



## CA FINAL NEW SCHEME 2024 exams onwards **NEWLY ADDED STANDARDS**

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**SA 800, SA805, SA810, SRE 2400,  
SRE2410, SAE3400, SAE3402, SAE3420,  
SRS4400, SRS4410 with sample reports**

**(Corresponding to newly added chapter number 8, 9, 10, 11 of ICAI New study material applicable w.e.f. 2024 exams onwards)**

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I have prepared these notes to help those students who are now shifting to New scheme and want to cover all newly added Standards by ICAI. If you have already done SAs till 700 series in old scheme, then you need to do only these additional Standards.

Further, all Standards and few other chapters are also available for download at <https://www.surbhibansal.com/resourcee-book.html>

For guiding as to how to study these newly added standards with conceptual clarity along with practical reports and how to learn for exams, we have uploaded class on SAE and SRE on our you tube channel

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*For any doubt or guidance in this regard, you may connect with us on WhatsApp 8700566889*

# **Section VIII**

## **SA 800 to 899**

**Specialized Areas**

### VIII.1 SA 800 “SPECIAL CONSIDERATIONS – AUDIT OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS”

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|---|---|--|
| <b>Special Purpose Framework</b>          | <b>Meaning</b>  | FRF designed to meet financial information needs of specific users.  |
|   | <b>Type</b>   | It may be a Fair presentation framework or a compliance framework (refer to SA 700).   |
|   | <b>Examples</b>   | <ul style="list-style-type: none"> <li>▪ The financial reporting provisions established by a regulator to meet the requirements of that regulator;</li> <li>▪ The cash basis of accounting for cash flow information to be prepared for creditors;</li> <li>▪ The financial reporting provisions of a contract, such as a loan agreement/project grant.</li> </ul> |
| <b>Auditor’s Objective</b>                | Special considerations w.r.t.: <ul style="list-style-type: none"> <li>▪ Engagement acceptance.</li> <li>▪ Engagement planning &amp; performance.</li> <li>▪ Forming opinion &amp; reporting on special purpose financial statements</li> </ul>  |  |
| <b>Engagement Acceptance</b>              | <p>Determine the acceptability of FRF as per SA 210 (Revised). Thus, he shall obtain understanding of:</p> <ul style="list-style-type: none"> <li>▪ Purpose for which financial statements are prepared.</li> <li>▪ Intended users.</li> <li>▪ Steps taken by management to determine acceptability of applicable FRF.</li> </ul> <p>In this connection, following points should be noted:</p> <ul style="list-style-type: none"> <li>➤ In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.</li> <li>➤ The applicable FRF may encompass the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements.</li> <li>➤ In that case, those standards will be presumed acceptable for that purpose if the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders.</li> <li>➤ Some laws or regulations may prescribe the financial reporting framework to be used by management in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such entity.</li> <li>➤ Where the financial reporting standards referred above are supplemented by legislative or regulatory requirements, SA 210 requires the auditor to determine whether any conflicts between the financial reporting standards and the additional requirements exist, and prescribes actions to be taken by the auditor if such conflicts exist.</li> <li>➤ For example, for purposes of establishing the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information is not neutral when compared with financial information prepared in accordance with a general purpose framework</li> </ul> |  |
| <b>Planning &amp; Performing an Audit</b> | <ul style="list-style-type: none"> <li>▪ He shall determine whether application of all SA (100-799) is required.</li> <li>▪ Obtain understanding of environment and perform RAP as per SA 315 as applicable in the circumstances.</li> <li>▪ Considerations When Planning and Performing the Audit <ol style="list-style-type: none"> <li>(1) SA 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and (b) all SAs relevant to the audit. It also requires the auditor to comply with each requirement of an SA unless, the entire SA is not relevant or the requirement is not</li> </ol> </li> </ul>  |  |

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|  | <p>relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement.</p> <p>(2) Application of some of the requirements of the SAs in an audit of special purpose financial statements may require <b>special consideration</b> by the auditor. For example, in SA 320, judgments about matters that are <b>material</b> to users of the financial statements are based on a consideration of the common financial information needs of users as a group. In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information <b>needs of the intended users</b>.</p> <p>(3) In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, <b>management may agree</b> with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold <b>does not relieve the auditor from the requirement to determine materiality</b> in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.</p> <p>(4) <b>Communication with those charged with governance</b> in accordance with SAs is based on the relationship between those charged with governance and the financial statements subject to audit, in particular, whether those charged with governance are responsible for overseeing the preparation of those financial statements. In the case of special purpose financial statements, those charged with governance may not have such a responsibility. In such cases, the requirements of SA 260 <b>may not be relevant</b> to the audit of the special purpose financial statements.</p>                        |
| <p><b>Forming an Opinion &amp; Reporting</b></p> | <p>In addition of SA 700 (revised), the Auditor’s Report on Special Purpose financial statements shall also:</p> <ul style="list-style-type: none"> <li>▪ Refer to the <b>purpose</b> for which financial statements are prepared &amp; <b>intended users</b> or refer to a <b>note</b> in the special purpose financial statements that contain that information.</li> <li>▪ Refer to <b>management’s responsibility</b> for <b>determining acceptability of applicable FRF</b>, If management has a choice of FRF in the preparation of financial statement.</li> </ul> <hr/> <p><b><u>Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework</u></b></p> <ul style="list-style-type: none"> <li>▪ The special purpose financial statements may be used for purposes other than those for which they were intended.</li> <li>▪ For example, a regulator may require certain entities to place the special purpose financial statements on public record.</li> <li>▪ To avoid misunderstandings, the auditor alerts users of the auditor’s report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.</li> </ul> <hr/> <p><b><u>Restriction on Distribution or Use</u></b></p> <ul style="list-style-type: none"> <li>▪ In addition to the alert required as above, the auditor may consider it appropriate to indicate that the auditor’s report is intended solely for the specific users.</li> <li>▪ Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the auditor’s report.</li> <li>▪ In these circumstances, the paragraph above may be expanded to include these other matters, and the heading modified accordingly.</li> </ul> <p><u>Note: for drafting of section Alerting users and Stating restriction, refer to the yellow marked portion explained in the class in the illustration below.</u></p> |



**Illustration of Auditor's Report of financial statements prepared in accordance with Financial reporting provisions of a contract – Compliance Framework – Distribution and use restricted ( few relevant sections of Audit report only)**

**INDEPENDENT AUDITOR'S REPORT**

**[Appropriate Addressee]**

**Opinion**

We have audited the accompanying financial statements of ABC Company Ltd., which comprise the balance sheet as at March 31, 20X1, and the statement of profit and loss, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of ABC Company Ltd. based on the financial reporting provisions of section/ clause Z of the contract dated July 1, 20X0 between ABC Company Ltd. and DEF Company Ltd. ("the contract").

In our opinion, the financial statements of ABC Company Ltd. for the year ended March 31, 20X1 are prepared, in all material respects, in accordance with the financial reporting provisions of section/ clause Z of the contract.

**Management's Responsibility for the financial statements**

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of section/ clause Z of the contract; this includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility .....**

**Basis of Accounting and Restriction on Distribution and Use**

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company Ltd. to comply with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for ABC Company Ltd. and DEF Company Ltd. and should not be distributed to or used by parties other than ABC Company Ltd. or DEF Company Ltd.

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation)  
Membership Number

Place of Signature  
Date

**VIII.2 SUMMARY OF SA -800**

(REFER TO THE NOTES MADE DURING CLASS DISCUSSION TOO)

- Example (i) f.st requirement established by a regulatory authority  
or  
(ii) f.st prepared for creditors based on cash basis of accounting

**Auditor shall obtain understanding of**

(1) Purpose (2) users (3) acceptable FRF



If he is satisfied – Accept the engagement



Apply relevant SAs



Report as per SA 700

**Reporting consideration**

(1) His report shall also describe the

- purpose
- intended users

(2) State that management is responsible for the f.st & acceptability of FRF for the purpose

(3) State that financial statements are prepared as per special purpose framework & thus may not be suitable for another purpose

**Question** - The financial statements of TC & Co. have been prepared by management of an entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework) to comply with provisions of the contract. Based on the contract, management does not have a choice of financial reporting frameworks. As an auditor what considerations would be undertaken while planning and performing audit?

or

The financial statements of Ace Ltd. have been prepared by the management in accordance with special purpose frame work to meet the financial reporting provisions of a regulator. As an auditor, what considerations would be undertaken while planning and performing an audit in case of such special purpose frame work?

