

Exposure Draft

October 2010

Comments requested by March 31, 2011

Proposed International Standard on Related Services

**ISRS 4410 (Revised), Compilation
Engagements**



**International Federation
of Accountants**

REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB) approved this exposure draft for publication in October 2010. This proposed exposure draft may be modified in light of comments received before being issued in final form.

Respondents are asked to submit their comments **electronically** through the IAASB website (www.iaasb.org), using the “Submit a Comment” link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IAASB website.

Comments can also be faxed to the attention of the IAASB Technical Director at +1 (212) 856-9420, or mailed to:

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

Comments should be submitted by **March 31, 2011**.

Copies of this exposure draft may be downloaded free of charge from the IAASB website at www.iaasb.org.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

The objective of the IAASB is to serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to, and an explanation of, the proposed International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*. The International Auditing and Assurance Standards Board (IAASB) approved the proposed revised ISRS in September 2010 for exposure.

Background

Development of International Engagement Standards for Assurance and Related Services on Financial Information Other than Audits

The IAASB's *Strategy and Work Program 2009-2011*¹ (Work Program) concludes that the IAASB's efforts should include the development of standards to address the needs of small- and medium-sized entities (SMEs) and small and medium practices (SMPs). In particular, the Work Program includes the revision of extant ISRS 4410, *Engagements to Compile Financial Statements*, and extant International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*.

The importance of this strategic focus lies in the development in recent years of growing demand for services other than the audit to meet the unique needs of SMEs and the users of their financial information.

For example, regulators in many countries have considered or are considering whether the financial statement audit is the most appropriate level of service for all entities, in particular SMEs, subject to their jurisdictional requirements. Many jurisdictions have introduced exemptions for certain entities from mandatory requirements for audits of financial statements (for example, based on the type of entity, its size, or other public interest consideration). SMEs may still seek to have audits on a voluntary basis, and some users of SME financial information may require an audit to be performed. However this change in the regulatory environment is a significant driver of demand for services other than assurance services, that will enhance the usefulness of financial information in ways suited to the range of different users of financial information or financial statements in the SME financial reporting environment, on a cost-effective basis.

In the absence of a requirement for an SME to have an assurance report provided on their financial statements by an independent external party, the professional accountant may be requested to undertake a compilation engagement to apply their expertise in accounting and financial reporting in assisting management of an entity to prepare and present financial information for a purpose identified by management. Compilation engagements may also be undertaken as part of combinations of services tailored to specific user needs.

Over the last 18 months, the IAASB has focused effort on revising two existing international engagement standards:

- ISRS 4410, in relation to compilation engagements; and

¹ Issued July 2008, and available on the IAASB website at:
http://web.ifac.org/download/IAASB_Strategy_and_Work_Program_2009-2011.pdf

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- ISRE 2400, in relation to review engagements.

The proposed ISRS 4410 (Revised) represents the outcome of the IAASB's deliberations to date.² The IAASB believes that the proposed ISRS will help practitioners performing compilation engagements around the world converge on use of a globally accepted benchmark for such engagements. Further, the ISRS will help promote development of practice in jurisdictions that currently do not have national standards in this area. A common international standard will also promote clarity for users about what is delivered in a compilation engagement.

Key Principles Followed in Revising ISRS 4410

At the outset of the project to revise ISRS 4410, the IAASB identified the following principles to underlie the engagement to compile financial information. The compilation engagement should be:

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

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.

The proposed engagement standard has also been developed to be capable of being used on a stand-alone basis for engagement performance purposes, without the need for practitioners to refer to the International Standards on Auditing (ISAs) or the review engagement standards. This recognizes that practitioners who regularly undertake compilations in their professional practices may not necessarily perform assurance engagements, and therefore may not maintain up-to-date familiarity with developments in assurance standards.

Significant Matters

Scope of Proposed ISRS 4410 (Revised)

The IAASB believes it is important to obtain respondents' views on the intended scope of proposed ISRS 4410, which is different from the scope of extant ISRS 4410.

Practitioners can have many different forms of involvement in compiling information in different situations to meet various types of needs. Practitioners may also provide a variety of communications in the course of providing various types of services commonly referred to as "accounting services." The IAASB determined that the focus of proposed ISRS 4410, however, should be on where the

² The IAASB anticipates it will be in a position to approve the proposed revised ISRE 2400, in the near future. Further information on the project to revise ISRE 2400 is available on the IAASB website at www.ifac.org/IAASB/ProjectHistory.php?ProjID=0096.

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practitioner compiles historical financial information using the applicable financial reporting framework specified in the terms of the compilation engagement. This is the most common context for compilation engagements encountered in practice, and is the most relevant to a broad range of users of historical financial information, in particular in the SME sector.

Accordingly, the IAASB determined that proposed ISRS should be focused to apply 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.

Through issuance of the report the practitioner is directly associated with the compiled financial information.

If the practitioner is engaged to compile financial information but the engaging party does not require the practitioner to provide a report for the engagement in accordance with the proposed ISRS, the engagement is not within the scope of the proposed ISRS.

Accordingly, the proposed ISRS does not address the practitioner's involvement in compiling information in other contexts, or professional considerations relating to the practitioner's association with information through having another type of involvement with the information. Notwithstanding this, a practitioner may nevertheless choose to apply the standard, to the extent applicable and adapted as necessary, in other situations that involve compiling information that are outside the scope of the proposed ISRS, including engagements to compile other types of information.³

The scope of the proposed ISRS is set out in paragraphs 1–2 and related application material,⁴ read in conjunction with the defined terms⁵ in the proposed ISRS.

Meaning of the Term “Compile”

The practitioner undertaking a compilation engagement may perform a variety of activities in the course of compiling the financial information. These activities may range from preparing accounting records from underlying information, to undertaking the preparation of financial information in a specified form, to performing only certain activities as needed to ensure information is presented in the form specified in the terms of engagement. The terms of individual engagements will set out the extent of the practitioner's involvement, depending on the needs and circumstances of the entity.

Proposed ISRS 4410 focuses on performance of the engagement in the context of assisting management to prepare and present historical financial information in accordance with the applicable financial reporting framework specified in the engagement terms, and reporting on the engagement performed.

³ Proposed ISRS 4410 (Revised), paragraphs 2 and A1–A3

⁴ Proposed ISRS 4410 (Revised), paragraphs A1–A3

⁵ Proposed ISRS 4410 (Revised), paragraph 15

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The Applicable Financial Reporting Framework

The IAASB intends that proposed ISRS 4410 should be able to be used for compilation of historical financial information using whatever financial reporting framework is appropriate in the context of the intended use of the financial information and the intended users.

The intended purpose(s) of the financial information to be compiled is a key factor in the engagement acceptance decision. The proposed ISRS requires the practitioner to determine, at the time of accepting the engagement, that the applicable financial reporting framework to be used for the compilation is acceptable, in the practitioner's judgment, in view of the intended use of the financial information and the intended users. The practitioner cannot accept an engagement under the proposed ISRS if this overall test is not met.⁶

The proposed ISRS explains that, broadly speaking, financial information may be intended to be either "general purpose" or "special purpose" in nature. General purpose financial reporting frameworks have developed at national level (often referred to as nationally recognized generally accepted accounting practice or generally accepted accounting principles), and also at international level (such as International Financial Reporting Standards), or are otherwise established and recognized within particular jurisdictions as being the generally accepted basis for preparing general purpose financial statements through a national adoption process. By definition, this type of financial information is intended to be used as information that addresses the financial information needs of a wide variety of users. Financial information prepared applying a general purpose financial reporting framework is ordinarily considered to be used for general purposes, unless it is clearly designated as being for an identified special purpose. Further, financial information may be prepared using a general purpose financial reporting framework that is modified in some respect, by agreement with the intended users, in view of the special purpose nature of the financial information.

Accordingly financial information that is intended to be used for a special purpose may be prepared either using a recognized special purpose financial reporting framework, or using a specified financial reporting framework that is both appropriate for the purposes of the engaging party and agreed between the parties to an engagement. The intended users of the particular special purpose financial information are required to be identified. When a practitioner compiles information using a special purpose financial reporting framework, the identification of the framework applied and the intended users of the information are key elements of the communication between the practitioner, management of the entity or the engaging party if different, and the intended users.

