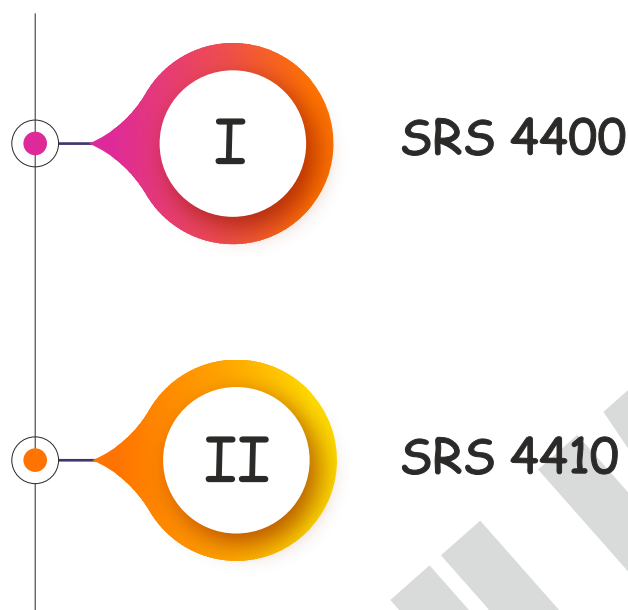


Chapter-9

Audit Related Services

Chapter Overview



Introduction to SRS

Chartered Accountants in practice are often asked to provide services to clients **which do not involve the expression of an opinion** on the truth and fairness of the financial statements.

For the purpose of standardising the procedures to perform such kind of **non-assurance services**, the AASB of ICAI issued **two Standards** on two different services i.e. **Standards on Related Services**.

The following standards have been issued under **Standards on Related Services**: -

- SRS 4400** Engagements to Perform Agreed-upon Procedures Regarding Financial Information
- SRS 4410** Compilation Engagements

What are Related Services?

- "Assurance engagement"** means an engagement in which a **practitioner expresses a conclusion designed to enhance the degree of confidence** of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.
- It means that the practitioner gives an **opinion** about specific information due to which users of information are able to make confident decisions knowing well that chance of information being incorrect is diminished.
- Not all engagements performed by practitioners are assurance engagements. **Other frequently performed engagements that do not meet the definition of assurance engagements** include: -
 - The **preparation of tax returns** where no conclusion conveying assurance is expressed.

- b) **Consulting (or advisory) engagements** such as management and tax consulting.
 - c) Engagements covered by **Standards for Related Services**, such as agreed-upon procedures engagements and compilations of financial or other information.
- 4) The above engagements are in nature of related services.

What are Agreed-upon Procedures?

- 1) In an engagement to perform agreed-upon procedures, the auditor is engaged by the client to issue a report of factual findings, based on specified procedures performed on specified subject matter of specified elements, accounts or items of a financial statement.
- 2) **For example**, an engagement to perform agreed-upon procedures may require the auditor to perform certain procedures concerning individual items of financial data, say, accounts payable, accounts receivable, purchases from related parties and sales and profits of a segment of an entity, or a financial statement, say, a balance sheet or even a complete set of financial statements.
- 3) However, a person performing related services need not necessarily be the auditor of the entity's financial statements.



Engagements to Perform Agreed-upon Procedures Regarding Financial Information

Scope

SRS 4400 provides **guidance** on the **auditor's professional responsibilities** when an engagement to perform agreed-upon procedures regarding financial information is undertaken and, on the **form, and content** of the report that the auditor issues in connection with such an engagement.

Objective in Accordance with SRS 4400

- 1) The **objective** of an agreed-upon procedures engagement is for the auditor **to carry out** procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.
- 2) As the auditor simply **provides a report** of the **factual findings** of agreed upon procedures, no assurance is provided by him in his report. Instead, **users** of the report **assess** for themselves the procedures and the findings reported by the auditor and draw their own conclusions from the work done by the auditor.
- 3) The report is usually **restricted to those parties** that have **agreed to the procedures** to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.

