



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

25 March 2011

Re: AUD/HB/LA/SH

Dear Mr. Gunn,

Re: IAASB ED on Proposed International Standard on Related Services ISRS 4410 (Revised), Compilation Engagements

FEE is pleased to provide you with its comments on the IAASB ED on Proposed International Standard on Related Services ISRS 4410 (Revised), Compilation Engagements.

FEE welcomes the initiative to address the needs of small and medium-sized entities and small and medium-sized practitioners which corresponds with the developments in many jurisdictions moving away from audit to other services. A revision and update of the existing standard on compilation engagements to bring it in line with the needs for such engagements carried out in practice is therefore appreciated.

Our main comments on the exposure draft are summarised below:

1. FEE finds it important that the new compilation standard is to be a stand alone standard which can be applied separately and independently from other IAASB pronouncements such as auditing standards or review standards.
2. It should be made clear that the application of the compilation standard is to be based on the issuance of the compilation report which therefore becomes essential for whether the standard will be applied in practice. This principle entails that the standard only applies when the practitioner is associated with the work carried out, for instance when the report is issued or when the name of the audit firm or the practitioner is apparent in connection with the compiled information. As this principle is used also in other areas in addition to compilation engagements, FEE encourages the IAASB in cooperation with the other international standard setting boards under IFAC to consider the development of a general approach to the use of the association principle.

3. In order to make it clear that management retains full responsibility for the preparation and presentation of the financial information which cannot be delegated to another party, FEE recommends clarifying that the practitioner *assists* management throughout the standard.

Our detailed comments and responses to the questions set out in the IAASB Exposure Draft are included in the Appendix attached hereafter.

For further information on this FEE¹ letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be or Lotte Andersen at +32 2 285 40 80 or via email at lotte.andersen@fee.be from the FEE Secretariat.

Yours sincerely,



Philip Johnson
FEE President

¹ FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 EU Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

Appendix

Question 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.

- a. 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?**

FEE finds the scope to compile financial information in accordance with an applicable financial reporting framework appropriate.

Association principle

FEE supports the approach that uses the issuance of the compilation report as the deciding factor for when the standard is to be applied, as described in the explanatory memorandum. The issuance of the compilation report is understood to be the concept of the “association principle”. This principle entails that the standard only applies when the practitioner is associated with the work carried out, for instance when the report is issued or when the name of the audit firm or the practitioner is apparent in connection with the compiled information. This could be more clearly explained in the standard itself by incorporating the explanation given in the explanatory memorandum.

FEE encourages the IAASB in cooperation with the other international standard setting boards under IFAC to consider the development of a general approach to the use of the association principle as the principle is used in other areas in addition to compilation engagements, like auditor’s association and auditor’s responsibility relating to other information in documents containing audited financial statements, as expected to be covered by ISA 720², but also relating to financial and other information included in preliminary announcements, in analyst briefings, etc.

Applicable financial reporting framework

FEE finds the explanation of what constitutes a financial reporting framework in the application material and in appendix 1 useful. However, the explanation could benefit from being expanded with the inclusion of the definitions and application material regarding special purpose financial statements and special purpose frameworks, and misstatements. This would be in addition to general purpose framework and financial statements similar to the approach used in ISAs 200³, 800⁴ and 805⁵, and in the recently published Exposure Draft on Review Engagements⁶ and would

² ISA 720 The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements

³ ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

⁴ ISA 800 Special Considerations – Audits of Financial Statements Prepared in accordance with Special Purpose Frameworks

⁵ ISA 805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

⁶ IAASB Exposure Draft 2400 on Review Engagements

need to be adjusted for the special considerations that relate to compilation engagements, where relevant. When including such additional material, the IAASB is encouraged to take into consideration that in practice the terms “fair presentation framework” and “compliance framework” are used⁷.

We believe that such inclusions would result in clear definitions of the terms in paragraph 15, would underline that the standard is a stand alone standard and would reduce the risk of inconsistent application.