The IAASB considers that an important feature of the proposed ISRS is that it is able to be applied in a broad range of possible financial reporting contexts. This enhances the utility and relevance of the proposed ISRS as the compilation engagement may be applied in a range of financial reporting contexts as relevant for different types of users. If the range of financial reporting frameworks able to be applied under the proposed ISRS were limited, for example to only address compilation of financial information using general purpose financial reporting frameworks, that would unduly restrict the applicability of the standard. The IAASB considers that result would be contrary to the overall project objectives.

⁶ Proposed ISRS 4410 (Revised), paragraph 23(b)

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The Practitioner's Report

The IAASB considers that the practitioner's report in the compilation engagement under the proposed ISRS is an essential feature of the engagement. It is the means by which the practitioner becomes directly associated with the compiled financial information. The report communicates the nature and scope of the work undertaken for the compilation engagement, including its limitations, for the benefit of the intended users of the compiled financial information.

The report under proposed ISRS 4410 makes explicit to users the value contributed by the practitioner's involvement with the compiled financial information through application of professional expertise and application of relevant professional standards. It emphasizes the practitioner's obligation to comply with ethical principles of integrity, objectivity, and professional competence and due care, as this is understood to be fundamental to users' perceptions of the value of a compilation engagement. The form of the report required by the proposed ISRS differentiates a compilation engagement from other types of services including services that could otherwise be construed as compilation services, and also assurance services.

Under the proposed ISRS, the practitioner cannot use the compilation report to communicate about instances where the compiled financial information departs from the applicable financial reporting framework. The purpose of the practitioner's report under the proposed ISRS is to communicate on the engagement performed. If the report were to include disclosures on the quality of the compiled information, users of the information could perceive those disclosures by the practitioner as implying a level of assurance, or as an implied opinion or conclusion on the compiled financial information. The majority of IAASB members disagreed with the use of the practitioner's compilation report to disclose such departure, as doing so would blur the distinction between a compilation engagement and an assurance engagement. Further, as the practitioner's responsibility is to assist management in preparing and presenting financial information in accordance with the applicable financial reporting framework, the practitioner would be directly associated with information that, if not in accordance with the applicable financial reporting framework as presented, is possibly materially false or misleading.

Accordingly, under proposed ISRS 4410 instances of departures from the applicable financial reporting framework are required to be dealt with through amendment of the compiled financial information. The practitioner is required to agree with management on such amendments as are necessary for the compiled financial information to be in accordance with the applicable financial reporting framework where, in the practitioner's view, the compiled financial information would be materially misstated or misleading without those amendments. Amendments may include, where appropriate, proposing use of another financial reporting framework that is acceptable in view of the intended use of the information and the intended users.

Distinguishing the Compilation Engagement Performed under Proposed ISRS 4410 (Revised) from Assurance Engagements

The ISRS 4410 (Revised) compilation engagement is not an assurance engagement. As a matter of public interest, the engagement must be seen as clearly distinguishable from an assurance engagement, and should be understood as a distinct type of professional service.

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Proposed ISRS 4410 deals with these important considerations in the practitioner's required communications for the engagement, specifically:

- (a) The communication to the engaging party, in the agreed terms of engagement; and
- (b) The communication to users through the practitioner's compilation report. The report is required to include a statement that the practitioner does not provide a review conclusion or an audit opinion on the compiled financial information.

Responsibilities of Management

The practitioner's objectives under the proposed ISRS include applying accounting and financial reporting expertise to assist management in preparing and presenting financial information in accordance with an applicable financial reporting framework based on information provided by management for the purpose of the compilation.⁷

Consistent with the ISAs, the IAASB has agreed on the premise that the practitioner can only accept a compilation engagement under the proposed revised ISRS when management of the entity, or those charged with governance where appropriate, have acknowledged their responsibilities that are fundamental to performance of the engagement. Management's acknowledgement of its responsibilities is an important factor to mitigating the risk of the practitioner being associated with information that is materially false or misleading.

The proposed ISRS does not impose requirements on management. However, it requires the practitioner to obtain agreement of management that it acknowledges and understands its responsibilities relative to the engagement prior to the practitioner accepting the compilation engagement under the proposed ISRS.

Accordingly, paragraph 23(c) of proposed ISRS 4410 requires that, as a condition for accepting a compilation engagement, the practitioner must obtain management's acknowledgment of certain responsibilities, including with regard to (among other things):

- The financial information to be compiled by the practitioner based on the information provided by management and adoption of a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users.⁸
- The financial information as compiled by the practitioner, on the basis that, while the practitioner assists management in preparing and presenting the financial information in accordance with the applicable framework, management retains its responsibility for the financial information. That responsibility includes management judgments reflected in the financial information, for example regarding selection of appropriate accounting policies, development of accounting estimates and addressing the issue of going concern where applicable.⁹

⁷ Proposed ISRS 4410 (Revised), paragraph 14

⁸ Proposed ISRS 4410 (Revised), paragraph 23(c)(ii)a

⁹ Proposed ISRS 4410 (Revised), paragraph 23(c)(ii)b

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The Practitioner's Work Effort

Proposed ISRS 4410 addresses the nature and extent of the practitioner's work effort when compiling the financial information in accordance with the standard. The requirements include the approach to be followed regarding accounting estimates required for the compiled financial information, and use of the going concern assumption, under the applicable financial reporting framework.

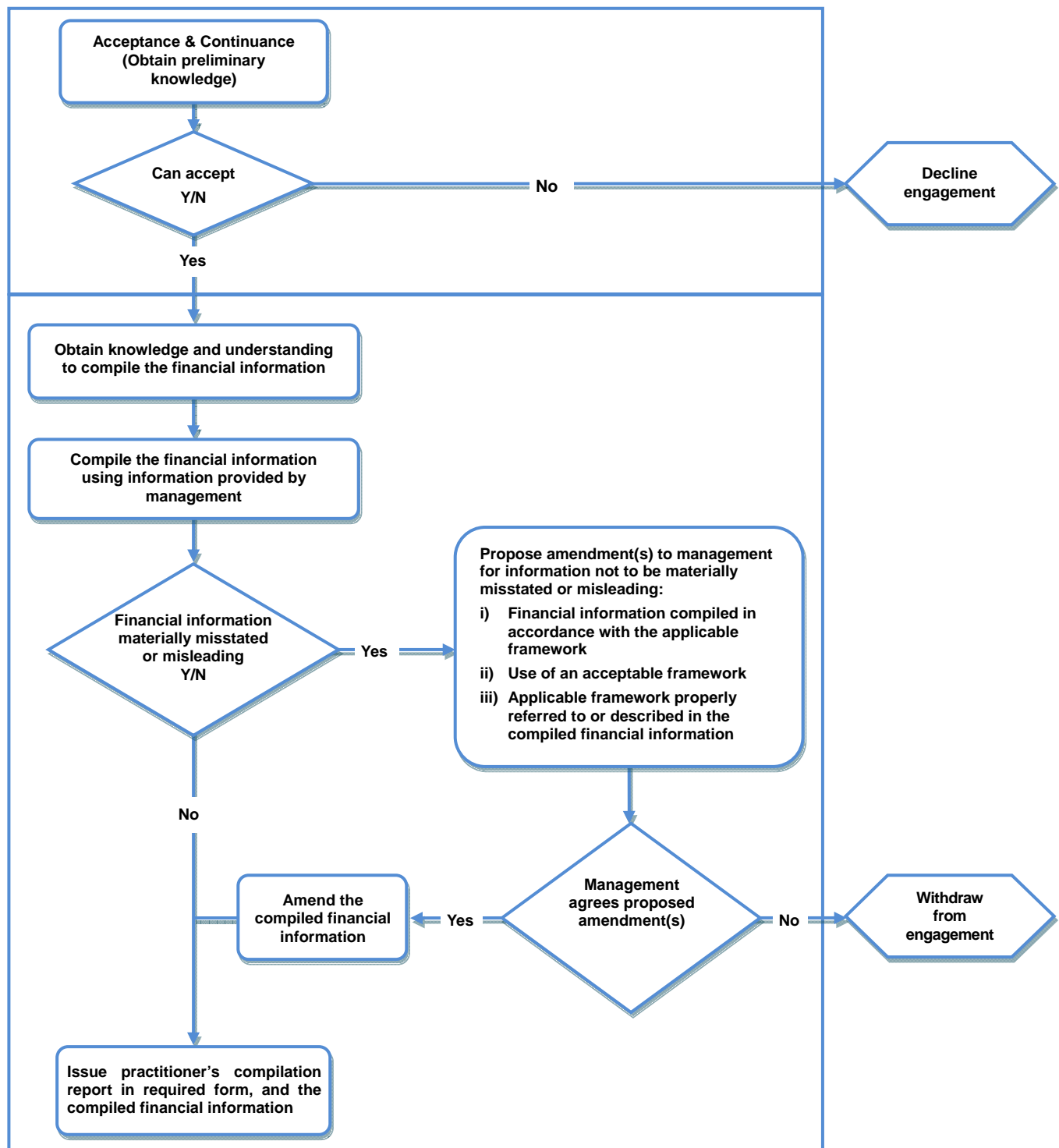
Proposed ISRS 4410 also establishes the steps the practitioner must take, including where appropriate amendment of the compiled financial information, when in the practitioner's view the compiled financial information is materially misstated or misleading.¹⁰

The flowchart on the following page illustrates the key stages and considerations during the performance of a compilation engagement under the proposed ISRS.

