purpose of the proposed ISRS the term “compile” is described as meaning to assist management in preparing and presenting financial information in accordance with the *applicable financial reporting framework* (a term in the IAASB Glossary of Terms and used throughout the IAASB’s standards). However it appears that the term “applicable financial reporting framework” was often misunderstood in the context of compilation engagements under ED-4410.³⁹
50. A few respondents believed that use of the term is intended to impose the use of more complex or sophisticated types of financial reporting frameworks typically encountered in presentation of financial information by larger entities.⁴⁰
51. Other respondents expressed the view, on the other hand, that explanations about what applicable financial reporting frameworks may comprise should to be as consistent as possible between the ISAs and the proposed ISRS – i.e. recognizing that the same variety of financial reporting frameworks that is encountered in assurance engagements also exists for compilation engagements.⁴¹ There was also some call for more explanation of what is meant under “special purpose” frameworks in the context of a compilation.⁴²
52. A respondent⁴³ believed the requirements and guidance in ED-4410 have an unnecessary emphasis on the applicable financial reporting framework that is over-complicated by

³⁹ CMA; EvansMartin; KMSS

⁴⁰ CMA; EvansMartin; KMSS

⁴¹ FEE

⁴² MIA-Malta; ICAEW; CALCPA

⁴³ PwC

desire to achieve consistency with the ISAs regarding identification and use of different types of frameworks. A respondent noted the following:

The emphasis needs to be placed more on the proper identification and description of the basis of preparation used in the compiled financial information.

The standard could be made simpler and more understandable to both users and practitioners by focusing on some key basic principles with regard to the ‘basis of preparation of the compiled information.

...

- The financial information should be fully transparent about the basis of preparation;

...

Practitioner’s Responsibilities when Compiling the Financial Information

53. ED-4410 contains requirements and related application material that aims to guide practitioners compiling information in accordance with applicable financial reporting framework in meeting their overarching ethical obligation to not knowingly be associated with information that is materially false or misleading.
54. Respondents expressed the view that the proposed ISRS is “over-engineered” in view of the nature of the engagement.⁴⁴ These respondents also noted that, as currently worded, the requirements appear to imply more responsibility for the practitioner than is intended in view of the nature and purpose of a compilation engagement, specifically that the engagement under the proposed ISRS is not an assurance engagement and needs to be clearly distinct from such engagements.
55. This is thought to be the case, in particular, in the requirements and guidance pertaining to:
 - (a) Engagement acceptance: assessing the acceptability of the financial reporting framework selected by management for use in the compilation;⁴⁵
 - (b) Performing the engagement:
 - Ensuring that the framework applied is properly described in the compiled financial information, and either described or referred to in the practitioner’s compilation report;⁴⁶ and
 - Addressing departures from the selected framework that may arise in the compilation of the financial information.⁴⁷
56. Taken with the possibility of misunderstanding what is intended by use of the term “applicable financial reporting framework”, these respondents believed that the responsibilities of the practitioner under the proposed ISRS reach beyond what may be

⁴⁴ PwC; CAASB; KPMG; EvansMartin

⁴⁵ CAASB

⁴⁶ CAASB

⁴⁷ AICPA; CALCPA; APESB

regarded as current best practice for compilations and what is reasonably required to perform the engagement.⁴⁸

57. A respondent⁴⁹ viewed the requirements on what is needed in the engagement for the practitioner to “become aware” if the compiled financial information is materially false or misleading, and subsequent actions (paragraphs 31-34 of the proposed ISRS (shown below)), as also being unduly complex or over-engineered.
58. Regarding actions the practitioner might consider, most respondents agreed with the application guidance explaining that the practitioner may suggest that management change the applicable financial reporting framework, where doing so would be helpful and appropriate (paragraph A49⁵⁰ linked to requirement paragraph 32 of ED-4410).⁵¹ However, a number of respondents⁵² mentioned practical challenges in doing so, most especially the prospect of creating confusion about the practitioner’s responsibilities vis-à-vis those of management.

