



International Auditing  
and Assurance  
Standards Board

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**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** Brussels  
**Meeting Date:** March 6–7, 2012

## Agenda Item E.3

### IAASB Compilations Engagements—International Standard on Related Services (ISRS 4410)—Report Back

#### Objectives of Agenda Item

1. To provide a report back on proposals of the Representatives on this project as discussed at the September 2011 CAG Meeting.

#### Project Status and Timeline

2. The IAASB approved the standard at its December 2011 meeting.

#### September 12–13, 2011 CAG Discussion

3. Below are extracts from the draft minutes of the September 2011 CAG meeting,<sup>1</sup> and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

| Representatives' Comments   | Task Force/IAASB Response   |
|---|---|
| <b>Scope</b>  |   |
| <p>Mr. Koltvedgaard commented that most people involved in management would not know about ISRS 4410, and would expect the professional accountant to follow a standard if one is available, so such engagements should be covered by the standard. He suggested that the IAASB's focus should be on enhancing quality in compilation engagements, meaning application of the ISRS should be mandatory.</p> <p>Mr. Stewart noted that such a requirement may limit the provision of different but similar services.</p> | <p>Point taken into account.</p> <p>Mr. Cowperthwaite responded that new application material in the draft ISRE indicates that, if the professional accountant is performing an engagement that is close to that envisaged by ISRS 4410, the professional accountant should consider reporting in accordance with the ISRS. Mr. Cowperthwaite also noted that in some jurisdictions there are engagements that are similar to compilations but the nature of the subject matter information, or else national requirements applicable to those engagements,</p> |

<sup>1</sup> The minutes will be approved at the March 2012 IAASB CAG meeting.

| Representatives' Comments   | Task Force/IAASB Response   |
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|   | <p>would prevent the professional accountant from complying with the ISRS. Therefore, developing an international standard for all engagements that may be undertaken to compile financial information is not practicable, hence mandatory application to all engagements to compile financial information will not be specified in the draft ISRS.</p> <p>However, the IAASB concluded that it was appropriate to indicate in the ISRS circumstances when the ISRS should be applied. [See paragraph 3 of the ISRS 4410 (Approved and awaiting PIOB approval of due process)].<sup>2</sup></p> |
| <p>Mr. Kottvedgaard asked what such a report could cover as users may think that the provision of a report means that a standard was followed. He questioned whether this leaves an expectations gap.</p>   | <p>The IAASB recognized that it cannot make ISRS 4410 applicable on a mandatory basis at international level.</p> <p>Further, ISRE 4410 (Revised) does not constrain practitioners from undertaking a wide variety of engagements to compile financial information which may have different reporting requirements, depending on the particular circumstances. The IAASB acknowledged the issue of practitioner association with information is addressed with the IESBA Code but not within IAASB standards.</p>   |
| <p>Ms. Blomme asked if the professional accountant could use any part of the standard, without using all of it.</p>   | <p>Mr. Cowperthwaite confirmed this understanding, noting that this could arise, for example, when compiling non-financial information. However, he noted that if the professional accountant states that he complies with ISRS 4410, the professional accountant has to comply with the whole ISRS.</p>  |
| <p>Ms. Blomme commented that she found that to better understand the scope in the ED than currently proposed, some of the material currently included in the application material (A3) could usefully be included in the introductory paragraphs 1 and 2. She added that, in respect of the scope, extant ISRS 4410 is clearer as far as what is not covered by the standard.</p> | <p>Point accepted.</p> <p>The IAASB agreed to move the relevant application material to the introductory section of ISRS 4410 (Revised).</p> <p>[See paragraphs 3 and A5 of ISRS 4410 (Approved and awaiting PIOB approval of due</p>   |

<sup>2</sup> Available at  
C(Updated)\_ISRS\_4410.pdf

[www.ifac.org/sites/default/files/meetings/files/20111209\\_IAASB-Updated\\_Agenda\\_Item\\_2-](http://www.ifac.org/sites/default/files/meetings/files/20111209_IAASB-Updated_Agenda_Item_2-)