¹⁰ Proposed ISRS 4410 (Revised), paragraphs 32–34

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Flowchart Diagram for the Compilation Engagement under Proposed ISRS 4410 (Revised)



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Linkage with ISQC 1¹¹

ISQC 1 establishes firm-level quality controls for firms which undertake audits and reviews of financial statements, and other assurance and related services engagements, which includes compilation engagements performed under extant ISRS 4410.

The proposed ISRS 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. The IAASB is aware that some jurisdictions have decided not to adopt ISQC 1, or to adopt ISQC 1 only in respect of assurance engagements. If the firm has not applied ISQC 1 in respect of compilation engagements, for example because ISQC 1 has not been adopted either on a mandatory basis (for example, as a national standard on quality control), or by the firm itself on a voluntary basis in respect of compilation engagements undertaken by the firm, that circumstance would need to be addressed appropriately by the firm and by the engagement partners when undertaking compilation engagements. The extent of the quality controls and procedures needed at the engagement level would vary according to the situation.

Project Timetable

Subject to comments received on exposure of proposed ISRS 4410, the IAASB intends to finalize the revised standard by the end of 2011.

Guide for Respondents

The IAASB welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view.

Request for Specific Comments

The IAASB would welcome views on the following questions:

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?
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?
3. Is the requirement for the practitioner to obtain management's acknowledgement of its

¹¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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responsibilities as specified under the proposed ISRS 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?
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?
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?
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.

The IAASB is also interested in comments on matters set out below.

- *Users of Financial Information or Financial Statements of SMEs, including Regulators*—Recognizing that information compiled by professional accountants under proposed ISRS 4410 will likely be 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.
- *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.
- *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.
- *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.

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PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES 4410 (REVISED)

COMPILATION ENGAGEMENTS

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

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<p>International Standard on Related Services (ISRS) 4410 (Revised), <i>Compilation Engagements</i>, should be read in conjunction with the <i>Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services</i>.</p>

PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES 4410 (REVISED)

Introduction

Scope of this ISRS

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 the form and content of the practitioner's report for the compilation engagement. (Ref: Para. A1)
2. This ISRS is directed towards compilation engagements for historical financial information. The ISRS may be applied, adapted as necessary, to compilation engagements for financial information other than historical financial information, and to compilation engagements for non-financial information. Hereinafter in this ISRS reference to "financial information" means "historical financial information." (Ref: Para. A2–A3)

*Relationship with ISQC 1*¹

3. Quality control systems, policies and procedures are the responsibility of the firm. ISQC 1 applies to firms of professional accountants in respect of a firm's engagements to compile financial information.² The provisions of this ISRS regarding quality control at the level of individual compilation engagements are premised on the basis that the firm is subject to ISQC 1 or requirements that are at least as demanding. (Ref: Para. A4–A9)

The Engagement to Compile Financial Information

4. Financial information of an entity may be required for various purposes. The operating and governance arrangements in which the responsibility for financial information of an entity is established include:
 - (a) Requirements to produce financial information of an entity in a specified form, as part of mandatory requirements for compliance or reporting purposes established in law or regulation; or
 - (b) Any requests to produce financial information of the entity, either as required for purposes established by the entity's owners or those charged with governance, or under other ongoing periodic reporting requirements, such as to report on use of funds received for purposes linked to a funding grant.
5. Management may use a professional accountant in public practice to assist with the preparation and presentation of financial information. However, management retains responsibility for the financial information and the basis on which it is compiled. That responsibility includes application by management of judgment required for preparation and presentation of the financial information, including the selection and application of appropriate accounting policies and, where needed, developing reasonable accounting estimates. (Ref: Para. A10)

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

² ISQC 1, paragraph 4

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6. This ISRS does not impose responsibilities on management or those charged with governance, or override laws and regulations that govern their responsibilities. A compilation engagement performed in accordance with this ISRS is conducted on the premise that management, or those charged with governance where appropriate, have acknowledged certain responsibilities that are fundamental to the performance of the compilation engagement.
7. The value of a compilation engagement to users of compiled financial information results from application of the practitioner's professional expertise, and compliance with professional standards. Accordingly, in performing the engagement the practitioner is required to comply with relevant ethical principles, including integrity, objectivity, and professional competence and due care.
8. A compilation engagement is not an assurance engagement. As such, a compilation engagement does not involve gathering evidence for the purpose of expressing a review conclusion or audit opinion on the financial information. (Ref: Para. A11)

Authority of this ISRS

9. This ISRS contains the objectives of the practitioner in following the ISRS, which provides the context in which the requirements of this ISRS are set, and is intended to assist the practitioner in understanding what needs to be accomplished in a compilation engagement.
10. This ISRS contains requirements, expressed using "shall," that are designed to enable the practitioner to meet the stated objectives.
11. In addition, this ISRS contains introductory material, definitions, and application and other explanatory material, that provides context relevant to a proper understanding of the ISRS.
12. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISRS that assist in the application of the requirements.

Effective Date

13. This ISRS is effective for compilation engagements performed for financial information for periods ending on or after [date].

Objectives

14. The practitioner's objectives in a compilation engagement under this ISRS are:
 - (a) To apply accounting and financial reporting expertise to assist management in preparing and presenting financial information in accordance with an applicable financial reporting framework based on information provided by management; and
 - (b) To report in accordance with the requirements of this ISRS.

PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES 4410 (REVISED)

Definitions

15. The Handbook's Glossary of Terms³ (the Glossary) includes the terms defined in this ISRS and also includes descriptions of other terms found in this ISRS, to assist in common and consistent interpretation and translation. The following terms have the meanings attributed below for the purposes of this ISRS: (Ref: Para. A12)
- (a) *Applicable financial reporting framework*—The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial information that is acceptable in view of the nature of the entity and the objective of the financial information, or that is required by law or regulation. (Ref: Para. A13–A15)
 - (b) *Compile*—To apply accounting and financial reporting expertise to prepare and present financial information in accordance with an applicable financial reporting framework.
 - (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 issuing a report in accordance with the requirements of this ISRS. (Ref: Para. A16)
 - (d) *Engagement Partner*—The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
 - (e) *Engagement Team*—All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.
 - (f) *Practitioner*—A professional accountant in public practice who conducts the compilation engagement. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where this ISRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.
 - (g) *Relevant ethical requirements*—Ethical requirements relating to compilation engagements to which the engagement team is subject that ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (IESBA Code) together with national requirements that are more restrictive.
16. The terms “management” and “those charged with governance” are defined in the Glossary. For the purposes of this ISRS, references to “management” should hereafter be read as “management and, where appropriate, those charged with governance.” Where it is intended that requirements or guidance apply only to those charged with governance, the relevant text of this ISRS refers only to those charged with governance. (Ref: Para. A17–A18)

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

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Requirements

Conduct of a Compilation Engagement in Accordance with this ISRS

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

Complying with Relevant Requirements

18. The practitioner shall comply with each requirement of this ISRS unless a particular requirement is not relevant to the compilation engagement, for example if the circumstances addressed by the requirement do not exist in the engagement.
19. The practitioner shall not represent compliance with this ISRS unless the practitioner has complied with all requirements of this ISRS relevant to the compilation engagement.

