

New Zealand Institute of Chartered Accountants

SERVICE ENGAGEMENT STANDARD 2

COMPILATION OF FINANCIAL INFORMATION

Issued by the Council of the New Zealand Institute of Chartered Accountants

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Introduction

- 1 This Standard is issued by the Council of the New Zealand Institute of Chartered Accountants. All references to the Institute in this document mean the New Zealand Institute of Chartered Accountants.
- 2 Compliance with this Standard is mandatory in terms of paragraph 130.1(b) of the *Code of Ethics* issued by the Institute.
- 3 Mandatory provisions are paragraphs in bold type-face in this Standard. If appropriate, interpretative guidance or commentary paragraphs in plain type-face follow the mandatory provision.

Purpose

- 4 The purpose of this Standard is to establish standards and provide guidance on a member's professional responsibilities when undertaking the compilation of financial information, and the form and content of the report issued in connection with such compilation engagements.

Applicability

- 5 **This Standard applies to all members and firms who undertake engagements to compile financial information.**
- 6 This Standard 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. An engagement to provide limited assistance to an entity in the preparation of financial statements (for example, on the selection of an appropriate accounting policy) does not constitute an engagement to compile financial information.
- 7 Members are also encouraged to apply the requirements and guidance contained in this Standard to the compilation of financial information which is undertaken in a capacity other than as a compilation engagement.

Effective Date

- 8 **This Standard applies to the compilation of financial information where a member is appointed on or after 31 March 2007 and to a member's conduct after that date on any existing agreement to undertake a compilation of financial information.**

Definitions

- 9 For the purpose of this Standard, the following terms have the meaning specified:
 - Compilation of financial information* means a presentation of financial information in a specified form in accordance with a specified basis of accounting, without undertaking to express any assurance on the information.
 - Financial statements* means a structured representation of the historical financial information, including related 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 related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.
 - Firm* means a sole practitioner, partnership, corporate practice or other form of entity through which a member undertakes engagements.
 - Management* means the person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.
 - Member* means a member of the Institute and the member's firm.

Objective of a Compilation Engagement

- 10 The objective of a compilation engagement is for the member to apply compilation procedures involving the use of accounting expertise to present financial information.**
- 11 The procedures employed by members to perform a compilation of financial information are not designed and do not enable the member to express any assurance on the financial information or on related matters, such as the adequacy of the entity's system of internal controls. There is no requirement to test the assertions underlying the information.
- 12 Nevertheless, users of the financial information derive benefit because members are required to carry out work with professional competence and due care, and are subject to the ethical and other professional standards and guidance issued by the Institute.
- 13 An engagement to compile financial information would normally include the preparation of financial statements, which may or may not be a complete set of financial statements, and may also include the compilation of other financial information.
- 14 Examples of types of financial statements for the purposes of this Standard include, but are not limited to, the following:
- (a) a balance sheet, or a statement of financial position;
 - (b) an income statement, or a statement of financial performance;
 - (c) a statement of service performance;
 - (d) a statement of revenues and expenses;
 - (e) a statement of cash flows;
 - (f) a statement of cash receipts and cash disbursements;
 - (g) a statement of changes in equity; and
 - (h) a statement of assets and liabilities (with or without owners' equity).
- 15 Financial statements can be prepared to present historical financial information or prospective financial information.
- 16 Financial statements may be presented in accordance with a financial reporting framework that requires the information to be prepared in accordance with generally accepted accounting practice (GAAP), or in accordance with a basis of accounting used in other financial reporting frameworks.
- 17 The financial reporting framework applied to a compilation of financial information should take account of:
- (a) information needs of users of the financial information;
 - (b) requirements established by GAAP;
 - (c) requirements established by applicable laws or regulations; and
 - (d) requirements established by authorised or recognised organisations.
- 18 Examples of other accounting bases that are used as alternative financial reporting frameworks that may be applied to the presentation of 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 that an entity may prepare (for example, for an unincorporated not-for-profit entity such as a club);
 - (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.

- 19 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 prepared under that framework.
- 20 The appointing party often consults a member regarding the appropriate financial reporting framework to be used for the compilation of financial information. The appointing party is ultimately responsible for the decision regarding the applicable financial reporting framework to be used.
- 21 The compilation of financial information is normally undertaken based on accounting records and other information made available to the member. Management is responsible for the reliability, accuracy and completeness of the accounting records of the entity and for the provision and disclosure to the member of all information relevant to the purpose and compilation of the financial information.