Audit vs Agreed-upon Procedures

- 1) A **key difference** between an audit and agreed-upon procedures relates to assurance. An **audit expresses an opinion** and **provides assurance** to users. However, in an **agreed-procedures engagement**, only a **report** of the **factual findings** of agreed-upon procedures is provided. No assurance is given to users. Instead, users draw their own conclusions based on factual findings stated in the report.
- 2) **For Example**- an agreed upon procedures engagement to evaluate validity of accounts payable may state the following:
 - a) **Comparing** of names of major suppliers and the amounts outstanding as on a date to the related names and amounts in the trial balance
 - b) **Obtaining** suppliers statements or confirmations from suppliers to confirm balances outstanding on a date
 - c) **Comparison** of such statements or confirmations to the amounts in trial balance
- 3) Further, **actual findings** like variation in balances reflected in trial balance and statements or confirmations are given. The actual findings are reported as such **without providing an assurance**.



General Principles of an Agreed-upon Procedures Engagement

- 1) The auditor should **comply with the Code of Ethics**, issued by the **Institute of Chartered Accountants of India**. Ethical principles governing the auditor's professional responsibilities for this type of engagement **include**
 - a) **Integrity,**
 - b) **Objectivity,**
 - c) **Professional competence and due care,**
 - d) **Confidentiality,**
 - e) **Professional conduct and Technical Standards.**
- 2) **Independence is not a requirement** for agreed-upon procedures engagement. However, the terms or objective of the engagement may require the auditor **to comply** with the **independence requirements** of the Code of Ethics issued by the Institute of Chartered Accountants of India.
- 3) Where the **auditor is not independent**, a statement to that effect should be made in the report of factual findings.

Defining the Terms of the Engagement

- 1) The auditor should ensure with representatives of the entity and, ordinarily, other specified parties who will receive copies of the report of factual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement.
- 2) Matters to be agreed include the following: -
 - a) **Nature** of the engagement including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed.
 - b) **Stated purpose** for the engagement.
 - c) **Identification of the financial information** to which the agreed-upon procedures will be applied.
 - d) **Nature, timing and extent** of the specific procedures to be applied.
 - e) **Limitations on distribution** of the report of factual findings. When such limitation would be in conflict with the legal requirements, if any, the auditor would not accept the engagement.
- 3) It is in the interests of both the client and the auditor that the auditor sends an engagement letter documenting the key terms of the appointment.
An engagement letter confirms the auditor's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the auditor's responsibilities and the form of reports to be issued.
- 4) Matters that would be included in the engagement letter include: -
 - a) A listing of the procedures to be performed as agreed-upon between the parties.
 - b) A statement that the distribution of the report of factual findings would be restricted to the specified parties who have agreed to the procedures to be performed.

Planning

The auditor should plan the work so that an effective engagement will be performed.

Procedures and Evidence

The auditor should carry out the procedures agreed-upon and use the evidence obtained as the basis for the report of factual findings.

The procedures applied in an engagement to perform agreed-upon procedures may include:

- a) **Inquiry** and analysis
- b) **Re computation**, comparison and other clerical accuracy checks
- c) **Observation**
- d) **Inspection**
- e) **Obtaining confirmations**

Reporting

The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed. The report should also clearly mention that no audit or review has been performed.

The report of factual findings should contain: -

- a) **Title**
- b) **Addressee** (ordinarily, the appointing authority)
- c) **Identification** of specific **financial or non-financial** information to which the agreed upon procedures have been applied
- d) **A statement** that the **procedures performed** were those agreed-upon with the recipient
- e) **A statement** that the engagement was performed in accordance with the Standard on Related Services applicable to agreed-upon procedures engagements
- f) **Identification** of the **purpose** for which the agreed-upon procedures were performed
- g) **A listing** of the specific procedures performed
- h) **A description** of the **auditor's factual findings** including sufficient details of errors and exceptions found
- i) **A statement** that the procedures performed **do not constitute** either an audit or a review and, as such, no assurance is expressed
- j) **A statement** that had the auditor performed **additional procedures**, an audit or a review, other matters might have come to light that would have been reported
- k) **A statement** that the report is **restricted** to those parties that have agreed to the procedures to be performed

- l) A **statement** (when applicable) that the **report** relates only to the **elements, accounts, items** or **financial and non-financial** information specified and that it does not extend to the entity's financial statements taken as a whole
- m) **Date of** the report
- n) **Place of signature** and
- o) **Auditor's signature**

Documentation

The auditor should document matters which are important in providing evidence to support the report of factual findings, and evidence that the engagement was carried out in accordance with this SRS and the terms of the engagement.