Ethical Requirements

20. The practitioner shall comply with relevant ethical requirements as they relate to compilation engagements. (Ref: Para. A19–A20)

Professional Judgment

21. The practitioner shall exercise professional judgment in planning and performing a compilation engagement. (Ref: Para. A21–A22)

Engagement Level Quality Control

22. The engagement partner shall take responsibility for the overall quality of each compilation engagement to which that partner is assigned. The engagement partner shall take responsibility for the compilation being performed in accordance with the firm's quality control policies and procedures, by: (Ref: Para. A23)
 - (a) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A24)
 - (b) Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the compilation engagement, and remaining alert for indications of non-compliance by members of the engagement team with relevant ethical requirements; (Ref: Para. A25)
 - (c) Directing, supervising and performing the compilation engagement in compliance with professional standards and applicable legal and regulatory requirements; and
 - (d) Maintaining appropriate engagement documentation.

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Engagement Acceptance and Continuance

Factors Affecting Continuance of Client Relationships and Engagement Acceptance

23. Unless required by law or regulation, the practitioner shall not accept the engagement unless the practitioner is able to: (Ref: Para. A26–A28)
- (a) Identify the intended use by management of the financial information to be compiled, and be satisfied that there is a rational purpose for the engagement; (Ref: Para. A29–A30)
 - (b) Determine whether the financial reporting framework adopted by management for compilation of the financial information, is acceptable in the context of the intended use of the financial information; and (Ref: Para. A31–A36)
 - (c) Obtain the agreement of management that it acknowledges and understands that:
 - (i) In performing the engagement the practitioner will compile the financial information on behalf of management; and
 - (ii) Management has the following overall responsibilities which are fundamental to undertaking the compilation engagement:
 - a. Adoption of a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users;
 - b. Preparation of the financial information in accordance with the applicable financial reporting framework, including:
 - i. The fair presentation of the financial information, where relevant;
 - ii. Selection of appropriate accounting policies under the financial reporting framework where needed, and responsibility for management judgments needed to develop any accounting estimates required under the framework; and
 - c. Providing the practitioner with: (Ref: Para. A37)
 - i. All information of which management is aware that is relevant to the compilation of the financial information, such as records, documents, explanations and other information; and
 - ii. Additional information that the practitioner may request from management for the purpose of the compilation engagement;
 - d. The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement as described in paragraph 23(c)(ii)c; and
 - e. The financial information compiled by the practitioner.

Agreeing the Terms of Engagement

24. The practitioner shall agree the terms of engagement with management, or the engaging party if different, prior to performing the engagement.

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25. The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include: (Ref: Para. A38–A40)
- (a) The objective and scope of the compilation engagement, including a statement that the engagement is not an assurance engagement and accordingly the practitioner does not express any audit opinion or review conclusion in respect of the compiled financial information;
 - (b) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements;
 - (c) The responsibilities of management, including those described in paragraph 23(c);
 - (d) Identification of the applicable financial reporting framework;
 - (e) The intended use and distribution of the compiled financial information, and, where applicable, any restrictions on either its use or its distribution; and
 - (f) The expected form and content of the practitioner’s report.

Recurring Engagements

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

Performing the Engagement

The Practitioner’s Knowledge and Understanding

27. 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. (Ref: Para. A42–A43)

Compiling the Financial Information

28. The practitioner shall compile the financial information using the records, documents, explanations and other information provided by management. (Ref: Para. A44)
29. The practitioner shall 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. (Ref: Para. A45)
30. 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. (Ref: Para. A46)

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31. Prior to completion of the compilation engagement the practitioner shall read the financial information with the knowledge and understanding described in paragraph 27. (Ref: Para. A47)
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 in the compiled financial information, or that the compiled financial information is misleading,the practitioner shall propose to management the appropriate amendments to be made to the compiled financial information, and then make those amendments to the financial information. (Ref: Para. A48–A49)
33. If management declines the amendments proposed by the practitioner, the practitioner shall communicate with management and those charged with governance about the implications for the compilation engagement. (Ref: Para. A50)
34. If:
 - (a) The practitioner is not able to complete the compilation because management has failed to provide records, documents, explanations or other information that are complete and accurate, or which are otherwise unsatisfactory for the purposes of the compilation, or management has failed to provide additional information as requested by the practitioner; or
 - (b) The applicable financial reporting framework used to compile the financial information is not adequately referred to, or described, in the compiled financial information, and management declines the amendments proposed by the practitioner; or
 - (c) The compiled financial information is materially misstated or misleading, and management declines the amendments to the compiled financial information proposed by the practitioner,the practitioner shall withdraw from the engagement, unless prohibited by law or regulation, and inform management and those charged with governance of the reasons for withdrawing. If withdrawal from the engagement is not possible the practitioner shall determine the professional and legal responsibilities applicable in the circumstances. (Ref: Para. A51)

Communication with Management or Those Charged with Governance

35. The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the compilation engagement. The practitioner shall address all significant matters concerning the compilation engagement that, in the practitioner's professional judgment, need to be communicated. (Ref: Para. A52)

Documentation

36. The practitioner shall include in the engagement documentation: (Ref: Para. A53–A55)
 - (a) A brief description of significant matters discussed with management and requiring their agreement;

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- (b) The sources from which the financial information was compiled including a record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information provided by management for the compilation; and
- (c) A copy of the compiled financial information and the practitioner's compilation report.

The Practitioner's Report

37. The practitioner's report issued for the compilation engagement shall be in writing, and shall contain the following elements: (Ref: Para. A56–A57 and A63)

- (a) The report title;
- (b) The addressee(s), as required by the terms of the engagement; (Ref: Para. A58)
- (c) An introductory paragraph that:
 - (i) Identifies the compiled financial information, including the title of each element of the compiled financial information if it comprises more than one element, the date of the financial information and the period to which it relates;
 - (ii) Identifies the applicable financial reporting framework and, if a special purpose financial reporting framework is used, describes or refers to the description of that special purpose financial reporting framework in the financial information; and
 - (iii) States that the financial information has been compiled by the practitioner based on information provided by management, in accordance with the agreed terms of engagement;
- (d) A description of the responsibilities of management, including an explanation of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement and in relation to the compiled financial information;
- (e) A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this ISRS including relevant ethical requirements;
- (f) A description of what a compilation of financial information entails in accordance with this ISRS, and a statement that neither an audit nor a review has been carried out and accordingly the practitioner does not express an audit opinion or a review conclusion on the compiled financial information;
- (g) If the compiled financial information is in the form of special purpose financial statements, under a separate heading in the report: (Ref: Para. A59–A61)
 - (i) A description of the purpose for which the financial information is prepared and, if necessary, the intended users, or a reference to a note in the compiled financial statements that contains that information; and

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- (ii) An alert to users of the practitioner's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose;
 - (h) The date of the practitioner's report;
 - (i) The practitioner's signature; and
 - (j) The practitioner or firm's address.
38. The practitioner shall date the report on the date that management has accepted responsibility for the compiled financial information. (Ref: Para. A62)

Application and Other Explanatory Material

Scope of this ISRS (Ref: Para. 1–2)

- A1. The practitioner's involvement with activities relating 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.
- A2. This ISRS addresses the compilation of historical financial information. This includes compilation engagements where the engaging party is someone other than management or those charged with governance of the entity. This ISRS would be applied, adapted as necessary, in such circumstances. This ISRS may also be applied, adapted as necessary, to the compilation of other financial information. Examples of other types of financial information that practitioners may compile include:
- Financial budgets or forecasts
 - Prospective financial information
- A3. Practitioners may also perform engagements to compile non-financial information, for example greenhouse gas statements, statistical returns or information returns and may use this ISRS for those compilations, adapted as necessary.

Relationship with ISQC 1 (Ref: Para. 3)

- A4. ISQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for related services engagements, including compilation engagements. Those responsibilities are directed at establishing quality control system, policies and procedures at the level of the firm.