**[Hint:** Write the matter given under 4<sup>th</sup> heading “planning and performing an audit” of SA 800]

**VIII.3 SA 805 “SPECIAL CONSIDERATIONS – AUDITS OF SINGLE FINANCIAL STATEMENT AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENTS”**

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|---------------------------------|---|
| <b>Meaning</b>                  | <p>“Element of a financial statement” or “element” means an “element, account or item of a financial statement”</p> <p><b>Examples of Specific Elements, Accounts or Items of a Financial Statement</b></p> <ul style="list-style-type: none"> <li>➤ Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for “incurred but not reported” claims in an insurance portfolio, including related notes.</li> <li>➤ A schedule of externally managed assets and income of a private pension plan, including related notes.</li> <li>➤ A schedule of net tangible assets, including related notes.</li> <li>➤ A schedule of disbursements in relation to a lease property, including explanatory notes.</li> </ul> |
| <b>To include related Notes</b> | <p>A single financial statement (for example, a cash flow statement) or to a specific element of a financial statement (for example, cash and bank balances) includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.</p>  |
| <b>Auditor’s Objective</b>      | <p>Address appropriately the special considerations relevant to:</p> <ul style="list-style-type: none"> <li>▪ Engagement acceptance.</li> <li>▪ Engagement planning &amp; performance.</li> <li>▪ Forming opinion &amp; reporting on financial statements</li> </ul>  |

|                              |                                |  |
|------------------------------|--------------------------------|--|
| <b>Engagement Acceptance</b> | <b>a. Application of SA</b>    | <ul style="list-style-type: none"> <li>▪ SA 200 (Revised) requires compliance with all SAs relevant to audit.</li> <li>▪ This applies to audit of Single financial statement/ specific element, irrespective of whether the auditor also audits the complete financial statements.</li> <li>▪ SA 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and (b) all SAs relevant to the audit. It also requires the auditor to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement.</li> <li>▪ If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with SAs is practicable</li> <li>▪ Compliance with the requirements of SAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records.</li> <li>▪ In the case of an audit of a specific element of a financial statement, certain SAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of SA 570 are relevant in an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required.</li> <li>▪ If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with SAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.</li> </ul> |
|                              | <b>b. Acceptability of FRF</b> | <ul style="list-style-type: none"> <li>▪ As per SA 210, auditor is required to consider acceptability of FRF.</li> <li>▪ Thus, determine the acceptability of the FRF applied in the preparation of single financial statement/specific element.</li> <li>▪ A single financial statement or a specific element of a financial statement may be prepared in accordance with an applicable FRF that is based on a FRF established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements (e.g., Financial Reporting Standards).</li> <li>▪ If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework on which it is based that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures.</li> </ul>  |

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|  | <p><b>c. Form of Opinion</b></p>   | <ul style="list-style-type: none"> <li>▪ SA 210 requires that agreed terms of audit engagement include the expected form of any report to be issued by auditor.</li> <li>▪ Consider whether expected form of opinion is appropriate in the circumstances.( apply professional judgement)</li> </ul> |
| <p><b>Planning and Performance</b></p>         | <ul style="list-style-type: none"> <li>▪ Apply all SAs as required in the audit of financial statements</li> <li>▪ However, relevance of each SA is to be considered.</li> <li>▪ When auditing a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element.</li> <li>▪ SAs, however, require the auditor to plan and perform the audit of the financial statement or element to obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.</li> <li>▪ The individual financial statements that comprise a complete set of financial statements, and many of the elements of those financial statements, including their related notes, are interrelated.</li> <li>▪ Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation.</li> <li>▪ Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.</li> <li>▪ Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements.</li> </ul>  |   |
| <p><b>Forming an Opinion and Reporting</b></p> | <ul style="list-style-type: none"> <li>▪ If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a <u>separate opinion for each engagement</u>.</li> <li>▪ An audited single financial statement or an audited specific element of a financial statement may be published together with the entity's audited complete set of financial statements. If the auditor concludes that the presentation of the single financial statement or of the specific element of a financial statement does not differentiate it sufficiently from the complete set of financial statements, the auditor shall ask management to rectify the situation. <b>The auditor shall also differentiate the opinion on the single financial statement or on the specific element of a financial statement from the opinion on the complete set of financial statements.</b> The auditor shall not issue the auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement until satisfied with the differentiation.</li> <li>▪ <b><u>Modified Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Entity's Complete Set of Financial Statements</u></b><br/>If the opinion in the auditor's report on an entity's complete set of financial statements is modified, or that report includes an Emphasis of Matter paragraph or an Other Matter paragraph, the auditor shall determine the effect that this may have on the auditor's report on a single financial statement or on a specific element. When deemed appropriate, the auditor shall modify the opinion on the single financial statement or on the specific element, or include an EOM or OM in the auditor's report, accordingly.</li> <li>▪ If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, SA 705(Revised) does not permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of those financial statements or on a specific element that forms part of those financial statements. This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of</li> </ul> |   |

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|  | <p>financial statements as a whole.</p> <ul style="list-style-type: none"> <li>■ If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if: <ul style="list-style-type: none"> <li>(a) The auditor is not prohibited by law or regulation from doing so;</li> <li>(b) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and</li> <li>(c) The specific element does not constitute a major portion of the entity's complete set of financial statements.</li> </ul> </li> <li>■ The auditor shall <b>not express an unmodified opinion on a single financial statement</b> of a complete set of financial statements if the auditor has expressed <i>an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole</i>. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.</li> <li>■ Even when the modified opinion on the entity's complete set of financial statements, EOM or OM does not relate to the audited financial statement or the audited element, the auditor may still deem it appropriate to refer to the modification in an OM section in an auditor's report on the financial statement or on the element because the auditor judges it to be relevant to the users' understanding of the audited financial statement or the audited element or the related auditor's report</li> </ul> |
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**Illustration of opinion section in Auditor's Report of audit of Balance Sheet prepared in accordance with requirements of AS.**

**INDEPENDENT AUDITOR'S REPORT**

**[Appropriate Addressee]**

**Opinion**

We have audited the accompanying balance sheet of ABC Company. as at March 31, 20X1 and a summary of significant accounting policies and other explanatory information (together "the financial statement").

In our opinion, the financial statement presents a true and fair view of the state of affairs of ABC Company as at March 31, 20X1 in accordance with Accounting Standards.