Disclaimer of Liability Statements

- 22 Disclaimer of liability statements enable members to expressly exclude liability for losses suffered by the appointing party or by third parties. The member's liability to the appointing party is mitigated by including an appropriate disclaimer of liability statement in the terms of the engagement at the time of entering into the contract, for example, in the engagement letter. The member's liability to third parties is mitigated by including an appropriate disclaimer of liability statement in the member's report which accompanies the compiled financial information. Appendix 4 to this Standard contains example wording for disclaimer of liability statements in both an engagement letter and the member's report.

Standards

General Principles of a Compilation Engagement

- 23 **The member must comply with the *Code of Ethics*.**
- 24 The *Code of Ethics* governs members' professional responsibilities in the following areas: Integrity, Objectivity, Professional Competence and Due Care, Confidentiality and Professional Behaviour.
- 25 Independence is a requirement for certain types of assurance engagements and is also important for some other engagements, for example, independent business valuations. However, independence is not a requirement for a compilation engagement unless the appointing party requires the member to be independent.
- 26 **If the member is aware that they are not independent of the entity, a statement to that effect must be made in the engagement letter and in the member's report.**
- 27 If the member knows that they are not independent of the entity for which the information is being compiled, it is beneficial for the appointing party and any user of the compiled financial information to be made aware of that fact. However, a member has no obligation to perform additional procedures to determine whether they are fully independent of the entity for which the information is being compiled, such as would be required in an audit or review engagement.
- 28 The *Code of Ethics* does not prohibit a member from undertaking an audit or review engagement in addition to performing a compilation engagement for an entity that is not an issuer (as defined in the *Code of Ethics*). In these circumstances, however, a significant self-review threat to independence is likely to exist in relation to the audit or review engagement, flowing from the member's involvement in the compilation of the financial information that is the subject of the audit or review engagement. The *Code of Ethics* provides examples of self-review threats (paragraph 290.171) and discusses the safeguards available to eliminate the threats or reduce them to an acceptable level.
- 29 **The member, in accordance with paragraph 110.2 of the *Code of Ethics*, must not compile financial information, or permit their name to be associated with compiled**

financial information that they believe to be false, incorrect or misleading or open to misconstruction, by reason of the misstatement, omission or suppression of a material fact or otherwise.

- 30 This applies regardless of whether or not the member is engaged to compile financial information that is to be used by third parties, or might reasonably be expected to be used by third parties.
- 31 In considering whether financial information is misleading, the member considers whether the financial information appears to be appropriate for the purpose for which it is compiled, appropriate in respect of the accounting basis agreed and free from material misstatements that appear obvious as a result of, for example, misclassifications in the financial information or mistakes in the application of the accounting basis.
- 32 If a member becomes aware that their name has been used inappropriately, the member should advise management of this and should consider what other actions might be appropriate, including seeking legal advice.

Quality Control

- 33 **The member must implement quality control policies and procedures at both the level of the member's firm and of each engagement in accordance with Professional Standard No. 1 *Quality Control*.**

Agreeing the Terms of the Engagement

- 34 **The member must ensure that there is a clear understanding between the appointing party and the member regarding the terms of the engagement. The terms of the engagement must be recorded in an engagement letter, or other suitable form, and communicated to the appointing party.**
- 35 To assist the member and the appointing party in reaching this understanding the use of an engagement letter is recommended, as this provides the clearest record of agreement reached regarding the services to be provided and the responsibilities of both the appointing party and the member. An engagement letter confirms the member's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the member's responsibilities and the form of report to be issued. An example of an engagement letter to compile financial information is given in Appendix 2.
- 36 Irrespective of the manner in which the terms of engagement are communicated to the appointing party, the terms of engagement should generally include reference to:
- (a) the nature of the engagement, including the fact that neither an audit nor a review engagement will be carried out and that, accordingly, no assurance will be expressed;
 - (b) the applicable financial reporting framework or basis of accounting to be used to compile the financial information and the fact that this will be disclosed as part of the financial information, together with any known material departures from this, and referred to in the compilation report issued for the engagement;
 - (c) the requirement for general purpose financial statements to be prepared in accordance with generally accepted accounting practice in New Zealand and if compliance with generally accepted accounting practice does not result in a true and fair view of the financial information, additional explanations will be required to achieve that result;
 - (d) the fact that management of the entity is responsible for the accuracy and completeness of the accounting records and other information supplied to the member, and for the reliability, accuracy and completeness of the financial information compiled on the basis of those records and information;

