

THE COMPILATION STANDARD

BENEFITING BOTH COMPANIES AND PRACTITIONERS

The recent global trend shows that more and more small and medium-sized entities (SMEs) are exempt from audit requirements. Notwithstanding that, SMEs may still find that a set of financial statements is able to serve the needs of certain stakeholders who may wish to receive a set of compiled financial statements or a set of financial statements that would provide them with limited assurance. To meet these needs, the



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International Auditing and Assurance Standards Board (IAASB) has stepped up its efforts with the recent issuance of International Standard on Related Services (ISRS) 4410 (Revised) *Compilation Engagements* and International Standard on Review Engagements (ISRE) 2400 (Revised) *Engagements to Review Historical Financial Statements*. This article highlights the benefits and challenges associated with the compilation standard. ISRS 4410 (Revised) is effective for compilation engagement reports dated on or after 1 July 2013 and is intended to more clearly define practitioners' responsibilities relating to the compilation of accounts.

Here in Singapore, the contents of ISRS 4410 (Revised) are expected to be adopted in full once the standard-setters have gone through the necessary deliberations on the standard, with amendments expected to be made only for localisation purposes, that is, changing references from "International" to "Singapore" and adapting the reference from the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants to the Accounting and Corporate Regulatory Authority's Code of Professional Conduct and Ethics. The proposed revised standard will be known as Singapore Standard on Related Services (SSRS) 4410 (Revised) and will essentially be the same as ISRS 4410 (Revised).

The proposed SSRS 4410 (Revised), when issued and effective in Singapore, will deal with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information. The source of inputs will be provided by management and the practitioner does not have to obtain any assurance on the reliability of the source. However, if the practitioner becomes aware during the course of the compilation engagement that the information provided by the management is incomplete, inaccurate or otherwise unsatisfactory, the practitioner shall bring that to the attention of the management and request for additional or corrected information. The practitioners will also be required to report on the engagement in accordance with this proposed revised standard. This SSRS may also be applied and adapted as necessary, to compilation engagements for financial information other than historical financial information, and to compilation engagements for non-financial information.

WHAT'S DIFFERENT

First and foremost, the structure of the proposed SSRS 4410 (Revised) will be more closely aligned to that of the clarified Singapore Standards on Auditing. For example, it is organised into similar sections including Introduction, Objectives, Definitions, Requirements, and Application and Other Explanatory Materials.

The proposed revision to the standard also contains more explicit and clearer guidance on key provisions in the following areas which will be useful to practitioners when carrying out compilation engagements:

- Compliance with ethical requirements
- Exercise of professional judgement
- Responsibility for quality of engagement
- Communication with management and those charged with governance
- Engagement acceptance and continuance conditions
- Requirements for performing the engagement
- Elements of the practitioners' report issued for compilation engagement

For instance, in the area of engagement acceptance, the proposed SSRS 4410 (Revised) provides practitioners with more explanations on what an engagement letter may include, such as making reference to arrangements concerning the involvement of other practitioners and experts in some aspects of the compilation engagement, and arrangements to be made with the predecessor practitioner, if any. Furthermore, the proposed revised standard also provides guidance on what the practitioners should do if management does not

acknowledge its responsibility. If such a situation arises, the practitioner concerned should not accept the engagement.

BENEFITS OF APPLYING THE STANDARD

With the new "Application and Other Explanatory Materials" section, the proposed SSRS 4410 (Revised) provides greater clarity on the application of this standard to practitioners on compilation engagements to be performed.

From management's perspective, the proposed SSRS 4410 (Revised) gives it the comfort that the

ICPAS STRONGLY ENCOURAGES THE USE OF THE PROPOSED SSRS 4410 (REVISED) WHEN IT COMES INTO EFFECT AS IT WILL HELP TO RAISE NOT ONLY THE STANDARD OF COMPILATION ENGAGEMENTS, BUT THE STANDARD OF THE PROFESSION AS A WHOLE.

compiled financial statements are prepared by the practitioners based on an internationally-accepted framework and are likely to comply with the Singapore Financial Reporting Standards. Furthermore, as the proposed revised standard also makes reference to the requirements of Singapore Standard on Quality Control (SSQC) 1 *Quality Control for Firms that Performs Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, management can be assured of a minimum acceptable standard of quality of the compiled financial statements. Practitioners, with their expertise, are in an ideal position to help the management ensure that the financial statements comply with the financial reporting standards and determine whether management's accounting policies are appropriate. This is especially useful for business owners who possess limited or no accounting knowledge.

Stakeholders of SMEs can also benefit when the impending changes to the Singapore Companies Act (the Act) are finalised. One of the proposed revisions to the Act is to increase the audit exemption threshold for SMEs. Under this proposed revision, more SMEs would likely be exempted from audit. However, compilation will still be relevant to such SMEs as they may have stakeholders who prefer a proper set of financial statements to be produced for various purposes.

For practitioners, the proposed SSRS 4410 (Revised) provides a proper framework for carrying out compilation engagements. It will be especially useful for those who are assisting management to compile financial statements for the first time, as the proposed revised standard provides more explicit guidance on the procedures to be performed. For instance, the proposed revised standard provides examples of matters that the practitioners may consider in obtaining an understanding of the entity's business and operations. These include the size and complexity of the entity and its operations, the level of development and complexity of the entity's financial accounting and reporting systems and related controls and the nature of the entity's assets, liabilities, revenues and expenses.

Furthermore, the provisions in the proposed SSRS 4410 (Revised) help to communicate more clearly the nature of the engagement and the practitioner's roles and responsibilities to the readers. This is achieved through the practitioner's report issued for a compilation engagement, which will explicitly state that a compilation engagement is not an assurance engagement, as well as giving a description of the practitioner's roles and responsibilities.

THE PROPOSED SSRS 4410 (REVISED), WHEN ISSUED AND EFFECTIVE IN SINGAPORE, WILL DEAL WITH THE PRACTITIONER'S RESPONSIBILITIES WHEN ENGAGED TO ASSIST MANAGEMENT WITH THE PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION.

OBSTACLES TO OVERCOME

In addition to the benefits mentioned, practitioners face a number of challenges in the application of this standard. Firstly, they will need to convince their clients of the value of compilation reports as well as to adhere to the proposed SSRS 4410 (Revised). If SMEs engage practitioners who comply with the more extensive provisions in the proposed revised standard to compile a set of higher quality financial statements, these SMEs will likely incur higher professional fees for the engagements since more work will need to be performed by the practitioners. Given that most SMEs will be concerned with the cost factor, especially during the economic uncertainty, it may be difficult to convince SMEs that it is worthwhile to pay more for better quality work.

Another concern for practitioners is that users of the compilation reports may still misinterpret the report to be one that provides assurance, when in fact it does not. This may increase the risk faced by the practitioners.

CONCLUSION

ICPAS strongly encourages the use of the proposed SSRS 4410 (Revised) when it comes into effect as it will help to raise not only the standard of compilation engagements, but the standard of the profession as a whole. The provisions of this standard regarding quality control at the level of individual compilation engagements are premised on the basis that the entity is subject to the requirements of SSQC 1. This will definitely increase the quality of the compiled financial statements. At the same time, it is important for management to recognise that one has to pay for quality, and quality is an attribute that should not be compromised. **CPA**

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