Response from
The Institute of Chartered Accountants of Scotland to
the International Auditing and Assurance Standards Board

ISRS 4410 (Revised), Compilation Engagements

31 March 2011
ISRS 4410 (Revised), Compilation Engagements

I refer to the above IAASB Exposure Draft and I am pleased to set out the comments of the ICAS Audit and Assurance Committee below.

As the Institute’s Charter requires, the Audit and Assurance Committee must act primarily in the public interest, and responses to consultation documents etc. are predicated on the essential premise that their conclusions must be consistent with the public interest. Our Charter also requires us to represent our members’ views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

ICAS Position
Audit exemption was introduced in the UK in 1994 and the threshold has been subject to several increases since that date. Such is the level of the current audit threshold in the UK that the vast majority of companies are not required by legislation to have a statutory audit of their annual accounts. Therefore, in the UK the provision of accounts compilation services is widespread. Our main consideration is whether the proposed standard is an improvement on the compilation standard that ICAS members are currently required to comply with, although, we do accept that for a number of jurisdictions, compilation is not as prevalent a service as in the UK – although it may become so in the near future. From an ICAS perspective the substantive difference is that we specifically require our members to undertake certain basic procedures when performing a compilation. These procedures are as follows:

“The chartered accountants would normally vouch major transactions, such as fixed asset additions, or unusual items, in order to satisfy themselves as to the proper recording and classification of the major entries in the accounts.

The chartered accountants would normally perform some basic cut off procedures to ensure that items were being recorded in the correct period.

The chartered accountants should review the completed accounts and consider whether they appear to be appropriate in form and free from obvious material misstatements. In this sense, misstatements may include:

- misclassifications of items in the accounts;
- mistakes in the application of the relevant statutory or regulatory reporting requirements;
- non-disclosure of any known departures from the statutory or regulatory requirements;
- non-disclosure of any other significant matters of which the chartered accountants have become aware.

This would normally comprise an overall analytical review of the accounts together with a follow up of any unexpected variances arising, by discussion with management. This would be designed to ensure that the accounts are consistent with the chartered accountants’ understanding of the business, and thus ensure that no errors had been made in the accounts preparation.

The chartered accountants would normally ensure that all statutory and financial reporting standard disclosure requirements have been met. This might be achieved through reliance on an up to date accounts preparation computer package or by completion of an accounts disclosure checklist, tailored as appropriate for the particular type of entity concerned.
The verification work suggested in paragraphs 20 to 28 falls well short of an audit and does not include any detailed procedures to verify the validity or completeness of the books and records generally. Indirectly, however, these procedures would give the chartered accountant some comfort that the accounts properly reflect the business of the entity and are free from material error.”

If ICAS was to introduce the proposed revised compilation standard, consideration would need to be given as to whether we retained the requirement for the above procedures to be performed.

Value of Compilations
One of the main practical issues is actually demonstrating the value of a compilation engagement i.e. as stated on page 5 of the exposure draft

‘Proposed ISRS 4410 makes clear that the procedures employed in a compilation engagement are not designed, and do not enable the practitioner, to express any assurance on the financial information. It explains, however, that users of the compiled financial information derive benefit from application of the practitioner’s expertise in accounting and financial reporting and compliance with professional standards, including delivering the service in accordance with the ethical principles of integrity, objectivity professional competence and due care.’

No actual assurance is provided but clients and others do take ‘comfort’ from the fact that a professional accountant has compiled the financial statements of the entity concerned.

Specific Questions
Our responses to the specific questions posed in the exposure draft are as follows:

Question 1: Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?

We are not convinced that the scope is appropriate. In our view the revised ISRS 4410 should apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework irrespective of whether the practitioner is required to provide a compilation report and the ISRS should not mandate the need for a report.

Question 2: Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner's report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?

Yes, we do believe that it is clearly distinguishable from a professional accountant’s perspective. The bigger question is whether users of this service would be able to differentiate between a compilation and an audit or review. Unfortunately, in many instances we are not convinced that clients will be able to distinguish between the services that are available, due to their limited understanding of accounting and assurance issues. We are not convinced that this is a problem that can be easily resolved.
The paragraph in the proposed report:
‘A compilation engagement involves applying expertise in accounting and financial reporting to assist management in preparing and presenting financial information. A compilation engagement 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.’

Over the past 5 years there has been considerable debate in the UK as to whether such an unequivocal statement that ‘an audit or review’ has not been undertaken is actually required. A growing number of practitioners believe that such an approach is unnecessarily negative and detracts from the benefits of having such an engagement undertaken. Their view is that the report should state what work has been undertaken rather than what work has not. Therefore, there would appear to be merit in the IAASB adopting the same approach as the CCAB bodies in the UK by making the use of such paragraphs in the compilation report optional.

**Question 3:** Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS an acceptable premise for the practitioner undertaking a compilation engagement under the standard?

Yes, we firmly support this proposed requirement. Ultimately, the management of an entity must take responsibility for the preparation of an entity’s accounts and it is helpful to have this acknowledgment documented in writing.

**Question 4:** Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?

Yes, we believe that the proposed requirements are appropriate. Professional accountants are required by the International Ethics Standards Board for Accountants (IESBA) Code of Ethics not to be associated with misleading information. Therefore, we welcome the fact that the proposed standard requires that either management makes the changes that are deemed necessary by the professional accountant or the professional accountant should withdraw from the engagement.

**Question 5:** When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?

In our view the decision as to what accounting framework should be used should be made in advance of any work being undertaken and after consultation between the accountant and his or her client. Unless there are exceptional circumstances we do not believe that it would be appropriate to change the accounting framework that is being used after the engagement has commenced.

**Question 6:** Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?

Yes, we believe that the examples do provide useful additional material.
We repeat that it would be preferable for the following wording to be made optional as this is a risk management decision for the firm concerned:

“A compilation engagement 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.”

Additionally, we believe that illustration 2 on page 47 should refer to a special purpose financial reporting framework being applied as opposed to merely referring to a ‘modified general purpose framework’. In our view this would be more in accordance with the spirit of the section ‘Special Purpose’ on page 28 of the exposure draft.

**Question 7: Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.**

Whilst we are fully supportive of the need for practitioners to comply with appropriate quality assurance requirements we are not fully convinced that ISQC 1 is proportionate for those firms which do not undertake assurance engagements.

**Other Comments**

**Nature of Document**
We are very supportive that the document is of a standalone nature.

**Engagement Acceptance and Continuance**
In our view it would be beneficial to make reference to the need for the professional accountant to at least consider the content of section 210 of the IESBA Code of Ethics when taking on a new client from another accountant.

**Effective Date**
We believe that the proposed applicable date of 18 months following approval of the final standard is reasonable. Consideration should be given to ensuring that the compilation standard and review standard both become applicable on the same date.

We trust that our comments are of value to you. If you have any queries regarding the above then please do not hesitate to contact James Barbour, Director Technical Policy.
Dear Sir

Comment on IAASB ED International Standard on Related Services (“ISRS”) 4410 (Revised), Compilation Engagements

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, and tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on the IAASB ED ISRS 4410 (Revised), Compilation Engagements. Our comments are made in relation to the areas outlined below.

General comments

We acknowledge that the IAASB’s Strategy and Work Program 2009-2011 concludes that the IAASB’s efforts should include the development of standards to address the needs of SMEs and SMPs and the growing demand for services other than the audit. The revision of ISRS 4410 is thus within this remit.

We note that the following principles underlie the revision of the ED and that the compilation engagement should be:

- clearly distinguishable from audits and reviews of financial statements (that is, assurance engagements);
- meaningful for users, in the context of the benefit delivered from application of professional expertise in accounting and financial reporting, and compliance with relevant professional standards and ethical principles; and
- able to be performed on a cost-effective basis.

The practitioner is therefore not able to express any assurance on the financial information but there is clear benefit to the entity as the practitioner performs the engagement whilst:

- demonstrating his expertise in accounting and financial reporting matters;
following ethical principles including integrity, objectivity, and professional competence and due care; and
preparing the report using the stand alone framework of ISRS 4410 which does not require practitioners to be familiar with developments in assurance standards but does require the application of ISQC 1 or requirements that are at least as demanding.

Request for Specific Comments

Our comments on specific matters are set out below.

1. Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?

We consider the scope of the standard to be appropriate (neither being too wide nor mandatory) and its application to be clear given that it is to be applied in the following circumstances:

- when the practitioner is engaged to compile historical financial information in accordance with the proposed ISRS; and
- where the practitioner provides a report for the engagement in accordance with the requirements of the proposed ISRS.

On a practical front it may be hard for a client to understand the benefits of a compilation report where it is clear that assurance has not been given albeit we recognise that the compilation report should be held in higher regard given its production by an appropriately qualified practitioner upholding strong ethical values. That is, the report should have some basis in trust.

The terms of reference may then need to be more detailed to accommodate a greater level of understanding as to what work will actually be performed.

2. Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner’s report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?

We believe that the compilation report is clearly distinguishable from assurance services and would suggest that the wording in the example reports that refers to the non-expression of an audit opinion be eliminated.
It is clear that some benefit from having information compiled by a professional accountant must result otherwise there would be little chance to perform this work and be remunerated for it. The question may well turn into the issue of whether the reader of the financial statements can place some level of trust on the information; trust often equating to the issue of ethics for professional accountants.

It may well be another instance of the practitioner having to anticipate an expectation gap as the report will clearly add value but cannot be seen as giving assurance.

3. **Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS an acceptable premise for the practitioner undertaking a compilation engagement under the standard?**

We believe that the intention is acceptable but that the wording may be too closely linked to that required under an audit assignment.

We also note that unless there is a statutory duty on management to be responsible for the financial statements (and the compilation report is published with them) this may not reflect reality. A compilation engagement will often be about an expert being engaged to assist a client in preparing financial statements that the client either does not understand or does not have the necessary ability to compile the financial statements themselves. The client should be responsible for providing the information but then the practitioner would produce the financial statements in accordance with an appropriate framework.

Therefore, in practical terms it is more appropriate for the practitioner to be under an obligation to explain to management the key issues, judgements and basis of preparation of the financial statements. This approach probably equates more to current practice in an SMP/SME environment.

4. **Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?**

We believe that the proposed requirements related to dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate.

Withdrawal as an alternative to qualification appears to be realistic but we would suggest that in practical application it would be very unlikely that the management would go against the opinions and expertise of the practitioner. In performing compilation engagements we do not foresee many instances where the practitioner would not be able to make amendments to the financial statements to eliminate material misstatement or the possibility of information being misleading to the benefit of the client. We therefore see withdrawal as the only option but practically very unlikely to occur.
5. When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?

The client is entitled to ask for the financial statements to be compiled in any appropriate framework and the financial statements will disclose the basis on which they have been prepared.

We do not believe that this guidance is necessary and would therefore suggest that this is removed.

If the guidance is to be retained then we would suggest that the adoption of an alternative financial reporting framework be clearly disclosed in the financial information and the reason for deviation clearly described in the compilation report. It may also be useful for readers of the financial statements to be presented with an estimate of the effect of the change.

6. Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?

We believe that the reports are generally acceptable and welcome the phrase ‘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.’

We would also suggest as mentioned above that the reference to audit and evidence be removed and we suggest an alternative as follows:

**PRACTITIONER’S COMPILATION REPORT**

[To Management of ABC Company]

We have compiled the accompanying financial statements of ABC Company. These comprise the statement of financial position 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. The financial statements are presented in accordance with [applicable accounting framework].

Management is responsible for these financial statements including adoption of the applicable financial reporting framework, and for the accuracy and completeness of the information used to compile the financial statements.

We applied our expertise in accounting and financial reporting in accordance with International Standard on Related Services 4410 (Revised), Compilation Engagements. That Standard also
requires that we comply with relevant quality control standards and ethical requirements, which include ethical principles of integrity, objectivity, professional competence and due care.

7. Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.

We believe that it is difficult for smaller firms not currently required to comply with ISQC 1 to use that document. A “think small first” approach to rewriting it would be a long-term solution.

However we acknowledge that if the intention of the compilation report is to communicate some level of trust then the quality control systems should be comprehensive and relevant to the engagement.

Other Comments

We believe that the practitioner’s compilation report will be of importance for stakeholders and regulators in the SME market. However, this requires significant and extensive marketing efforts to be undertaken to raise the profile of the report and its benefits and good quality control systems to be in place for practitioners.

Translation and adoption in developing countries would be assisted by increased marketing efforts referred to above and by the use of plain English.

I trust that the above is comprehensive but should you have any questions on our comments, please do not hesitate to contact me.

Yours sincerely,

Federico Diomeda
Chief Executive Officer
Proposed International Standard on Related Services ISRS 4410 (Revised), Compilation Engagements

Far, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the exposure draft ISRS 4410 (Revised), Compilation Engagements.

Far supports in substance the responses made to this exposure draft by FEE, the Federation of European Accountants. In addition, Far wishes to make the following remarks:

The Exposure Draft of ISRS 4410 is only discussing the situation when a practitioner is associated with the financial statements in a compilation engagement by attaching the compilation report to the financial statements. However, a widespread knowledge of the practitioner’s association with the financial statements often, as in Sweden, requires that the National Company Registration Office files the financial statements together with the practitioner’s report. In Sweden, and possibly elsewhere, only an audit report can be publicly filed attached to the financial statements. Far has noted that accountants and entities are therefore investigating alternative ways to spread the information of the practitioner’s association with the financial statements, for example as a disclosure in the financial statements. This is especially, but not only, in focus in the case of entities exempted from audit. Far believes it would be of general interest if the IAASB were to prepare guidance on how to deal with ways of providing information about the practitioner’s association with the financial statements, other than by attaching the compilation report.

In addition, it would also be necessary to consider the level of sufficient appropriate audit evidence an auditor, in the audit of the financial statements compiled by the practitioner, required for a disclosure stating that a practitioner has issued a compilation report in accordance with ISRS 4410.

