



5 April 2011

By electronic submission via website: www.iaasb.org

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

Dear James,

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

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

Background to APESB

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

Overall Comment

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

APESB has the following significant concerns with respect to the proposed ISRS 4410:

- Proposed ISRS 4410 allows a professional accountant to opt out of the proposed standard when a report is not issued. APESB is of the view that professional accountants must be brought within the scope of the Standard when they provide the relevant service (whether it is a compilation service, taxation service or other service) and it must not be dependent on whether a report is issued. We request that IAASB reconsider this and amend the proposed ISRS to apply when a professional accountant compiles historical financial information.
- The application of the proposed ISRS 4410 to historical financial information (prepared in compliance with an applicable financial reporting framework) only is too narrow. In contrast APES 315 has been written in a manner to apply to historical and prospective financial information and thus has a much broader ambit. We are aware that in the SME sector a significant number of Compilation Engagements are conducted which are not related to historical financial information prepared in accordance with an applicable financial reporting framework.

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

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

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

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

Yours sincerely



Kate Spargo
Chairman

Appendix 1

IAASB's request for specific comments

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

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

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

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

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

We believe the reporting requirement is secondary and note that APES 315 provides for reporting externally (i.e. paragraph 12.1) as well as internally (i.e. paragraph 12.2) whilst maintaining a scope that applies to all Compilation Engagements.

APES 315 States that a professional accountant must issue a compilation report in the following circumstances (refer paragraph 12.1 below):

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

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

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

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

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

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

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

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

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

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

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

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

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

AR Section 100 Compilation and Review of Financial Statements

AR Section 110 Compilation of Specified Elements

AR Section 120 Compilation of Pro Forma Financial Information.

iii. Compilation of non financial information

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

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

For the reasons noted above, we believe that the proposed ISRS 4410 will not achieve the stated project objective of addressing the needs of the SME sector if it is issued in its current form.

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

Yes, it is clearly distinguishable from assurance services.

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

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

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

APESB supports the proposed requirements.

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

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

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

APESB believes that this requirement is too restrictive on the professional accountant. The proposed ISRS 4410 should address instances where there is a disagreement with management and it cannot be assumed that management will agree to change the

historical financial information, or allow the professional accountant to select an alternative financial reporting framework or the professional accountant can resign from the engagement if management refuses to make appropriate amendments.

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

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

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

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

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

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

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

APESB supports the proposed ISRS 4410's linkage with ISQC 1. A similar approach has been adopted in Australia. APES 315 make references to APES 320 *Quality Control for Firms* which is based on ISQC 1. In addition, paragraph 22 of the proposed ISRS 4410, extends the quality control to engagement level, which is also supported by APESB.

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

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

Other comments

Independence

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

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

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

Fraud

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

In Australia, APES 315 specifically addresses fraud in the following manner:

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

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

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

Planning

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

Subsequent discovery of facts

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



APES 315

COMPILATION OF FINANCIAL INFORMATION

(Issued July 2008, Revised November 2009)

CONTENTS

	Paragraphs
Scope and application	1
Definitions	2
Fundamental responsibilities of Members in Public Practice	3
- Public interest	
- Professional competence and due care	
- Professional Independence	
- Confidentiality	
Objectives of a Compilation Engagement	4
Planning	5
General Purpose or Special Purpose Financial Statements	6
Defining the Terms of Engagement	7
Procedures	8
Misstatements	9
Documentation	10
Responsibility of the Client	11
Reporting on a Compilation Engagement	12
Communication of significant matters	13
Subsequent discovery of facts	14
 <i>Conformity with International Pronouncements</i>	
 <i>Appendix 1 Examples of Compilation Reports</i>	

Copyright © 2009 Accounting Professional & Ethical Standards Board Limited (“APESB”). All rights reserved. Apart from fair dealing for the purpose of study, research, criticism and review as permitted by the *Copyright Act 1968*, no part of these materials may be reproduced, modified, or reused or redistributed for any commercial purpose, or distributed to a third party for any such purpose, without the prior written permission of APESB.