Compilation Engagements

Introduction

- 1) **SRS 4410** deals with the **practitioner's responsibilities** when engaged to assist management with the **preparation and presentation of historical financial information** without obtaining any assurance on that information, and to report on the engagement in accordance with this SRS.
- 2) It applies to **compilation engagements** for historical financial information. Compilation engagements for financial information other than historical financial information, and compilation engagements for non-financial information can be performed under this Standard after necessary adaptation.
- 3) **SQC 1** is applicable to all Engagement Standards. Since SRS 4410 is also one of Engagement Standards, **SQC 1 applies** to firms in respect of firm's compilation engagements too.

What is a Compilation engagement?

- 1) Compilation engagement is an engagement in which a practitioner **applies accounting and financial reporting expertise** to assist management in the **preparation and presentation** of financial information of an entity in accordance with an **applicable financial reporting framework and issues a report**.
- 2) Management may request a professional accountant in public practice **to assist** with the preparation and presentation of financial information of an entity.
- 3) **A compilation engagement is not an assurance engagement**. A compilation engagement **does not** require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation, or otherwise to gather evidence to express an audit opinion or a review conclusion on the preparation of the financial information.
- 4) **Financial information that is the subject of a compilation engagement may be required for various purposes including: -**
 - a) **To comply** with mandatory periodic financial reporting requirements established in law or regulation, if any or
 - b) For purposes unrelated to mandatory financial reporting under relevant law or regulation, including **for example: -**
 - i) For management or those charged with governance, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for internal use).
 - ii) For periodic financial reporting undertaken for external parties under a contract or other form of agreement (such as financial information provided to a funding body to support provision or continuation of a grant).
 - iii) For transactional purposes, for example to support a transaction involving changes to the entity's ownership or financing structure (such as for a merger or acquisition).



Objectives

In accordance with SRS 4410 **The practitioner's objectives** in a compilation engagement under this SRS are to: -

- a) **Apply** accounting and financial reporting expertise **to assist** management in the preparation and presentation of financial information in accordance with an **applicable financial reporting framework** based on information provided by management and
- b) **Report** in accordance with the **requirements of this SRS**.

Scope of Compilation Engagements

- 1) The scope of a compilation engagement will vary depending on the circumstances of the engagement.
- 2) However, in every case it will involve assisting management in the preparation and presentation of the entity's financial information in accordance with the financial reporting framework, based on information provided by management.
- 3) In some compilation engagements, management may have already prepared the financial information itself in a draft or preliminary form.
- 4) **Management retains responsibility for the financial information and the basis on which it is prepared and presented.** That responsibility includes application by management of the judgment required for the preparation and presentation of the financial information, including the selection and application of appropriate accounting policies and, where needed, developing reasonable accounting estimates.
- 5) **Different financial reporting frameworks can be used to prepare and present financial information**, ranging from a simple entity-specific basis of accounting to established financial reporting standards. The financial reporting framework adopted by management to prepare and present the financial information will depend on the nature of the entity and the intended use of the information.

Ethical Requirements

- 1) The practitioner shall comply with **relevant ethical requirements**. In complying with the Code of Ethics, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.
- 2) Being in nature of non-assurance engagement, independence requirements **do not apply** to compilation engagements. However, laws or regulations may specify requirements or disclosure rules pertaining to independence.

Engagement Acceptance and Continuance

- 1) The practitioner shall **not** accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, **including**: -
 - a) The **intended use and distribution** of the financial information, and any restrictions on either its use or its distribution where applicable
 - b) **Identification** of the applicable financial reporting framework
 - c) The **objective and scope** of the compilation engagement
 - d) The **responsibilities of the practitioner**, including the requirement to comply with relevant ethical requirements
 - e) The **responsibilities of management** for: -
 - i) The **financial information**, and for the **preparation and presentation** thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users
 - ii) **Design, implementation and maintenance** of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
 - iii) The **accuracy and completeness** of the records, documents, explanations and other information provided by management for the compilation engagement and
 - iv) **Judgments** needed in the **preparation and presentation** of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement
 - f) The expected form and content of the practitioner's report.
- 2) The practitioner shall record the agreed terms of engagement in an engagement letter or other suitable form of written agreement, prior to performing the engagement.
- 3) On recurring compilation engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is need to remind management of the existing terms of engagement.

Performing the Engagement

- 1) The practitioner shall **obtain an understanding** of the following matters sufficient to be able to perform the compilation engagement: -
 - a) The **entity's business and operations**, including the entity's accounting system and accounting records and
 - b) The **applicable financial reporting framework**, including its application in the entity's industry.
- 2) The practitioner shall **compile the financial information** using the records, documents, explanations and other information, including significant judgments, provided by

management.

