

Agenda Item 9



Meeting Location: Sofitel Warsaw Victoria, Warsaw, Poland

Meeting Date: June 15-17, 2011

ISRS 4410 Compilation Engagements

Objective of Agenda Item

1. To receive an update on the IAASB project to revise ISRS 4410 Compilation Engagements.

Background

The IAASB has a project to revise ISRS 4410 Compilation Engagements to provide standards for services that cater to assurance and related services regarding financial statements, other than audits. The IAASB extended an invitation to IESBA to appoint a correspondent member to the Task Force and Isabelle Sapet agreed to fill this role.

Proposed ISRS 4410 is a substantive revision of extant ISRS. It addresses the following topics:

- Scope.
 - Compilation engagements where the practitioner is engaged to compile historical financial information in accordance with the proposed ISRS including providing the report required under the ISRS.
- The practitioner's objectives for the engagement.
- Definitions of key terms, including "compile" and "compilation engagement." The term "compile" is described with reference to the practitioner's role in assisting management to prepare and present financial information in accordance with the "applicable financial reporting framework" (a defined term in the IAASB Glossary).
- Requirements relating to:
 - Relevant ethical requirements, professional judgment and quality control;
 - Engagement acceptance and continuance;
 - Performing the engagement;
 - Communication and documentation; and
 - The practitioner's report provided for the engagement.
- Illustrative engagement letter and practitioner's reports.

The IAASB issued an exposure draft in October 2010 with a comment period ending on March 31, 2011. Comment letters have been received from 48 respondents and the Task

Force has met to discuss comments received. The Task Force will present its recommendations on significant issues to the IAASB at its June 20-23, 2011 meeting. The Task Force will present an analysis of remaining issues noted in respondents' comments, and proposed responses to them, at the September 2011 IAASB meeting.

The Exposure Draft would require the practitioner to comply with relevant ethical standards as they relate to compilation engagements. The application guidance stated that while the Code does not require independence in a compilation engagement, national ethical codes or laws or regulations may specify requirements or disclosure rules pertaining to independence. The Appendix to this agenda paper contains an extract from the exposure draft and the full text of the exposure draft is contained in Agenda Paper 9-A for the reference of IESBA members.

Several respondents commented on this matter. These comments have been considered by the IAASB Task Force and the comments and the proposals of the Task Force are presented below.

Discussion (extract from IAASB Agenda Paper)

Disclosure When the Practitioner is not Independent or has a Conflict of Interest when Performing a Compilation Engagement

Issue

The public interest consideration that users of the compiled financial information should be informed if the independence of the practitioner compiling financial information under the proposed ISRS is, or may be perceived to be impaired. This is significant information that can be expected to influence decisions of users of financial information compiled in such circumstances.

Task Force Recommendations:

- *The IESBA's attention should be drawn to the concern raised in responses to ED-4410.*
- *An additional requirement needs to be included to the proposed ISRS address disclosure of conflicts of interest the practitioner may have, or may be perceived to have, for the purpose of compiling financial information of an entity (in line with the relevant disclosure provisions contained in the IESBA's Code of Ethics for Professional Accountants).*
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Matters Raised by Respondents

Respondents¹ believed it is important, if not critical, in a compilation engagement for the practitioner to disclose in the compilation report if the practitioner is not independent of the entity for which the practitioner is compiling information.

¹ APESB, CALCPA, KPMG, Mazars, NASBA, NZICA, SAICA, FSR

These respondents disagreed with the proposal not to continue with the requirements and guidance contained in the extant ISRS on this issue, citing the public interest issue of disclosing material information to users. Information about the fact of the practitioner's being impaired, or being perceived to be impaired, is viewed as important information for users. A respondent² expressed this as follows:

Most compilation engagements in the SME sector operate within small communities and invariably there is potential for relationships or other matters that create conflict. Therefore the requirement to disclose will ensure transparency to both the client and potential users of the compilation report.

Two respondents³ were of the view that the IESBA needs to define independence for compilations and/or related services engagements ("non-assurance engagements").

The Task Force View

The Task Force has previously expressed the view that such disclosure is an important public interest matter in compilation engagements. This is notwithstanding that there is always ability to mandate at national level that practitioners are required to disclose information to users where their independence is (or may be perceived to be) impaired.

