

International Federation of Accountants



Guide to Compilation Engagements

ISRS™ 4410

International Federation of Accountants
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New York, NY 10017 USA

IFAC's SMP activities are supported by the Small and Medium Practices (SMP) Committee, which was established in in 2005. As a strategic advisory body of professional accountants, the SMP Committee supports IFAC's work in three main activity areas:

- Standard Setting—providing regular and timely input to the international standard-setting process in order to help ensure the stability, relevance, and proportionality of international standards to SMEs/SMPs;
- Resources and Tools—developing and sharing practical guidance with a focus on implementation of international standards, practice management, and business advisory services; and
- Speaking Out—promoting the visibility and recognition of SMPs and representing and advocating on behalf of SMPs and SMEs worldwide.

IFAC's mission is to serve the public interest by:

- Contributing to the development of high-quality standards and guidance;
- Facilitating the adoption and implementation of high-quality standards and guidance;
- Contributing to the development of strong professional accountancy organizations and accounting firms and to high-quality practices by professional accountants, and promoting the value of professional accountants worldwide; and
- Speaking out on public interest issues.

The SMP Committee extends its appreciation and thanks to Dawn McGeachy and the Implementation Guidance Task Force for assisting the committee in developing this Guide. The Implementation Guidance Task Force consists of committee members Abdulwahid Aboo, Katharine E. Bagshaw, Monica Foerster, Antoni Gomez, Andreas Noodt, and Inge Saeyes; and technical advisors Michael K. Mbaya, Ken McManus, Wassim Khrouf, Twaha Kaawaase, Gerard Albrieux, Gillian Waldbauer and Guy Van de Velde.

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Preface

The regulatory environment is changing. As a result, increasingly small- and medium-sized entities (SMEs) may now be able to choose the appropriate assurance or related service that meets their needs. But, they will require help. Accounting practices, especially small- and medium-sized practices (SMPs) that typically serve SMEs, can help their clients select the appropriate service, and if necessary should consider adapting their service offerings to provide what their clients need and meet their changing demands.

A compilation engagement, which is used in the preparation and presentation of annual historical financial statements, can be tailored to meet the unique needs of the entity and could be a suitable option, particularly for SME clients. The *Guide to Compilation Engagements* is intended to help practitioners understand the value of a compilation engagement, and assist them in complying with the international standard, thus broadening their service offerings and strengthening their practices.

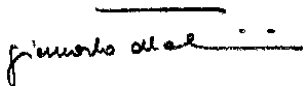
The Guide aims first and foremost to help IFAC member organizations and their members in practice, especially SMPs, with the implementation of ISRS™ 4410 (Revised), *Compilation Engagements*, which is one of the International Standards on Related Services™ developed exclusively by the International Auditing and Assurance Standards Board (IAASB). While the Guide includes relevant extracts from the standard, the complete standard is available in the [current IAASB Handbook](#).

Practitioners can use the Guide as an introduction to compilation engagements, or to deepen their prior understanding and knowledge of a compilation engagement conducted in compliance with ISRS 4410 (Revised). The Guide includes clear explanations and illustrative examples, as well as a number of appendices with key checklists and forms that practitioners can adapt to meet the requirements and circumstances in their particular jurisdiction.

IFAC engaged SMP Committee member Dawn McGeachy of CPA Canada to develop the guide, and wishes to thank her for her outstanding work. The project also benefited from the direction and input received from the SMP Committee's Implementation Guidance Task Force.

In order to help member organizations maximize the use of both this Guide and its sister publications, the [Guide to Quality Control for Small- and Medium-Sized Practices](#), [Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities](#), and [Guide to Review Engagements](#), the SMP Committee has developed a [Companion Manual](#) along with additional materials designed to support the use of the Guides for education and training purposes. The Companion Manual includes suggestions on how IFAC member organizations and firms may make best use of the Guides to suit their own needs and jurisdictions.

Finally, we welcome readers to visit the [SMP area of the IFAC website](#), as well as the [Global Knowledge Gateway](#), in particular, the [Audit & Assurance](#) and [Ethics](#) areas, for further details about the work of the IFAC SMP Committee and for access to additional resources, news, and discussions to assist SMPs in the efficient and effective implementation of the IAASB's standards.



Giancarlo Attolini
Chair, IFAC SMP Committee
September 2015

Disclaimer

This Guide is designed to assist practitioners in the implementation of ISRS 4410 (Revised), but is not intended to be a substitute for reading the standard itself. Furthermore, a practitioner should utilize this Guide in light of his/her professional judgment and the facts and circumstances involved in each particular compilation engagement. IFAC disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of this Guide.

1

HOW TO USE THIS GUIDE

CHAPTER CONTENT

- The purpose of the Guide and its possible uses.
- How the content is organized.

| 1.1 Introduction | 1.2 Content and Organization |
|----------------------------|--------------------------------|
| 1.1-1 Purpose of the Guide | 1.2-1 Organization of Chapters |
| 1.1-2 Uses for the Guide | 1.2-2 Key Terms Used |
| 1.1-3 IFAC Resources | |

1.1 INTRODUCTION

The landscape for mandatory audits is changing as many jurisdictions have implemented audit exemptions and threshold limits. Although certain entities may no longer require an audit opinion, that does not diminish the need for a professional accountant's (hereafter referred to as "the practitioner") expertise and advice. This makes the compilation engagement an attractive service offering.

This Guide addresses the responsibilities of a [practitioner](#) (who is not the entity's auditor) engaged to perform a compilation of general purpose historical financial statements (hereafter referred to as "financial statements") prepared in compliance with an [applicable financial reporting framework \(AFRF\)](#) and in accordance with the ISRS™ 4410 (Revised), *Compilation Engagements*, which is one of the International Standards on Related Services™ developed exclusively by the International Auditing and Assurance Standards Board (IAASB). The IAASB approved this standard in December 2011, effective for compilation engagement reports dated on or after July 1, 2013. Although the Guide has been developed for compilations of historical financial statements prepared in accordance with an AFRF, ISRS 4410 (Revised) may be applied, and adapted as necessary, to compilation engagements for financial information other than historical information and for non-financial information.

It is assumed that practitioners using this Guide will already have knowledge of ISRS 4410 (Revised). The Guide provides non-authoritative guidance on applying ISRS 4410 (Revised). It is not to be used as a substitute for reading the standard, but rather as a supplement to support consistent implementation of the standard. The Guide does not address all aspects of the standard, and should not be used for the purposes of determining or demonstrating compliance with ISRS 4410 (Revised).

1.1-1 Purpose of the Guide

The purpose of this Guide is to provide:

- Practical guidance on the application of the requirements when conducting compilation engagements of [general purpose financial statements](#);
- Examples of:
 - Typical compilation engagement procedures and some fictional practice scenarios. Please note that the responses provided for these scenarios are based on the unique facts and circumstances involved and the practitioner's appropriate use of [professional judgment](#);
 - Key documents, such as engagement letters and checklists (included in the appendices);
- Consider Points that address:
 - Matters that can easily be overlooked;
 - Instances where practitioners often encounter difficulties with implementation;
 - Efficiency suggestions that may help to reduce the time required in performing these engagements; and
 - Suggestions to assist practitioners with client communication and the marketing of compilation engagements.

1.1-2 Uses for the Guide

This Guide can be used to:

- Provide a deeper understanding of a compilation engagement when it is conducted in compliance with ISRS 4410 (Revised);
- Serve as a day-to-day reference Guide for staff;
- Develop policies/procedures for a firm's quality control manual;
- Create training sessions and enhance individual study and group discussions, either at the local firm level or through training provided by professional bodies; and
- Ensure that a firm's professional staff develops a consistent approach to planning and conducting compilation engagements.

1.1-3 IFAC Resources

To learn more about how IFAC supports small- and medium-sized practices (SMPs), see the [IFAC website](#). For additional resources in the areas of audit and assurance, practice management, ethics, and business reporting, among others, visit the [IFAC Global Knowledge Gateway](#), which brings together accounting news, discussions, resources, and thought leadership from IFAC, its member organizations, and other notable groups and individuals around the world.

For notifications on new discussions, resources, and news added to the Gateway, subscribe to [The Latest](#).

1.2 CONTENT AND ORGANIZATION

This Guide has been organized to follow the key steps involved in performing a compilation engagement. The appendices contain definitions of terms used, sample letters, sample checklists, and other practice aids.

1.2-1 Organization of Chapters

Each chapter of this Guide has been organized in the following format:

- (a) Overview chart highlighting what is addressed in the chapter.
- (b) Relevant requirement paragraphs in ISRS 4410 (Revised) applicable to the topic. (The extracts in the Guide are based solely on the judgment of the author as to what is relevant for the content of each particular chapter.)
- (c) Commentary on the requirements.
- (d) Examples of the concepts involved.
- (e) Consider Points – Practical guidance.

1.2-2 Key Terms Used

Exhibit 1.2-2.A

| | |
|-------------------|---|
| AFRF | Applicable financial reporting framework |
| CU | Currency units (standard currency unit is referred to as “€”) |
| EQCR | Engagement quality control review |
| IAASB | International Auditing and Assurance Standards Board |
| IESBA | International Ethics Standards Board for Accountants |
| IESBA Code | IESBA Code of Ethics for Professional Accountants |
| IFAC | International Federation of Accountants |
| IFRS | International Financial Reporting Standards |
| ISA | International Standard on Auditing |
| ISQC 1 | International Standard on Quality Control 1 |
| ISRE | International Standard on Review Engagements |
| ISRS | International Standards on Related Services |
| IT | Information technology |
| SME | Small- and medium-sized entity |
| SMP | small- and medium-sized (accounting) practice |
| TCWG | Those charged with governance |
| W/P | Working paper |

2

WHAT IS A COMPILATION ENGAGEMENT?

CHAPTER CONTENT

- The type of work involved in a compilation engagement.
- The major uses and benefits of a compilation engagement.
- The scope and objective of a compilation engagement.
- How a compilation engagement differs from an audit engagement, review engagement, or an agreed-upon procedures engagement.