The Task Force View - Use of the Term “Applicable Financial Reporting Framework”

59. The Task Force accepts the point that there may be scope to simplify the requirements and guidance to eliminate possibly unnecessary complexity, or to address instances where the wording of the requirements or guidance appears to cause confusion.
60. Having considered respondents’ comments, the Task Force believes it is important to retain use of the term “applicable financial reporting framework” in the proposed ISRS in the interest of maintaining consistency of practitioners’ understanding through use of common terms throughout the IAASB family of standards.
61. However, to help readers of the ISRS to overcome the idea that the term either directs or restricts the choice of financial reporting frameworks that may be used in a compilation, the Task Force recommends adding a further explanatory paragraph to the introductory section of the proposed ISRS where the engagement to compile financial information is described.
62. The Task Force’s proposed amendments to ED-4410 are shown below. (The Task Force also intends to develop related application material setting out examples of different types

⁴⁸ KPMG; Mazars; PwC; CMA; SAICA

⁴⁹ KPMG

⁵⁰ Paragraph 49 of ED-4410 states: “The amendments that the practitioner may propose to management could include a proposal to change the applicable financial reporting framework, as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information. For example, it may become apparent that modifications to a general purpose financial reporting framework would be acceptable in light of the specific users’ needs. In such circumstances, the terms of engagement may need to be amended to reflect the change in the selected framework, The alert to users regarding the framework as required in paragraph 37(g)(ii) would be added to the practitioner’s report.”

⁵¹ DTT; FACPCE; AAP; NZICA; CGA Canada; ICPAS; MIA; ICAP; IRBA; SAICA; ZICA; ICAEW; ICAS; ICAI; CPAI; IDW; MIA-Malta; SC-AOB

⁵² Mazars; NBA; CNDCEC

of financial reporting frameworks that might be used, and explaining when a framework would be considered to be for a “special purpose”).

(additions to the wording are shown in underlined red font, and deletions in ~~strike-through text~~)

Additional paragraph to be inserted after paragraph 4 of proposed ISRS 4410:

4-A. Financial information is prepared using the financial reporting framework chosen by management, which may range from simple bases of accounting, such as the cash basis of accounting involving only a statement of cash receipts and disbursements, to more complex international standards, such as International Financial Reporting Standards (IFRS).

63. The Task Force also agrees that use of the plain-language phrase “basis of preparation” would be more appropriate for the practitioner’s report to improve its readability for the intended users (as shown in the proposed amended illustrative practitioner’s report in Section II above). However as explained in paragraph 60 above the Task Force believes that it is important to retain use of the term for the requirements and guidance of the ISRS itself.

The Task Force View - Practitioner’s Responsibilities when Compiling the Financial Information

64. The practitioner’s overarching ethical responsibility in a compilation is to not knowingly be associated with information that is materially false or misleading. In light of that obligation, ED-4410 requires the practitioner to:
- (a) At the time of engagement acceptance: *Determine* whether the financial reporting framework selected by management is acceptable in the context of the intended use of the compiled financial information. (paragraph 23(b) of ED-4410)
 - (b) When compiling the information: If on *reading the compiled financial information and becoming aware* that the compiled financial information either:
 - (i) Does not adequately refer to or describe the applicable financial reporting framework; or
 - (ii) Is otherwise materially misstated or misleading,to withdraw from the engagement if management of the entity refuses amendments suggested by the practitioner to remedy the situations described above in the compiled financial information. (paragraphs 32-34 of ED-4410).
65. The Task Force agrees with the general principle that it is important that there is proper identification and description of the basis of preparation used to compile the financial information in the agreed terms of the engagement, in the compiled financial information itself, and in the practitioner’s report. In particular, failure to properly identify and describe the basis of preparation in the compiled financial information could render the information materially false or misleading.
66. Regarding the practitioner’s responsibility at the time of engagement acceptance, the Task Force agrees that the wording of the requirements in paragraph 23 of ED-4410 could imply

more responsibility than is intended or reasonable in view of the overall nature and purpose of the engagement. Accordingly the Task Force proposes the amendment shown below.