| Representatives' Comments   | Task Force/IAASB Response   |
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|   | process)].  |
| Practitioner's Report   |   |
| <p>Mr. Roussey supported the long form report, but also noted that the term "compiled" may not be well understood by users, and "assisted you in the preparation of the accompanying financial statements" may be better as it mirrors the language in the second paragraph.</p> <p>Mr. Baumann also supported the long form report as it clearly states it is not an assurance engagement. He noted that the ISRS should not use the term "assisting with preparation" as this would include the setting of accounting policies, making journal entries and other matters.</p> | <p>Point regarding long form report accepted.</p> <p>During the meeting, Mr. Cowperthwaite noted that the Task Force had explored the use of "assisted with the preparation" rather than "compiled" in the report, but that feedback from a number of stakeholders, including some respondents to ED-ISRS 4410, indicated that to use such language would be to understate the level of service provided in the engagement, and therefore undermine users' perception of the value contributed through the engagement.</p> <p>To Mr. Baumann's second point, the ISRS 4410 (Revised) uses the phrase "assists management in preparing and presenting..." where appropriate, but not in the report, to indicate that the practitioner is always assisting management. In this way, the fact that management bears the responsibility for the appropriate preparation and presentation of the financial information is highlighted.</p> |
| <p>Mr. Diomeda did not support retaining the caveats in the report as he believed they would confuse users. He believed that the report language needed to be positive as it is not a mandatory engagement and should avoid the debate around language in audit and review reports. Further, he did not support the proposal that the content of the report cannot be changed by the practitioner.</p>  | <p>Mr. Cowperthwaite noted that review reports also had caveats.</p> <p>The IAASB noted that several respondents to ED-ISRS 4410 believed the required statements in the practitioner's reports are important to communicate the limitations of the engagement, to minimize the likelihood that an expectation gap will develop among users, i.e. so that they will understand the engagement performed and its limitations.</p> <p>The IAASB noted that required report in accordance with ISRS 4410 (Revised) reflects the reporting requirements of the standard. Providing those are adhered to, as a minimum, nothing would prevent a practitioner from adding further information to the report provided for an engagement. (For example, in appropriate</p>  |

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|  | <p>situations, the practitioner may decide to provide information in the report about the work undertaken/procedures performed in the engagement, if such communications would be beneficial for users of the compiled financial information, and would not be confusing for the users).</p>  |
| <p>Mr. Grund asked if the practitioner could state they have partly or materially complied with the ISRS.</p>  | <p>Mr. Cowperthwaite explained that the practitioner could add to the wording in the report but cannot remove any required material.</p> <p>The IAASB confirmed its view that it is not appropriate for the practitioner to represent compliance with ISRS 4410 (Revised), unless the practitioner has complied with all requirements of the standard, including the reporting requirements.</p> <p>[See paragraph 20 of ISRS 4410 (Approved and awaiting PIOB approval of due process)].</p>   |
| <p>Mr. Hansen also supported the long form report as he believed that the longer report is clearer about the practitioner's involvement, which is necessary as users may not otherwise understand who is responsible for the financial statements.</p> | <p>Support noted.</p> <p>The IAASB believed that, as a minimum, the illustrative reports must contain all the mandatory elements of the practitioner's report for an engagement set out in the reporting requirements of ISRS 4410 (Revised).</p> <p>The IAASB identified the following as the key public interest considerations for the practitioner's communications contained in the report: There should be no scope for users to misunderstand:</p> <p>(a) the nature and scope of the engagement, including the limitations of the engagement and the practitioner's responsibilities, and</p> <p>(b) the practitioner's explicit disclaimer of an opinion or conclusion on the compiled financial information.</p> <p>The IAASB also believed it is important that the report include sufficient explanation of the value of the engagement to users.</p> <p>[See paragraphs 6 and 40(g), and Appendix 2,</p> |

| Representatives' Comments  | Task Force/IAASB Response  |
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|  | Illustrative Reports of ISRS 4410 (Approved and awaiting PIOB approval of due process)].   |
| Mr. Attolini noted that the SMP Committee was still finalizing their comment letter. His personal view was that the long form report is clearer and would avoid underselling the practitioner's involvement. He explained that the SMP Committee has some data from quick poll of SMPs who were asked two specific questions about which services are most important to SMPs. He noted that 700 responses were received, and that accounting and compilation makes up 40% of revenue, whereas audit and assurance is around 30%, and that 38% said that accounting and compilation was the fastest growing source of revenue. He believed that the ISRS will be helpful in those countries that already use compilation services, as well as those countries requesting compilation engagements. | Support for long form report noted.  |
| Mr. Jusuf supported the long form report, but suggested that the references to audit opinions or review conclusions were redundant and would not help users.   | Support for the long form report noted.<br><br>In relation to the references to audit opinions or review conclusions, during the meeting Mr. Cowperthwaite noted that many ED-2400 respondents thought these words were important. In finalizing the ISRS, the IAASB decided these references in the practitioner's report are important to minimize the risk of an expectations gap developing in respect of the compilation engagements.   |
| Ms. Blomme agreed with Mr. Diomeda and Mr. Attolini. She believed that some of the material in the first paragraph of the long form report could be in the paragraph regarding management's responsibility.  | The IAASB recognized that there are different ways to present the required elements of the report in the illustrative reports, in order to present them as a cohesive report about the engagement performed. As such, the ISRS does not mandate a particular order of presentation [see paragraph 40 of ISRS 4410 (Approved and awaiting PIOB approval of due process)]. The illustrative reports are intended to show how the required reporting elements may be presented in practitioners' reports provided in different engagement settings. |
| Mr. Kottvedgaard asked if it was possible for a practitioner to select only parts of the standard when performing a compilation.   | Mr. Cowperthwaite responded that the practitioner can select only some elements of the ISRS, but cannot assert compliance with ISRS 4410 unless  |

