

Engagements to Compile Financial Information—Issues and IAASB Task Force Proposals**I. Objective**

1. The objective of this Paper is to consider significant issues to be addressed in the revision of ISRE 4410 for engagements to compile financial information.

II. Background**June IAASB Meeting**

2. At its meeting in June 2009, the IAASB agreed that developing a revised standard on compilation of financial information is a priority.
3. The IAASB also agreed that the revised standard should:
 - Be developed in tandem with the development of a revised standard on reviews of financial statements.
 - Clearly distinguish an engagement to compile financial information from an assurance engagement.
 - Clarify the objective of a compilation of financial information (and the practitioner's objective to be achieved in undertaking a compilation).
 - Apply to compilation of financial information broadly, including financial statements prepared under all kinds of financial reporting frameworks (including fair presentation or compliance frameworks).
 - Address common aspects of performance of reviews and compilations on a consistent basis, as appropriate in the context of each type of service.
 - Guide practitioners in meeting the overarching ethical requirement set out in the IFAC *Code of Ethics for Professional Accountants* (IFAC Code),¹ that a practitioner may not be knowingly associated with information that is materially false or misleading.
4. The IAASB also agreed that the Task Force should consider communications to promote practitioner and user awareness about compilations as services for entities that are exempt from an audit, including use of compilations in combinations of services designed to meet a variety of user needs. This aspect of the project is not discussed in this Paper.

¹ The revised version of the IFAC Code was issued in July 2009 and is effective from 1 January 2011.

Inputs to this Paper

5. The Task Force has drawn on a wide range of sources of information and inputs to identify and develop the issues identified in this Paper. A list of primary sources used is given in Appendix 1.

III. Significant Issues

Nature and Scope of Service(s) Practitioners Provide in Engagements to Compile Financial Information

Scope of the Revised Standard

6. ISRS 4410, paragraph 3, describes a compilation as use of “accounting expertise, as opposed to auditing expertise, to collect, classify and summarize financial information.” It further explains, “...this ordinarily entails reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information.”
7. The IAASB *Glossary of Terms*² (“the Glossary”) refers to the term “compilation” only in the context of the definition of “related services” referred to in the *International Framework for Assurance Services* (“the Assurance Framework”).³ The term compilation is not defined either in the Glossary or in the extant engagement standard.
8. The Task Force believes that, in line with the scope of the extant standard, the revised standard should be addressed to “financial information.” While professional accountants may be involved in compiling other subject matter information, including non-financial information, the expertise of professional accountants in public practice is directed primarily to activities that involve financial information.
9. The term “financial information” is not defined in the Glossary or in other IAASB pronouncements. The Task Force considered whether the term should be defined, and came to the preliminary view that the ordinary meaning of the words is sufficient; a definition may not be needed. The meaning ascribed to “financial information” in the revised standard should extend to all types of financial information that a professional accountant in public practice might undertake to compile for a client. An attempt to define the term might unnecessarily restrict the application of the standard.
10. Notwithstanding that the revised standard will be written in the context of financial information, the Task Force recognizes that the principles applied to compile financial information are also appropriate for compilation of non-financial information, and proposes the following language be included in the standard:

This ISRS is written in the context of a compilation of financial information. It is to be adapted as necessary in the circumstances when applied to the compilation of other information.

² IAASB *Glossary of Terms* (February 2009).

³ *Related services*—Comprise agreed-upon procedures and compilations.

What Circumstances and Activities Comprise an Engagement by a Professional Accountant to Compile Financial Information?

11. The activity of “compiling” financial information may involve:

- Preparing financial information from original source documents;
- Preparing a set of financial statements from a general ledger or a trial balance; or
- Reading⁴ a set of financial statements prepared the management of an entity (with the requisite level of “understanding”), and proposing corrections or adjustments if necessary,

for the purpose of issuing a compilation report on the financial information.

The Definition of a Compilation Engagement – A Service Provided by a Professional Accountant in Public Practice

12. The Task Force believes the revised standard should establish requirements and guidance for the performance of compilations by professional accountants in public practice, as opposed to professional accountants employed or engaged by the entity to perform accounting services.

13. The definition of “compilation engagement” that the Task Force proposes for the Board’s consideration is as follows:

An engagement undertaken by a professional accountant in public practice⁵ to (as applicable in the circumstances of an engagement) collect, classify, prepare or present financial information in accordance with criteria⁶ determined by the

⁴ Extant ISRS 4410 (paragraph 14) includes a requirement that “the accountant should read the compiled financial information and consider whether it appears to be appropriate in form and free from obvious material misstatements.”

⁵ IFAC Code: “*Professional accountant in public practice*—A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a *firm* of professional accountants in public practice.” As defined in the ISAs and in International Standard on Quality Control (ISQC) 1: “*Firm*—A sole practitioner, partnership or corporation or other entity of professional accountants.”

⁶ AASB *Glossary of Terms*: “*Criteria*—The benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Criteria can be formal or less formal. There can be different criteria for the same subject matter. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment. *Suitable criteria* – Exhibit the following characteristics: (a) Relevance: relevant criteria contribute to conclusions that assist decision making by the intended users, (b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure, (c) Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners, (d) Neutrality: neutral criteria contribute to conclusions that are free from bias, and (e) Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.” The term “subject matter information” is not defined in the Glossary of Terms but in

party who engages the professional accountant (“the engaging party”), and to read such financial information.