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

1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional standard APES 315 Compilation of Financial Information (the Standard), which is effective for Engagements commencing on or after 01 January 2010. Earlier adoption of this Standard is permitted.
- 1.2 APES 315 sets the standards for Members in Public Practice who undertake Compilation Engagements in the provision of quality and ethical Professional Services. The mandatory requirements of this Standard are in **bold** type, preceded or followed by discussion or explanation in grey type. APES 315 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.3 **Members in Public Practice in Australia shall follow the mandatory requirements of APES 315 when they undertake Professional Services to Clients that are Compilation Engagements.**
- 1.4 **Members in Public Practice practising outside of Australia shall follow the provisions of APES 315 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.5 **Members shall be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.6 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.7 All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.8 In applying the requirements outlined in APES 315, Members in Public Practice should be guided not merely by the words but also by the spirit of the Standard and the Code.
- 1.9 This Standard is directed towards Engagements to compile historical or prospective financial information.
- 1.10 The Standard should be applied to the extent practicable for Engagements to compile non-financial information.
- 1.11 This Standard is directed towards Members in Public Practice. However, Members in Business should apply this Standard to the extent practicable when they compile information for their employers especially in respect of regulatory reporting requirements and Compilation Reports prepared under ASIC Class Order CO 98/1417 *Audit relief for proprietary companies*.

2. Definitions

For the purpose of this Standard:

Applicable Financial Reporting Framework means in respect of an Engagement to prepare Financial Statements, the financial reporting framework adopted by Those Charged with Governance.

Australian Accounting Standards means the Accounting Standards (including Australian Accounting Interpretations) promulgated by the Australian Accounting Standards Board.

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

Code means APES 110 *Code of Ethics for Professional Accountants*.

Compilation Engagement means an Engagement to compile financial information.

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

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

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

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

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

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

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

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

Independence means

(a) Independence of mind - the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and

- (b) Independence in appearance - the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a Firm's, or a member of the Engagement team's, integrity, objectivity or professional scepticism had been compromised.

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

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

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

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

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

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

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

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

3. Fundamental responsibilities of Members in Public Practice

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

Public interest

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

Professional competence and due care

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

Professional Independence

- 3.4 Independence is not a requirement for a Compilation Engagement.
- 3.5 **Where a Member in Public Practice is not independent, the Member shall make a statement to that effect in the Compilation Report.**

Confidentiality

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

4. Objectives of a Compilation Engagement

- 4.1 The objective of a Compilation Engagement is for the Member in Public Practice to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarise financial information. This will ordinarily entail reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information. The procedures employed are not designed and do not enable the Member to express any assurance on the financial information.
- 4.2 A Compilation Engagement may involve the preparation of Financial Statements (which may or may not be a complete set of Financial Statements). It may also involve compilation of other financial information without the compilation of Financial Statements.
- 4.3 Activities which fall outside the scope of APES 315 include:
- (a) preparation of a taxation return and financial information prepared solely for inclusion in the taxation return;
 - (b) analysis of figures provided by a Client, in order to report to the Client. For example, providing advice on a Client's proposed purchase of another entity, using the other entity's Financial Statements;
 - (c) relaying information to a Client, without collection, classification or summarisation of the information.

5. Planning

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

6. General Purpose or Special Purpose Financial Statements

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

7. Defining the Terms of Engagement

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

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

- (a) nature of the Engagement including the fact that neither an audit nor a review will be carried out and that accordingly no assurance will be expressed;
- (b) fact that the Engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist;
- (c) nature of the information to be supplied by the Client;
- (d) in respect of prospective financial information, the basis of forecasting;
- (e) key assumptions relating to prospective financial information provided by the Client;
- (f) in the event that the Member makes assumptions in forecasts these assumptions will be brought to the Client's attention;
- (g) fact that the Client is responsible for the accuracy and completeness of the information supplied to the Member and that an acknowledgement of such will be required in accordance with paragraph 11;
- (h) basis of accounting on which the financial information is to be compiled and the fact that it, and any known departures there from, will be disclosed;
- (i) requirement for General Purpose Financial Statements to be prepared in accordance with Australian Accounting Standards;
- (j) intended use and distribution of the information, once compiled;
- (k) form of any Compilation Report to be issued; and
- (l) nature of any disclaimer or limitation of liability clause between the Member and the Client or the Member and any user of the Compiled Financial Information.