- (e) the information to be supplied and confirmation that any other information that the member considers necessary to complete the engagement will be supplied on a timely basis;
- (f) the fact that the engagement cannot be relied upon to disclose internal control weaknesses, errors, illegal acts or other irregularities, for example, fraud or non-compliance with laws and regulations applicable to the entity;
- (g) the fact that the member will inform the appropriate level of management of the entity or those charged with governance of the entity, as appropriate, of any matters that come to the member's attention in the course of performing the compilation engagement which cause the member to believe or suspect that errors or misstatements, illegal acts or other irregularities exist, either in relation to the entity or the financial information that is the subject of the engagement;
- (h) the intended use and distribution of the information once compiled, including expected use of the information by third parties;
- (i) the form of report to be issued by the member regarding the financial information compiled and the frequency of these reports;
- (j) the fact that independence of the member from the entity or the appointing party is not a requirement for an engagement to compile financial information;
- (k) the fact that access to the entity's records and information in the member's possession which support the member's working papers relating to the entity's affairs may be required by the Institute for the purpose of the Institute's quality assurance function;
- (l) the fact that any working papers prepared by the member in relation to the engagement are the member's property; and
- (m) any disclaimer of liability statement.

37 If the member has compiled the financial information which may be used externally, the member may wish to discuss with the appointing party the inclusion of an appropriate disclaimer of liability statement in the member's report.

38 Where an appropriate accounting basis and/or format cannot be agreed then the member must not accept the engagement.

39 On recurring engagements, the member must consider whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the appointing party of the existing terms of the engagement.

40 The member may decide not to send a new engagement letter each period. However, the following factors may make it appropriate to send a new letter:

- (a) any indication that management misunderstands the objective and scope of the engagement;
- (b) any revised or special terms of the engagement;
- (c) a recent change of senior management, governing body or ownership;
- (d) a significant change in the nature or size of the entity's operations; or
- (e) legal or reporting requirements.

Other Services

41 The member may consider it necessary to perform other accounting services, before, after or contemporaneously with the compilation engagement. For example, the member may assist with adjustments to the accounting records or advise on relevant accounting matters. Any other services to be performed by the member should be agreed with the appointing party and be separately recorded in the terms of engagement.

Planning

- 42 **The member must plan the work so that the engagement will be performed in an effective manner.**
- 43 Plans should be based on an understanding of the entity's business and revised as necessary during the course of the compilation engagement.

Content of Financial Information

- 44 **The applicable financial reporting framework and any known departures from this must be identified and disclosed within the financial information. The accounting basis, purpose and limitations of the information presented must be fully disclosed so that the financial information is not misleading.**

Procedures to Perform a Compilation Engagement

- 45 **The member must obtain an appropriate level of knowledge of the business and operations of the entity, and must 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.**
- 46 A member normally obtains knowledge of the matters referred to in paragraph 45 through experience with the entity or similar entities or enquiry of the entity's personnel or other members.
- 47 Other than as noted in this Standard, the member is not normally required to:
- (a) make any enquiries of the entity's personnel to assess the reliability and completeness of the information provided;
 - (b) assess internal controls;
 - (c) verify any information used in the preparation of the financial information, such as accounting estimates;
 - (d) verify the reasonableness of assumptions used as the basis for the compiled prospective financial information; or
 - (e) verify any explanations.

Material Misstatements

- 48 **The member must read the compiled financial information and consider whether it appears to be appropriate in form and free from obvious material misstatements.**
- 49 **The member must ensure that the compiled financial information is consistent with their understanding of the entity and with the information provided by management and, to the best of their knowledge, with the basis of accounting on which the financial information has been prepared.**
- 50 Misstatements may be either misstatements of fact or misstatements involving subjective judgements made by management, for example, the reasonableness of accounting estimates in the context of the applicable financial reporting framework.
- 51 Misstatements include non-disclosure or inadequate disclosure, when disclosure is required under the applicable financial reporting framework or the basis of accounting used, to ensure that the financial information is not misleading, and non-disclosure of the financial reporting framework and any known departures from this.
- 52 **If the member becomes aware that information supplied for the compilation of the financial information contains any material misstatements or is otherwise unsatisfactory, they must request management to provide additional information or make additional disclosures as may be required. If management refuses to provide such additional information or make such additional disclosures, the member must consider**

the effect that this may have on the financial information. The member must reflect the outcome of such consideration by comment in a report or by withdrawing from the engagement.