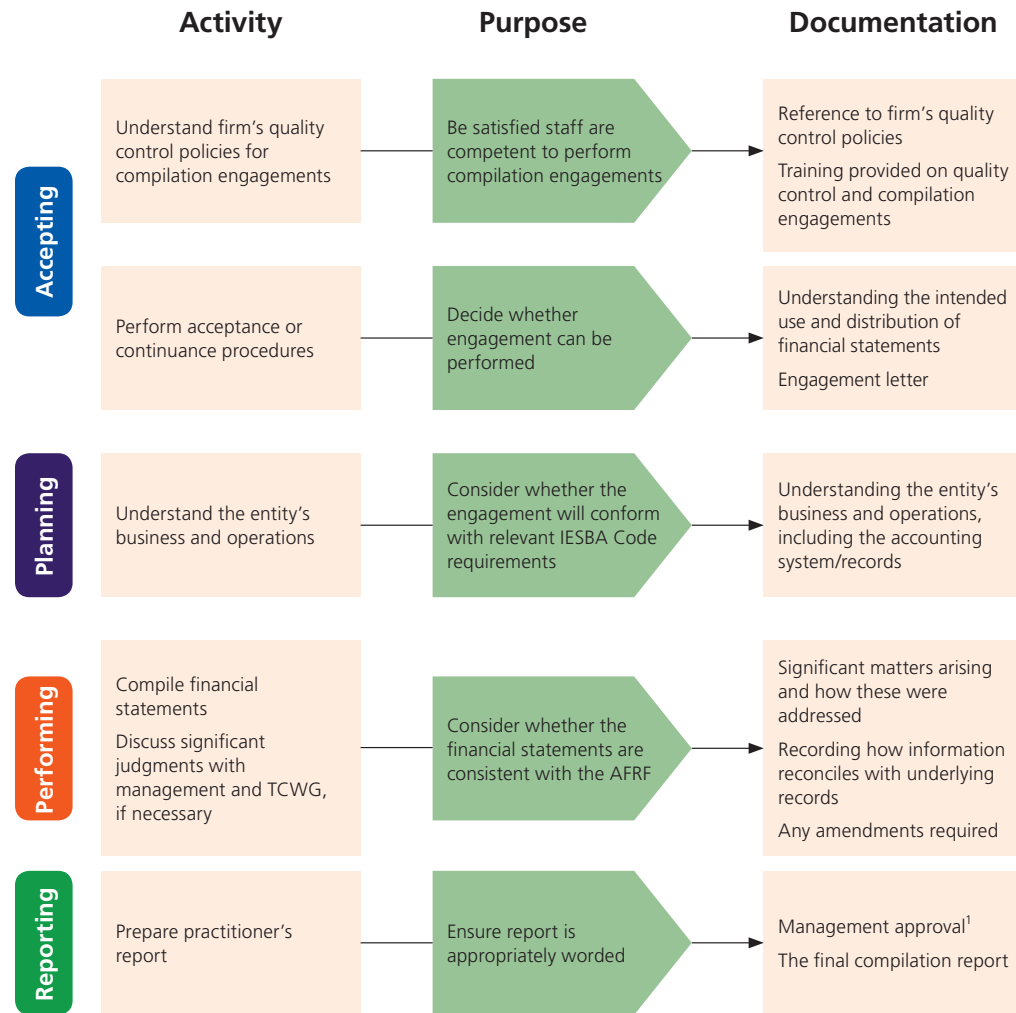
| 2.1 The Elements | 2.2 Uses and Benefits | 2.3 The Fundamentals |
|-----------------------------|--|---|
| 2.1-1 The Four Elements | 2.2-1 Uses | 2.3-1 Scope of ISRS 4410 (Revised) |
| 2.1-2 Practitioner's Report | 2.2-2 Benefits | 2.3-2 Engagement Objectives |
| 2.1-3 Effective Date | 2.2-3 Applicability to Financial Statement Users | 2.3-3 Comparing Audits, Reviews, Compilations, and Agreed-Upon Procedures |
| | | 2.3-4 Other Differences Between Engagements |
| | | 2.3-5 Steps Involved in Performing a Compilation Engagement |

2.1 THE ELEMENTS

2.1-1 The Four Elements

The following exhibit outlines the four major elements of a compilation engagement. The subsequent chapters in this Guide address each of these elements in more detail.

Exhibit 2.1-1A



Additional information on the key steps involved can be found in Exhibit 2.3-5A.

2.1-2 Practitioner's Report

The standard wording of the practitioner's report resulting from a compilation of historical financial statements prepared in accordance with an AFRF (such as the International Financial Reporting Standard [IFRS] for SMEs) is outlined in the following exhibit.

¹ The process that exists within an entity for the approval of the financial statements provided by management or TCWG is a relevant consideration for the practitioner completing compilation engagements. Depending on the nature and purpose of the financial statements, there may be an established approval process that is required, or that is prescribed by law and regulation, for the preparation and finalization of the financial statements.

PRACTITIONER'S COMPILATION REPORT

[To Management of Entity's Name]

We have compiled the accompanying financial statements of *[entity's name]* based on information you have provided. These financial statements comprise the statement of financial position of *[entity's name]* as at *[December 31, 20XX]*, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with International Financial Reporting Standard for Small- and Medium-Sized Entities (IFRS for SMEs). We have complied with [relevant ethical requirements](#), including principles of integrity, objectivity, professional competence, and due care.

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

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to use to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with IFRS for SMEs.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

[Appendix E](#) contains an additional example of a practitioner's report applicable to a compilation engagement prepared for a special purpose (e.g., compliance with financial reporting requirements established by a regulator).

2.1-3 Effective Date

The effective date of ISRS 4410 (Revised) is for compilations of financial statement reports dated on or after July 1, 2013.

2.2 USES AND BENEFITS

2.2-1 Uses

Some of the possible uses of a compilation engagement are set out in the following exhibit.

Exhibit 2.2-1A

| Compilation engagement can be used: |
|--|
| 1. When the expertise of a practitioner is required to compile the financial statements but the users do not require any assurance on the financial statements. Because financial reporting requires judgment, management may benefit from the assistance of the practitioner when making significant judgments. |
| 2. When management requires reporting on the compiled financial statements for internal purposes and there are no external users (such as lenders, insurers, or customers). |
| 3. When the purpose of the financial statements is for use within other engagements, such as financial planning, tax planning, or tax reporting services. |
| 4. For transaction purposes, for example, financial statements are needed to support a transaction involving changes to an entity's ownership or financing structure (such as for a merger or acquisition). |
| 5. To compile interim financial statements subject to a review or audit engagement. |

Consider Point

Exhibit 2.2-1A demonstrates the many selling features of a compilation engagement. While a compilation engagement is not an assurance engagement, the standard does require the practitioner to use their professional expertise in the conduct of the engagement. This expertise, and the ethical requirements demanded of the practitioner, together with the flexibility permitted in the application of a framework that is suitable to the users of the information, make this type of engagement extremely attractive.

2.2-2 Benefits

Some of the benefits of a compilation engagement are set out in the following exhibit.

Exhibit 2.2-2A

| Benefit | Description |
|---|---|
| Cost Effective | When no degree of assurance on the entity's financial statements is required from a practitioner, it may save time and money to opt for a compilation engagement, which, depending on the individual client circumstances, may involve considerably less work than a review, and significantly less work than an audit. |
| Flexible and Targeted Engagement | <p>A compilation is based on a practitioner's expertise in accounting and financial reporting, which has the benefit of the client relying on the practitioner's compliance with professional standards and ethical requirements. For example, a practitioner may not knowingly be associated with reports, returns, communications, or other information where the practitioner believes that the information contains a materially false or misleading statement; contains statements or information furnished recklessly; or omits or obscures information required to be included where such omission or obscurity would be misleading.</p> <p>These benefits, combined with the fact that the practitioner is independent from the organization, offers clients an attractive, cost-effective option.</p> <p>Additionally, and importantly, the independence requirements, which are in Section 290, Independence—Audit and Review Engagements, and Section 291, Independence—Other Assurance Engagements, in Part B of the IESBA Code, do not apply to compilation engagements.</p> |

2.2-3 Applicability to Financial Statement Users

When practitioners are asked to assist management with the preparation and presentation of financial statements, they may need to consider whether or not a compilation in accordance with ISRS 4410 (Revised) is the most appropriate engagement. Consultation with the client will be necessary to make this determination, as well as use of professional judgment, and consideration of the requirements demanded by local laws and regulation.

Exhibit 2.2-3A

| Financial Statement Users | Suitable Engagement |
|--|--|
| Stakeholders in a listed (i.e., public) or a significant publically accountable entity (i.e., a public interest entity). | An audit (usually prescribed by law or regulation). |
| The entity has plans to grow and attract new stakeholders and financing. | An audit, review, or agreed-upon procedures, depending on a number of factors, including the speed of growth and how soon the mandatory audit threshold will be reached. |
| Third-party members or stakeholders in an entity exempt from a mandatory audit. | An audit or a review, depending on the assurance needs of the stakeholders. |
| A financial institution that lends money to an entity exempt from a mandatory audit. | An audit, a review, or agreed-upon procedures may be sufficient. |
| Family members, or a few close friends, who have an interest in an entity exempt from a mandatory audit. | A review, agreed-upon procedures (e.g., on select balances), or a compilation may be sufficient. |
| Members of management for internal use only or for use with filings to regulatory bodies (e.g., tax returns or other statutory filing requirements). | A compilation or review, depending on whether any form of assurance is required. |

2.3 THE FUNDAMENTALS

For SMPs, ISRS 4410 (Revised) provides an opportunity to meet an increasing demand for compilation engagement services created by such factors as:

- Trend towards higher audit exemptions for SMEs.
- Desire for some degree of externally prepared reporting for SMEs.
- Demand of users who require the professional expertise of a practitioner to assist with the preparation and presentation of financial statements, particularly given the increased complexity in financial reporting standards.

2.3-1 Scope of ISRS 4410 (Revised)

ISRS 4410 (Revised) addresses:

- The practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial statements without obtaining any assurance on that information; and
- The form and content of the practitioner's report on the financial statements when reporting in accordance with ISRS 4410 (Revised).

ISRS 4410 (Revised) applies to compilation engagements for historical financial statements. ISRS 4410 (Revised) may also be applied, and adapted as necessary, to compilation engagements for financial information other than historical financial information (such as pro-forma financial information or prospective financial information, including budgets or forecasts), and to compilation engagements for non-financial information. This Guide concentrates on the most common compilation service offered, the compilation of general purpose financial statements.

2.3-2 Engagement Objectives

| Paragraph | Requirement |
|-----------|--|
| 16 | <p>The practitioner's objectives in a compilation engagement under this ISRS are to:</p> <p>(a) Apply accounting and financial reporting expertise to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework based on information provided by management; and</p> <p>(b) Report in accordance with the requirements of this ISRS.</p> |

A compilation is a non-assurance engagement. The standard defines a compilation as follows:

... an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework, and reports as required by this ISRS....

There are three main parties in a compilation engagement as summarized in the following exhibit.

Exhibit 2.3-2A

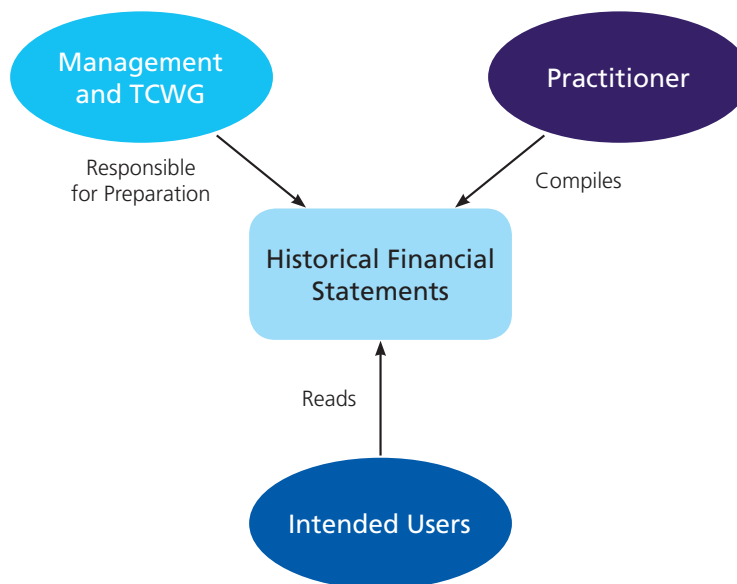


Exhibit 2.3-2B

| Party | Description of Role |
|----------------------------|--|
| Management and TCWG | Preparation and presentation of the financial statements (including the selection and application of appropriate accounting policies and, where required, developing reasonable accounting estimates) in accordance with the AFRF (such as <i>IFRS for SMEs</i>) is the responsibility of management/TCWG. The Practitioner may assist management with significant judgments during the course of the engagement but this does not reduce management/TCWG's responsibility for the financial statements. ² |
| Practitioner | <p>To assist management with the preparation and presentation of the financial statements, the practitioner compiles the financial statements using the records, documents, explanations, and other information, including significant judgments, provided by management. Practitioners will also discuss with management/TCWG any significant judgments for which they provided assistance.</p> <p>Provided the practitioner is not aware that the information obtained is incomplete, inaccurate, or otherwise unsatisfactory, they can then prepare a report (to be attached to the financial statements) stating:</p> <p>a) the financial statements have been prepared and presented... in accordance with the applicable AFRF; and</p> <p>b) in a compilation engagement, the practitioner is not required to verify the accuracy or completeness of the information, and that no audit opinion or review conclusion is expressed.</p> |

