CHAPTER 9

RELATED SERVICES



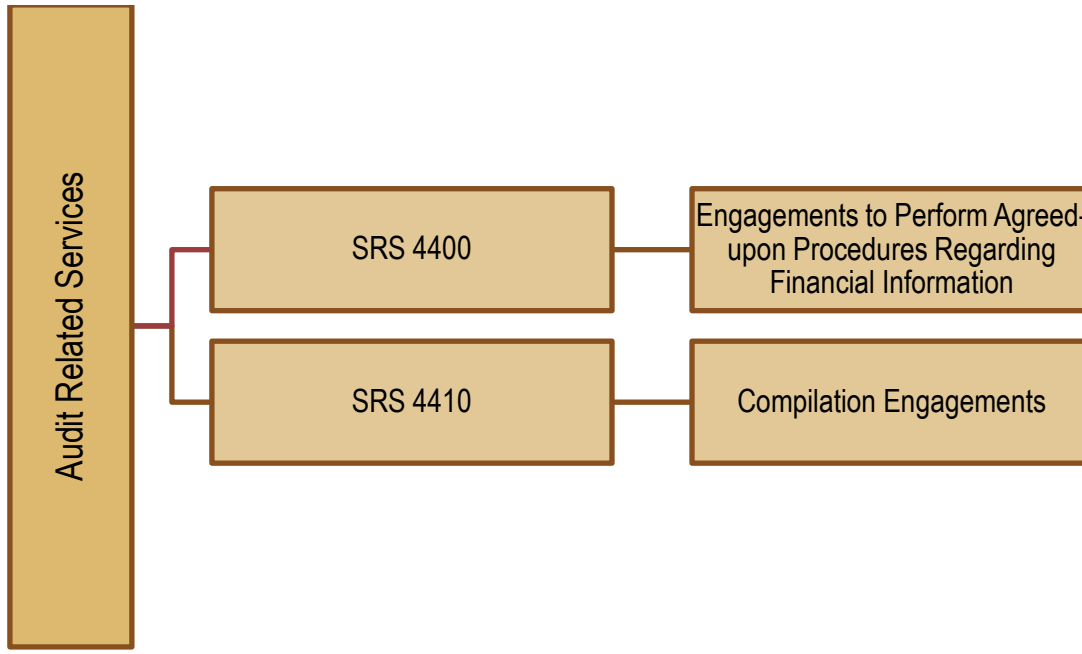
LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Understand meaning of "Related Services".
- Know about Standards on Related Services.
- Understand nature of "Agreed-Upon Procedures".
- Gain knowledge about SRS 4400 Engagements to Perform Agreed-upon Procedures regarding Financial Information.
- Understand reporting requirements of SRS 4400.
- Understand meaning and nature of "Compilation engagement".
- Gain knowledge about SRS 4410 Compilation Engagements.
- Understand reporting requirements of SRS 4410.

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CHAPTER OVERVIEW



Trends Multi Products Limited is engaged in the business of selling ethnic items. It involves procuring of myriad stocks ranging from brassware, wooden to handloom home furnishings and exotic handicrafts through a chain of dealers, who in turn, purchase these items directly from artisans, weavers and tiny enterprises. Since procurement is done at multiple locations all over the country, the company has set up an extensive system of inventory control. Considering huge inventories at multiple locations and associated risks, it requests CA Shaan to undertake an exercise involving physical verification of inventories and its reconciliation with inventory records for a handsome professional fee. The management also offers suitable staff resources support to perform required procedures. Such an exercise has to be performed in accordance with prevailing professional standards and management wants a report in accordance with professional standards applicable to such engagements.

Drawn to such a work due to attractive fees offered, CA Shaan is on two boats. At first place, he is thinking whether such an engagement can be accepted at all. Even if it is to be accepted, what should be the expected form and content of the report? Since engagement is to be performed in accordance with professional standards, SA 501 instantly came to his mind.

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Immediately, a pack of thoughts obliterated this. SA 501 applies to audit of financial statements-in part- for obtaining audit evidence pertaining to existence and condition of inventories. Since he is not to conduct audit of financial statements of company, how can SA 501 be applicable? However, the outlook of assignment appeared to involve application of procedures of an audit nature for performing it. Is there any Standard for such type of engagements involving performing an agreed-upon procedure where factual findings are to be reported? Whether such engagement would be in nature of assurance engagement or not? Why does company need such type of report? Refining his search, he stumbled upon Standard on Related Services 4400.

Sitting in his air-conditioned office in one sweltering afternoon in Kolkata, he is approached by a client to help it prepare its financial statements. The client is agreeing to provide trial balance and other required information. However, herein lies the catch. Not only client requires his assistance in preparation and presentation of financial statements, but a compilation report is also required.

A similar question struck his mind. Whether such a compilation report would be in nature of assurance report? What kind of responsibilities are entrusted to a professional accountant while performing such an engagement?