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- A5. Under ISQC 1 the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
 - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.⁴
- A6. A jurisdiction that has not adopted ISQC 1 in relation to compilation engagements may set out requirements for quality controls in firms performing such engagements. The provisions of this ISRS regarding quality controls at the engagement level are premised on the basis that such requirements are at least as demanding as those of ISQC 1. That is, when those requirements impose obligations on the firm to achieve the aims of the requirements of ISQC 1, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements:
- Leadership responsibilities for quality within the firm;
 - Relevant ethical requirements;
 - Acceptance and continuance of client relationships and specific engagements;
 - Human resources;
 - Engagement performance; and
 - Monitoring.
- A7. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.
- A8. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:
- Competence of personnel through their recruitment and formal training.
 - Maintenance of client relationships through acceptance and continuance systems.
 - Adherence to regulatory and legal requirements through the monitoring process.
- In considering deficiencies identified in the firm's system of quality control that may affect the compilation engagement, the engagement partner may have regard to measures taken by the firm to rectify the situation that the engagement partner considers are sufficient in the context of that compilation engagement.
- A9. A deficiency in the firm's systems of quality control does not necessarily indicate that a compilation engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

⁴ ISQC 1, paragraph 11

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The Engagement to Compile Financial Information (Ref: Para. 5 and 8)

- A10. In the course of a compilation engagement the practitioner may perform activities in addition to presenting the financial information, depending on the extent to which management has already prepared the underlying financial information. For example, the practitioner may compile the financial information from a preliminary trial balance provided by management. In other cases the practitioner may also process information about underlying transactions and events of the entity for the entity's accounting records, in the course of providing services to management of the entity. This is often the case for smaller entities that do not have well-developed accounting systems or that prefer to outsource preparation of accounting records to external providers.
- A11. A compilation engagement does not entail performance of the types of procedures that provide a basis for the practitioner to express assurance on the compiled financial information. To avoid misunderstanding the practitioner is required to communicate that the compilation engagement is not an assurance engagement when agreeing the terms of the engagement with management and in the practitioner's report.

Definitions (Ref: Para. 15)

- A12. This ISRS describes meanings attributed to certain terms for purposes of this ISRS. These are provided to assist practitioners in the consistent application and interpretation of this ISRS, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise.

The Applicable Financial Reporting Framework (Ref: Para. 15(a))

- A13. Different financial reporting frameworks can be used to prepare and present financial information, depending on the intended use of the financial information and the nature of the entity.
- A14. Financial information provided for financial reporting purposes may be characterized as being either "general purpose" or "special purpose." Financial information prepared in the form of financial statements may be prepared in accordance with a financial reporting framework designed to meet:
- The common financial information needs of a wide range of users (that is, "general purpose financial statements"); or
 - The financial information needs of specific users (that is, "special purpose financial statements").
- A15. The applicable financial reporting framework may be relatively more or relatively less complex in different financial reporting settings, depending on the intended use of the information and the needs of the intended users. Examples of financial reporting frameworks that might be used are:

General Purpose

- International Financial Reporting Standards (IFRS) for preparation of full general purpose financial statements. This is an example of a financial reporting framework

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which is more complex, and accordingly requires a significantly higher level of knowledge and expertise of the practitioner.

Special Purpose

- General purpose financial reporting frameworks may be applied on a modified basis if required for presentation of special purpose financial statements. For example, IFRS for Small and Medium-sized Entities modified to include revaluations of assets classified as property, plant and equipment, could be the special purpose financial reporting framework adopted for the compilation of the financial information.
- The cash receipts and disbursements basis of accounting, to present cash flow information required for a creditor.
- The balance sheet of an entity as at a reporting date and the income statement for the year then ended, on the historical cost basis, reflecting all cash transactions with the addition of trade accounts payable, trade accounts receivable, inventory accounted for on an average cost basis, and capitalization of significant long-lived assets amortized over their estimated useful lives.

Further guidance about the applicable financial reporting framework is set out in Appendix 1 to this ISRS.

Compilation Engagement (Ref: Para. 15(c))

- A16. As noted in paragraph A10 the scope of a compilation engagement will vary depending on the circumstances of the engagement, but will in every case involve assisting management to prepare and present the entity's financial information in accordance with the applicable financial reporting framework, based on the information provided by management. In some engagements management may have already prepared the financial information in draft or preliminary form, and may request only that the practitioner complete the compilation of the financial information in accordance with the applicable financial reporting framework. In other cases the practitioner may undertake further activities on behalf of management, for example collecting, classifying and summarizing underlying information of the entity, such as in the form of accounting records prepared from source documents, through to the production of a trial balance, as needed prior to being able to present the information in accordance with the applicable financial reporting framework.

Use of Terms "Management" and "Those Charged with Governance" (Ref: Para. 16)

- A17. The way the practitioner applies the requirements of this ISRS regarding management or those charged with governance is affected by the fact that the responsibilities of management and those charged with governance are likely to differ between various types of entities, and between jurisdictions. In small entities where one or more owners also manage the business, the roles of management and those charged with governance coincide. The words "where appropriate" used in the phrase "management and, where appropriate, those charged with governance" signal that in different entity environments the practitioner will need to take into account the relevant management and governance structure and arrangements of the entity for which the practitioner is compiling financial information.

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A18. Various responsibilities relating to preparation of financial information and external financial reporting will fall to either management or those charged with governance according to factors such as:

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

In many small entities there is often no separation of the management and governance roles for the entity, or those charged with governance of the entity may also be involved in managing an entity. In most other cases, especially in larger entities, management is responsible for execution of the business or activities of the entity and reporting thereon, while those charged with governance have oversight of management. In larger entities, those charged with governance will often have or assume responsibility for approving the financial information of the entity, particularly when it is intended for use by external parties. In large entities often a subgroup of those charged with governance such as an audit committee, is charged with certain oversight responsibilities. In different jurisdictions the legal responsibility for preparation of financial statements for an entity in accordance with a specified framework is the legal responsibility of those charged with governance, and in other jurisdictions it is a management responsibility.

Ethical Requirements (Ref: Para. 20)

A19. Part A of the IESBA Code establishes the fundamental principles of professional ethics that practitioners must comply with, and provides a conceptual framework for applying those principles. The fundamental principles are:

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

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

A20. Notwithstanding that the IESBA Code does not require independence in a compilation engagement, national ethical codes or laws or regulations may specify requirements or disclosure rules pertaining to independence.

Professional Judgment (Ref: Para. 21)

A21. Professional judgment is essential to the proper conduct of a compilation engagement. This is because interpretation of relevant ethical requirements and the requirements of this ISRS, and

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the informed decisions that are required throughout performance of a compilation cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:

- The acceptability of the financial reporting framework that is to be used to compile the financial information of the entity in view of the intended purpose and intended users of the financial information.
- The application of the applicable financial reporting framework, such as when the practitioner provides assistance to management regarding:
 - Selection of appropriate accounting policies under the applicable financial reporting framework; and
 - Development of accounting estimates that are needed for the financial information being compiled.
- Performance of procedures under the requirements specified in this ISRS to complete the compilation of the financial information.

A22. The exercise of professional judgment in individual compilation engagements is based on the facts and circumstances that are known to the practitioner up to the date of the practitioner's report, including:

- Knowledge acquired from performance of other engagements undertaken for the entity, where applicable (for example, taxation services).
- The practitioner's knowledge and understanding of the entity's business and operations including its accounting system, and understanding of the application of the applicable financial reporting framework in the industry in which the entity operates.
- The extent to which preparation of the underlying financial information requires exercise of management judgment.

Engagement Level Quality Control (Ref: Para. 22)

A23. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement emphasize the importance of achieving quality in the engagement, including with regard to:

- (a) Performing work that complies with professional standards and regulatory and legal requirements;
- (b) Complying with the firm's quality control policies and procedures as applicable;
- (c) Issuing the practitioner's report for the engagement; and
- (d) The engagement team's ability to raise concerns without fear of reprisals.

Acceptance and Continuance of Client Relationships and Compilation Engagements (Ref: Para. 22(a))

A24. ISQC 1 requires the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining

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whether acceptance or continuance of client relationships and compilation engagements is appropriate may include information concerning the integrity of the principal owners, key management and those charged with governance. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the compilation, it may not be appropriate to accept the engagement to perform a compilation as doing so may lead to the practitioner being associated with the entity's financial statements in an inappropriate manner.

Compliance with Ethical Requirements in Relation to the Engagement (Ref: Para. 22(b))

- A25. ISQC 1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This ISRS sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including evaluating whether members of the engagement team have complied with relevant ethical requirements, and determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements.