² In smaller entities, management or TCWG may not be well informed about what those responsibilities are, including those arising from applicable laws or regulations. To obtain management's agreement on an informed basis, the practitioner may find it necessary to discuss those responsibilities with management before seeking management's agreement on its responsibilities.

| Party | Description of Role |
|-----------------------|---|
| Intended Users | <p>Intended users of the financial statements are likely to associate the practitioner with the financial statements. Thus, there is a risk that the level of the practitioner's involvement with the information may be misunderstood. This puts particular emphasis on the practitioner's ethical requirements, including the principles of integrity, objectivity, professional competence, and due care.</p> <p>Management is responsible for the preparation and presentation of the financial statements in accordance with an AFRF that is acceptable to the needs of the parties internal or external to the entity who are the intended users.</p> |

Management and Those Charged with Governance

In small entities, there is often no separation between management's role and TCWG. In some jurisdictions, the responsibility for preparing financial statements is the legal responsibility of TCWG whereas, in others, it is management's responsibility. Regardless of who is responsible, the practitioner should ensure that the client understands that the financial statements must be suitable in view of the intended users. Additionally, the client must recognize his or her responsibility for the accuracy and completeness of the records, documents, and any other information he or she may provide. This includes any judgments that are needed for the preparation and presentation of the financial statements.

2.3-3 Comparing Audits, Reviews, Compilations, and Agreed-Upon Procedures

The following chart summarizes some of the more significant differences between audits, reviews, and compilations and agreed-upon procedures.

Exhibit 2.3-3A

| Engagement | Standards | Assurance | Work Efforts | Report |
|-------------------------------|---------------------|------------|---|--|
| Audit | ISA | Reasonable | Risk assessment and procedures that respond to the risks identified | Opinion (positive assurance) |
| Review | ISRE 2400 (Revised) | Limited | Primarily inquiry and analytical procedures | Conclusion (negative assurance) |
| Compilation | ISRS 4410 (Revised) | None | Assisting management in preparing financial information | Report stating expertise in accounting and financial reporting applied to assist in the preparation and presentation, as well as adherence to relevant ethical requirements (no assurance) |
| Agreed Upon Procedures | ISRS 4400 | None | Evidence in support of findings | Restricted report (factual findings) |

In a compilation engagement, the practitioner's responsibilities (and the resulting report) differ significantly from those of an audit, review, or agreed-upon procedures engagement and from the level of confidence that users could thus reasonably be expected to derive from the respective practitioner's report.

Since a compilation engagement consists of assistance with the preparation and presentation of financial statements, but is not an assurance engagement, it does not require the practitioner to verify the accuracy or completeness of the information provided by management. Furthermore, it does not require the practitioner to gather evidence for expressing an audit opinion or a review conclusion.

2.3-4 Other Differences between Engagements

The following chart summarizes some of the more significant differences between audits, reviews, and compilations and agreed-upon procedures.

Exhibit 2.3-4A

| | Audits | Reviews | Compilations | Agreed Upon Procedures |
|--|--|--|--|--|
| Is independence required? | Yes | Yes | No ³ | No ⁴ |
| What <u>materiality</u> calculations are required? | <ul style="list-style-type: none"> Financial statements as a whole Performance materiality | Financial statements as a whole | Not required to be calculated but considered in the context of the AFRF | No |
| Is an engagement quality control review required? | Listed entities and as specified in firm policy | As specified in firm policy | As specified in firm policy | As specified in firm policy |
| Is there sufficient understanding of the entity? | Sufficient to identify and assess the risk of material <u>misstatement</u> at the financial statement and assertion levels | Sufficient to identify areas in the financial statements where material misstatements are likely to arise | Sufficient to compile the financial statements from the information provided | Sufficient to perform the required procedures |
| What procedures need to be designed? | Plan and perform sufficient procedures to reduce the risk of material misstatement in the financial statements to an appropriately low level | <ul style="list-style-type: none"> Address all material items in the financial statements, including disclosures Focus on financial statement areas where material misstatements are likely to arise | Sufficient to compile the financial statements from the information provided | Sufficient to use the evidence obtained as the basis for the report. |
| What are the required procedures? | <ul style="list-style-type: none"> Risk assessment Test of controls⁵ Analytical Substantive | <ul style="list-style-type: none"> Inquiry and analytical procedures Additional procedures as considered necessary in the circumstances | None specified | None specified |
| What assurance evidence needs to be obtained? | Sufficient and appropriate to be able to draw reasonable conclusions on the financial statements | Sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole | None specified | None specified |
| What should be done with uncorrected misstatements? | Accumulate, evaluate, and request correction by management | Accumulate, evaluate, and request correction by management | Corrections made as part of compiling the financial statements | None specified |

³ Unless the national rules of conduct have differing requirements. In addition, the practitioner is still required to perform the work with an objective state of mind.

⁴ Unless the national rules of conduct have differing requirements. In addition, where the auditor is not independent, a statement to that effect would be made in the report of factual findings.

⁵ Only necessary where the risk assessment includes an expectation that the controls are operating effectively or where substantive procedures alone cannot provide sufficient appropriate audit evidence.

2.3-5 Steps Involved in Performing a Compilation Engagement

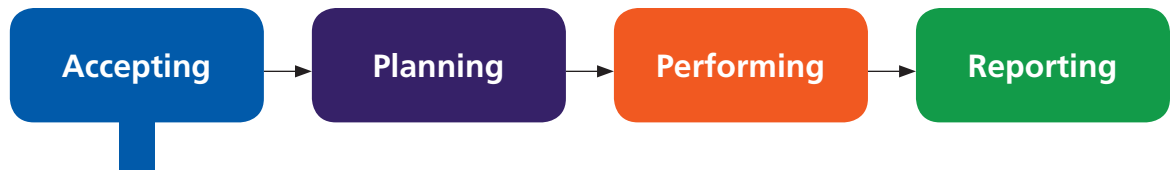
The following exhibit details the steps involved in performing a compilation engagement and identifies where each step is addressed within this Guide.

Exhibit 2.3-5A

| Key Steps Involved | Location within the Guide |
|--|---------------------------------|
| a) Determine the acceptability of the engagement and client relationship. | Chapter 3 (Section 3.2) |
| b) Obtain an understanding of the entity's business and operations. | Chapter 4 (Sections 4.3) |
| c) Compile the financial statements and discuss with management, or TCWG, those significant judgments for which the practitioner has provided assistance in the course of compiling the financial statements. | Chapter 5 (Section 5.1 and 5.2) |
| d) Issue the report . | Chapter 6 |

3

ACCEPTING



CHAPTER CONTENT

- The fundamental requirements to be addressed before a compilation engagement can be accepted or continued.

| 3.1 Is the Firm Ready? | 3.2 Can the Engagement Be Accepted or Continued? | 3.3 Agree Terms of Engagement |
|--------------------------------------|--|---|
| 3.1-1 Understand ISRS 4410 (Revised) | 3.2-1 Purpose | 3.3-1 Acceptable Financial Reporting Framework |
| 3.1-2 Ethical Requirements | 3.2-2 Appropriateness of Engagement | 3.3-2 Agree Terms of Engagement |
| 3.1-3 Professional Judgment | | 3.3-3 Other Matters to Include in the Engagement Letter |
| 3.1-4 Competence | | |
| 3.1-5 Quality Control | | |

Outcome

The firm has the necessary competencies and has designed and implemented a system of quality control relevant to compilation engagements.

Before work commences, the firm has obtained a signed engagement letter or other suitable written agreement.

3.1 IS THE FIRM READY?

Before a firm can accept and perform a compilation engagement, it needs to address the matters set out below.

3.1-1 Understand ISRS 4410 (Revised)

| Paragraph | Requirement |
|-----------|--|
| 18 | The practitioner shall have an understanding of the entire text of this ISRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. |
| 19 | The practitioner shall comply with each requirement of this ISRS unless a particular requirement is not relevant to the compilation engagement, for example, if the circumstances addressed by the requirement do not exist in the engagement. |
| 20 | The practitioner shall not represent compliance with this ISRS unless the practitioner has complied with all requirements of this ISRS relevant to the compilation engagement. |

The first step in performing a compilation engagement is to ensure every member of the [engagement team](#) has a sufficient understanding of the standard and its requirements appropriate to their role within the engagement. This understanding can be supplemented with the practical guidance contained in this Guide and through appropriate training programs. While the requirements articulated within ISRS 4410 (Revised) exist, in practical terms, these types of engagements can be relatively easy to perform and have far fewer restrictions than an assurance engagement. Given this, the offering of the compilation engagement can be attractive to both practitioners and clients alike.

3.1-2 Ethical Requirements

| Paragraph | Requirement |
|-----------|--|
| 21 | The practitioner shall comply with relevant ethical requirements. (Ref: Para. A19–A21) |

Relevant ethical requirements are the ethical requirements to which the engagement team is subject when undertaking compilation engagements (including integrity, objectivity, professional competence and due care, confidentiality, and professional behavior). Ordinarily, these requirements comprise Parts A and B of the IESBA Code together with national requirements that can be more restrictive.

For more information, see the IESBA website—www.ethicsboard.org—where you can find the current version of the *Handbook of the Code of Ethics for Professional Accountants*.

To ensure that the firm and its personnel continuously comply with the ethical requirements, the firm will need to design and implement policies and procedures that should be included in its quality control manual or equivalent

Consider Point

Some jurisdictions may have requirements and guidance that differ from those contained in the IESBA Code. Practitioners in those jurisdictions need to be aware of these differences and comply with the more stringent (but not less stringent) requirements and guidance of the *Handbook of the Code of Ethics for Professional Accountants* unless prohibited by law or regulation.

3.1-3 Professional Judgment

| Paragraph | Requirement |
|-----------|---|
| 22 | The practitioner shall exercise professional judgment in conducting a compilation engagement. (Ref: Para. A22–A24) |

Professional judgment involves the application of relevant training, knowledge, and experience (within the context provided by the assurance, accounting, and ethical standards) in making informed decisions about the courses of action that are appropriate in the circumstances. Professional judgment also requires practitioners to apply their training, knowledge, and experience to the known facts and circumstances of the particular engagement. Where necessary, appropriate consultation with others will help to ensure that appropriate judgments are made.

Exhibit 3.1-3A

| | |
|--|---|
| Examples of the Uses of Professional Judgment | Consideration of misstatements in the financial statements that may be material in the context of the AFRF. |
| | Using past experience (in performing compilation engagements) and the understanding obtained about the entity's business and operations to determine which inquiries or procedures to consider relative to the presentation and/or disclosure required within the financial statements. |
| | Considering the information obtained to determine whether the compiled information appears misleading. |
| | Using professional judgment in light of surrounding circumstances to determine what amendments are required when the information received appears to be incomplete, inaccurate, or otherwise unsatisfactory. |
| | Determining the appropriate application of the entity's AFRF to understand what disclosures are required in the financial statements. |
| | Drawing on professional experience to determine appropriate engagement reporting based on the information obtained. |

3.1-4 Competence

| Paragraph | Requirement |
|------------|---|
| 23 (a) | The engagement partner shall take responsibility for the overall quality of each compilation engagement to which that partner is assigned. |
| 23 (b)(ii) | The engagement partner shall take responsibility for the engagement being performed in accordance with the firm's quality control policies and procedures, by being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the compilation engagement. |

A compilation engagement may only be accepted by (or assigned by the firm to) an [engagement partner](#) who has the professional competencies to perform the work required. This competency may have already been obtained through performing other compilation engagements, receiving coaching from experienced staff, or working alongside others who are already competent. Otherwise, competency will need to be obtained by attending suitable training courses and reading relevant material (including ISRS 4410 (Revised) in addition to this Guide).