1. INTRODUCTION

Chartered Accountants in practice are often asked to provide services to clients which do not involve the expression of an opinion on the truth and fairness of financial statements. For the purpose of standardising the procedures to perform such kind of non-assurance services, the AASB of ICAI issued two Standards on two different services i.e. **Standards on Related Services.**

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

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

What are Related Services?

"Assurance engagement" means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. It means that the practitioner gives an opinion about specific information due to which users of information

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are able to make confident decisions knowing well that chance of information being incorrect is diminished.

Not all engagements performed by practitioners are assurance engagements. Other frequently performed engagements that do not meet the definition of assurance engagements include: -
• The preparation of tax returns where no conclusion conveying assurance is expressed.
• Consulting (or advisory) engagements such as management and tax consulting.
• Engagements covered by Standards for Related Services, such as agreed-upon procedures engagements and compilations of financial or other information.

The above engagements are in nature of related services.

What are Agreed-upon Procedures?

In an engagement to perform agreed-upon procedures, the auditor is engaged by the client to issue a report of factual findings, based on specified procedures performed on specified subject matter of specified elements, accounts or items of a financial statement.

For example, an engagement to perform agreed-upon procedures may require the auditor to perform certain procedures concerning individual items of financial data, say, accounts payable, accounts receivable, purchases from related parties and sales and profits of a segment of an entity, or a financial statement, say, a balance sheet or even a complete set of financial statements.

However, a person performing related services need not necessarily be the auditor of the entity's financial statements.

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

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

2.1 Objective in Accordance with SRS 4400

The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.

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As the auditor simply provides a report of the factual findings of agreed upon procedures, no assurance is provided by him in his report. Instead, users of the report assess for themselves the procedures and the findings reported by the auditor and draw their own conclusions from the work done by the auditor.

The report is usually restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.

The objective of an agreed-upon procedures engagement is to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. No assurance is provided in such a report. Such agreed-upon procedures engagements are non-assurance engagements.

2.2 Audit Vs. Agreed-upon Procedures

A key difference between an audit and agreed-upon procedures relates to assurance. An audit expresses an opinion and provides assurance to users. However, in an agreed-procedures engagement, only a report of the factual findings of agreed-upon procedures is provided. No assurance is given to users. Instead, users draw their own conclusions based on factual findings stated in the report.

For example, an agreed upon procedures engagement to evaluate validity of accounts payable may state the following:



Comparing of names of major suppliers and the amounts outstanding as on a date to the related names and amounts in the trial balance



Obtaining suppliers statements or confirmations from suppliers to confirm balances outstanding on a date



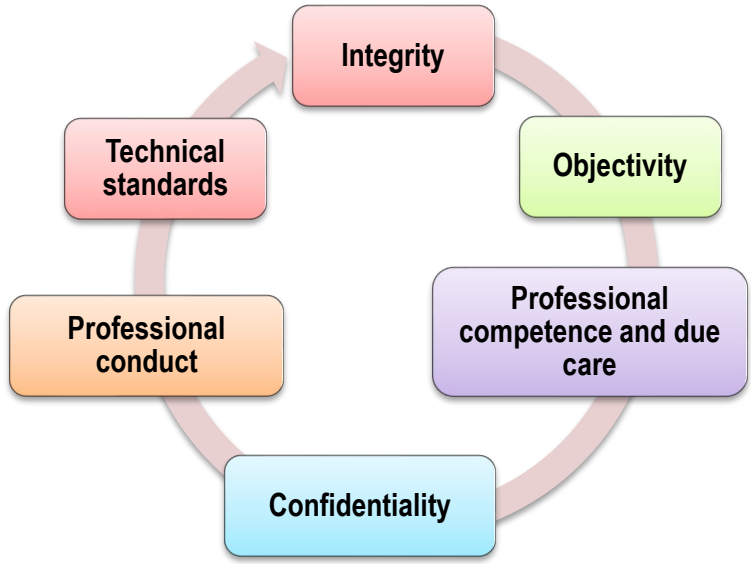
Comparison of such statements or confirmations to the amounts in trial balance

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Further, actual findings like variation in balances reflected in trial balance and statements or confirmations are given. The actual findings are reported as such without providing an assurance.

2.3 General Principles of an Agreed-upon Procedures Engagement

The auditor should comply with the Code of Ethics, issued by the Institute of Chartered Accountants of India. Ethical principles governing the auditor's professional responsibilities for this type of engagement include **integrity, objectivity, professional competence and due care, confidentiality, professional conduct and technical standards**.



Independence is not a requirement for agreed-upon procedures engagement. However, the terms or objective of the engagement may require the auditor to comply with the independence requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India. Where the auditor is not independent, a statement to that effect should be made in the report of factual findings.

2.3.1 Defining the Terms of the Engagement

The auditor should ensure with representatives of the entity and, ordinarily, other specified parties who will receive copies of the report of factual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement.

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Matters to be agreed include the following

(a) Nature of the engagement including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed.

(b) Stated purpose for the engagement.

