

## Compilation Engagements—Draft International Standard on Related Services ISRS 4410 (Revised)

**[Marked-up from September 1<sup>st</sup> read version]**

(Effective for compilation engagement reports issued ~~engagements performed for financial information~~  
for periods ending on or after [date])

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International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*, should be read in conjunction with the *Preface to the International ~~Standards~~ on Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

## Introduction

### Scope of this ISRS

1. This International Standard on Related Services (ISRS) deals with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information, and to report on the engagement in accordance with this ISRS. (Ref: Para. A1–A24)
  2. [Moved from A3, in part] If ~~at~~ the practitioner is engaged to ~~undertake such services~~ assist management with the preparation and presentation of historical financial information without providing a report in accordance with this ISRS, ~~in those situations,~~ 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, for example ~~and~~ whether the financial information is required under provisions of applicable ~~national~~ law or regulation, and whether ~~it will be~~ the information is required to be publicly filed.
  - 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~~ may 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.

Accordingly, the engagement circumstances may warrant the practitioner undertaking the engagement, including reporting, in accordance with this ISRS. (Ref: Para. A3)

3. This ISRS applies to compilation engagements for historical financial information. The ISRS may be applied, adapted as necessary, to compilation engagements for financial information other than historical financial information, and to compilation engagements for non-financial information. Hereinafter in this ISRS, reference to “financial information” means “historical financial information.” (Ref: Para. A54–A56)

### *Relationship with ISQC 1<sup>1</sup>*

- ~~2.4.~~ Quality control systems, policies and procedures are the responsibility of the firm. ISQC 1 applies to firms of professional accountants in respect of a firm's compilation engagements.<sup>2</sup> The provisions of this ISRS regarding quality control at the level of individual compilation engagements are premised on the basis that the firm is subject to ISQC 1 or requirements that are at least as demanding. (Ref: Para. A67–A1142)

<sup>1</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>2</sup> ISQC 1, paragraph 4

## The Compilation Engagement

- ~~3.5.~~ Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity. The value of a compilation engagement performed in accordance with this ISRS to users of financial information results from the application of the practitioner's professional expertise in accounting and financial reporting and compliance with professional standards, including relevant ethical requirements, and the clear communication of the nature and extent of the practitioner's involvement with the compiled financial information. (Ref: Para. ~~A1243~~–~~A1546~~)
- ~~4.6.~~ A compilation engagement is not an assurance engagement. As such, a compilation engagement does not ~~involve~~ require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation, or otherwise to gathering evidence for the purpose of expressing a review conclusion or audit opinion on the financial information. (Ref: ~~Para. A17~~)
- ~~5.7.~~ Management retains responsibility for the financial information and the basis on which it is prepared and presented. That responsibility includes application by management of the judgment required for the preparation and presentation of the financial information, including the selection and application of appropriate accounting policies and, where needed, developing reasonable accounting estimates. (Ref: Para. ~~A1243~~–~~A1344~~)
- ~~6.8.~~ This ISRS does not impose responsibilities on management or those charged with governance, or override laws and regulations that govern their responsibilities. An engagement performed in accordance with this ISRS is conducted on the premise that management, or those charged with governance where appropriate, have agreed certain responsibilities that are fundamental to the performance of the compilation engagement.
- ~~7.9.~~ Financial information that is the subject of a compilation engagement may be required for various purposes including:
- (a) To comply with mandatory periodic financial reporting requirements established in law or regulation; or
  - (b) For purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example:
    - For management or those charged with governance, ~~in relation to the management or governance of the entity prepared~~ on a basis specified appropriate for their particular purposes by management or those charged with governance (such as preparation of financial information for internal use).
    - For periodic financial reporting undertaken for external parties under a contract or other form of agreement (such as financial information provided to a funding body to support provision or continuation of a grant).
    - For transactional purposes, for example to support a transaction involving changes to the entity's ownership or financing structure (such as for a merger or acquisition).
- ~~8.10.~~ Different financial reporting frameworks can be used to prepare and present ~~such~~ financial information, ranging from a simple entity-specific basis of accounting to established

financial reporting standards. The financial reporting framework adopted by management to prepare and present the financial information ~~that is the subject of a compilation engagement,~~ will depend on the nature of the entity and the intended use of the information. The financial reporting framework adopted is defined as the applicable financial reporting framework, and is commonly referred to as the “basis of accounting.” The requirements of the applicable financial reporting framework determine the form and content of the financial information. (Ref. Para. A16–A18)

### Authority of this ISRS

~~9.11.~~ This ISRS contains the objectives of the practitioner in following the ISRS, which provides the context in which the requirements of this ISRS are set, and is intended to assist the practitioner in understanding what needs to be accomplished in a compilation engagement.

~~10.12.~~ This ISRS contains requirements, expressed using “shall,” that are designed to enable the practitioner to meet the stated objectives.

~~11.13.~~ In addition, this ISRS contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of the ISRS.

~~12.14.~~ The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISRS that assist in the application of the requirements.

### Effective Date

~~13.15.~~ This ISRS is effective for compilation engagement reports issued ~~engagements for financial information for periods ending on or after [date].~~

### Objectives

~~14.16.~~ The practitioner’s objectives in a compilation engagement under this ISRS are:

- (a) To apply accounting and financial reporting expertise to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework based on information provided by management; and
- (b) To report in accordance with the requirements of this ISRS.

### Definitions

~~15.17.~~ The Handbook’s Glossary of Terms<sup>3</sup> (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:

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<sup>3</sup> The Glossary of Terms relating to International Standards issued by the IAASB in the *Handbook of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* (the Handbook), published by IFAC

- (a) ~~[Deleted, see Agenda Item 2-A, Issue #II] 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);<sup>4</sup> 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.~~
- (b)(a) Applicable financial reporting framework—The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial information that is acceptable in view of the nature of the entity and the objective of the financial information, or that is required by law or regulation. (Ref. Para. A2729–A3031)
- (e)(b) Compilation engagement—An engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework, and issues the report in accordance with the requirements of required by this ISRS. Throughout this ISRS, the words “compile”, “compiling” and “compiled” are used in this context.
- (d)(c) Engagement partner—The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (d) Engagement team—All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.
- (e) [New, see Agenda Item 2-A, Issue #II, IAASB Glossary definition amended for application to a compilation engagement] 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.
- Where the financial statements are prepared in accordance with a fair presentation framework, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the practitioner’s judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to give a true and fair view.
- (e)(f) Practitioner—A professional accountant in public practice who conducts the compilation engagement. The term includes the engagement partner or other members of the

<sup>4</sup>—IESBA Code, Part A, paragraph 110.2

engagement team, or, as applicable, the firm. Where this ISRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.

~~(f)~~(g) *Relevant ethical requirements*—Ethical requirements the engagement team is subject to when undertaking compilation engagements. These requirements ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) (excluding sections 290, *Independence – Audit and Review Engagements*, and section 291, *Independence – Other Assurance Engagements* in Part B), together with national requirements that are more restrictive.