Financial Reporting

Competence in financial reporting is necessary to ensure the requirements of the AFRF (such as IFRS or IFRS for SMEs) are understood in sufficient detail to understand the reporting requirements and therefore identify areas where records, documents, explanations, or other information, including significant judgments, are incomplete, inaccurate, or otherwise unsatisfactory. This ability will be used to assist the client to address these concerns.

The practitioner must propose appropriate amendments to management for any material items that they become aware of during the conduct of the compilation engagement

3.1-5 Quality Control

| Paragraph | Requirement |
|-----------|---|
| 4 | <p>Quality control systems, policies, and procedures are the responsibility of the firm. ISQC 1 applies to firms of practitioners in respect of a firm's compilation engagements. 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. A6–A11)</p> |
| 23 (b) | <p>The engagement partner shall take responsibility for: (Ref: Para. A25–A27)</p> <p>(b) The engagement being performed in accordance with the firm's quality control policies and procedures, by (Ref: Para. A25):</p> <ul style="list-style-type: none"> (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A26) (ii) Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the compilation engagement; (iii) Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, and determining the appropriate action if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements; (Ref: Para. A27) (iv) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and (v) Taking responsibility for appropriate engagement documentation being maintained. |

Consider Point

Practitioners may wish to promote the required adherence to quality control standards as a selling feature of the compilation engagement. Unlike non-professionals who may also offer compilation services, practitioners are required to follow high standards. This condition means both superior service levels and compliance with ethical standards, making the professional a superior choice when compared to non-professionals.

Applicability of ISQC 1

Under ISQC 1, firms have an obligation to establish and maintain a system of quality control to provide reasonable assurance that:

- They and their personnel comply with professional standards and applicable legal and regulatory requirements; and
- Reports issued by the firm or engagement partners are appropriate in the circumstances.

If a firm is already subject to ISQC 1 for carrying out other assurance and related services engagements, it should have already met the requirement to comply with this standard. If not, the firm is required to design and implement policies and procedures that will achieve the objectives of a quality control system and then to regularly monitor compliance with those policies. The [Guide to Quality Control for Small-and Medium-Sized Practices](#) provides practical guidance to implementing a system of quality control for SMPs.

The following exhibit shows ISQC 1 as the foundation on which the firm develops its firm-wide system of quality control. ISRS 4410 (Revised) outlines the engagement standards for a compilation engagement. This exhibit also summarizes the relationship between policies and procedures at the firm and engagement levels.

Exhibit 3.1-5A



3.2 CAN THE ENGAGEMENT BE ACCEPTED OR CONTINUED?

Before accepting or continuing a particular compilation engagement, practitioners need to address a number of matters. The information obtained from performing these preliminary procedures can also be useful in performing other significant activities later in the engagement. [Appendix B](#) contains an example of a Client Acceptance/Continuance Checklist that offers points for consideration for practitioners when accepting or continuing a compilation engagement.

| Paragraph | Requirement |
|-----------|--|
| 24 | <p>The practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including:</p> <ul style="list-style-type: none"> (a) The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable; (Ref: Para. A20, A28-A29, A32-A33); (b) Identification of the applicable financial reporting framework; (Ref: Para. A20, A30-A33); (c) The objective and scope of the compilation engagement; (Ref: Para. A20) (d) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements; (Ref: Para. A20) (e) The responsibilities of management for (Ref: Para. 34-36): <ul style="list-style-type: none"> (i) The financial information, and the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users; (ii) The accuracy and completeness of records, documents, explanations and other information provided by management for the compilation engagement; and (iii) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement; and (Ref: Para. A22) (f) The expected form and content of the practitioner's report. |

Mini Case Study

As a practitioner you are aware that an engagement performed in accordance with ISRS 4410 (Revised) requires you to have quality control standards in place that are at least as demanding as those of ISQC 1. You are confident that your firm meets this requirement.

Recently, you were approached by two new clients. The first is a well-established technology firm in your area that has a reputation for integrity and innovation; the owners have enjoyed strong ties to the community for the past three generations. The predecessor practitioner has been a trusted friend for many years. His response to the takeover letter indicated there is no professional reason why you should not accept the account. You are aware that your firm was approached to assume the account because your friend is planning to retire soon.

The second client is a new business that created quite a stir when it first broke ground in the community. As it operates as a 24-hour casino, the community initially tried, unsuccessfully, to have the business located further outside the township borders as both local law enforcement and council members were concerned about the negative social consequences and fear of increased petty crime rates. To date, this particular client has had its financial statements prepared internally.

Using the requirements of the client acceptance/continuance procedures designed as a part of your quality control system, consider these discussion points:

Discussion points:

Which of these two clients is more risky? Why? Should you accept or decline either of these new clients? What would form the basis of your decision?

3.2-1 Purpose

A compilation engagement is often requested to utilize the skills and expertise of a practitioner when there are no external users to the financial statements (other than a taxation or other regulatory authority).

3.2-2 Appropriateness of Engagement

Based on the information obtained about the client and the particular circumstances, the practitioner must consider, in addition to the purpose identified, whether accepting such an engagement would be appropriate. This decision would be based on professional judgment.

When accepting a new engagement, the practitioner must first determine the nature of the engagement so that the appropriate service is provided (see Exhibit 2.3-3A). The practitioner has an obligation to recommend the most suitable type of engagement for each client, based on each client's situation and requirements.

The decision depends on whether the client requires an assurance engagement, i.e., whether a compilation engagement will suit the circumstances. In determining what type of engagement the client needs, consider the following:

- Will the statements be required by a lender, investor, or other external stakeholder?
- Will an external third party be relying on the financial statements?
- Will there be additional benefits to the client from the additional knowledge gained by the practitioner when performing an assurance engagement that will assist them in managing their business?
- What are the client's expectations?
- Is the client aware of the limitations of the financial statements?

These considerations help determine whether a compilation is appropriate. The needs of expected users of the financial statements are of foremost concern.

If the practitioner expects that reliance will be placed on the financial statements, a compilation will not be appropriate. Compiled interim statements may, however, be sufficient if the users have access to audited or reviewed year-end financial statements.

Before the practitioner recommends a compilation engagement, it is essential to discuss the limitations of these engagements with the client, as well as the limitations of the practitioner's involvement.

If a compilation doesn't provide the level of comfort users will require, then it is not appropriate. The practitioner should always take care to ensure that the client understands, and agrees to, the level of service before commencing the engagement. It is precisely these kinds of considerations that maintain the importance, and status, of the assurance engagement. One should not seek to undermine the trust and confidence that is placed on these services.

Exhibit 3.2-2A

Some of the circumstances where use of a compilation engagement would not be appropriate are set out in the following exhibit.

| | |
|--|---|
| Engagement Would NOT Be Appropriate | Information has been furnished recklessly or there appear to be omissions or obscure information that would lead to misleading financial statements. |
| | The practitioner has a sense that management may be unwilling to make amendments to the financial statements that, but for these amendments, would lead to materially misstated financial statements. |
| | The client is seeking to avoid a modified report, applicable under an assurance engagement, and has requested a downgraded service engagement level. |

Consider Point

In some situations, clients may well have different "needs" from those who may seek to rely on their financial statements. The assessment of appropriateness is aimed at ensuring practitioners act in the public interest, adhere to professional ethical requirements, and do not cohort with clients to the detriment of the users.

If the engagement is not appropriate, consider whether another type of engagement would meet the needs of the client and its financial statement users, and be suitable in the engagement circumstances (such as an audit, review, agreed-upon procedures, or other accounting service). Refer to Chapter 2 of this Guide, which outlines the differences between audit, review, compilation, and agreed-upon procedures engagements.

3.3 AGREE TERMS OF ENGAGEMENT

In addition to the factors affecting acceptance and continuance previously outlined in this chapter, there is one further step required before a compilation engagement can be performed.

3.3-1 Applicable Financial Reporting Framework

Although the choice of the AFRF is often prescribed by law or regulation, management may sometimes base its decision regarding which AFRF to use on the needs of the intended users of the financial statements. In this case, the choice is often based on the nature of the entity and the reason why the financial statements are prepared.

Most financial statements are prepared in accordance with a [general purpose framework](#) that is designed to meet the common financial needs of a wide range of users. IFRS and IFRS for SMEs are examples of general purpose frameworks.

The financial reporting framework may be a fair presentation framework or a compliance framework as outlined in the following exhibit.

Financial Reporting Frameworks

Fair Presentation Framework

The term *fair presentation* framework is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (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; and
- (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.

Compliance Framework

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 (a) or (b) above.

Consider Point

Many small clients make the mistake of assuming that, because of their expertise, the practitioner is responsible for the preparation and fair presentation of the financial statements. Take the time to meet with your clients and review their and your responsibilities, agreeing on the AFRF to be used. Do not assume that, when management or TCWG sign the engagement letter, they necessarily understand the full extent of their responsibilities. In this context, it would be helpful to discuss with the clients the types of circumstances that would prevent you from completing the engagement.

3.3-2 Agree Terms of Engagement

| Paragraph | Requirement |
|-----------|--|
| 25 | The practitioner shall record the agreed terms of the engagement in an engagement letter or other suitable form of written agreement, prior to performing the engagement (Ref: Para. A37-39). |

To help avoid misunderstandings about respective responsibilities when carrying out the engagement, it is in the interests of all parties (TCWG, management, and the practitioner) that the terms of the engagement be clearly documented in an engagement letter (or other suitable form of written agreement) signed by management or TCWG, as appropriate, prior to performing the engagement.

When preparing an engagement letter or other suitable form of written agreement:

- Customize the terms of the letter to reflect the individual requirements and circumstances of the specific engagement;
- Define the objectives and scope of the engagement, including a clear statement that indicates the engagement is not an assurance engagement;
- Consider the intended use and distribution of the financial statements, and any restrictions on their use or distribution (where applicable);
- Define the responsibilities of management and the practitioner; and
- Describe the form and content of the report to be issued.

Refer to [Appendix C](#) for a sample engagement letter based on the example contained in ISRS 4410 (Revised).

| Paragraph | Requirement |
|-----------|---|
| 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 a need to remind management of the existing terms of engagement. (Ref: Para. A40) |

It is not necessary to obtain a new engagement letter or other written agreement for each period when there have been no changes in the circumstances that would affect the engagement.

A new engagement letter should be considered in instances such as outlined in the following exhibit.

Exhibit 3.3-2A

| Indicators of Need to Update the Engagement Letter | Any indication that management misunderstands the objective and scope of the compilation engagement. |
|--|--|
| | Any revised or special terms of the engagement. |
| | A recent change in the entity’s senior management. |
| | A significant change in the entity’s ownership. |
| | A significant change in the nature or size of the entity’s business. |
| | A change in legal or regulatory requirements affecting the entity. |
| | A change in the AFRF. |

Consider Point

Many firms have a policy requiring the firm to obtain a new engagement letter every year or at least every three years even where circumstances have not changed. This ensures management is reminded about the terms of engagement.