**Illustration of Auditor's Report of audit of a statement of cash receipt and disbursement (The sections which are not given hereunder shall be drafted as in SA -700)**

**INDEPENDENT AUDITOR'S REPORT**

**[Appropriate Addressee]**

**Opinion**

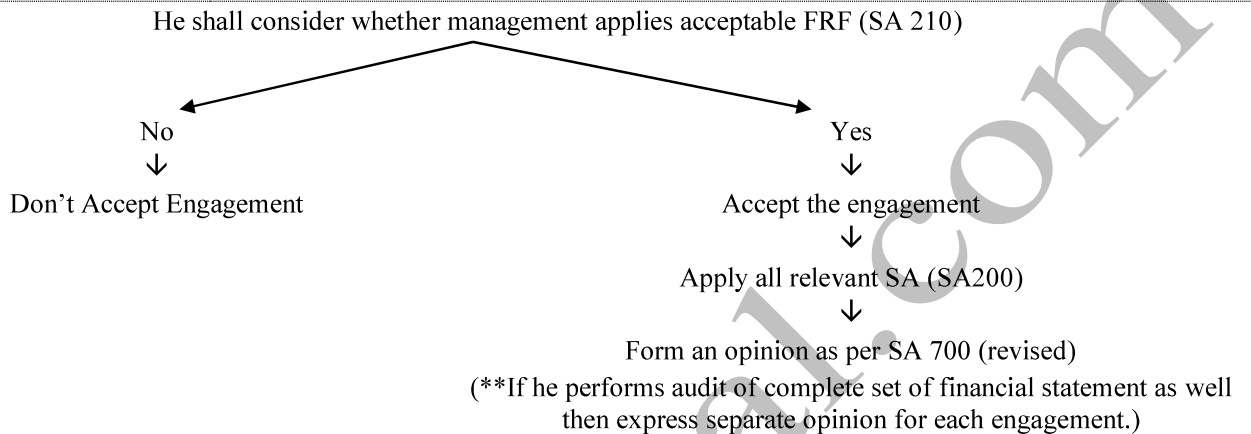
We have audited the accompanying statement of cash receipts and disbursements of ABC Company Ltd. for the year ended March 31, 20X1 and a summary of significant accounting policies and other explanatory information (together "the financial statement"). The financial statement has been prepared by management using the cash receipts and disbursements basis of accounting described in Note X.

In our opinion, the financial statement presents a true and fair view of the cash receipts and disbursements of ABC Company Ltd. for the year ended March 31, 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X.

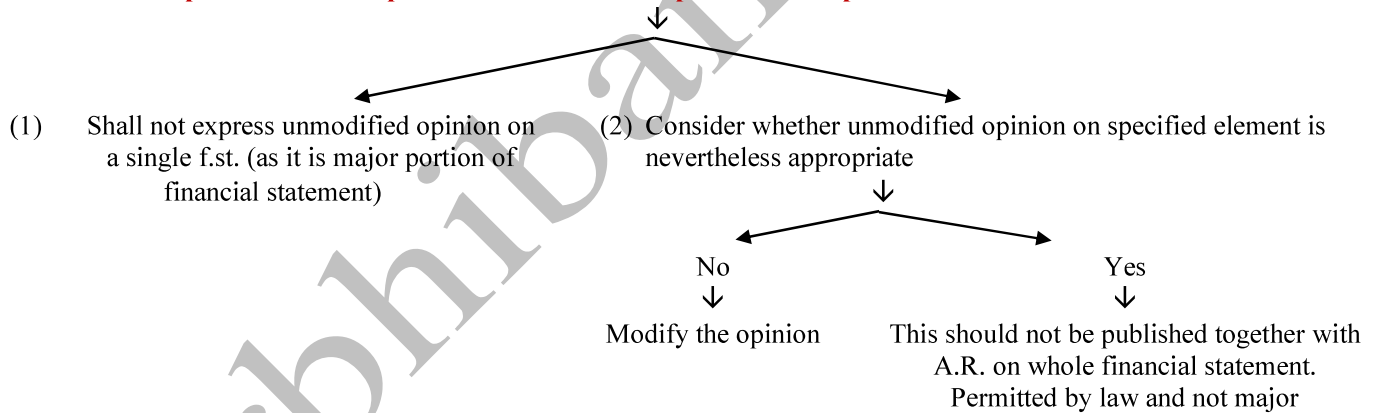
**Emphasis of Matter**

Without modifying our opinion, we draw attention to Note X, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the statement may not be suitable for another purpose.

**VIII.4 SUMMARY OF SA-805**



**If auditor expresses adverse opinion or disclaimer of opinion on complete set of financial statement as a whole**



**VIII.5 SA 810 “ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS”**

|                             |  |
|-----------------------------|--|
| <b>Meaning</b>              | <p><b>Summary Financial Statements</b></p> <ul style="list-style-type: none"> <li>→ SFS is Historical financial information</li> <li>→ Derived from financial statements, but</li> <li>→ Contains less details than financial statements.</li> </ul> <p><b>Applied criteria</b></p> <ul style="list-style-type: none"> <li>→ The criteria</li> <li>→ applied by management</li> <li>→ in the preparation of the summary financial statements.</li> </ul> |
| <b>SA 810-Applicability</b> | <ul style="list-style-type: none"> <li>→ This SA is applicable when</li> <li>→ The <b>same auditor</b></li> </ul>  |



|   |  |
|---|--|
|   | <ul style="list-style-type: none"> <li>→ Is undertaking</li> <li>→ Audit of complete financial statements (as per SA)</li> <li>→ As well as</li> <li>→ Audit of SFS</li> </ul>   |
| <b>Engagement Acceptance</b>                | <p>(a) The auditor shall accept the engagement only when he is also engaged to audit (as per SAs), those financial statements, from which these SFS have been derived.</p> <p>(b) <b>Before accepting Engagement</b>, auditor shall:</p> <p>(1) Determine whether the <b>applied criteria</b> (The criteria applied by the management, in the preparation of SFS) are <b>acceptable</b>.<br/>Factors that may affect the auditor's determination of the acceptability of the applied criteria include:</p> <ul style="list-style-type: none"> <li>➤ The nature of the entity;</li> <li>➤ The purpose of the summary financial statements;</li> <li>➤ The information needs of the intended users of the summary financial statements; and</li> <li>➤ Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.</li> </ul> <p>(2) Obtain the agreement of <b>management</b> that acknowledging its <b>responsibilities</b>:</p> <ul style="list-style-type: none"> <li>▪ For the <b>preparation</b> of SFS in accordance with the applied criteria;</li> <li>▪ To make the audited financial statements (<b>AFS</b>) <b>available to the intended users</b> of Summary financial statements without undue difficulty; and</li> <li>▪ To <b>include the auditor's report on SFS</b> in any document that contains the SFS and that indicates that the auditor has reported on them.</li> </ul> <p>(c) Agree with the management regarding the form of opinion to be expressed on the SFS.</p> <p><b>NOTE:</b> If the auditor concludes that the applied criteria are <b>unacceptable</b> or is <b>unable</b> to obtain the <b>agreement</b> of management, the auditor <u>shall not accept the engagement to report on the SFS, unless required by law or regulation to do so</u>. An engagement conducted in accordance with such law or regulation does not comply with this SA. Accordingly, the auditor's report on the SFS shall not indicate that the engagement was conducted in accordance with this SA. The auditor shall include appropriate reference to this fact in the terms of the engagement. The auditor shall also determine the effect that this may have on the engagement to audit the financial statements from which the summary financial statements are derived.</p> |
| <b>Nature of Procedures</b>                 | <p><b>Evaluate whether:</b></p> <p>(a) SFS adequately:</p> <ul style="list-style-type: none"> <li>▪ Disclose their summarised nature; &amp;</li> <li>▪ Identify the AFS.</li> </ul> <p>(b) They clearly describe the following, in case SFS are not accompanied by AFS:</p> <ul style="list-style-type: none"> <li>▪ From whom and where AFS are available; or</li> <li>▪ Law &amp; Regulation that specifies that AFS need not be made available to intended users of SFS</li> </ul> <p>(c) SFS adequately disclose the applied criteria.</p> <p>(d) SFS are prepared in accordance with applied criteria.</p> <p>(e) SFS contain necessary information which is not misleading.</p> <p>(f) SFS agree with related information in AFS (by comparing them)</p> <p>(g) AFS are available to intended users without undue difficulty.</p>  |
| <b>Unmodified opinion on SFS (wordings)</b> | <ul style="list-style-type: none"> <li>▪ SFS are consistent, in all material respects, with AFS, in accordance with applied criteria, <b>or</b></li> <li>▪ SFS are fair summary of AFS in accordance with applied criteria.</li> </ul>   |
| <b>Timing of Work &amp;</b>                 | <p>(a) The report on the SFS is dated not earlier than the date on which SFS have been prepared;</p>   |



