



# **ISRS 4410 (Revised)**

## **The A-to-Z of Compilation Engagements**

*YOUR KEY TO THE TAX COMMUNITY*

# The uses for a compilation engagement

## 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.

# Compilation engagement objectives

- The practitioner's **TWO objectives** in a compilation engagement under this ISRS are to:
  - Apply accounting and financial reporting expertise to **assist management** in the preparation and presentation of financial information in accordance with an applicable financial reporting framework based on information provided by management; **and**
  - **Report** in accordance with the requirements of this ISRS.

# The role of management and TCWG (those charged with governance)

*Make sure that this is stated, communicated and reported*

- Preparation and presentation of the FS
- Selection and application of appropriate accounting policies
- Developing reasonable accounting estimates, where needed (provisions, depr./amort, allowances for doubtful debt/impairment, etc.)
- Deciding on the AFRF (applicable financial reporting framework)



- The practitioner **may assist management** with significant judgments during the course of the CE

# Managing expectations of intended users of FS

- Practitioner may be associated with the FS; involvement may be misunderstood by users of the FS
- Two aspects become important in the CE:
  - **Emphasis on the practitioner's ethical requirements**
    - Integrity, objectivity, professional competence, due care, confidentiality and professional behaviour
  - **Management remains ultimately responsible** for the preparation and presentation of FS in accordance with an AFRF that are acceptable to the needs of the intended users of the FS

## Differences between engagement types

	Audits	Reviews	Compilations	Agreed Upon Procedures
Is independence required?	Yes	Yes	No <sup>3</sup>	No <sup>4</sup>
What <u>materiality</u> calculations are required?	<ul style="list-style-type: none"> <li>Financial statements as a whole</li> <li>Performance materiality</li> </ul>	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"> <li>Address all material items in the financial statements, including disclosures</li> <li>Focus on financial statement areas where material misstatements are likely to arise</li> </ul>	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"> <li>Risk assessment</li> <li>Test of controls<sup>5</sup></li> <li>Analytical</li> <li>Substantive</li> </ul>	<ul style="list-style-type: none"> <li>Inquiry and analytical procedures</li> <li>Additional procedures as considered necessary in the circumstances</li> </ul>	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

## The four distinct phases of a compilation engagement



# Phase 1: Accepting

- **Is the firm ready?**

- Understand ISRS 4410 (Revised)
- Ethical requirements
- Professional judgement
- Competence
- Quality control

- **Can the engagement be accepted/continued?**

- Best suited purpose = no reliance
- Appropriateness of engagement (*refer slide*)
- *Refer checklist*

- **Agree terms of engagement**

- Acceptable Financial Reporting Framework (AFRF)
- Agree terms of engagement
- Other matters to include in the engagement letter
- *Sample detailed engagement letter in ISRS 4410*

The firm has the necessary competencies and has designed and implemented a system of quality control relevant to CE's.  
Signed engagement letter was obtained before work commences.

# Which engagement is most suited?

Source: IFAC Guide to Compilation Engagements

Engagement	Standards	Assurance	Work Efforts	Report
<b>Audit</b>	ISA	Reasonable	Risk assessment and procedures that respond to the risks identified	Opinion (positive assurance)
<b>Review</b>	ISRE 2400 (Revised)	Limited	Primarily inquiry and analytical procedures	Conclusion (negative assurance)
<b>Compilation</b>	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)
<b>Agreed Upon Procedures</b>	ISRS 4400	None	Evidence in support of findings	Restricted report (factual findings)



## Client Acceptance/Continuance Checklist

PSC = procedure successfully completed

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



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 \_\_\_\_\_

# Phase 2: Planning

- **Ongoing communications**

- TCWG
- Modes of communication

- **Consideration of materiality**

- Consider materiality

- **Understand the entity**

- Why?
- Uses and benefits of planning

- **Procedures**

- Types of procedures – discussions, understanding, explanations

There is a plan of action for compiling financial statements that are not to be incomplete, inaccurate, or otherwise unsatisfactory.

# Phase 3: Performing

- **Perform procedures**

- Procedures
- Management approval

- **Consider FS obtained**

- Required amendments, or withdrawal from engagement
- Supervision and review

- **Documentation**

- Documentation (see *checklist*)
- File assembly (time limit)

Procedures have been completed and properly documented in the engagement file.

## Sample File Completion Checklist

PSC = procedure successfully completed

	Comments	W/P ref.	PSC? (Y/N) (Initials)
<b>General</b>			
1.	<b>Quality Control</b> Was the engagement performed in accordance with the firm's quality control policies and procedures?		
2.	<b>Understanding the Entity</b> 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.	<b>Compiling the Financial Statements</b> 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.	<b>Completion of Procedures</b> Have all planned procedures been completed and the results documented in the working papers?		
5.	<b>File Review</b> 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.	<b>Financial Statement Approval</b> Has management (and/or TCWG) accepted responsibility for the final financial statements? If so, provide the date: _____ Confirm a copy is on file.		
<b>Financial Statement Presentation and Disclosure</b>			
1.	<b>Trial Balance</b> Has the trial balance and account groupings been reconciled to the final financial statements? Is this reconciliation documented?		
2.	<b>Financial Reporting Framework</b> Do the financial statements clearly describe the AFRF?		