(c) Identification of the financial information to which the agreed-upon procedures will be applied.

(d) Nature, timing and extent of the specific procedures to be applied.

(e) Limitations on distribution of the report of factual findings. When such limitation would be in conflict with the legal requirements, if any, the auditor would not accept the engagement.

It is in the interests of both the client and the auditor that the auditor sends an engagement letter documenting the key terms of the appointment. An engagement letter confirms the auditor's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the auditor's responsibilities and the form of reports to be issued.

Matters that would be included in the engagement letter include

- A listing of the procedures to be performed as agreed-upon between the parties.
- 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.

2.3.2 Planning

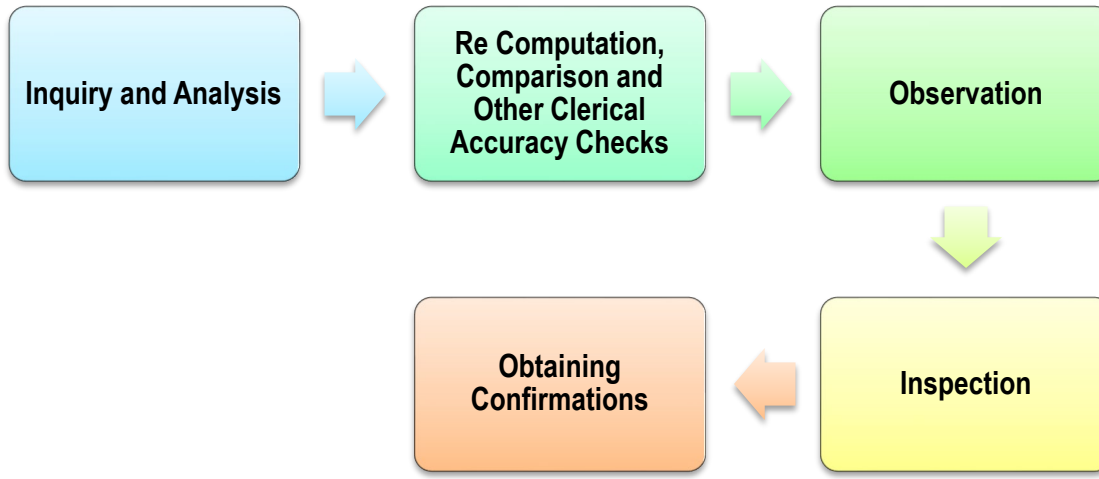
The auditor should plan the work so that an effective engagement will be performed.

2.3.3 Procedures and Evidence

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

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



2.4 Reporting

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

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

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(j)	A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported;
(k)	A statement that the report is restricted to those parties that have agreed to the procedures to be performed;
(l)	A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole;
(m)	Date of the report;
(n)	Place of signature; and
(o)	Auditor's signature

2.5 Documentation

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

TEST YOUR UNDERSTANDING 1

A company asks you to carry out the process of confirmation of its accounts receivables having balances in excess of ₹ 10 lacs as per its books of accounts at the close of the year. The work to be performed only involves preparing and sending confirmation requests to such parties, analysis of variations on receipt of confirmations and submission of a report in accordance with professional standards. What points have to be kept in mind for inclusion in the report specifically for such engagement?

3. SRS 4410 COMPILATION ENGAGEMENTS

SRS 4410 deals with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information, and to report on the engagement in accordance with this SRS.

It applies to compilation engagements for historical financial information. Compilation engagements for financial information other than historical financial information, and compilation engagements for non-financial information can be performed under this Standard after necessary adaptation.