The Glossary

14. The terms “professional accountant in public practice,” “criteria,” “management” and “those charged with governance,” “financial statements” and “applicable financial reporting framework” have defined meanings, either under the IFAC Code or the International Standards on Auditing (ISAs) as reflected in the Glossary. The Glossary sits outside the ISAs; therefore, the Task Force believes that the terms are applicable in the context of a compilation engagement.
15. Accordingly, the Task Force recommends:
 - Using the definitions as they are written in the Glossary, whenever possible.
 - Proposing revisions to a definition when a slight change in the definition might make it equally applicable to compilations.⁷
 - Creating new definitions for the revised standard only when it is necessary for the revised standard. In these cases, the Task Force recommends avoiding defining previously defined terms differently for assurance and non-assurance standards.

Matters for IAASB Consideration

- Q1. Does the IAASB agree that the revised standard should be written in the context of “financial information” (paragraph 8)?
- Q2. Does the IAASB agree that the term “financial information” need not be defined for purposes of the revised standard, but can rather best be explained in the application guidance in the context of the ordinary meaning of those words (paragraph 9)?
- Q3. Does the IAASB concur that the activity in a compilation engagement may in some cases simply comprise “reading, and proposing corrections or adjustments, if necessary, to a set of financial statements that has been prepared by management” (paragraph 11)?
- Q4. Does the IAASB agree that the term “compilation engagement” should be defined in the revised standard?
- Q5. Does the IAASB agree with the proposed definition of “compilation engagement” for the purpose of the revised standard (paragraph 13)?
- Q6. Does the IAASB agree that, as far as possible, existing definitions of terms contained in the Glossary should also be applicable in the context of the revised standard for compilation engagements (and existing definitions should be changed if necessary to avoid the need to create new definitions, which could possibly create confusion) (paragraphs 14-15)?

the context of the revised standard on compilation engagements it would be described as “financial information.”

⁷ For example, the definition of “Intended users” might be modified as follows (changes in mark-up): “The person, persons or class of persons for whom the practitioner’s ~~prepares the assurance report~~ prepares the assurance report is prepared....”

Q7. Alternatively, does the IAASB consider that the idea of the revised standard being “stand-alone” should extend to the standard having its own set of definitions that are applicable to compilation engagements?

Distinguishing Compilation Engagements from Assurance Engagements

16. The Assurance Framework,⁸ (paragraph 12) notes that the compilation engagement is not an assurance engagement. The report issued by a practitioner for a compilation engagement expressly states that the practitioner does not express any assurance on the compiled financial information.
17. The non-assurance nature of the compilation engagement rests on the fact that the practitioner performing the engagement is not required to gather evidence to support expression of a conclusion or opinion on the financial information.
18. Despite the practitioner’s explicit statement in the engagement letter and report that the compilation does not constitute an assurance engagement⁹ and other communication requirements in the extant standard, users may still derive comfort from the practitioner’s involvement in the compilation of financial information.¹⁰
19. Indeed, it is the Task Force’s view that the knowledge, expertise and professionalism that the practitioner applies in performing a compilation engagement represents the value added for users of financial information compiled by a professional accountant. .
20. The Task Force believes that the non-assurance nature of the compilation engagement is best addressed in both the revised standard and in the practitioner’s report.

Matters for IAASB Consideration

- Q8. Does the IAASB agree that the revised standard should expressly convey that the compilation service does not constitute an assurance engagement, even though users may themselves take comfort from the practitioner’s involvement?
- Q9. Does the IAASB agree that the report issued for a compilation engagement should continue to expressly state that the practitioner, having performed the compilation, does not express any assurance opinion or conclusion on the compiled information? Are further steps needed to supplement that statement in the report, to reinforce this message for users?

⁸ International Framework for Assurance Engagements.

⁹ ISRS 4410, paragraph 3 states, “The procedures employed are not designed and do not enable the accountant to express any assurance on the financial information. However, users of the compiled financial information derive some benefit as a result of the accountant’s involvement because the service has been performed with professional competence and due care.”

¹⁰ For example, ISRS 4410 (paragraph 19) requires the compiled financial information to contain a reference such as “Unaudited,” “Compiled without Audit or Review” or “Refer to Compilation Report” on each page of the financial information or on the front of the complete set of financial statements.

Independence and Compilation of Financial Information

21. The broad question of compliance with the fundamental ethical principles contained in the IFAC Code is addressed in paragraphs 33-34 of this Paper.¹¹
22. Independence is currently not a requirement for a compilation engagement.¹² The extant Standard states:
 - (a) “Independence is not required for a compilation engagement. However where the accountant is not independent, a statement to that effect would be made in the accountant’s report” (guidance, paragraph 5); and
 - (b) When relevant the report on a compilation engagement should contain a statement that the accountant is not independent of the entity (requirement, paragraph 18(d)).
23. The reporting requirement addresses the possibility that users of compiled financial information may assume the practitioner is independent because he or she is a professional accountant (regardless that practitioners are not required to be independent to provide compilation services). Through the disclosure requirement, users are “put on notice” if the practitioner is not independent when providing the compilation service. However, there is no guidance in the IFAC Code about how the practitioner’s independence could be maintained in a compilation engagement.
24. The IFAC Code requires independence only in the context of assurance engagements, and explains how independence must be maintained in that context (paragraph 280.2, supplemented by sections 290 and 291 of the IFAC Code). However the fundamental ethical principle of objectivity is required of all professional accountants. For the professional accountant in public practice, the practitioner’s objectivity must be maintained for all the practitioner’s professional services.¹³
25. The Task Force believes the underlying rationale for the current reporting requirement is sound. However, without guidance in the IFAC Code for practitioners to be able to assess whether they are independent in the context of a compilation engagement, the requirement is likely to be applied inconsistently by practitioners.¹⁴ Furthermore, without clarifying to the user what it means to “not” be independent, the user may react negatively to this statement. Accordingly, the Task Force does not support its continued inclusion in the revised standard.
26. The Task Force recommends the following approach in the revised standard:

¹¹ See Appendix 2 for extracts from the IFAC Code of particular relevance to compilation engagements.