8. Procedures

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

8.2 Other than as noted in this Standard, a Member in Public Practice is not ordinarily required to:

- (a) make any inquiries of management to assess the reliability and completeness of the information provided;
- (b) assess internal controls;
- (c) verify any matters; or
- (d) verify any explanations.

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

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

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

9. Misstatements

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

9.2 In this Standard, material misstatements include the following:

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

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

- (a) a tax basis of accounting;
- (b) the cash receipts and disbursements basis of accounting for cash flow information;
- (c) the financial reporting provisions established by a regulator to meet the requirements of that regulator; and

- (d) the financial reporting provisions of a contract, for example a loan agreement or trust deed.

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

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

10. Documentation

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

- (a) provide a sufficient and appropriate record of the procedures performed for the Engagement;
- (b) identify the sources of significant information the Member has used in the compilation of financial information; and
- (c) demonstrate that the Engagement was carried out in accordance with this Standard and all other Professional Standards applicable to the Engagement, including policies and procedures established in accordance with *APES 320 Quality Control for Firms*, and any applicable ethical, legal and regulatory requirements.

11. Responsibility of the Client

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

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

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

12. Reporting on a Compilation Engagement

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

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

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

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

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

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

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

- (a) a title;**
- (b) an addressee;**
- (c) a statement that the Engagement was performed in accordance with this Standard;**
- (d) when relevant, a statement that the Member is not independent of the Client;**
- (e) identification of the Compiled Financial Information noting that it is based on the financial information provided by the Client (if applicable);**
- (f) the basis of any forecast information;**
- (g) key assumptions (applicable to prospective financial information only);**
- (h) a statement that the Client is responsible for the financial information compiled by the Member;**

- (i) a statement that neither an audit nor a review has been carried out and that accordingly no assurance is expressed on the Compiled Financial Information;
- (j) if applicable, identification that the Member is reporting on a Special Purpose Financial Statement and the specific purpose for which it has been prepared;
- (k) if applicable, a paragraph drawing attention to the disclosure of material departures from the applicable financial reporting framework;
- (l) the date of the Compilation Report;
- (m) the Member's or Firm's address;
- (n) the Member's or Firm's name and signature;
- (o) an appropriate disclaimer of liability.

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

13. Communication of significant matters

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

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

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

13.4 Matters which should be communicated by the Member in Public Practice include:

- (a) material misstatements identified during the Compilation Engagement and the appropriate amendments agreed with the Client in respect of the misstatements;
- (b) additional information sought by the Member as a result of information supplied which contained material misstatements or was otherwise unsatisfactory;
- (c) if additional information sought by the Member is not supplied:
 - (i) the effect that the lack of additional information may have on the Compiled Financial Information;
 - (ii) the effect of the lack of additional information on the Member's report; and
 - (iii) if appropriate, the fact that the Member proposes to withdraw from the Compilation Engagement as a result of the lack of additional information;
- (d) any other matters that, in the Member's opinion, are significant in the context of the Compilation Engagement.

13.5 Where the Member in Public Practice obtains information that a material fraud, misstatement or illegal act has occurred and the Member has reason to believe that such an act is the result of actions of Those Charged with Governance of the Client, the Member shall consider the Firm's policies and procedures established in accordance with *Acceptance and Continuance of Client Relationships and Specific Engagements* of APES 320 *Quality Control for Firms* in determining whether to continue acting for the Client in a professional capacity.

14. Subsequent discovery of facts

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

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

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

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

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

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

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

Conformity with International Pronouncements

APES 315 and ISRS 4410

The basic principles and essential procedures of APES 315 and of ISRS 4410 *Engagements to Compile Financial Statements* issued by the International Auditing and Assurance Standards Board (IAASB) are

consistent in all material respects, except that the scope and application and definitions are unique to APES 315 and except for the matters noted below:

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

APPENDIX 1: Examples of Compilation Reports

Example 1

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

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

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

The Responsibility of [Those Charged with Governance]

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

Our Responsibility

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

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

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

Independence (if required)

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

Address

Member or Firm

Date

Example 2

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

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

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

The Responsibility of [Those Charged with Governance]

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

Our Responsibility

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

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

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

Independence (if required)

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

Address

Member or Firm

Date

Example 3

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

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

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

The Responsibility of [Those Charged with Governance]

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

Our Responsibility

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

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

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

Departure from the financial reporting framework

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

Address

Member or Firm

Date