3.3-3 Other Matters to Include in the Engagement Letter

The engagement letter may also be used to address the understanding reached of other matters that pertain to the work required. Some of these matters are outlined in the following exhibit.

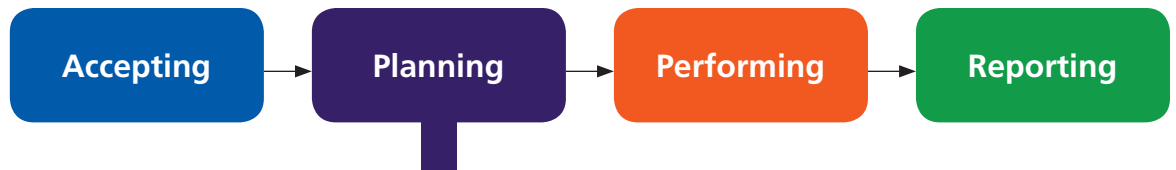
Exhibit 3.3-3A

| Indicators of Need to Update the Engagement Letter | Use and distribution of the report. |
|--|--|
| | Inclusion of the financial statements in an annual report or on a website. |
| | Preparation of schedules by management. |
| | Use of information received and third-party file inspections. |
| | Dispute resolution and indemnities (where permissible under local requirements). |
| | Reporting time frames. |
| | Fees and billing arrangements. |
| | Engagement termination. |
| | Other services (where relevant). |

Some suggested wording that addresses each of these matters is included in the sample engagement letter in [Appendix C](#).

4

PLANNING



CHAPTER CONTENT

- Importance of effective two-way communications.
- Consider work efforts, including those significant judgments for which the practitioner may provide assistance.
- Consider materiality in the context of the AFRF.
- Understand the entity's business and operations.

| 4.1 Ongoing Communications | 4.2 Consideration of Materiality | 4.3 Understand the Entity | 4.4 Procedures |
|---|----------------------------------|---|--------------------------|
| 4.1-1 Those Charged with Governance 4.1-2 Modes of Communication | 4.2-1 Consider Materiality | 4.3-1 Why? 4.3-2 Uses and Benefits of Planning | 4.4-1 Types of Procedure |
| Outcome | | | |
| A plan of action for compiling financial statements that are not to be incomplete, inaccurate, or otherwise unsatisfactory. | | | |

As many compilation engagements performed by SMPs involve relatively small engagement teams, or may be carried out by a single practitioner, planning is relatively swift and simple.

4.1 COMMUNICATIONS

| Paragraph | Requirement |
|-----------|--|
| 27 | The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the compilation engagement, all matters concerning the compilation engagement that, in the practitioner's professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A41) |

4.1-1 Those Charged with Governance

The first step in effective communication is to determine the appropriate person(s) with whom to communicate within the entity's governance structure (TCWG).

In smaller entities, one person, such as the owner-manager or a sole trustee, may be charged with both governance and management. In other situations, such as in a family business, all of TCWG may be involved in managing some aspect of the entity.

When accepting a new client:

- inquire about the governance structure.
- discuss with the engaging party the relevant person(s) with whom to communicate. In some cases, the appropriate person(s) may vary depending on the matter to be communicated.

4.1-2 Modes of Communication

Communication involves the development of constructive working relationships within the engagement team, as well as with the entity's management and TCWG, while still maintaining integrity and objectivity.

Two-way communication recognizes that:

- The practitioner is responsible for communicating matters that are of sufficient importance to merit the attention of management or TCWG; and
- Management or TCWG will assist the practitioner in understanding the entity, and providing information about specific transactions or events.

Some typical communications that would take place in a compilation engagement are set out in the following exhibit.

Exhibit 4.1-2A

| Between | Nature of Communication |
|--|---|
| Practitioner and Engagement Team | <ul style="list-style-type: none"> • Oral or email instructions • Highlighting of information obtained, such as in previous compilation engagement files • Briefing to assist in understanding the entity and specific requirements • Planning discussions • Responding to questions on work to be performed • Providing feedback on work already performed • Sharing of information on findings and other matters |
| Engagement Team | <ul style="list-style-type: none"> • Asking questions and discussing the information obtained • Providing feedback |
| Practitioner/ Engagement Team with Entity Personnel, Management, and TCWG | <ul style="list-style-type: none"> • Sharing information to assist in understanding the entity • Engagement planning • Inquiries • Requests for specific information • Formal correspondence, such as the terms of engagement (engagement letter) and management approval of the financial statements • Discussions to resolve any specific matters arising |

In some situations, local laws or regulation may:

- Restrict communication of certain matters with TCWG, such as a communication that might prejudice an investigation by an appropriate authority into non-compliance or suspected non-compliance with laws or regulations. If there is doubt about a particular communication, it is suggested that legal advice be obtained.
- Require a regulatory or an enforcement body to be notified of certain matters (such as misstatements identified or not corrected) or to provide a third party with a copy of the practitioner's written communications with TCWG. In these situations, consider the need to obtain the prior consent of management or TCWG before doing so.

4.2 CONSIDERATION OF MATERIALITY

| Paragraph | Requirement |
|-----------|---|
| | If the practitioner becomes aware during the course the engagement that: |
| | (a) The compiled financial information does not adequately refer to or describe the applicable framework; (Ref: Para. A47) |
| 34 | (b) Amendments to the compiled financial information are required for the financial information not to be materially misstated; or (Ref: Para. A48-50) |
| | (c) The compiled financial information is otherwise misleading, (Ref: Para. A51) |
| | The practitioner shall propose the appropriate amendments to management. |

4.2-1 Consider Materiality

The practitioner's consideration of materiality is made within the context of the AFRF. Some financial reporting frameworks discuss the concept of materiality in the context of the preparation and presentation of financial information while others do not.

Generally, misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the information.

Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both. Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of the users as a group.

The practitioner's perception of the needs of users of the financial information affects the practitioner's view of materiality.

4.3 UNDERSTAND THE ENTITY

| Paragraph | Requirement |
|-----------|--|
| | The practitioner shall obtain an understanding of the following matters sufficient to be able to perform the compilation engagement: (Ref: Para. A42-A44) |
| 28 | (a) The entity's business and operations, including the entity's accounting system and accounting records; and |
| | (b) The applicable financial reporting framework, including its application in the entity's industry. |

4.3-1 Why?

Until the practitioner obtains an understanding of the entity, they are not in a position to identify what records, documents, explanations, or other information, including significant judgments, appear incomplete, inaccurate, or otherwise unsatisfactory. Such comprehension, together with an understanding of the AFRF, assists the practitioner in complying with relevant ethical requirements.

The requirement in ISRS 4410 (Revised) is to obtain an understanding of the entity's business and operations, including the entity's accounting system and accounting records, as well as the AFRF and its application to the entity's industry. The practitioner is required to propose amendments in cases where the compiled financial statements might otherwise be misleading, or where a failure to do otherwise would result in the financial statement's material misstatement.

Consider Point

Obtaining an understanding of the entity's business and its operations, including the entity's accounting systems and accounting records, is an ongoing process that occurs throughout the compilation engagement (i.e., it is an iterative process). This understanding establishes a frame of reference within which the practitioner exercises professional judgment in compiling the financial statements.

Exhibit 4.3-1A

Some of the benefits of the practitioner's understanding the entity are set out in the following exhibit.

| | |
|---|--|
| Benefits of Understanding the Entity | Provides a frame of reference for planning and performing the compilation engagement and making professional judgments about financial statement components where misstatements may occur. |
| | Provides context to the information provided by management or TCWG. |

Exhibit 4.3-1B

The stages of the compilation engagement are set out in the following exhibit.

| Stage of Engagement | Information Source |
|---------------------------|--|
| Client Acceptance | Engagement acceptance procedures. |
| Client Continuance | Prior engagements performed. |
| Planning | Management/TCWG inquiries, including any relevant matters of significance. |
| Performing | Results of understanding an entity's business and operations and the reading of the compiled financial statements. |
| Reporting | Practitioner's report. |

4.3-2 Uses and Benefits of Planning

Planning is a critical step in performing an efficient and effective compilation engagement.

Exhibit 4.3-2A

Some of the uses and benefits of planning a compilation engagement are set out in the following exhibit.

| | |
|-----------------------------|--|
| Uses of Planning | Focus partner/staff attention on engagement objectives. |
| | Identify ways in which the entity could assist the engagement, such as preparing certain working papers. |
| Benefits of Planning | Team members are properly briefed on the engagement objectives and expectations. |
| | Problem areas can be anticipated, to the extent possible, and surprises avoided. |
| | The engagement is properly organized, staffed, and managed. |

4.4 PROCEDURES

The last step in planning is to determine if any procedures may be needed to consider whether the financial statements are consistent with the practitioner's understanding of the business, the AFRE, and whether the financial statements appear misleading. Naturally, the extent of any procedures will depend on the size and complexity of the entity and its operations, the nature of the entity's assets, liabilities, revenue, and expenses, the level of sophistication of the governance structure, and the financial reporting systems, as well as any specific financial reporting obligations or requirements.

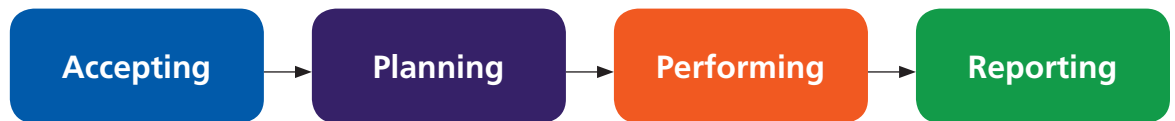
4.4-1 Types of Procedures

Although ISRS 4410 (Revised) does not specifically prescribe compilation engagement procedures, when considering whether the financial statements appear appropriate for the purpose for which they have been compiled, the following activities may be considered:

- Obtain a general knowledge of the entity's business and operations, including the accounting principles and practices of the industry in which the entity operates;
- Obtain a general understanding of the nature of the entity's business transactions, the form of the accounting records, and the basis on which the financial statements are presented;
- Consider any estimates and judgments made by management and question those that appear unreasonable;
- For information that appears incorrect or incomplete, ask management to provide additional information or explanation;
- Consider unusual or large transactions in an effort to consider the suitability of the recording and/or classification of these entries; and
- Be alert to unexpected variances within the account balances, non-disclosure of any known departures from statutory or regulatory requirements or any other significant departures from the AFRE.

5

PERFORMING



CHAPTER CONTENT

- How to perform compilation procedures.
- When amendments are required.
- How to consider/document the results.

| 5.1 Perform Procedures | 5.2 Consider Financial Statements Obtained | 5.3 Documentation |
|---|---|--|
| 5.1-1 Procedures 5.1-2 Management Approval | 5.2-1 Required Amendments or Withdrawal From Engagement 5.2-2 Supervision and Review | 5.3-1 Documentation 5.3-2 File Assembly |

Outcome

Procedures have been completed and documented in the engagement file.

5.1 PERFORM PROCEDURES

| Paragraph | Requirement |
|-----------|--|
| 29 | The practitioner shall compile the financial information using the records, documents, explanations and other information, including significant judgments, provided by management. |
| 30 | The practitioner shall discuss with management, or those charged with governance as appropriate, those significant judgments, for which the practitioner has provided assistance in the course of compiling the financial information (Ref: Para. A45) |
| 32 | If, in the course of the compilation engagement, the practitioner becomes aware that the records, documents, explanations or other information, including significant judgments, provided by management for the compilation engagement are incomplete, inaccurate or otherwise unsatisfactory, the practitioner shall bring that to the attention of management and request the additional or corrected information. |

5.1-1 Procedures

It is imperative to point out that the ISRS 4410 (Revised) does not prescribe any required procedures in the conduct of a compilation engagement. That said, the practitioner may elect to conduct a number of procedures to achieve the compilation objectives. The practitioner uses professional judgment in determining the nature and extent of such procedures.