¹² The Task Force recognizes that some jurisdictions require the professional accountant in public practice to be independent for compilation and other non-assurance engagements; however, in those cases, independence may not be applied in the same way as it is applied in assurance engagements.

¹³ Unequivocally, if the professional accountant’s objectivity is impaired in a significant respect and that circumstance cannot be mitigated by application of appropriate safeguards, the practitioner must withdraw from the engagement and not undertake the services where the practitioner’s objectivity is impaired.

¹⁴ Some commentators believe this requirement may not be consistently followed in practice.

- (a) Both the revised standard and the practitioner’s report should contain a factual statement that the “practitioner performing a compilation is not required to be independent.” This serves the purpose of putting a user “on notice” that the practitioner is not required to be independent, and therefore, may not be independent. This would replace the guidance and reporting requirement in the extant standard (see paragraph 23 above). The Task Force acknowledges that the statement in the report would raise a question in the users’ minds about whether the practitioner is independent; however, the question cannot be answered under the current IFAC Code.
- (b) The IESBA should be asked to clarify what objectivity and independence mean in a compilation engagement (and also in other non-assurance engagements where independence is relevant, for example agreed-upon procedures). If this were accomplished, the practitioner would then be able to indicate in the report whether he or she was independent. The primary reason is to meet the expectations of users who may assume that the professional accountant providing the services is “independent.”

The Task Force is not proposing that independence be made a requirement for compilations – only that it be described in the context of a compilation.

27. The Task Force believes the following questions needs to be addressed:

- (a) How does a practitioner apply the concept of objectivity in relation to an entity for which the practitioner is compiling financial information (or other types of subject matter information)?
- (b) How does the concept of independence apply in a compilation engagement?
- (c) If independence is not required to perform a compilation of financial information (and some Task Force members believe there are sound public policy reasons why it should not be required), does the IESBA agree that it is nevertheless important to establish how a practitioner’s independence is assessed in such engagements, so practitioners can inform users whether they are independent when performing the compilation engagement?

This presumes recognition of a public interest rationale for the need to clarify this point for users’ benefit. For example, because users may have a valid expectation that the professional accountant in public practice is independent when performing the engagement. Though independence may not be a requirement, it is not in the public interest for users to be inadvertently misled on that point. Bankers have been cited as users who are interested in whether the professional accountant compiling financial statements or other financial information is independent.

Matters for IAASB Consideration

- Q10. Does the IAASB agree that the questions of what the concepts of “objectivity” and “independence” mean in a compilation engagement, and how practitioners should assess whether they are objective or independent when performing those engagements (notwithstanding that a compilation is not an assurance engagement) should be addressed in the IFAC Code? Does the IAASB agree that these questions should be referred to the IESBA for consideration?
- Q11. Does the IAASB agree with the Task Force’s view (explained in paragraphs 23, 25 and 26(a)) that, although a practitioner performing a compilation engagement is not required to be independent, users of the financial information may assume the practitioner is independent, and therefore should be informed that the practitioner is not required to be independent?
- Q12. Are the public interest reasons explained in paragraph 23 and paragraph 27(c) important to address in the revised standard? If so, how does the Board consider they can best be addressed?
- Q13. Does the IAASB consider that the Task Force’s suggested approach to disclosure set out in paragraph 26(a) adequately serves the intended aim of informing users about the practitioner’s independence in a compilation engagement?

Practitioner Association

28. The Assurance Framework (paragraph 61) states the following (in connection with an assurance engagement):

A practitioner is associated with a subject matter when the practitioner reports on information about that subject matter or consents to the use of the practitioner’s name in a professional connection with that subject matter. If the practitioner is not associated in this manner, third parties can assume no responsibility of the practitioner.

29. The Glossary explains the meaning of the words “Auditor association with financial information” as follows:

An auditor is associated with financial information when the auditor attaches as report to that information or consents to the use of the auditor’s name in a professional connection.

30. The Task Force believes the practitioner should be required to issue a compilation report in accordance with this standard in cases where the practitioner is engaged to compile the financial statements, or is otherwise associated with the financial information. However, the Task Force has not reached consensus on what it means to be associated with the financial information.
31. The question arises when the practitioner undertakes accounting services (and so does not view the engagement as a compilation engagement), then furnishes a set of financial statements to the client in a manner that signals to any user or reader that the practitioner’s

name or firm name is associated with the information. Some on the Task Force believe that printing the financial statements on the practitioner's letterhead or providing the financial statements in a binder with the practitioner's logo on it would mean the practitioner is associated with the financial statements, and would thus require a report in accordance with the revised standard. Others believe that this happens in current practice, and the provision of the financial statements in a marked binder, for example, is merely a branding or marketing technique, and does not necessarily associate the practitioner with the financial statements.

Matters for IAASB Consideration

- Q14. Does the IAASB agree with the Task Force's view that a practitioner becomes associated with financial information that the practitioner has had some involvement with, e.g., in relation to its preparation or presentation, in the circumstance described in paragraph 31? What does it mean to be associated with financial information in the context of a compilation?
- Q15. Is the question of addressing a practitioner's association with financial information the practitioner has had an involvement with, as discussed in paragraphs 30-31, a matter that should be addressed in the revised Standard? Is a requirement that reflects the Task Force's view in paragraph 30 appropriate?

Pre-Conditions for Accepting a Compilation Engagement

32. The Task Force believes that a revised standard should clearly establish the premises upon which an engagement to compile financial information is performed. This is important for proper understanding of the nature of the engagement and the respective responsibilities of the parties to the engagement.