53 If the member becomes aware of material misstatements, or likely material misstatements in the financial information being compiled, they must:

- (a) **consider the impact of the misstatement on the financial information and the likely impact on users of the information;**
- (b) **inform management at the appropriate level within the entity about the nature of the misstatement and its likely impact if this can be assessed; and**
- (c) **endeavour to agree appropriate amendments to the financial information with the appropriate level of management.**

54 During the course of the engagement matters may come to light which appear to indicate that the financial information may contain misstatements, or otherwise may be misleading. In such cases, the member should discuss the matter with the appropriate level of management of the entity with a view to agreeing appropriate adjustments and/or disclosures to be made in the financial information.

55 If the member considers that the financial information presented is misleading then they must withdraw from the engagement and must not permit their name to be associated with the financial information.

Communication of Significant Matters

56 The member must communicate to the appropriate person(s) or body within the entity charged with the entity's governance, any matters arising from the engagement. Written communication in a report or other suitable form is required for matters which, in the member's opinion, are significant.

57 If the member has obtained information that indicates that a fraud may exist, the member must communicate these matters as soon as practicable to the appropriate person(s) or body within the entity charged with the entity's governance.

58 Matters which should be communicated include:

- (a) material misstatements identified during the compilation engagement and the appropriate amendments agreed with management 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 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 engagement as a result of the lack of additional information;
- (d) any instances of possible fraud or illegal acts that come to the member's attention during the engagement; and
- (e) any other matters that, in the member's opinion, are significant in the context of the engagement.

Documentation

- 59 The member must prepare documentation that:**
- (a) **provides a sufficient and appropriate record of the procedures performed for the engagement;**
 - (b) **identifies the source of significant information the member has used in the compilation of the financial information; and**
 - (c) **demonstrates that the engagement was carried out in accordance with this Standard and all other Professional Standards applicable to the engagement, including PS-1 *Quality Control*, and any applicable ethical, legal and regulatory requirements.**
- 60 The documentation, together with the financial records of the entity, should be in sufficient detail so as to enable any item in the financial statements to be traced back to the source of the information from which it was compiled.
- 61 The documentation of these matters enables those who have the responsibility for assuring quality control for the engagement (either the member or other members within the same firm) to understand the nature of the information obtained for the compilation, the compilation procedures performed and any significant matters considered during the performance of the engagement, including the disposition of such matters.

Reporting on a Compilation Engagement

- 62 Subject to paragraphs 65a and 65b, when a member compiles financial information, the member must issue a report on the compilation engagement in circumstances where:**
- (a) **the financial information is for external use other than inclusion solely in Inland Revenue-prescribed forms such as personal income tax forms or other tax forms; or**
 - (b) **there is a possibility that the recipient of the financial information, whether they be within the entity or an external user, might not understand the nature and scope of the member's involvement with the compiled information.**
- 63 Financial information is defined as for external use when the information is not exclusively restricted for use within the entity for which it was prepared.
- 64 The member is not required to issue a report on the compilation engagement if the financial information is compiled for inclusion solely in Inland Revenue-prescribed forms, for example, a personal income tax form or a GST return. However, if the member compiles financial statements that are attached to an Inland Revenue-prescribed form, for example, financial statements that are submitted in support of an income tax return, the member is required to issue a report on the compilation of those financial statements.
- 65 The member's report helps users derive comfort from the involvement of members who are subject to ethical and other guidance issued by the Institute in relation to the preparation of the financial information. It also helps prevent users from deriving unwarranted assurance from the financial information compiled when no audit or review engagement has been performed and no opinion is being expressed by the member. For these reasons, the member's report should be attached to the financial information compiled by the member.
- 65a Where another member has been engaged to audit or review the compiled financial information, the member shall consider the need to issue a report on the compilation engagement. Where the member decides not to issue a report on the compilation engagement, the rationale for that decision must be documented.
- 65b Where the circumstances described in paragraph 65a apply and the scope of the compilation engagement extends to significant subject matter not covered by the audit or review

engagements, the member must issue a report on the compilation engagement for the subject matter not covered under the audit or review engagement.