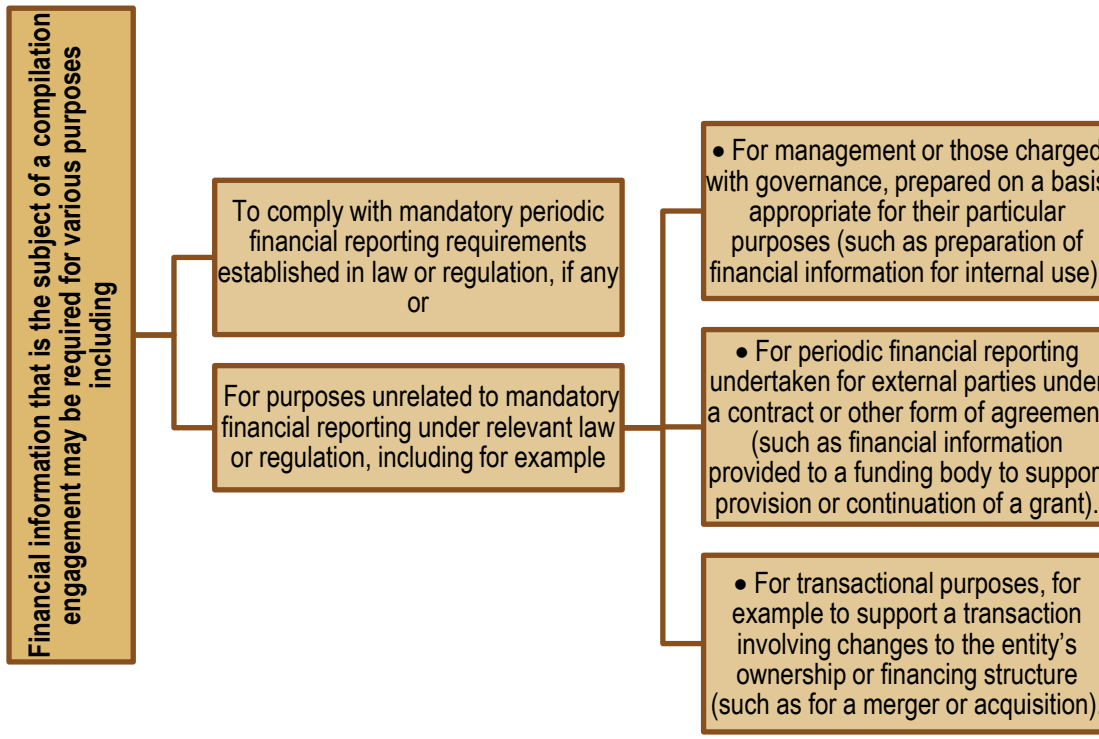
SQC 1 is applicable to all Engagement Standards. Since SRS 4410 is also one of Engagement Standards, SQC 1 applies to firms in respect of firm's compilation engagements too.

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What is a Compilation engagement?

Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report.

Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity.

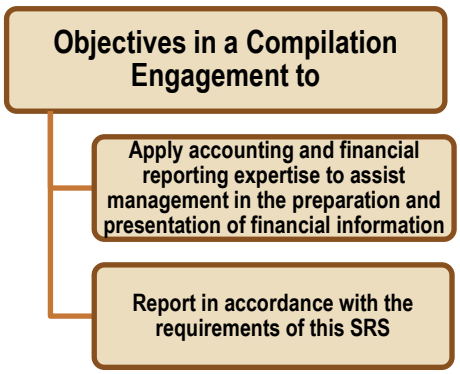


A compilation engagement is not an assurance engagement. A compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation, or otherwise to gather evidence to express an audit opinion or a review conclusion on the preparation of the financial information.

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3.1 Objectives in accordance with SRS 4410

The practitioner's objectives in a compilation engagement under this SRS are to: -



(a) Apply accounting and financial reporting expertise to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework based on information provided by management and

(b) Report in accordance with the requirements of this SRS.

3.2 Scope of Compilation Engagements

The scope of a compilation engagement will vary depending on the circumstances of the engagement. However, in every case it will involve assisting management in the preparation and presentation of the entity's financial information in accordance with the financial reporting framework, based on information provided by management. In some compilation engagements, management may have already prepared the financial information itself in a draft or preliminary form.

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.

Different financial reporting frameworks can be used to prepare and present financial information, ranging from a simple entity-specific basis of accounting to established financial reporting standards. The financial reporting framework adopted by management to prepare and present the financial information will depend on the nature of the entity and the intended use of the information.

3.3 Ethical Requirements

The practitioner shall comply with relevant ethical requirements. In complying with the Code of Ethics, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.

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Being in nature of non-assurance engagement, independence requirements do not apply to compilation engagements. However, laws or regulations may specify requirements or disclosure rules pertaining to independence.

3.4 Engagement Acceptance and Continuance

The practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including: -

(a) The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable.
(b) Identification of the applicable financial reporting framework.
(c) The objective and scope of the compilation engagement.
(d) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements.
(e) The responsibilities of management for

Management is responsibile for

(i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users	(ii) Design, implementation and maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error	(iii) The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement and	(iv) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement

(f) The expected form and content of the practitioner's report.

The practitioner shall record the agreed terms of engagement in an engagement letter or other suitable form of written agreement, prior to performing the engagement.

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.

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3.5 Performing the Engagement

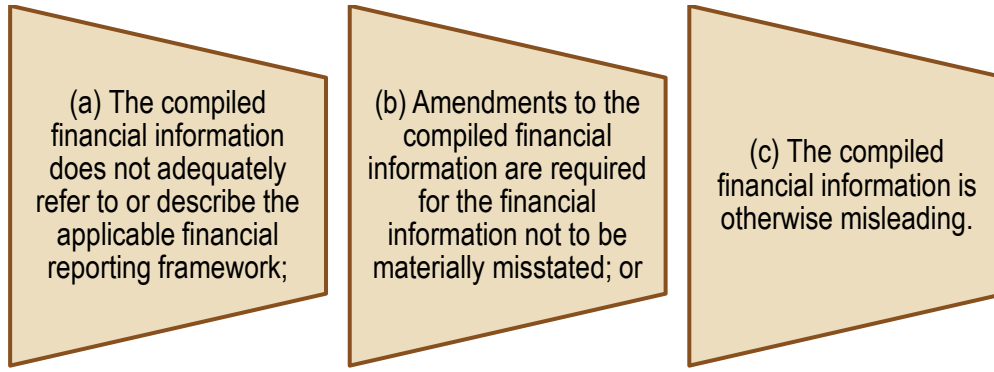
- The practitioner shall **obtain an understanding** of the following matters sufficient to be able to perform the compilation engagement: -

> (a) The entity's business and operations, including the entity's accounting system and accounting records and
>
> (b) The applicable financial reporting framework, including its application in the entity's industry.