Premises About Ethical Matters Underlying Engagements to Compile Financial Information

33. The Task Force views it as a premise¹⁵ that the practitioner will, in undertaking the engagement, be able to comply with the fundamental principles contained in the IFAC Code. This premise should be clearly established as a pre-condition for an engagement to compile financial information. If the pre-condition is not satisfied, the practitioner must not undertake the engagement.
34. As a matter of complying with the IFAC Code (or other relevant ethical requirements), the Task Force considers that the fundamental principle of professional competence and due care is important in a compilation engagement.¹⁶ The practitioner must approach the engagement with:
- (a) An adequate level of "understanding" of the entity, its industry and environment (see further discussion at paragraphs 45-54); and

¹⁵ The Task Force considered the relevance of concepts described in the Assurance Framework for compilation of financial information (paragraph 17).

¹⁶ See Appendix 2, extracts from the IFAC Code: Section 130 "Professional Competence and Due Care."

- (b) Sufficient understanding of the basis of accounting or applicable accounting framework that is to be applied to compile the financial information under the agreed terms of engagement.

Responsibilities of the Engaging Party/Responsible Party

35. The proposed definition of a compilation engagement set out in paragraph 13 includes reference to the terms of the engagement with the *engaging party*.
36. The parties to a compilation engagement include:
- The engaging party who engages the practitioner to compile the financial information.
 - The party responsible for the criteria applied in the compiled financial information.
 - The party responsible for the subject matter reflected in the financial information.
 - The party responsible for the financial information.
 - The practitioner who compiles the financial information.
 - The intended users of the compiled financial information.

In all cases the management of the entity, or those charged with governance, as appropriate, is responsible for the subject matter and the subject matter information, although management may outsource the activity of compiling the subject matter information to the practitioner. In many cases management is also the engaging party and the party responsible for the criteria. Management also may or may not be the intended user (or one of the intended users). However, in some circumstances, the engaging party may be other than management or those charged with governance of the entity. Usually, in such cases, the engaging party is also the intended user and is responsible for selecting the criteria that meets their needs.

37. The compilation of the information is performed using information, explanations and other information and inputs provided to the practitioner by management of the entity.
38. The criteria specified for the compilation engagement are established in the terms of engagement. As a pre-condition for accepting the engagement, the practitioner must consider whether the criteria are appropriate in view of the other engagement terms (i.e., type of information; intended use of the information). However specification of appropriate criteria remains the responsibility of the responsible party (or the engaging party where different), and the practitioner may assume the criteria are appropriate unless there is indication the contrary.
39. The Task Force considers that criteria are appropriate if they are:
- (a) *Suitable*, in the sense of achieving reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment; and
- (b) *Available* to the intended users, in the sense of being visible or transparent to users.¹⁷

¹⁷ Similarly the Assurance Framework (paragraph 17(b)(ii)) states that in an assurance engagement the criteria applied to the subject matter of the assurance engagement must be suitable and available to the intended users.

There are different ways that criteria may be available to users, for example: publicly or otherwise by general understanding; or through inclusion in a clear manner in the presentation of the financial information.

Criteria used in a compilation of financial information may be available only to the specific intended users of the information, such as under the terms of a private contract, or when the criteria are relevant only to a specific purpose (for example in the context of requirements, regulation or other arrangements that apply only to a specific industry).

Matters for IAASB Consideration

Q16. Does the IAASB agree there are pre-conditions for undertaking an engagement to compile financial information, and that the pre-conditions are those described in paragraphs 33 and 38? Does the IAASB consider that the pre-conditions should be specified as requirements in a revised standard together with appropriate application guidance?

Q17. Does the IAASB agree that if the pre-conditions are not met, or are unlikely to be satisfied in a particular engagement, the practitioner should not undertake the engagement?

40. If the IAASB agrees with the Task Force's views on the aspects of compilation engagements described in paragraphs 6 – 39 above, then further questions that arise are:

- (a) What is the objective of the practitioner in an engagement to compile financial information?
- (b) What extent of “understanding” of an entity, its industry and its environment is required to compile financial information of the entity?
- (c) How should a practitioner address incorrect or incomplete information when performing a compilation engagement?
- (d) Addressing observed inconsistencies in the compiled financial information, and the practitioner's obligation to avoid associated with information that is materially false or misleading?
- (e) What is the purpose of the practitioner's report issued for compiled financial information? In what circumstances, if any, would the practitioner not issue a report?
- (f) What quality control procedures are needed for engagements to compile financial information?

The remainder of this Paper addresses the matters listed above.

The Framework provides interpretation of the terms “suitable” and “available,” which the Task Force believes is equally relevant to a compilation engagement.

What is the Objective of the Practitioner in an Engagement to Compile Financial Information?

41. ISRS 4410, paragraph 3 states:

The objective of a compilation engagement is for the accountant to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarize financial information.

42. The Task Force believes that the objective in a revised standard should refer to:

- (a) terms that define the service performed, i.e., “compilation engagement” (refer to paragraph 13), and
- (b) provision of a report by the practitioner to accompany the compiled financial information.

43. The inclusion of issuance of a report within the statement of objective has two main effects:

- (a) All engagements to compile financial information involve provision of a report by the practitioner as part of the engagement.
- (b) Compiled financial information is accompanied by the practitioner’s report that explains the nature and limitations of the work performed by the practitioner.

The Task Force considers that the matters set out in 43(a) and (b) are important to clearly describe to users the extent of a practitioner’s association with compiled financial information, and specifically the nature of the practitioner’s involvement with the information. Further, provision of a report to accompany the financial information helps to minimize the risk of wrongful association of a practitioner with information the practitioner has not compiled, which would not be in the public interest. (Despite an entity’s representations regarding a practitioner’s involvement with financial information, users should not be entitled to assume that a practitioner is associated with financial information if there is no accompanying practitioner’s report.) The purpose of issuing a report for the compilation engagement, and associated benefits that serve the public interest, are discussed further in paragraphs 71-79.