66 Members sometimes compile financial information for use by management of an entity. Members should consider specifying that such compiled financial information is “Restricted for management use”, particularly if the information is likely to be used by a third party, for example, a bank. In these circumstances, it is appropriate that a member’s report not be attached to the financial information compiled by the member because use of the information has been appropriately restricted.

67 Reports on compilation engagements must contain the following:

- (a) **a title;**
- (b) **an addressee;**
- (c) **a statement that the engagement was performed in accordance with SES-2 *Compilation of Financial Information*;**
- (d) **a statement that neither an audit engagement nor a review engagement has been carried out and that, accordingly, no assurance is expressed on the financial information;**
- (e) **identification of the financial information, noting that it is based on information provided to the member;**
- (f) **identification of the financial reporting framework or the basis of accounting on which the information is prepared;**
- (g) **a statement, if appropriate, that the member is not responsible for the financial information compiled;**
- (h) **a paragraph, when considered necessary, drawing attention to the disclosure of any known departures from the identified financial reporting framework;**
- (i) **reference to the purpose and limitations of the information;**
- (j) **when relevant, a statement that the member is not independent of the entity;**
- (k) **the date of the report;**
- (l) **the member’s address; and**
- (m) **the member’s signature.**

Appendix 3 to this Standard contains examples of compilation reports.

68 If the member is associated with financial information which may be used externally and they are not required to provide assurances regarding the financial information, they may wish to include a statement of disclaimer of liability in their report in such a way as to exclude, as far as possible, liability for loss suffered by a third party who might act in reliance upon unaudited financial information. Example wording for a statement of disclaimer of liability is included in Appendix 4.

69 If an individual member who has compiled the financial information is also responsible for the truth and fairness of the financial information, such as a trustee, a director of a company or the owner of a business, it is inappropriate for the member to disclaim responsibility for the financial information in their report and they must not do so.

70 If a member issues a report on the compilation engagement, the financial information compiled by the member must contain a reference such as “Compiled without undertaking an audit engagement or review engagement” and “Refer to Compilation Report” on each page of the financial information and on the document containing the financial information.

Subsequent Discovery of Facts

- 71 Subsequent to the completion of the compilation engagement, the member may become aware that facts may have existed at the date of completion of the engagement which might have caused the member to believe that information supplied was incorrect, incomplete, or otherwise unsatisfactory had they been aware of such facts. The member should consider the impact of these findings on the compiled financial information, discuss the matter with management and take action appropriate in the circumstances. The action taken by the member will depend on their legal rights and obligations and the recommendations of their lawyers.
- 72 **If the member believes that the compiled financial information referred to in paragraph 71 needs to be revised and management does not take the necessary steps to ensure that anyone who received the previously issued financial information is informed of the situation and does not revise the financial information, the member must notify the appropriate person(s) or body within the entity charged with the entity's governance that they will take action to prevent future reliance on the financial information.**
- 73 If anyone who received the previously issued financial information is not informed of the situation and the financial information is not revised, the member is associated with financial information which they know is misstated. In such circumstances, the member is in breach of paragraph 110.2 of the *Code of Ethics*.

Changes in the Nature of the Engagement

- 74 It is possible that the nature of an engagement may change, either in the principal function of the engagement or the intended distribution and use of the results of the engagement. Before accepting a change in the nature of the engagement, the member should be aware of the consequences of the proposed change and any new requirements placed upon them as a result of that change.
- 75 A change in circumstances that affects the appointing party's requirements, or a misunderstanding concerning the service requested, would normally be considered a reasonable basis for requesting a change in the engagement.

Appendix 1

Comparison of SES-2 with International and Australian Standards

This appendix, which was prepared as at 27 September 2006 and which deals only with significant differences, is produced for information purposes only and does not form part of the standards in SES-2.

SES-2 is consistent in all material respects with International Standard on Related Services 4410 *Engagements to Compile Financial Statements* (ISRS 4410) and Miscellaneous Professional Statement APS 9 *Statement on Compilation of Financial Reports* (APS 9) except for the following matters.

