



International Federation of Accountants

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Committee: IAASB Consultative Advisory Group

Meeting Location: Prague

Meeting Date: September 12–13, 2011

Compilation Engagements—ISRS 4410—Report Back and Summary of Significant Comments Received on Exposure

Objectives of Agenda Item

1. The objectives of this agenda item are to discuss responses received on the Exposure Draft of proposed ISRS 4410¹ (ED-4410), and obtain the Representatives' views on a number of key issues relating to this project.

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper.

Project Status and Timeline

3. At its June 2011 meeting, the IAASB was asked to consider select significant issues from the comments received on ED-4410 and recommendations of the Task Force for these issues. Further IAASB consideration of the remaining significant comments received on ED-4410, as well as a revised draft of the proposed standard incorporating changes in response to the comments received, is planned in September 2011, with final approval scheduled for the December 2011 IAASB meeting. For reference only, the relevant meeting papers for the June and September 2011 IAASB meetings are included as CAG Reference Papers.
4. Although the development of proposed ISRE 2400 (Revised)² was initially planned to run concurrently with proposed ISRS 4410, these projects will now be finalized on different timelines. Based on the current project timetable, at its March 2012 meeting, the IAASB will be asked to consider a summary of significant comments received on the Exposure Draft of proposed ISRE 2400 (ED-2400) and recommendations of the Task Force, as well as a revised draft of the proposed standard incorporating changes in response to the comments received. Further IAASB consideration of the proposed standard, and final approval, is scheduled for the June 2012 IAASB meeting. Accordingly, no discussion of the proposed review standard is scheduled for the

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

² International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

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September 2011 CAG meeting. A full discussion is planned for the March 2012 CAG meeting.

- Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation, for the projects to revise ISRS 4410 and ISRE 2400.

March 8-9, 2011 CAG Discussion

- Below are extracts from the draft minutes of the March 2011 CAG meeting,³ and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
Mr. Johnson was pleased that a number of comments he and Mr. Attolini raised were taken on by the IAASB. He commented that the report back is a useful tool for the Representatives to understand the IAASB's deliberations. Mr. Koktvedgaard agreed, noting that even when the IAASB does not accept points raised by the Representatives this insight is valuable.	Prof. Schilder thanked Messrs. Johnson and Koktvedgaard for their positive comments on the quality of the report backs and encouraged the Representatives to maintain an open dialogue with the IAASB should they be concerned that the IAASB has not accepted a particular point.
Mr. Koktvedgaard reiterated his view that care needs to be taken by practitioners performing compilation engagements to not be associated with misleading information.	Point accepted. The draft proposed ISRS 4410 contains a specific link to the relevant ethical requirements contained in the International Ethics Board for Accountants <i>Code of Ethics for Professional Accountants</i> (IESBA Code), Part A, paragraph 110.2. The draft proposed ISRS also contains requirements and applicable material that are specifically focused on this issue, both at the time when the practitioner is considering acceptance of a compilation engagement and when the practitioner performs the engagement. See Section C of this Paper.

³ The minutes will be approved at the September 2011 IAASB CAG meeting.

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Representatives' Comments	Task Force/IAASB Response
<p>Mr. Hansen noted his continued concern that the way in which the IAASB is defining a compilation engagement is different than what the engagement represents in certain jurisdictions, including the US. In his view, it is likely to cause confusion if the various definitions cannot be reconciled.</p>	<p>Point noted.</p> <p>The IAASB Task Force recognizes the fact of significant differences of approach between existing national standards addressing compilation engagements. These differences are not readily reconcilable, particularly as they affect the scope of the proposed ISRS.</p> <p>This IAASB discussed this issue at its meeting in June 2011, and the majority of the IAASB members agreed with the Task Force's recommended approach to the scope and design of the proposed ISRS.</p> <p><i>See Section A of this Paper.</i></p>

Matters for CAG Consideration

- The comment period for the ED closed on March 31, 2011. Forty-nine responses were received, from the broad stakeholder groupings reflected in Table 1 below. A list of the respondents is included in Appendix 2.

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	8
Regulators and Oversight Authorities	2
Accounting Firms	9
Others (including individual)	4
Information Users	0
TOTAL RESPONSES	49

- 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 warranted further consideration. Many respondents

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also commented more widely on the proposed ISRS and in some cases also provided drafting suggestions for the proposed ISRS.