Far

Bo Hjalmarsson
Chairman Far Auditing Policy Group
March 30, 2011

James Gunn
IAASB Technical Director

Dear James,

Small and Medium Practices (SMP) Committee Comments on Proposed ISRS 4410 (Revised), Compilation Engagements

INTRODUCTION

The SMP Committee is pleased to provide comment to the IAASB on the Proposed International Standard on Related Services ISRS 4410 (Revised), Compilation Engagements.

At a time when many jurisdictions are introducing or increasing audit exemption thresholds, we believe the development of standards covering the provision of services other than the audit are essential in order to meet the unique needs of SMEs and the users of their financial information. The IAASB initiative to revise the existing standard on compilation engagements is therefore both welcome and timely.

BASIS FOR THIS SUBMISSION

The SMP Committee is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small- and medium-sized entities (SMEs). The constituents of the SMP Committee are small and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs.

Members of the SMP Committee boast substantial experience within the accounting profession, especially in dealing with issues pertaining to SMEs, and are drawn from IFAC member bodies from 18 countries from all regions of the world. Given such diversity, compiling a single response that wholly satisfies all of our members is impracticable. Therefore, when formulating its views, the Committee has sought to take a global, public interest position. This perspective may not always be consistent with individual national laws, regulations and interests.

GENERAL COMMENTS

We support the approach applied by the IAASB, complying with the revised International Ethics Standards Board for Accountants (IESBA) Code of Ethics, with respect to the responsibility for not associating with information that is materially false or biased when compiling financial statements. We also maintain the view that independence requirements for compilation engagements ought to be less stringent than in the case of assurance services.
We further support the clarification that a compilation engagement does not represent any type of assurance engagement, including a review or audit. In order to further enhance this understanding in the market place, we feel it would be helpful if the standard was to specify and distinguish the respective duties of both client and practitioner.

**SPECIFIC COMMENTS**

1. **Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?**

   We consider the scope of the standard to be appropriate and its application material to be sufficiently concise.

   We note that the application material, as currently presented, articulates that independence is not a requirement for compilation engagements. We recommend that this exclusion be made clearer within the standard itself, and suggest that the definition of Relevant ethical requirements in paragraph 15(g) be amended as follows:

   “Ethical requirements relating to compilation engagements to which the engagement team is subject that ordinarily comprise Parts A and B (excluding sections 290 on Independence – Audit and Review Engagements and 291 on Independence – Other Assurance Engagements) of the IESBA Code together with national requirements that are more restrictive.”

   The application material could then more explicitly articulate those parts of the IESBA Code of Ethics applicable to compilation engagements, for example by elaborating on the practical application of the five fundamental principles.

2. **Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner’s report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?**

   We believe that the sample compilation report clearly distinguishes between compilation engagements and those that apply to assurance engagements. However, we suggest that the definition of the term “Compile” in paragraph 15 (b) should stress that the practitioner assists management in preparing and presenting financial information. This would have the additional benefit of aligning the definition of “Compilation Engagement” with that of “Compile” and feel that it should because the practitioner is assisting management in both instances.

   We propose the following definition:
“Compile – To apply accounting and financial reporting expertise to assist management to prepare and present financial information in accordance with an applicable financial reporting framework.”

Although not in complete agreement, on balance the Committee feel that the wording in the example reports that refers to the non-expression of an audit opinion should be eliminated.

3. Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS an acceptable premise for the practitioner undertaking a compilation engagement under the standard?

We believe that this requirement is acceptable and may strengthen communication between practitioner and client, thereby reinforcing each party’s understanding of their respective roles in the engagement.

There is concern amongst some Committee members that the wording aligns too closely to that of an audit engagement. Furthermore, we wish to stress that, very often, the reality in the market place is that the client provides the information to the practitioner who then produces the accounts in accordance with an appropriate framework.

4. Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?

We believe that the proposed requirements for dealing with the responses and actions by the practitioner when there is a belief that the compiled financial statements contain a material misstatement, or are misleading, are appropriate.

We believe the requirement to obtain sufficient knowledge and understanding to be able to compile the financial information, as set out in paragraph 27, may be open to misinterpretation. We would therefore encourage the IAASB to consider producing further guidance regarding the level and depth of knowledge and understanding that would be expected. A more explicit requirement could also be considered, for example by incorporating part of the application material in A42 and A43 within paragraph 27.

The introduction of the materiality concept within the context of compilation engagements will be new to certain jurisdictions. As such, we suggest that additional application material be added to further articulate how the concept of materiality is to be applied for this type of engagement in comparison to an assurance engagement. The debate resulting from the recently published IAASB Discussion Paper “The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications” may be helpful reference for this purpose and could inform the debate in relation to compilation engagements.

Paragraph 35 requires the practitioner to communicate with management or those charged with governance on a timely basis during the course of the compilation engagement. We recommend that this paragraph be positioned immediately prior to

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the section entitled “Performing the Engagement” (paragraphs 27 – 35) in order to be consistent with the equivalent sections of the Proposed International Standard on Review Engagements (ISRE 2400 (Revised)).

5. **When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?**

We believe that the practitioner should be permitted to suggest an alternative framework provided that this is adequately disclosed in the financial information and the compilation report also makes reference to the note where the alternative framework is detailed.

6. **Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?**

The illustrative reports represent useful materials and are clear and concise.

We are particularly pleased, and supportive of the phrase “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.” This will provide users with confidence and increases the value of the engagement.

We again repeat our concern with respect to reference of any type of assurance work in the report of a compilation engagement, albeit to communicate that the report does not include expression of an audit opinion or a review conclusion (see earlier remarks in Q2).

7. **Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.**

Whilst we are supportive of this premise, we feel that smaller firms, particularly those who are not currently required to comply with ISQC 1, will face challenges with the adoption of quality control requirements (for example, monitoring) and may require support in implementation. We therefore urge the IAASB to consider issuing guidance to illustrate the scalability and hence the proportionate application of ISQC 1 to compilation engagements, and we will be pleased to assist the IAASB in any such initiative.
OTHER COMMENTS
We believe that the proposed timeframe for implementation is reasonable although we suggest early adoption could also be permitted.

CONCLUDING COMMENTS
We hope the IAASB finds this letter helpful in finalizing the revised standard. In turn, we are committed to helping the IAASB in whatever way we can to assist in the implementation of the standard and so we look forward to strengthening the dialogue between us.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

Sylvie Voghel,
Chair, SMP Committee
ISRS 4410 (REVISED) COMPILATION
ENGAGEMENTS
A proposed International Standard on Related Services issued for comment by
the International Auditing and Assurance Standards Board

Comments from ACCA
March 2011
ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 140,000 members and 404,000 students throughout their careers, providing services through a network of 83 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities.

www.accaglobal.com
Executive Summary

ACCA welcomes the opportunity to respond to the exposure draft of proposed International Standard on Related Services 4410 (Revised) Compilation Engagements issued by the International Auditing and Assurance Standards Board.

Compilation engagements, such as preparing financial statements, are important where there is no audit, as the involvement of an external professional accountant enhances the quality of reporting. Such engagements are common in the small and medium-sized enterprise (SME) sector.

In our general comments on the exposure draft we draw attention to the need to revise all of the engagement standards that are relevant to the SME sector when no audit takes place. While there are current projects relating to the standards for reviews and for compilations, we look forward to a revision of the standard for agreed-upon procedures. We also highlight the need, when finalising each standard, to ensure that it may be used in hybrid engagements that combine elements of the subject matter of individual standards to meet client needs.

In our comments on the proposed compilation engagements standard we refer to the difficulty of drafting requirements without the benefit of a theoretical underpinning, such as would have been provided by work on the fundamental principles of assurance, which ACCA and others called for at the commencement of the International Standards on Auditing ‘clarity project’. We suggest that some work on the principles could be included in a current project on audit quality and indeed that the project ought to include quality issues for non-audit engagements, which are important for SMEs.
In relation to the proposed compilation engagements standard we agree with the positions it takes on:

- The scope of the standard, as its use must be responsive to commercial need
- Establishing with clarity the non-assurance nature of a compilation (although we do not support a requirement to include explanatory wording in the practitioner’s report)
- The practitioner’s response where the compiled financial statements are misleading, or contain a material misstatement, as this accords with existing best practice
- The inclusion of illustrative reports, as they are clear and useful
- Premising quality control on a practitioner’s application of ISQC 1\(^1\), although we recommend that, in the long term, it be revised on a ‘think small first’ basis to make ISQC 1 more relevant to smaller practitioners

We do not agree with:

- A requirement to obtain, in detail, management’s acknowledgement of its responsibilities, as this is too similar to requirements for an audit
- Other requirements that are consistent with those for audits, as that is not necessarily appropriate
- Including a ‘permission’ for the practitioner to suggest another financial reporting framework, as the relevant circumstances would be rare
- Including wording about audits and reviews in the illustrative reports; instead we suggest informing users more about the engagement and the practitioner’s competencies

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\(^1\) International Standard on Quality Control 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements
General Comments

ACCA welcomes the opportunity to respond to the exposure draft of proposed International Standard on Related Services 4410 (Revised) *Compilation Engagements* (proposed ISRS 4410) issued for comment by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants.

In this section of our response, we make general comments on proposed ISRS 4410 and on its role as one of the standards that a practitioner may use when carrying out engagements on historical financial information, such as financial statements.

We support the updating of the extant standard for compilation engagements. This allows the standard to be written in the now-familiar clarity style adopted for the International Standards on Auditing (ISAs). It also allows changes to be made to decouple it from the ISAs and to improve the perceived value of the engagement through, *inter alia*, better reporting.

Proposed ISRS 4410 is particularly relevant to the SME sector, as such entities are increasingly exempt from statutory audit. We agree with the proposed scope of the standard, as the compilation engagement will generally be undertaken voluntarily rather than required by law. This makes it important that the practitioner is able to inform a potential client about the nature of the engagement and how it adds credibility to, for example, financial statements. The potential client may also consider a review engagement or an agreed-upon procedures engagement, or the use of a combination of standards in a hybrid engagement (for example a compilation with agreed-upon procedures on key assets). Because of this, we support the continuation of the current IAASB projects to revise both the compilation and review engagement standards while also updating International Standard on Assurance Engagements 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* as the latter is particularly relevant to the concept of limited assurance, which is employed in a review.
In a separate response concerning the proposed IAASB Strategy and Work Program for 2012–2014, we call for acceleration of the project to revise the standard for agreed-upon procedures, so as to ensure that the standards for non-audit engagements are logically and practically fitted for use one with another. However, if that project is not accelerated, we suggest that the current projects to revise standards for review and compilation engagements at least ought to result in standards that are capable of use in hybrid engagements that combine elements of the subject matter of individual standards to meet client needs.

In a later section of this response, we answer the specific questions posed in the exposure draft. In doing so we identify significant difficulties in applying the ISA clarity drafting conventions to a standard that is not an ISA, and in determining the extent to which requirements relevant to an audit ought to be included.

Across the spectrum of engagement standards, the criteria for determining whether a matter should be a requirement should take account of the level of public interest in an engagement, as well as its nature. A requirement restricts a practitioner's professional judgement and, in essence, transfers that judgement to the standard setter. We suggest that for compilations there should be no presumption of consistency with the ISAs; instead, each requirement should be justified solely by its benefit to the engagement.

This circumstance reinforces our long-held view (for example expressed at the commencement of the ISA clarity project\(^2\)) that standard setting would be improved by a theoretical underpinning. In our separate response to the Consultation Paper *Proposed IAASB Strategy and Work Program for 2012–2014* we call for at least some work on the fundamental principles of assurance to be included in a current project on ‘audit quality’ and indeed that that project should include quality issues for non-audit engagements, which are important for SMEs.

\(^2\) In ACCA’s response to the September 2004 Proposed Policy Statement *Clarifying Professional Requirements in International Standards Issued by the IAASB* and Consultation Paper *Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements*. 
Should the IAASB have any questions about our response, or require further information, please contact in the first instance: David York, Head of Auditing Practice, at david.york@accaglobal.com
Matters on which Specific Questions are Asked

In this section of our response we answer the questions posed in the exposure draft.

**Question 1**

Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?

We believe that the proposed scope is appropriate. The standard should be applicable where users demanded a high standard of financial reporting; it is not suitable for use on monthly management accounts for example, as they satisfy a different business need, for which there is a much lower expectation of accuracy in any particular period.

It is correct to apply the criterion of intention to use the standard and report under it. The issuance of such a report clearly identifies an engagement as one to which an international standard applies. This supports the quality of the work and allows the practitioner to better convey the value of the engagement.

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

We do not feel that the scope introduces practical challenges; indeed, through introducing clarity, it reduces the likelihood of difficulty.
Question 2

Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner’s report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?

As a professional accountant, the practitioner will have no difficulty in understanding the engagement and distinguishing it from assurance services. As the practitioner agrees the terms of the engagement with the engaging party, the latter will also develop an understanding of the engagement, including the degree of assurance (nil) theoretically communicated to users.

The capacity of users to understand the financial information and the engagement will range between those who have a good grasp and those who have almost no understanding. It is perhaps expecting too much of a practitioner’s report to do more than to communicate the international standard followed (to which users may refer), the qualities of the practitioner relevant to the engagement, and the outcome of the engagement itself.

We find the wording in the report concerning audit and review to be unnecessary and indeed its inclusion could cause confusion where none was present before. Those who have little understanding of the compilation will be in a similar position with regard to their knowledge of audit and review.

Question 3

Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS an acceptable premise for the practitioner undertaking a compilation engagement under the standard?

We find the wording in paragraph 23(c) of the proposed standard to be too close to that for an audit to be acceptable. It is difficult to argue convincingly that there is an absolute need for such a requirement in a non-assurance engagement.
The inclusion of a requirement relating to management responsibilities has to be assessed in relation to the need for it in an engagement where no assurance is communicated to users. Even where assurance is gained and professional scepticism is exercised, for example in a review, mere consistency with ISAs is not a strong argument.

We are not convinced, therefore, by the statements in the explanatory memorandum that a requirement is ‘consistent with the ISAs’ and ‘an important factor to mitigating the risk of the practitioner being associated with information that is materially false or misleading’. The first statement may be factual but is being presented as an unsupported argument. The second is an argument for inclusion, but mitigation of this risk is a commercial matter and not suitable for an engagement standard. The quality of the practitioner’s work in accordance with the standard itself is what contributes to mitigating the risk of inappropriate association.