The distinction between general and special purpose financial reporting frameworks could also be made clearer, as comments in the explanatory memorandum and in the Illustrative Practitioners’ Compilation Report II indicate that for example IFRS for SMEs is to be considered as a special purpose financial framework. However, the explanation for general purpose financial information in Appendix 1 as well as the definition of special purpose framework in ISA 800 would lead to the conclusion, in line with FEE’s view, that IFRS for SMEs is to be considered as a general purpose framework. A clear definition in paragraph 15 of these terms would therefore limit the risk of inconsistent application of these terms in practice.

Ethical requirements

FEE would encourage the IAASB to make use of the ethical requirements in compilation engagements clearer, as the proposed definition merely states “relevant ethical requirements” (emphasis added) with the clarification in the application material that the important principle of independence does not apply for compilation engagements unless national requirements are more restrictive in this case. Especially considering that independence is the most extensive part of the IESBA Code of Ethics, FEE recommends that the exclusion of the independence principle is explicitly included in paragraph 15 (g) in the definition of ethical requirements in the standard itself. This would make it clearer to the users of compilation reports and would be similar to the approach used in the exposure draft on Review Engagements, where the independence requirements are explicitly mentioned in the definition. The definition of relevant ethical requirements in paragraph 15 (g) could be amended as follows:

“Ethical requirements relating to compilation engagements to which the engagement team is subject that ordinarily comprise Parts A and B excluding sections 290 on Independence – Audit and Review Engagements and 291 on Independence – Other Assurance Engagements of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with national requirements that are more restrictive.”

Also, the application material could more extensively explain which parts of the IESBA Code of Ethics apply for compilation engagements as a result of the exclusion of the independence requirements, such as elaborating on the contents of the five fundamental principles, for instance on Professional Competence and Due Care which is based on knowledge and understanding as

<http://www.ifac.org/Guidance/EXD-Details.php?EDID=0153>

⁷ As the terms “fair presentation framework” and “compliance framework” are defined in ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.

used elsewhere in the exposure draft. However, mention should be made that national requirements that are more restrictive in some jurisdictions may require independence, for instance of the client, as defined in those requirements.

In many cases, the practitioner may also provide bookkeeping services in addition to the compilation engagement. However, the scope of ISRS 4410 should not be extended beyond the compilation engagement and should not include bookkeeping, and thus clear delineation is needed between the two activities. In this context, paragraphs A10 and A16 could benefit from being clarified with wording amended accordingly. This would not preclude bookkeeping services from being included in the same engagement letter as the one used for the compilation engagement. Rather, clarification is needed to underline that the standard does not extend to bookkeeping.

Paragraph 27 (a) requires the practitioner to obtain knowledge and understanding of the entity's business and operations. It might be beneficial for the user to include a reference to the IESBA Code of Ethics in the Application Material as these terms are further explained in the parts of the Code of Ethics that are applicable to Compilation Engagements.

Finally, further considerations could be given with regard to the terms “knowledge” and “understanding” in relation to compilation engagements. The recently published Exposure Draft on Review Engagements⁸ requires in paragraph 43 that the practitioner obtains an “understanding”, and not “knowledge”. If any difference between review and compilation engagements is intended, FEE encourages the IAASB to explain this further in both standards. Further considerations are needed as to whether the use of “understanding” is to be interpreted as being of the same depth and width as the “understanding” required in ISA 315.

b. What practical challenges, if any, might arise from the proposed scope of the standard?

There may be some practical challenges when applying the standard based on the defined scope of the association principle, especially for a practitioner to assess which circumstances and to what extent “...associated with ...” would result in application of the standard in practice. This could be the case where, for instance, no compilation report is issued, but where the client, on request, informs a third party that a practitioner has “...assisted management in preparing and presenting the financial information ...”. In such a case, the question could be whether the practitioner should have complied with the standard and issued a compilation report based on the knowledge that such a situation could occur, although no report is issued and the practitioner is not identifiable, such as through letterhead on stationary. The IAASB is encouraged to consider whether this practical challenge could be resolved by inclusion of the concerns explained in the association principle, as proposed above.

