

# **Handbook of Auditing Pronouncements**

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**Volume I.B**

**Compendium of  
Standards and Statements  
(As on February 1, 2019)**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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## Foreword

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Over the years, the Institute of Chartered Accountants of India (ICAI) has issued various authoritative pronouncements on auditing to help the members in ensuring quality in audits, assurance and other engagements undertaken by them. These pronouncements include Engagement and Quality Control Standards, Guidance Notes on Auditing and Statements on Auditing. The 'Handbook of Auditing Pronouncements' is issued by the Auditing and Assurance Standards Board of ICAI with a view to provide the text of all these pronouncements to the members at one place.

I am happy that the Auditing and Assurance Standards Board has brought out the 2019 edition of the Handbook of Auditing Pronouncements. The Handbook contains the text of various Engagement and Quality Control Standards, Guidance Notes on Auditing and Statements on Auditing issued by the ICAI as on date. The Handbook is, therefore, a valuable one point reference document for the members.

I wish to place my appreciation for CA. Shyam Lal Agarwal, Chairman, Auditing and Assurance Standards Board for his zeal and commitment in bringing out this Handbook for the benefit of the members.

I am sure that the members and other interested readers will find the Handbook useful.

January 31, 2019  
New Delhi

**CA. Naveen N.D. Gupta**  
President, ICAI



## Preface

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The Engagement and Quality Control Standards developed by the Auditing and Assurance Standards Board (AASB) of ICAI and issued under the authority of the Council of ICAI represent the best practices in auditing and other assurance services since these Standards have been harmonized with globally recognized International Standards issued by the International Auditing and Assurance Standards Board (IAASB) of IFAC. AASB also develops Guidance Notes on Auditing to provide guidance to the members on matters which are not specifically covered by Standards on Auditing. These Guidance Notes are issued under the authority of the Council of ICAI.

I am happy to place in hands of the members the 2019 edition of the Handbook of Auditing Pronouncements, brought out by AASB of ICAI. The Handbook is a Compendium of various Pronouncements on Auditing i.e., Engagement and Quality Control Standards, generic Guidance Notes on Auditing and Statements on Auditing issued by the ICAI.

The Handbook is in two Volumes, Volume I and Volume II. Volume I is further divided into two parts namely Volume I.A and Volume I.B. Volume I.A contains the text of, inter alia, the Preface, Framework for Assurance Engagements, Glossary of Terms, Standards on Quality Control and Standards on Auditing. Volume I.B contains the text of Standards on Review Engagements, Standards on Assurance Engagements, Standards on Related Services and Statements on Auditing. Volume II contains the text of Guidance Notes on Auditing. The Handbook contains the text of Standards, Guidance Notes and Statements as on February 1, 2019.

Readers may note that this edition of the Handbook also contains the text of various new/ revised standards which have been issued after the issuance of last edition of the Handbook in 2015 i.e. SA 260(Revised), SA 299(Revised), SA 570(Revised), SA 610(Revised), SA 700(Revised), SA 701, SA 705(Revised), SA 706(Revised), SA 720(Revised) and SAE 3420.

I express my sincere thanks to CA. Naveen N.D. Gupta, Honourable President, ICAI and CA. Prafulla P. Chhajed, Honourable Vice-President, ICAI for their guidance and support to the activities of the Board.

I am also thankful to all my Central Council colleagues for their guidance and support to the activities of the Board. I also express my heartfelt gratitude to CA. Sanjay Vasudeva (Vice-Chairman, AASB) and all the members and special invitees on AASB for their guidance and support in finalizing various pronouncements of the Board. I also thank CA. Megha Saxena, Secretary, AASB, CA. Rajnish Aggarwal, Assistant Director and other Officers/ Staff of AASB, i.e., CA. Nitish Kumar, CA. Parul Gupta, Ms. P. Anitha and Mr. Chirag Popli for their hard work even beyond Office hours in compilation of the Handbook.

I am confident that the Handbook would be well received by the members and other interested readers.

January 31, 2019  
Jaipur

**CA. Shyam Lal Agarwal**  
Chairman,  
Auditing and Assurance Standards Board

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## **SECTION – VI**

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### **Specialized Areas**



**SA 800\***

**Special Considerations - Audits of Financial  
Statements Prepared in Accordance with  
Special Purpose Frameworks**  
*(Effective for audits of financial statements for periods  
beginning on or after April 1, 2011)*

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\* Published in April, 2010 issue of the Journal.