Overarching Observations from the Responses to ED-4410

9. For the discussion of this topic at the IAASB meeting in June 2011, the Task Force identified the following overall observations based on its review of the responses:

- Practitioners engage in a wide range of activities that could be characterized as compiling financial information of an entity. There is clear public interest benefit in distinguishing those services that are undertaken to assist management of an entity in preparing and presenting financial information in accordance with the financial reporting framework that management adopts in light of the intended purpose of the financial information. For this type of service, there is benefit in having a recognized international standard that includes:
 - (i) Clearly-defined principles addressing ethical considerations relevant to the practitioner's compilation of financial information;
 - (ii) Identification of the work effort that is suited to the nature of the engagement, to enhance consistency of practice in undertaking compilation engagements; and
 - (iii) Reporting by the practitioner for the purpose of communicating with users of the compiled financial information about the nature of the engagement and the practitioner's role, and for clarity of understanding concerning the engagement performed.
- Current practice for the compilation of financial information varies considerably, as do existing national standards for compilation engagements (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.
- Compilation engagements are often, but not always, undertaken for financial information required for compliance with relevant law or regulation (including statutory financial statements of corporate entities), and also for financial information required for the use of third parties (for example, in connection with an entity's lending or financing activities). In some countries compilations are widely performed for audit-exempt entities and not only smaller entities, although that is often the case.

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- Compilations are performed for a range of different types of financial information, using financial reporting frameworks (or “bases of accounting”) aligned with the intended use of the information.
10. An important point reflected in respondents’ comments on ED-4410 is that there are different views about whether and how the practitioner should provide reports for these engagements and also about the main purpose of such reporting when it is used. A main concern is how to effectively distinguish the practitioner’s report for a compilation engagement from one for an assurance engagement.
 11. The Task Force presents below an overview of the following significant matters raised by respondents, and the Task Force’s recommendations thereon:
 - A. Scope of the Proposed ISRS
 - B. The Practitioner’s Compilation Report
 - C. Requirements for the Practitioner Performing a Compilation Engagement under Proposed ISRS 4410 - Context and Relevant Ethical Considerations

Appendix 3 to this paper provides relevant extracts from the draft proposed ISRS 4410 (Revised) to highlight how the Task Force’s recommendations have been incorporated into the standard.

A. Scope of the Proposed ISRS

Mandating Use vs. a Flexible Approach

12. Broadly, respondents agreed with the scope of the proposed ISRS which includes, as an element of the engagement, provision of the report in the format required under the ISRS.⁴ 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.⁵
13. Several respondents disagreed with the scope of ED-4410, however.⁶ 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.
14. Some respondents also interpreted the scope set out in ED-4410, as meaning that it would permit “opting-out.”⁷ For example, the practitioner could compile information

⁴ 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

⁵ ACCA; APB; ICAI

⁶ AAP; APESB; CAASB; DTT; EY; GT; ICAS; KPMG; NBA; NZICA; SRA

⁷ AAP, APESB, NZICA, SRA

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without reporting to *avoid* having to comply with the proposed ISRS. These respondents would prefer the scope of the standard to depend on the nature of the engagement rather than on whether a practitioner asserts compliance with the standard.

Task Force Views

15. 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 of compilation of financial information, and the IAASB would not be able to mandate use of the proposed ISRS on a global basis.
16. 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. Key outcomes of performing a compilation engagement using the proposed ISRS should be:
 - (a) Clarification of the nature of the engagement and of the practitioner's responsibilities with respect to the financial information compiled; and
 - (b) Communication on these matters through the practitioner's report accompanying the compiled financial information, which also states the basis of the practitioner's association with that information.
17. The Task Force acknowledges 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 believes the situations where mandatory application is justified are best identified at national level in the light of applicable law or regulation.
18. In the IAASB's discussion of this topic in June 2011, the majority of IAASB members expressed support for the Task Force's approach on the scope of the proposed ISRS.

Practitioner Association with Compiled Financial Information

19. Some respondents⁸ 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.

⁸ AICPA, EY, KPMG

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Task Force Views

20. 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.
21. 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.
22. 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 respondents⁹ 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.
23. In the IAASB's discussion in June, IAASB members requested the Task Force to include explanations about the application of the ISRS in the proposed ISRS, specifically to promote practitioner's understanding of the circumstances where:
 - (a) Application of the ISRS is required – including under relevant law or regulation (for example, in the case of financial information that is required to be provided for public filing); and
 - (b) Application of the ISRS is beneficial in the context of clarifying a practitioner's association with compiled financial information, for example, where the information is prepared for the use of external parties or otherwise where there is a risk that the practitioner's involvement with the financial information may be misunderstood.

Task Force Recommendations

24. As drafted, the proposed ISRS does not specify conditions for its mandatory application for engagements to compile financial information undertaken by practitioners. This recognizes that differing approaches to compilation engagements exist in different countries.