67. Regarding the practitioner’s responsibility when compiling the information, the Task Force’s view is that the practitioner’s work effort in relation to “becoming aware” if the compiled financial information is materially false or misleading is intended to be reactive. The practitioner needs to address certain adverse conditions arising in the engagement *on becoming aware* that those conditions exist or may exist (which some commentators have described as being a “stumble over” situation), for example if the practitioner becomes aware that:
- The financial reporting framework selected by management for the compilation is not consistent with the intended use of the compiled information or the needs of the intended users, or
 - The applicable financial reporting framework is not adequately referred to or described in the compiled financial information, or
 - The compiled financial information is otherwise materially misstated or misleading, whether due to departures from the applicable financial reporting framework identified for use in the compiled financial information, or due to conditions occurring in the course of the engagement that render use of that framework inconsistent with its intended use.
68. The Task Force accepts the arguments advanced by respondents that the wording of the requirements in paragraphs 32-34 of ED-4410 could imply more responsibility than is reasonable in view of the overall nature and purpose of the engagement. Accordingly, the Task Force believes the following changes to the requirements and guidance of the proposed ISRS are appropriate:
- (a) Changing the requirements and guidance of the proposed ISRS to better align with the intended approach outlined above. (The Task Force’s proposed amendments are shown below.)
 - (b) Eliminating the application guidance contained in A49 of ED-4410. The proposed amended paragraph 34(b) shown below will still allow scope for the practitioner to provide such assistance to management of the entity in the course of the compilation, in the same way as the practitioner would be able to suggest other amendments to the compiled financial information to assist management and at the same time ensure compliance with the practitioner’s ethical obligations.

Circumstance where the compiled information contains departures from the applicable financial reporting framework

69. ED-4410 takes the position that a practitioner must withdraw from the compilation engagement if management does not agree to amend the compiled financial information when departures from the applicable financial framework have occurred that the

practitioner believes render the compiled information materially false or misleading. This position is supported by respondents.⁵³

70. However, a few respondents⁵⁴ disagreed with this position. These respondents expressed the view that the practitioner's report can be used to communicate departures to the intended users of the compiled information. This is in preference to the practitioner requiring management to amend the information and, if the necessary amendments are not made, being required to withdraw from the engagement (paragraph 34 of ED-4410).
71. Having considered the respondents comments, the Task Force does not support the idea of using the practitioner's report, which is not intended to be a report on the financial information itself, for the alternative use of disclosing departures from the financial reporting framework in the compiled financial information. In the Task Force's view, doing so would significantly undermine the distinction between the practitioner's report for a compilation engagement under proposed ISRS 4410 and an assurance engagement report. The practitioner's report could be perceived by readers as containing a conclusion or opinion on the compiled financial information, notwithstanding express statements to the contrary in the practitioner's report.
72. The Task Force's proposed amendments to ED-4410 are shown below.

(additions to the wording are shown in underlined red font, and deletions in ~~strike-through text~~)

Engagement Acceptance and Continuance

Factors Affecting Continuance of Client Relationships and Engagement Acceptance

23. Unless required by law or regulation, the practitioner shall not accept the engagement unless the practitioner is able to: (Ref: Para. A26–A28)
 - (a) Identify the intended use by management of the financial information to be compiled, and the financial reporting framework to be used, and be satisfied that there is a rational purpose for the engagement; (Ref: Para. A29–A30)
 - (b) [~~Delete~~]~~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. A31–A36)

...

Performing the Engagement

...

Compiling the Financial Information

....

⁵³ DTT; FACPCE; AAP; NZICA; CGA Canada; ICPAS; MIC; ICAP; IRBA; SAICA; ZICA; ICAEW; ICAS; ICAI; CPAI; IDW; MIA-Malta; SC-AOB