|   |   |   |
|---|---|---|
| <b>Subsequent Events</b>                              | and recognised authority have asserted their responsibility for SFS.<br>(b) Report on SFS may be dated later than date of report on AFS, then Audit report shall state that SFS and AFS do not reflect the effects of events after the date of audit report on AFS.   |   |
| <b>Auditor's Report on SFS</b>                        | <b>Elements of the Auditor's Report:</b>  |   |
|   | <b>1. Title</b>   | Clearly indicating that it is the report of an independent auditor.   |
|   | <b>2. Addressee</b>   | It shall be appropriately addressed considering: <ul style="list-style-type: none"> <li>▪ Nature of the entity</li> <li>▪ Terms of the engagement</li> <li>▪ Purpose of SFS</li> </ul>  |
|   | <b>3. Introductory Paragraph</b>  | <ul style="list-style-type: none"> <li>▪ Identifies SFS on which the auditor is reporting, including the title of each statement included in SFS;</li> <li>▪ Identifies the AFS;</li> <li>▪ Refers to the auditor's report on the AFS, the date of that report and the fact that an unmodified opinion has been expressed on the AFS(if it is so);</li> <li>▪ If the date of the auditor's report on SFS is later than the date of the auditor's report on the AFS, state that SFS and the AFS do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the AFS;</li> <li>▪ A statement indicating that SFS do not contain all the disclosures required by FRF applied in the preparation of AFS and that reading SFS is not a substitute for reading the AFS;</li> </ul> |
|   | <b>4. Management's Responsibility</b>   | Stating that management is responsible for the preparation of the SFS in accordance with the applied criteria.  |
|   | <b>5. Auditor's Responsibility</b>  | For expressing opinion on SFS based on the procedures required by this SA.  |
|   | <b>6. Auditor Opinion on SFS</b>  | Clear written expression  |
|   | <b>7. Auditor's Signature</b>   | Along with the membership number assigned by the ICAI and the firm registration number, wherever applicable.  |
|   | <b>8. Date of report</b>  |   |
| <b>9. Place of Signature</b>                          |   |   |
| <b>Qualified Opinion/ EOM/ OM in Report on AFS</b>    | <p>Still the auditor is satisfied that SFS are consistent or are a fair summary of AFS in accordance with applied criteria, then report on SFS also:</p> <ol style="list-style-type: none"> <li>1. State that audit report on AFS contains qualified opinion/ EOM/OM</li> <li>2. Describe: <ul style="list-style-type: none"> <li>▪ Basis for qualified opinion on AFS, and that qualified opinion or EOM/ OM; and</li> <li>▪ Effect thereof on SFS, if any.</li> </ul> </li> </ol> |   |
| <b>Adverse Opinion / Disclaimer of Opinion on AFS</b> | <p>Report on SFS shall state the following:</p> <ol style="list-style-type: none"> <li>1. audit report contains adverse/ disclaimer of opinion;</li> <li>2. basis of such opinion; and</li> <li>3. that as a result of adverse/ disclaimer of opinion it is inappropriate to express an opinion on SFS</li> </ol>   |   |
| <b>Modified Opinion on SFS</b>                        | <p>Express adverse opinion if:</p> <ol style="list-style-type: none"> <li>1. SFS are not consistent in all material respects with or are not a fair summary of AFS in accordance with applied criteria, &amp;</li> <li>2. Management does not agree to make the necessary changes.</li> </ol>   |   |

|  |   |
|--|---|
| <b>Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting</b> | When distribution or use of the auditor's report on the AFS is restricted, or the auditor's report on the AFS alerts readers that the AFS are prepared in accordance with a special purpose framework, the auditor shall include a similar restriction or alert in the auditor's report on SFS  |
| <b>Comparatives</b>  | <ol style="list-style-type: none"> <li>1. If AFS contain comparatives, but SFS do not, determine whether such omission is reasonable.</li> <li>2. Determine the effect of unreasonable omission on the auditor's report on SFS.</li> <li>3. If SFS contain comparatives then, auditor's report on SFS shall also contain the matters as per SA 710.</li> </ol>  |
| <b>Unaudited Supplementary Information Presented with SFS</b>                            | <ol style="list-style-type: none"> <li>1. Evaluate whether any unaudited supplementary information presented with the SFS is clearly differentiated from the SFS.</li> <li>2. If entity's presentation of the unaudited supplementary information is not clearly differentiated from the SFS, the auditor shall ask management to change the presentation of the unaudited supplementary information.</li> <li>3. If management refuses to do so, the auditor shall explain in the auditor's report on the SFS that such information is not covered by that report.</li> </ol>  |
| <b>Other Information in Documents Containing SFS</b>                                     | <ol style="list-style-type: none"> <li>1. The auditor shall read the other information included in a document containing the SFS and related auditor's report to consider whether there is a material inconsistency between the other information and the SFS.</li> <li>2. If the auditor identifies a material inconsistency, the auditor shall determine whether the SFS or the other information needs to be revised.</li> <li>3. If, he becomes aware that the other information needs to be revised, the auditor shall discuss the matter with management.</li> </ol>  |
| <b>Auditor Association</b>   | <ul style="list-style-type: none"> <li>▪ If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the SFS, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document.</li> <li>▪ If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the SFS in that document.</li> <li>▪ The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the SFS. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that SFS are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:             <ol style="list-style-type: none"> <li>(a) The reference to the auditor is made in the context of the auditor's report on the AFS; and</li> <li>(b) The statement does not give the impression that the auditor has reported on the SFS.</li> </ol>             If (a) or (b) are not met, the auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the SFS and include the related auditor's report in the document.           </li> <li>▪ If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the SFS in the document containing the summary financial statements, the auditor shall advise management that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor.</li> </ul> |

**Illustration of Auditor's Report on Summary financial statements – Unmodified Opinion on audited financial statements – Established Criteria Exist**

## REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

### [Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as at March 31, 20X1, the summary statement of profit & loss, and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1. We expressed an unmodified audit opinion on those financial statements in our report dated May 15, 20X1. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by the Accounting Standards notified under the Companies Act, 2013. [applied in the preparation of the audited financial statements of ABC Company Ltd.]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company Ltd.

### Management's Responsibility for the Summary Financial statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with Accounting Standards notified under the Companies Act, 2013. And accounting principles generally accepted in India.

### Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Standard on Auditing (SA) 810, "Engagements to Report on Summary Financial statements" issued by the ICAI.

### Opinion

In our opinion, the summary financial statements derived from the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1 are a fair summary of those financial statements, in accordance with Accounting Standards notified under the Companies Act, 2013 and accounting principles generally accepted in India.

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation)  
Membership Number

Place of Signature  
Date

## VIII.6 SUMMARY OF SA-810

- SFS are historical financial information derived from financial Statements, containing less details than those in the financial statements
- It is managements responsibility to choose the criteria on which SFS are prepared (Applied Criteria)
- Management's responsibility to make audited financial statement (AFS) available to intended users of SFS without undue difficulty.

Before accepting the engagement, auditor shall consider

- (1) Acceptability of applied criteria
- (2) Whether managements acknowledges its responsibility

(3) Form of opinion to be expressed thereon.



Then he shall perform procedures such as comparing SFS with AFS, evaluating compliance with applied criteria, from where & whom AFS are made available.



Finally prepare a report on summary financial statement.

### Auditor's Report on SFS

- |     |                                       |     |           |     |              |   |   |
|-----|---------------------------------------|-----|-----------|-----|--------------|---|---|
| (1) | Title                                 | (2) | Addresses | (3) | Introduction | → | That identifies SFS and AFS   |
|     |                                       |     |           |     |              | → | Refers to auditor's report  |
|     |                                       |     |           |     |              | → | Stating that SFS & AFS don't contain/reflect effect of events subsequent to date of A.R. on AFS (if Report on SFS is dated as later than report on AFS) |
| (4) | Management's responsibility of SFS    |     |           |     |              |   |   |
| (5) | Auditor's responsibility wrt. this SA |     |           |     |              |   |   |
| (6) | Opinion                               | (7) | Date      | (8) | Place        |   |   |
| (9) | Signature                             |     |           |     |              |   |   |

### If Auditor's report on AFS Contains

| <b>Qualified , EOM or OM</b>   | <b>Adverse or Disclaimer</b>   |
|--|--|
| But auditor is satisfied that SFS is consistent with AFS<br>(1) State that AR on AFS contains Q, EOM or OM including basis thereof<br>(2) State the effect on SFS. | (1) State that AR on AFS contains adverse or disclaimer & Basis thereof<br>(2) State that due to this it is inappropriate to express opinion on SFS. |

**Question** - The management of CSITA Ltd. has prepared its summary financial statements for the year 2015- 16 to be provided to its investors. Consequently the company wants to appoint you for conducting audit of summary financial statements. What are the procedures that you will perform and consider necessary as the basis for forming an opinion on the summary financial statements?