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Standard on Auditing (SA) 800, “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks” should be read in the context of the “Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services”, which sets out the authority of SAs and SA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”.

## **Introduction**

### **Scope of this SA**

1. The Standards on Auditing (SAs) in the 100-700 series apply to an audit of financial statements. This SA deals with special considerations in the application of those SAs to an audit of financial statements prepared in accordance with a special purpose framework.
2. This SA is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework. SA 805<sup>1</sup>, deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.
3. This SA does not override the requirements of the other SAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

### **Effective Date**

4. This SA is effective for audits of financial statements for periods beginning on or after April 1, 2011.

### **Objective**

5. The objective of the auditor, when applying SAs in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:
  - (a) The acceptance of the engagement;
  - (b) The planning and performance of that engagement; and
  - (c) Forming an opinion and reporting on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>2</sup>

### **Definitions**

6. For purposes of the SAs, the following terms have the meanings attributed below:
  - (a) *Special purpose financial statements* – Financial statements prepared in accordance with a special purpose framework. (Ref: Para. A4)

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<sup>1</sup> SA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement".

<sup>2</sup> The underlined text has been added pursuant to the decision of the Council of ICAI taken at its 350<sup>th</sup> meeting held in February 2016.

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(b) *Special purpose framework* – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework<sup>3</sup>. (Ref: Para. A1-A4)

7. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.

### **Requirements**

#### **Considerations When Accepting the Engagement**

##### ***Acceptability of the Financial Reporting Framework***

8. SA 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements<sup>4</sup>. In an audit of special purpose financial statements, the auditor shall obtain an understanding of: (Ref: Para. A5-A8)

- (a) The purpose for which the financial statements are prepared;
- (b) The intended users; and
- (c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

#### **Considerations When Planning and Performing the Audit**

9. SA 200 requires the auditor to comply with all SAs relevant to the audit<sup>5</sup>. In planning and performing an audit of ~~special purpose~~ special purpose financial statements, the auditor shall determine whether application of the SAs requires special consideration in the circumstances of the engagement. (Ref: Para. A9-A12)

10. SA 315 requires the auditor to obtain an understanding of the entity's selection and application of accounting policies<sup>6</sup>. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation

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<sup>3</sup> SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", paragraph 13(a).

<sup>4</sup> SA 210, "Agreeing the Terms of Audit Engagements", paragraph 6(a).

<sup>5</sup> SA 200, paragraph 18.

<sup>6</sup> SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment", paragraph 11(c).

would have produced a material difference in the information presented in the financial statements.

### **Forming an Opinion and Reporting Considerations**

11. When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in SA 700 (Revised)<sup>7</sup>. (Ref: Para. A13)

#### ***Description of the Applicable Financial Reporting Framework***

12. SA 700 (Revised) requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework<sup>8</sup>. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

13. SA 700 (Revised) deals with the form and content of the auditor's report. In the case of an auditor's report on special purpose financial statements:

- (a) The auditor's report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and
- (b) If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

#### ***Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework***

14. The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading. (Ref: Para. A14-A15)

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<sup>7</sup> SA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements".

<sup>8</sup> SA 700 (Revised), paragraph 15.

## **Application and Other Explanatory Material**

### **Special Purpose Frameworks<sup>9</sup> (Ref: Para. 6)**

A1. Examples of special purpose frameworks are:

- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
- The financial reporting provisions established by a regulator to meet the requirements of that regulator; or
- The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

A2. There may be circumstances where a special purpose framework is based on a financial reporting framework established by an authorised or recognised standards setting organization or by law or regulation, but does not comply with all the requirements of that framework. An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Jurisdiction X. When this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the financial reporting framework established by the authorised or recognized standards setting organization or by law or regulation. In the above example of the contract, the description of the applicable financial reporting framework may refer to the financial reporting provisions of the contract, rather than make any reference to the Financial Reporting Standards of Jurisdiction X.

A3. In the circumstances described in paragraph A2, the special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework. This is because the special purpose framework may not comply with all the requirements of the financial reporting framework established by the authorized or recognized standards setting organization or by law or regulation that are necessary to achieve fair presentation of the financial statements.