## Requirements

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

~~16~~18. The practitioner shall have an understanding of the entire text of this ISRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

#### *Complying with Relevant Requirements*

~~17~~19. The practitioner shall comply with each requirement of this ISRS unless a particular requirement is not relevant to the compilation engagement, for example if the circumstances addressed by the requirement do not exist in the engagement.

~~18~~20. The practitioner shall not represent compliance with this ISRS unless the practitioner has complied with all requirements of this ISRS relevant to the compilation engagement.

### Ethical Requirements

~~19~~21. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A~~1918~~–A~~2119~~)

### Professional Judgment

~~20~~22. The practitioner shall exercise professional judgment in conducting a compilation engagement. (Ref: Para. A~~2220~~–A~~2321~~)

### Engagement Level Quality Control

~~21~~23. The engagement partner shall take responsibility for:

- (a) The overall quality of each compilation engagement to which that partner is assigned; and
- (b) The engagement being performed in accordance with the firm’s quality control policies and procedures, by: (Ref: Para. A~~2422~~)
  - (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A~~2523~~)
  - (ii) Being satisfied that the engagement team collectively has the appropriate

competence and capabilities to perform the compilation engagement; ~~and~~

- (iii) ~~b~~ Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, [moved from A26] and determining the appropriate action if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements; (Ref: Para. A26~~24~~)
- (iv~~h~~) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
- (v) Taking responsibility for ~~A~~ appropriate engagement documentation being maintained.

### **Engagement Acceptance and Continuance**

#### *Continuance of Client Relationships, Engagement Acceptance and Agreeing the Terms of the Engagement*

~~22.24.~~ The practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including:

- (a) The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable; (Ref: Para. A27~~25~~–A28~~26~~; A32~~31~~–A33)
- (b) Identification of the applicable financial reporting framework; (Ref: Para. A29~~27~~–A31~~30~~)
- (c) The objective and scope of the compilation engagement;
- (d) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements; (Ref: Para. A34)
- (e) The responsibilities of management for: (Ref: Para. A35–A37)
  - (i) The financial information, and for the preparation and presentation thereof in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users; and
  - (ii) The accuracy and completeness of the records, documents, explanations and other information, including significant judgments, provided by management for the compilation engagement; and
- (f) The expected form and content of the practitioner's report.

~~23.25.~~ The practitioner shall record the agreed terms of engagement in an engagement letter or other suitable form of written agreement, prior to performing the engagement. (Ref: Para. A38–A40)

#### *Recurring Engagements*

~~24.26.~~ On recurring compilation engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is need to remind management of the existing terms of engagement. (Ref: Para. A41)

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

~~25.27.~~ The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the compilation engagement, all matters concerning the compilation engagement that, in the practitioner's professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A42)

## Performing the Engagement

### *The Practitioner's Understanding*

~~26.28.~~ The practitioner shall obtain an understanding of the following matters sufficient to be able to perform the compilation engagement: (Ref: Para. A43–A45)

- (a) The entity's business and operations, including the entity's accounting system and accounting records; and
- (b) The applicable financial reporting framework, including its application in the entity's industry.

### *Compiling the Financial Information*

~~27.29.~~ The practitioner shall compile the financial information using the records, documents, explanations and other information, including significant judgments, provided by management. (Ref: Para. A46–A47)

30. [New, **see Agenda Item 2-A, Issue #1**] The practitioner shall discuss with management, or those charged with governance as appropriate, those significant judgments, including consideration of the going concern assumption, for which the practitioner has provided assistance in the course of compiling the financial information. (Ref: Para. A46 –A47)

~~31.~~ Prior to completion of the compilation engagement, the practitioner shall read ~~and consider~~ the compiled financial information in light of the practitioner's understanding of the entity's business and operations, and of the applicable financial reporting framework. (Ref: Para. A48–A51))

~~31.32.~~ If, in the course of the compilation engagement, the practitioner becomes aware that the records, documents, explanations or other information, including significant judgments, provided by management for the compilation engagement are incomplete, inaccurate or otherwise unsatisfactory, the practitioner shall bring that to the attention of management and request the ~~required~~additional or corrected information. (Ref: Para. A46 –A47)

~~32.33.~~ If the practitioner is unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing. (Ref: Para. A5354)

~~34.~~ If the practitioner becomes aware during the course of the engagement that amendments to the compiled financial information, including the description of, or reference to, the applicable financial reporting framework, compiled by the practitioner, are required for the

financial information not to be materially misstated ~~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. (Ref: Para. ~~A46-A47 and A49-A5352~~) [New, **see Agenda Item 2-A, Issue #II**]

35. If management declines, or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing. (Ref: Para. ~~A5354~~)
36. If withdrawal from the engagement is not possible, the practitioner shall determine the professional and legal responsibilities applicable in the circumstances.

### Documentation

37. The practitioner shall include in the engagement documentation: (Ref: Para. ~~A5455-A5657~~)
- (a) Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner;
  - (b) A record of how the compiled financial information ~~is derived from~~ reconciles with the underlying records, documents, explanations and other information, ~~including significant judgments,~~ provided by management; and
  - (c) A copy of the compiled financial information for which management or those charged with governance, as appropriate, have taken responsibility, and the practitioner's report. (Ref: Para. ~~A63~~)

### The Practitioner's Report

38. An important purpose of the practitioner's report is to clearly communicate the nature of the compilation engagement, and the practitioner's role and responsibilities in the engagement. The practitioner's report is not a vehicle to express an opinion or conclusion on the financial information in any form.
39. The practitioner's report issued for the compilation engagement shall be in writing, and shall ~~contain~~include the following elements: (Ref: Para. ~~A5857-A5958 and A654~~)
- (a) The report title;
  - (b) The addressee(s), as required by the terms of the engagement; (Ref: Para. ~~A5960~~)
  - ~~(c) An introductory paragraph that:~~
  - ~~(d)~~(c) A Sstatements that the practitioner has compiled the financial information based on information provided by management;
  - ~~(e)~~(d) A Contains reference to the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information;

- ~~(f)~~(e) Identification ~~Identifies~~ of the applicable financial reporting framework ~~used~~ and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information; ~~and~~
- ~~(g)~~(f) Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates;
- ~~(h)~~(g) 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;
- ~~(i)~~(h) A description of what a compilation engagement entails in accordance with this ISRS;
- ~~(j)~~(i) A statement that, since a compilation engagement is not an assurance engagement, the ~~engagement does not involve~~ practitioner is not required to verify the accuracy and completeness of the information provided by management for the compilation, or otherwise ~~gathering~~ evidence for the purpose of expressing an audit opinion or a review conclusion on the financial information;
- ~~(k)~~(j) If the financial information is compiled using a special purpose financial reporting framework, an explanatory paragraph that: (Ref: Para. A610-A632)
- i. Describes the purpose for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information; and
  - ii. Draws the attention of readers of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the information may not be suitable for other purposes;
- ~~(l)~~(k) The date of the practitioner's report;
- ~~(m)~~(l) The practitioner's signature; and
- ~~(n)~~(m) The practitioner's address.
40. The practitioner shall date the report on the date ~~that management has accepted their responsibility for the financial information.~~ the practitioner has completed the compilation engagement in accordance with this ISRS. (Ref: Para. A643)

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## **Application and Other Explanatory Material**

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

#### General Considerations (Ref: Para. 1)

- A1. [Moved from A4] In a compilation engagement where the engaging party is someone other than management or those charged with governance of the entity, this ISRS ~~is~~ may be applied adapted as necessary. (Ref: Para. 1)

A42. A practitioner's involvement with services or activities in the course of assisting management of an entity with the preparation and presentation of ~~an~~the 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.