44. If the Board agrees with the Task Force’s explanation in paragraphs 42-43, then the suggested statement of the objective to be achieved in an engagement to compile financial information is as follows:

The overall objectives of a practitioner when compiling financial information are:

- (i) To perform the compilation engagement in accordance with the terms of the engagement, and
- (ii) To provide a report to accompany the financial information compiled.

In this formulation of the objective the term “compilation engagement” indicates a defined professional service with reference to financial information subject matter information.

Matters for IAASB Consideration

- Q18. Does the IAASB agree with the approach to formulating the objective to be achieved in a compilation of financial information explained in paragraphs 42-43?
- Q19. Does the IAASB agree with the suggested statement of the practitioner’s objective set out in paragraph 44?

What Extent of Understanding¹⁸ of an Entity, Its Operations and Its Environment is Required to Compile Financial Information of the Entity?

45. The practitioner compiling financial information has the ethical obligation to undertake the engagement with professional competence and due care.
46. That obligation implies having some level of understanding of the entity, its operations and its environment to be able to perform the engagement with reasonable professional competence and due care.
47. The Task Force considered the question of how extensive the practitioner’s understanding needs to be, noting that extant ISRS 4410 (paragraph 11) requires the following:
- The accountant should obtain a general knowledge of the business and operations of the entity and should be familiar with the accounting principles and practices of the industry in which the entity operates and with the form and content of the financial information that is appropriate in the circumstances.
48. It is useful to consider some different scenarios, for example:
- (a) Compilation of financial information to support tax compliance work undertaken for a client.
 - (b) Compilation of financial statements for a small club, prepared on the cash basis of accounting.
 - (c) Compilation of historical financial statements for an entity prepared in accordance with a general purpose financial reporting framework, such as International Financial Reporting Standards, for statutory annual financial reporting purposes.
49. The level of understanding needed will vary depending on the terms of the engagement and the engagement circumstances, but it should always be sufficient to provide a basis for the practitioner to meet the obligation in paragraph 45.
50. Some commentators express the view that the practitioner’s level of understanding of the entity and its environment should be at the same level needed to perform an audit. The underlying rationale is linked to the practitioner’s ability to exercise competence and due

¹⁸ The Task Force has not reached consensus about an appropriate term to describe the level of understanding a practitioner performing a compilation needs to have for the purpose of the compilation. The terms “understanding” and “general knowledge” appear in various places in the Paper. The decision about what is the appropriate word depends on the outcome of the IAASB’s discussion of Questions 20 and 21 in this Paper.

care for purposes of forming professional judgments in relation to the compilation, albeit there is no need to obtain any targeted level of assurance.

51. Since there is a wide range of possible contexts for compilation of financial information, use of a principles-based approach is preferable when setting requirements. The requirement should be formulated with the objective to be achieved in mind, which is to obtain sufficient understanding of the entity, its business and its environment to be able to perform the compilation with competence and due care, and in accordance with the terms of the engagement.
52. The Task Force proposes that the revised standard should not establish requirements any more detailed than is set out in paragraph 51. However, it envisages the need for appropriate application guidance to explain how the requirement can be met in different situations.
53. For example, in a compilation of financial information for statutory financial reporting purposes that specifies use of a particular financial reporting framework suited to general purpose financial reporting, the practitioner should be sufficiently knowledgeable of the client entity's business, operations and other aspects of its environment to be able to compile financial statements in accordance with the applicable financial reporting framework. The level of knowledge and understanding needed to be able to carry out that compilation is clearly more extensive than would be needed to compile financial statements for a small entity that requires financial information prepared on the cash basis of accounting.
54. Application guidance supporting the requirement may, for example, include coverage of the areas of knowledge and understanding in relation to the entity (as applicable in the engagement circumstances) as set out below:

The industry in which the entity operates

- Understanding of the industry, including the accounting principles and practices generally used in the industry, and how the practitioner might acquire that understanding.

Knowledge about the entity

- Understanding of the entity and its business operations, including a general understanding of its organization, its operating characteristics, and the nature of its assets, liabilities, revenues, and expenses, and how the practitioner may acquire that understanding.
- Understanding of the accounting principles and practices used by the entity, including as applied to measure, recognize, record, and disclose all significant accounts and disclosures in its financial statements. The practitioner's understanding may also include matters such as changes in accounting practices and principles and differences in the entity's business model as compared to normal practices within the industry. The practitioner's understanding should extend to being alert to unusual accounting policies and procedures used by the entity that come to the practitioner's attention as a result of his or her knowledge of the industry.

Matters for IAASB Consideration

- Q20. Does the IAASB agree with the Task Force’s recommended approach in paragraphs 49-54?
- Q21. Alternatively, does the IAASB believe the revised standard should contain a requirement for the practitioner to obtain a level of knowledge or understanding that is the same as that required for an audit? Or other type of assurance engagement?
- Q22. If the IAASB agrees with the Task Force’s recommended approach, does it consider that further explanation about the level of knowledge and understanding the practitioner would need in different situations, in related application guidance would be appropriate?

How Should a Practitioner Address Incorrect or Incomplete Information When Performing a Compilation Engagement?