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<sup>9</sup> In India, financial statements prepared for filing with income tax authorities are considered to be general purpose financial statements. Attention of the readers are also invited to the announcement published in "The Chartered Accountant", August 1994 (page 224) which states that: "It is hereby clarified that the mandatory accounting standards also apply in respect of financial statements audited under section 44AB of the Income Tax Act, 1961. Accordingly, members should examine compliance with the mandatory accounting standards when conducting such audit".

A4. Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be special purpose financial statements for purposes of the SAs. The requirements in paragraphs 13-14 are designed to avoid misunderstandings about the purpose for which the financial statements are prepared.

### **Considerations When Accepting the Engagement**

#### ***Acceptability of the Financial Reporting Framework*** (Ref: Para. 8)

A5. 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.

A6. The applicable financial reporting framework may encompass the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements. 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. Some law(s) or regulation(s) 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.

A7. Where the financial reporting standards referred to in paragraph A6 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<sup>10</sup>.

A8. The applicable financial reporting framework may encompass the financial reporting provisions of a contract, or sources other than those described in paragraphs A6 and A7. In that case, the acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable

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<sup>10</sup> SA 210, paragraph 18.

financial reporting frameworks as described in Appendix 2 of SA 210. In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment. 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.

**Considerations When Planning and Performing the Audit (Ref: Para. 9)**

A9. 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<sup>11</sup>.

A10. Application of some of the requirements of the SAs in an audit of special purpose financial statements may require special consideration by the auditor. For example, in SA 320, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group<sup>12</sup>. In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the intended users.

A11. In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, management may agree 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 does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.

A12. Communication with those charged with governance 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

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<sup>11</sup> SA 200, paragraphs 14, 18 and 22-23.

<sup>12</sup> SA 320, "Materiality in Planning and Performing an Audit", paragraph 2.

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; for example, when the financial information is prepared solely for management's use. In such cases, the requirements of SA 260(Revised)<sup>13</sup> may not be relevant to the audit of the special purpose financial statements, except when the auditor is also responsible for the audit of the entity's general purpose financial statements or, for example, has agreed with those charged with governance of the entity to communicate to them relevant matters identified during the audit of the special purpose financial statements.

**Forming an Opinion and Reporting Considerations** (Ref: Para. 11)

A13. The Appendix to this SA contains illustrations of auditors' reports on special purpose financial statements.

***Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework*** (Ref: Para. 14)

A14. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. 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.

***Restriction on Distribution or Use*** (Ref: Para. 14)

A15. In addition to the alert required by paragraph 14, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users. 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. In these circumstances, the paragraph referred to in paragraph 14 may be expanded to include these other matters, and the heading modified accordingly.

**Modifications *vis-a-vis* ISA 800, "Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks"**

**Deletion**

Paragraph A1 of ISA 800 (A1 of SA 800) deals with the examples of special purpose frameworks, which also includes a tax basis of accounting for a set of

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<sup>13</sup> SA 260(Revised), "Communication with Those Charged with Governance".

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financial statements that accompany an entity's tax return. Since in India, financial statements prepared for filing with income tax authorities are considered to be general purpose financial statements and as per the announcement issued under the authority of the Council of the Institute of Chartered Accountants of India (ICAI) in August, 1994, the mandatory accounting standards should also be applied in respect of financial statements audited under section 44AB of the Income Tax Act, 1961, an example, "A tax basis of accounting for a set of financial statements that accompany an entity's tax return" has been deleted.

## Appendix

(Ref: Para. A13)

### **Illustrations of Auditors' Reports on Special Purpose Financial Statements**

Illustration 1: An auditor's report on a complete set of financial statements prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).

Illustration 2: An auditor's report on a complete set of financial statements prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

**Illustration 1:**

Circumstances include the following:

- The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (i.e., a special purpose framework) to comply with the provisions of that contract. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- Distribution and use of the auditor’s report are restricted.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

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”).

**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**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI). Those

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Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>14</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

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.

### **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.

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<sup>14</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

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

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>15</sup>)  
Membership Number

Place of Signature  
Date

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<sup>15</sup> Partner or Proprietor, as the case may be.