⁹ FAR, FEE, KPMG

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25. Rather, the ISRS will apply to those engagements where the practitioner is engaged to compile financial information in accordance with the ISRS. This includes being engaged to issue the report in accordance with the ISRS in which the practitioner asserts compliance with the ISRS. In June the IAASB broadly supported this position.
26. The Task Force has explained that the circumstances in which a standard with mandatory application would work are much narrower (i.e., historical financial statements vs. historical financial information more broadly) than is envisaged for the proposed ISRS, and accordingly that approach would require a significant change of direction for the proposed standard. Further, the Task Force notes that in adopting the proposed ISRS national standard setters or legislators can include such further requirements as are necessary for use of the standard with mandatory application, where appropriate in a national setting.
27. In relation to further explanation about the scope and application of the ISRS, the Task Force has included additional application material in the proposed ISRS in response to the IAASB's points noted in paragraph 23. For clarity, the application material explains that the ISRS applies when the practitioner is engaged to compile financial information applying the ISRS. The Task Force believes these proposed amendments clarify the application of the standard in the variety of circumstances that are directly relevant to compilation engagements (*See paragraphs AI-A3 of the application and other explanatory material of the proposed ISRS included in Appendix 3*).

Matters for CAG Consideration

1. Do the Representatives agree with the Task Force's recommended approach on the scope of the proposed ISRS?
2. Do the Representatives believe the Task Force's recommended amendments to the proposed ISRS provide adequate explanation about the application of the proposed ISRS?

B. The Practitioner's Report

Distinguishing the Practitioner's Compilation Report from Assurance Engagement Reports

28. Broadly, respondents¹⁰ agreed that the illustrative practitioner's compilation reports provided in Appendix 2 of ED-4410 are clear and appropriate.
29. Some respondents, however, 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.

¹⁰ EvansMartin; CALCPA; CGA Canada; NBA; NZICA; ICPAS; MIA; ICAP; ZICA; ACCA; CPAI; IDW; MIA-Malta; SC-AOB

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Task Force Recommendations

30. The Task Force’s proposed amendments to the illustrative practitioner’s reports in ED-4410, as follows:
- 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, and substituting the phrase “basis of preparation” for “financial reporting framework;” and
 - Removing the “Alert to Reader” sub-heading in the report.

Appendix 3 to this paper includes one of the illustrative practitioner’s reports for the CAG’s consideration in responding to the “Matters for CAG Consideration” below.

Reporting Requirements of the Proposed ISRS

31. The purpose of the practitioner’s report is to communicate the nature of the compilation engagement as defined in the proposed ISRS, and the practitioner’s role and responsibilities in the engagement. The report is not a vehicle to express an opinion or conclusion on the compiled financial information in any form.
32. Respondents to the ED were generally satisfied that the reporting requirements of the proposed ISRS are appropriate. A number of respondents¹¹ advocated strongly, however, for omitting the various caveats reflected in the reporting requirements. For example, respondents considered that the required statements that the compilation engagement is not an assurance engagement, and related explanations about the limitations of the engagement, are confusing to readers of the practitioner’s report, who may not understand audit and review services to start with. Further, there was the view that such caveats are neither necessary nor helpful in relation to the overall purpose of the practitioner’s report, and give the practitioner’s report an overly negative tone which undermines the perceived value of the compilation engagement performed.
33. In the IAASB’s discussion in June 2011, the majority of IAASB members affirmed the need to retain these statements because they serve the important purpose of explaining the limitations of the compilation engagement. The caveats were also viewed as being an essential part of the practitioner’s communications with the readers, including users of the compiled financial statements, to avoid misunderstanding and development of expectations gaps—particularly since users are typically more inclined to overstate the practitioner’s responsibilities in a compilation engagement. Accordingly, The Task

¹¹ ACCA, EFAA, FEE, ICAEW, ICAS, NBA

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Force's approach to developing the illustrative practitioner's reports has been to mirror the reporting requirements set out in the proposed ISRS that specify the mandatory elements of the practitioner's report.

34. Nevertheless, some IAASB members requested the Task Force to develop an illustrative practitioner's report for the compilation engagement that is, as far as possible, visibly different from the report provided for an assurance engagement.
35. The Task Force has drafted an example of such a report in Table 1 below, for discussion.