**[Hint:** Refer to "Nature of Procedures"]

NOTE: REFER TO THE CLASS DISCUSSION ON EXTRA QUESTION ANSWERS ON THIS SERIES AND MCQs.

# Chapter 9

## **RELATED SERVICES**

### **SRS 4400, 4410**

*Surbhibansal.com*

**1. SRS 4400 - ENGAGEMENT TO PERFORM AGREED UPON PROCEDURE REGARDING FINANCIAL INFORMATION**

|  |   |                   |   |                 |   |
|--|---|-------------------|---|-----------------|---|
| <b>Objective</b>                           | <p>For the auditor</p> <ul style="list-style-type: none"> <li>▪ to carry out <b>procedure of audit nature</b>, to which the auditor and the entity and any appropriate third parties have agreed and</li> <li>▪ to <b>report on factual finding</b> thereon.</li> </ul>   |                   |   |                 |   |
| <b>Who can use</b>                         | <p>Report is generally <b>restricted</b> to those parties that have agreed to the procedures to be performed.</p>   |                   |   |                 |   |
| <b>Principles of agreed upon procedure</b> | <p>Auditors should comply with Code of Ethics issued by ICAI.</p> <table border="0" style="width: 100%;"> <tr> <td style="vertical-align: top; width: 15%;"><i>Compulsory</i></td> <td> <ul style="list-style-type: none"> <li>(i) Integrity;</li> <li>(ii) Objectivity</li> <li>(iii) Professional competence and due care;</li> <li>(iv) Confidentiality</li> <li>(v) Professional conduct; and</li> <li>(vi) Technical standard</li> </ul> </td> </tr> <tr> <td style="vertical-align: top;"><i>Optional</i></td> <td> <p><b>Independence is not mandatory.</b><br/>                     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 ICAI.<br/>                     But if he's not independent, he should refer it in his Report</p> </td> </tr> </table>  | <i>Compulsory</i> | <ul style="list-style-type: none"> <li>(i) Integrity;</li> <li>(ii) Objectivity</li> <li>(iii) Professional competence and due care;</li> <li>(iv) Confidentiality</li> <li>(v) Professional conduct; and</li> <li>(vi) Technical standard</li> </ul> | <i>Optional</i> | <p><b>Independence is not mandatory.</b><br/>                     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 ICAI.<br/>                     But if he's not independent, he should refer it in his Report</p> |
| <i>Compulsory</i>                          | <ul style="list-style-type: none"> <li>(i) Integrity;</li> <li>(ii) Objectivity</li> <li>(iii) Professional competence and due care;</li> <li>(iv) Confidentiality</li> <li>(v) Professional conduct; and</li> <li>(vi) Technical standard</li> </ul>   |                   |   |                 |   |
| <i>Optional</i>                            | <p><b>Independence is not mandatory.</b><br/>                     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 ICAI.<br/>                     But if he's not independent, he should refer it in his Report</p>   |                   |   |                 |   |
| <b>Defining terms of engagement</b>        | <p>There should be clear understanding regarding the agreed procedures.</p> <ul style="list-style-type: none"> <li>(a) <b>Nature of the engagement</b> including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed.</li> <li>(b) Stated <b>purpose</b> for the engagement.</li> <li>(c) <b>Identification</b> of the financial information to which the agreed-upon procedures will be applied.</li> <li>(d) Nature, timing and extent of the specific <b>procedures</b>.</li> <li>(e) <b>Limitation on distribution</b> of the report of factual findings. If such limitation would be in conflict with the legal requirements, the auditor would not accept the engagement.</li> </ul> <p><b>Matters that would be included in the engagement letter</b> include: -</p> <ul style="list-style-type: none"> <li>• A listing of the procedures to be performed as agreed-upon between the parties.</li> <li>• 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</li> </ul> |                   |   |                 |   |
| <b>Planning</b>                            | <p>By auditor for performing effective engagement.</p>  |                   |   |                 |   |
| <b>Documentation</b>                       | <p>Of important matters to support the report of factual findings.</p>  |                   |   |                 |   |
| <b>Procedures &amp; Evidence</b>           | <p>Auditors should carry out necessary procedures (including <b>computation. Comparison, observation, inspection and obtaining confirmations</b>) to use <b>evidence</b> obtained therefrom as basis for report of factual findings. Here, <b>no assurance</b> is given.</p> <p>For example, an agreed upon procedures engagement to evaluate validity of accounts payable may state the following:</p> <ul style="list-style-type: none"> <li>• Comparing of names of major suppliers and the amounts outstanding as on a date to the related names and amounts in the trial balance</li> <li>• Obtaining suppliers statements or confirmations from suppliers to confirm balances outstanding on a date</li> <li>• Comparison of such statements or confirmations to the amounts in trial balance</li> </ul>  |                   |   |                 |   |

|                      |  |
|----------------------|--|
| <b>Reporting</b>     | <p>The report of factual findings should contain:</p> <ul style="list-style-type: none"><li>(a) Title;</li><li>(b) Addressee;</li><li>(c) Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied.</li><li>(d) A statement that the procedures performed were those agreed-upon with the recipient.</li><li>(e) A statement that the engagement was performed in accordance with this standard and terms of engagement.</li><li>(f) Identification of the purpose.</li><li>(g) A listing of the specific procedures performed.</li><li>(h) A description of the auditor's factual findings including sufficient details of errors and exceptions found.</li><li>(i) A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed.</li><li>(j) A statement that the report is restricted to those parties that have agreed to the procedures to be performed.</li><li>(k) A statement (when applicable) that the report relates only to the elements specified and that it does not extend to the entity's financial statements taken as a whole.</li><li>(l) Date of the report.</li><li>(m) Place of signature.</li><li>(n) Auditor's signature.</li></ul> <p>Report should be signed by the auditor in his personal name. Where the firm is appointed, the report should be signed in the personal name of the auditor and in the name of the firm. Also mention the membership number.</p> |
| <b>Documentation</b> | <p>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</p>   |

### Example of a Report of Factual Findings in Connection with Accounts Receivable

#### CONFIDENTIAL

#### Report of factual findings in connection with agreed-upon procedures assignment related to accounts receivable

To (those who engaged the auditor)

We have performed the procedures agreed with you and enumerated below with respect to the accounts receivable of ABC Company as at \_\_\_\_\_ (date), set forth in the accompanying schedules (not shown in this example). Our engagement was undertaken in accordance with the Standard on Related Services (SRS) 4400, "Engagements to Perform Agreed-upon Procedures regarding Financial Information", issued by the Institute of Chartered Accountants of India. The procedures were performed solely to assist you in evaluating the validity of the accounts receivable and are summarized as follows:

1. We obtained and checked the addition of the trial balance of accounts receivable as at \_\_\_\_\_ (date), prepared by ABC Company, and we compared the total to the balance in the related general ledger account.
2. We compared the attached list (not shown in this example) of major customers and the amounts outstanding at \_\_\_\_\_ (date) to the related names and amounts in the trial balance.
3. We obtained customers' statements or confirmations from customers to confirm balances outstanding at \_\_\_\_\_ (date).
4. We compared such statements or confirmations to the amounts referred to in 2 above. For amounts which did not agree, we obtained reconciliations from ABC Company. For reconciliations obtained, we identified and listed outstanding invoices, debit notes and outstanding cheques, each of which was greater than Rs. XXX. We located and examined such invoices and debit notes subsequently raised and cheques subsequently received and we ascertained that they have been rightly listed as outstanding on the reconciliations.



