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CHAPTER 9 STANDARDS ON RELATED SERVICES (SRSs 4000- 4699)

1. SRS 4400 ENGAGEMENTS TO PERFORM AGREED- UPON PROCEDURES REGARDING FINANCIAL INFORMATION

Objective

For Auditor

1. To carry out procedure of audit nature, to which the auditor and the entity and any appropriate third parties have agreed and
2. To report on factual finding thereon.

PRINCIPLES OF AGREED UPON PROCEDURE [CODE OF ETHICS]

Auditors should comply with the Code of Ethics issued by ICAI.

1. Compulsory:

Ethical principles are:

- 1) Integrity;
- 2) Objectivity
- 3) Professional competence and due care;
- 4) Confidentiality
- 5) Professional conduct; and
- 6) Technical standard.

2. Optional:

Independence is not required compulsorily. But if he's not independent, he should refer it in his Report

DEFINING TERMS OF ENGAGEMENT

There should be clear understanding regarding the agreed procedures including the following:

1. Nature of the engagement
2. Purpose
3. Identification of the financial information
4. Nature, timing and extent of the specific procedures
5. Limitation on distribution of the report of factual findings If such limitation would be in conflict with the legal requirements, the auditor would not accept the engagement.

PLANNING

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

DOCUMENTATION

He shall document important matters to support the report of factual findings and to provide evidence that engagement was performed as per this standard and terms of engagement

PROCEDURES & EVIDENCE

Auditors should carry out agreed upon procedures (such as computation, comparison, observation, inspection and obtaining confirmations) to use evidence obtained there from as basis for report of factual findings.

REPORTING

The report of factual findings should contain:

1. Title;
2. Addressee;
3. Identification of specific financial or non-financial information to which the agreed- upon procedures have been applied.
4. A statement that the procedures performed was those agreed-upon with the recipient.
5. A statement that the engagement was performed in accordance with this standard and terms of engagement.

6. Identification of the **purpose**.
7. A listing of the specific **procedures** performed.
8. A description of the auditor's **factual findings** including sufficient details of errors and exceptions found.
9. A statement that the procedures performed do **not** constitute either **an audit or a review** and, as such, no assurance is expressed.
10. A statement that the report is **restricted** to those parties that have agreed to the procedures to be performed.
11. A statement (when applicable) that the report relates only to the elements and that it **does not extend to the entity's financial statements** taken as a whole
12. **Date** of the report.
13. **Place** of signature.
14. Auditor's **signature**. 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.

2. SRS 4410 ENGAGEMENTS TO COMPILE FINANCIAL INFORMATION

OBJECTIVE OF COMPILATION ENGAGEMENT

The objective is to collect, classify and summaries financial information by using accounting expertise.

PRINCIPLES OF A COMPILATION ENGAGEMENT

Accountant should comply with the Code of Ethics issued by ICAI.

1. Compulsory:

Ethical principles are:

- 7) Integrity;
- 8) Objectivity
- 9) Professional competence and due care;
- 10) Confidentiality
- 11) Professional conduct; and
- 12) Technical standard.

2. Optional:

Independence is not required compulsorily. But if he's not independent, he should refer it in his Report

MANAGEMENT'S RESPONSIBILITY

The management is responsible for:

1. Ensuring correctness & completeness of **financial information** generated in the entity.
2. Maintaining **Accounting Records** and **Internal Controls**.
3. Selecting and applying appropriate **accounting policies**.
4. Establishing controls for **safeguarding the assets and detecting frauds**.
5. Ensuring compliance with **laws and regulation**.
6. Complete **disclosure** of all material and relevant information to the accountant.

DEFINING TERMS OF ENGAGEMENT

Accountant should send an engagement letter listing the key terms of appointments to **avoid** misunderstanding. It includes the following:

1. **Nature** of the **engagement**.
2. Fact that engagement can't be relied upon to **disclose fraud**, etc. but if accountant comes across any such matter, he'll tell management about same.
3. Nature of **information** to be supplied by client.
4. Fact that **management is responsible** for:
 - ✚ Complete disclosure of all material and relevant information to the accountant;
 - ✚ Ensuring correctness & completeness of financial information generated in the entity;

- ✚ Maintaining Accounting Records and Internal Controls;
- ✚ Selecting and applying appropriate accounting policies;
- ✚ Establishing controls for safeguarding the assets and detecting frauds;
- ✚ Ensuring compliance with laws and regulation.