An audit in accordance with ISAs is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged certain responsibilities that are fundamental to the conduct of the audit. These amount to representations that the auditor confirms as part of the audit evidence and include, for example, the completeness of disclosure. For a compilation proposed ISRS 4410 does not require either the exercise of professional scepticism or the gathering of evidence. There is therefore no reason to treat the responsibilities of management set out in paragraph 23(c) as anything other than simple facts.

We are also mindful of the difficulty of applying the ISA clarity drafting convention to a standard that is not an ISA. Across the spectrum of engagement standards, we would expect that the criteria for determining whether a matter should be a requirement should take account of the level of public interest in an engagement, as well as its nature. A requirement restricts a practitioner’s professional judgement and in essence transfers that judgement to the standard setter. We suggest that for compilations there should be no presumption of consistency with the ISAs, instead each requirement should be justified solely by its benefit to the engagement.
The position above has reinforced our view that standard setting would be improved by a theoretical underpinning. We present two further examples from proposed ISRS 4410 of where clarification of thinking may be appropriate. We conclude that much more needs to be done both theoretically and practically to justify the inclusion of every proposed requirement.

**Professional judgement**
Paragraph 21 requires that ‘The practitioner shall exercise professional judgment in planning and performing a compilation engagement.’ but the standard contains no definition of professional judgement. The IAASB Glossary of Terms refers to the term only in the audit context:

> Professional judgment—The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

It is not acceptable to have a requirement without certainty over its meaning. This should be remedied before proposed ISRS 4410 is finalised.
Knowledge of the business
Paragraph 27 requires that ‘To perform the compilation engagement the practitioner shall obtain:
(a) Knowledge and understanding of the entity’s business and operations, including the entity’s accounting system and accounting records; and
(b) An understanding of the applicable financial reporting framework, including its application in the entity’s industry, sufficient to be able to compile the financial information.’

In an audit, knowledge of the entity is required to be obtained as part of risk assessment (this is dealt with at length in ISA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment). However, there is a very important difference from proposed ISRS 4410: in an audit ‘The auditor uses professional judgment to determine the extent of the understanding required.’ It seems odd, therefore, that a more onerous requirement is placed on a practitioner carrying out a compilation. The question of what is sufficient also remains unanswered, although if the engagement is carried out and information is compiled the requirement would apparently always be satisfied. This again ought to be addressed before the standard is finalised.

Question 4
Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?

Yes: withdrawal as the alternative to a modified report is realistic and is what would take place in practice.
Question 5
When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?

The proposed standard should not be complicated by including this rare circumstance, which is addressed in effect by an unnecessary permission (as a non-assurance engagement may always be changed in this way).

Question 6
Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?

We welcome the inclusion of the illustrative reports, which are clearly drafted and will assist in the consistent application of the standard.

Especially welcome in the illustrations is the inclusion of the wording: ‘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.’ as this will assist in communicating the qualities of the practitioner that contribute to a high quality engagement.
We agree with the inclusion of wording that briefly explains the nature of a compilation engagement (‘A compilation engagement involves applying expertise in accounting and financial reporting to assist management in preparing and presenting financial information.’) but we see no merit in continuing from that to present two sentences stating (in part) what a compilation is not. Instead, practitioners should be encouraged to consider expanding the explanation of the engagement itself and their own competencies\(^3\) to provide users with a better insight into the value of the engagement. This is important because, in many jurisdictions, compilation work is not restricted by law to professional accountants (in contrast to audit) so there is no statutory underpinning on which users can rely regarding the ability of a particular practitioner to perform the engagement.

In our answer to question 2, we drew attention to the disadvantage of including any mention of audit or review. If, nevertheless, a decision is taken to retain such wording in the standard, we suggest that it be made optional, as the need to differentiate a compilation from an assurance engagement will vary by jurisdiction and circumstance. Moreover, some practitioners may wish to indicate also that a compilation is not, for example, agreed-upon procedures or a tax computation.

The illustrative reports might usefully include guidance as to how to report where a compilation is accompanied by a further engagement; for example some agreed-upon procedures (perhaps in relation to key assets).

\(^3\) In the UK, the report currently promulgated by the majority of IFAC member bodies includes such information (directly or through reference to websites). See http://www.ccab.org.uk/documents.php?subaction=showfull&id=1252423539&archive=&start_from=&ucat=2&
Question 7

Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.

While ISQC 1 can generally be applied in a proportionate manner, it is currently mainly applied by practitioners who carry out audits (for example in the UK it is not currently mandatory for compilation engagements). As a result, practitioners who do not carry out audits may face implementation costs.

Such costs fall disproportionally on smaller practitioners as ISQC 1 was prepared primarily for use by larger firms. Although the Small and Medium Practices Committee of the International Federation of Accountants has issued an implementation guide, the fact that such a guide exists acknowledges that there is a need for it and that, in the longer term, a ‘think small first’ approach to setting quality control standards would be better suited to the smaller practice environment.  

The adoption of such an approach should include consideration of whether one standard remains appropriate or whether the material should be stratified by reference to the nature of the engagements carried out by a firm.

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4 We call for this in our separate response to the Consultation Paper Proposed IAASB Strategy and Work Program for 2012–2014.
Other matters
The IAASB invites comments relating to the perspectives of:
- Users of financial information or financials statements of SMEs, including regulators
- Developing nations
- Translators

The views we express above have taken the user perspective fully into account as this is vital to the revision of the standard. All the above perspectives would be best served by plain language and concise drafting.

Effective Date
The proposed effective date (18 months after approval of the final revised standard) would appear to be reasonable but it is important to consider several engagement standards as discussed in our earlier general comments. Unless the finalisation of proposed ISRE 4410 properly enables its use in conjunction with other revised standards it may fail to gain widespread acceptance. A delay in finalisation may be the best way to mitigate such difficulties.
March 31, 2011

Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 5th Avenue, 14th Floor
New York, New York 10017 USA

JICPA Comments on the Proposed ISRS 4410, Compilation Engagements

The Japanese Institute of Certified Public Accountants (“we”, “our” and “JICPA”) is pleased to provide you with our comments on the Proposed ISRS 4410, Compilation Engagements.

Based on our review, we have the following comments:

Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?

Comment
We support the provision of “Such activities do not fall within the scope of this ISRS if the engagement does not involve the practitioner making a report in accordance with the requirements of this ISRS.” referred to in Paragraph A1. That is because we believe that there may be certain situations, adequately understood by intended users, without any threat to be misleading, that the practitioner’s report does not express any assurance due to, for example, established practice or background of regulation in a jurisdiction. This would apply even if the
practitioner is associated to compile financial information and requested to issue a certain written report. In case of such a situation, we believe the practitioner should not be required to comply with all reporting requirements of this ISRS.

Sincerely yours,

Hidenori Takahashi
Executive Board Member – Audit and Assurance Practice
The Japanese Institute of Certified Public Accountants
James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, New York 10017  
USA  

Re: IAASB ED on Proposed International Standard on Related Services ISRS 4410 (Revised), Compilation Engagements.

Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (thereinafter CNDCEC) is pleased to submit the following comments on the IAASB Exposure Draft ISRS 4410.

CNDCEC appreciates the efforts of IAASB to regulate these engagements, as they are likely to play a very important strategic role as regards practitioners. The compilation engagement can be a precious tool in increasing the level of credibility of financial statements which are not subject to audit or review. For this reason, we agree with the requirement that compilation engagements should be provided by individuals possessing an adequate level of technical knowledge, such as the CPAs.

In general terms CNDCEC deems important that the new compilation standard is a “stand alone” standard which can be applied separately and autonomously from other IAASB pronouncements, such as auditing standards or review standards.

CNDCEC supports the approach adopted by the IAASB for performing ISRS 4410 review, in compliance with the revised Code of Ethics enacted by IESBA, so as to avoid that practitioners can be held liable for compiling financial statements using information which is materially false or biased. We also believe that independence requirements for compilation engagements ought to be less stringent than in the case of audits.

CNDCEC supports the clarification that a compilation engagement is neither an assurance engagement, nor a review nor an audit. However, the complexity of carrying out an engagement which is not actually recognised or formalized in many jurisdictions can create confusion with other forms of
engagements; in this context, it would be appreciable to expend further efforts to specify and distinguish responsibilities and duties of clients from those of practitioners.

Please find below our observations concerning the specific questions posed in the Exposure Draft.

We would be pleased to discuss with you any aspect of our considerations that you should feel need further clarification.

Best regards,

Acting CEO
Francesca Maione
Question 1:

Proven ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?

CNDCEC would appreciate any further effort to clarify the definition of “Applicable financial reporting framework” and “Relevant ethical requirements” (in particular with reference to independence requirements).

In our opinion the independence requirements for compilation engagements ought to be less stringent than in the case of audits.

It would be appropriate to state that an entity should prepare a specific engagement letter, even if the practitioner already keeps the entity’s accounts. In addition, details on the content of the engagement letter could be provided in the standard.

It would also be advisable to specify which conduct a practitioner should engage in when he becomes aware of a material error (request to modify the document, identification of the material error, withdrawal from the engagement).

Finally, it would be helpful to detail what information a practitioner should take into account in determining when an error is “material”.

Question 2:

Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner’s report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?

It is crucial that both management and the practitioner clearly identify the scope of the engagement and the internal and external users.

In some jurisdictions compilation engagements might not be known already (at least not formalized and readily recognizable as a standardized process) – this being the case with Italy, for example. For these jurisdictions any further effort aiming at better detailing and defining a compilation engagement would be welcomed.

Moreover, it would be useful to prepare some illustrative compilation engagements in order to provide some guidance on the scope of the engagement that will be detailed in the engagement letter and in representation letters, if any.
Question 3:
Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS an acceptable premise for the practitioner undertaking a compilation engagement under the standard?

The clear identification of responsibilities is a crucial issue for the adoption of ISRS 4410. The scope of the engagement is fundamental, especially for those jurisdictions where practitioners can be held responsible to third parties in addition to being liable to the client.

In this context, it would be necessary to provide a general framework for the preparation of the engagement letter and the report, where the clients’ responsibilities are identified.

ISRS 4410 does not address the conduct of practitioners whose clients do not provide the required information (§30). In this case the standard should provide the practitioner with the possibility to withdraw from the engagement.

Question 4:
Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?

As to the definition of “material misstatement”, see our response to Question 1. As to the responses and actions by the practitioner see our response to Question 3.

While the doubt persists on the methods for determining the materiality level of misstatements or of erroneous information provided by management responsible for its disclosure, all reference to ISAs should be deleted as the compilation activity is not an audit service and therefore it is not appropriate to use, not even as a generic reference, the same tools used for the provision of an audit.

Question 5:
When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?

In general terms, we do not agree with this requirement, as it risks creating some criticalities in relation to the definition of responsibilities. In case IAASB opts to permit practitioners to propose this change, we believe that the engagement should be extended so as to provide the professional with the possibility to propose an alternative method. The same should apply if the professional is to be provided with the possibility to help the entity modify lacking or erroneous data disclosed in the entity’s financial position.
Question 6:
Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?

The illustrative reports represent a useful material, even if their similarity with the assurance engagements’ reports can inappropriately create some confusion regarding the nature of these different engagements.

Question 7:
Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.

We do not agree that the requirements concerning quality control can be integrally referred to compilation engagements as well.

More specifically, it would be appropriate to adapt the ISQC 1 requirements to:
   1) SMPs’ needs; and
   2) The specific nature of compilation engagements.

ISQC 1 can be very onerous to SMPs and might not address the real needs of SMPs operating in an SMEs’ environment.

Requirements regarding the maintenance of documentation should be proportionate to the nature of the engagement.

Other comments

Effective date

We believe that the scheduled time to finalize the ISRS 4410 and to require its effective implementation is reasonable.
31 March 2011

IAASB Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA
e-mail: www.iaasb.org

Dear Sir,

REQUEST FOR COMMENTS ON ISRS 4410 (REVISED), COMPILATION ENGAGEMENTS

We thank you for the opportunity for the South African Institute of Chartered Accountants (“SAICA”) to provide comments on the ISRS 4410 (Revised), Compilation Engagements issued by International Auditing and Assurance Standards Board in October 2010.

We present our detailed commentary on the specific questions posed in the Exposure Draft attached hereto.

Should you wish to discuss our comments or require clarity on any of the matters raised please do not hesitate to contact me directly at SAICA, P.O. Box 59875, Kengray, South Africa, 2100 or alternatively by way of telephone at +27 011 621 6614, or by way of email to ashleyv@saica.co.za

Yours sincerely,

Theashen Ashley Vandiar CA(SA)
Project Director: Assurance and Members’ Advice
SAICA comments on ISRS 4410 - Compilation Engagements

GENERAL COMMENTS

We believe that the proposed standard, as drafted, will increase the quality and consistency of compilation engagements performed around the world. However, we are concerned that the proposed standard may raise expectations about the level of assurance obtained from a compilation engagement. This may cause some users to believe that they are getting more assurance from a compilation engagement than is actually the case. It also may cause some preparers to believe the compilation engagement is sufficient to meet all their needs.

We understand that the requirements in the proposed standard are intended to help prevent the practitioner from being associated with misleading information. However, we believe those requirements imply that the practitioner has obtained a level of understanding and assurance regarding the acceptability of the financial reporting framework, the knowledge of the entity’s business, the significant judgments made by management, and the validity of the records, documents, or explanations provided by management that goes beyond what is intended by the standard, or what is done in practice today. As a result, we believe that users of the financial statements will take away more assurance than is intended about whether the financial statements are prepared in accordance with an appropriate financial reporting framework.