We report our findings below:

- (a) With respect to item 1, we found the addition to be correct and the total amount to be in agreement.
- (b) With respect to item 2, we found the amounts compared to be in agreement.
- (c) With respect to item 3, we found there were suppliers' statements for all such customers.
- (d) With respect to item 4, we found the amounts agreed, or with respect to amounts which did not agree, we found the Company had prepared reconciliations and that the debit notes, invoices and outstanding cheques over Rs. XXX were appropriately listed as reconciling items with the following exceptions:

**(Detail the exceptions)**

Because the above procedures do not constitute either an audit or a review made in accordance with the generally accepted auditing standards in India, we do not express any assurance on the accounts receivable as at \_\_\_\_\_ (date).

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with the generally accepted auditing standards in India, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the accounts and items specified above and do not extend to any financial statements of ABC Company, taken as a whole.

Date:

Place:

For XYZ & Co  
Chartered Accountants  
.....

Signature  
(Name of the Member and Membership number)  
Designation

**Question –** Briefly state the contents of Report of factual findings in accordance with SRS 4400.

**Question –** Briefly state the objective of agreed upon procedures and what are the principles to be followed in accordance with SRS 4400.

## 2 SRS - 4410(REVISED) COMPILATION ENGAGEMENTS (EFFECTIVE FOR COMPILATION ENGAGEMENTS UNDERTAKEN AFTER MARCH 31, 2016)

Meaning of important terms used in this SRS are as given under:

- (a) **Applicable financial reporting framework** – The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial information that is acceptable in view of the nature of the entity and the objective of the financial information, or that is required by law or regulation.
- (b) **Compilation engagement** – 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 reports as required by this SRS. Throughout this SRS, the words “compile”, “compiling” and “compiled” are used in this context. 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.
- (c) **Engagement partner** – The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (d) **Engagement team** – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.
- (e) **Misstatement** – A difference between the amount, classification, presentation, or disclosure of a reported item in the financial information, and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. Where the financial information is prepared in accordance with a fair presentation framework, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the practitioner’s judgment, are necessary for the financial information to be presented fairly, in all material respects, or to give a true and fair view.
- (f) **Practitioner** – A professional accountant in public practice who conducts the compilation engagement. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where this SRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used.
- (g) **Relevant ethical requirements** – Ethical requirements the engagement team is subject to when undertaking compilation engagements. These requirements comprise the Code of Ethics issued by ICAI together with other relevant pronouncements issued by ICAI.

|   |   |
|---|---|
| <b>Financial information that is the subject of a compilation engagement may be required for various purposes</b> | <ul style="list-style-type: none"> <li>• To comply with mandatory periodic financial reporting requirements established in law or regulation, if any or</li> <li>• For purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example: -                             <ul style="list-style-type: none"> <li>• 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).</li> <li>• 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).</li> <li>• 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).</li> </ul> </li> </ul> |
| <b>Objectives in SRS 4410</b>   | <p>The practitioner’s objectives in a compilation engagement under this SRS are to: -</p> <p>(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</p> <p>(b) Report in accordance with the requirements of this SRS</p>  |

|  |  |
|--|--|
| <p><b>Scope of Compilation Engagements</b></p>       | <ul style="list-style-type: none"> <li>• The scope of a compilation engagement will vary depending on the circumstances of the engagement.</li> <li>• However, in every case it will involve assisting management in the preparation and presentation of the entity's financial information in accordance with FRF, based on information provided by management.</li> <li>• In some compilation engagements, management may have already prepared the financial information in a draft or preliminary form.</li> <li>• 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.</li> <li>• Different FRFs can be used to prepare and present financial information, ranging from a simple entity-specific basis of accounting to established financial reporting standards.</li> <li>• 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.</li> </ul>   |
| <p><b>Engagement Level Quality Control</b></p>       | <p>The engagement partner shall take responsibility for:</p> <ol style="list-style-type: none"> <li>(a) The overall quality of each compilation engagement to which that partner is assigned; and</li> <li>(b) The engagement being performed in accordance with the firm's quality control policies and procedures.</li> </ol>  |
| <p><b>Engagement Acceptance and Continuance</b></p>  | <p>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:</p> <ol style="list-style-type: none"> <li>(a) The <b>intended use and distribution</b> of the financial information, and any restrictions on either its use or its distribution where applicable;</li> <li>(b) <b>Identification</b> of the applicable financial reporting framework;</li> <li>(c) The <b>objective and scope</b> of the compilation engagement;</li> <li>(d) The <b>responsibilities of the practitioner</b>, including the requirement to comply with relevant ethical requirements;</li> <li>(e) The <b>responsibilities of management</b> for:             <ol style="list-style-type: none"> <li>(i) The <b>financial information, and for the preparation and presentation</b> 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;</li> <li>(ii) <b>Design, implementation and maintenance of such internal control</b> as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;</li> <li>(iii) The <b>accuracy and completeness</b> of the records, documents, explanations and other information provided by management for the compilation engagement; and</li> <li>(iv) <b>Judgments</b> 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; and</li> </ol> </li> <li>(f) The <b>expected form and content</b> of the practitioner's report.</li> </ol> <p>The practitioner shall record the agreed terms of engagement in an <i>engagement letter</i> or other suitable form of written agreement, prior to performing the engagement.</p> |
| <p><b>Recurring Engagements</b></p>                  | <p>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.</p>   |
| <p><b>Communication with management and TCWG</b></p> | <p>The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during 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.</p>  |

|   |  |  |
|---|--|--|
| <p><b>Performing the Engagement</b></p> | <p><i>The Practitioner's Understanding</i></p>   | <p>The practitioner shall obtain an understanding of the following matters sufficient to be able to perform the compilation engagement:</p> <p>(a) The entity's business and operations, including the entity's accounting system and accounting records; and</p> <p>(b) The applicable financial reporting framework, including its application in the entity's industry.</p>   |
|   | <p><i>Compiling the Financial Information</i></p>  | <ul style="list-style-type: none"> <li>▪ The practitioner shall compile the financial information using the records, documents, explanations and other information, including significant judgments, provided by management.</li> <li>▪ The practitioner shall <b>discuss</b> 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.</li> <li>▪ Prior to completion of the compilation engagement, the practitioner shall read the compiled financial information considering the practitioner's understanding of the entity's business and operations, and of the applicable financial reporting framework.</li> <li>▪ If, during 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 <b>incomplete, inaccurate, or otherwise unsatisfactory</b>, the practitioner shall bring that to the attention of management and request the additional or corrected information.</li> <li>▪ If the practitioner is <b>unable to complete the engagement</b> 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.</li> <li>▪ If the practitioner becomes aware during the course of the engagement that:             <ul style="list-style-type: none"> <li>(a) The compiled financial information <b>does not adequately refer to or describe</b> the applicable financial reporting framework;</li> <li>(b) <b>Amendments</b> to the compiled financial information are required for the financial information not to be materially misstated; or</li> <li>(c) The compiled financial information is otherwise <b>misleading</b>; the practitioner shall propose the appropriate amendments to management.</li> </ul> </li> <li>▪ If <b>management declines, or does not permit</b> the practitioner to make the proposed amendments to the compiled financial information, the practitioner <b>shall withdraw</b> from the engagement and inform management and those charged with governance of <b>the reasons</b> for withdrawing.</li> <li>▪ If withdrawal from the engagement is not possible, the practitioner shall determine the <b>professional and legal responsibilities</b> applicable in the circumstances.</li> <li>▪ 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.</li> </ul> |
| <p><b>Documentation</b></p>             | <p>The practitioner shall include in the engagement documentation all relevant matters to demonstrate compliance with this standard. The practitioner shall include in the engagement documentation: -</p> <p>(a) Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner</p> <p>(b) A record of how the compiled financial information reconciles with the underlying records,</p> |  |