5. Intended **use** and **distribution** of information.
6. Basis of **accounting**.
7. **Unrestricted access** to documents records etc.
8. Basis for **fee computation** and billing arrangements
9. Fact that management is responsible **to users** for compiled information
10. Request for client **to confirm** the terms of engagement by acknowledging receipt of engagement letter.

PLANNING

He should plan the work for effective performance of work.

DOCUMENTATION

He shall document important matters to provide evidence that engagement was performed as per this standard and terms of engagement.

PROCEDURES AND EVIDENCES

1. General Procedures
2. Procedures in exceptional circumstances

1. General Procedures:

He should –

- ✚ Obtain the general knowledge of business and operations of the entity
- ✚ Be familiar with Accounting principles and practices of industry in which entity operates
- ✚ Understand form and content of financial statements / information which is appropriate in the circumstances.
- ✚ Request management representation letter on significant matters
- ✚ Read compiled information to consider whether it appears to be
 - appropriate in form and
 - free from obvious misstatement

2. Procedures in exceptional circumstances

If information by management is expected to be

- ✚ Incorrect,
- ✚ incomplete, or
- ✚ unsatisfactory,



Than he should

- ✚ **Make enquiries of management,**
- ✚ assess internal controls, or
- ✚ Verify any matters and explanations.



He shall request management to provide additional information;



If management **refuses to provide additional information;**



He should withdraw from engagement informing entity of the reasons for the withdrawal

SPECIAL CONSIDERATION

1. For Clients having

Identified Financial Reporting Framework	No Identified Financial Reporting Framework
If material departure from requirements of same, it should be included in:	Different basis of compilation should be included in:

1) Notes to A/c and 2) Accountant's report on compilation	1) Notes to A/c and 2) Accountant's report on compilation
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2. **Non - Compliance with applicable Accounting Standard** - He should bring this to management's attention; if not rectified by management; it should be included in Notes to accounts and Accountants report.
3. If it appears to accountant that some estimate is unreasonable, he should draw management's attention towards this.
4. **If he becomes aware of material misstatements** - Accountant should persuade management to amend the financial information. If management doesn't make them and thus financial information is still misleading; Accountant should withdraw from engagement
5. Financial information compiled should be approved by client before signing the compilation report by accountant. The word 'audit' should not be used anywhere. He shouldn't prepare financial statements etc. on his letter head as it may mislead the user.

REPORT

1. **Title**: Title of the report should be "Accountant's Report on Compilation of Un- audited Financial Statements.
2. **Addressee**: addressed to the appointing authority.
3. **Identification** of the financial information also noting that it is based on the information provided by the management.
4. When relevant, a statement that the accountant is **not independent** of the entity.
5. A statement that the **management is responsible** for:
 - 1) Completeness and accuracy of the underlying data and complete disclosure of all material and relevant information to the accountant;
 - 2) Maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;
 - 3) Preparation and presentation of financial statements or other financial information in accordance with the applicable laws and regulations, if any;
 - 4) Establishing controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities.
 - 5) Establishing controls for ensuring that the activities of the entity are carried out in accordance with the applicable laws and regulations and preventing and detecting any non- compliance.
6. A statement that the engagement was performed **in accordance** with this standard;
7. A statement that neither an audit nor a review has been carried out and that accordingly **no assurance** is expressed on the financial information;
8. A paragraph, when considered necessary, drawing attention to the **disclosure of material departures** from the identified financial reporting framework;
9. **Date** of report
10. **Place**
11. **Accountant's signature**: The report on compilation of financial information should be signed by the accountant in his personal name and in the name of the firm. Also mention the membership number.

Financial statements compiled by the accountant should contain a reference such as "Unaudited", "Compiled without Audit or Review" and also "Refer to Compilation Report" on each page or on the front of financial statements.