We also wonder if the proposed standard appears to impose more requirements on the practitioner and management, such that the perceived cost of the compilation engagement would outweigh its perceived benefit for many small entities around the world. The unintended consequence might be that many small entities opt out of engaging practitioners to perform compilations, and produce financial statements themselves, without the benefit of any accounting knowledge or expertise. Although the compilation engagement is not designed to provide assurance, we do believe that there is value to both management and users of the financial statements in the involvement of the practitioner with the compilation of financial statements. It would not be in the public interest to set a standard that would preclude a large number of small entities from producing higher-quality financial statements than they otherwise might have done with the assistance of a practitioner.
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<thead>
<tr>
<th>Reference to ISRS 4410</th>
<th>Issue/Reason for comment</th>
<th>Proposed change/(s)</th>
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<tr>
<td>Page no.</td>
<td>Paragraph</td>
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<tr>
<td>1) Page 11</td>
<td>Flowchart Diagram in the Explanatory Memorandum</td>
<td>The Flowchart Diagram for the Compilation Engagement should not be included in the Explanatory Memorandum of the Standard.</td>
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<tr>
<td>2) Page 17</td>
<td>Paragraph 5</td>
<td>Use of the words “professional accountant in public practice”. The term is not defined.</td>
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<td>3) Page 19</td>
<td>Paragraph 15(f)</td>
<td>“A Practitioner is defined as a professional accountant in public practice who conducts the compilation engagement”. The definition of “practitioner” is confusing. It appears to refer to an individual in the first sentence (above) but then goes on to describe a group or firm.</td>
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<td>4) Page 20</td>
<td>Paragraph 21</td>
<td>Paragraph reads as follows: “The practitioner shall exercise professional judgment in planning and performing a compilation engagement”.</td>
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<td>Page no.</td>
<td>Paragraph</td>
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<td>5) Page 22</td>
<td>Paragraph 29</td>
<td>This paragraph requires the practitioner to discuss and agree with management significant judgments required to compile the financial information including, where applicable, the basis for significant accounting estimates and use of the going concern assumption. Paragraph A45 provides some guidance about what to do if the practitioner becomes aware that the going concern basis of accounting may not be appropriate.</td>
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<tr>
<td>6) Page 22</td>
<td>Paragraph 30</td>
<td>Paragraph reads as follows: “If, in the course of the compilation engagement, the practitioner becomes aware that the records, documents, explanations or other information provided by management for the compilation are incomplete, inaccurate or otherwise unsatisfactory, the practitioner shall bring this to the attention of management and request the required information”.</td>
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<td>records, documents, explanations or other information provided by management may well be considered incomplete or inaccurate. For example, management of a small entity may not have counted inventory. If the practitioner believes that an inventory count is important to provide a reliable basis for preparing the financial statements, but has no other reason to believe that the financial statements may be misleading, we do not believe that the practitioner should be required to bring this to the attention of management and request the required information, i.e., an inventory count.</td>
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<tr>
<td>7) Page 23 Paragraph 32 and 34(c)</td>
<td>With reference to question 4 under “Response to request for specific comments” the concept of materially misstated within this standard should be removed.</td>
<td>It is recommended that these paragraphs be removed.</td>
</tr>
<tr>
<td>8) Page 23 Paragraph 36</td>
<td>We note that the documentation requirements in paragraph 36 are much more specific than those required of an auditor. For example, International Standard on Auditing (ISA) 230, Audit Documentation, does not require the auditor to</td>
<td>We believe that a more principles-based requirement would be more appropriate, and would result in documentation that more clearly reflects the work that was performed, being</td>
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<td>Page no.</td>
<td>Paragraph</td>
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<td>include in the audit documentation, a copy of the audited financial statements and the auditor’s report.</td>
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<td>9)</td>
<td>Page 24</td>
<td>Paragraph 37</td>
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<td>10)</td>
<td>Page 30</td>
<td>Paragraph A24</td>
</tr>
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RESPONSES TO “REQUEST FOR SPECIFIC COMMENTS”

1. Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?

We agree with the scope and further believe that it is appropriate for a practitioner to provide a compilation report where he has been involved in the preparation of the financial statements.

What is unclear is whether it is the IAASB’s intention that every compilation engagement is required to have an ISRS 4410 compilation report, and that this kind of engagement cannot be undertaken without compliance with ISRS 4410?

An example of this is where the financial statements are compiled on behalf of the client for audit purposes (the practitioner compiling the financial statements is not the auditor). It is currently common practice for the practitioner to not provide a compilation report as the financial statements will ultimately be presented with an audit report.

We however do not believe it is appropriate to extend the scope of this ISRS to other financial information (non-historical) and non-financial information, without further explanatory material being provided.

2. Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner’s report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?

Yes, the engagement letter and compilation report both make this fact clear.

In the extant ISRS 4410, there is a requirement to include in the compilation report, when relevant, a statement that the accountant is not independent of the entity. We continue to believe that it is in the public interest for practitioners to disclose this information, particularly given the increased reliance that we believe users will place on financial statements compiled in accordance with this, more rigorous, standard.
We recognize that the International Ethics Standards Board of Accountants (IESBA) Code of Ethics for Professional Accountants does not address or define independence requirements for non-assurance engagements. We do not believe that practitioners should be required to be independent when performing compilations. Nevertheless, we recommend, as a matter of some urgency, that the IESBA define independence for non-assurance engagements (or compilation engagements). We further recommend that the requirement to include in the compilation report, when relevant, a statement that the accountant is not independent of the entity, be reinstated in the proposed ISRS 4410.

3. **Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities, as specified under the proposed ISRS, an acceptable premise for the practitioner undertaking a compilation engagement under the standard?**

Yes, we do believe that this requirement is an acceptable premise for the practitioner undertaking a compilation engagement under the standard.

4. **Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?**

The concept of materiality and materially misstated within this standard should be removed from paragraphs 32(b), 34(c), A26, and A47 A48 (b) and A50, for the following reasons:

- Materiality is an assurance concept that leads to an opinion. Any discussion around materiality may create the impression with management that the practitioner has reached an opinion, and that assurance is implied.
- A47 refers to the consideration of materiality as described or required to be applied by the applicable reporting framework. While recognized reporting frameworks contain the concept of materiality, this concept will not be applicable to specific purpose frameworks.

We do however agree that the compilation report should not allow for modifications as this may infer that an opinion is being expressed.

The flowchart diagram on page 11 of the document should be included in the explanatory material as an appendix. It provides useful guidance to the practitioner. All reference to materiality however, should be removed.

5. **When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?**
It is appropriate for the practitioner to propose the use of another financial reporting framework in certain circumstances. It provides alternatives to declining the engagement outright when management may have unknowingly not complied with the disclosed framework.

This is where the practitioner is able to add value in the form of his expertise.

However, consider restricting the use/distribution if a specific purpose framework has been applied or a recognised framework has been modified. Such financial statements may by their nature not be appropriate for general use – expand guidance in A61.

6. **Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?**

We note that some of the illustrative reports restrict use and distribution of the compiled financial statements. We believe these restrictions should be required in situations where the description of the financial reporting framework is not clearly and readily available to potential users of the financial statements. For example, Illustration 4 describes a situation where the financial reporting framework is described in the terms of the engagement, and the use and distribution of the financial statements is appropriately restricted to management; however, the requirement to restrict use and distribution in this situation is not in the proposed standard.

The report would make for easier reading if headings for: “Compiler’s responsibility”; and “management’s responsibilities” were included.

7. **Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.**

Obtaining an understanding of and compliance with ISQC 1 may be extremely onerous, time-consuming and costly for many SMPs at which this proposed standard is aimed. The requirement to comply with ISQC 1 may undermine the IAASB’s efforts to develop standards that address the needs of SMEs and SMPs, in particular SMPs who only or primarily provide non-assurance services.

This standard needs to be specific about the sections of ISQC 1 that may apply to practitioners that only provide compilation services.
ISQC 1 has been designed primarily with the assurance providers in mind. In an assurance environment ISA 220 provides specific guidance to the practitioner regarding the requirements of ISQC 1. This standard dealing with non-assurance services, provides no such specific guidance, but rather infers full compliance with ISQC 1.

It is also contradictory with the key principles followed in revising ISRS 4410 in that the compilation engagement should be performed on a cost-effective basis and that the engagement standard has been developed to be capable of being used on a stand-alone basis.
COMMENTS ON OTHER MATTERS

1. **Users of Financial Information or Financial Statements of SMEs, including Regulators**—Recognizing that information compiled by professional accountants under proposed ISRS 4410 will likely of particular interest and relevance to users in the SME environment (for example, creditors, lending institutions, suppliers) and, in some cases, regulators, the IAASB invites respondents from these constituencies to comment on the proposed ISRS, in particular on the form and content of the illustrative practitioners’ reports.

   *No Additional comments*

2. **Developing Nations**—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed ISRS in a developing nation environment.

   *No Additional comments*

3. **Translations**—Recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISRS.

   *No Additional comments*

4. **Effective Date**—Recognizing that proposed ISRS 4410 is a substantive revision of extant ISRS 4410, and given the public interest need to harmonize practice internationally as soon as practicable, the IAASB believes that an appropriate effective date for the standard would be 18 months after approval of the final revised standard. Assuming the IAASB intends to finalize the revised standard in December 2011, it would then be effective for compilation engagements performed for financial information for periods ending on or after June 30, 2013. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the final ISRS.

   *We do believe that the implementation date of the proposed ISRS 4410 is appropriate, however clarity on whether the standard can be early adopted should be provided.*
Comments on Exposure Drafts on ISRS 4410 (Revised), Compilation Engagements

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the Exposure Drafts issued by the International Auditing and Assurance Standards Board (ISAAB). Our comments on the proposed changes are as follows:

Question 1

Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?
Comment

Yes, we believe the proposed scope is appropriate and it is generally clear when practitioners undertaking the compilation of financial information are required to apply the standard. We do not envisage any practical challenges that may arise from the proposed scope of the standard.

Question 2

Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner’s report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?

Comment

Yes, we believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner’s report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements.

Question 3

Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS an acceptable premise for the practitioner undertaking a compilation engagement under the standard?

Comment

We agree that the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities is an acceptable premise. As explained in the explanatory memorandum, this is very important in order to mitigate the risk of the practitioner being associated with information that is materially false or misleading.

Question 4

Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?
Comment

Yes, the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate.

Question 5

When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?

Comment

Yes we agree that in appropriate circumstances, the practitioner should be allowed to propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information. There is need to allow the practitioner to apply their expertise.

Question 6

Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?

Comment

Yes we agree, these reports provide useful additional material to illustrate some different scenarios for compilation engagements and communications contained are clear and appropriate.

Question 7

Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to
specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.

**Comment**

The requirements concerning quality control at the engagement level are sufficient.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Modest Hamalabbi
Technical and Standards Manager
Paris La Defense, March 31st, 2011

International Federation of Accountants
International Auditing and Assurance Standards Board
Mr. James Gunn, Technical Director of IAASB
545 Fifth Avenue - 14th Floor
New York NY 10017 USA

E-mail: edcomments@ifac.org

Re: Comments on the October 2010 IAASB Exposure Draft on the Proposed International Standard on Related Services ISRS 4410 (Revised), Compilation Engagements

Dear Sirs,

Mazars is pleased to submit this letter in response to the request for comments from the IFAC IAASB, on its proposed Exposure Draft ISRS 4410 on Compilation Engagements.

Mazars is a unique integrated partnership with a global reach. It operates as one integrated international partnership in 61 countries as of 1st January 2011, with nearly 13,000 professionals, led by more than 730 partners, with 15 additional countries where Mazars is present through correspondents and joint ventures (see Mazars 2010 annual report together with its more recent updates, its 2010 IFRS joint-audited consolidated financial statements, and all the annual reports published since 2005 on http://annualreport.mazars.com).

Mazars is a member of the International Federation of Accountants’ (IFAC) Forum of Firms. Mazars fully supports, since many years now, the initiatives of IFAC, the Forum of Firms and the Transnational Auditors Committee, to promote high standards in the international practice of auditing. All Mazars firms and correspondents are committed to support those initiatives.

We want to preface our comments with general consideration that we fully support the implementation of international standards, application and other explanatory materials, and practice statements strengthening the audit quality. Mazars is therefore fully committed to support the IFAC initiatives, as well as those of the regulators in these areas of common concern.

We would be pleased to discuss our detailed comments submitted hereafter with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,

Isabelle Sapet
IFAC IESBA Member

Jean-Luc Barlet
TAC Member, Mazars Chief Compliance Officer
General comment

To facilitate the adoption of the standard, we believe that ISRS 4410 should be principles-based and not excessively prescriptive. This comment is stated also because companies that use compilations are normally not listed on an international capital market. Therefore, the standard should allow for a degree of adaptability to reflect local practice and the local legislative environment while providing an internationally recognisable framework.

1. Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS.

1a) Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard?

Appropriateness of the scope

In principle, we believe that the scope is appropriate and it is thus logical that the standard should be applied where practitioners are engaged to provide a compilation service in accordance with an applicable financial reporting framework.

Obligation of a report

As of today, three practices exist:

- No report neither apparent identification / name / association between the practitioner and the compiled information;

- No report but the name of the practitioner is associated with the compiled information: this can create confusion as the users are not aware of what has been done. In this case, the expectation gap is increased;

- A report is issued and the compiled information is systematically “attached” to it (on which there is the identification of the name of the practitioner): we think this possibility is the best one to reduce the expectation gap provided that the report is clear enough to explain what work has been performed by the practitioner. We draw your attention on the fact that the adoption of this international standard could be made difficult in some countries as in those countries (such as in the UK and the USA), there is no legal obligation for a compilation report to be issued.

Clarity of what is the compilation

We think that it might be helpful for the practitioner to understand what compilation is not, in order to help him to distinguish it clearly from an audit. Therefore we suggest that the definition of compilation should be further explained with the following derived from Statements on Standards for Accounting and Review Services ("SSARS"), issued by the American Institute of Certified Public Accountants ("AICPA"): “A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Therefore, a compilation
does not provide a basis for obtaining or providing any assurance regarding the financial statements.”

We also think that the examples given are too much oriented towards the compilation of the financial statements. We think it would be helpful to give other examples such as tax returns.

1b) What practical challenges, if any, might arise from the proposed scope of the standard?

Extend of the work effort
We welcome the efforts made by IAASB to widen the broad range of different types of engagements (assurance / non assurance / from the compilation to the audit) but we think that there is a need to clarify the work effort on each type of engagement both to facilitate the implementation of the standards among the practitioners and also to reduce the “expectation gap” with the different stakeholders.