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|  | <p>documents, explanations and other information, provided by management and</p> <p>(c) A copy of the final version of the compiled financial information for which management or TCWG, as appropriate, has acknowledged their responsibility, and the practitioner's report.</p>  |
| <b>Contents of the Practitioner's Report</b> | <p>The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements:</p> <ul style="list-style-type: none"><li>(a) The report <b>title</b>;</li><li>(b) The <b>addressee(s)</b>, as required by the terms of the engagement;</li><li>(c) A statement that the practitioner has compiled the financial information <b>based on information provided by management</b>;</li><li>(d) A description of the <b>responsibilities of management, or those charged with governance</b> as appropriate, in relation to the compilation engagement, and in relation to the financial information;</li><li>(e) 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;</li><li>(f) <b>Identification</b> 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;</li><li>(g) A description of the <b>practitioner's responsibilities</b> 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;</li><li>(h) A description of what a compilation engagement entails in accordance with <b>this SRS</b>;</li><li>(i) Explanations that:<ul style="list-style-type: none"><li>(i) Since a compilation engagement is <b>not an assurance engagement</b>, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation; and</li><li>(ii) Accordingly, the practitioner does <b>not express an audit opinion or a review conclusion</b> on whether the financial information is prepared in accordance with the applicable financial reporting framework.</li></ul></li><li>(j) If the financial information is prepared using a <b>special purpose financial reporting framework</b>, an explanatory paragraph that:<ul style="list-style-type: none"><li>(i) 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</li><li>(ii) 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;</li></ul></li><li>(k) <b>The date</b> of the practitioner's report;</li><li>(l) The <b>practitioner's signature</b>; and</li><li>(m) The Place of <b>signature</b>.</li></ul> <p>The practitioner shall date the report on the date the practitioner has completed the compilation engagement in accordance with this SRS.</p> |



### ACCOUNTANT'S COMPILATION REPORT

[To Management of ABC Company]

**We have compiled** the accompanying financial statements of ABC Company **based on information you have provided**. These financial statements **comprise** the Balance Sheet of ABC Company as at March 31, 20XX, the statement of Profit and Loss, and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

We performed this compilation engagement in accordance with Standard on Related Services **4410** (Revised), Compilation Engagements.

We have applied our **expertise in accounting and financial reporting** to assist you in the preparation and presentation of these financial statements in accordance with accounting principles generally accepted in India. We have complied with relevant **ethical** requirements.

These **financial statements** and the accuracy and completeness of the **information** used to compile them are **your responsibility**.

Since a compilation engagement is **not an assurance engagement**, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements. Accordingly, we **do not express an audit opinion or a review conclusion** on whether these financial statements are prepared in accordance with accounting principles generally accepted in India.

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Compilation Report)  
(Designation)  
Membership Number

**Question** - While compiling the accounts of Hope Ltd., you observed that a few accounting standards have not been followed and there have been omission of some information which was required to be followed in the current situation. How would you deal with this?

**Hint:** Refer to "Compiling the financial information" in "Performing the Engagement"

**Question** - Write short notes on Objectives of Compilation engagement.

**Question** - The practitioner shall not accept the engagement to compile financial information unless the practitioner has agreed the terms of engagement with management, and the engaging party if different. Discuss

**Hint:** Refer to "Engagement Acceptance and Continuance"

**Question** - Discuss main documentation requirements to be taken care of by a practitioner while performing a compilation engagement under SRS 4410.

**Question** - Financial information that is the subject of a compilation engagement may be required for various purposes. Discuss.

**Question** - discuss the difference between related services and Auditing.

**NOTE:** Refer to the chart/table we made during the class at the end of all SAs, SRS, SRE, SAE to discuss all difference related questions at one place. Not only this difference but all such differences are important from exam point of view as discussed.

# **Chapter 10**

# **Review**

# **Engagements**

**(Other Quality Control  
and Engagement Standards)**



| 1 SRE 2400 (REVISED) ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS                         |   |
|--|---|
| <b>Objectives</b>  | <ul style="list-style-type: none"> <li>▪ The practitioner’s objectives in a review of financial statements under this SRE are to:</li> <li>▪ Obtain limited assurance, primarily by performing inquiry and analytical procedures, about whether the financial statements as a whole are free from material misstatement, thereby enabling the practitioner to express a conclusion on whether anything has come to the practitioner’s attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework; and</li> <li>▪ Report on the financial statements as a whole and communicate, as required by this SRE.</li> </ul> <p><i>Note:</i> In all cases when limited assurance cannot be obtained and a qualified conclusion in the practitioner’s report is insufficient in the circumstances, this SRE requires that the practitioner either disclaim a conclusion in the report issued for the engagement or, where appropriate, withdraw from the engagement.</p>   |
| <b>Definitions</b>   | <ul style="list-style-type: none"> <li>▪ <b>Engagement risk</b> — The risk that the practitioner expresses an inappropriate conclusion when the financial statements are materially misstated.</li> <li>▪ <b>Inquiry</b> — Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.</li> <li>▪ <b>Limited assurance</b> — The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in accordance with this SRE. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance.</li> </ul>   |
| <b>Ethical Requirements</b>  | The practitioner shall comply with relevant ethical requirements, including those pertaining to independence.   |
| <b>Factors Affecting Acceptance and Continuance of Client Relationships and Review Engagements</b> | <p>Unless required by law or regulation, the practitioner shall not accept a review engagement if:</p> <ol style="list-style-type: none"> <li>(a) The practitioner is not satisfied: <ul style="list-style-type: none"> <li>▪ That there is a rational purpose for the engagement; or</li> <li>▪ That a review engagement would be appropriate in the circumstances;</li> </ul> </li> <li>(b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied;</li> <li>(c) The practitioner’s preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable;</li> <li>(d) The practitioner has cause to doubt management’s integrity such that it is likely to affect proper performance of the review; or</li> <li>(e) Management or those charged with governance impose a limitation on the scope of the practitioner’s work in the terms of a proposed review engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion on the financial statements.</li> </ol> |
| <b>Professional Skepticism and Professional Judgment</b>   | The practitioner shall plan and perform the engagement with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. The practitioner shall exercise professional judgment also.  |
| <b>Engagement Level Quality Control</b>  | <ul style="list-style-type: none"> <li>▪ The engagement partner shall possess competence in assurance skills and techniques, and competence in financial reporting, appropriate to the engagement circumstances.</li> <li>▪ The engagement partner shall take responsibility for:</li> <li>▪ The overall quality of each review engagement to which that partner is assigned;</li> </ul>  |

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|   | <ul style="list-style-type: none"> <li>▪ The direction, supervision, planning and performance of the review engagement in compliance with professional standards and applicable legal and regulatory requirements;</li> <li>▪ The practitioner's report being appropriate in the circumstances; and</li> <li>▪ The engagement being performed in accordance with the firm's quality control policies.</li> </ul>   |
| <p><b>Preconditions for Accepting a Review Engagement</b></p> | <p>Prior to accepting a review engagement, the practitioner shall:</p> <ol style="list-style-type: none"> <li>(a) Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users; and</li> <li>(b) Obtain the agreement of management that it acknowledges and understands its responsibilities: <ul style="list-style-type: none"> <li>▪ For preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation;</li> <li>▪ For 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; and</li> <li>▪ To provide the practitioner with: <ul style="list-style-type: none"> <li>▪ Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters; <ul style="list-style-type: none"> <li>➢ Additional information that the practitioner may request from management for the purpose of the review; and</li> <li>➢ Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.</li> </ul> </li> <li>▪ If the practitioner is not satisfied as to any of the matters set out above as preconditions for accepting a review engagement, the practitioner shall discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the practitioner as to those matters, the practitioner shall not accept the proposed engagement.</li> <li>▪ If it is discovered after the engagement has been accepted that the practitioner is not satisfied as to any of the above preconditions, the practitioner shall discuss the matter with management or those charged with governance, and shall determine: <ol style="list-style-type: none"> <li>(c) Whether the matter can be resolved;</li> <li>(d) Whether it is appropriate to continue with the engagement; and</li> <li>(e) Whether and, if so, how to communicate the matter in the practitioner's report.</li> </ol> </li> </ul> </li> </ul></li></ol> |
| <p><b>Agreeing the Terms of Engagement</b></p>                | <p>The agreed terms of engagement shall be recorded in an engagement letter and shall include:</p> <ol style="list-style-type: none"> <li>(a) The intended use and distribution of the financial statements, and any restrictions on use or distribution where applicable;</li> <li>(b) Identification of the applicable financial reporting framework;</li> <li>(c) The objective and scope of the review engagement;</li> <li>(d) The responsibilities of the practitioner;</li> <li>(e) The responsibilities of management,</li> <li>(f) A statement that the engagement is not an audit, and that the practitioner will not express an audit opinion on the financial statements; and</li> <li>(g) Reference to the expected form and content of the report to be issued by the practitioner, and a statement that there may be circumstances in which the report may differ from its expected form and content.</li> </ol>  |
| <p><b>Acceptance of a Change in the</b></p>                   | <ol style="list-style-type: none"> <li>(a) The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so.</li> <li>(b) If, prior to completing the review engagement, the practitioner is requested to change the</li> </ol>   |