Considerations Relevant to Application of the ISRS (Ref: Para. 2)

A23. 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. ~~[Deleted] 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). [Moved to par 2 and redrafted] 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.~~

~~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.~~

A4. ~~[Moved to A1]~~

*Application to Compilation Engagements Other Than for Historical Financial Information (Ref: Para. 32)*

A45. This ISRS addresses engagements where the practitioner assists management in the preparation and presentation of historical financial information. The ISRS may, however, also be applied adapted as necessary, when the practitioner is engaged to assist management in preparing and presenting other financial information. Examples include:

- Pro-forma financial information<sub>2</sub>
- Prospective financial information, including financial budgets or forecasts<sub>2</sub>

A56. Practitioners may also undertake engagements to assist management in the preparation and presentation of non-financial information, for example greenhouse gas statements, statistical returns or other information returns. In those circumstances<sub>2</sub> the practitioner may apply this ISRS, adapted as necessary, as relevant to those types of engagements.

*Relationship with ISQC 1* (Ref: Para. 43)

A67. ISQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for related services engagements, including compilation engagements. Those responsibilities are directed at establishing:

- The firm's quality control system; and
- The firm's related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.

A78. Under ISQC 1<sub>2</sub> the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>5</sup>

A89. A jurisdiction that has not adopted ISQC 1 in relation to compilation engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ISRS regarding quality control at the engagement level are premised on the basis that quality control requirements adopted are at least as demanding as those of ISQC 1. This is achieved when those requirements impose obligations on the firm to achieve the aims of the requirements of ISQC 1, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements:

- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and

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

- Monitoring.

~~A910~~. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.

~~A1011~~. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to legal and regulatory requirements through the monitoring process.

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

~~A1112~~. A deficiency in the firm's systems of quality control does not necessarily indicate that a compilation engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

## **The Compilation Engagement**

*Use of the Terms "Management" and "Those Charged with Governance"* (Ref. Para. 45, 67–78)

~~A1213~~. The respective responsibilities of management and those charged with governance will differ between jurisdictions, and between entities of various types. These differences affect the way the practitioner applies the requirements of this ISRS regarding management or those charged with governance. Accordingly, the phrase "management and, where appropriate, those charged with governance" used in various places throughout this ISRS is intended to alert the practitioner to the fact that different entity environments may have different management and governance structures and arrangements.

~~A1314~~. Various responsibilities relating to the preparation of financial information and external financial reporting fall to either management or those charged with governance according to factors such as:

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

In many small entities, there is often no separation of the management and governance roles for the entity, or those charged with governance of the entity may also be involved in managing the entity. In most other cases, especially in larger entities, management is responsible for

execution of the business or activities of the entity and reporting thereon, while those charged with governance have oversight of management. In larger entities, those charged with governance will often have or assume responsibility for approving the financial information of the entity, particularly when it is intended for use by external parties. In large entities, often a subgroup of those charged with governance, such as an audit committee, is charged with certain oversight responsibilities. In some jurisdictions, the preparation of financial statements for an entity in accordance with a specified framework is the legal responsibility of those charged with governance, and in other jurisdictions it is a management responsibility.

*Involvement in Other Activities Relating to Preparation and Presentation of Financial Information*  
(Ref: Para. 45)

A1415. The scope of a compilation engagement will vary, depending on the circumstances of the engagement. However, in every case it will involve assisting management in the preparation and presentation of the entity's financial information in accordance with the financial reporting framework, based on information provided by management. In some compilation engagements, management may have already prepared the financial information itself in a draft or preliminary form.

A1516. A practitioner may also be engaged to undertake certain other activities on behalf of management, additional to the compilation engagement. For example, the practitioner may be requested to also collect, classify and summarize the underlying accounting data of the entity and process the data in the form of accounting records through to production of a trial balance. The trial balance would then be used as the underlying information from which the practitioner can compile the financial information that is the subject of a compilation engagement undertaken in accordance with this ISRS. This is often the case for smaller entities that do not have well-developed accounting systems, or entities that prefer to outsource the preparation of accounting records to external providers. This ISRS does not address such additional activities that the practitioner may perform to assist management in other areas, in advance of compiling the entity's financial statements, ~~in the course of undertaking a compilation engagement.~~

[Deleted] *Distinguishing the Compilation Engagement from an Assurance Engagement* (Ref: Para. 5)

~~A17. A compilation engagement does not require verification of the accuracy or completeness of the information provided by management for purposes of the engagement, or performance of the types of procedures that provide a basis for the practitioner to obtain assurance on the financial information. To avoid misunderstanding, the practitioner is required under this ISRS to communicate that the compilation engagement is not an assurance engagement, both in the terms of the engagement and in the practitioner's report.~~

*Financial Reporting Frameworks* (Ref: Para. 10)

A16. [Moved] The financial information may be prepared in accordance with a financial reporting framework designed to meet:

- The common financial information needs of a wide range of users (that is, a “general purpose financial reporting framework”); or

- The financial information needs of specific users (that is, a “special purpose financial reporting framework”).

A17. [Moved] ~~e~~Examples of commonly used general purpose financial reporting frameworks are:

- International Financial Reporting Standards (IFRS) and established national financial reporting standards applicable to publicly-listed enterprises.
- International Financial Reporting Standards for Small- and Medium-Sized Enterprises (IFRS for SMEs) and established national financial reporting standards applicable to small- and medium-sized enterprises.

A18. [Moved] Examples of special purpose financial reporting frameworks that may be used, depending on the particular purpose of the financial information, are:

- The tax basis of accounting used in a particular jurisdiction to prepare financial information to fulfill ~~relating to~~ tax compliance obligations.
- For entities not required ~~or not needing~~ to use an established financial reporting framework:
  - ~~An entity-specific~~ basis of accounting used in the financial information of a particular entity that is appropriate for the intended use of the financial information and the entity’s circumstances of the entity (for example, ~~for a smaller entity use of~~ the cash basis of accounting with selected accruals, such as accounts receivable and accounts payable, leading to a balance sheet and income statement; or use of an established financial reporting framework that is modified to suit the particular purposes for which the financial information is being prepared).
  - ~~For more simple reporting purposes,~~ The cash basis of accounting leading to a statement of receipts and disbursements (for example, for the purpose of allocating of the excess of cash receipts over disbursements to the owners of a rental property; or to record the movements in the petty cash fund of a small club).