⁵⁴ AICPA; CALCPA; APESB

31. Prior to completion of the compilation engagement the practitioner shall read the financial information with the knowledge and understanding described in paragraph 27. (Ref: Para. A47)
32. ~~[Delete] If on reading the compiled financial information, the practitioner becomes aware that:~~
- ~~(a) The compiled financial information does not adequately refer to, or describe, the applicable financial reporting framework; or~~
- ~~(b) There are material misstatements in the compiled financial information, or that the compiled financial information is otherwise misleading,~~
- ~~the practitioner shall propose to management the appropriate amendments to be made to the compiled financial information, and then make those amendments to the financial information. (Ref: Para. A48–A49)~~
33. ~~[Delete] If management declines the amendments proposed by the practitioner, the practitioner shall communicate with management and those charged with governance about the implications for the compilation engagement. (Ref: Para. A50)~~
34. If:
- (a) The practitioner is not able to complete the compilation because management has failed to provide records, documents, explanations or other information that are complete and accurate, or which are otherwise unsatisfactory for the purposes of the compilation, or management has failed to provide additional information as requested by the practitioner; or
- (b) The practitioner becomes aware that:
- (i) The applicable financial reporting framework used to compile the financial information is not adequately referred to, or described, in the compiled financial information so that the description of the framework used for the compiled financial reporting framework is misleading, ~~and management declines the amendments proposed by the practitioner;~~ or
- (ii) The compiled financial information is otherwise materially misstated or misleading, ~~and management declines the amendments to the compiled financial information proposed by the practitioner,~~
- and management declines amendments to the compiled financial information proposed by the practitioner the practitioner shall withdraw from the engagement, unless prohibited by law or regulation, and inform management and those charged with governance of the reasons for withdrawing.
- 34A [New Par] If withdrawal from the engagement is not possible the practitioner shall determine the professional and legal responsibilities applicable in the circumstances. (Ref: Para. A51)

Matters for IAASB Consideration

- Q6. Does the IAASB agree with the Task Force’s proposal to add an explanatory paragraph in the introductory section of the proposed ISRS to assist readers understanding of how the term “applicable financial reporting framework” is used in the proposed ISRS (as shown above)?
- Q7. Does the IAASB agree with the proposed change to paragraphs 23(a) and 23(b) of the ED-4410 addressing the requirements for engagement acceptance and continuance (as shown above)?
- Q8. Does the IAASB agree with the proposed deletion of the requirements in paragraphs 32 and 33 of ED-4410 and with the proposed change to the requirements in paragraph 34 (as shown above)?

IV. Premise Concerning Application of International Standard on Quality Control No. 1

Issue

- (v) Perceived practical difficulties associated with the premise contained in the proposed ISRS that the practitioner/the practitioner’s firm has complied with ISQC 1 in respect of engagements to compile financial information.

Task Force Recommendations:

- That the premise contained in proposed ISRS (that the firm is subject to ISQC 1, or requirements that are at least as demanding, in respect of its compilation engagements⁵⁵) be retained together with the related application guidance paragraphs.
- That additional guidance be developed to clarify the proportionate application of ISQC 1 for smaller practices and its application to related services engagements such as compilation engagements (for example, guidance developed by the IAASB staff), whether as part of the IAASB’s response to the consultation on its 2012-2014 strategy or otherwise.

Matters Raised by Respondents

73. ISQC 1 applies to related services engagements.⁵⁶ A number of countries among the respondents have already implemented ISQC 1 for compilation engagements (including Australia, New Zealand and the USA).
74. Thirteen respondents⁵⁷ were of the view that the premise contained in proposed ISRS about the application of ISQC 1 by the practitioner (or the practitioner’s firm) in respect of the firm’s engagements to compile financial information does not create implementation difficulty at a national level.

⁵⁵ ED-4410, paragraph 3

⁵⁶ ISQC 1, paragraph 4

⁵⁷ DTT, EY, EvansMartin, AICPA, CALCPA, AAP, APESB, ICPAS, MIA-Malaysia, IRBA, CPA Ireland, FSR, SC-AOB

75. However, seventeen respondents⁵⁸ were of the view that the premise could create implementation difficulties, or that they perceived that it would create difficulty in countries where ISQC 1 has been adopted only with application to assurance engagements.
76. These respondents expressed this view mainly in the context of smaller practitioners, who in many countries are significantly providers of compilation services. It is thought that application of ISQC 1 by firms for their compilation engagements will add unnecessary cost for firms that are not already in compliance with ISQC 1, particularly for firms that do not perform assurance engagements. A few respondents stated that the costs of implementing ISQC 1 would outweigh the related benefits in those circumstances (to the extent that firms have not already implemented ISQC 1, e.g., in respect of assurance engagements).⁵⁹
77. Of the respondents who perceived implementation difficulties at national level, five were of the view that ISQC 1 would need to be adapted or revised for application to compilation engagements.⁶⁰ The majority of the respondents who thought there would be implementation difficulties⁶¹ believed, however, that the difficulties can be resolved through development of guidance to clarify the proportionate application of ISQC 1 for smaller practices, and its application to related services engagements such as compilations engagements.