Exhibit 5.1-1A

The nature and type of possible procedures are outlined in the following exhibit.

| Type of Procedure | Nature of Procedure |
|----------------------|---|
| Discussion | Seeking information of management and other persons within the entity as considered appropriate in the circumstances to obtain an understanding of the business and operations, as well as to gain a familiarity of the accounting principles and practices of the sector in which the entity operates. This understanding should provide the practitioner with an appreciation of the form and content of the accounting information that is appropriate in the circumstances and for the purpose for which the information is being compiled. |
| | Expanding discussion, where appropriate, for any significant judgments for which the practitioner has provided assistance in the course of compiling the financial statements. Such discussion also ensures management acknowledges and accepts its responsibility in this regard. |
| | Recording how compiled financial statements reconcile with the underlying records, documents, explanations, and other information provided by management. |
| | Making requests to management for further information in response to incomplete, inaccurate, or otherwise unsatisfactory information. |
| Consideration | Estimates and judgments made by management as they are incorporated into the financial statements being compiled. Any unreasonable estimates or unusual judgments would normally be queried. |
| | Being satisfied that unusual items have been properly recorded and/or classified. |
| | Reading the financial statements and considering basic cut-off procedures to ensure items are recorded in the correct period. |
| | Determining whether the financial statements are consistent with the practitioner's understanding of the business and whether the financial statements are misleading. |

| Type of Procedure | Nature of Procedure |
|--------------------------------------|--|
| Tailored to the Circumstances | If the practitioner becomes aware during the course of the engagement that: <ul style="list-style-type: none"> • The compiled financial statements do not adequately refer to or describe the AFRF; • Amendments to the compiled financial statements are required for the financial statements not to be materially misstated; or • The compiled financial statements are otherwise misleading, amendments will be proposed to management. |
| | Considering additional information obtained and/or responses provided by management in circumstances where there are concerns about the accuracy or completeness of the information and determining whether these matters have been resolved to the practitioner's satisfaction. |

The procedures suggested in the above table are not comparable with those undertaken in an audit or review engagement, and do not include any detailed procedures to verify the validity or completeness of the books and records. Indirectly, such procedures may assist the practitioner in complying with professional ethical requirements.

Due to the flexibility of the standard, additional assistance may be provided to clients who have requested a compilation engagement. For example, the engagement may be expanded to include bookkeeping services leading up to the preparation of the ending trial balance, or it may include preparing entries in advance of the closing of the accounts (such as recording of provisions, accruals, and amortization). In such cases, it is important to emphasize to management that the preparation and presentation of the financial statements, regardless of the practitioner's expanded role in the engagement, remain their responsibility. The practitioner may also consider expanding the engagement letter to include the details of these additional services.

Consider the following example related to a balance sheet asset account:

Sample Compilation Procedure—Accounts Receivable

G/L Trial Balance Not Available

Bookkeeping engagement:

- Record accounts receivable from information provided

G/L Trial Balance Available

Consider nature of business:

- Sales cash or credit?
- Bad debts?

Is there reason to believe that accounts receivable appear incorrect, incomplete, or otherwise unsatisfactory?



IF YES

- Discuss accounts receivable and bad debts with client
- Scan for errors
- Obtain accounts receivable list and reconcile
- Consider cash basis disclosure
- If incomplete, inaccurate, or otherwise unsatisfactory, propose amendments as necessary

IF NO

- No further action required

If you understand the nature of your client's business, you should know whether to expect any outstanding accounts receivable.

Let's consider a few examples:

- Suppose an electrical contractor shows accounts receivable at about one weeks' revenue, which is consistent with the prior year. Compilation standards would not require a review of a list of receivables if the amount reported does not appear misleading. However, if you have reason to believe that there may be bad debts, you should query these amounts and record them.
- Suppose your client is a dentist whose accounts receivables are reported at nil. This is unusual. Further action is likely required.
- Your client owns a small grocery store and the store's records show an accounts receivable balance of €15,000. What do you do? There's a good chance readers would be misled, as €15,000 in receivables is unusual for a cash business such as a grocery store. You should follow up with the client. You could, for example, ask the client if the balance is correct. Or, you could scan the client's ledger to look for errors.

Sample Compilation Procedure—Inventory

G/L Trial Balance Not Available

Bookkeeping engagement:

- Record inventory

G/L Trial Balance Available

Consider nature of business:

- Expected nature of inventories
- Sales volume

Is there reason to believe that the inventory appears incorrect, incomplete, or otherwise unsatisfactory?



| IF YES | IF NO |
|---|--|
| <ul style="list-style-type: none"> • Discuss inventory with client • Scan transactions for errors • Scan inventory count sheets or estimate prepared by the client • Peruse for accuracy and valuation • If incomplete, inaccurate, or otherwise unsatisfactory, propose amendments as necessary | <ul style="list-style-type: none"> • No further action required |

It is not uncommon for a small business client to want to avoid the task of counting inventory. In a compilation, you can use the client’s estimate of the inventory’s cost if it does not appear to be false or misleading.

What are the considerations in this situation? What is your professional obligation?

- Your obligation is to avoid being associated with false or misleading information. Use professional judgment, asking yourself, “By accepting the amount on the trial balance, is there a risk I could be accepting false or misleading information?”
- Is there a simple procedure you can use to assess the balance, such as asking the client how the balance was calculated?
- Can you assume the client’s estimate for the current year inventory is the same as the prior year?

Some practitioners believe that asking the client questions about the inventory goes beyond what’s required in a compilation. After all, in a compilation, you are simply putting the client’s information into the format of a financial statement. No verification of the accuracy of the balances is required. Once again, these are matters of professional judgment.

But, if you don’t ask the client, how will you know that this is not a year in which the inventory dropped to half of what it was at the beginning of the year? Issues such as this are again a matter of professional judgment.

Let us consider one final example, this time for a balance sheet liability account:

Sample Compilation Procedure—Accounts Payable and Accrued Liabilities

G/L Trial Balance Not Available

Bookkeeping engagement:

- Record payables and accrued liabilities

G/L Trial Balance Available

Consider nature of business, expected nature and extent of accounts payable, and accrued liabilities.

Is there reason to believe that accounts payable and accrued liabilities appear incorrect, incomplete, or otherwise unsatisfactory?



IF YES

- Discuss accounts payable and accruals with client
- Scan transactions
- List accounts payable and accruals
- Reconcile accounts payable to list
- If incomplete, inaccurate, or otherwise unsatisfactory, propose amendments as necessary

IF NO

- No further action required

It is possible that accrued liabilities, if not significant, would not cause the statements to be false or misleading if not reported. Thus, if your client has not provided for items, such as accrued accounting fees or other accruals, you might choose not to adjust the records. However, you may wish to see a list of payables.

Consider, for example, a retail toy store with a December 31 year-end. It is reasonable to expect that the operation would take receipt of a large quantity of merchandise during the busiest time of year that would not require immediate payment. If the accounts payable listing did not appear to include balances due within 30-60 days to these suppliers, you might question whether the listing was complete.

ISRS 4410 (Revised) does not require the practitioner to make comparisons with the prior year. However, when the business has changed very little, comparing prior year results to current year results may be helpful for determining whether the income statement items appear misleading. It is not necessary to explain or document every variance, but unusual changes should be followed up if they could be materially misstated. The same applies to unusual relationships between account balances. For example, if the cost of goods sold exceeds revenue, further inquiry might reveal that the inventory is incorrect or that certain sales were not recorded.

5.1-2 Management Approval

| Paragraph | Requirement |
|-----------|---|
| 37 | The practitioner shall obtain an acknowledgement from management or those charged with governance, as appropriate, that they have taken responsibility for the final version of the compiled financial information (Ref: Para. A62) |

The process an entity uses for the approval of the financial statements by management, or TCWG, as appropriate, is a relevant consideration for the practitioner when completing the compilation engagement. Depending on the nature and purpose of the financial statements, there may be an established approval process that management or TCWG are required to follow, or that is prescribed by applicable law or regulation, for the preparation and finalization of financial statements.

5.2 CONSIDER FINANCIAL STATEMENTS OBTAINED

| Paragraph | Requirement |
|-----------|--|
| 31 | Prior to completion of the compilation engagement, the practitioner shall read the compiled financial information in light of the practitioner's understanding of the entity's business and operations and of the applicable financial reporting framework. (Ref: Para. A46) |
| 33 | If the practitioner is unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing. (Ref: Para. A52) |

5.2-1 Required Amendments or Withdrawal from Engagement

| Paragraph | Requirement |
|-----------|--|
| 34 | <p>If the practitioner becomes aware during the course of the engagement that:</p> <p>(a) The compiled financial information does not adequately refer to or describe the applicable financial reporting framework; (Ref: Para. A47)</p> <p>(b) Amendments to the compiled financial information are required for the financial information not to be materially misstated; or (Ref: Para. A48–A50)</p> <p>(c) The compiled financial information is otherwise misleading, (Ref: Para. A51) the practitioner shall propose the appropriate amendments to management.</p> |
| 35 | If management declines, or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing. (Ref: Para. A52) |
| 36 | If withdrawal from the engagement is not possible, the practitioner shall determine the professional and legal responsibilities applicable in the circumstances. |

When using professional judgment in performing compilation engagement procedures, the practitioner may become aware of information that the practitioner believes to be materially misstated or misleading in the context of the AFRF. In such circumstances, the practitioner is required to request that necessary amendments be made to correctly present the financial information represented in the financial statements.

Where withdrawal from the engagement is necessary due to management's refusal to correctly report the financial information represented in the financial statements, practitioners are responsible for informing management and TCWG of their reasons for withdrawing, which will also provide an opportunity for them to explain their ethical obligations under the terms of the engagement.

5.2-2 Supervision and Review

ISRS 4410 (Revised), paragraph 23 (iv) states that the engagement partner is responsible for the direction, supervision, and performance of the compilation engagement in compliance with professional standards and applicable legal and regulatory requirements.

To ensure that work performed is in compliance with professional standards, firms are required to design and develop quality control policies and procedures that require the work of less experienced engagement team members to be supervised and reviewed by a more experienced engagement team member.

In an SMP environment, a sole practitioner may be working alone rather than as part of a team. In such circumstances, this requirement would not be relevant. For more information, refer to IAASB's [Staff Questions & Answers – Applying ISQC 1 Proportionately with the Nature and Size of a Firm](#).

ISQC 1 does not define the types of working paper review other than for the EQCR. For many lower-risk engagements, the practitioner may well perform the work and will then subsequently review the work performed.

5.3 DOCUMENTATION

| Paragraph | Requirement |
|-----------|--|
| 38 | <p>The practitioner shall include in the engagement documentation: (Ref: Para. A53-A55)</p> <p>(a) Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner;</p> <p>(b) A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management; and</p> <p>(c) A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report. (Ref: Para. A62)</p> |

5.3-1 Documentation

The basic principles to consider when preparing file documentation are to ensure it is:

- Well organized (ideally, using some form of standard file indexing);
- Cross-referenced;
- Clear and concise; and
- Stands alone so that no additional verbal explanations are required to understand:
 - The work performed; and
 - The results of the work, as well as any significant matters that arose and how they were addressed during the compilation engagement.