### **Ethical Requirements** (Ref: Para. 21)

A1819. Part A of the IESBA Code establishes the fundamental principles of professional ethics that practitioners must comply with, and provides a conceptual framework for applying those principles. The fundamental principles are:

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

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

A20. [New, **see Agenda Item 2-A, issue #II**] Under the IESBA Code,<sup>6</sup> in applying the principle of integrity, a professional accountant is required to not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

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

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

A21-19. Notwithstanding that section 290, *Independence—Audit and Review Engagements* and section 291, *Independence—Other Assurance Engagements* in Part B of the IESBA Code do not apply to compilation engagements, national ethical codes or laws or regulations may specify requirements or disclosure rules pertaining to independence.

### **Professional Judgment** (Ref: Para. 22)

A22-20. Professional judgment is essential to the proper conduct of a compilation engagement. This is because interpretation of relevant ethical requirements and the requirements of this ISRS, and the need for informed decisions throughout the performance of a compilation engagement, require the application of relevant knowledge and experience to the facts and circumstances of the engagement. Professional judgment is necessary, in particular, when the engagement involves ~~for~~ assisting management of the entity regarding decisions ~~about~~for:

- The acceptability of the financial reporting framework that is to be used to prepare and present the financial information of the entity, in view of the intended use of the financial information, and the intended users thereof.
- The application of the applicable financial reporting framework, including:
  - Selection of appropriate accounting policies under ~~the applicable financial reporting that~~ framework; and
  - Development of accounting estimates needed for the financial information to be prepared and presented under that framework.
  - Preparation and presentation of financial information that is free of material misstatement, and that is not misleading.

<sup>6</sup> IESBA Code Part A, paragraph 110.2

[New, see Agenda Item 2-A, issue #1] The practitioner's assistance to management is always provided on the basis that management or those charged with governance, as appropriate, understand the significant management judgments that are reflected in the financial information, and accept responsibility for those judgments.

A2321. The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known to the practitioner up to the date of the practitioner's report on the engagement, including:

- Knowledge acquired from performance of other engagements undertaken for the entity, where applicable (for example, taxation services).
- The practitioner's understanding of the entity's business and operations, including its accounting system, and of the application of the applicable financial reporting framework in the industry in which the entity operates.
- The extent to which the preparation and presentation of the financial information requires the exercise of management judgment.
- ~~— [Deleted] Matters or circumstances arising in the compilation engagement relevant to the practitioner's consideration of whether the practitioner may be associated with financial information that is materially false or misleading.~~

#### **Engagement Level Quality Control** (Ref: Para. 23(b))

A2422. ~~In taking responsibility for the overall quality on each engagement, T~~the actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasize the importance to achieving the quality of the engagement of achieving quality in the engagement, including with regard to:

- (a) Performing work that complies with professional standards and regulatory and legal requirements;
- (b) Complying with the firm's quality control policies and procedures as applicable; and
- (c) Issuing the practitioner's report for the engagement in accordance with this ISRS.

#### *Acceptance and Continuance of Client Relationships and Compilation Engagements* (Ref: Para. 23(b)(i))

A2523. ISQC 1 requires the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance or continuance of client relationships and compilation engagements is appropriate may include information concerning the integrity of the principal owners, key management and those charged with governance. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it may not be appropriate to accept the engagement.

*Compliance with Relevant Ethical Requirements in Conducting the Engagement* (Ref: Para. 23(b)(iii))

~~A2624.~~ ISQC 1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This ISRS sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements. [Moved to ¶26(b)(iii)] ~~These responsibilities include being alert for indications of non-compliance by members of the engagement team and determining the appropriate action if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements.~~

## **Engagement Acceptance and Continuance**

*Identifying the Intended Use of the Financial Information* (Ref: Para. 24(a))

~~A2725.~~ The intended use of the financial information is identified with reference to applicable law, regulation, or other arrangements established concerning the provision of financial information of the entity, bearing in mind the financial information needs of parties internal or external to the entity who are the intended users. Examples are financial information required to be provided by an entity in connection with undertaking transactions or financing applications with external parties such as suppliers, banks or other providers of finance or funding.

~~A2826.~~ The practitioner's identification of the intended use of the financial information also involves understanding such factors as the particular purpose(s) of management, or those charged with governance, where applicable, that are intended to be served through requesting the compilation engagement, and those of the engaging party where different. For example, a grant funding body may require the entity to provide financial information compiled by a professional accountant to obtain information about certain aspects of an entity's operations or activities, prepared in a specified form, to support provision of a grant or continuation of an existing grant.

*Identification of the Applicable Financial Reporting Framework* (Ref: Para. 17(b)(a), 24(b))

~~A2927.~~ The decision about the financial reporting framework that management adopts for the financial information is made in the context of the intended use of the information as described in the agreed terms of engagement, and the requirements of any applicable law or regulation.

~~A3029.~~ In the absence of any indications to the contrary, the practitioner may presume that the financial reporting framework adopted by management is acceptable in view of the intended use of the financial information and the intended users. In many cases, the financial reporting framework is prescribed by applicable law or regulation ~~of a jurisdiction~~, for example in relation to the preparation of general purpose financial statements by a corporate entity, or other types of regulated entities.

~~A3130.~~ In view of the practitioner's ethical obligations referred to in A20, ~~to avoid association with financial information that is materially false or misleading~~ the following are examples of factors that may be relevant to a consideration of whether the financial reporting framework is acceptable:

- The nature of the entity, and whether it is a regulated form of entity. For example, whether it is a profit-oriented business enterprise, a public sector entity or a not-for-profit organization.
- The intended use of the financial information and the intended users. For example, the financial information could be intended to be used by a wide range of users or, alternatively, could be for use by management or by certain external users in the context of a particular purpose specified as part of agreeing the terms of the compilation engagement.
- Whether the applicable financial reporting framework is prescribed or specified, either in applicable law or regulation, or in a contract or other form of agreement with a third party, or as part of governance or accountability arrangements adopted voluntarily by the entity.
- The nature and form of the financial information that is to be prepared and presented under the applicable financial reporting framework, for example, a complete set of financial statements, a single financial statement, or financial information presented in another format agreed between parties to a contract or other form of agreement.