The Task Force View

78. The Task Force believes ISQC 1 can be applied proportionately by smaller firms and so will not cause significant additional costs for firms or practices that are not currently complying with ISQC 1 under their national standards or firm policies.
79. Further, the Task Force believes that all firms derive valuable long-standing quality benefits from implementing ISQC 1, including smaller firms where it can be applied proportionately. Accordingly, the Task Force recommends retaining the premise in the proposed ISRS that the firm has complied with ISQC 1 or requirements that are at least as demanding.
80. If the premise is not retained for the proposed ISRS, then standard would need to specify engagement-level requirements and guidance in the absence of the firm-level requirements specified in ISQC 1. The Task Force does not consider this an attractive option, for the following reasons:
 - (a) It departs from the existing model of referencing the International Standards of the IAASB or the International Ethics Standards Board for Accountants (IESBA) as applicable to the IAASB's engagement standards (that is, in relation to quality control and ethical requirements);

⁵⁸ KPMG, KMSS, IFAC SMPC, EFAA, NBA, CAASB, CGA Canada, CMA, FACPCE, SAICA, ACCA, APB, ICAEW, ICAS, CNDCEC, IDW, MIA

⁵⁹ CMA, SAICA

⁶⁰ EFAA, CAASB, ACCA, ICAEW, CNDCEC

⁶¹ KPMG, IFAC SMPC, CAASB, APB, FSR, IDW, MIA

- (b) It would add considerably to the overall length of the proposed ISRS with disproportionate effects for the overall balance of the requirements and guidance whereas the Task Force is looking to produce a streamlined standard; and
 - (c) Doing so would undermine the application of ISQC 1 to related services engagements in contradiction of the application scope stated in that standard (which the IAASB would presumably prefer to uphold).
81. The Task Force notes that the Consultation Paper on the IAASB 2012-2014 strategy and work program indicates, as a suggested activity, the consideration of further action to assist in the implementation of ISQC 1 for smaller firms.⁶² The Task Force recommends that additional guidance be developed to clarify the proportionate application of ISQC 1 for smaller practices and its application to related services engagements such as compilation engagements (for example, guidance developed by the IAASB staff), whether as part of the IAASB's response to its strategy consultation or otherwise.

Matters for IAASB Consideration

- Q9. Does the IAASB agree that the premise concerning application of ISQC 1 by the firm in respect of the firm's compilation engagements should be retained?
- Q10. Does the IAASB agree with the Task Force's recommendation that guidance should be developed addressing the proportional application of ISQC 1 by smaller firms for related services engagements?

V. Disclosure When the Practitioner is not Independent or has a Conflict of Interest when Performing a Compilation Engagement

Issue

- (vi) The public interest consideration that users of the compiled financial information should be informed if the independence of the practitioner compiling financial information under the proposed ISRS is, or may be perceived to be impaired. This is significant information that can be expected to influence decisions of users of financial information compiled in such circumstances.

Task Force Recommendations:

- The IESBA's attention should be drawn to the concern raised in responses to ED-4410.

⁶² Consultation Paper, *Proposed IAASB Strategy and Work Program for 2012-2014*, available at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0151>

- An additional requirement needs to be included to the proposed ISRS address disclosure of conflicts of interest the practitioner may have, or may be perceived to have, for the purpose of compiling financial information of an entity (in line with the relevant disclosure provisions contained in the IESBA’s *Code of Ethics for Professional Accountants*).

Matters Raised by Respondents

82. Respondents⁶³ believed it is important, if not critical, in a compilation engagement for the practitioner to disclose in the compilation report if the practitioner is not independent of the entity for which the practitioner is compiling information.
83. These respondents disagreed with the proposal not to continue with the requirements and guidance contained in the extant ISRS on this issue, citing the public interest issue of disclosing material information to users. Information about the fact of the practitioner’s being impaired, or being perceived to be impaired, is viewed as important information for users. A respondent⁶⁴ expressed this as follows:

Most compilation engagements in the SME sector operate within small communities and invariably there is potential for relationships or other matters that create conflict. Therefore the requirement to disclose will ensure transparency to both the client and potential users of the compilation report.
84. Two respondents⁶⁵ were of the view that the IESBA needs to define independence for compilations and/or related services engagements (“non-assurance engagements”).