Exhibit 5.3-1A

Some of the information and documentation that the practitioner may prepare is set out in the following exhibit.

| Information Prepared by the Practitioner | |
|--|--|
| Preparation | <ul style="list-style-type: none"> • The nature of the engagement to be performed and the timeframes, etc. • A signed engagement letter. |
| Understanding the Entity | <ul style="list-style-type: none"> • The AFRF that will be used. |
| Planning | <ul style="list-style-type: none"> • Matters of continuing relevance to future compilation engagements. • Listings of planned inquiries |

| | |
|-----------------------|---|
| Work Performed | <ul style="list-style-type: none"> • Results obtained from any procedures elected to be performed. This may include: <ul style="list-style-type: none"> ○ Who performed the work and the date on which the work was completed; ○ Names of the entity personnel spoken to and the date of the conversation (if determined necessary); ○ Details of what was discussed, significant matters arising, the nature of those matters, and how they were addressed (if determined necessary); and ○ Results from procedures, including the explanations provided for material variances or unusual items. • Listing of amendments to the financial statements, including any adjusting entries or other amendments to the financial statements that the practitioner has agreed with management during the course of the engagement. • Recording of how the compiled information reconciled with the underlying records, documents, explanations, and other information provided by management (for example, a schedule showing how the trial balance links to the compiled financial statements). |
| Reporting | <ul style="list-style-type: none"> • A copy of the practitioner's report. • Approval from management, if applicable. |

File Organization

There is no prescribed method for organizing engagement files. However, many firms prepare a new engagement file for each period being reviewed and keep a permanent file for reference material that is updated as required.

5.3-2 File Assembly

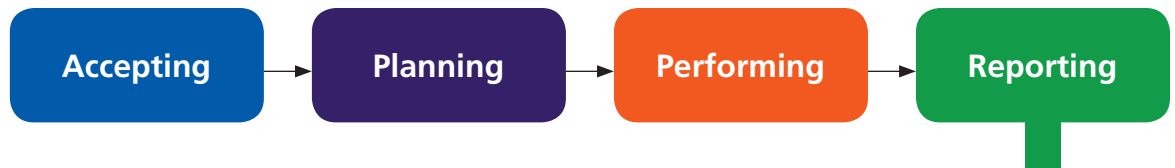
ISQC 1 requires firms to establish time limits that reflect the need to complete the assembly of final engagement files on a timely basis. For example, the time limit for final assembly could be established as 60 days after the date of the engagement report.

Consider Point

The time allowed for final assembly is limited to administrative matters only. Information required to support the compilation report will have been obtained before the reported is dated and issued.

6

REPORTING



CHAPTER CONTENT

- How to form a compilation report for general purpose financial statements.
- Understanding the elements of a compilation report.

| 6.1 Forming the Report | | 6.2 Wording of the Report | |
|--|--|---------------------------|---------------|
| 6.1-1 | Communicate the Nature of the Engagement | 6.2-1 | Report Dating |
| 6.1-2 | Special Purpose Financial Statements | | |
| Outcome | | | |
| Prepare a compilation report on the financial statements that is appropriately worded. | | | |

6.1 FORMING THE REPORT

The final step in performing a compilation engagement is to form an appropriately worded report.

6.1-1 Communicate the Nature of the Engagement

| Paragraph | Requirement |
|-----------|--|
| 39 | An important purpose of the practitioner's report is to clearly communicate the nature of the compilation engagement and the practitioner's role and responsibilities in the engagement. The practitioner's report is not a vehicle to express an opinion or conclusion on the financial information in any form. |

Many accounting firms use a financial statement presentation and disclosure checklist to ensure that all the requirements of the AFRF have been met. Where necessary, these checklists should be customized for the country, industry, and client.

In many instances, the AFRF will be country specific; however, if IFRS for SMEs is used, some standard and illustrative financial statements and disclosure checklists in various languages can be downloaded from the [Access the IFRS for SMEs](#) page of the IFRS website.

6.1-2 Special Purpose Financial Statements

If the financial statements are being prepared for a special purpose financial reporting framework, the details of the framework may be available only to the engaging party and the practitioner.

In these situations, it is important to describe the special purpose financial reporting framework, as the [special purpose financial statements](#) may not be appropriate for any use other than the intended use identified at the outset of the engagement.

If the financial statements are special purpose financial statements, an explanatory paragraph would be included that:

- (a) Describes the purpose for which the financial statements is prepared and if necessary, the intended users, or contains a reference to a note in the financial statements that discloses this information; and
- (b) Draws the attention of readers of the report to the fact that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the information may not be suitable for other purposes.

These may be supplemented by an additional clause that restricts either the distribution or use, or both, of the practitioner's report to the intended users only.

| Paragraph | Requirement |
|-----------|---|
| 40 | <p>The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements: (Ref: Para. A56–A57, A63)</p> <ul style="list-style-type: none"> (a) The report title; (b) The addressee(s), as required by the terms of the engagement; (Ref: Para. A58) (c) A statement that the practitioner has compiled the financial information based on information provided by management; (d) A description of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information; (e) Identification of the applicable financial reporting framework and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information; (f) Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates; (g) A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this ISRS, and that the practitioner has complied with relevant ethical requirements; (h) A description of what a compilation engagement entails in accordance with this ISRS; (i) Explanations that: <ul style="list-style-type: none"> (i) Since a compilation engagement is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation,; and (ii) Accordingly, the practitioner does not express an audit opinion or a review conclusion on whether the financial information is prepared in accordance with the applicable financial reporting framework. (j) If the financial information is prepared using a special purpose financial reporting framework, an explanatory paragraph that: (Ref: Para. A59–A61) <ul style="list-style-type: none"> (i) Describes the purpose for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information; and (ii) Draws the attention of readers of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the information may not be suitable for other purposes; (k) The date of the practitioner's report; (l) The practitioner's signature; and (m) The practitioner's address. |

The general requirement is that, if a compilation performed does not comply with the standards articulated within ISRS 4410 (Revised), the practitioner cannot represent compliance with the ISRS in the compilation engagement report.

Standardized wording in the compilation report provides consistency in the report and communicates that the compilation of the financial statements has been conducted in accordance with globally recognized standards.

In situations where the wording of the report is prescribed locally, the practitioner is still encouraged to apply the requirements of ISRS 4410 (Revised) (including the reporting requirements) to the extent practicable. The practitioner will, however, be unable to assert compliance with ISRS 4410 (Revised) in the report.

Signature of the Practitioner

The signature can be the name of the practitioner's firm, the personal name of the individual practitioner, or both, as appropriate, for the particular jurisdiction. In certain jurisdictions, there may also be additional requirements.

Consider Point

Some firms use their letterhead for the compilation engagement report and then assume (because it contains their address) that the report complies with the requirements. However, this may not be acceptable, as the actual requirement is to disclose the location in the jurisdiction where the practitioner practices within the report itself.

6.2-1 Report Dating

| Paragraph | Requirement |
|-----------|--|
| 41 | The practitioner shall date the report on the date the practitioner has completed the compilation engagement in accordance with this ISRS. (Ref: Para. A62) |

There may be an established approval process that is required to be followed, or that is prescribed in applicable law and regulation, for an entity's preparation and finalization of its financial statements. It is important to note that delays in the dating of the report may lead to the occurrence of subsequent events that may have to be considered and/or that could lead to further required adjustments.

APPENDICES

APPENDIX A

Description of Terms Used in the Guide

The following terms and descriptions are included in ISRS 4410 (Revised).

| Term | Description |
|---|---|
| <u>Applicable financial reporting framework</u> | 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. |
| <u>Engagement partner</u> | 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. |
| <u>Engagement team</u> | 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. |
| <u>Misstatement</u> | <p>A difference between the amount, classification, presentation, or disclosure of a reported item in the financial information, and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.</p> <p>Where the financial information is prepared in accordance with a fair presentation framework, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the practitioner's judgment, are necessary for the financial information to be presented fairly, in all material respects, or to give a true and fair view.</p> |
| <u>Practitioner</u> | 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. |
| <u>Relevant ethical requirements</u> | Ethical requirements the engagement team is subject to when undertaking compilation engagements. These requirements ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' <i>Code of Ethics for Professional Accountants</i> (excluding Section 290, <i>Independence—Audit and Review Engagements</i> , and Section 291, <i>Independence—Other Assurance Engagements</i> in Part B), together with national requirements that are more restrictive. |

Other Terms

In addition to the terms set out in ISRS 4410 (Revised), paragraph 17 described above, this Guide also used a number of other terms.

The following terms and descriptions are used in the glossary of terms in ISQC 1, the ISAs, and ISRE 2400.

| Term (Source) | Description |
|--|---|
| <u>General purpose financial statements</u> | Financial statements prepared in accordance with a general purpose framework. |
| <u>General purpose framework</u> | A financial reporting framework designed to meet the common financial needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework. |
| <u>Materiality</u> <i>(ISA 200.6)</i> | Misstatements, including omissions, are considered to be material if they individually or in the aggregate could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. |
| <u>Professional judgment</u> | The application of relevant training, knowledge and experience, within the context provided by assurance, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the compilation engagement. |
| <u>Special purpose financial statements</u> | Financial statements prepared in accordance with a special purpose framework. |

Client Acceptance/Continuance Checklist

PSC = procedure successfully completed

| | Response and Comments | W/P ref. | PSC? (Y/N) (Initials) |
|---|-----------------------|----------|-----------------------|
| 1. Quality Control Would accepting this engagement contravene any of the firm's quality control policies? | | | |
| 2. Management Integrity Inquire about events or circumstances that cast doubt on the integrity of management or TCWG. Consider: <ul style="list-style-type: none"> • Is the client of good character? • Could the information provided be purposefully incorrect, incomplete, or could users be misled? | | | |
| 3. Predecessor Accountant <ul style="list-style-type: none"> • What reasons has the prospective client given about the change in accountants? • Have any other accountants recently declined to serve the prospective client? If so, explain why. • Have the predecessor's working papers been reviewed? If so, describe any matters identified that impact engagement acceptance. | | | |
| 4. Purpose and Use of Financial Statements Consider the following: <ul style="list-style-type: none"> • Is the anticipated use of the compiled information appropriate? • Is the AFRF appropriate in the circumstances? | | | |
| 5. Firm Competencies Does the firm have the necessary resources available to complete the engagement? Consider: <ul style="list-style-type: none"> • Availability of firm personnel with appropriate experience and industry knowledge. • Availability of a suitably qualified EQCR (where required by firm quality control policies). | | | |
| 6. Terms of Engagement <ul style="list-style-type: none"> • Prepare an engagement letter and have it signed or ensure that the existing version is still valid. • Discuss the terms of engagement with the client. • Does the client understand the limited responsibilities of the firm with respect to the compilation of the financial statements? • Is the firm satisfied that there are no reasons why we should not accept the client? | | | |
| 7. Other Required Procedures (Specify) | | | |

| | |
|---|----------------------|
| | |
| Based on the information obtained above, this engagement should be rated as follows (circle one): | |
| Low Risk | Moderate Risk |
| High Risk | Not Accepted |
| Comments: | |
| Will an EQCR be required on this engagement? YES NO | |
| I have read the responses to the questions above and agree with the conclusion. | |
| Prepared by _____ | Date _____ |
| Reviewed by _____ | Date _____ |

Sample Engagement Letter

Note: This sample letter is based on the example contained in ISRE 4410 (Revised). Additional material that may be included in the letter has been italicized and contained within brackets.