55. Extant ISRS 4410 (paragraph 13) states the general principle that “the accountant is not ordinarily required to make any inquiries of management to assess the reliability and completeness of the information provided [by management to the practitioner for purposes of the engagement].”
56. This principle is qualified by the need to undertake further work “if the accountant becomes aware that information supplied by management is incorrect, incomplete or otherwise unsatisfactory” (paragraph 14), specifically by seeking further information from management/those charged with governance.
57. The Task Force agrees with the general principle contained in the extant standard. It considers that the requirements of a revised standard should include a requirement for the practitioner to withdraw from the engagement, when permitted by law or regulation, in the event that management or those charged with governance of the entity, as appropriate, either cannot or will not provide the additional or corrected information or explanations to enable completion of the engagement. The Task Force is of the view that guidance on addressing such circumstances is best dealt with in application material, including examples of procedures the practitioner may view as necessary applying professional judgment, in the specific circumstances encountered in particular engagements.

Matters for IAASB Consideration

- Q23. Does the IAASB agree with the Task Force’s recommended approach in paragraph 57? Alternatively does the IAASB consider that the situation of how to address incomplete or inaccurate information provided by management for compilation of the financial information needs to be addressed in requirements?

Addressing Observed Inconsistencies in the Compiled Financial Information and the Practitioner’s Obligation to Avoid Association with Materially False or Misleading Information

58. Extant ISRS 4410 (paragraph 15) requires the practitioner to “read the compiled information and consider whether it appears appropriate in form and free from *obvious* material misstatements” (emphasis added).
59. The Task Force has considered the following questions:
 - (a) What can reasonably be expected of a practitioner in a compilation engagement to observe inconsistencies that might exist in the compiled financial information?
 - (b) How should the practitioner respond when inconsistencies are observed (for example when other information contradicts information reflected in the compiled financial information)?
 - (c) Should the practitioner’s response be influenced by any assessment by the practitioner of the significance (or materiality) of the inconsistency?
60. The Task Force believes that the extant requirement to read the financial information is sufficient to enable a practitioner, with a sufficient understanding, to “stumble across” obvious material inconsistencies, if they are present. The Task Force further believes that this is sufficient to meet the practitioner’s ethical obligation not to be associated with information that is “materially false or misleading.”
61. The Task Force believes that the concept “misstatement” used in the extant standard should be replaced with the concept “materially false or misleading information”. This change is to avoid the impression that the practitioner has obligations regarding misstatements similar to those in an audit. The IFAC Code makes it clear that the practitioner’s obligation¹⁹ is not to be knowingly associated with information “where the professional accountant believes that the information contains a materially false or misleading statement.
62. If the practitioner observes material inconsistencies, either
 - (a) The information provided by management is incorrect, incomplete or otherwise unsatisfactory;
 - (b) The criteria are not described appropriately; or
 - (c) The compilation has been performed incorrectly.
63. In the first case, the practitioner should withdraw from the engagement (if permitted by law or regulation) if management or those charged with governance of the entity, as appropriate, either cannot or will not provide the additional or corrected information or explanations to enable completion of the engagement (see paragraph 57).

¹⁹ IFAC Code, paragraph 110.2 “A professional accountant shall 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.

64. In the second case, if the criteria are not described appropriately, the practitioner should take steps, in discussion with the management or those charged with governance of the entity, as appropriate, to amend the description of the criteria to resolve those inconsistencies.
65. When amending the description of the criteria, the practitioner should consider whether the newly described criteria continue to be suitable and available (understandable) to intended users. Such consideration may take into account the materiality and pervasiveness of modifications to an otherwise well established financial reporting framework e.g., the financial reporting framework issued by the International Accounting Standards Board.
66. In the third case, as it is the practitioner who is performing the compilation, he or she is in a position to correct the financial information such that the inconsistencies are resolved.
67. If management or those charged with governance refuse to make appropriate amendments (or allow the practitioner to make appropriate amendments) to the financial information or the description of the criteria, then the practitioner should be required to withdraw from the engagement when permitted by law or regulation to avoid association with information or statements that are materially false or misleading. The Task Force does not believe it is appropriate to issue a modified report on the compiled financial information.
68. This is an area of significant professional judgment. Proper documentation of such matters will be an important aspect of engagement quality control. There will need to be application guidance to assist practitioners in this area, including guidance and explanatory material on assessing whether an observed material inconsistency is or has the potential to be materially false or misleading to the intended users of the information.

Matters for the IAASB's Consideration

- Q24. Does the IAASB agree with the Task Force's perspective on what can reasonably be expected of the practitioner to be in a position to observe material inconsistencies that might exist in the compiled financial information (paragraph 60)?
- Q25. Does the IAASB agree with the Task Force's view that the word "misstatement" should not be used in the revised standard, and should instead be replaced by a reference to "materially false or misleading information" as explained in paragraph 61?
- Q26. Does the IAASB concur with the view of the Task Force that the approach to addressing observed inconsistencies should be driven primarily by requirements that are linked to meeting the practitioner's obligations set out in the IFAC Code regarding association with information that is, or has the potential to be materially false or misleading?
- Q27. If the IAASB concurs with the view under Question 26, does it support inclusion of a requirement in the revised standard to withdraw from an engagement if management of the entity/those charged with governance refuse amendment of the compiled financial information? Does the IAASB agree also that modification of the report provided on compiled financial information is not an option in a compilation engagement?

Financial Information that is Compiled for a Special Purpose and that is for Restricted Use

69. A practitioner may be required to compile financial information for a special purpose for used by specified intended users, for example under the provisions of a contract or agreement. In those circumstances, the basis of accounting or applicable financial reporting framework used to compile the information could be a financial reporting framework with a number of modifications agreed between the contracting parties.
70. In this circumstance, the practitioner should consider whether the criteria are suitable and available (understandable). Such consideration may take into account the materiality and pervasiveness of modifications to an established financial reporting framework. If the criteria are not suitable and available to general users, the compiled financial information should be restricted to use by or distribution to the specified intended users. The fact of the restricted-use nature of the compiled information should be addressed in both the engagement letter and the practitioner's report.