- 3) The practitioner shall **discuss with management, or those charged with governance** as appropriate, those significant judgments, for which the practitioner has provided assistance in the course of compiling the financial information.
- 4) **Prior to completion** of the compilation engagement, **the practitioner** shall read the **compiled financial information** in light of the practitioner's understanding of the entity's business and operations, and of the applicable financial reporting framework.
- 5) If, in the course of the compilation engagement, the practitioner **becomes aware** that the records, documents, explanations or other information, including significant judgments, provided by management for the compilation engagement are **incomplete, inaccurate or otherwise unsatisfactory**, the practitioner shall **bring** that to the attention of management and request the additional or corrected information.
- 6) If the practitioner is **unable** to complete the engagement because management has **failed** to provide records, documents, explanations or other information, including significant judgments, as requested, the practitioner shall **withdraw** from the engagement and **inform** management and those charged with governance of the **reasons for withdrawing**.
- 7) If the practitioner **becomes aware** during the course of the engagement that: -
 - a) The compiled financial information **does not adequately** refer to or **describe** the applicable financial reporting framework
 - b) **Amendments** to the **compiled financial information** are required for the financial information **not to be materially misstated**; or
 - c) The compiled financial information is otherwise **misleading**,
The practitioner shall propose the appropriate amendments to management.
- 8) If management **declines, or does not** permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.
- 9) If **withdrawal** from the engagement is **not possible**, the practitioner shall **determine** the **professional and legal responsibilities applicable** in the circumstances.
- 10) The **practitioner** shall **obtain an acknowledgement** from management or those charged with governance, as appropriate, that they have taken responsibility for the **final version** of the compiled financial information.

Communication with Management and Those Charged with Governance

The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the compilation engagement, all matters concerning the compilation engagement that, in the practitioner's professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate.

The Practitioner's Report

An important purpose of the practitioner's report is to clearly communicate the nature of the compilation engagement, and the practitioner's role and responsibilities in the engagement. The practitioner's report is not a vehicle to express an opinion or conclusion on the financial information in any form.

The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements: -

- 1) The **report title**
- 2) The **addressee(s)**, as required by the terms of the engagement
- 3) A **statement** that the practitioner has **compiled** the financial information based on information provided by management
- 4) A **description** of the **responsibilities of management**, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information
- 5) **Identification** of the **applicable financial reporting framework** and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information
- 6) **Identification** of the financial information, including the **title** of each element of the financial information if it comprises more than one element, and the **date of the financial information** or the period to which it relates
- 7) A **description** of the **practitioner's responsibilities** in compiling the financial information, including that the engagement was performed in accordance with this SRS, and that the practitioner has complied with relevant ethical requirements
- 8) A **description** of what a **compilation engagement** entails in accordance with this **SRS**
- 9) **Explanations that:**
 - a) Since a compilation engagement is not an **assurance engagement**, the practitioner is **not required** to verify the **accuracy or completeness** of the information provided by management for the compilation and
 - b) Accordingly, the practitioner does **not express** an **audit opinion** or a **review conclusion** on whether the financial information is **prepared** in accordance with the **applicable financial reporting framework**.
- 10) If the financial information is prepared using a **special purpose financial reporting framework**, an **explanatory paragraph** that: -
 - a) **Describes** the **purpose** for which the financial information is **prepared** and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information and
 - b) **Draws the attention** of readers of the report to the **fact** that the financial information is **prepared in accordance** with a **special purpose framework** and that, as a result, the information may not be suitable for other purposes
- 11) The **date of the practitioner's report**

- 12) The **practitioner's signature** and
- 13) The **place of signature**.

Engagement Level Quality Control

The engagement partner shall take **responsibility** for: -

- a) The **overall quality** of each compilation engagement to which that partner is assigned and
- b) The **engagement** being performed in accordance with the **firm's quality control policies and procedures**

Documentation

- 1) **The practitioner** shall include in the engagement documentation: -
 - a) **Significant matters** arising during the compilation engagement and **how those matters** were **addressed** by the practitioner
 - b) **A record** of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management and
 - c) **A copy** of the **final version** of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report.
- 2) The practitioner may consider also including in the engagement documentation a copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.

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