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| <p><b>Terms of the Review Engagement</b></p>                  | <p>engagement to an engagement for which no assurance is obtained, the practitioner shall determine whether there is reasonable justification for doing so.</p> <p>(c) If the terms of engagement are changed during the course of the engagement, the practitioner and management or those charged with governance, as appropriate, shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.</p>  |
| <p><b>Performing the Engagement</b></p>                       |  |
| <p><b>Materiality in a Review of Financial Statements</b></p> | <ul style="list-style-type: none"> <li>▪ The practitioner shall determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures.</li> <li>▪ The practitioner shall revise materiality for the financial statements as a whole in the event of becoming aware of information during the review that would have caused the practitioner to have determined a different amount initially.</li> </ul>   |
| <p><b>The Practitioner's Understanding</b></p>                | <p>The practitioner shall obtain an understanding of the entity and its environment, and the applicable financial reporting framework, to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas.</p>   |
| <p><b>Designing and Performing Procedures</b></p>             | <p>In obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, the practitioner shall design and perform inquiry and analytical procedures:</p> <p>(a) To address all material items in the financial statements, including disclosures; and</p> <p>(b) To focus on addressing areas in the financial statements where material misstatements are likely to arise.</p> <p><b><i>INQUIRIES</i></b></p> <p>The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following:</p> <p>(a) How management makes the significant accounting estimates required under the applicable financial reporting framework;</p> <p>(b) The identification of related parties and related party transactions, including the purpose of those transactions;</p> <p>(c) Whether there are significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements;</p> <p>(d) The existence of any actual, suspected or alleged:</p> <p>(i) Fraud or illegal acts affecting the entity; and</p> <p>(ii) Non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations;</p> <p>(e) Whether management has identified and addressed events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements;</p> <p>(f) The basis for management's assessment of the entity's ability to continue as a going concern;</p> <p>(g) Whether there are events or conditions that appear to cast doubt on the entity's ability to continue as a going concern;</p> <p>(h) Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures; and</p> <p>(i) Material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration.</p> <p>The practitioner may also extend Inquiries to obtain non-financial data if appropriate. Evaluating the responses provided by the management is integral to the inquiry process.</p> |

Depending on the engagement circumstances, inquiries may also include inquiries about:

- Actions taken at meetings of owners, those charged with governance and committees thereof, and proceedings at other meetings, if any, that affect the information and disclosures contained in the financial statements.
- Communications the entity has received, or expects to receive or obtain, from regulatory agencies.
- Matters arising in the course of applying other procedures.

#### **ANALYTICAL PROCEDURES**

In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are adequate for the purpose of performing the analytical procedures.

In a review of financial statements, performing analytical procedures assists the practitioner in:

- Obtaining or updating the practitioner's understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- Providing corroborative evidence in relation to other inquiries or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe that the financial statements may be materially misstated.

For example, performing a comparative analysis of monthly revenue and cost figures across profit centers, branches or other components of the entity, helps to provide evidence about financial information contained in line items or disclosures made in the financial statements. Various methods may be used to perform analytical procedures ranging from performing simple comparisons to performing complex analysis using statistical techniques.

### **Procedures to Address Specific Circumstances**

#### **Related Parties**

During the review, the practitioner shall remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the practitioner.

#### **Fraud and non-compliance with laws or regulations**

When there is an indication that fraud or non-compliance with laws or regulations, or suspected fraud or non-compliance with laws or regulations, has occurred in the entity, the practitioner shall communicate that matter to the appropriate level of senior management or those charged with governance as appropriate and request management's assessment of the effects, if any, on the financial statements. The practitioner has to consider the effect, if any, of management's assessment of the effects of fraud or non-compliance with laws or regulations communicated to him on his conclusion on the financial statements and on his report and determine whether there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity.

#### **Going concern**

A review of financial statements includes consideration of the entity's ability to continue as a going concern. In considering management's assessment of the entity's ability to continue as a going concern, the practitioner shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation where a longer period is specified.

If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall:

- (a) Inquire of management about plans for future actions affecting the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes the outcome of concern;
- (b) those plans will improve the situation regarding the entity's ability to continue as a going concern. Evaluate the results of those

inquiries, to consider whether management's responses provide a sufficient basis to:

- (i) Continue to present the financial statements on the going concern basis if the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern; or
  - (ii) Conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern; and
- (c) Consider management's responses in light of all relevant information of which the practitioner is aware as a result of the review.

### **Use of work performed by others**

In performing the review, it may be necessary for the practitioner to use work performed by other practitioners, or the work of an individual or organization possessing expertise in a field other than accounting or assurance. If the practitioner uses work performed by another practitioner or an expert in the course of performing the review, the practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the practitioner's purposes.

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**Additional Procedures When the Practitioner Becomes Aware that the Financial Statements May Be Materially Misstated** If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures.

The procedures may be:

- Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e. amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements); or
- Other types of procedures, for example, substantive test of details or external confirmations.

FOR EXAMPLE:

In course of performing inquiry and analytical procedures for review, analysis of accounts receivable shows a material amount of past due accounts receivable, for which there is no allowance for bad or doubtful debts. This causes the practitioner to believe that the accounts receivable balance in the financial statements may be materially misstated. The practitioner then inquires of management whether there are uncollectible accounts receivable that would need to be shown as being impaired.

Depending on management's response, the practitioner's evaluation of the response may:

- (a) Enable the practitioner to conclude that the accounts receivable balance is not likely to be materially misstated. In that case, no further procedures are required.
- (b) Enable the practitioner to determine that the matter causes the financial statements to be materially misstated. No further procedures are required, and the practitioner would form the conclusion that the financial statements as a whole are materially misstated.
- (c) Lead the practitioner to continue to believe that the accounts receivable balance is likely to be materially misstated, while not providing sufficient appropriate evidence for the practitioner to determine that they are in fact misstated. In that case, the practitioner is required to perform additional procedures, for example, requesting from management an analysis of amounts received for those accounts after the balance sheet date to identify uncollectible accounts receivable.

The evaluation of the results of the additional procedures may enable the practitioner to get to (a) or (b) above.

If not, the practitioner is required to: - (i) Continue performing additional procedures until the practitioner reaches either (a) or (b) above or (ii) If the practitioner is not able to either conclude that the matter is not likely to cause the financial statements as a whole to be materially misstated or to determine that the matter does cause the financial statements as a whole to be materially misstated, then a scope limitation exists and the practitioner is not able to form an unmodified conclusion on the financial statements.

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### **Subsequent Events**

If the practitioner becomes aware of events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements, the practitioner shall request management to correct those misstatements.

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The practitioner has no obligation to perform any procedures regarding the financial statements after the date of the practitioner's report. However, if, after the date of the practitioner's report but before the date the financial statements are

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