Engagement Acceptance and Continuance

Factors Affecting Continuance of Client Relationships and Engagement Acceptance (Ref: Para. 23)

- A26. Under the IESBA Code the practitioner must not knowingly be associated with financial information that is materially false or misleading, including by omission of relevant information or disclosures. If the practitioner is not satisfied that the requirements of this ISRS regarding continuation of client relationships and engagement acceptance are met, the threat from being knowingly associated with materially false or misleading information is considered so significant it is not able to be mitigated through safeguards, and in accordance with paragraph 23 the practitioner is required to decline the engagement.
- A27. Other factors may also influence the practitioner's decision about whether to accept a compilation engagement, for example, if the practitioner has cause to suspect that management may lack integrity to a degree that may affect proper performance of the compilation engagement.
- A28. If management does not acknowledge its responsibilities as described under paragraph 23, the practitioner is not able to undertake the engagement and it is not appropriate to accept the engagement unless law or regulation requires the practitioner to do so. In circumstances where the practitioner is nevertheless required to accept the compilation engagement, the practitioner may need to communicate with management about the importance of these matters and the implications for the engagement.

Identifying the Intended Use of the Financial Information (Ref: Para. 23(a))

- A29. The intended use of financial information to be compiled is identified with reference to applicable law, regulation, or other arrangements established concerning the provision of financial information of the entity, bearing in mind the financial information needs of parties internal or external to the entity who are the intended users. Examples are financial information required to be provided by an entity in connection with undertaking

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transactions or financing applications with external parties such as suppliers, banks or other providers of finance or funding.

- A30. The practitioner's identification of the intended use of the financial information also involves understanding such factors as the engaging party, or management's particular purpose(s) that are intended to be served through requesting the compilation engagement. For example a grant funding body may require compilation of financial information by a professional accountant to obtain that information prepared in a specified form about certain aspects of an entity's operations or activities in support of the provision or continued provision of a grant.

Acceptability of the Financial Reporting Framework (Ref: Para. 23(b))

- A31. The practitioner's determination of the acceptability of the financial reporting framework that management identifies for use in the compilation engagement is made in the context of the practitioner's understanding of the intended use of the financial information that is to be compiled, as described in the agreed terms of the engagement.
- A32. Factors that may be relevant to the practitioner's determination of the acceptability of the financial reporting framework to be used to compile the financial information required include:
- The nature of the entity, and whether it is a regulated form of entity, for example, whether it is a profit-oriented business enterprise, a public sector entity or an organization not for-profit.
 - The purpose of the financial information to be compiled and the intended users, for example, the financial information may be compiled for use only by management or it may be intended for external users, or it could be intended to be either general purpose or special purpose financial information.
 - The nature and form of the financial information to be compiled under the applicable financial reporting framework, for example, a complete set of financial statements, a single financial statement, or financial information compiled in a format agreed between the parties to an agreement.
 - Whether the applicable financial reporting framework is prescribed or specified in applicable law or regulation, or specified as part of governance or accountability arrangements adopted voluntarily by the entity.

If the financial information to be compiled is to be used for special purpose using a special purpose financial reporting framework, the decision as to what is an acceptable financial reporting framework in view of the special purpose identified for the financial information to be compiled is a matter of the practitioner's professional judgment with reference to the particular purpose(s) and the needs of the intended users.

- A33. The engaging party generally agrees the nature and form of financial information that is intended to be used for a "special purpose" with the intended users of the information, for example under the financial reporting provisions of a contract or a project grant. The relevant contract may require use of a recognized financial reporting framework, such as a fair presentation framework established by an authorized or recognized standard-setting organization or by law or regulation, but modified or adapted in certain respects in

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consideration of the financial information needs of the contracting parties. In this example the applicable financial reporting framework may be described as “the financial reporting provisions of the contract” rather than being described with reference to the recognized financial reporting framework used on the modified or adapted basis. The special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework, because the special purpose framework may not comply with all the requirements of the financial reporting framework necessary to achieve fair presentation.

- A34. An entity may only need to prepare special purpose financial information, for example if it is not subject to general purpose financial reporting requirements under applicable law or regulation. In such circumstances the compiled special purpose financial information may be used by users other than those for whom the applicable financial reporting framework is designed. Notwithstanding the broader distribution of the financial information in those circumstances, under the agreed terms of the engagement the financial statements are still required to be treated as special purpose financial statements for purposes of this ISRS. The requirements for the practitioner’s report are designed to avoid misunderstandings about the purpose for which the financial information is prepared and the intended users of the financial information.
- A35. In many cases the practitioner may presume, in the absence of any indications to contrary, that the applicable financial reporting framework is acceptable, for example a financial reporting framework that is prescribed by law or regulation in a jurisdiction to be used in the preparation of general purpose financial statements for certain types of entities.
- A36. When the applicable financial reporting framework is a special purpose framework, the practitioner is required by this ISRS to record any restrictions on either use or distribution of the compiled financial information in the engagement letter, and to include an alert in the practitioner’s compilation report that the financial information is prepared for a special purpose and as a result may not be suitable for another purpose.

Responsibilities of Management (Ref: Para. 23(c)(ii)c)

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

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

- A38. It is in the interests of both 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 the form

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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.

Form and Content of the Engagement Letter

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

- Arrangements concerning the involvement of other practitioners and experts in some aspects of the compilation.
- Arrangements to be made with the predecessor practitioner, if any, in the case of an initial compilation engagement.
- That management may be requested to confirm certain information or explanations conveyed orally to the practitioner during the engagement, in writing.
- The agreement of management to inform the practitioner of facts that may affect the compiled financial information, of which management may become aware in the course of the compilation up to the date of completion of the compilation engagement.
- Ownership of the information used for the compilation, distinguishing between documents and information of the entity provided for the compilation and the practitioner's engagement documentation, and having regard to applicable law and regulation.
- A request for management to acknowledge receipt of the engagement letter and to agree to the terms of the engagement outlined therein.

Illustrative Engagement Letter

A40. An illustrative engagement letter is set out in Appendix 2 to this ISRS.

Recurring Engagements (Ref: Para. 26)

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

- Any indication that the entity misunderstands the objective and scope of the compilation engagement.
- Any revised or special terms of the engagement.
- A recent change of senior management.
- A significant change in ownership.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements.
- A change in the financial reporting framework or other basis of accounting to be used to compile the financial information that is the subject of the engagement.

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Performing the Engagement

The Practitioner's Knowledge and Understanding (Ref: Para. 27)

- A42. The breadth and depth of the knowledge and understanding the practitioner has or obtains about the entity and its business is less than that which is possessed by management. It is directed at the level that is sufficient for the practitioner to be able to present the compiled financial information in accordance with the applicable financial reporting framework and the terms of the engagement, and to comply with this ISRS.
- A43. Examples of relevant factors the practitioner may consider in developing a knowledge and understanding of the entity's business and operations include:
- The size and complexity of the entity and its operations.
 - The complexity of the applicable financial reporting framework.
 - The entity's financial reporting obligations or requirements, whether they exist under applicable laws and regulation or in the context of voluntary financial reporting arrangements, for example with third parties.
 - The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin the preparation of financial information for financial reporting purposes.
 - The degree of complexity or otherwise of the entity's financial accounting and reporting systems.
 - The level of development and proper design or relative sophistication of the entity's accounting systems and related controls through which the entity's accounting records and related information is maintained.

Compiling the Financial Information (Ref: Para. 28)

- A44. In recording how the compiled financial information reconciles to the underlying records, documents, explanations and other information, the practitioner may keep a schedule showing the reconciliation of the entity's general ledger account balances to the compiled financial information, including management's adjusting journal entries made in the course of the engagement.

Matters Requiring Significant Management Judgment—Consideration of Going Concern (Ref: Para. 29)

- A45. The applicable financial reporting framework may require the financial information to be prepared on a going concern basis. If the practitioner becomes aware that uncertainties exist regarding an entity's ability to continue as a going concern, the practitioner may, as appropriate, suggest a more appropriate presentation under the applicable financial reporting framework and related disclosures concerning the entity's ability to continue as a going concern.