Table 1: Illustrative Practitioner's Report for a Compilation Engagement under proposed ISRS 4410 (being a short version of the practitioner's report, for IAASB consideration)

<p>PRACTITIONER'S COMPILATION REPORT</p> <p>[To Management of ABC Company]</p> <p>We have compiled the accompanying financial statements based on information you have provided.</p> <p>We have complied with ISRS 4410, <i>Compilation Engagements</i>, which does not require us to verify the accuracy and completeness of the information.</p> <p>[Practitioner's signature]</p> <p>[Date of practitioner's report]</p> <p>[Practitioner's address]</p>

36. It is important to note that this example report would only be appropriate for certain types of compilation engagement: specifically, when use of the compiled financial information is restricted to management (or when the information is for internal use only). As recognized in the IAASB's earlier discussions, however, the practitioner is typically not able to control what happens to the compiled financial information and the accompanying practitioner's report once these are completed and delivered to management, or the engaging parties if different. Without the required explanations and caveats there would be significant scope for users other than management or the engaging parties, who may obtain the compiled financial information but not be aware of or privy to the engagement terms, to misunderstand the basis of the practitioner's association with the compiled financial information.

Task Force Recommendations

37. Based on the Task Force's consensus view that all the reporting requirements specified in the ISRS are necessary for the practitioner's communications with users, the Task Force

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believes the illustrative report in Table 1 does not achieve the intended purpose of the practitioner's report as envisaged under the proposed ISRS. Accordingly, the Task Force does not recommend use of this draft report in the proposed ISRS.

Matters for CAG Consideration

3. Do the Representatives agree with the Task Force's proposed amendments to better distinguish the practitioner's report for a compilation engagement from reports provided for assurance engagements?
4. Do the Representatives agree with the Task Force's view that the content in the illustrative practitioner's report in the proposed ISRS is appropriate, as compared to the shortened report in paragraph 35?

C. Requirements for the Practitioner on Becoming Aware that the Compiled Financial Information Needs to be Amended—Context and Relevant Ethical Considerations

44. In keeping with the practitioner's objectives for a compilation engagement, the practitioner is not required to carry out procedures in relation to the financial information that the practitioner compiles other than reading and considering the information in the light of the practitioner's understanding of the entity's business and operations. The practitioner is also not required to verify the accuracy or completeness of the information provided by management for the practitioner's compilation of the financial information, or to gather evidence for the purpose of expressing a review conclusion or audit opinion on the compiled financial information.
45. A significant driver of the requirements for the practitioner in a compilation engagement under this ISRS is for the practitioner to comply with the practitioner's ethical obligations under the IESBA Code.¹² That is, the practitioner shall not knowingly be associated with financial information that contains a materially false or misleading statement, contains statements or information furnished recklessly or omits or obscures information required to be included where such omission or obscurity would be misleading.
46. ED-4410 referred to the term "material misstatement" in paragraph 32 in the context of requiring the practitioner to:
 - (a) Propose amendments to the financial information, "*if on reading the compiled financial information the practitioner becomes aware that there are material misstatements in the compiled financial information or that the compiled financial information is misleading,*" and

¹² Section 110.2 of Part 2 the IESBA Code

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- (b) Make those amendments to the financial information.¹³
47. A number of respondents¹⁴ were of the view that using the term “material misstatement” in the proposed ISRS creates an implicit requirement for the practitioner to do more than simply read the compiled financial information in the context explained in the standard. Some of these respondents disagreed with use of the term on the grounds that it is generally understood by practitioners as referring to the practitioner’s goals and work effort undertaken for an assurance engagement, and is not what is intended for a compilation engagement.¹⁵ They believed that, in a compilation engagement undertaken in accordance with the proposed ISRS, it needs to be as clear as possible that the practitioner has no obligation whatsoever, explicit or implied, in respect of material misstatements that may exist in the compiled financial information other than to respond appropriately if, on becoming aware of such misstatements in the course of the compilation engagement, the practitioner believes the financial statements are, as a result, materially false or misleading.
48. A few¹⁶ expressed the preference for the ISRS to simply refer to the practitioner’s obligations in the context of becoming aware of matters that cause the practitioner to believe the financial information is “materially false or misleading,” reflecting the wording used in the IESBA Code. It was also commented that, while the proposed ISRS needs to contain requirements to ensure the practitioner complies with their ethical obligations in the IESBA Code, using the term “material misstatements” in the proposed ISRS would blur the distinction between a compilation engagement and an assurance engagement.¹⁷

Task Force Views

49. All but one member of the Task Force is of the view that the requirements of the proposed ISRS should focus on the practitioner complying with the practitioner’s obligations in relation to the ethical principle of integrity as set out in the IESBA Code (Part A, Section 110.2). Specifically the Task Force believes that:
- (a) As a condition of performing a compilation engagement all practitioners must comply with the provisions of the IESBA Code, or national requirements that are at

¹³ These proposed requirements recognize that the practitioner compiling the financial information is able to propose amendments to the financial information. With management’s agreement, the practitioner can make those proposed amendments, so that the matters the cause the practitioner to believe that the compiled financial information is materially false or misleading can be resolved.