The main practical challenge, however, appears to be related to the overall application of the standard in practice. It seems that the work effort set out as requirements in the exposure draft is to a great extent carried out in practice in various countries within Europe, although no

⁸ ISRE 2400 (Revised), Engagements to Review Historical Financial Statements

compilation report is being issued. Therefore, FEE believes that, as application of the standard is not mandatory as is the case for ISAs in relation to statutory audit, the main practical challenge will be to create a behavioural change among practitioners to encourage them to comply with the standard in full and also issue a report when work on compilations has been carried out. FEE also believes that a compilation report in the public domain adds value to the entity as well as to the users of the report.

Question 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?

It is essential for the understanding of the various levels of assurance and non-assurance, both by the practitioners applying the standards as well as the users of the reports, that there is a clear distinction between compilation engagements and assurance engagements.

FEE is of the view that the example compilation report clearly distinguishes between the different types of engagements reflecting the work done. It could be considered that the compilation report also refers to the discussions held with management in order to explain the scope of the engagement as well as any significant matters that have arisen during the performance of the engagement.

Paragraph 37 (f) requires that the compilation report includes "... a statement that neither audit nor review has been carried out and accordingly the practitioner does not express an audit opinion or review conclusion on the compiled financial information". To facilitate provisions that may be in national laws or regulations in particular jurisdictions, FEE suggests that the IAASB considers including this requirement as an option similar to examples that refer to national laws and regulations included in ISAs. These proposed changes would result in a compilation report where the practitioner to a greater extent and to the benefit of users explains the content of the work carried out instead of referring to the extent of work that has not been carried out.

However, FEE is of the view that a clearer definition of the term "*Compile*" in paragraph 15 (b) is needed in order to underline that the practitioner *assists* management in preparing and presenting financial information. Any bookkeeping activities do therefore not form part of the engagement "*Compilation*" as defined in paragraph 15 (c). The amendment of the definition of "*Compile*" in paragraph 15 (b) would also align the two definitions of "*Compile*" and "*Compilation Engagement*" to make it clear in both cases that the practitioner *assists* management and as a result, management retains full responsibility of the preparation and presentation of the financial information whereby such responsibility cannot be delegated to another party, such as to a practitioner. The amendment (emphasis added) to paragraph 15 (b) could be done as follows:

"Compile – To apply accounting and financial reporting expertise to assist management in preparing and presenting financial information in accordance with an applicable financial reporting framework."

Finally, the examples given in paragraph A2 related to other types of financial information which may be compiled, could be expanded to also include the compilation of pro forma financial information.

Question 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?

Although a written representation as required for review engagements may not be necessary for compilation engagements, a confirmation from management that all information has been received could be beneficial in practice.

In situations where the compiled information is unsatisfactory to the practitioner, the practitioner is required to bring this to the attention of management and request the required information, in accordance with paragraph 30. It would be beneficial to the users if the Application Material would provide additional guidance as to the expected reactions in case management refuses to provide the information requested.

Question 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?

FEE finds the proposed work effort for the performance of a compilation engagement appropriate.

Knowledge and understanding – paragraph 27

FEE recommends that the requirement to obtain sufficient knowledge and understanding in paragraph 27 is made clearer and more specific for compilation engagements. This could be done by highlighting in the beginning of the paragraph instead of at the end that the knowledge and understanding has to be sufficient for the compilation engagement.

Flowchart

The explanatory memorandum contains a flowchart for a compilation engagement. To facilitate the understanding and the application of the new standard, it could be useful to have such a flowchart included in the final standard as an appendix or Application Material. When considering this inclusion, the IAASB should assess whether the flowchart in fact reflects the procedures required (paragraphs 23 to 38) and the steps to be taken in practice.