The Task Force View

85. The Task Force has previously expressed the view that such disclosure is an important public interest matter in compilation engagements. This is notwithstanding that there is always ability to mandate at national level that practitioners are required to disclose information to users where their independence is (or may be perceived to be) impaired.
86. The Task Force has previously drawn the IESBA’s attention to this issue and that, absent an agreed definition or explanation of what it means to be independent (or to lack independence) when performing compilation engagements, it is difficult to mandate disclosure and reporting requirements in the proposed ISRS.
87. If it is unlikely that the IESBA would either define, explain or describe what it means to be (or not to be) independent for the purpose of a compilation engagement, then the Task Force believes that the IESBA Code’s provisions on disclosing information about conflicts of interest to relevant parties (IESBA Code Part B, Section 220⁶⁶) are relevant to address

⁶³ APESB, CALCPA, KPMG, Mazars, NASBA, NZICA, SAICA, FSR

⁶⁴ APESB

⁶⁵ KPMG, SAICA

⁶⁶ Section 220.03 of the IESBA Code states the following in relation to conflicts of interest: “Depending upon the circumstances giving rise to the conflict, application of one of the following safeguards is generally necessary:
(a) Notifying the client of the firm’s business interest or activities that may represent a conflict of interest and obtaining their consent to act in such circumstances; or

the issue raised by respondents. Broadly speaking, a lack of independence can be viewed as a form of conflict of interest.

88. The Task Force has identified the following options as being worthy of consideration to address respondents' concern in relation to ED-4410:

(a) Retain the approach in ED-4410. Application material⁶⁷ points to the possibility that requirements and/or guidance may exist at the national level. For example, national disclosure requirements may specify the nature and form of required disclosures concerning a practitioner's independence, or lack thereof. Further, nothing would prevent any firm or practitioner from disclosing that information when undertaking compilation engagements under the proposed ISRS.

(b) Retain the approach in the extant ISRS 4410. ISRS 4410.05 states:

Independence is not a requirement for a compilation engagement. However, where the accountant is not independent, a statement to that effect would be made in the accountant's report.

The practitioner's report is required to include, when relevant, a statement that the auditor is not independent of the entity.

(c) Apply the approach in extant ISRS 4400. ISRS 4400.09 states:

Independence is not a requirement for agreed-upon procedures engagements; however, the terms or objectives of an engagement or national standards may require the auditor to comply with the independence requirements of the IESBA Code. Where the auditor is not independent, a statement to that effect would be made in the report of factual findings.

The practitioner's report is similarly required to include, when relevant, a statement that the auditor is not independent of the entity.

(d) Include disclosure requirements in proposed ISRS 4410 that are in line with the provisions of the IESBA Code on disclosure of conflicts of interest, including as a reporting requirement for the practitioner's report. That is, the practitioner would be required to disclose the existence of a conflict of interest in both the written terms of engagement and the practitioner's report. The Task Force considers that the following draft wording (drafted as appropriate requirements and applicable guidance paragraphs) would be adequate to address the concern raised.

The practitioner shall disclose the fact of the existence of a conflict of interest in the written terms of engagement and in the practitioner's report. These are situations or conditions where the practitioner has a private or personal interest sufficient to be

(b) Notifying all known relevant parties that the professional accountant in public practice is acting for two or more parties in respect of a matter where their respective interests are in conflict and obtaining their consent to so act; or

(c) Notifying the client that the professional accountant in public practice does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service) and obtaining their consent to so act.”

⁶⁷ ED-4410, paragraph A20

perceived by a reasonable and informed third party to influence the practitioner's objectivity in compiling the financial information of the entity.