- The practitioner shall **compile the financial information** using the records, documents, explanations and other information, including significant judgments, provided by management.
- The practitioner shall **discuss with management, or those charged with governance** as appropriate, those significant judgments, for which the practitioner has provided assistance in the course of compiling the financial information.
- Prior to completion of the compilation engagement, the practitioner shall **read the compiled financial information in light of the practitioner's understanding of the entity's business and operations, and of the applicable financial reporting framework**.
- If, in the course of the compilation engagement, the practitioner becomes aware that the records, documents, explanations or other information, including significant judgments, provided by management for the compilation engagement are incomplete, inaccurate or otherwise unsatisfactory, the practitioner shall bring that to the attention of management and request the additional or corrected information.
- If the practitioner is **unable to complete the engagement** because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.

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- If the practitioner becomes aware during the course of the engagement that: -



  the practitioner shall propose the appropriate amendments to management.

- If management declines, or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.
- If withdrawal from the engagement is not possible, the practitioner shall determine the professional and legal responsibilities applicable in the circumstances.
- 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.

3.6 Communication with Management and Those Charged with Governance

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

3.7 The Practitioner's Report

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

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The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements: -		
(a)	The report title;	
(b)	The addressee(s), as required by the terms of the engagement;	
(c)	A statement that the practitioner has compiled the financial information based on information provided by management;	
(d)	A description of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information;	
(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;	
(f)	Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates;	
(g)	A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this SRS, and that the practitioner has complied with relevant ethical requirements;	
(h)	A description of what a compilation engagement entails in accordance with this SRS;	
(i)	**Explanations that: -**	
	(i) Since a compilation engagement is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation; and	(ii) Accordingly, the practitioner does not express an audit opinion or a review conclusion on whether the financial information is prepared in accordance with the applicable financial reporting framework.
(j)	**If the financial information is prepared using a special purpose financial reporting framework, an explanatory paragraph that:**	
	(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	(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;
(k)	The date of the practitioner's report;	
(l)	The practitioner's signature; and	
(m)	The place of signature.	

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3.8 Engagement Level Quality Control

The engagement partner shall take responsibility for: -

(a) The overall quality of each compilation engagement to which that partner is assigned and

(b) The engagement being performed in accordance with the firm's quality control policies and procedures

3.9 Documentation

The practitioner shall include in the engagement documentation: -	
(a)	Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner
(b)	A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management and
(c)	A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report.

The practitioner may consider also including in the engagement documentation a copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.

TEST YOUR UNDERSTANDING 2

During the course of performing a compilation engagement in accordance with SRS 4410, it becomes known to you that the client had suffered a theft loss of ₹ 100 lacs of its inventories over a period of time at a storage location visited infrequently. A claim was lodged by the client with the insurance company which was repudiated due to certain technical reasons relating to coverage of policy. The client has not preferred a complaint or an appeal against said repudiation. The amount is reflected under the head "current assets" in trial balance of the client. Discuss how you should proceed to deal with the matter?

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INTEGRATED CASE SCENARIO

KM Limited has engaged your firm for compilation of financial statements in accordance with requirements of SRS 4410. You also come to know that company is setting up a new unit in Rourkela, Odisha. The company management has provided you with draft trial balance and requires assistance in preparation and presentation of its financial statements for year ended 31st March, 2026. The management requires such a preparation and presentation for its internal use.

During the course of engagement, it is noticed that: -

[1] There are apparent errors in few opening balances brought forward from previous year relating to some outstanding incentives receivable from government authorities. These have been swapped with some other balances in trial balance. However, there are no credit transactions in such incentive accounts or accounts whose balances have been swapped during the year.

[2] One of the team members suggests that it is one of the duties to ensure that revenue figures stated in trial balance, at least, are verified to ensure that all revenues required to be booked by the company have, in fact, been booked.

[3] It is also suggested by this team member that even though it is a compilation engagement, quality control aspects like adhering to appropriate Standards needed to be followed.

[4] Before signing and issuing report under SRS 4410, you once again read the financial information. It comes to your notice that figures relating to setting up of a new unit of the company coming up in Rourkela in Odisha have not been properly disclosed in compiled financial statements. The expenditure was incurred from a bank account maintained in Rourkela and was omitted to be shown under appropriate heads. You are vacillating regarding above considering scope of compilation engagement.

[5] The team has prepared detailed documentation during the course of engagement.