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Accuracy and Completeness of Information Provided by Management for the Purpose of the Compilation (Ref: Para. 30)

- A46. The practitioner is not required to perform procedures designed to assess or evaluate the accuracy and completeness, or otherwise, of the records, documents, explanations, and other information provided by management. The practitioner is, however, required to respond as required under this ISRS if the practitioner becomes aware that the information provided is incomplete, inaccurate or otherwise unsatisfactory to an extent that affects the practitioner's ability to complete the engagement in accordance with this ISRS.

Reading the Compiled Financial Information (Ref: Para. 31)

- A47. The practitioner's reading of the compiled financial information with knowledge and understanding of the entity's business and operations, and the applicable financial reporting framework, enables the practitioner to consider whether the financial information is materially misstated or misleading. This reading is ordinarily adequate to fulfill the practitioner's ethical obligation to not knowingly be associated with financial information that is materially false or misleading.⁵ The practitioner's reading involves consideration of materiality as described or required to be applied by the applicable financial reporting framework. If the compiled financial information uses a fair presentation framework, the practitioner's reading involves consideration of whether additional disclosures are needed for the financial information to be fairly presented, in all material respects, or to give a true and fair view.

Proposing Amendments to the Compiled Financial Information (Ref: Para. 32)

- A48. If, on reading the compiled financial information the practitioner becomes aware that the compiled financial information as presented:
- (a) Does not adequately describe the applicable financial reporting framework; or
 - (b) Is materially misstated or misleading,
- 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 framework, and is not materially misstated or misleading.
- A49. The amendments that the practitioner may propose to management could include a proposal to change the applicable financial reporting framework, as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described

⁵ IESBA Code, Part A, paragraph 110.2 states: "A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

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

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

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in the financial information. For example, it may become apparent that modifications to a general purpose financial reporting framework would be acceptable in light of the specific users' needs. In such circumstances, the terms of engagement may need to be amended to reflect the change in the selected framework. The alert to users regarding the framework as required in paragraph 37(g)(ii) would be added to the practitioner's report.

Conditions that Require the Practitioner to Withdraw from the Engagement (Ref: Para. 33–34)

- A50. If management declines the practitioner's proposed amendments to the compiled financial information so that the financial information is not materially misstated or misleading, the practitioner is required to communicate with management about the implications for the engagement. Such communications provide opportunity to explain the practitioner's ethical obligations in performing the engagement and being associated with the compiled financial information.
- A51. The practitioner's report is not a vehicle to express an opinion or conclusion on the compiled financial information, or whether the practitioner is aware the compiled financial information is materially misstated or misleading.

Communication with Management or Those Charged with Governance (Ref: Para. 35)

- A52. The appropriate timing for communications will vary with the circumstances of the compilation engagement. Relevant circumstances include the significance and nature of the matter and any action expected to be taken by management or those charged with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the compilation as soon as practicable if management or those charged with governance are able to assist the practitioner to overcome the difficulty.

Documentation (Ref: Para. 36)

- A53. The documentation required by this ISRS serves a number of purposes, including the following:
- Providing a record of matters of continuing relevance to future compilation engagements.
 - Enabling the engagement team, as applicable, to be accountable for its work.
 - Documenting the completion of the engagement.
- A54. The practitioner may consider including the following in the engagement documentation in addition to that required under this ISRS, in relation to any significant matters regarding the engagement:
- A copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.
 - A record of adjustments proposed by the practitioner but not accepted by management.
 - Notes of the practitioner's consultations undertaken with other suitably competent persons about any difficult or contentious areas.

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- Notes of any significant aspects of the engagement, or matters that required exercise of significant professional judgment by the practitioner.
- A55. Regarding the practitioner's communications with management in the course of the engagement, the practitioner may consider documenting the following matters:
- Amendments made to the description of the applicable financial reporting framework in the compiled financial information, and any amendments that were proposed but not accepted by management.
 - More extensive information and explanations provided by management in relation to significant judgments required to compile the financial information including, where applicable, the basis for significant accounting estimates and use of the going concern assumption.

The Practitioner's Report (Ref: Para. 37)

- A56. The written report encompasses reports issued in hard copy format and those using an electronic medium.
- A57. When the practitioner is aware that the compiled financial information will be included in a document that contains other information, such as a financial report, the practitioner may consider, if the form of presentation allows, identifying the page numbers on which the compiled financial information is presented. This helps users to identify the compiled financial information to which the practitioner's report relates.

Addressees of the Report (Ref: Para. 37(b))

- A58. Law or regulation may specify to whom the practitioner's report is to be addressed in that particular jurisdiction. The practitioner's report is normally addressed to the party for whom the financial information is compiled under the terms of the engagement. The engaging party is ordinarily the management of the entity.

Financial Information Compiled for a Special Purpose, or that Has Restricted Use or Is for Restricted Distribution (Ref: Para. 37(g))

- A59. If the compiled financial information is special purpose financial information the practitioner's report is required under this ISRS to alert readers of the financial information to the special purpose nature of the financial information, and that the financial information may not be suitable for purposes other than those described in the accompanying financial information. When appropriate, this alert may be supplemented by an additional clause that restricts either or both the distribution and use of the compiled financial information to the intended users only.
- A60. Compiled special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the compiled special purpose financial statements on public record. To avoid misunderstandings, the practitioner alerts users of the practitioner's report that the financial statements are compiled in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

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Restriction on Distribution and Use of the Practitioner's Report

- A61. The practitioner may consider it appropriate to indicate that the practitioner's report is intended solely for the specific users in addition to the alert that they have been prepared for a special purpose. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the practitioner's report. In these circumstances, the alert required by this ISRS may be expanded to include these other matters.

Approval of the Compiled Financial Information by Management (Ref: Para. 38)

- A62. The engagement is completed when management has accepted responsibility for the compiled financial information. Processes that exist within the entity regarding the approval of the financial information by management, or by those charged with governance as appropriate, are relevant further considerations for the practitioner when completing the compilation engagement. Depending on the nature and purpose of the information compiled by the practitioner, there may be an established approval process that management or those charged with governance are required to follow, or that is prescribed in applicable law and regulation, for preparation and finalization of the financial information or financial statements of the entity.

Illustrative Reports (Ref: Para. 38)

- A63. Appendix 3 to this ISRS contains illustrations of practitioners' compilation reports incorporating the required elements of the report.

Appendix 1

(Ref: Para. A15)

The Applicable Financial Reporting Framework Used to Compile Financial Information

1. The requirements of the applicable financial reporting framework determine the form and content of the financial information.
2. General purpose financial information is intended to meet common financial information needs of a wide range of users, and is very often provided in the form of general purpose financial statements prepared in accordance with either a “fair presentation framework” or a “compliance framework.”
3. Special purpose financial information is intended to meet the financial information needs of specific users, for example:
 - Under the terms of a funding agreement with a grant provider, the financial information may comprise a statement of cash receipts and payments in relation to funds advanced.
 - Under the terms of a financing agreement with a lending institution, the financial information required may be financial statements prepared in accordance with a recognized general purpose financial reporting framework, but modified in one or more respects to be customized for the institution’s requirements.
 - The financial information may be a statement required by management of an entity for internal use, prepared on a basis specified by management to meet their particular needs.
4. There may be established accounting conventions in a particular jurisdiction that are generally recognized as the financial reporting framework for general purpose financial statements prepared by certain specified entities operating in that jurisdiction. Where use of the financial reporting framework is not prescribed by law or regulation, management identifies an applicable financial reporting framework.
5. Regarding the presentation of required content, many financial reporting frameworks concern the preparation of a set of financial statements that are intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a complete set of financial statements would include a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial statements.
6. Regarding presentation of the financial information in the required form, although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.
7. The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, and:

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- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
 - (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.
8. The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in sub-paragraphs 7(a) or 7(b) above.
9. Financial reporting frameworks that encompass primarily the financial reporting standards established by an organization that is authorized or recognized to promulgate standards to be used by entities for preparing general purpose financial statements are often designed to achieve fair presentation, for example, International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.
10. In some cases, the financial reporting framework may encompass both financial reporting standards established by an authorized or recognized standards setting organization and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases, the applicable financial reporting framework may encompass such other sources, or may even consist only of such sources. Such other sources may include:
- The legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters.
 - Published accounting interpretations of varying authority issued by standard-setting, professional or regulatory organizations.
 - Published views of varying authority on emerging accounting issues issued by standard-setting, professional or regulatory organizations.
 - General and industry practices widely recognized and prevalent.
 - Accounting literature.

