



Auditing Standards and Practices Council

**Philippine Standards on Related Services 4410
(Previously Philippine Standard on Auditing 930)**

**ENGAGEMENTS TO COMPILE
FINANCIAL INFORMATION**

**PHILIPPINE STANDARDS ON RELATED SERVICES 4410
(PREVIOUSLY PHILIPPINE STANDARD ON AUDITING 930)
ENGAGEMENTS TO COMPILE FINANCIAL INFORMATION**

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Philippine Standards on Auditing (PSAs) are to be applied in the audit of financial statements. PSAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

PSAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the PSA including explanatory and other material contained in the PSA not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from a PSA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

PSAs need only be applied to material matters.

The PSAs issued by the Auditing Standards and Practices Council (Council) are based on International Standards on Auditing (ISAs) issued by the International Auditing Practices Committee of the International Federation of Accountants.

The ISAs on which the PSAs are based are generally applicable to the public sector, including government business enterprises. However, the applicability of the equivalent PSAs on Philippine public sector entities has not been addressed by the Council. It is the understanding of the Council that this matter will be addressed by the Commission on Audit itself in due course. Accordingly, the Public Sector Perspective set out at the end of an ISA has not been adopted into the PSAs.

Introduction

1. The purpose of this Philippine Standard on Auditing (PSA) is to establish standards and provide guidance on the accountant's¹ professional responsibilities when an engagement to compile financial information is undertaken and the form and content of the report the accountant issues in connection with such a compilation.
2. This PSA is directed toward the compilation of financial information. However, it is to be applied to the extent practicable to engagements to compile non-financial information, provided the accountant has adequate knowledge of the subject matter in question. Engagements to provide limited assistance to a client in the preparation of financial statements (for example, on the selection of an appropriate accounting policy), do not constitute an engagement to compile financial information. This PSA is to be read in conjunction with PSA 120 "Framework of Philippine Standards on Auditing."

Objective of a Compilation Engagement

3. **The objective of a compilation engagement is for the accountant to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarize financial information.** This ordinarily entails 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 accountant to express any assurance on the financial information. However, users of the compiled financial information derive some benefit as a result of the accountant's involvement because the service has been performed with professional competence and due care.
4. A compilation engagement would ordinarily include the preparation of financial statements (which may or may not be a complete set of financial statements) but may also include the collection, classification and summarization of other financial information.

General Principles of a Compilation Engagement

5. **The accountant should comply with the "Code of Professional Ethics for Certified Public Accountants" promulgated by the Board of Accountancy.** Ethical principles governing the accountant's professional responsibilities for this type of engagement are:

¹ For the purposes of this PSA and to distinguish between an audit and a compilation engagement the term 'accountant' (rather than 'auditor') has been used throughout to refer to a professional accountant in public practice.

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- (a) integrity;
- (b) objectivity;
- (c) professional competence and due care;
- (d) confidentiality;
- (e) professional behavior; and
- (f) technical standards.

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.

- 6. In all circumstances when an accountant's name is associated with financial information compiled by the accountant, the accountant should issue a report.**

Defining the Terms of the Engagement

- 7. The accountant should ensure that there is a clear understanding between the client and the accountant regarding the terms of the engagement.** Matters to be considered include the:
- 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.
 - Fact that the engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist.
 - Nature of the information to be supplied by the client.
 - Fact that management is responsible for the accuracy and completeness of the information supplied to the accountant for the completeness and accuracy of the compiled financial information.
 - Basis of accounting on which the financial information is to be compiled and the fact that it, and any known departures therefrom, will be disclosed.
 - Intended use and distribution of the information, once compiled.

- Form of report to be rendered regarding the financial information compiled, when the accountant's name is to be associated therewith.
8. An engagement letter will be of assistance in planning the compilation work. It is in the interests of both the accountant and the entity that the accountant send an engagement letter documenting the key terms of the appointment. An engagement letter confirms the accountant's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the accountant's responsibilities and the form of reports to be issued. An example of an engagement letter for a compilation engagement appears in Appendix 1 to this PSA.

Planning

9. **The accountant should plan the work so that an effective engagement will be performed.**

Documentation

10. **The accountant should document matters which are important in providing evidence that the engagement was carried out in accordance with this PSA and the terms of the engagement.**

Procedures

11. **The accountant should obtain a general knowledge of the business and operations of the entity and should be familiar with the accounting principles and practices of the industry in which the entity operates and with the form and content of the financial information that is appropriate in the circumstances.**
12. To compile financial information, the accountant requires a general understanding of the nature of the entity's business transactions, the form of its accounting records and the accounting basis on which the financial information is to be presented. The accountant ordinarily obtains knowledge of these matters through experience with the entity or inquiry of the entity's personnel.

13. Other than as noted in this PSA, the accountant 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.
14. **If the accountant becomes aware that information supplied by management is incorrect, incomplete, or otherwise unsatisfactory, the accountant should consider performing the above procedures and request management to provide additional information. If management refuses to provide additional information, the accountant should withdraw from the engagement, informing the entity of the reasons for the withdrawal.**
15. **The accountant should read the compiled information and consider whether it appears to be appropriate in form and free from obvious material misstatements.** In this sense, misstatements include:
- Mistakes in the application of generally accepted accounting principles in the Philippines.
 - Nondisclosure of generally accepted accounting principles in the Philippines and any known departures therefrom.
 - Nondisclosure of any other significant matters of which the accountant has become aware.