For instance, it would ordinarily only be possible to identify some, but not all, material misstatements and thus to assess whether the financial information is materially misstated or misleading after the work has been carried out. Paragraphs 29-32 on discussion with

management and the consequences thereof do not seem to be fully reflected in the flowchart. Additionally, reference to documentation, as required in paragraph 36, may be relevant to include in the flowchart. Therefore, it may be necessary to supplement the flowchart with a few additional steps.

Discussion with management on misleading information – paragraph 30

Paragraph 32 states that the practitioner shall propose appropriate amendments to be made to the compiled information if the practitioner becomes aware of material misstatements, etc. when reading the compiled financial information. It would also be relevant to include a requirement to consider misleading information in paragraph 30 that deals with the information provided by management.

The application material should clarify that for the compilation of financial information, in accordance with both fair presentation financial reporting frameworks and compliance financial reporting frameworks, the practitioner needs to avoid having the financial information contain material misstatements. For fair presentation frameworks, such material misstatements should also include matters that cause the financial statements to not be fairly presented. The application material should also then explain that the misleading test applies only to compliance frameworks.

Material misstatement – paragraph 34

FEE finds the requirements for assessing material misstatements appropriate as the practitioner would need to assess these in addition to what management has considered as material financial information.

However, some additional Application Material on what is understood to be “material misstatements” could be useful, especially with regard to that the materiality level for misstatements is to be the same for compilation engagements as it is for audit and/or review engagements because materiality is, in first instance, an issue that is defined by the applicable financial reporting framework.

Drafting comments

FEE offers a few drafting comments:

- Paragraph 36 requires the practitioner to communicate with management or those charged with governance on a timely basis during the course of the compilation engagement. FEE recommends that this paragraph is moved to the beginning of the Requirements section in line with the proposed structure in the Exposure Draft for Review Engagements.
- The headings under Requirements (paragraphs 23-38) indicate the various steps during the compilation engagement. The IAASB is encouraged to review the use of these subheadings, in relation to their wording as well as the use of fonts (bold, italics), to ensure that the headings and the flow of procedures are aligned with the objective of the engagement, as defined in paragraph 14.

- Paragraph 23 states: “*Unless required by law or regulation, the practitioner shall not accept the engagement unless the practitioner is able to ...*” (emphasis added). Such a wording with a number of negative assessments can cause difficulties in the application of the requirements in the paragraph as well as in the translation to other languages. FEE recommends a simplified introduction to paragraph 23.

Question 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?

Given that the financial information cannot be materially misstated or misleading, FEE does not agree that the practitioner should be responsible for suggesting an alternative financial reporting framework, especially if the aim is to meet a specific desired result of the presented financial information. Such an act is of much greater significance than proposing amendments to the application of the financial reporting framework in the compiled financial information and could be interpreted as the practitioner assuming management’s responsibility.

It is important that the decision on which framework to be used is decided prior to the commencement of the compilation engagement. In situations where a general purpose framework is altered to be a special purpose framework, and where application of this special purpose framework would not lead to misstated or misleading financial information, the practitioner is required under the proposed paragraph 23 (b) to determine whether the financial reporting framework adopted by management is acceptable for the intended use of the information. This appears to be sufficient for the involvement of the practitioner regarding the application of the financial reporting framework. There might be merit in adding some additional application material in the standard on this issue.

Question 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?

FEE finds the four examples of illustrative Practitioners’ Compilation Reports appropriate and useful.

Special purpose framework

With reference to Illustration 2, we would like to highlight, as mentioned in our response to question 1, that IFRS for SMEs is not the most appropriate example of a special purpose framework. We recommend the IAASB to amend the example compilation report accordingly.