**Illustration 2:**

Circumstances include the following:

- The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator (i.e., a special purpose framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.
- Distribution or use of the auditor's report is not restricted.
- The Other Matter paragraph refers to the fact that the auditor has also issued an auditor's report on financial statements prepared by ABC Company Ltd. for the same period in accordance with a general purpose framework.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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 based on the financial reporting provisions of Section Y of Regulation Z.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation of these financial statements that give a true and fair view of the state of affairs, results of operations and cash flows of the Company in accordance with the financial reporting provisions of Section Y of Regulation Z; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>16</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give a true and fair view of the state of affairs of ABC Company Ltd. as at March 31, 20X1, and of its results of operations and its cash flows for the year then ended in accordance with the financial reporting provisions of Section Y of Regulation Z.

### **Basis of Accounting**

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 meet the requirements of Regulator DEF. As a result, the financial statements may not be suitable for another purpose.

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<sup>16</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

**Other Matter**

ABC Company Ltd. has prepared a separate set of financial statements for the year ended March 31, 20X1 in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") on which we issued a separate auditor's report to the shareholders of ABC Company Ltd. dated June 30, 20X1.

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

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>17</sup>)  
Membership Number

Place of Signature  
Date

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<sup>17</sup> Partner or Proprietor, as the case may be.

# **SA 805\***

## **Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement**

*(Effective for audits of single financial statements or of specific elements,  
accounts or items for periods beginning on or after April 1, 2011)*

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\* Published in the April, 2010 issue of the Journal.

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### Appendix 2: Illustrations of Auditors' Reports on a Single Financial Statement and on a Specific Element of a Financial Statement

Standard on Auditing (SA) 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", which sets out the authority of SAs and SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing".

## **Introduction**

### **Scope of this SA**

1. The Standards on Auditing (SAs) in the 100-700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This SA deals with special considerations in the application of those SAs to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, SA 800<sup>1</sup> also applies to the audit. (Ref: Para. A1-A4)
2. This SA does not apply to the report of a component auditor, issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (SA 600<sup>2</sup>).
3. This SA does not override the requirements of the other SAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

### **Effective Date**

4. This SA is effective for audits of single financial statements or of specific elements, accounts or items for periods beginning on or after April 1, 2011. In the case of audits of single financial statements or of specific elements, accounts or items of a financial statement prepared as at a specific date, this SA is effective for audits of such information prepared as at a date on or after April 1, 2011.

### **Objective**

5. The objective of the auditor, when applying SAs in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to:
  - (a) The acceptance of the engagement;
  - (b) The planning and performance of that engagement; and
  - (c) Forming an opinion and reporting on the single financial statement or on the

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<sup>1</sup> SA 800, "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks".

<sup>2</sup> SA 600, 'Using the Work of Another Auditor'.

specific element, account or item of a financial statement but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>3</sup>

## **Definitions**

6. For purposes of this SA, reference to:
- (a) *“Element of a financial statement” or “element”* means an “element, account or item of a financial statement”;
  - (b) *“Financial Reporting Standards”* means the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India, as may be applicable; and
  - (c) 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.

## **Requirements**

### **Considerations When Accepting the Engagement**

#### ***Application of SAs***

7. SA 200 requires the auditor to comply with all SAs relevant to the audit<sup>4</sup>. In the case of an audit of a single financial statement or of a specific element of a financial statement, this requirement applies irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements. 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. (Ref: Para. A5-A6)

#### ***Acceptability of the Financial Reporting Framework***

8. SA 210 requires the auditor to determine the acceptability of the financial

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<sup>3</sup> The underlined text has been added pursuant to the decision of the Council of ICAI taken at its 350<sup>th</sup> meeting held in February 2016.

<sup>4</sup> SA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”, paragraph 18.

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reporting framework applied in the preparation of the financial statements<sup>5</sup>. In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element. (Ref: Para. A7)

### ***Form of Opinion***

9. SA 210 requires that the agreed terms of the audit engagement include the expected form of any reports to be issued by the auditor<sup>6</sup>. In the case of an audit of a single financial statement or of a specific element of a financial statement, the auditor shall consider whether the expected form of opinion is appropriate in the circumstances. (Ref: Para. A8-A9)

### **Considerations When Planning and Performing the Audit**

10. SA 200 states that SAs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.<sup>7</sup> <sup>8</sup> In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all SAs relevant to the audit as necessary in the circumstances of the engagement. (Ref: Para. A10-A14)

### **Forming an Opinion and Reporting Considerations**

11. When forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in SA 700 (Revised)<sup>9</sup>, adapted as necessary in the circumstances of the engagement. (Ref: Para. A15-A16)

### ***Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of Those Financial Statements***

12. If the auditor undertakes an engagement to report on a single financial

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<sup>5</sup> SA 210, "Agreeing the Terms of Audit Engagements", paragraph 6(a).