Keeping in view above, answer the following questions: -

1. In respect of errors in some of opening balances noticed as described in case, which of the following statements is most appropriate?

(a) Such errors should straight away lead to the qualification of a report to be issued.

(b) Such errors should be brought to the knowledge of management.

(c) Knowledge of such type of errors has no effect on compliance of ethical requirements by the firm.

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(d) The above said matter relates to SA 510 Initial Audit Engagements-Opening Balances and has no effect on reporting obligations in a compilation engagement.

2. As regards the suggestion of one of the team members regarding the verification of all revenues of the company, which of the following statements is most appropriate?

(a) Suggestion of team member is proper as such verification is part and parcel of such an engagement.

(b) Suggestion of team member is proper as the absence of such verification may make financial statements misleading.

(c) Suggestion of team member is not proper as verifying the accuracy or completeness of the information provided by management is not required in such engagement.

(d) Suggestion of team member is not proper as compliance with qualitative requirements is not required in such engagement.

3. In view of the team member's suggestion relating to adherence to appropriate Standards for quality control, which of the following statements is relevant in the context of above said engagement?

(a) SA 220 is applicable in this engagement and has to be followed by the engagement partner meticulously.

(b) SQC 1 is applicable in this engagement.

(c) Both SA 220 and SQC 1 are applicable in this engagement.

(d) SA 220 and SQC 1 are not applicable in this engagement. However, SRS 4410 lays down detailed quality control requirements for such type of engagement.

4. Which of the following statements is most appropriate as regards omission of expenditure under appropriate heads pertaining to the Rourkela unit in compiled financial statements?

(a) The above-noted omission can be misleading. By disregarding such an omission, the fundamental principle of integrity is violated, and engagement cannot be performed in accordance with ethical requirements.

(b) The above-noted omission can be misleading. By disregarding such an omission, the fundamental principle of objectivity is violated, and engagement cannot be performed in accordance with ethical requirements.

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(c) The above noted omission has no effect on performing such compilation engagement.

(d) The above-noted omission has no effect on performing and issuing reports under such compilation engagement.

5. The detailed documentation is maintained during the course of compilation engagement. Which of the following statements is most appropriate regarding the assembly of the final engagement file?

(a) Final engagement file should be assembled in not more than 60 days after the date of the report.

(b) Final engagement file should be assembled in not more than 120 days after the date of the report.

(c) Final engagement file should be assembled on a timely basis after the engagement report has been finalised in accordance with the time limits set by the firm.

(d) There is no requirement of assembling of final engagement file in a compilation engagement.

Key Takeaways

- Related Services engagements are not assurance engagements. In such types of engagements, no assurance is provided by the practitioner.
- In an engagement to perform agreed-upon procedures, the auditor is engaged by the client to issue a report of factual findings, based on specified procedures performed on specified subject matter of specified elements, accounts or items of a financial statement.
- SRS 4400 provides guidance on the auditor's professional responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken and, on the form, and content of the report that the auditor issues in connection with such an engagement.
- Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report.
- SRS 4410 deals with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information, and to report on the engagement in accordance with this SRS.

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- Engagement documentation has to be maintained for an agreed-upon procedures engagement and compilation engagement.

For a concise revision of the key concepts covered in this chapter, students may refer to the Saransh Booklet for Paper 3: Advanced Auditing, Assurance and Professional Ethics, which serves as a useful last-mile revision resource for examination preparation. Saransh Booklet can be accessed at https://boslive.icai.org/AAAPE_SARANSH.pdf

TEST YOUR KNOWLEDGE

Theoretical Questions

1. *List out few intended purposes of a "compilation engagement."*
2. *A Chartered Accountant is offered appointment for a compilation engagement to be performed under SRS 4410. Is he required to comply with the ethical requirements of the Code of Ethics? Discuss briefly.*
3. *How do "related services" differ from assurance engagements?*
4. *Discuss main documentation requirements to be taken care of by a practitioner while performing a compilation engagement under SRS 4410.*
5. *CA P has been appointed to compile the financial information of X Limited. CA P is confused whether he should apply the same procedures which are required to be applied to conduct an audit or there are some other procedures to discharge the duties under such an engagement. Define the characteristics of Compilation Engagement. What should be the approach of CA P for performing the Engagement?*
6. *MNC Limited has engaged CA Lalit to help the company in compilation of the financial information. CA Lalit explained his team members, the scope of work and the responsibilities under this engagement. The team members have done mostly audit engagements and do not have exposure to compilation engagements. Discuss the key issues that CA Lalit should deliberate and guide his team members with respect to this engagement and the manner it differs from assurance engagements. Give your views on the applicability of SQC 1 to this engagement.*
7. *Brown Enterprises Limited has huge funds locked up in its trade receivables standing at around ₹100 crores as on 31st December, 2025. The management of the company wants to*

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evaluate the validity of the trade receivables to ensure reliability of financial reporting at the year end. The accounts department has provided a list of trade receivables to the management containing about 1000 names, their balances and contact/communication details spread in different parts of the country. The company's management has requested CA Kamna to take up this assignment and prepare a report for management in accordance with professional standards. Despite not being statutory auditor of the company, she decides to accept the above engagement.