Where conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained, or among the sources that encompass the financial reporting framework, the source with the highest authority prevails.

Appendix 2

(Ref: Para. A40)

Illustrative Engagement Letter for a Compilation Engagement

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

This engagement letter illustrates the following circumstances:

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

To the Directors of ABC Company:

[The objective and scope of the compilation engagement]

You⁶ have requested that we provide the following services:

On the basis of information that management will provide, we will compile the following financial information for ABC Company: the balance sheet of ABC Company as at December 31, 20X1 and the income statement for the year then ended, on the historical cost basis, reflecting all cash transactions with the addition of trade accounts payable, trade accounts receivable, inventory accounted for on an average cost basis, income taxes payable as at the reporting date, and capitalization of significant long-lived assets amortized over their estimated useful lives. These compiled financial statements will not include explanatory notes.

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

⁶ Throughout this illustrative engagement letter, references to "you," "we," "us," "management," "those charged with governance" and "practitioner" would be used or amended as appropriate in the circumstances.

PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES 4410 (REVISED)

Our Responsibilities

We will perform the compilation engagement in accordance with the International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*, and comply with the International Ethics Standards Board for Professional Accountants *Code of Ethics for Professional Accountants* (IESBA Code). 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.

A compilation engagement involves applying expertise in accounting and financial reporting to assist management in preparing and presenting financial information. A compilation does not include gathering evidence for the purpose of expressing an audit opinion or a review conclusion. Accordingly, we will not express an audit opinion or a review conclusion on the compiled financial statements.

Responsibilities of Management⁷

The compilation engagement to be performed is conducted on the basis that management acknowledges and understands that our role is to assist management in preparing and presenting the financial statements in accordance with the financial reporting framework adopted by management for the financial statements. Accordingly, management has the following overall responsibilities that are fundamental to undertaking the compilation engagement in accordance with ISRS 4410:

- (a) Adoption of the financial reporting framework to be used (that is, as described above) that is acceptable in view of the purpose for which the compiled financial information will be used, and selection of appropriate accounting policies under the applicable financial reporting framework that are to be applied in compiling the financial statements; and
- (b) Preparation and presentation of the financial statements in accordance with the applicable financial reporting framework (that is, as described above) and the selected accounting policies; including management judgments needed to develop any accounting estimates required for the compiled financial information; and
- (c) Providing to us all relevant records, documents, explanations and other information needed to compile the financial information, and any additional information or explanations we may require to complete the compilation engagement; including responsibility for the accuracy and completeness of those records, documents, explanations and other information; and
- (d) Acceptance of responsibility for the financial statements that we compile.

As part of our compilation of the financial information, we may request from management and, where appropriate, from the directors, written confirmation of information and explanations conveyed to us orally in connection with the compilation engagement.

We look forward to full cooperation from management and staff during our engagement.

⁷ References to management in this engagement letter should be read as “management or those charged with governance as appropriate.”

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Compilation Report

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

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

[Other relevant information]

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

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by
(signed)

.....
Name and Title
Director
Date

Appendix 3

(Ref: Para. A63)

Illustrative Practitioners' Compilation Reports

Financial information prepared for a general purpose

- Illustration 1: Practitioner's compilation report for an engagement to compile general purpose financial statements applying International Financial Reporting Standards (IFRS)

Financial information prepared for a special purpose

- Illustration 2: Practitioner's compilation report for an engagement to compile financial statements, prepared using the financial reporting framework IFRS for Small and Medium-sized Entities (IFRS for SMEs) as modified by management— use and distribution of the financial statements is not restricted to intended users

Financial information prepared for a special purpose—use and distribution of the information is restricted to the intended users

- Illustration 3: Practitioner's compilation report for an engagement to compile financial statements required under the terms of a contract
- Illustration 4: Practitioner's compilation report for an engagement to compile financial statements for use only by the management of a company.

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Illustration 1:

Practitioner's compilation report for an engagement to compile general purpose financial statements that are required under the provisions of applicable law which specifies the financial statements are to be prepared applying International Financial Reporting Standards.

PRACTITIONER'S COMPILATION REPORT

[To Management of ABC Company]

We have compiled the accompanying financial statements of ABC Company based on information you have provided. These financial statements are presented in accordance with International Financial Reporting Standards. The financial statements comprise the statement of financial position of ABC Company as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*. This Standard requires that we comply with quality control standards and relevant ethical requirements, including ethical principles of integrity, objectivity, professional competence and due care.

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.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

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Illustration 2:

- **Practitioner's compilation report for an engagement to compile financial statements applying a modified general purpose framework. The financial statements comprise historical financial statements prepared applying International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs), but for property which has been revalued rather than being carried at historical cost, as described in Note X to the financial statements.**
- **The compiled financial statements are not subject to restriction on distribution or use.**

PRACTITIONER'S COMPILATION REPORT

[To Management of ABC Company]

We have compiled the accompanying financial statements of ABC Company based on information you have provided. These financial statements are presented in accordance with the financial reporting framework described in Note X to these financial statements. The financial statements comprise the statement of financial position of ABC Company as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*. This Standard requires that we comply with quality control standards and relevant ethical requirements, including ethical principles of integrity, objectivity, professional competence and due care.

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 involve 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.

Alert to Reader

We draw attention to Note X of these financial statements that describes the financial reporting framework used in the preparation and presentation of these financial statements. As described in Note X, IFRS for SMEs was applied but for the treatment of property which is revalued rather than being carried at historical cost. The financial statements were prepared for the purpose described in Note Y of the financial statements, and accordingly may not be suitable for all purposes.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES 4410 (REVISED)

Illustration 3:

- **Practitioner's compilation report for an engagement to compile financial statements required under the terms of a contract, applying a financial reporting framework specified in the contract.**
- **Use and distribution of the compiled financial statements is restricted to the intended users.**

PRACTITIONER'S COMPILATION REPORT

[To the Engaging Party]

We have compiled the accompanying financial statements of ABC Company based on information provided by management. These financial statements are presented in accordance with Clause Z of the provisions of ABC Company's contract with XYZ Limited dated [*insert date of relevant contract/agreement*]. The financial statements comprise [*name all the elements of the financial statements prepared under the agreed special purpose financial reporting framework and the period/ date to which they relate*].

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

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*. This Standard requires that we comply with quality control standards and relevant ethical requirements, including ethical principles of integrity, objectivity, professional competence and due care.

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.

Alert to Reader and Restriction on Distribution and Use

We draw attention to Note X of the financial statements that describes the financial reporting framework as specified in the terms of Clause Z of the provisions of ABC Company's contract with XYZ Limited used in the preparation and presentation of these financial statements. The financial statements are prepared to assist ABC Company to meet the requirements of XYZ Limited. As a result the financial statement(s) may not be suitable for another purpose. Our compilation report is intended solely for ABC Company and XYZ Limited and should not be distributed to parties other than ABC Company or XYZ Limited.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES 4410 (REVISED)

Illustration 4:

- **Practitioner's compilation report for an engagement to compile financial statements intended for use only by the management of a company, for management's own purposes.**
- **The financial statements incorporate certain accruals and are compiled with a single note that refers to the financial reporting framework described in the terms of engagement.**
- **Use and distribution of the compiled financial statements is restricted to management.**

PRACTITIONER'S COMPILATION REPORT

[To Management of ABC Company]

We have compiled the accompanying financial statements of ABC Company based on information you have provided. These financial statements are presented in accordance with the financial reporting framework referred to in Note X to these financial statements. The financial statements comprise the balance sheet of ABC Company as at December 31, 20X1 and an income statement for the year then ended.

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

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*. This Standard requires that we comply with quality control standards and relevant ethical requirements, including ethical principles of integrity, objectivity, professional competence and due care.

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 involve 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.

Alert to Reader and Restriction on Distribution and Use

We draw attention to Note X to the financial statement that refers to the financial reporting framework used in the preparation and presentation of these financial statements. The financial statements are prepared for the management of ABC Company, for management's own purposes. As a result the financial statement(s) may not be suitable for another purpose. Our compilation report is intended solely for management of ABC Company and should not be distributed to parties other than ABC Company.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]



International Federation of Accountants

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