| Representatives' Comments  | Task Force/IAASB Response  |
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| <p>He was of the view that the proposals in the second paragraph of the long form report are focused on assistance, not compilation, and combining the first and second sentences of that paragraph would make this, as well as management's responsibility for the information, more clear.</p> <p>He also asked if it was possible to add further material to the report in respect of another engagement performed at the same time</p>   | <p>they have complied with the whole ISRS.</p> <p>Regarding the elements of the practitioner's report, as noted above, the IAASB recognized that there are different ways to present the required elements of the report, one example being as shown in the illustrative reports. Nothing would prevent a national standard-setter, or an individual practitioner, from using a different ordering that would present those elements in a cohesive report on the engagement performed.</p> <p>Mr. Cowperthwaite also explained that the practitioner is able to add material to the report to cover an additional service.</p>   |
| <b>Association with False or Misleading Information</b>  |  |
| <p>Ms. Blomme did not support the changes proposed as she believed that, as management have to produce information free of material misstatement, the practitioner should be held to the same standard. Mr. Diomeda expressed surprise at the change in term, but noted that there are no criteria to determine if one is better than the other. Messrs. Attolini, Diomeda, and Jusuf believe that "material misstatement" may be better understood. Mr. Roussey believed that the "materially misstated" should be used to link with the concept in audits and reviews.</p> <p>Mr. Stewart noted that this issue suggested that the information was being compared against a benchmark.</p> <p>Ms. Blomme noted that, as the engagement occurs in the context of an applicable financial reporting framework, it would be difficult to not use the same benchmark of "material misstatement."</p> | <p>Point partly accepted.</p> <p>In finalizing the ISRS, the IAASB resolved to use the term "materially misstated or misleading" to align further with the wording used in the IESBA Code. [See paragraph 34(b) of ISRS 4410 (Approved and awaiting PIOB approval of due process)].</p> <p>During the meeting, Mr. Cowperthwaite noted that the IESBA Code requires the practitioner to not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information contains a materially false or misleading statement. He also noted that the concept of an applicable financial reporting framework covers any basis of preparation that is acceptable in the circumstances, so the concept of a "material misstatement" may not exist in every framework. Accordingly, the term "materially misstated or misleading" provides an appropriate basis for the practitioner's consideration of association.</p> |
| <p>Mr. Morris noted that it is possible that the framework could be specific to the entity, so a concept such as "free from material obvious errors" may be useful in all engagements.</p>   | <p>Mr. Cowperthwaite explained that "obvious" had been explored by the Task Force previously and the IAASB decided not to use that term as it is</p>   |

| Representatives' Comments   | Task Force/IAASB Response  |
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|   | open to misinterpretation or misunderstanding.   |
| Mr. Kocktvedgaard asked why this requirement was not included in the report, as it may be useful to users to know that the practitioner is obliged to take action if they come across an issue. | <p>Point not accepted. .</p> <p>The IAASB considered whether this would be a useful addition to the report. It noted that there are other requirements that could equally be relevant for inclusion in the practitioner's report. In regard to this specific point, the ISRS does not permit the issuing of a report if the materially false and misleading information was not amended appropriately. The IAASB believed the reference in the practitioner's report to the fact that the practitioner is required to comply with relevant ethical requirements is sufficient, and covers these circumstances.</p> <p>[See paragraph 40(g), and Appendix 2, Illustrative Reports of ISRS 4410 (Approved and awaiting PIOB approval of due process)].</p> |

#### **Matters for CAG Consideration**

4. The Representatives are asked to note the Report Back above, in particular the changes made as a result of the CAG's comments.

#### **IAASB Interaction with the IAASB CAG**

5. There are no substantive issues being raised for the purposes of the March 2012 IAASB meeting as the IAASB has approved the standard at its December 2012 meeting. Accordingly, this report back serves as the final update to the CAG Representatives on this project.