Matters for IAASB Consideration

- Q28. Does the IAASB agree with the Task Force's view in paragraph 70?
- Q29. Does the IAASB believe that there are other circumstances not addressed by the Task Force in this Issues Paper that should be addressed in the revised standard to address the need to properly guide practitioners undertaking compilation of financial information to avoid association with financial information that may be, or has the potential to be materially false or misleading?

Reporting Considerations: What is the Purpose of the Practitioner's Report Issues for Compiled Financial Information

71. Extant ISRS 4410 (paragraph 7) requires issuance of a report for a compilation engagement "when an accountant's name is associated with financial information compiled by the accountant."
72. The Task Force believes the main purpose of the report issued for compiled financial information is to convey the nature and scope of the practitioner's involvement in the engagement by describing the work undertaken in the engagement and also its limitations.
73. The report serves this purpose in respect of any and all parties who may obtain the information, whether external or internal to the entity, including parties who may not be the intended users of the information.
74. Issuance of a report addresses the following particular risks associated with compilations:
 - (a) That the intended user(s) of the information may not understand, or misunderstand, the nature, scope and basis of the members' involvement with that information.
 - (b) That a practitioner's name may be wrongfully associated with compiled financial information, or in a manner that is misleading to users.

While these risks are especially important to address when the compiled financial information will be used by external users, the Task Force recognizes that similar risks

exist also in the situation when the use of the compiled financial information under the agreed terms of engagement is for internal management purposes only.

75. The Task Force believes that issuance of a report should be included in the statement of the objective of a compilation in the revised standard. By doing this the structure of the revised standard can also clearly distinguish between the two following common situations:
- (a) A practitioner provides accounting services (e.g., book keeping services) to any entity without being associated with the resulting accounting information or outputs produced.
 - (b) A practitioner is engaged to compile and report on financial information.
76. In the situation in 75(b) the need to fully communicate with users about the practitioner's involvement is critical from the perspective of a practitioner's association with the information. In the situation in 75(a) that is not the case, with the important proviso that the practitioner must not then actually be associated with the information. For clarity, when in a situation contemplated in paragraph 75(a), the practitioner cannot avoid association with the information, or does not take necessary steps to avoid being associated with the information, then the practitioner should be required to issue a report (in line with the requirement in the extant standard).
77. The Task Force believes the revised Standard will need to address that issue in application guidance material in the context of paragraph 75(a). Provision of examples is also anticipated to assist with clarification of situations where only provision of accounting services is involved (and not compilation of financial information).
78. In some limited situations, issuance of a report would serve no meaningful purpose. This could be the case, for example, when the financial information is compiled in the form of a return of information required to be made in a prescribed format, such as in the case of an income tax return. The Task Force believes that these situations manifest in different ways in different country situations, and that those situations can best be addressed in general in application guidance.
79. The Task Force also considered the situation where a practitioner may compile information that is intended to subsequently be audited by another practitioner (auditor). It believes that in this situation a report on the compiled financial information may not be necessary because the auditor is not relying on the financial information, and will be subjecting it to auditing procedures.
80. In particular the intended use of the financial information needs to be clear in the practitioner's engagement terms, and the practitioner should also take appropriate steps to avoid association with the compiled information when a report is not to be issued.

Matters for IAASB Consideration

- Q30. Does the IAASB agree that issuance of a report on compiled financial information should be required in all situations when the practitioner is *engaged to compile* financial information?
- Q31. Does the IAASB agree that the requirement of the extant standard should be retained regarding the need for a report whenever the practitioner is associated with financial information? That is, even when the practitioner is *not engaged to compile* financial information, but is associated with financial information that the practitioner has had an involvement with (through its preparation or otherwise) as explained in paragraphs 75-76?
- Q32. Where the practitioner is involved in preparation of financial information that is to subsequently be audited by another practitioner (auditor), does the IAASB consider the approach outlined in paragraphs 79-80 is reasonable, and that the revised standard should clarify this situation in application guidance?

Quality Control Standards

81. ISQC 1 addresses a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements. ISQC 1 is to be read in conjunction with Parts A and B of the IFAC Code (paragraph 1).
82. ISQC 1 notes that other pronouncements set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements (for example, ISA 220).²⁰
83. Extant ISRS 4410 does not address quality control for performance of compilation engagements.
84. The Task Force considered the question of whether, and to what extent, the revised standard should address quality control requirements and application guidance pertaining to the engagement to compile financial information. A key consideration is that, as a matter of public interest, the quality control requirements established in the revised standard need to be sufficient and appropriate so that practitioners will perform compilations of financial information in compliance with the relevant ethical and professional standards. At the same time those requirements should not impose an unnecessary cost or burden on the practitioner or on the client for whom the engagement is performed, particularly since compilation engagements are largely carried out for smaller entities.
85. The Task Force believes the revised standard should contain some requirements that aim to address the key aspects of performance of compilation engagements, and as a minimum the following:
- (a) Compliance with the IFAC Code, and particularly the ethical requirements that are of particular relevance to compilation engagements (for example, professional competence and due care (in the variety of contexts explained in this Issues Paper);

²⁰ ISA 220, "Quality Control for an Audit of Financial Statements."

- (b) Documentation of the practitioner’s performance of the engagement, including how the practitioner addresses and resolves any obvious material inconsistencies the practitioner notices in the compiled financial information in the course of applying the revised standard.

Matters for IAASB Consideration

Q33. Does the IAASB agree the revised standard should contain requirements and guidance that address the key aspects of performance of compilation engagements, including the matters identified in paragraph 85?