(a) By explaining the nature of engagement described above, discuss whether it was proper for her to accept such engagement.

(b) While reporting, which precautions should be taken by her so that readers of the report do not misunderstand its scope?

8. *You have been appointed to compile the financial statements of Kings & Company (a partnership firm) for tax purposes. During the course of your work, you discover that the inventory is grossly understated, and the company has failed to apply applicable standards. On pointing out the same, the partners of Kings & Company inform you that it is outside your scope since you are not conducting an audit and the said figures duly certified by the firm should be accepted. Comment.*

9. ***Coastal Ventures Ltd., a newly formed real estate development firm, is applying for a loan from a financial institution to fund a new residential project. The bank requires the submission of the company's financial statements for the year ending March 31, 2026. The company engages an independent practitioner, CA X to compile the financial statements based on its accounting records and other information provided. The financial statements will be prepared in accordance with Ind AS (Indian Accounting Standards). CA X intends to record the agreed terms of engagement in an engagement letter prior to performing the engagement.***

CA X is of the view that independence requirements will not be applicable for the above assignment. Do you agree?

CA X is concerned with engagement acceptance and continuance. Suggest him focus points in respect of management responsibilities that will be recorded in the agreed terms of engagement in the engagement letter.

10. ***ATP Limited, a large manufacturing company, is planning to invest funds in RS Ltd. with a future vision of taking over the company at a later stage. On studying the financial statements of RS Ltd, the investing company wants to get detailed status***

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regarding the Accounts receivable and Inventory appearing in the Balance Sheet. ATP Limited approached you to perform agreed upon procedures for the two elements of financial statement of RS Ltd. and submit a detailed report for the same. As the engagement partner, you are responsible for drafting the engagement letter. Enumerate the key matters that need to be agreed to form a clear understanding regarding agreed upon procedures and the conditions of the engagement. What matters will you include in the engagement letter addressed to the management of ATP Ltd?

11. *CA Pawan is engaged by M/s RK Industries, a partnership firm to compile its financial statements for the past two financial years. During performance of the engagement, CA Pawan, was not satisfied with certain significant adjustments made to inventory valuation over the years. The matter was subsequently resolved after obtaining appropriate clarifications from the management. Further, at the completion stage, CA Pawan, has provided the final compiled statements along with the compilation report to M/s RK Industries.*

    You are required to explain the documentation requirements that should be adhered to by CA Pawan for this type of engagement.

12. *Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report.*

    (i) For what purposes may the financial information prepared under such an engagement be required?

    (ii) Briefly discuss the elements of Practitioner's report for such engagement.

13. *A Chartered Accountant has been requested to undertake a compilation engagement for preparation of financial information of an entity. The financial information is intended to be used by a group of external stakeholders and the engagement is expected to continue on a recurring basis.*

    While considering acceptance of the engagement, the practitioner holds preliminary discussions with management regarding the manner in which the engagement will be carried out and the nature of the financial information to be prepared.

    In the above context, analyse the matters that the practitioner should ensure are clearly understood and agreed with management before commencing the engagement.

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14. KSN and Co., Chartered Accountants, have been appointed by Nature Ltd. to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework and issuing a report. CA L has been appointed as the engagement partner for the assignment.

What are the responsibilities of CA L and which documentation requirements related to Engagement Level Quality Control should CA L ensure compliance with in such an engagement?

15. Mr. Agam, the practitioner, has been approached by Bluesky Pvt. Ltd. for the financial year 2025-26. Before accepting the engagement, Mr. Agam wants to ensure that all necessary terms are clearly agreed upon with management in accordance with the requirements of the Engagement and Quality Control Standards. What are the terms of engagement that Mr. Agam must agree upon with management and, the engaging party if different, before accepting the compilation engagement?

Answers to Test Your Understanding Questions

1. The described engagement is an agreed-upon procedures engagement. Following points have to be kept in mind for being included in the report: -

- A statement that the procedures performed were those agreed-upon with the recipient
- A statement that the engagement was performed in accordance with the Standard on Related Services applicable to agreed-upon procedures engagements
- Identification of the purpose for which the agreed-upon procedures were performed
- A listing of the specific procedures performed
- A description of the auditor's factual findings including sufficient details of errors and exceptions found
- A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed
- A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported
- A statement that the report is restricted to those parties that have agreed to the procedures to be performed

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- A statement that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole

2. In this instant case, amount of ₹ 100 lacs is reflected under the head "current assets" in trial balance. Since our client's claim has been repudiated and no appeal has been preferred, it is a loss for the client and should be dealt with accordingly. Therefore, amendments are required for the financial information not to be materially misstated.

If the practitioner becomes aware during the course of the engagement that amendments to the compiled financial information are required for the financial information not to be materially misstated or the compiled financial information is otherwise misleading, the practitioner shall propose the appropriate amendments to management.