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

Prepared by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by \_\_\_\_\_ Date \_\_\_\_\_

**Source:** IFAC Guide to Compilation Engagements

# Phase 4: Reporting

- **Forming the report**
  - Communicate the nature of the engagement
  - Special purpose FS?
- **Wording of the report**
  - Report dating

Prepare a compilation report on the financial statements that is appropriately worded.

## 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.

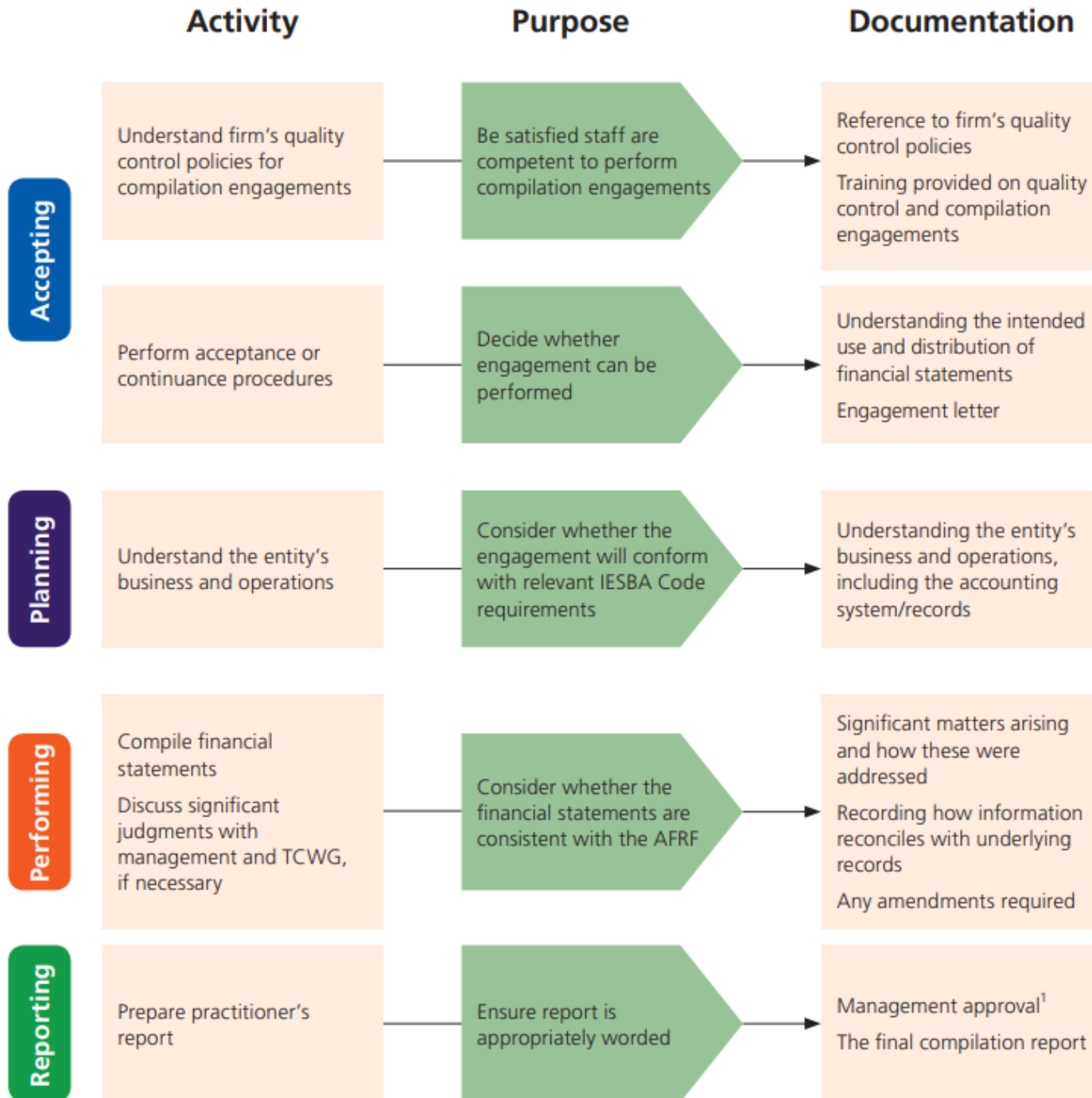
*[Practitioner's signature]*

*[Date of practitioner's report]*

*[Practitioner's address]*

## SUMMARY

### The four major elements of a compilation engagement... in a nutshell



# Thank you for attending!

# soit

South African  
Institute of  
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