Especially, we think that the work effort, the extent and nature of work to be done needs further clarification. See above our proposal to clarify the “compilation”.

The standard requires (§ 30) that “when the practitioner becomes aware that the records, documents, explanations or other information provided by management for the compilation are incomplete, inaccurate or otherwise unsatisfactory, the practitioner shall bring this to the attention of management and request the required information”

The standard also requires that the practitioner obtains an understanding of the client’s industry, including the accounting principles and practices generally used in the industry to perform a compilation.

Definition of “assistance” to management: we think this concept should be further explained.

Understanding by the third parties
Users (third parties) may not be knowledgeable with regard to the meaning of the services rendered for compilations. Users may place more reliance on compilation services than appropriate given the existence of the report.

Ethical requirements
We think that:

- The standard should define and explain what ethical requirements (if there are such) should be applied by a practitioner performing a compilation engagement. If the accountant is not considered independent with respect to the reporting entity, we recommend that the same requirement as in the US Standards be adopted, that is, the accountant, after discussing with management, discloses his/her lack of independence in the report.

- The future standard should clearly precise the question of the compatibility, in link with the IFAC Code of Ethics and mention if it is possible for the same practitioner to combine a compilation engagement and an audit engagement for the same client or within a Group audit. The definition of “compile” and “compilation engagement” seems to agree with examples given in Section 290.171 of IFAC Code of Ethics as “Preparing financial statements based on information in the trial balance” and also with general provisions stated from section 290.167. It would be also useful to specify that compilation engagement is permitted for the practitioner with an audit client only for non-PIE.
2. Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner’s report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?

Unfortunately, it is difficult to eliminate the expectation gap for the non-professional accountant reader of a report on financial information. The association of a practitioner name with financial information may lead to an assumption of greater assurance than is actually being provided.

Paradoxically, the existence of a report can thus lead to confusion.

Although the Exposure Draft (“ISRS”) stated that “A compilation engagement is not an assurance engagement” (Item 8 of the Introduction of this ISRS, page 18), the Flowchart Diagram (Explanatory Memorandum, page 11) and the Application and Other Explanatory Material of the ISRS (A47-A49) indicate that,

- Practitioner has to determine “whether the financial information (is) materially misstated or misleading?”, and if so,
- Practitioner has to propose amendment(s) to management for information not be materially misstated or misleading; and
- Practitioner has to either amend the compiled financial information if management agrees, or withdraw from engagement.

Also, the ISRS clearly states what’s entailed in “not to be materially misstated or misleading” as follows (page 11 of the Explanatory Memorandum, Flowchart Diagram):

- Financial information compiled in accordance with the applicable framework;
- Use of acceptable framework; and
- Applicable framework properly referred to or described in the compiled financial information.

There appears to be some inconsistency between the detailed procedures drafted (A47 –A49) and the reporting, which is clear in conclusion that no opinion is rendered.

We suggest that, if a compilation engagement is not aimed to giving any assurance, the specific procedures as stated in A47-A49 should be reconsidered for appropriateness.

3. Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS an acceptable premise for the practitioner undertaking a compilation engagement under the standard?

Yes, we agree that it is appropriate for management to acknowledge its responsibilities, as specified in the standard.

4. Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?

The proposed guidance in this area is not sufficiently clear and may imply a higher level of service.
It would be useful, if the standard provided guidance on what practitioners should do if they are uncertain about the completeness of information. This could be as a result of information being missed out or there may be issues with management integrity.

5. **When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?**

Practitioner may propose another reporting framework. However, in doing so, there is a risk that management may not be considered fully responsible for the financial information, while the proposed report clearly states management is responsible for applicable financial reporting framework.

6. **Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?**

We believe that these illustrative reports do provide useful additional material.

General (applied to all four examples):

The sentence included in the examples “These financial statements are presented in accordance with (applicable financial reporting framework)” is somewhere misleading as it could be interpreted as assurance: we recommend either deleting it or organising and locating this sentence on the reporting standards so that it is clear no assurance provided.

On the second paragraph regarding management’s responsibility, should it not be given in a general term, instead of specifics? Otherwise, use of estimate, adequacy of notes, etc., may also need to be included.

7. **Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.**

We understand that ISQC1 is compulsory (see §4 ISQC1 “This ISQC applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this ISQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.”)

We support the premise that a firm providing compilation engagements should be required to apply standards contained in ISQC 1.

Regarding the users, the link with the reference to SME could be emphasized in the presentation of the scope.

Regarding the other topics (Developing nations, Effective date), no specific comment.
31 March 2011

Mr. James Gunn
Technical Director, International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, 10017 USA

Dear Sir

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD ("IAASB") EXPOSURE DRAFT ON PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES 4410 (REVISED), COMPILATION ENGAGEMENTS

The Auditing and Assurance Standards Board ("AASB") of the Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Auditing and Assurance Standards Board ("IAASB") exposure draft on proposed International Standard on Related Services 4410 (Revised), Compilation Engagements.

MIA supports IAASB’s effort in addressing the growing demand for services other than audit to meet the unique needs of small and medium sized entities ("SMEs") and the users of their financial information.

Our comments are as follows:

Q1. Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?

We believe the scope of proposed ISRS 4410 is appropriate. The proposed standard provides clarity on the specific circumstance of the practitioner’s responsibility when engaged to compile and report on historical financial information. However, it is worth noting that applying the ISRS to compilation engagements for non-financial information as permitted in paragraph 2 may pose challenges in the consistent application of the standard. It is less clear how the standard would be adapted for engagements to compile non-financial information, given the diverse range of engagements that this may comprise.
Q2. Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner’s report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?

Yes, the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and practitioners undertaking the engagement.

The requirement of the proposed standard to include explicit statement about the nature of compilation engagement in the terms of engagement and the practitioner’s compilation reports facilitates the distinction of a compilation engagement from assurance and review engagements.

Having mentioned this, it is challenging in practice to impress upon stakeholders of the non-assurance nature of a compilation engagement mainly due to the mass perception that practitioners are customary service providers for assurance engagement.

Q3. Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS an acceptable premise for the practitioner undertaking a compilation engagement under the standard?

Yes, the requirement is an acceptable premise for the practitioner undertaking a compilation engagement under the standard. The statement emphasises and reminds that management cannot absolve themselves from their overall responsibility for the preparation of the financial information which is the subject of the compilation engagement. Generally, in a compilation engagement, the expectation gap on the extent of work performed and level of involvement by practitioner is particularly significant.
Comments to the questions: (continued)

Q4. Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?

The proposed requirements are appropriate. The proposed requirements affirm the stance that the management is responsible for any amendments made to the financial information as a result of any material misstatements identified by the practitioner for the purpose of the compilation engagement. The proposed requirements set the appropriate tone that distinguishes a compilation engagement from assurance and review engagements.

Q5. When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?

To avoid association with financial information that is materially misstated or misleading, we agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information.

Q6. Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?

The illustrative reports provide useful additional material to illustrate some different scenarios for compilation engagements. We believe the communications contained in these reports are clear and appropriate; particularly management’s responsibility for the entity’s financial statements, the extent of the practitioner’s involvement regarding the entity’s financial statements and the non-assurance nature of a compilation engagement.
Comments to the questions: (continued)

We suggest that the header "Alert to Reader" included in illustration 2, 3 and 4 of Appendix 3 is replaced with a more appropriate term such as "Basis of Preparation" to avoid the perception that the practitioner's report is a vehicle to express an opinion or conclusion on the compiled financial information.

Q7. Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.

We believe the requirements concerning quality control at the engagement level are sufficient.

ISQC 1 applies to all IAASB engagement standards as mentioned in ISQC 1. The IAASB engagement standards are adopted in Malaysia with minimal amendments to localise the reference to Malaysian context which is highlighted in the foreword to the standard.

On this premise, the specification of quality control provision in the proposed ISRS 4410 does not create difficulty at national or firm level in Malaysia.

Q8. Users of Financial Information or Financial Statements of SMEs, including Regulators – Recognizing that information compiled by professional accountants under proposed ISRS 4410 will likely of particular interest and relevance to users in the SME environment (for example, creditors, lending institutions, suppliers) and, in some cases, regulators, the IAASB invites respondents from these constituencies to comment on the proposed ISRS, in particular on the form and content of the illustrative practitioners’ reports.

Not Applicable.

Q9. Developing Nations - Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed ISRS in a developing nation environment.

Not Applicable.
Comments to the questions: (continued)

Q10. Translations - Recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISRS.

Not Applicable.

Q11. Effective Date - Recognizing that proposed ISRS 4410 is a substantive revision of extant ISRS 4410, and given the public interest need to harmonize practice internationally as soon as practicable, the IAASB believes that an appropriate effective date for the standard would be 18 months after approval of the final revised standard. Assuming the IAASB intends to finalize the revised standard in December 2011, it would then be effective for compilation engagements performed for financial information for periods ending on or after June 30, 2013. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the final ISRS.

We believe the tentative effective date is reasonable and provides a sufficient period to support effective implementation of the final ISRS.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

[Signature]

ABDUL RAHIM ABDUL HAMID
President
5 April 2011

By electronic submission via website: www.iaasb.org

James Gunn
IAASB Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, 10017
USA

Dear James,

Re: IAASB ED Proposed ISRS 4410 (Revised) Compilation Engagements

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on IAASB ED proposed ISRS 4410 (Revised) Compilation Engagements.

Background to APESB

APESB was established in February 2006 as an initiative of the Institute of Chartered Accountants in Australia (ICAA) and CPA Australia. In November 2006, the National Institute of Accountants (NIA) was admitted to the APESB. APESB is an independent standard setter with the primary objective of developing and issuing, in the public interest, appropriate professional and ethical standards which apply to the membership of the three professional accounting bodies (over 180,000 professional accountants) in Australia. A secondary objective of the APESB is to provide the opportunity or forum for the discussion and consideration of issues relating to professional standards for accountants.

Overall Comment

We are supportive of and commend the IAASB’s initiative to revise the existing ISRS 4410 (Issued 1990 and revised 1994). APESB revised the Australian equivalent APES 315 Compilation of Financial Information (APES 315) in July 2008. APES 315 has been in operation in Australia since 1 January 2009.
APESB has the following significant concerns with respect to the proposed ISRS 4410:

- Proposed ISRS 4410 allows a professional accountant to opt out of the proposed standard when a report is not issued. APESB is of the view that professional accountants must be brought within the scope of the Standard when they provide the relevant service (whether it is a compilation service, taxation service or other service) and it must not be dependent on whether a report is issued. We request that IAASB reconsider this and amend the proposed ISRS to apply when a professional accountant compiles historical financial information.

- The application of the proposed ISRS 4410 to historical financial information (prepared in compliance with an applicable financial reporting framework) only is too narrow. In contrast APES 315 has been written in a manner to apply to historical and prospective financial information and thus has a much broader ambit. We are aware that in the SME sector a significant number of Compilation Engagements are conducted which are not related to historical financial information prepared in accordance with an applicable financial reporting framework.

If the IAASB intent is to address the needs of the SME sector, which we believe it should, we recommend that you adopt a similar approach. Otherwise there is a significant risk that the Standard will not specifically address the majority of Compilation Engagements that are carried out. We request that IAASB consider the scopes adopted by national jurisdictions (such as Australia, New Zealand and the United States). These jurisdictions have already issued Standards dealing with Compilation Engagements, which apply to historical and prospective financial information. We are of the view that it is not in the public interest when the International Standard adopts a much more limited scope than National standard setters in this important area.

- The proposed ISRS 4410 should address how a professional accountant deals with disagreements with management and the reporting requirements in these situations.

Our detailed responses to the specific questions raised in the IAASB explanatory memorandum and other comments are given in Appendix 1. For your reference we have provided a copy of the Australian equivalent APES 315 in Appendix 2.

If you would like to discuss further or require any additional information, please do not hesitate to contact me on 61 418 836984 or email at kspargo@bigpond.net.au or Mr. Channa Wijesinghe, Technical Director on +61 3 96424372 or email at channa.wijesinghe@apesb.org.au.

Yours sincerely

Kate Spargo
Chairman
Appendix 1

IAASB’s request for specific comments

1. Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?

APESB is of the view that the scope of the proposed ISRS 4410 allows professional accountants to opt out of the proposed standard and that it has adopted a limited scope in the body of the standard. Thus if the proposed ISRS 4410 is adopted in its current form it is unlikely to capture the majority of compilation engagements conducted in Australia. Our key concerns in respect of the scope of the proposed ISRS 4410 are:

i. Proposed ISRS 4410 allows a professional accountant to opt out

To come within the scope of the proposed ISRS 4410 a professional accountant needs to compile and report on historical financial information prepared in accordance with an applicable financial reporting framework.

APESB is of the view that the reporting requirement must not be a determining factor as to whether this proposed ISRS 4410 applies to a Compilation Engagement. APESB believes that the proposed ISRS 4410 should be written so that it applies to all Compilation Engagements performed by a professional accountant in a similar manner to APESB’s equivalent (APES 315), which has been in operation since 1 January 2009. If Australia were to adopt the proposed ISRS 4410 in its current form it will significantly lower the existing professional requirements in Australia.

We believe the reporting requirement is secondary and note that APES 315 provides for reporting externally (i.e. paragraph 12.1) as well as internally (i.e. paragraph 12.2) whilst maintaining a scope that applies to all Compilation Engagements.
APES 315 States that a professional accountant must issue a compilation report in the following circumstances (refer paragraph 12.1 below):

‘When a Member in Public Practice prepares Compiled Financial Information, the Member shall issue a Compilation Report, subject to the requirements of paragraph 12.3, in circumstances where:

(a) the Member’s name is identified with the Compiled Financial Information;
(b) the Compiled Financial Information is for external use; or
(c) it is more likely than not that the intended user of the Compiled Financial Information may not understand the nature and scope of the Member’s involvement with that information.’

APES 315 also addresses circumstances where one professional accountant compiles financial information which is subject to an audit or review by another professional accountant. The proposed ISRS 4410 is silent on these circumstances from a reporting perspective as well as an independence perspective and in our opinion these circumstances should be addressed.