The Task Force has previously drawn the IESBA's attention to this issue and that, absent an agreed definition or explanation of what it means to be independent (or to lack independence) when performing compilation engagements, it is difficult to mandate disclosure and reporting requirements in the proposed ISRS.

If it is unlikely that the IESBA would either define, explain or describe what it means to be (or not to be) independent for the purpose of a compilation engagement, then the Task Force believes that the IESBA Code's provisions on disclosing information about conflicts of interest to relevant parties (IESBA Code Part B, Section 220⁴) are relevant to address the issue raised by respondents. Broadly speaking, a lack of independence can be viewed as a form of conflict of interest.

The Task Force has identified the following options as being worthy of consideration to address respondents' concern in relation to ED-4410:

² APESB

³ KPMG, SAICA

⁴ Section 220.03 of the IESBA Code states the following in relation to conflicts of interest: "Depending upon the circumstances giving rise to the conflict, application of one of the following safeguards is generally necessary:

- (a) Notifying the client of the firm's business interest or activities that may represent a conflict of interest and obtaining their consent to act in such circumstances; or
- (b) Notifying all known relevant parties that the professional accountant in public practice is acting for two or more parties in respect of a matter where their respective interests are in conflict and obtaining their consent to so act; or
- (c) Notifying the client that the professional accountant in public practice does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service) and obtaining their consent to so act."

- (a) *Retain the approach in ED-4410. Application material⁵ points to the possibility that requirements and/or guidance may exist at the national level. For example, national disclosure requirements may specify the nature and form of required disclosures concerning a practitioner's independence, or lack thereof. Further, nothing would prevent any firm or practitioner from disclosing that information when undertaking compilation engagements under the proposed ISRS.*
- (b) *Retain the approach in the extant ISRS 4410. ISRS 4410.05 states:
Independence is not a requirement for a compilation engagement.
However, where the accountant is not independent, a statement to that effect would be made in the accountant's report.
The practitioner's report is required to include, when relevant, a statement that the auditor is not independent of the entity.*
- (c) *Apply the approach in extant ISRS 4400. ISRS 4400.09 states:
Independence is not a requirement for agreed-upon procedures engagements; however, the terms or objectives of an engagement or national standards may require the auditor to comply with the independence requirements of the IESBA Code. Where the auditor is not independent, a statement to that effect would be made in the report of factual findings.*

The practitioner's report is similarly required to include, when relevant, a statement that the auditor is not independent of the entity.

- (d) *Include disclosure requirements in proposed ISRS 4410 that are in line with the provisions of the IESBA Code on disclosure of conflicts of interest, including as a reporting requirement for the practitioner's report. That is, the practitioner would be required to disclose the existence of a conflict of interest in both the written terms of engagement and the practitioner's report. The Task Force considers that the following draft wording (drafted as appropriate requirements and applicable guidance paragraphs) would be adequate to address the concern raised.
The practitioner shall disclose the fact of the existence of a conflict of interest in the written terms of engagement and in the practitioner's report. These are situations or conditions where the practitioner has a private or personal interest sufficient to be perceived by a reasonable and informed third party to influence the practitioner's objectivity in compiling the financial information of the entity.*

The Task Force believes that option (d) above is worthy of further consideration for the proposed ISRS, and sees no drawbacks from the inclusion of requirements and appropriate guidance along those lines in the proposed ISRS. Advantages are that the proposal would align with the requirements of the IESBA Code and can be implemented in the proposed ISRS without need for further interpretation in the IESBA Code. The Task Force welcomes the IAASB's views on this.

⁵ ED-4410, paragraph A20

If the IAASB supports the Task Force's view that this avenue can be further explored to constructively address the respondents' concern, the Task Force will communicate further with the IESBA on this matter.

Matter for IAASB Consideration

Q11. Does the IAASB believe the Task Force's recommendations would adequately address the concern raised by respondents to ED-4410?

Material Presented

Agenda Paper 9	This Agenda Paper
Agenda Paper 9-A	ISRS 4410 (Revised) Compilation Engagements

Action Requested

1. IESBA members are asked to consider the four options identified by the IAASB Task Force and provide their views on the proposed option.

Appendix
Extracts from ISRS 4410 ED

Ethical Requirements

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

Ethical Requirements (Ref: Para. 20)

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

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

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

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