¹⁴ PwC; KPMG; Deloitte; EvansMartin; Mazars; CAASB; SAICA; IDW; CNDCEC; AICPA; NZICA

¹⁵ AICPA; KPMG; PwC; Deloitte; EvansMartin; Mazars; SAICA

¹⁶ PwC; KPMG; SAICA

¹⁷ CNDCEC; SAICA

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least as restrictive. Practitioners can therefore be expected to be familiar with the concepts contained in the IESBA Code (or relevant national code of ethics that is at least as restrictive).

- (b) Since the concept of “material misstatement” is perceived as an assurance-based term, formulating the requirements for the practitioner performing a compilation engagement based on this concept would likely blur the distinction between a compilation engagement and an assurance engagement for practitioners.
- (c) The concept of misstatement is possibly too narrowly defined for the purpose of the proposed ISRS. The term is defined in the ISAs for an audit of financial statements (in paragraph 4(a) of ISA 450),¹⁸ and it is also applied, adapted as necessary, in the context of auditing financial information (for example, as used in paragraph 1 of ISA 805).¹⁹ Such adaptations of the term for an audit of a single financial statement, or of a specific element or account item of a financial statement, however, would not necessarily be appropriate for compilation engagements, which may be undertaken for a wide variety of financial information and bases of preparation catering to a variety of different purposes.
- (d) Further, compilation engagements may be undertaken for financial information prepared using a basis of accounting that does not contain reference to the concept of material misstatements. Hence, it is not appropriate to develop the requirements for the practitioner’s work effort in a compilation engagement based on that concept.

50. The dissenting member of the Task Force disagrees with the Task Force’s position because:

¹⁸ Paragraph 4(a) of ISA 450, *Evaluation of Misstatements Identified During the Audit*, contains the following definition: “Misstatement – 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. When 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 the financial statements to be presented fairly, in all material respects, or to give a true and fair view.”

¹⁹ Paragraph 1 of ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, states the following: “The International Standards on Auditing (ISAs) in the 100–700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.”

Paragraph A3 of ISA 805 states: “ISAs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to an audit of other historical financial information, such as a single financial statement or a specific element of a financial statement.”

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- (a) The term “material misstatement” can be viewed as defining the threshold of “wrongness” in compiled financial information to which a practitioner must react in a compilation engagement. The extant standard includes the term “material misstatement.” The term is well understood, as defined in the ISAs, and widely used by professional accountants.
- (b) On the other hand, the concept of “materially false or misleading” is not defined in the IESBA code, and therefore may not be consistently interpreted or applied by practitioners when performing compilation engagements. Practitioners may therefore have trouble understanding when something in financial information they have compiled is materially false or misleading vs. when that financial information is materially misstated. For example, a practitioner may possibly take the view that a material misstatement observed in the compiled financial information is not something that they are required to react to, under the proposed ISRS, on the grounds that the particular misstatement does not also make the compiled information materially false or misleading.
- (c) The term “materially false” contained in the IESBA Code is difficult to understand without further guidance to address how it should be applied in a compilation of financial information. As an example, whether or not something is false is a factual matter, not a function of materiality. Therefore, to require the practitioner to react when the practitioner believes something in the compiled financial information is “materially false” is perceived as being somewhat confusing.
- (d) By moving to “materially false or misleading”, proposed ISRS 4410 would be inconsistent with preparer responsibilities under financial reporting frameworks for financial information that practitioner may be asked to compile. In addition, by moving towards a term other than “material misstatement” for the responsibility of the practitioner in a compilation and therefore for preparers, the compilation standard would undermine the premise upon which all IAASB engagements on financial information are based – that is, that management has a responsibility to prepare financial information that that is free of material misstatement.

Task Force Recommendations

- 51. The majority of the Task Force recommends the following amendments to proposed ISRS 4410 to address the respondents’ comments:
 - (a) Adding a definition to explain the meaning of “association with information that is materially false or misleading” for the purpose of the ISRS with the attributed meaning being the same as the requirement as worded in the IESBA Code, Part A ¶110.2.
 - (b) Amending the requirement for the practitioner to propose amendments to the compiled financial information on becoming aware that amendments are required

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for the financial information not to be materially false or misleading (but omitting references to “material misstatement”).

- (c) Amending the reporting requirement for the description of the practitioner’s responsibilities in compiling the financial information to also include a statement by the practitioner that the practitioner has complied with relevant ethical requirements.

(See paragraphs 17(a), 33 and 38(d) of the proposed ISRS included in Appendix 3).