89. The Task Force believes that option (d) above is worthy of further consideration for the proposed ISRS, and sees no drawbacks from the inclusion of requirements and appropriate guidance along those lines in the proposed ISRS. Advantages are that the proposal would align with the requirements of the IESBA Code and can be implemented in the proposed ISRS without need for further interpretation in the IESBA Code. The Task Force welcomes the IAASB's views on this.
90. If the IAASB supports the Task Force's view that this avenue can be further explored to constructively address the respondents' concern, the Task Force will communicate further with the IESBA on this matter.

Matter for IAASB Consideration

Q11. Does the IAASB believe the Task Force's recommendations would adequately address the concern raised by respondents to ED-4410?

Appendix

List of Respondents to the ED-4410

#	Abbreviation	Respondent (Total)
IFAC Boards and Committees (1)		
1.	IFAC DNC/SMPC	SMP and DNC Committees
IFAC Member Bodies and Other Professional Bodies (25)		
2.	AAP	The Joint Accounting Bodies – Australian Accounting Profession (CPA Australia, The Institute of Chartered Accountants in Australia, and the National Institute of Accountants)
3.	ACCA	Association of Chartered Certified Accountants
4.	CALCPA	California Society of Certified Public Accountants – Accounting Principles and Auditing Standards Committee
5.	CCEAU	El Colegio de Contadores, Economistas y Administradores del Uruguay
6.	CGA	Certified General Accountants Association of Canada
7.	CMA-Canada	The Society of Management Accountants of Canada
8.	CNDCEC	Consiglio Nazionale dei Dottori Commercialisti e Consiglio Nazionale degli Esperti Contabili
9.	CPAI	The Institute of Certified Public Accountants in Ireland
10.	EFAA	European Federation of Accountants and Auditors for SMEs
11.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas
12.	FAR	Institute for the Accountancy Profession in Sweden
13.	FEE	Federation of European Accountants
14.	FSR	Foreningen af Statsautoriserede Revisorer
15.	IBRACON	Instituto dos Auditores Independentes do Brasil
16.	IDW	Institut der Wirtschaftsprüfer in Deutschland
17.	ICAEW	The Institute of Chartered Accountants in England and Wales
18.	ICAI	Chartered Accountants Ireland
19.	ICAP	Institute of Chartered Accountants of Pakistan
20.	ICAS	The Institute of Chartered Accountants of Scotland
21.	ICPAS	Institute of Certified Public Accountants of Singapore
22.	JICPA	The Japanese Institute of Certified Public Accountants
23.	MIA MALTA	The Malta Institute of Accountants
24.	MIA	Malaysian Institute of Accountants
25.	SAICA	The South African Institute of Chartered Accountants
26.	ZICA	Zambia Institute of Chartered Accountants
National Standard Setters (7)		
27.	AICPA	American Institute of Certified Public Accountants
28.	APB	Auditing Practices Board (United Kingdom)
29.	APESB	Accounting Professional & Ethical Standards Board Limited (Australia)

Compilation Engagements—Significant Issues on the Exposure Draft and IAASB Task Force Proposals
IAASB Main Agenda (June 2011)

30.	CAASB	The Canadian Auditing and Assurance Standards Board
31.	IRBA	Independent Regulatory Board for Auditors
32.	NBA	Nederlandse BeroepsOrganisatie van Accountants
33.	NZICA	New Zealand Institute of Chartered Accountants - Professional Standards Board
Regulators and Oversight Authorities (2)		
34.	NASBA	National Association of State Boards of Accountancy
35.	SC-AOB	Securities Commission Malaysia - Audit Oversight Board
Firms (9)		
36.	AAA	Ambitions.NU Accountants & Adviseurs
37.	DTT	Deloitte Touche Tohmatsu Ltd
38.	EY	Ernst & Young Global Limited
39.	EvansMartin	EvansMartin LLP
40.	GT	Grant Thornton International Ltd
41.	KMSS	Kenway Mack Slusarchuk Stewart LLP
42.	KPMG	KPMG IFRG Ltd
43.	Mazars	Mazars
44.	PwC	PricewaterhouseCoopers LLP
Individuals and Others (4)		
45.	J. Maresca	Dr. Joseph S. Maresca, CPA, CISA
46.	S. Hout	Serge Hout, CA
47.	SRA	SRA – Netherlands
48.	M. Straut	Michael Straut