The generally accepted accounting principles in the Philippines and any known departures therefrom should be disclosed within the financial information, though their effects need not be quantified.

16. **If the accountant becomes aware of material misstatements, the accountant should try to agree appropriate amendments with the entity. If such amendments are not made and the financial information is considered to be misleading, the accountant should withdraw from the engagement.**

Responsibility of Management

17. **The accountant should obtain an acknowledgment from management of its responsibility for the appropriate presentation of the financial information and of its approval of the financial information.** Such acknowledgment may be provided by representations from management which cover the accuracy and completeness of the underlying accounting data and the complete disclosure of all material and relevant information to the accountant.

Reporting on a Compilation Engagement

18. **Reports on compilation engagements should contain² the following:**
- (a) **title;**
 - (b) **addressee;**
 - (c) **a statement that the engagement was performed in accordance with the PSA applicable to compilation engagements;**
 - (d) **a statement that the accountant is not independent of the entity if such is the case;**
 - (e) **identification of the financial information noting that it is based on information provided by management;**
 - (f) **a statement that management is responsible for the financial information compiled by the accountant;**
 - (g) **a statement that neither an audit nor a review has been carried out and that accordingly no assurance is expressed on the financial information;**
 - (h) **a paragraph, when considered necessary, drawing attention to the disclosure of material departures from generally accepted accounting principles in the Philippines;**
 - (i) **date of the report;**

² It may also be appropriate for the accountant to refer to the special purpose for which or party for whom the information has been prepared. Alternatively, or in addition, the accountant may add some form of caution designed to ensure that it is not used for purposes other than those intended.

- (j) **accountant's address; and**
- (k) **accountant's signature.**

Appendix 2 to this PSA contains examples of compilation reports.

19. **The financial information compiled by the accountant should contain a reference such as "Unaudited," "Compiled without Audit or Review" or "Refer to Compilation Report" on each page of the financial information or on the front of the complete set of financial statements.**

Effective Date

20. This PSA shall be effective for engagements to compile financial information undertaken beginning on or after December 31, 2003.

Acknowledgment

21. This PSA, "Engagements to Compile Financial Information," is based on International Standard on Auditing (ISA) 930 of the same title issued by the International Auditing Practices Committee of the International Federation of Accountants.
22. There are no significant differences between this PSA and ISA 930.

This Philippine Standard on Auditing 930 was unanimously approved on November 4, 2002 by the members of the Auditing Standards and Practices Council:

Benjamin R. Punongbayan, *Chairman* Antonio P. Acyatan, *Vice Chairman*

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Appendix 1

Example of an Engagement Letter for a Compilation Engagement

The following letter is for use as a guide in conjunction with the considerations outlined in paragraph 7 of this PSA and will need to be varied according to individual requirements and circumstances. This example is for the compilation of financial statements.

(Date)

To the Board of Directors or the appropriate representatives of senior management:

This letter confirms our understanding of the terms of our engagement and the nature and limitations of the services we will provide.

You have requested that we perform the following services:

On the basis of information you provide, we will compile, in accordance with the Philippine Standard on Auditing applicable to compilation engagements, the balance sheet of ABC Company as of December 31, 19XX and related statements of income, changes in equity and cash flows for the year then ended on a cash basis. We will not carry out audit or review engagement procedures in relation to such financial statements. Consequently, no assurance on the financial statements will be expressed. Our report on the financial statements of ABC Company is presently expected to read as follows:

(see Appendix 2 to this PSA)

Management is responsible for both the accuracy and completeness of the information supplied to us and is responsible to users for the financial information compiled by us. This includes the maintenance of adequate accounting records and internal controls and the selection and application of appropriate accounting policies. Our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any such matters which come to our attention.

The information will be prepared in accordance with generally accepted accounting principles in the Philippines. Any known departures from generally accepted accounting principles in the Philippines will be disclosed within the financial statements and when considered necessary will be referred to in our compilation report.

We understand that the intended use and distribution of the information we have compiled is [specify] and that should this change in a material respect, that you will inform us.

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We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our compilation.

Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

This letter will be effective for future years unless it is terminated, amended or superseded.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our compilation of your financial statements.

XYZ & Co

Acknowledged on behalf of :

ABC Company by
(signed)

.....
Name and Title
Date

Appendix 2

Examples of Compilation Reports

Example of a Report on an Engagement to Compile Financial Statements

COMPILATION REPORT TO

On the basis of information provided by management we have compiled, in accordance with the Philippine Standard on Auditing applicable to compilation engagements, the balance sheet of ABC Company as of December 31, 19XX and statements of income, changes in equity and cash flows for the year then ended. Management is responsible for these financial statements. We have not audited or reviewed these financial statements and accordingly express no assurance thereon³.

Accountant

Date
Address

³ See footnote 2.

Appendix 2

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Example of a Report on an Engagement to Compile Financial Statements with an Additional Paragraph that Draws Attention to a Departure from the Identified Financial Reporting Framework

COMPILATION REPORT TO

On the basis of information provided by management we have compiled, in accordance with the Philippine Standard on Auditing applicable to compilation engagements, the balance sheet of XYZ Company as of December 31, 19XX and the related statements of income, changes in equity and cash flows for the year then ended. Management is responsible for these financial statements. We have not audited or reviewed these financial statements and accordingly express no assurance thereon⁴.

We draw attention to Note X to the financial statements because management has elected not to capitalize the leases on plant and machinery which is a departure from generally accepted accounting principles in the Philippines.

Accountant

Date
Address

⁴ See footnote 2.