- (a) ISRS 4410 and APS 9 both require the member to obtain acknowledgement from the client of the client's responsibility for the appropriate presentation and approval of the financial statements.
- (b) APS 9 requires the member to obtain acknowledgement from the client of the client's responsibility for the financial reporting framework adopted.
- (c) APS 9 applies to members in employment engaged in the compilation of financial reports for their employers to the extent practicable in the circumstances. SES-2 is an Engagement Standard under the New Zealand *Framework*, therefore it is not directly applicable to members in employment.
- (d) APS 9 requires an appropriate disclaimer of liability statement to be included in the member's report on a compilation engagement. SES-2 permits, but does not require, inclusion of a disclaimer of liability statement in the member's report.
- (e) SES-2 requires the terms of the engagement to be recorded in an engagement letter, or other suitable form, and communicated to the appointing party. ISRS 4410 and APS 9 recommend the use of an engagement letter.
- (f) SES-2 requires the member to communicate in writing to the appropriate person(s) or body within the entity charged with the entity's governance matters arising from the engagement which, in the member's opinion, are significant. Neither ISRS 4410 nor APS 9 includes this requirement.
- (g) SES-2 requires the member to withdraw from the engagement in circumstances where, after discussions with the appointing party, the member considers the financial information is misleading. Neither ISRS 4410 nor APS 9 includes this requirement.

Appendix 2

Example Engagement Letter for a Compilation Engagement

The following letter is for use as a guide in conjunction with the considerations outlined in paragraph 36 of this Standard and should be varied according to the individual requirements and circumstances. Members may wish to include terms of agreement for engagements other than compilation engagements, for example, tax services, and requirements relating to timetables and obtaining authorities in relation to client trust monies.

To the Appointing Party [or appropriate representatives of management]

This letter is to confirm our understanding of the terms of our engagement and the nature and extent of the services we will provide. Unless otherwise agreed between us in writing, this letter records the entire agreement between us in relation to our engagement. The terms recorded in this letter will remain in force until varied by us in writing to you, or until cancelled by either of us by notice in writing to the other.

Terms of Engagement

On the basis of information you provide, we will compile [*specified financial information or a set of financial statements comprising (list financial statements) or a specific financial statement*] of [*name of entity*] commencing with the period ended [*insert date*]. This engagement will be performed in accordance with Service Engagement Standard No.2 *Compilation of Financial Information* (SES-2) issued by the New Zealand Institute of Chartered Accountants.

The financial information will be prepared in accordance with [*identify financial reporting framework¹ or basis of accounting used*] and this will be disclosed as part of the financial information. Any known departures from [*the financial reporting framework/basis of accounting used*] will be disclosed within the financial statements and referred to in our compilation report.

Our procedures will not include verification or validation procedures. No audit or review engagement will be performed and accordingly no assurance will be expressed.

Our compilation report on the [*financial information/financial statements*] of [*name of entity*] will be issued on completion of the engagement and is currently expected to read as follows:

(See Appendix 3 to this Standard)

Extent of Services

We do not accept any responsibility for the accuracy and completeness of the accounting records and other information you supply to us or for the reliability, accuracy and completeness of the financial information compiled on the basis of those records and information. We also do not accept any responsibility for the maintenance of adequate accounting records, an adequate internal control structure and the selection and application of appropriate accounting policies within your organisation. In addition you are solely responsible to users of the financial information we compile.

[If appropriate: You will be required to review and approve the final (*returns or reports*) for reasonableness and correctness, and you will need to understand the importance and risks of signing (*income tax returns or other statutory compliance engagements*) as being true and correct statutory records.]

The information you are to supply and any other information that we consider necessary to complete the engagement must be provided on a timely basis in order that the engagement can be completed on a timely basis.

¹ If the engagement is for the compilation of statutory financial statements in accordance with generally accepted accounting practice (GAAP) in New Zealand, the engagement letter should include a statement to the effect that the financial statements are required to result in a true and fair presentation of the financial information, and if compliance with GAAP does not result in a true and fair presentation, additional disclosures will be required to achieve that result.

Our engagement does not include the investigation or discovery of internal control weaknesses, errors, illegal acts or other irregularities, including without limitation, fraud, or non-compliance with laws and regulations. However, we will inform you of any such matters which come to our attention during the course of our engagement.

If, for any reason, we are unable to complete the compilation of your financial information, or we consider the information to be misleading, we may refer to such matters within our compilation report or we may determine, at our sole discretion, not to issue a report.

Independence

Independence is not a requirement for a compilation engagement.