- 52. In addition, the Task Force also proposes application material to assist the practitioner’s understanding of materiality in the context of compiling financial information. The proposed material includes general guidance that applies if the concept of materiality is not addressed in the applicable financial reporting framework or basis of accounting adopted by management. This guidance would be helpful for the practitioner when the need arises to consider whether the compiled financial information is materially false or misleading. *(See paragraphs A48–A51 of the proposed ISRS included in Appendix 3).*
- 53. Further, the Task Force has added application material explaining the practitioner’s responsibilities on becoming aware of circumstances where there is risk of association with information that is materially false or misleading. This material explains that such circumstances include situations where the practitioner becomes aware of differences in items reported in the compiled financial information and the required amount, classification, presentation or disclosure of those items for the information to be in accordance with the applicable financial reporting framework. The Task Force believes it is reasonable to expect practitioners to recognize circumstances where there is risk of association with information that is materially false or misleading, and to respond appropriately in line with the requirements of the ISRS. *(See paragraph A52 of the proposed ISRS included in Appendix 3).*
- 54. The majority of the Task Force believes the proposed amendments are appropriate to respond to the comments received on ED-4410 that emphasized the need to avoid blurring the distinction between compilation engagements and assurance engagements through use of the term “material misstatement.”

Matters for CAG Consideration

- 6. Do the Representatives agree with the Task Force’s recommended amendments to address the practitioner’s responsibilities with respect to proposing amendments to the compiled financial information?
- 7. In particular, do the Representatives agree with the Task Force’s recommendation to use the phrase “materially false or misleading” in the proposed ISRS and remove the references to “material misstatement”/“materially misstated” that appeared in ED-4410?
- 8. If the Representatives believe the concept “material misstatement” should be used in the

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requirements and application material in the proposed ISRS, how should the term be defined or described in relation to compilation engagements without blurring the important distinction between compilation engagements and assurance engagements?

IAASB Interaction with the IAASB CAG

55. The substantive issues being raised on the project for the purposes of the September 2011 IAASB meeting are included in this paper. Accordingly, this serves as the final discussion of the project prior to its anticipated approval by the IAASB. CAG Representatives may wish to take this opportunity to comment on the IAASB's interaction with the CAG during the development and finalization of proposed ISRS 4410. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

Other Matters Considered by the IAASB

56. The CAG Reference Papers (in particular Agenda Item 7-A of the June 2011 IAASB meeting and Agenda Item 8-A of the September 2011 IAASB meeting) include discussion of the following other matters considered by the IAASB:

- Distinguishing the compilation engagement from assurance engagements – the practitioner's responsibilities and required work effort;
- Premise concerning application of ISQC 1;²⁰
- Disclosure when the practitioner is not independent or has a conflict of interest when performing a compilation engagement; and.
- Use of “compile” vs. “assists management in preparing and presenting” in the proposed ISRS.

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 7-A of the June 2011 IAASB Meeting – Proposed ISRS 4410 (Revised)—Summary of Significant Comments on Exposure and IAASB Task Force Recommendations www.ifac.org/IAASB/Meeting-FileDL.php?FID=6248

²⁰ 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*

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Agenda Item 8-A of the September
IAASB Meeting – Proposed ISRS 4410
(Revised)—Summary of Remaining
Significant Comments on Exposure and
IAASB Task Force Recommendations

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6424

Agenda Item 8-B of the September 2011
IAASB Meeting – Draft of Proposed
Revised ISRS 4410 (Clean)

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6425

Agenda Item 8-C of the September 2011
IAASB Meeting – Draft of Proposed
Revised ISRS 4410 (Marked from
Exposure Draft)

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6426

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Appendix 1

Project History

Project: Proposed ISRS 4410 (Revised), *Compilation Engagements* and Proposed ISRE 2400 (Revised) *Engagements to Review Historical Financial Statements*

Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2009	March 2009
Development of Proposed International Pronouncements (up to Exposure)	September 2009 March 2010 September 2010 March 2011	September 2009 December 2009 March 2010 June 2010 September 2010 December 2010 (Reviews)
Exposure	ISRS 4410 – September 2010 ISRE 2400 – December 2010	
Consideration of Respondents' Comments on Exposure	September 2011 (Compilations)	June 2011 (Compilations) September 2011 (Compilations)
Final Approval of Proposed Pronouncements	September 2011 (Compilations)	Planned for December 2011 (Compilations)

CAG Discussions: Detailed References

Project Commencement	<p><u>March 2009</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4599</p>
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	<p>See CAG meeting minutes (in Agenda Item H of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</p> <p>See report back on March 2009 CAG meeting (in paragraph 13 of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4932</p>
Development of Proposed International Pronouncements (up to Exposure)	<p><u>March 2009</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4599</p> <p>See CAG meeting minutes (in Agenda Item H of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</p> <p><u>September 2009</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4932</p> <p>See CAG meeting minutes (in Agenda Item F of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5305</p> <p><u>March 2010</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5267</p> <p>See CAG meeting minutes (in Agenda Item M of the following material) http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5882</p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5670</p> <p>See CAG meeting minutes (in Agenda Item D of the following): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186</p> <p>See report back on September 2010 CAG meeting (in paragraph 6 of the following): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6112</p> <p><u>March 2011</u></p>