[LETTERHEAD]

[Date]

To [the appropriate representative of management or TCWG with the authority to sign on behalf of the entity]

[Person

Entity's name

Street address

City, Country]

Dear _____:

You have requested that we provide the following services:

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

The purpose for which the financial statements will be used is to provide full-year financial information showing the entity's financial position at the financial reporting date of [December 31, 20XX] and financial performance for the year then ended. The financial statements will be solely for your use, and will not be distributed to other parties.⁶

Our Responsibilities

A compilation engagement involves applying expertise in accounting and financial reporting to assist you in the preparation and presentation of financial statements. Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provide to us for the compilation engagement, or otherwise to gather evidence to express an audit opinion or a review conclusion. Accordingly, we will not express an audit opinion or a review conclusion on whether the financial statements are prepared in accordance with the basis of accounting you have specified, as described above.

We will perform the compilation engagement in accordance with the International Standard on Related Services (ISRS) 4410 (Revised), Compilation Engagements. ISRS 4410 (Revised) requires that, in undertaking this engagement, we comply with relevant ethical requirements, including principles of integrity, objectivity, professional competence, and due care. For that purpose, we are required to comply with the International Ethics Standards Board for Professional Accountants' Code of Ethics for Professional Accountants (IESBA Code).

⁶ Alternate introductory paragraph:

On the basis of information that you will provide, we will assist you in the preparation and presentation of the following financial statements as required by [refer to applicable legislation] for the year ended [December 31, 20XX] for [entity's name] and/or the balance sheet of [entity's name] as at [December 31, 20XX] and the income statement and retained earnings for the year then ended. The financial statements will be solely for your use, and will not be distributed to other parties.

Your Responsibilities

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

- (a) Responsibility for the financial statements and the preparation and presentation thereof in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial statements and the intended users.
- (b) Responsibility for the accuracy and completeness of the records, documents, explanations, and other information you provide to us for the purpose of compiling the financial statements.
- (c) Responsibility for the judgments needed in the preparation and presentation of the financial statements, including those for which we may provide assistance in the course of the compilation engagement.

Our Compilation Report

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

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.

[Working Papers]

The working papers, files, other materials, reports, and work created, developed, or performed by us during the course of the engagement are the property of our Firm, constitute confidential information, and will be retained by us in accordance with our Firm's policies and procedures.

[File Inspections]

In accordance with professional regulations (and by our Firm's policy), our client files may periodically be reviewed by practice inspectors and by other engagement file reviewers to ensure that we are adhering to our professional and Firm's standards. File reviewers are required to maintain confidentiality of client information.

[Dispute Resolution] (where permissible under local requirements)

You agree that:

- (a) Any dispute that may arise regarding the meaning, performance, or enforcement of this engagement will, prior to resorting to litigation, be submitted to mediation; and
- (b) You will engage in the mediation process in good faith once a written request to mediate has been given by any party to the engagement.

Any mediation initiated as a result of this engagement shall be administered under the laws of _____ by [name of mediation organization] according to its mediation rules. The results of any such mediation shall be binding only upon agreement of each party to be bound. The costs of any mediation proceeding shall be shared equally by the participating parties.

[Indemnity]

[Check to ensure this indemnity wording is allowable and, if so, that it complies with local rules and regulations. Also consider obtaining legal advice.]

[Entity's name] hereby agrees to indemnify, defend (by counsel retained and instructed by us), and hold harmless our Firm (and its partners, agents, or employees) from and against any and all losses, costs (including solicitors' fees), damages, expenses, claims, demands, or liabilities arising out of (or in consequence of):

(a) The breach by [entity's name] (or its directors, officers, agents, or employees) of any of the covenants made by [entity's name] herein, including, without restricting the generality of the foregoing, the misuse of, or the unauthorized dissemination of, our engagement report or the financial statements in reference to which the engagement report is issued or any other work product made available to you by our Firm.

(b) The services performed by us pursuant to this engagement unless, and to the extent that, such losses, costs, damages, and expenses are found by a court of competent jurisdiction to have been due to the negligence of our Firm. In the event that the matter is settled out of court, we will mutually agree on the extent of the indemnification to be provided by your company.

[Time Frames]

We will use all reasonable efforts to complete the engagement as described in this letter within the agreed upon time frames. However, we shall not be liable for failures or delays in performance that arise from causes beyond our control, including the untimely performance by [entity's name] of its obligations.

[Fees at Regular Billing Rates]

Our professional fees will be based on our regular billing rates, plus direct out-of-pocket expenses and applicable taxes, and are due when rendered. Fees for any additional services will be established separately.

[Or]

[Estimated Fees]

We estimate that our fees for these services will be € [amount] for the compilation engagement € plus direct out-of-pocket expenses and applicable taxes. This fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered.

If significant additional time is necessary, we will discuss the reasons with you and agree on a revised fee estimate before we incur the additional costs.

Fees will be rendered as work progresses and are payable on presentation.

[Retainer]

Prior to commencing our services, we require that you provide us with a retainer in the amount of € [amount]. The retainer will be applied against our final invoice and any unused portion will be returned to you upon our collection of all outstanding fees and costs related to this engagement.

[Billing]

Our fees and costs will be billed monthly and are payable upon receipt. Invoices unpaid 30 days past the billing date may be deemed delinquent and are subject to an interest charge of [number] % per month. We reserve the right to suspend our services or to withdraw from this engagement in the event that any of our invoices are deemed delinquent. In the event that any collection action is required to collect unpaid balances due to us, you agree to reimburse us for our costs of collection, including lawyers' fees.

[Termination]

If we elect to terminate our services for nonpayment or for any other reason provided for in this letter, our engagement will be deemed to have been completed upon written notification of termination even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all of our out-of-pocket costs through to the date of termination.

[Costs of Responding to Government or Legal Processes]

In the event we are required to respond to a subpoena, court order, government agency, or other legal process for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this engagement, you agree to compensate us at our normal hourly rates for the time we expend in connection with such response and to reimburse us for all of our out-of-pocket costs (including applicable taxes) incurred.

[Other Services]

In addition to the compilation engagement service referred to above, we will [as permitted locally] prepare other special reports as required. Management will provide the information necessary to complete these reports and will file them with the appropriate authorities on a timely basis.

[Insert details of any other additional services to be provided relating to regulatory requirements.]

[Use of Information]

It is acknowledged that we will have access to all personal information in your custody that we require to complete our engagement. Our services are provided on the basis that:

- (a) You represent to us that management has obtained any required consents for collection, use, and disclosure to us of personal information required under applicable privacy legislation; and*
- (b) We will hold all personal information in compliance with our Privacy Statement.*

[Communications]

In connection with this engagement, we may communicate with you or others via telephone, facsimile, post, courier, and email transmission. As all communications can be intercepted or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that communications from us will be properly delivered only to the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure of communications transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage to any person or entity resulting from: communications, including any consequential, incidental, direct, or indirect communications; special damages, such as loss of revenues or anticipated profits; or disclosure or communication of confidential or proprietary information.

[Conclusion]

This engagement letter includes the relevant terms that will govern the engagement for which it has been prepared. The terms of this letter supersede any prior oral or written representations or commitments by or between the parties. Any material changes or additions to the terms set forth in this letter will only become effective if evidenced by a written amendment to this letter, signed by all of the parties.

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

We appreciate the opportunity of *[providing service / continuing to be of service]* to your company.

Yours truly,

Signed _____

Acknowledged and agreed on behalf of *[entity's name]* by:

Signed _____

[Name and title of the addressee]

Date _____

APPENDIX D

Sample File Completion Checklist

PSC = procedure successfully completed

| | | Comments | W/P ref. | PSC? (Y/N) (Initials) |
|--|--|----------|-------------|--------------------------|
| General | | | | |
| 1. | Quality Control Was the engagement performed in accordance with the firm's quality control policies and procedures? | | | |
| 2. | Understanding the Entity Have we obtained [and documented] an understanding of the entity, and the AFRF, sufficient to identify areas in the financial statements where the client may require our assistance so that material misstatements do not arise? | | | |
| 3. | Compiling the Financial Statements Did we become aware of a matter(s) that caused us to believe the financial statements may be materially misstated? If yes, is this documented and were amendments proposed and accepted by management. | | | |
| 4. | Completion of Procedures Have all planned procedures been completed and the results documented in the working papers? | | | |
| 5. | File Review Have all working papers been reviewed, initialed, and dated? Have all outstanding engagement issues/questions been resolved with management and the details of how these were addressed documented? | | | |
| 6. | Financial Statement Approval Has management (and/or TCWG) accepted responsibility for the final financial statements? If so, provide the date: _____ Confirm a copy is on file. | | | |
| Financial Statement Presentation and Disclosure | | | | |
| 1. | Trial Balance Has the trial balance and account groupings been reconciled to the final financial statements? Is this reconciliation documented? | | | |
| 2. | Financial Reporting Framework Do the financial statements clearly describe the AFRF? | | | |

| | | Comments | W/P ref. | PSC? (Y/N) (Initials) |
|------------------|---|----------|-------------|--------------------------|
| 3. | <p>Fair Presentation Framework</p> <p>Have amendments that were required for the financial statements not to be materially misstated been processed?</p> <p>The compiled financial statements are not otherwise misleading (i.e., where required in the jurisdiction, achieves fair presentation or gives a true and fair view)?</p> | | | |
| Reporting | | | | |
| 1. | <p>ISRS 4410 (Revised) Requirements</p> <p>Are the form, content, and date of the compilation report in accordance with the requirements of ISRS 4410 (Revised)?</p> <ul style="list-style-type: none"> • Title and appropriate addressee; • Statement that the practitioner has compiled the financial statements based on information provided by management; • Description of management's responsibility; • Identification of the AFRF; • Identification of the financial statements; • Identification of the practitioner's responsibilities; • A description of what a compilation engagement entails; • If financial statements is prepared using a special purpose AFRF an explanatory paragraph; and • Date, signature and location of practitioner. | | | |

Prepared by _____ Date _____

Reviewed by _____ Date _____

Alternate Compilation Report

This may be used in an engagement to compile financial information that is an element, account or item, required for a regulatory compliance purpose. The following report is suitable for a compilation engagement that is required in order to comply with the financial reporting requirements established by a regulator, in accordance with provisions established by the regulator prescribing the form and content of the financial information.

PRACTITIONER'S COMPILATION REPORT

[To the Management of Entity's Name⁷]

We have compiled the accompanying schedule of *[identify the compiled financial information]* of *[entity's name]* as at *[December 31, 20XX]* ("the Schedule") based on information you have provided.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*. We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of the Schedule as prescribed by *[insert name of or reference to the relevant regulation]*. We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence, and due care.

This Schedule and the accuracy and completeness of the information used to compile it are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile the Schedule. Accordingly, we do not express an audit opinion or a review conclusion on whether the Schedule is prepared in accordance with *[insert name of or reference to applicable financial reporting framework as specified in the relevant regulation]*.

As stated in Note X, the Schedule is prepared and presented on the basis prescribed by *[insert name of or reference to the applicable financial reporting framework as specified in the relevant regulation]*, for the purpose of *[entity's name]* compliance with *[insert name of or reference to the relevant regulation]*. Accordingly, the Schedule is for use only in connection with that purpose and may not be suitable for any other purpose.

Our compilation reported is intended solely for the use of *[entity's name]* and *[regulator's name]*, and should not be distributed to parties other than *[entity's name]* or *[regulator's name]*.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

⁷ Alternatively, the appropriate addressee specified in the applicable financial reporting requirements.

For more information
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