If we are aware that we are not independent of [*the entity*], this fact will be stated in our report. However, we will not conduct a comprehensive review to determine whether we are, or are not, independent of [*name of entity*].

[If appropriate: We consider that we are not independent of the entity because [state reason, for example, we participate in the decisions of management regarding the compiled financial information].]

Use and distribution of the financial information

We understand that the intended use and distribution of the financial information we will compile is [*specify*]. If this should change in any material respect, you will inform us immediately. We will not accept any responsibility to any person, other than you, for the contents of the financial [*information/statement(s)*].

[If appropriate: No person should rely on the financial statements without having an audit or review engagement conducted.]

Information and Disclosure

The conduct of this engagement is in accordance with the professional standards, rules and ethical requirements of the New Zealand Institute of Chartered Accountants. Information we obtain in the course of this engagement is subject to confidentiality requirements, in addition to our obligations under the Privacy Act 1993. We will not disclose that information to other parties, without your express consent, except as required by law or professional obligations.

However, as members of the New Zealand Institute of Chartered Accountants, we are subject to and bound by the disciplinary procedures and rules of the Institute, and our work and files are subject to the practice review rules of the Institute under which compliance with professional standards by members is monitored. These procedures and rules require us to disclose to the Institute, its reviewers and/or its disciplinary bodies our files and work papers including client information. By allowing us to undertake this engagement (whether or not you sign this letter), you acknowledge that, if requested, our files relating to this engagement will be made available to the Institute, its reviewers and/or its disciplinary bodies. We assure you that the same ethical standards regarding confidentiality that we adhere to apply equally to the Institute's reviewers.

Fees

[*Insert fee arrangements*]

Our fees are normally based on hours worked charged at rates appropriate to the work performed and the levels of expertise required. At the commencement of each year [*or other relevant date or event as appropriate*] we will advise you of our estimated fee for the work contemplated. If our costs seem likely to exceed this figure, we will discuss the matter with you within a reasonable timeframe.

In the unfortunate circumstance that a disagreement arises between us over our fees, if the matter cannot be resolved amicably by discussion (which is the preferred option) then we both agree to use the Fees Resolution Service of the New Zealand Institute of Chartered Accountants to resolve the matter. Details of this Service are available from the Institute. You should be aware that, like all other providers of services, we are entitled to retain possession of your records that have been used in relation to this engagement until outstanding fees are settled.

Ownership of work papers

Material that you provide to us remains yours and will be returned to you when the engagement is completed. Work papers that we create remain our property.

However, if your affairs at some time in the future are handled by another Chartered Accountant, we will make available, as required by the *Code of Ethics*, such information regarding your affairs that is essential to enable your new Chartered Accountant to perform the services we previously provided.

Our work may involve the collection of personal information relevant or incidental to the engagement. Any such information will be held at our offices and will be retained for as long as may be relevant to the engagement, and, except where otherwise noted in this letter, will only be used or disclosed for purposes related to the engagement. Individuals concerned will be able to contact us to access information held concerning them and, if necessary, seek correction to that information. By signing this engagement letter, you confirm we have authority to communicate with and obtain information from any third party (including the Inland Revenue Department) if the information sought is relevant to our engagement.

[If appropriate: We will store tax records that we hold on your behalf for a period of seven years after the applicable balance date. At the end of that period, unless you ask us to send that information to you, the records will be destroyed using a secure document destruction service.]

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

Please sign and return the attached copy of this letter to confirm that you agree with the above terms of the arrangement for our compilation of your (*financial information/ financial statements*). The terms recorded in this letter will be effective for this and all future engagements that are similar in nature unless we advise you of any change in our arrangements.

Signature

Date

Acknowledged on behalf of (name of entity) by:

Signature of appointing party

Date

.....

Name and Title

Appendix 3

Example Compilation Reports

Example 1

Example Report on an Engagement to Compile Financial Statements

COMPILATION REPORT TO [*name of appointing party/management*]

Scope

On the basis of information you provided we have compiled, in accordance with Service Engagement Standard No. 2 *Compilation of Financial Information*, the financial statements of [*name of entity*] for the period ended [*insert date*] as set out on pages to These have been prepared in accordance with [*the financial reporting framework/basis of accounting*] described in Note 1 to the financial statements.