APES 315 recognises that the compiled financial information may be for internal use in certain circumstances and allows a professional accountant to issue appropriate reports internally to the management or those charged with governance of the client. This aspect should also be considered.

Our major concern is the proposed ISRS 4410 allows professional accountants to avoid the proposed ISRS 4410 by agreeing with the client not to issue a compilation report.

ii. Proposed ISRS 4410 should be broader than historical financial information prepared in accordance with an applicable financial reporting framework

APESB believe the scope of the proposed ISRS 4410 should not be restricted to historical financial information prepared in accordance with an applicable financial reporting framework. Whilst the proposed Standard contemplates historical and prospective financial information, the last mentioned is not specifically addressed in the body of the proposed ISRS 4410 due to the definitions of Compile and Compilation Engagement. In APES 315, both historical and prospective financial information are included in the definition of Compiled Financial Information and within the scope of the requirements of the Standard. Refer to relevant extracts below.

‘Compiled Financial Information means a presentation of historical or prospective financial information in a specified form, without undertaking to express any assurance on the information. For the purposes of this Standard Compiled Financial Information includes Financial Statements.

1.9 This Standard is directed towards Engagements to compile historical or prospective financial information’
The proportion of SMEs who require compilation of historical financial information in accordance with an applicable financial reporting framework is small in comparison to all compilation engagements performed at the SME level. IAASB’s stated intent is to assist the SME sector with this proposed ISRS 4410. However, by limiting the Standard to circumstances where historical financial information is prepared in accordance with an applicable financial reporting framework, we believe that the Standard is scoping out a significant proportion of compilation work performed by professional accountants.

We note that at the recent IFAC Global Forum Highlights on SMPs, IFAC president Mr. Tidström indicated that small- and medium-sized entities are a public interest issue: they represent two-thirds of employment globally, and comprise 95% of entities, according to the OECD.

Accordingly, we argue that it is in the public interest for the proposed ISRS 4410 to adopt a broader scope in the body of the proposed standard.

The equivalent national standards in the United States, New Zealand and Australia do not contain such restrictions. We note that the United States has further categorised Compilation Engagement into three separate Standards:

AR Section 100 Compilation and Review of Financial Statements
AR Section 110 Compilation of Specified Elements
AR Section 120 Compilation of Pro Forma Financial Information.

**iii. Compilation of non financial information**

Paragraph A3 provides guidance to practitioners where they ‘may’ use this standard adapted as necessary for compilation of non-financial information. APES 315 states that it is to be applied to the extent practicable, to compilation engagements in respect of non-financial information. APESB believes that the same rigour needs to be applied by professional accountants to compilations of both financial and non-financial information.

We believe that if the proposed ISRS 4410 were adopted in its current state then it would significantly lower the existing professional requirements in respect of Compilation Engagements in Australia.

For the reasons noted above, we believe that the proposed ISRS 4410 will not achieve the stated project objective of addressing the needs of the SME sector if it is issued in its current form.
2. Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner's report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?

Yes, it is clearly distinguishable from assurance services.

3. Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS an acceptable premise for the practitioner undertaking a compilation engagement under the standard?

Yes, this is an acceptable premise based on the existing restricted scope of the proposed ISRS 4410. Similarly in APES 315, it is a mandatory requirement to obtain the clients acknowledgement when compiling general purpose and special purpose financial statements. APESB notes that smaller entities may have difficulties in applying this requirement in certain circumstances.

4. Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?

APESB supports the proposed requirements.

5. When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?

In the proposed ISRS 4410, paragraph 33-34 requests a Member to withdraw from a Compilation Engagement if management declines the amendments proposed by the professional accountant.

We understand that the IAASB believes that as the professional accountant is in control of the Compilation Engagement and the compilation report, any departure from an applicable financial reporting framework should be dealt by requesting management to amend the historical financial information, recommending the adoption of an alternative financial reporting framework or resigning from the engagement.

APESB believes that this requirement is too restrictive on the professional accountant. The proposed ISRS 4410 should address instances where there is a disagreement with management and it cannot be assumed that management will agree to change the
historical financial information, or allow the professional accountant to select an alternative financial reporting framework or the professional accountant can resign from the engagement if management refuses to make appropriate amendments.

Just as audit reports allow an auditor to deal with a disagreement with management in the auditor’s report, so too should compilation reports. It cannot be assumed that in all instances clients will agree to amendments or selection of an alternative financial reporting framework or as a last resort will be agreeable for a professional accountant to withdraw from an engagement.

IAASB should also consider the matter of how a professional accountant deals with a pervasive matter that affects the compiled financial information such as an inherent uncertainty in respect of going concern. In these circumstances we believe that the professional accountant must disclose this matter in the compilation report.

APESB recommends that the IAASB adopt a similar approach to the International Standards on Auditing in respect of dealing with disagreements with management and reporting these circumstances.

6. Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?

APESB is supportive of the illustrative reports subject to our comments on question 5.

7. Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.

Yes, APESB is of the view that the approach taken in the proposed ISRS 4410 is appropriate.

APESB supports the proposed ISRS 4410’s linkage with ISQC 1. A similar approach has been adopted in Australia. APES 315 make references to APES 320 Quality Control for Firms which is based on ISQC 1. In addition, paragraph 22 of the proposed ISRS 4410, extends the quality control to engagement level, which is also supported by APESB.
8. Recognizing that proposed ISRS 4410 is a substantive revision of extant ISRS 4410, and given the public interest need to harmonize practice internationally as soon as practicable, the IAASB believes that an appropriate effective date for the standard would be 18 months after approval of the final revised standard. Assuming the IAASB intends to finalize the revised standard in December 2011, it would then be effective for compilation engagements performed for financial information for periods ending on or after June 30, 2013. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the final ISRS.

APESB believes that the timeframe is appropriate. In Australia, we do not believe that the proposed ISRS 4410 add significant new requirements due to its proposed narrow scope.

Other comments

Independence

APESB agrees with the IAASB’s view that independence of the professional accountant is not prerequisite for the professional accountant to undertake a compilation engagement. However, we are of the view that the requirement to disclose when the professional accountant is not independent is critical from a user’s perspective. In the proposed ISRS 4410 the independence disclosure is included as guidance in paragraph A20 and refers to national requirements.

APESB believes this is a public interest issue and that professional accountants must disclose when they have a relationship or conflict and thus are not independent from the client in fact or appearance (for example, a professional accountant prepares a compilation report for a close relative who then uses it to secure funds from a bank but the relationship is not disclosed).

Most compilation engagements in the SME sector operate within small communities and invariably there is potential for relationships or other matters that create conflicts. Therefore the requirement to disclose will ensure transparency to both the client and potential users of the compilation report. From an Australian perspective, this is a mandatory requirement (paragraph 3.5 of APES 315) and the independence disclosure must be included in the compilation report (Paragraph 12.6 of APES 315).

Fraud

APESB is of the view that the proposed ISRS 4410 has not specifically addressed fraud. There is subtle contemplation of fraud in the proposed Standard (paragraph 35). It is implied that significant matters (fraud is by nature significant) should be brought to the attention of either management or those charged with governance.
In Australia, APES 315 specifically addresses fraud in the following manner:

13.3 If the Member in Public Practice obtains information that indicates that a material fraud, material misstatement or illegal act has occurred, the Member shall communicate these matters as soon as practicable to Those Charged with Governance of the Client.

We note that similar provisions exist in the equivalent Standards in New Zealand and the United States (NZICA PSB SES-2, paragraph 57 and AICPA SSARS No. 1, 2, and 3).

We recommend that the revised ISRS 4410 incorporate mandatory requirements for professional accountants who are performing compilation engagement to communicate fraud or illegal acts to those charged with governance.

Planning

APESB is of the view that a planning requirement should be included in the proposed ISRS 4410 for professional accountants to plan the Compilation Engagement. This will allow the engagement to be performed in an effective and efficient manner. Please refer to paragraph 5.1 of APES 315.

Subsequent discovery of facts

APESB is of the view that a requirement should be added to address circumstances where subsequent discovery of facts occurs after the completion of the Compilation Engagement which leads the professional accountant to believe that the information supplied during the engagement was materially false or misleading. Please refer to paragraph 14 of APES 315.
Appendix 2

APES 315
COMPILATION OF FINANCIAL INFORMATION
(Issued July 2008, Revised November 2009)

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Conformity with International Pronouncements

Appendix 1 Examples of Compilation Reports

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Any permitted reproduction including fair dealing must acknowledge APESB as the source of any such material reproduced and any reproduction made of the material must include a copy of this original notice.
1. **Scope and application**

1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional standard APES 315 Compilation of Financial Information (the Standard), which is effective for Engagements commencing on or after 01 January 2010. Earlier adoption of this Standard is permitted.

1.2 APES 315 sets the standards for Members in Public Practice who undertake Compilation Engagements in the provision of quality and ethical Professional Services. The mandatory requirements of this Standard are in **bold** type, preceded or followed by discussion or explanation in grey type. APES 315 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.

1.3 **Members in Public Practice in Australia shall follow the mandatory requirements of APES 315 when they undertake Professional Services to Clients that are Compilation Engagements.**

1.4 **Members in Public Practice practising outside of Australia shall follow the provisions of APES 315 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**

1.5 **Members shall be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**

1.6 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.

1.7 All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.

1.8 In applying the requirements outlined in APES 315, Members in Public Practice should be guided not merely by the words but also by the spirit of the Standard and the Code.

1.9 This Standard is directed towards Engagements to compile historical or prospective financial information.

1.10 The Standard should be applied to the extent practicable for Engagements to compile non-financial information.

1.11 This Standard is directed towards Members in Public Practice. However, Members in Business should apply this Standard to the extent practicable when they compile information for their employers especially in respect of regulatory reporting requirements and Compilation Reports prepared under ASIC Class Order CO 98/1417 *Audit relief for proprietary companies*.

2. **Definitions**

For the purpose of this Standard:

*Applicable Financial Reporting Framework* means in respect of an Engagement to prepare Financial Statements, the financial reporting framework adopted by Those Charged with Governance.
Australian Accounting Standards means the Accounting Standards (including Australian Accounting Interpretations) promulgated by the Australian Accounting Standards Board.

Client means an individual, firm, entity or organisation to whom or to which Professional Services are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

Code means APES 110 Code of Ethics for Professional Accountants.

Compilation Engagement means an Engagement to compile financial information.

Compilation Report means a report prepared in accordance with this Standard.

Compiled Financial Information means a presentation of historical or prospective financial information in a specified form, without undertaking to express any assurance on the information. For the purposes of this Standard Compiled Financial Information includes Financial Statements.

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Engagement Document means the document (i.e. letter, agreement or any other appropriate means) in which the Terms of Engagement are specified in a written form.

Financial Statements means a structured representation of historical or prospective financial information, which ordinarily includes explanatory notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term can refer to a complete set of Financial Statements, but it can also refer to a single financial statement, for example, a statement of financial position, or a statement of comprehensive income, and related explanatory notes. The requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements.

For the purposes of this Standard, the term financial report is considered to be equivalent to Financial Statements.

Firm means (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
(b) An entity that controls such parties;
(c) An entity controlled by such parties; or
(d) An Auditor-General’s office or department.

General Purpose Financial Statements means those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

Independence means
(a) Independence of mind - the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and
(b) Independence in appearance - the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a Firm’s, or a member of the Engagement team’s, integrity, objectivity or professional scepticism had been compromised.

Member means a member of a professional body that has adopted this Standard as applicable to their membership as defined by that professional body.

Member in Business means a Member employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a Member contracted by such entities.

Member in Public Practice means a Member, irrespective of functional classification (e.g. audit, tax, or consulting) in a Firm that provides Professional Services. The term is also used to refer to a Firm of Members in Public Practice and means a practice entity as defined by the applicable professional body.

Professional Services means services requiring accountancy or related skills performed by a Member in Public Practice including accounting, auditing, taxation, management consulting and financial management services.

Professional Standards mean all Standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable professional body.

Special Purpose Financial Statements means Financial Statements other than General Purpose Financial Statements.

Terms of Engagement means the terms and conditions that are agreed between the Client and the Member in Public Practice for the Engagement.

Those Charged with Governance include those persons accountable for ensuring that the entity achieves its objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties. Those Charged with Governance include management only when it performs such functions.

3. Fundamental responsibilities of Members in Public Practice

3.1 Members in Public Practice undertaking Compilation Engagements shall comply with Section 100 Introduction and Fundamental Principles of the Code and relevant legislation.

Public interest

3.2 In accordance with Section 100 Introduction and Fundamental Principles of the Code, Members in Public Practice shall observe and comply with their public interest obligations when they undertake Compilation Engagements.

Professional competence and due care

3.3 Members in Public Practice undertaking Compilation Engagements shall maintain professional competence and take due care in the performance of their work in accordance with Section 130 Professional Competence and Due Care of the Code.
Professional Independence

3.4 Independence is not a requirement for a Compilation Engagement.

3.5 Where a Member in Public Practice is not independent, the Member shall make a statement to that effect in the Compilation Report.

Confidentiality

3.6 In accordance with Section 140 Confidentiality of the Code, a Member in Public Practice who acquires confidential information in the course of a Compilation Engagement for a Client shall not use that information for any purpose other than the proper performance of that Engagement.

4. Objectives of a Compilation Engagement

4.1 The objective of a Compilation Engagement is for the Member in Public Practice to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarise financial information. This will ordinarily entail reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information. The procedures employed are not designed and do not enable the Member to express any assurance on the financial information.

4.2 A Compilation Engagement may involve the preparation of Financial Statements (which may or may not be a complete set of Financial Statements). It may also involve compilation of other financial information without the compilation of Financial Statements.

4.3 Activities which fall outside the scope of APES 315 include:

(a) preparation of a taxation return and financial information prepared solely for inclusion in the taxation return;

(b) analysis of figures provided by a Client, in order to report to the Client. For example, providing advice on a Client’s proposed purchase of another entity, using the other entity’s Financial Statements;

(c) relaying information to a Client, without collection, classification or summarisation of the information.