Relevant Factors When the Financial Information is Intended for a Particular Purpose (Ref: Para. 24(a))

A3234. The engaging party generally agrees the nature and form of financial information that is intended for a particular purpose with the intended users, for example as specified under the financial reporting provisions of a contract or a project grant or as needed to support the entity's transactions or activities. The relevant contract may require use of an established financial reporting framework, such as a general purpose financial reporting framework established by an authorized or recognized standard-setting body or by law or regulation. Alternatively, the parties to the contract may agree on the use of a general purpose framework with modifications or adaptations that fit their particular needs. In that case, the applicable financial reporting framework may be described in the financial information and in the practitioner's report as being the financial reporting provisions of the specified contract rather than with reference to the modified financial reporting framework. In such cases, notwithstanding that the compiled financial information may be made more broadly available, the applicable financial reporting framework is a special purpose framework, and the practitioner is required to comply with the relevant reporting requirements ~~in paragraph 38(g)~~ of this ISRS.

A32. ~~[Deleted] An entity that is not required to comply with financial reporting requirements under applicable law or regulation, may prepare financial information only for particular purposes, as needed to support the entity's transactions and activities. Where, under the agreed terms of the engagement, the financial information is intended for a specific use, or for use by specific intended users, notwithstanding that it may be more broadly available, it is special purpose financial information for the purpose of this ISRS. The practitioner is required to comply with the reporting requirement in paragraph 38(g) of this ISRS in order to avoid misunderstandings about the intended use of the financial information and about the intended users thereof.~~

A33. When the applicable financial reporting framework is a special purpose financial reporting framework, the practitioner is required by this ISRS to record any restrictions on either the intended use or distribution of the financial information in the engagement letter, and to state in the practitioner's report that the financial information is prepared using a special purpose financial reporting framework, and as a result may not be suitable for other purposes.

*The Practitioner's Responsibilities, ~~Including and~~ Compliance with Relevant Ethical Requirements*  
(Ref: Para. 24(d))

A34. The practitioner is required under this ISRS ~~not to accept~~ decline the engagement when the practitioner is not satisfied that the requirements of this ISRS regarding continuation of client relationships and engagement acceptance are met. This is because, in those circumstances, the threat to compliance with the practitioner's ethical obligations from being knowingly associated with information the practitioner believes is materially false or misleading is considered so significant that it cannot be mitigated through safeguards.

*Responsibilities of Management* (Ref: Para. (24(e)))

A35. Under this ISRS, the practitioner is required to obtain the agreement of management, or where applicable those charged with governance, on management's responsibilities in relation to both the financial information and the compilation engagement as a condition precedent to accepting the engagement. In smaller entities, management, or those charged with governance where applicable, may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management's agreement on an informed basis, the practitioner may find it necessary to discuss those responsibilities with management in advance of seeking management's agreement on its responsibilities.

A36. If management does not acknowledge its responsibilities in the context of a compilation engagement, the practitioner is not able to undertake the engagement, and it is not appropriate for the practitioner to accept the engagement unless required to do so under applicable law or regulation. In circumstances where the practitioner is nevertheless required to accept the engagement, the practitioner may need to communicate with management about the importance of these matters and the implications for the engagement.

A37. The practitioner is entitled to rely on management to provide all relevant information for the compilation engagement on an accurate, complete and timely basis. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations and other information, ~~including significant judgments~~, relevant to the compilation of the financial information using the applicable financial reporting framework. The information provided may include, for example, information about management assumptions, intentions or plans underlying development of accounting estimates needed to compile the information under the applicable financial reporting framework.

*Engagement Letter or Other Form of Written Agreement* (Ref: Para. 25)

A38. It is in the interests of both management, and the engaging parties where different, and the practitioner that the practitioner sends an engagement letter to management and, where applicable, to the engaging parties prior to performing the compilation engagement, to help avoid misunderstandings with respect to the compilation engagement. An engagement letter confirms the practitioner's acceptance of the engagement and confirms such matters as:

- The objectives and scope of the engagement, including the understanding of the parties to the engagement that the engagement is not an assurance engagement.
- The intended use and distribution of the financial information, and any restrictions on its use or distribution (where applicable).
- The responsibilities of management in relation to the compilation engagement.
- The extent of the practitioner's responsibilities, including that the practitioner will not express an audit opinion or a review conclusion on the financial information.
- The form and content of the report to be issued by the practitioner for the engagement.

#### Form and Content of the Engagement Letter

A39. The form and content of the engagement letter may vary for each engagement. In addition to the matters required by this ISRS, an engagement letter may make reference to, for example:

- Arrangements concerning the involvement of other practitioners and experts in some aspects of the compilation engagement.
- Arrangements to be made with the predecessor practitioner, if any, in the case of an initial engagement.
- The possibility that management or those charged with governance, as appropriate, may be requested to confirm in writing certain information or explanations conveyed orally to the practitioner during the engagement.-
- Ownership of the information used for purposes of the compilation engagement, distinguishing between documents and information of the entity provided for the engagement and the practitioner's engagement documentation, having regard to applicable law and regulation.
- A request for management, and the engaging party if different, to acknowledge receipt of the engagement letter and to agree to the terms of the engagement outlined therein.

#### Illustrative Engagement Letter

A40. An illustrative engagement letter for a compilation engagement is set out in Appendix 1 to this ISRS.

#### *Recurring Engagements* (Ref: Para. 26)

A41. The practitioner may decide not to send a new engagement letter or other written agreement each period. However, the following factors may indicate that it is appropriate to revise the terms of the compilation engagement, or to remind management or the engaging party, where

applicable, of the existing terms of the engagement:

- Any indication that management or the engaging party, where applicable, misunderstands the objective and scope of the engagement.
- Any revised or special terms of the engagement.
- A recent change of senior management of the entity.
- A significant change in ownership of the entity.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements affecting the entity.
- A change in the applicable financial reporting framework.

### **Communication with Management and Those Charged with Governance** (Ref: Para. 27)

A42. The appropriate timing for communications will vary with the circumstances of the compilation engagement. Relevant circumstances include the significance and nature of the matter and any action expected to be taken by management or those charged with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the engagement as soon as practicable if management or those charged with governance are able to assist the practitioner to overcome the difficulty.

### **Performing the Engagement**

#### *The Practitioner's Understanding* (Ref: Para. 28)

- A43. Obtaining an understanding of the entity's business and its operations, including the entity's accounting system and accounting records, is an ongoing process that occurs throughout the compilation engagement. The understanding establishes a frame of reference within which the practitioner exercises professional judgment in compiling the financial information.
- A44. The breadth and depth of the understanding the practitioner has or obtains about the entity's business and operations is less than that possessed by management. It is directed at the level that is sufficient for the practitioner to be able to compile the financial information under the terms of the engagement.
- A45. Examples of matters the practitioner may consider in obtaining an understanding of the entity's business and operations and the applicable financial reporting framework include:
- The size and complexity of the entity and its operations.
  - The complexity of the financial reporting framework.
  - The entity's financial reporting obligations or requirements, whether they exist under applicable laws and regulation, under the provisions of a contract or other form of agreement with a third party, or in the context of voluntary financial reporting arrangements.