If management declines or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.

If withdrawal from the engagement is not possible, the practitioner shall determine the professional and legal responsibilities applicable in the circumstances.

Answers to Integrated Case Scenario

1. (b) **2.** (c) **3.** (b) **4.** (a) **5.** (c)

Hints/Answers to Theoretical Questions

1. Refer to Para 3.

2. Refer to Para 3.3.

3. Refer to Para 1.

4. Refer to Para 3.9.

5. Refer to Para 3 and Para 3.5.

6. As per SRS 4410, Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report.

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Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity. Financial information that is the subject of a compilation engagement may be required for various purposes including:

- To comply with mandatory periodic financial reporting requirements established in law or regulation, if any or
- For purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example: -
  - ✓ 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).
  - ✓ 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).
  - ✓ 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).

"Assurance engagement" means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. It means that the practitioner gives an opinion about specific information due to which users of information are able to make confident decisions knowing well that chance of information being incorrect is diminished.

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.

Further, SQC 1 is applicable to all Engagement and Quality Control Standards. Since SRS 4410 is also one of Engagement and Quality Control Standards, SQC 1 applies to firms in respect of firm's compilation engagements too which is covered in Related Services.

7. **(a)** The above situation involves an engagement to perform agreed-upon procedures. In such an engagement, the auditor is engaged by the client to issue a report of factual findings based on specified procedures performed on specified subject matter of specified elements, accounts or items of a financial statement.

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The management has requested CA Kamna to take up the assignment and prepare a report for management in accordance with professional standards. Such type of engagement and its reporting falls in purview of SRS 4400. The reference to auditor in SRS 4400 does not imply that a person performing related services need necessarily be the auditor of entity's financial statements. Hence, a person performing related services need not necessarily be auditor of entity's financial statements. Therefore, it was proper for CA Kamna to accept the above engagement.

(b) While reporting, she should take following precautions so that readers of report do not misunderstand its scope: -

- A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed.
- A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported.
- A statement that the report is restricted to those parties that have agreed to the procedures to be performed.
- A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole.

8. As per SRS 4410, "Compilation Engagements", if the practitioner is unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.

If the practitioner becomes aware during the course of the engagement that:

(a) The compiled financial information does not adequately refer to or describe the applicable financial reporting framework

(b) Amendments to the compiled financial information are required for the financial information not to be materially misstated; or

(c) The compiled financial information is otherwise misleading the practitioner shall propose the appropriate amendments to management.

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If management declines or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.

If withdrawal from the engagement is not possible, the practitioner shall determine the professional and legal responsibilities applicable in the circumstances.

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.

9. In the given case, the company engages CA X, an independent practitioner, to compile the financial statements based on its accounting records and other information. Being in the nature of non-assurance engagement, independence requirements do not apply to compilation engagements as per SRS 4410, "Compilation Engagements". However, laws or regulations may specify requirements or disclosure rules pertaining to independence.

Thus, the view of CA X is correct that independence requirements will not be applicable for the compilation engagement discussed in the situation.

CA X should focus on the following points in respect of management responsibilities that will be recorded in the agreed terms of engagement in the engagement letter.

(i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users

(ii) Design, implementation, and maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

(iii) The accuracy and completeness of the records, documents, explanations, and other information provided by management for the compilation engagement and

(iv) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement.

10. Refer Para 2.3.1

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11. Refer Para 3.9

12. (i) As per SRS 4410, "Compilation Engagements", financial information that is the subject of a compilation engagement may be required for various purposes including:

- *To comply with mandatory periodic financial reporting requirements established in law or regulation, if any or*
- *For purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example:*
  - *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).*
  - *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).*
  - *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).*

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

(a) The report title;

(b) The addressee(s), as required by the terms of the engagement;

(c) A statement that the practitioner has compiled the financial information based on information provided by management;

(d) A description of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information;

(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;

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(f) Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates;

(g) A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this SRS, and that the practitioner has complied with relevant ethical requirements;

(h) A description of what a compilation engagement entails in accordance with this SRS;

(i) Explanations that: -

(i) Since a compilation engagement is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation; and

(ii) Accordingly, the practitioner does not express an audit opinion or a review conclusion on whether the financial information is prepared in accordance with the applicable financial reporting framework.

(j) If the financial information is prepared using a special purpose financial reporting framework, an explanatory paragraph that:

(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

(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;

(k) The date of the practitioner's report;

(l) The practitioner's signature; and

(m) The place of signature.

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13. Refer Para 3.4

14. The engagement partner shall take responsibility for: -

(i) The overall quality of each compilation engagement to which that partner is assigned and

(ii) The engagement being performed in accordance with the firm's quality control policies and procedures.

The practitioner shall include in the engagement documentation: -

(i) Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner.

(ii) A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management and

(iii) A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report.

The practitioner may consider also including in the engagement documentation a copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.

15. Refer Para 3.4

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