5. Planning

5.1 A Member in Public Practice shall plan the Compilation Engagement to ensure that the Engagement is conducted in accordance with this Standard and all applicable Professional Standards, laws and regulations.

6. General Purpose or Special Purpose Financial Statements
6.1 When undertaking a Compilation Engagement in respect of General Purpose Financial Statements or Special Purpose Financial Statements, a Member in Public Practice shall comply with the requirements of APES 205 Conformity with Accounting Standards.

7. Defining the Terms of Engagement

7.1 A Member in Public Practice shall document and communicate the Terms of Engagement in accordance with APES 305 Terms of Engagement.

7.2 In addition to the General contents of an Engagement Document of APES 305 Terms of Engagement, a Member in Public Practice should consider the following matters for inclusion in the Engagement Document:

(a) nature of the Engagement including the fact that neither an audit nor a review will be carried out and that accordingly no assurance will be expressed;

(b) fact that the Engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist;

(c) nature of the information to be supplied by the Client;

(d) in respect of prospective financial information, the basis of forecasting;

(e) key assumptions relating to prospective financial information provided by the Client;

(f) in the event that the Member makes assumptions in forecasts these assumptions will be brought to the Client’s attention;

(g) fact that the Client is responsible for the accuracy and completeness of the information supplied to the Member and that an acknowledgement of such will be required in accordance with paragraph 11;

(h) basis of accounting on which the financial information is to be compiled and the fact that it, and any known departures there from, will be disclosed;

(i) requirement for General Purpose Financial Statements to be prepared in accordance with Australian Accounting Standards;

(j) intended use and distribution of the information, once compiled;

(k) form of any Compilation Report to be issued; and

(l) nature of any disclaimer or limitation of liability clause between the Member and the Client or the Member and any user of the Compiled Financial Information.

8. Procedures

8.1 A Member in Public Practice should obtain a general knowledge of the business and operations of the Client and should be familiar with the accounting principles and practices of the industry in which the Client operates and with the form and content of the financial information that are appropriate in the circumstances.

8.2 Other than as noted in this Standard, a Member in Public Practice is not ordinarily required to:
(a) make any inquiries of management to assess the reliability and completeness of the information provided;
(b) assess internal controls;
(c) verify any matters; or
(d) verify any explanations.

8.3 A Member in Public Practice who, on reasonable grounds, forms the view that the information supplied by the Client is materially false or misleading or the Client has omitted material information, shall consider performing the procedures noted in paragraph 8.2 and request the Client to provide any additional information required to complete the Engagement.

8.4 If the Client refuses to provide the additional information as requested under paragraph 8.3 or, having performed the procedures noted in paragraph 8.2, the Member in Public Practice concludes that the information supplied by the Client is materially false or misleading, the Member shall consider the Firm’s policies and procedures established in accordance with Acceptance and Continuance of Client Relationships and Specific Engagements of APES 320 Quality Control for Firms in determining whether to continue acting for the Client in a professional capacity.

8.5 A Member in Public Practice shall perform sufficient reviews of the Compilation Engagement in accordance with Section 130 Professional Competence and Due Care of the Code and the Firm’s policies and procedures established in accordance with Engagement Performance of APES 320 Quality Control for Firms prior to issuing the Compilation Report.

9. **Misstatements**

9.1 A Member in Public Practice shall consider whether the Compiled Financial Information is appropriate in form and content and free from obvious material misstatements.

9.2 In this Standard, material misstatements include the following:

(a) material mistakes in the application of the Applicable Financial Reporting Framework or an alternative financial reporting framework;
(b) non-disclosure of the financial reporting framework and any material departures therefrom; and
(c) non-disclosure of significant matters.

9.3 For the purpose of paragraph 9.2(a) examples of alternative financial reporting frameworks that may be applied to the presentation of Compiled Financial Information include, but are not limited to:

(a) a tax basis of accounting;
(b) the cash receipts and disbursements basis of accounting for cash flow information;
(c) the financial reporting provisions established by a regulator to meet the requirements of that regulator; and
(d) the financial reporting provisions of a contract, for example a loan agreement or trust deed.

9.4 If a Member in Public Practice forms the view, on reasonable grounds, that there are material misstatements in the Compiled Financial Information, the Member shall take all reasonable steps to agree appropriate amendments with the Client.

9.5 If such amendments are not made as requested under paragraph 9.4 and the Compiled Financial Information is considered to be misleading, the Member in Public Practice shall consider the Firm’s policies and procedures established in accordance with Acceptance and Continuance of Client Relationships and Specific Engagements of APES 320 Quality Control for Firms in determining whether to continue acting for the Client in a professional capacity.

10. Documentation

10.1 A Member in Public Practice shall prepare working papers in accordance with this Standard that appropriately document the work performed, including aspects of the Compilation Engagement that have been provided in writing. The documentation prepared by the Member shall:

(a) provide a sufficient and appropriate record of the procedures performed for the Engagement;

(b) identify the sources of significant information the Member has used in the compilation of financial information; and

(c) demonstrate that the Engagement was carried out in accordance with this Standard and all other Professional Standards applicable to the Engagement, including policies and procedures established in accordance with APES 320 Quality Control for Firms, and any applicable ethical, legal and regulatory requirements.

11. Responsibility of the Client

11.1 A Member in Public Practice who undertakes a Compilation Engagement in respect of General Purpose or Special Purpose Financial Statements, shall obtain an acknowledgment from the Client of its responsibility for the reliability, accuracy and completeness of the accounting records and disclosure to the Member of all material and relevant information.

11.2 A Member in Public Practice who undertakes a Compilation Engagement other than those referred to in paragraph 11.1, should obtain an acknowledgement from the Client of its responsibility for the reliability, accuracy and completeness of the financial information and disclosure to the Member of all material and relevant information.

11.3 The acknowledgment referred to in paragraphs 11.1 and 11.2 may be provided by representations from the Client which cover the accuracy and completeness of the underlying accounting data and the complete disclosure of all material and relevant information to the Member in Public Practice.
12. Reporting on a Compilation Engagement

12.1 When a Member in Public Practice prepares Compiled Financial Information, the Member shall issue a Compilation Report, subject to the requirements of paragraph 12.3, in circumstances where:

(a) the Member’s name is identified with the Compiled Financial Information;
(b) the Compiled Financial Information is for external use; or
(c) it is more likely than not that the intended user of the Compiled Financial Information may not understand the nature and scope of the Member’s involvement with that information.

12.2 Generally when a Member in Public Practice compiles financial information for internal use by the Client, this Standard does not mandate the issue of a Compilation Report. In these circumstances the use of the Compiled Financial Information is restricted. The Member should include a reference that specifies that such Compiled Financial Information is “Restricted for internal use” or similar on each page of the Compiled Financial Information.

12.3 Where the Client has engaged another Member in Public Practice to audit or review the Compiled Financial Information in accordance with Australian auditing standards applicable to audit or review Engagements, the Member in Public Practice undertaking the Compilation Engagement shall consider the need to issue a Compilation Report. Where the Member decides not to issue a Compilation Report the Member shall document the rationale for that decision.

12.4 In the circumstances described in paragraph 12.3, if an audit or review report has been issued, this will override the need for the Member in Public Practice to issue a Compilation Report.

12.5 Where the circumstances described in paragraph 12.3 apply and the scope of the Compilation Engagement extends to significant subject matter not covered under the audit or review Engagement, the Member in Public Practice shall issue a Compilation Report for the subject matter not covered under the audit or review Engagement.

12.6 Where a Member in Public Practice issues a Compilation Report in accordance with paragraph 12.1 or 12.5, the Compilation Report shall contain the following:

(a) a title;
(b) an addressee;
(c) a statement that the Engagement was performed in accordance with this Standard;
(d) when relevant, a statement that the Member is not independent of the Client;
(e) identification of the Compiled Financial Information noting that it is based on the financial information provided by the Client (if applicable);
(f) the basis of any forecast information;
(g) key assumptions (applicable to prospective financial information only);
(h) a statement that the Client is responsible for the financial information compiled by the Member;
(i) a statement that neither an audit nor a review has been carried out and that accordingly no assurance is expressed on the Compiled Financial Information;
(j) if applicable, identification that the Member is reporting on a Special Purpose Financial Statement and the specific purpose for which it has been prepared;
(k) if applicable, a paragraph drawing attention to the disclosure of material departures from the applicable financial reporting framework;
(l) the date of the Compilation Report;
(m) the Member’s or Firm’s address;
(n) the Member’s or Firm’s name and signature;
(o) an appropriate disclaimer of liability.

12.7 Where a Member in Public Practice issues a Compilation Report in accordance with paragraph 12.1 or 12.5, the financial information compiled by the Member shall contain a reference such as "Unaudited", "Compiled without Audit or Review", or "Refer to Compilation Report" on each page of the Compiled Financial Information.

13. Communication of significant matters

13.1 A Member in Public Practice shall communicate to Those Charged with Governance of the Client any significant matters arising from the Compilation Engagement on a timely basis.

13.2 Communication should ordinarily be in writing. Where the communication occurs orally, a Member in Public Practice should record in the working papers a summary of the significant matters discussed.

13.3 If the Member in Public Practice obtains information that indicates that a material fraud, material misstatement or illegal act has occurred, the Member shall communicate these matters as soon as practicable to Those Charged with Governance of the Client.

13.4 Matters which should be communicated by the Member in Public Practice include:
(a) material misstatements identified during the Compilation Engagement and the appropriate amendments agreed with the Client in respect of the misstatements;
(b) additional information sought by the Member as a result of information supplied which contained material misstatements or was otherwise unsatisfactory;
(c) if additional information sought by the Member is not supplied:
   (i) the effect that the lack of additional information may have on the Compiled Financial Information;
   (ii) the effect of the lack of additional information on the Member’s report; and
   (iii) if appropriate, the fact that the Member proposes to withdraw from the Compilation Engagement as a result of the lack of additional information;
(d) any other matters that, in the Member’s opinion, are significant in the context of the Compilation Engagement.
13.5 Where the Member in Public Practice obtains information that a material fraud, misstatement or illegal act has occurred and the Member has reason to believe that such an act is the result of actions of Those Charged with Governance of the Client, the Member shall consider the Firm’s policies and procedures established in accordance with Acceptance and Continuance of Client Relationships and Specific Engagements of APES 320 Quality Control for Firms in determining whether to continue acting for the Client in a professional capacity.

14. Subsequent discovery of facts

14.1 Subsequent to the completion of the Compilation Engagement, the Member in Public Practice may become aware of facts that existed at the date of completion of the Compilation Engagement which may have caused the Member to believe that information supplied was materially false or misleading, had the Member been aware of such facts.

14.2 A Member in Public Practice shall consider the impact of subsequent discovery of facts on the Compiled Financial Information, discuss the matter with the Client, and take action appropriate in the circumstances. The Member shall document the reasons for the action taken by the Member.

14.3 If the Member in Public Practice believes that the Compiled Financial Information referred to in paragraph 14.2 needs to be revised, the Member shall take all reasonable steps to ensure that the Client takes the necessary steps to inform anyone who received the previously issued Compiled Financial Information of the situation.

14.4 When determining whether the Compiled Financial Information needs to be revised pursuant to paragraph 14.3, the Member in Public Practice should consider inter alia the duration of time between the issue of the Compiled Financial Information and the subsequent discovery of facts referred to in Paragraph 14.1, and the extent to which important decisions based on the Compiled Financial Information are still to be made.

14.5 If the Member in Public Practice becomes aware that the Client has not taken appropriate action in terms of paragraph 14.3, the Member shall notify Those Charged with Governance of the Client.

14.6 If appropriate action is not taken by Those Charged with Governance of the Client, the Member in Public Practice shall consider the Firm’s policies and procedures established in accordance with Acceptance and Continuance of Client Relationships and Specific Engagements of APES 320 Quality Control for Firms in determining whether to continue acting for the Client in a professional capacity.

Examples of suggested Compilation Reports in respect of General Purpose and Special Purpose Financial Statements are contained in Appendix 1

Conformity with International Pronouncements

APES 315 and ISRS 4410

The basic principles and essential procedures of APES 315 and of ISRS 4410 Engagements to Compile Financial Statements issued by the International Auditing and Assurance Standards Board (IAASB) are
consistent in all material respects, except that the scope and application and definitions are unique to APES 315 and except for the matters noted below:

- When undertaking a Compilation Engagement in respect of General Purpose or Special Purpose Financial Statements, APES 315 mandates that the Member in Public Practice needs to comply with APES 205 Conformity with Accounting Standards;
- The objectives of the Compilation Engagement (paragraph 4.1) and the requirement for Member to obtain a general knowledge of the business (paragraph 8.1) are included as guidance in APES 315;
- APES 315 requires that the Terms of Engagement be documented in accordance with APES 305 Terms of Engagement;
- APES 315 requires that the Compilation Report needs to include, where applicable, identification that the Member in Public Practice is reporting on Special Purpose Financial Statements and the specific purpose for which they have been prepared;
- APES 315 requires the inclusion of an appropriate disclaimer of liability in the Compilation Report;
- APES 315 addresses communication of significant matters to Those Charged with Governance of the Client and procedures to follow when facts are subsequently discovered which indicate that the Compiled Financial Information is materially misstated;
- APES 315 does not include a sample engagement letter; and
- APES 315 includes an example of a Compilation Report for each of General Purpose Financial Statements and Special Purpose Financial Statements. ISRS 4410 only includes an example of a Compilation Report for Financial Statements.
APPENDIX 1: Examples of Compilation Reports

Example 1

Example Compilation Report on an engagement to compile General Purpose Financial Statements.

COMPILATION REPORT TO [name of entity] ("the Client")

We have compiled the accompanying general purpose financial statements of [name of entity], which comprise the statement of financial position as at [30 June 20XX], the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes. These have been prepared in accordance with the *(the financial reporting framework/basis of accounting)* described in Note 1 to the financial statements.