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	<p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6112</p> <p>See CAG meeting minutes (in Agenda Item J of the following): See draft March 2011 CAG meeting minutes at Agenda Item A. See report back on March 2011 CAG meeting in paragraph 6 of this CAG paper.</p>
Final Approval of Proposed Pronouncements	<p>This serves as the final discussion of the compilations project prior to its anticipated approval by the IAASB.</p>

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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 (24)		
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.	ICAEW	The Institute of Chartered Accountants in England and Wales
17.	ICAI	Chartered Accountants Ireland
18.	ICAP	Institute of Chartered Accountants of Pakistan

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19.	ICAS	The Institute of Chartered Accountants of Scotland
20.	ICPAS	Institute of Certified Public Accountants of Singapore
21.	JICPA	The Japanese Institute of Certified Public Accountants
22.	MIA MALTA	The Malta Institute of Accountants
23.	MIA	Malaysian Institute of Accountants
24.	SAICA	The South African Institute of Chartered Accountants
25.	ZICA	Zambia Institute of Chartered Accountants
National Standard Setters (9)		
26.	AICPA	American Institute of Certified Public Accountants
27.	APB	Auditing Practices Board (United Kingdom)
28.	APESB	Accounting Professional & Ethical Standards Board Limited (Australia)
29.	CAASB	The Canadian Auditing and Assurance Standards Board
30.	CNCC & CSOEC	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables
31.	IDW	Institut der Wirtschaftsprüfer in Deutschland
32.	IRBA	Independent Regulatory Board for Auditors
33.	NBA	Nederlandse Beroepsorganisatie van Accountants
34.	NZICA	New Zealand Institute of Chartered Accountants - Professional Standards Board
Regulators and Oversight Authorities (2)		
35.	NASBA	National Association of State Boards of Accountancy
36.	SC-AOB	Securities Commission Malaysia - Audit Oversight Board
Firms (9)		
37.	AAA	Ambitions.NU Accountants & Adviseurs
38.	DTT	Deloitte Touche Tohmatsu Ltd
39.	EY	Ernst & Young Global Limited
40.	EvansMartin	EvansMartin LLP
41.	GT	Grant Thornton International Ltd
42.	KMSS	Kenway Mack Slusarchuk Stewart LLP

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43.	KPMG	KPMG IFRG Ltd
44.	Mazars	Mazars
45.	PwC	PricewaterhouseCoopers LLP
Individuals and Others (4)		
46.	J. Maresca	Dr. Joseph S. Maresca, CPA, CISA
47.	S. Hout	Serge Hout, CA
48.	SRA	SRA – Netherlands
49.	M. Straut	Michael Straut

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Appendix 3

Relevant Extracts from Draft Proposed ISRS 4410 (Revised)

In Relation to Section A of This Paper

Application and Other Explanatory Material

Scope of this ISRS (Ref: Para. 1)

- A1. A practitioner's involvement with services or activities in the course of assisting management of an entity with the preparation and presentation of an entity's financial information can take many different forms. When the practitioner is engaged to provide such services or activities for an entity under this ISRS, the practitioner's association with the financial information is communicated through the practitioner's report provided for the engagement in the form required by this ISRS. The practitioner's report contains the practitioner's explicit assertion of compliance with this ISRS.
- A2. Mandatory application of this ISRS may be specified in national settings for engagements where practitioners undertake services relevant to the preparation and presentation of financial information of an entity (such as in relation to preparation of historical financial statements required for public filing). If mandatory application is not specified, either under national law or regulation, or under applicable professional standards or otherwise, the practitioner may nevertheless conclude that applying this ISRS is appropriate in the circumstances. Accordingly, the practitioner may specify this ISRS as the basis for the engagement. A practitioner may decide to do so, for example, when it is important for the understanding of the parties to the engagement, or for that of the intended users of the financial information, that the nature and extent of the practitioner's involvement be clearly described and communicated. In that situation the terms of engagement will specify that the practitioner will apply this ISRS to conduct the engagement.
- A3. The terms of the engagement may specify that the practitioner will perform services or activities relevant to the preparation and presentation of financial information under standards or requirements other than those reflected in this ISRS (including, for example applicable requirements defined or established in relevant national law or regulation). If the practitioner is engaged to undertake such services without providing a report in accordance with this ISRS, the practitioner may need to consider whether that is appropriate in consideration of the circumstances of the engagement. Relevant factors to consider may include:
- The nature of the engagement, and whether the financial information is required under provisions of applicable national law or regulation, and whether it will be required to be publicly filed.