Additionally, with reference to Illustration 2, the example applies to “modified general purpose framework” but includes a paragraph entitled “Alert to Reader”. Firstly, FEE would encourage the IAASB to use the terms defined, i.e. “general purpose framework” or “special purpose framework”, respectively, in the example compilation reports or to include a clear explanation as to what is understood to be a “modified general purpose framework” in comparison with the other frameworks. Secondly, according to paragraph 37 (g), such a heading can only be included for “Special purpose financial statements”. FEE recommends the IAASB to align the example accordingly. Also, FEE does not believe that it would not be possible to apply IFRS for SMEs in the way that is described in the example “Alert to Reader” in Illustration 2 and encourages the IAASB to develop an alternative example of a compilation report for a “special purpose framework”.

Management’s responsibilities

FEE prefers a clearer description of the management’s responsibilities in the compilation report in the requirements. This could be done by requiring the following in paragraph 37 (d):

“A description stating that management or those charged with governance, as appropriate, are responsible for the financial information including adoption of the applicable financial reporting framework, and for the accuracy and completeness of the information used to compile the financial statements.”

Heading “Alert to Reader” and Explanatory Paragraphs

Three of the four illustrative examples of compilation reports display the application of paragraph 37 (g) of the exposure draft by including a section under the heading entitled “*Alert to Reader (and Restriction on Distribution and Use)*” which usually refers to specific notes in the financial statements that describe the financial reporting framework explaining departures from the financial reporting framework identified in the beginning of the report.

In Illustration 3 and 4, there are two issues addressed in the last paragraph of the compilation report, “*Alert to Reader*” and “*Restriction on Distribution and Use*”. The part of the paragraph that addresses “*Restriction on Distribution and Use*” appears helpful in its proposed location.

However, the part that addresses “*Alert to Reader*” should be reconsidered. The framework used is identified in the first paragraph of the report and the structure requiring a specific heading with such an alert appears as the last paragraph in the report. FEE finds that it would be more convenient for the reader if all information regarding the framework is placed together, and for the readability that this information should be placed in the beginning of the report.

Placing information under a specific heading at the end of the compilation report gives the impression that the information under this heading is equivalent to an emphasis of matter paragraph. However, the information intended to be included under this specific heading appears in fact not to be similar to information in an emphasis of matter paragraph. FEE recommends another solution with regard to comments on special purpose framework in the report than having

a dedicated heading serving this purpose. This alternative solution would entail not having a dedicated heading entitled “Alert to Reader”, but merely including the reference in the beginning of the report where the explanation of the special purpose framework used by management is explained.

With regard to the possibility to include emphasis of matter paragraphs in a compilation report, FEE is of the view that such a separate paragraph could be useful and encourages the IAASB to address this in the standard. This should also include whether or not emphasis of matter paragraphs can be used in the same way as is the case for audit reports and for review reports, in accordance with the Exposure Draft on Review Engagements. The terminology used should preferably be “Explanatory Paragraph” and not “Alert to Reader” as understanding as well as translation of such a term could be difficult.

Question 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.

In case review or compilation engagements are performed, we believe that ISQC 1 (or equivalent system at least as demanding) should be applied as it is best practice for internal quality control rules for EU audit firms. ISQC 1 is already adaptable, scalable or proportionate to meet the needs for application by SMPs and considerations specific to smaller firms are taken into account in the standard itself as well as in the guidance to the standard.

In this context, further guidance from the IAASB specifically for smaller firms and others would be welcomed, also to illustrate its proportionate use to auditor oversight bodies of especially documentation requirements displaying that audits of public interest entities differ from audits of SMEs, which in most cases is due to the less complex nature of the businesses.

Comments regarding SMEs

As mentioned above, FEE welcomes the initiative to address the needs of small and medium-sized entities and small and medium-sized practitioners. Our comments from the viewpoint of these groups are included in the responses to the specific questions above.

Effective date

FEE is of the view that the two future standards on Compilation Engagements and Review Engagements should be effective at the same date due to the interlink between the two standards and in order to facilitate consistent application of both types of engagements in practice.