*The Responsibility of [Those Charged with Governance]*

[Those charged with governance] of [name of entity] are solely responsible for the information contained in the general purpose financial statements and have determined that the *(financial reporting framework/basis of accounting)* used is appropriate to meet their needs and for the purpose that the financial statements were prepared.

*Our Responsibility*

On the basis of information provided by [Those charged with governance] we have compiled the accompanying general purpose financial statements in accordance with the *(financial reporting framework/basis of accounting)* and APES 315 *Compilation of Financial Information*.

Our procedures use accounting expertise to collect, classify and summarise the financial information, which [those charged with governance] provided, in compiling the financial statements. Our procedures do not include verification or validation procedures. No audit or review has been performed and accordingly no assurance is expressed.

The general purpose financial statements were compiled exclusively for the benefit of [those charged with governance]. We do not accept responsibility to any other person for the contents of the general purpose financial statements.

*Independence (if required)*

We are not independent of [name of entity] because *(reasons why not independent, for example, the member is a close relative of a director or proprietor of the entity)*.

Address  

Member or Firm

Date
Example 2

Example Compilation Report on an engagement to compile Special Purpose Financial Statements.

COMPILATION REPORT TO [name of entity] ("the Client")

We have compiled the accompanying special purpose financial statements of [name of entity], which comprise the [statement of financial position] as at [30 June 20XX], the [statement of comprehensive income], [statement of changes in equity] and [statement of cash flows] for the year then ended, a [summary of significant accounting policies] and [other explanatory notes]. The specific purpose for which the special purpose financial statements have been prepared is set out in Note […].

The Responsibility of [Those Charged with Governance]

[Those charged with governance] of [name of entity] are solely responsible for the information contained in the special purpose financial statements and have determined that the (financial reporting framework/basis of accounting) used is appropriate to meet their needs and for the purpose that the financial statements were prepared.

Our Responsibility

On the basis of information provided by [Those charged with governance] we have compiled the accompanying special purpose financial statements in accordance with the (financial reporting framework/basis of accounting) and APES 315 Compilation of Financial Information.

Our procedures use accounting expertise to collect, classify and summarise the financial information, which [those charged with governance] provided, in compiling the financial statements. Our procedures do not include verification or validation procedures. No audit or review has been performed and accordingly no assurance is expressed.

The special purpose financial statements were compiled exclusively for the benefit of [those charged with governance]. We do not accept responsibility to any other person for the contents of the special purpose financial statements.

Independence (if required)

We are not independent of [name of entity] because (reasons why not independent, for example, the member is a close relative of a director or proprietor of the entity).

Address
Member or Firm

Date
Example 3

Example Compilation Report on an engagement to compile General Purpose Financial Statements with an additional paragraph that draws attention to a departure from the identified financial reporting framework.

COMPILATION REPORT TO [name of entity] ("the Client")

We have compiled the accompanying general purpose financial statements of [name of entity], which comprise the statement of financial position as at [30 June 20XX], the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes. These have been prepared in accordance with the (financial reporting framework/basis of accounting) described in Note 1 to the financial statements.

The Responsibility of [Those Charged with Governance]

[Those charged with governance] of the [name of entity] are solely responsible for the information contained in the general purpose financial statements and have determined that the (financial reporting framework/basis of accounting) used is appropriate to meet their needs and for the purpose that the financial statements were prepared.

Our Responsibility

On the basis of information provided by [Those charged with governance] we have compiled the accompanying general purpose financial statements in accordance with the (financial reporting framework/basis of accounting) and APES 315 Compilation of Financial Information.

Our procedures use accounting expertise to collect, classify and summarise the financial information, which [those charged with governance] provided, in compiling the financial statements. Our procedures do not include verification or validation procedures. No audit or review has been performed and accordingly no assurance is expressed.

The general purpose financial statements were compiled exclusively for the benefit of [those charged with governance]. We do not accept responsibility to any other person for the contents of the general purpose financial statements.

Departure from the financial reporting framework

We draw attention to Note XX to the financial statements. [Those Charged with Governance] of [name of entity] have determined not to …… (E.g. capitalise leases in accordance with Australian Accounting Standard AASB 117 Leases) which is a departure from the applicable financial reporting framework.

Address

Member or Firm

Date
March 31, 2011

Mr. James Gunn
Technical Director, International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Mr. Gunn:

We appreciate this opportunity to comment on the exposure draft of the proposed revisions to International Standard on Related Services (ISRS) 4410, *Compilation Engagements* (the “proposed standard”), as developed by the International Auditing and Assurance Standards Board (“IAASB”).

We have separated our comments into two sections:

- *Responses to Request for Specific Comment* – this provides answers to the specific questions posed by the IAASB in the explanatory memo.

- *Comments on the Proposed Standard* – this provides significant paragraph-by-paragraph recommendations for changes.

For purposes of our comments, any suggested additions are noted in **bold underline** and deletions are noted in strike through.
Responses to Request for Specific Comments:

Question 1:

Proposed ISRS 4410 is designed to apply when the practitioner is engaged to compile financial information in accordance with an applicable financial reporting framework and to provide a compilation report for the engagement performed in accordance with this ISRS. Do respondents believe this scope is appropriate, and is it clear when practitioners undertaking the compilation of financial information are required to apply the standard? What practical challenges, if any, might arise from the proposed scope of the standard?

Response:

We do not believe it is appropriate for the proposed standard to scope out situations when the practitioner prepares and/or presents the financial information but does not issue a report on the compiled financial information. It would promote good practice to require a practitioner to follow this ISRS for compilation engagements even if a report is not provided.

However, we also believe that in most situations, a report would be appropriate, to clearly convey that a compilation engagement does not include the practitioner providing any form of assurance on the compiled information. The requirement to provide a report should be premised on whether or not the auditor may be associated with the financial information, for example, if the financial information is printed on the practitioner’s letterhead, presented in a binder with the practitioner’s logo, or management informs users of the financial information that such information was compiled by the practitioner. We believe the requirement to provide a report should be based on this potential practitioner association with the compiled financial information.

We understand that the IAASB has considered developing a standard or guidance on “association.” We do not believe that this separate project precludes this proposed standard from including a requirement based on association.

Accordingly, we recommend the following changes to the proposed standard:

1. This International Standard on Related Services (ISRS) deals with the practitioner's responsibilities when engaged to compile and report on historical financial information in accordance with this ISRS, and, if a report is provided, the form and content of the practitioner’s report for the compilation engagement.

15(c). Compilation engagement – an engagement in which a practitioner assists management in preparing and presenting financial information of an entity by compiling that information under the terms of the engagement, and, if applicable, issuing a report in accordance with the requirements of this ISRS.
15(d). Engagement partner – the partner or other person in the firm who is responsible for the engagement and its performance, and if applicable, 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.

New paragraph, following current paragraph 23:

**Determining Whether a Report is Necessary**

23A. The practitioner shall consider whether the practitioner may be associated with the compiled financial information. If the practitioner determines that the practitioner may be associated with the compiled financial information, the practitioner shall issue a report in accordance with the requirements of this ISRS.

Application material for paragraph 23A:

In most situations, the practitioner may be associated with the compiled financial information, for example, if the compiled financial information is printed on the practitioner’s letterhead, presented in a binder with the practitioner’s logo or name, or management informs users of the financial information that such information was compiled by the practitioner. If a practitioner may be associated with the compiled financial information, in order to make clear what a compilation engagement does and does not involve, the practitioner is required by this ISRS to issue a report on the compilation engagement.

25(f) The expected form and content of the practitioner’s report, if one is to be issued.

37. If applicable, the practitioner’s report issued for the compilation engagement shall be in writing, and shall contain the following elements:

... 

Because our view is that a practitioner may be able to use this standard when not reporting, we do not believe A1 is necessary.

A1. The practitioner’s involvement with activities related to the preparation or presentation of an entity’s financial information can take many different forms. The practitioner’s involvement in such activities falls within the scope of this ISRS if undertaken as part of performing a compilation engagement as defined in this ISRS. Such activities do not fall within the scope of this ISRS if the engagement does not involve the practitioner making a report in accordance with the requirements of this ISRS. An example of such a situation is when a practitioner provides accounting services, including assisting management with the preparation and presentation of financial information without a report as required by this ISRS.
A38. It is in the interest of both the entity and the practitioner that the practitioner sends an engagement letter prior to performing the compilation engagement to help avoid misunderstandings with respect to the engagement. An engagement letter confirms the practitioner’s acceptance of the engagement and confirms such matters as the objectives and scope of the engagement, the extent of the practitioner’s responsibilities and, if applicable, the form of the report to be issued, and the responsibilities of management in relation to the compilation and in relation to the financial information to be compiled.

Question 2:

Do respondents believe the compilation engagement performed under the proposed ISRS is clearly distinguishable from assurance services (audits and reviews of financial statements) to users of compiled financial information and the practitioner’s report, to those who engage practitioners to prepare and present financial information of an entity, and to practitioners undertaking these engagements?

Response:

Yes. We believe that the required wording in both the terms of engagement and the practitioner’s report clearly distinguish a compilation engagement from an assurance engagement.

Question 3:

Is the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS an acceptable premise for the practitioner undertaking a compilation engagement under the standard?

Response:

Yes. We strongly believe that it is important for management to acknowledge its responsibilities in the terms of the engagement prior to the practitioner undertaking a compilation engagement. Regardless of the practitioner’s level of involvement, it is critical for management to acknowledge that the financial statements are their own, and if the practitioner may be associated with the compiled information, for the report to state management’s responsibilities explicitly.

Question 4:

Do respondents believe the proposed requirements dealing with the responses and actions by the practitioner when the practitioner believes the compiled financial statements contain a material misstatement, or are misleading, are appropriate?

Response:
We believe the responses and actions required by the proposed standard are appropriate (proposing to management to make the appropriate amendments, communicating with those charged with governance), however, we are concerned with the use of the term “material misstatement” or “materially misstated” as these terms may imply a level of assurance that is not attainable by simply reading the compiled financial information (as discussed in paragraph 32 and related application material in paragraphs A47, A48, A50 and A51), nor is assurance meant to be provided in a compilation engagement. We recommend that the IAASB consider alternatives to these terms and replace them in paragraphs 32, A47, A48, A50 and A51. For example:

32. If on reading the compiled financial information, the practitioner becomes aware that:
   a) The compiled financial information does not adequately refer to, or describe, the applicable financial reporting framework; or
   b) There are material misstatements is a material inconsistency with the practitioner’s knowledge and understanding of the entity in the compiled financial statements, or that the compiled financial information is misleading...

Question 5:

When the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, do respondents agree that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information?

Response:

Yes. We agree that it may be appropriate for the practitioner to propose the use of another financial reporting framework.

Question 6:

Appendix 3 of the proposed ISRS sets out several illustrative practitioners’ compilation reports. Do respondents agree these reports provide useful additional material to illustrate some different scenarios for compilation engagements? Do respondents believe the communications contained in these illustrative reports are clear and appropriate?

Response:

Yes. We believe that it is critical to have examples of compilation reports illustrating example wording for different scenarios.
However, we would suggest that the language regarding management responsibilities be revised in order for it to be more consistent with the management responsibilities required in the terms of engagement, as follows:

Management is responsible for these financial statements including adoption of the applicable financial reporting framework, selection of appropriate accounting policies, and for the accuracy and completeness of the information used to compile the financial statements, and for judgments needed to develop any accounting estimates contained in the financial statements.

Question 7:

Proposed ISRS 4410 is premised on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding. In light of this, are the requirements concerning quality control at the engagement level sufficient? Does this approach to specifying quality control provisions in proposed ISRS 4410 create difficulty at a national or firm level? If so, please explain.

Response:

Yes. We believe the requirements concerning quality control at the engagement level are sufficient, and that it is appropriate to require practitioners to apply ISQC 1 or other standards that are at least as demanding. There are no concerns with this approach by Deloitte member firms.

Question on proposed effective date

Recognizing that proposed ISRS 4410 is a substantive revision of extant ISRS 4410, and given the public interest need to harmonize practice internationally as soon as practicable, the IAASB believes that an appropriate effective date for the standard would be 18 months after approval of the final revised standard. Assuming the IAASB intends to finalize the revised standard in December 2011, it would then be effective for compilation engagements performed for financial information for periods ending on or after June 30, 2013. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the final ISRS.

Yes, we believe the proposed effective date is appropriate.

We do not believe that the effective dates for this proposed standard and the proposed International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements, should be the same, as the two standards are describing two different types of engagements (assurance and nonassurance), and in order to avoid confusion, should not be linked to one another.

Question on Developing Nations
Recognizing that many developing nations have adopted or are in the process of adopting International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed ISRS in a developing nation environment.

None of which we are aware.

Question on Translations

Recognizing that many respondents intend to translate the final revised ISAs for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing the proposed ISRS.

None of which we are aware.

Comments on the Proposed Standard:

➢ Paragraph 22

This paragraph lists how the engagement partner takes responsibility for the overall quality of each compilation engagement, and includes items from ISA 220. However, the last bullet (maintaining appropriate engagement documentation), is not included in ISA 220 as a responsibility of the engagement partner specifically. We believe that this is an engagement team responsibility, and that paragraph A53 sufficiently describes the purpose of documentation. Accordingly, we suggest that the last bullet of paragraph 22 be deleted.

➢ Paragraphs 32, 34(b), A48 and A49

In four places in the proposed standard, in order to clearly describe that the applicable financial reporting framework is referred to or described in the disclosures or notes to the compiled financial information, we suggest the change noted below to paragraph 32, and that similar changes be made to paragraphs 34(b), A48 and A49:

34 (b) The applicable financial reporting framework used to compile the financial information is not adequately referred to, or described, in the disclosures or notes to the compiled financial information, and management declines the amendments proposed by the practitioner; or

➢ Paragraph A48, after the bullets

In order to link the application material in paragraph A48 to the requirement in paragraph 32, we suggest the following revision:
this ISRS requires the practitioner is in a position to propose amendments to the compiled financial information to address those matters so that the compiled financial information adequately refers to or describes the applicable financial reporting framework, and is not materially misstated or misleading.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen, Managing Director of Global Audit Services at + 1 212 492 3689.

Very truly yours,

Jens Simonsen