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- The likelihood of the practitioner being associated with the entity’s financial information, and the risk that the level of the practitioner’s involvement with the information may be misunderstood, either by the engaging party or other parties. For example:
 - If the financial information is intended for use by third parties, or could be expected to be provided to, or obtained by parties who are not the intended users of the information; and
 - If the practitioner’s name is identified with the financial information.

In Relation to Section B of This Paper

Illustrative Practitioners’ Compilation Reports

Compilation engagement for general purpose financial statements

- Illustration 1: Practitioner’s report for an engagement to compile financial statements using a general purpose financial reporting framework.

Illustration 1: Practitioner’s report for an engagement to compile financial statements using a general purpose financial reporting framework.

- **General purpose financial statements required under applicable law that specifies that the entity’s financial statements are to be prepared applying International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs).**

PRACTITIONER’S COMPILATION REPORT

[To Management of ABC Company]

We have compiled the accompanying financial statements of ABC Company using International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs), based on information you have provided. These financial statements, and the accuracy and completeness of the information used to compile them, are your responsibility. The financial statements comprise the statement of financial position of ABC Company as at December 31, 20X1, and the statement of operations, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*. In accordance with this Standard, we have applied expertise in accounting and financial reporting to assist you in the

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preparation and presentation of these financial statements. We have complied with quality control standards and relevant ethical requirements, including ethical principles of integrity, objectivity, professional competence and due care.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements, or otherwise to gather 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.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

In Relation to Section C of This Paper

Definitions

17. The Handbook's Glossary of Terms²¹ (the Glossary) includes the terms defined in this ISRS and also includes descriptions of other terms found in this ISRS, to assist in consistent interpretation. The following terms have the meanings attributed below for the purposes of this ISRS:

- (a) *Association with information that is materially false or misleading*—The practitioner is knowingly associated with information in the circumstances described in paragraph 110.2 of Part A of the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (IESBA Code);²² that is when the practitioner is knowingly associated with information where the practitioner believes that the information (a) contains a materially false or misleading statement, (b) contains statements or information furnished recklessly, or (c) omits or obscures information required to be included where such omission or obscurity would be misleading.

...

²¹ 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

²² IESBA Code, Part A, paragraph 110.2

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Requirements

Performing the Engagement

Compiling the Financial Information

33. If the practitioner becomes aware during the course of the engagement that amendments to the financial information compiled by the practitioner are required for the information not to be materially false or misleading, including in relation to the description of or reference to the applicable financial reporting framework contained in the financial information, the practitioner shall propose the appropriate amendments to management.

...

The Practitioner's Report

38. The practitioner's report issued for the compilation engagement shall be in writing, and shall contain the following elements:

...

- (d) A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this ISRS, and that the practitioner has complied with relevant ethical requirements...

Application and Other Explanatory Material

Performing the Engagement

Reading and Considering the Financial Information

- A48. The practitioner's reading of the financial information is intended to assist the practitioner in fulfilling the practitioner's ethical obligation to not knowingly be associated with financial information that is materially false or misleading. The practitioner's reading involves consideration of materiality as described or required to be applied by the applicable financial reporting framework. If the financial information uses a fair presentation framework, the practitioner's reading involves consideration of whether additional disclosures are needed for the financial information to be fairly presented, in all material respects, or to give a true and fair view.
- A49. Some financial reporting frameworks discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:
- Misstatements, including omissions, are considered to be material if they,

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individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;

- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
 - Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
- A50. If present in the applicable financial reporting framework, such a discussion provides a frame of reference for the practitioner in understanding materiality for the purpose of the compilation engagement. If not present, the above considerations provide the practitioner with a frame of reference.
- A51. The practitioner's perception of the needs of users of the financial information affects the practitioner's view of materiality. In this context, it is reasonable for the practitioner to assume that users:
- Have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the financial information with reasonable diligence;
 - Understand that financial information is prepared and presented to levels of materiality;
 - Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
 - Make reasonable economic decisions on the basis of the information in the financial information.

Proposing Amendments to the Financial Information

- A52. During the engagement the practitioner may become aware of differences between the amount, classification, presentation, or disclosure of an item reported in the financial statements and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. The practitioner may believe that, if not corrected, these differences would cause the practitioner to be associated with financial information that is materially false or misleading. In such situations, the practitioner's purpose in proposing amendments to the financial information to management is to comply with the practitioner's ethical obligation to avoid being knowingly associated with information that is materially false or misleading.