- The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin the preparation of financial information of the entity.
- The complexity of the entity's financial accounting and reporting systems.
- The nature of the entity's assets, liabilities, revenues and expenses.
- The level of development, the design, and the relative sophistication of the entity's accounting systems and related controls through which the entity's accounting records and related information are maintained.

*Compiling the Financial Information—Significant Judgments* (Ref: Para. 29-30, 32, 34)

[See Agenda Item 2-A, Issue #1]

A46. The practitioner is not required to verify the accuracy or completeness of the records, documents, explanations and other information, including significant judgments, provided by management for the compilation engagement, or otherwise to gather evidence for the purpose of expressing a review conclusion or an audit opinion on the compiled financial information. It may be necessary for the practitioner to discuss with management their 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 financial reporting framework requires management to form accounting estimates to be in compliance with that framework, the practitioner may need to discuss those estimates with management in the course of compiling the financial information. However, in the course of the compilation engagement, the practitioner may, for example, become aware that significant judgments made by management in management's preparation of information provided to the practitioner for the purpose of the compilation will cause the compiled financial information to be materially misstated or misleading. In that case, the practitioner is required under this ISRS to discuss those judgments with management, or those charged with governance as appropriate, recognizing their responsibility for the compiled financial information.

A47. [New] For example, management may provide the practitioner with its estimate of a provision for inventory obsolescence. In the course of compiling the financial information the practitioner may become aware, in light of the practitioner's understanding of the entity's business and operations, and of the applicable financial reporting framework, that use of that provision based on management's judgment in the compiled financial information would cause the information to be materially misstated. In that situation, the practitioner is required under this ISRS to discuss management's judgment reflected in that provision, with a view to proposing amendments if necessary.

A47.—[Moved]

*Reading and Considering the Financial Information* (Ref: Para. 3031)

A48. The practitioner's reading of the financial information is intended to assist the practitioner in fulfilling the practitioner's ethical obligations relevant to the compilation engagement. ~~to~~

~~not knowingly be associated with financial information that is materially false or misleading~~

~~[Deleted] 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. [Moved to A50]

A50. [Moved to A52]

A51. [Moved to A53]

Proposing Amendments to the Financial Information (Ref: Para. 3334)

[See Agenda Item 2-A, Issue #II]

A49. ~~The practitioner's purpose in proposing amendments to the financial information to management or those charged with governance, as appropriate, is to comply with the practitioner's ethical obligations. [Deleted] 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 compiled information to be materially false or misleading. In such situations, [moved above] 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.~~

A50. [Moved from A47] The applicable financial reporting framework may include the premise that the financial information is prepared on the going concern basis. If the practitioner becomes aware that uncertainties exist regarding the entity's ability to continue as a going concern, the practitioner may, as appropriate, suggest a more appropriate presentation under the applicable financial reporting framework, or appropriate disclosures concerning the entity's ability to continue as a going concern, in order to be in compliance with that framework.

A51. [Moved from A48, redrafted] The practitioner's consideration of materiality is made in the context of the applicable financial reporting framework. [Moved from A49] Some financial reporting frameworks discuss the concept of materiality in the context of the preparation and presentation of financial ~~statements~~information. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial ~~statements~~information;

- 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 information 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.

A52. [Moved from 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.

A53. [Moved from 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.

Conditions that Require the Practitioner to Withdraw from the Engagement (Ref: Para. ~~3233~~ and ~~3435~~)

A54~~3~~. In circumstances addressed by the requirements of ~~paragraphs 32 and 34~~ this ISRS where withdrawal from the engagement is necessary, the responsibility to inform management and those charged with governance of the reasons for withdrawing provides an opportunity to explain the practitioner's ethical obligations. ~~to not be associated with materially false and misleading information in performing the compilation engagement Under the IESBA Code, whenever the practitioner believes that the practitioner is associated with information that the practitioner believes is materially false or misleading, the practitioner is required to take steps to be disassociated from that information.~~<sup>7</sup>

**Documentation** (Ref: Para. 37)

A55~~4~~. The documentation required by this ISRS serves a number of purposes, including the following:

- Providing a record of matters of continuing relevance to future compilation engagements.

<sup>7</sup> ~~IESBA Code, Part A, paragraph 110.2~~

- Enabling the engagement team, as applicable, to be accountable for its work, including recording the completion of the engagement.

[Merged with second bullet above] ~~Documenting the completion of the engagement.~~

A565. The practitioner may consider also including in the engagement documentation a copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.

A576. In recording how the compiled financial information reconciles ~~to~~with the underlying records, documents, explanations and other information provided by management for the purpose of the compilation engagement, including significant judgments, the practitioner may, for example, keep a schedule showing the reconciliation of the entity's general ledger account balances to the compiled financial information, including any adjusting journal entries or other amendments to the financial information that the practitioner has agreed with management in the course of the engagement.

### **The Practitioner's Report** (Ref: Para. ~~3839~~)

A587. The written report encompasses reports issued in hard copy format and those issued using an electronic medium.

A598. When the practitioner is aware that the compiled financial information and the practitioner's report will be included in a document that contains other information, such as a financial report, the practitioner may consider, if the form of presentation allows, identifying the page numbers on which the financial information is presented. This helps users to identify the financial information to which the practitioner's report relates.

### *Addressees of the Report* (Ref: Para. ~~3839~~(b))

A6059. Law or regulation may specify to whom the practitioner's report is to be addressed in the particular jurisdiction. The practitioner's report is normally addressed to the party who engaged the practitioner under the terms of the engagement, ordinarily the management of the entity.

### *Financial Information Prepared Using a Special Purpose Financial Reporting Framework, ~~or that Has Restricted Use or Distribution~~* (Ref: Para. ~~3839~~(g))

A610. Under this ISRS, if the financial information is prepared using a special purpose financial reporting framework, the practitioner's report is required to draw the attention of readers of the report to the special purpose financial reporting framework used in the financial information, and to state that the financial information may therefore not be suitable for other purposes. When appropriate, this may be supplemented by an additional clause that restricts either or both the distribution ~~and~~or use of the financial information to the intended users only.

A621. Financial information prepared for a particular purpose may be obtained by parties other than the intended users, who may seek to use the information for purposes other than those for which the information was intended. For example, a regulator may require certain entities to provide financial statements prepared using a special purpose financial reporting

framework, and for those financial statements to be on a public record. The fact of the wider availability of those financial statements to parties other than the intended users does not mean the financial statements would then become general purpose financial statements. The practitioner's statements required to be included in the practitioner's report that they are ~~special purpose~~ financial statements prepared under a special purpose financial reporting framework, and may not, therefore, be suitable for other purposes are needed to draw the attention of readers of the practitioner's report to that fact.

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

A632. The practitioner may consider it appropriate to indicate that the practitioner's report is intended solely for the specified intended users of the financial information. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the practitioner's report.