Responsibilities

You are solely responsible for the information contained in the financial statements and have determined that the [*financial reporting framework/basis of accounting*] used is appropriate to meet your needs and for the purpose that the financial statements were prepared.

The financial statements were prepared exclusively for your benefit. We do not accept responsibility to any other person for the contents of the financial statements.

No audit or review engagement undertaken

Our procedures use accounting expertise to undertake the compilation of the financial statements from information you provided. Our procedures do not include verification or validation procedures. No audit or review engagement has been performed and accordingly no assurance is expressed.

Independence (if required)

We are not independent of (the entity) because (reason why not independent, for example, the member participates in the decision of management regarding the compiled financial information).

Address

Firm

Date

Example 2

Example 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 [*name of appointing party/management*]

Scope

On the basis of information you provided we have compiled, in accordance with Service Engagement Standard No. 2 *Compilation of Financial Information*, the financial statements of [*name of entity*] for the period ended [*insert date*] as set out on pages ... to Except as described below, these statements have been prepared in accordance with [*the financial reporting/framework basis of accounting*] described in Note 1 to the financial statements.

Responsibilities

You are solely responsible for the information contained in the financial statements and have determined that the [*financial reporting framework/basis of accounting*] used is appropriate to meet your needs and for the purpose that the financial statements were prepared.

The financial statements were prepared exclusively for your benefit. We do not accept responsibility to any other person for the contents of the financial statements.

No audit or review engagement undertaken

Our procedures use accounting expertise to undertake the compilation of the financial statements from information you provided. Our procedures do not include verification or validation procedures. No audit or review engagement has been performed and accordingly no assurance is expressed.

Departure from reporting framework

We draw attention to Note XX of the financial statements. There is a departure from the identified financial reporting framework in that the leases of plant and machinery have not been capitalised in accordance with NZ IAS 17 *Leases*.

Independence (if required)

We are not independent of [*the entity*] because [*reason why not independent, for example, the member participates in the decision of management regarding the compiled financial information*].

Address

Firm

Date

Appendix 4

Example Disclaimer of Liability Statements

This appendix provides example wording for disclaimer of liability statements and is for illustrative purposes only. These examples are intended to assist members in understanding the application of the Standard and do not form part of this Standard.

The example wording is given in the context of engagements to compile financial information, as addressed in this Standard, and may be appropriate for use in engagement letters or members' reports attached to financial information they have compiled.

The example wording is also given in the context of a sole practitioner. Amendments to the wording are required if the disclaimer of liability statement relates to a firm.

Institute Disclaimer

These Example Disclaimer of Liability Statements for a Compilation Engagement are intended as a sample only of wording that is appropriate for a compilation engagement undertaken in accordance with SES-2. The New Zealand Institute of Chartered Accountants makes no representation as to the commercial appropriateness of these examples for use in any particular situation, and will not be liable for any loss or damage of any kind whatsoever that may be incurred by any person (including responsibility to any person by reason of negligence) as a result of basing a disclaimer of liability statement on any of these examples. While the Institute encourages members to tailor these examples to reflect their own commercial requirements, it will be the sole obligation of the member concerned to ensure that the final form of any letter of engagement or member's report used complies with both the requirements of SES-2 and the member's wider professional and legal obligations. The examples should not be used as a substitute for seeking specific legal advice.

Example disclaimer of liability statement – engagement letter

A compilation engagement requires us to apply compilation procedures, in accordance with SES-2 *Compilation of Financial Information*, to compile [*the financial information*] from information which you provide to us. Those compilation procedures do not include the performance of an audit or review in respect of either of the information you provide or the financial information which is compiled from it. Accordingly, neither I nor any of my employees accept any responsibility for the reliability, accuracy or completeness of the information from which the financial information has been compiled.

The financial information is prepared at your request and exclusively for your benefit. Neither I nor any of my employees accept any liability of any kind whatsoever, including liability by reason of negligence, to either yourself or any other person for losses incurred as a result of placing reliance on the compiled financial information.

Example disclaimer of liability statement – member's report

As mentioned earlier in our report, I have compiled the financial information based on information provided to me which has not been subject to an audit or review engagement. Accordingly, neither I nor any of my employees accept any responsibility for the reliability, accuracy or completeness of the compiled financial information nor do we accept any liability of any kind whatsoever, including liability by reason of negligence, to any person for losses incurred as a result of placing reliance on the compiled financial information.