Q34. Does the IAASB believe that there are other matters concerning engagements to compile financial information that need to be addressed in requirements and guidance in the revised standard?

Appendix 1

List of Key Sources and References Used by the Task Force

- Australian Accounting Professional and Ethics Standards Board:
 - APES 205 – Conformity with Accounting Standards (December 2007)
 - APES 315 – Compilation of Financial Information (July 2008)
- AICPA Exposure Draft, “Proposed Statements on Standards for Accounting and Review Services, Proposed SSARS, Review of Financial Statements” (May 2009)
- AICPA Statements on Standards for Accounting and Review Services (SSARs) 100 and 100A, “Compilation and Review of Financial Statements,” and related interpretations 9100 and 9100A
- Association of Chartered Certified Accountants Technical Fact Sheet 163 Audit Exempt Companies – ACCA Accounts Preparation Report.²¹
- Consultative Committee of Advisory Bodies “Cross Profession Accounts Compilation Report” (September 2009)²²
- FEE Report, “Survey on the Provision of Alternative Assurance and Assurance-Related Services Across Europe” (July 2009)
- IAASB “International Framework for Assurance Engagements” and IAASB Engagement Standards, in particular ISRS 4410
- IAASB NSS Staff Consultation Paper, “Matters to Consider in a Revision of International Standard on Review Engagements 2400, *Engagements to Review Financial Statements*” (September 2008), and comments received from respondents.
- IDW Proposed Standard 7, “Compilation Engagements” (2009)
- Institute of Chartered Accountants in Ireland. Miscellaneous Technical Statement – M48 “Chartered Accountants’ Reports on the Compilation of Historical Financial Information of Unincorporated Entities” (September 2006)
- Institute of Chartered Accountants in Scotland. “Framework for the Preparation of Accounts – Best Practice Guidance for Member Firms” (April 2005)
- ICAEW:
 - “re: Assurance, Alternatives to Audit: Report on the ICAEW Assurance Service Consultation” (July 2009)
 - Issues Paper, “Audit-exempt Companies: Beyond the Threshold” (August 2006)
 - Technical Release, “Chartered Accountants Report on the Compilation of Financial Statements of Incorporated Entities” (Audit 02/04)

²¹ <http://www.accaglobal.com/factsheet163>

²² http://www.ccab.org.uk/documents.php?subaction=showfull&id=1252423539&archive=&start_from=&ucat=2

- New Zealand Institute of Chartered Accountants, SES-2: “Compilation of Financial Information” (October 2006)
- Various AICPA Accounting and Review Services Committee Reliability Task Force materials.

Appendix 2

IFAC CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (July 2009)

[Extracts only]

PART A—GENERAL APPLICATION OF THE CODE

SECTION 100

Introduction and Fundamental Principles

Fundamental Principles

100.5 A professional accountant shall comply with the following fundamental principles:

- (a) *Integrity* – to be straightforward and honest in all professional and business relationships.
- (b) *Objectivity* – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- (c) *Professional Competence and Due Care* – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- (a) *Confidentiality* – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- (b) *Professional Behavior* – to comply with relevant laws and regulations and avoid any action that discredits the profession.

Each of these fundamental principles is discussed in more detail in Sections 110–150.

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SECTION 110

Integrity

110.1 The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.

110.2 A professional accountant shall 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 shall take steps to be disassociated from that information.

110.3 A professional accountant will be deemed not to be in breach of paragraph 110.2 if the professional accountant provides a modified report in respect of a matter contained in paragraph 110.2.

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SECTION 130

Professional Competence and Due Care

130.1 The principle of professional competence and due care imposes the following obligations on all professional accountants:

- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
- (b) To act diligently in accordance with applicable technical and professional standards when providing professional services.

130.2 Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:

- (a) Attainment of professional competence; and
- (b) Maintenance of professional competence.

130.3 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

130.4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

130.5 A professional accountant shall take reasonable steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.

130.6 Where appropriate, a professional accountant shall make clients, employers or other users of the accountant's professional services aware of the limitations inherent in the services.

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PART B—PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 210

Professional Appointment

Client Acceptance

- 210.1 Before accepting a new client relationship, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behavior may be created from, for example, questionable issues associated with the client (its owners, management or activities).
- 210.2 Client issues that, if known, could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices.
- 210.3 A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level.

Examples of such safeguards include:

- Obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities; or
- Securing the client's commitment to improve corporate governance practices or internal controls.

- 210.4 Where it is not possible to reduce the threats to an acceptable level, the professional accountant in public practice shall decline to enter into the client relationship.
- 210.5 It is recommended that a professional accountant in public practice periodically review acceptance decisions for recurring client engagements.

Engagement Acceptance

- 210.6 The fundamental principle of professional competence and due care imposes an obligation on a professional accountant in public practice to provide only those services that the professional accountant in public practice is competent to perform. Before accepting a specific client engagement, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.
- 210.7 A professional accountant in public practice shall evaluate the significance of threats and apply safeguards, when necessary, to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:
- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.

- Acquiring knowledge of relevant industries or subject matters.
- Possessing or obtaining experience with relevant regulatory or reporting requirements.
- Assigning sufficient staff with the necessary competencies.
- Using experts where necessary.
- Agreeing on a realistic time frame for the performance of the engagement.
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

210.8 When a professional accountant in public practice intends to rely on the advice or work of an expert, the professional accountant in public practice shall determine whether such reliance is warranted. Factors to consider include: reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

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Definitions used in the Code:

Professional accountant in business:

A professional accountant employed or engaged in an executive or nonexecutive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.

Professional accountant in public practice:

A professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides *professional services*. This term is also used to refer to a firm of professional accountants in public practice.

Professional services:

Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.