#### Approval of the Financial Information by Management Completion of the Compilation Engagement and Dating of the Practitioner's Report (Ref: Para. 37(c) and 3940)

A643. The engagement in accordance with this ISRS is not completed until the practitioner has obtained from when management, or those charged with governance as appropriate, has accepted responsibility for for a copy of the compiled financial information- for which they have taken responsibility. The ~~P~~processes that exists within the entity ~~regarding~~for the approval of the financial information by management, or by those charged with governance as appropriate, ~~are~~is a -relevant ~~further~~ considerations for the practitioner when completing the compilation engagement. Depending on the nature and purpose of the financial information, there may be an established approval process that management or those charged with governance are required to follow, or that is prescribed in applicable law and regulation, for the preparation and finalization of financial information or financial statements of the entity.

#### Illustrative Reports (Ref: Para. 3839)

A654. Appendix 2 to this ISRS contains illustrations of practitioners' compilation reports incorporating the required elements of the report.

## Appendix 1

(Ref: Para. A40)

### Illustrative Engagement Letter for a Compilation Engagement

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

This engagement letter illustrates the following circumstances:

- The financial ~~information~~statements ~~is~~are to be compiled for sole use by the management of a company (ABC Company), and use of the financial ~~information~~statements will be restricted to management. Use and distribution of the practitioner's report is also restricted to ~~the directors~~management.
- The compiled financial ~~information~~statements will comprise only the balance sheet of the company as at December 31, 20X1 and the income statement for the year then ended, without notes. Management has determined that the financial ~~information~~statements be prepared on an accruals basis as described.

\*\*\*

To the Management<sup>8</sup> of ABC Company:

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

You have requested that we provide the following services:

On the basis of information that you will provide, we will assist ~~management~~you in the preparation and presentation of the following financial ~~information~~statements for ABC Company: the balance sheet of ABC Company as at December 31, 20X1 and the income statement for the year then ended, on the historical cost basis, reflecting all cash transactions with the addition of trade accounts payable, trade accounts receivable less an allowance for doubtful accounts, inventory accounted for on an average cost basis, current income taxes payable as at the reporting date, and capitalization of significant long-lived assets at historical cost amortized over their estimated useful lives on the straight-line basis. These financial statements will not include explanatory notes, other than a note describing the basis of accounting as set out in this engagement letter.

<sup>8</sup> Throughout this illustrative engagement letter, references to "you," "we," "us," "management," "those charged with governance" and "practitioner" would be used or amended as appropriate in the circumstances.

The purpose for which the financial statements will be used is to provide full-year financial information showing the entity's financial position at the financial reporting date of December 31, 20X1 and financial performance for the year then ended. The financial statements will be solely for your use, and will not be distributed to other parties.

### Our Responsibilities

We will perform the compilation engagement in accordance with ~~the~~ International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*, and comply with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code). ISRS 4410 (Revised) 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 you in the preparation and presentation of financial information. Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you will provide to us for the compilation engagement, or otherwise to gather evidence for the purpose of expressing an audit opinion or a review conclusion. Accordingly, we will not express an audit opinion or a review conclusion on the financial statements.

### Your Responsibilities

The compilation engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to assist you in the preparation and presentation of the financial statements in accordance with the financial reporting framework you have adopted for the financial statements. Accordingly, you have the following overall responsibilities that are fundamental to our undertaking the compilation engagement in accordance with ISRS 4410: responsibility for—

[Amended to mirror ¶24(e)]

- (a) ~~The financial statements and the preparation and presentation thereof that we will compile in accordance with ISRS 4410; specifically the preparation and presentation thereof in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial statements and the intended users; including selection of appropriate accounting policies to be applied in the financial statements; and~~
- (b) ~~The accuracy and completeness of the records, documents, explanations and other information, including significant judgments, needed you provide to us for the purpose of to compile the financial information statements, including the significant judgments needed to develop reasonable accounting estimates required for the financial statements to be in accordance with the applicable financial reporting framework;~~

As part of our compilation of the financial ~~information~~ statements, we may request you and, where appropriate, the directors of ABC Company, for written confirmation of information and explanations conveyed to us orally in connection with the compilation engagement.

## Our Compilation Report

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

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

*[Other relevant information]*

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

XYZ & Co.

Acknowledged and agreed on behalf of the management of ABC Company by

(signed)

.....  
Name and Title

Date

## Appendix 2

(Ref: Para. A654)

### **Illustrative Practitioners' Compilation Reports** [See Agenda Item 2-A, issue #III]

#### *Compilation engagement for general purpose financial statements*

- Illustration 1A: Practitioner's report for an engagement to compile financial statements using a general purpose financial reporting framework.
- Illustration 1B: Circumstances the same as for Illustration 1A; alternative presentation

#### *Compilation engagements for financial statements prepared for a special purpose*

- Illustration 2: Practitioner's report for an engagement to compile financial statements using a modified general purpose financial reporting framework.

#### *Compilation engagements for financial information prepared for a special purpose where use or distribution of the financial information is restricted to the intended users*

- Illustration 3: Practitioner's report for an engagement to compile financial statements using the basis of accounting specified in a contract.
- Illustration 4: Practitioner's report for an engagement to compile financial statements using a basis of accounting selected by the management of an entity for financial information that is required for management's own purposes.
- ~~Illustration 4A: Practitioner's report for an engagement to compile financial statements using a basis of accounting selected by the management of an entity—example of a “shortened” practitioner's report (for the same engagement described for Illustration 4).~~

[Note: this example report does not comply with the reporting requirements in ¶38 of the ISRS]

- Illustration 5: Practitioner's report for an engagement to compile financial information that is an element, account or item, being an entity's liability for “incurred but not reported” claims in an insurance portfolio.

**Illustration 1A: 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]

Based on information you have provided, we have compiled the accompanying financial statements of ABC Company using International Financial Reporting Standards for Small- and Medium-sized Entities (IFRS for SMEs).

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 comprehensive income~~~~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 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]

**Illustration 1B: Circumstances the same as for Illustration 1A; alternative presentation**

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.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*.

We have applied expertise in accounting and financial reporting to assist you in the preparation and presentation of Tthese financial statements are presented in accordance with International Financial Reporting Standards for Small- and Medium-sized Entities (IFRS for SMEs). We have complied with relevant ethical requirements, including ethical principles of integrity, objectivity, professional competence and due care.

Management is responsible for tThese financial statements, including adoption of the applicable financial reporting framework, and for the accuracy and completeness of the information used to compile the financial statementsthem, are your responsibility.

The financial statements comprise the statement of financial position of ABC Company as at December 31, 20X1, and the statement of comprehensive income, 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*. 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.~~

Since Aa 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, 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 ~~does not include~~ gathering evidence for the purpose of expressing an audit opinion or a review conclusion. Accordingly, we do not express an audit opinion or a review conclusion on these financial statements.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

**Illustration 2: Practitioner's report for an engagement to compile financial statements using a modified general purpose financial reporting framework.**

- Financial statements prepared using a ~~modified~~ general purpose financial reporting framework adopted by management on a modified basis.
- The applicable financial reporting framework (described in Note X to the financial statements) is International Financial Reporting Standards for Small- and Medium-sized Entities (IFRS for SMEs) but for the treatment of property, which has been revalued rather than being carried at historical cost.
- Use or distribution of the financial statements is not restricted.

PRACTITIONER'S COMPILATION REPORT

[To Management of ABC Company]

Based on information you have provided, we have compiled the accompanying financial statements of ABC Company using International Financial Reporting Standards for Small- and Medium-sized Entities (IFRS for SMEs) on the basis described in Note X to these financial statements.

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~~comprehensive income, 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 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.

As ~~described~~stated in Note X, the financial statements are prepared applying International Financial Reporting Standards for Small- and Medium-sized Entities (IFRS for SMEs), ~~but for~~excluding the treatment of property, which is revalued in the financial statements rather than being carried at historical cost. The financial statements are prepared, for the purpose described in Note Y ~~of~~to the financial statements. Accordingly, these financial statements may not be suitable for other purposes.

[Practitioner's signature]; [Date of practitioner's report]; [Practitioner's address]

**Illustration 3: Practitioner’s report for an engagement to compile financial statements using the basis of accounting specified in a contract.**

- **Financial statements prepared to comply with the provisions of a contract, applying the basis of accounting specified in the contract.**
- **Use of the financial statements is restricted to the intended users of the financial statements specified in the contract.**
- **Distribution of the practitioner’s report is restricted to the intended users of the financial statements specified in the contract.**

PRACTITIONER’S COMPILATION REPORT

[To the Engaging Party<sup>9</sup>]

Based on information provided by the management of ABC Company (“management”), we have compiled the accompanying financial statements of ABC Company (“the Company”) using on the basis of ~~accounting~~ described in Note X to these financial statements.

These financial statements, and the accuracy and completeness of the information used to compile them, are management’s responsibility.

The financial statements comprise [*name all the elements of the financial statements prepared under the basis of accounting specified in the Contract and the period/-date to which they relate*].

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 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.

As stated in Note X, the financial statements are prepared on ~~applying~~ the basis of ~~accounting~~ described in Clause Z of the provisions of the Company’s contract with XYZ Limited dated [*insert date of the relevant contract/agreement*] (“the Contract”), and for the purpose described in Note Y to the financial statements. Accordingly, these financial statements are intended for use only by the parties specified in the Contract, and may not be suitable for other purposes.

Our compilation report is intended solely for the parties specified in the Contract, and should not be distributed to other parties.

<sup>9</sup> Alternatively, the appropriate addressee specified in the relevant contract.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

**Illustration 4: Practitioner's report for an engagement to compile financial statements using a basis of accounting selected by management of an entity for financial information that is required for management's own purposes.**

- ~~Special purpose financial statements prepared using a special purpose financial reporting framework,~~ intended for use only by the management of a company for management's own purposes.
- The financial statements incorporate certain accruals and include a single note that refers to the basis of accounting used ~~to prepare for~~ the financial statements.
- Use of the financial statements is restricted to management. Distribution of the practitioner's report is restricted to management.

PRACTITIONER'S COMPILATION REPORT

[To Management of ABC Company]

Based on information you have provided, we have compiled the accompanying financial statements of ABC Company ~~using~~ on the basis of ~~accounting~~ described in Note X to these financial statements.

These financial statements, and the accuracy and completeness of the information used to compile them, are your responsibility.

The financial statements comprise the balance sheet of ABC Company as at December 31, 20X1 and an income statement for the year then ended.

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 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.

The financial statements are prepared on the basis of ~~accounting~~ described in Note X ~~to the financial statements~~, and for the purpose described in Note Y to the financial statements. Accordingly these financial statements are for your use only and may not be suitable for other purposes.

Our compilation report is intended solely for your use in your capacity as management of ABC Company, and should not be distributed to other parties.

[Practitioner's signature]; [Date of practitioner's report]; [Practitioner's address]

~~**Illustration 4A [Deleted]: Practitioner's report for an engagement to compile financial statements using a basis of accounting selected by management of an entity – example of a “shortened” practitioner's report for the same engagement described for Illustration 4.**~~

~~[Note: this example report does not comply with the reporting requirements in ¶38 of the ISRS]~~

- ~~• Special purpose financial statements intended for use only by the management of a company for management's own purposes.~~
- ~~• The financial statements incorporate certain accruals and include a single note that refers to the basis of accounting used to prepare the financial statements.~~
- ~~• Use of the financial statements, is restricted to management.~~
- ~~• Distribution of the practitioner's report is restricted to management.~~

~~PRACTITIONER'S COMPILATION REPORT~~

~~[To Management of ABC Company]~~

~~We have compiled the accompanying financial statements based on information you have provided.~~

~~We have complied with ISRS 4410, *Compilation Engagements*, which does not require us to verify the accuracy and completeness of the information.~~

~~[Practitioner's signature]~~

~~[Date of practitioner's report]~~

~~[Practitioner's address]~~

**Illustration 5: Practitioner’s report for an engagement to compile financial information that is an element, account or item, being an entity’s liability for “incurred but not reported” claims in an insurance portfolio.**

- Financial information prepared for a special purpose, i.e., to comply with financial reporting requirements established by a regulator, in accordance with provisions established by the regulator that prescribe the form and content of the financial information.
- The applicable financial reporting framework is a compliance framework.
- The financial information is ~~prepared for a special purpose and is intended to meet the needs of particular users, and~~ Use of the financial information is restricted to those users.
- Distribution of the practitioner’s report is restricted to the intended users.

PRACTITIONER’S COMPILATION REPORT

[To the Management of ABC Company<sup>10</sup>]

Based on information you have provided, we have compiled the accompanying schedule of the liability for “incurred but not reported” claims of ABC Insurance Company as at December 31, 20X1 (“the Schedule”) for the purpose of ABC Insurance Company’s compliance with [*insert description of the applicable financial reporting provisions established by the relevant regulator*].

This Schedule, and the accuracy and completeness of the information used to compile ~~them~~, areis your responsibility.

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 preparation and presentation of the Schedule in the form prescribed. 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 the Schedule, 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 the Schedule.

The Schedule is prepared on the basis of [*insert reference to the applicable financial reporting provisions established by the relevant regulator*], for the purpose described in Note 1 to the Schedule. Accordingly, the Schedule is for use only in connection with that purpose and may not be suitable for any other purpose.

Our compilation report is intended solely for the use of ABC Insurance Company and Regulator F, and should not be distributed to parties other than ABC Insurance Company or Regulator F.

<sup>10</sup> Alternatively, the appropriate addressee specified in the applicable financial reporting requirements.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]