<sup>6</sup> SA 210, paragraph 10(e).

<sup>7</sup> SA 200, paragraph 2.

<sup>8</sup> SA 200, paragraph 13(f), explains that the term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework.

<sup>9</sup> SA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements".

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 separate opinion for each engagement.

13. 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. Subject to paragraphs 15 and 16, 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. 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.

- *Modified Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Entity's Complete Set of Financial Statements*

14. 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 of those financial statements. When deemed appropriate, the auditor shall modify the opinion on the single financial statement or on the specific element of a financial statement, or include an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report, accordingly. (Ref: Para. A17)

15. 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<sup>10</sup>. This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole. (Ref: Para. A18)

16. 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:

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<sup>10</sup> SA 705(Revised), "Modifications to the Opinion in the Independent Auditor's Report", paragraph 15.

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- (a) The auditor is not prohibited by law or regulation from doing so;
- (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
- (c) The specific element does not constitute a major portion of the entity's complete set of financial statements.

17. The auditor shall not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole. 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.

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## Application and Other Explanatory Material

### Scope of this SA (Ref: Para. 1)

A1. SA 200 defines the term "historical financial information" as information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past<sup>11</sup>.

A2. SA 200 defines the term "financial statements" as a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework<sup>12</sup>.

A3. SAs are written in the context of an audit of financial statements<sup>13</sup>; they are to be adapted as necessary in the circumstances when applied to an audit of other historical financial information, such as a single financial statement or a specific element of a financial statement. This SA assists in this regard. (**Appendix 1** lists examples of such other historical financial information.)

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<sup>11</sup> SA 200, paragraph 13(g).

<sup>12</sup> SA 200, paragraph 13(f).

<sup>13</sup> SA 200, paragraph 2.

A4. A reasonable assurance engagement other than an audit of historical financial information is performed in accordance with Proposed Standard on Assurance Engagements (SAE) 3000<sup>14</sup>.

### **Considerations When Accepting the Engagement**

#### ***Application of SAs*** (Ref: Para. 7)

A5. 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<sup>15</sup>.

A6. 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. 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(Revised)<sup>16</sup> are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. 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.

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<sup>14</sup> The Exposure Draft of SAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" has been published in the March, 2010 issue of the Journal.

<sup>15</sup> SA 200, paragraphs 14, 18 and 22-23.

<sup>16</sup> SA 570(Revised), "Going Concern".

***Acceptability of the Financial Reporting Framework*** (Ref: Para. 8)

A7. A single financial statement or a specific element of a financial statement may be prepared in accordance with an applicable financial reporting framework that is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements (e.g., Financial Reporting Standards). 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.

***Form of Opinion*** (Ref: Para. 9)

A8. The form of opinion to be expressed by the auditor depends on the applicable financial reporting framework and any applicable laws or regulations<sup>17</sup>. In accordance with SA 700 (Revised)<sup>18</sup>:

- (a) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion, unless otherwise required by law or regulation, uses one of the following phrases: (i) the financial statements present fairly, in all material respects, in accordance with [the applicable financial reporting framework]; or (ii) the financial statements give a true and fair view in accordance with [the applicable financial reporting framework]; and
- (b) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a compliance framework, the auditor's opinion states that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].

A9. In the case of a single financial statement or of a specific element of a financial statement, the applicable financial reporting framework may not explicitly address the presentation of the financial statement or of the element. This may be the case when the applicable financial reporting framework is based on a financial reporting framework established by an authorised or recognised standards setting organization for the preparation of a complete set of financial statements (e.g., Financial Reporting Standards). The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework. Factors that may affect the auditor's consideration

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<sup>17</sup> SA 200, paragraph 8.

<sup>18</sup> SA 700 (Revised), paragraphs 25-26.

as to whether to use the phrases “presents fairly, in all material respects”, or “gives a true and fair view” in the auditor’s opinion include:

- Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.
- Whether the single financial statement or the specific element of a financial statement will:
  - ◆ Comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element, and the presentation of the financial statement or the element include the related notes.
  - ◆ If necessary to achieve fair presentation, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.

The auditor’s decision as to the expected form of opinion is a matter of professional judgment. It may be affected by whether use of the phrases “presents fairly, in all material respects”, or “gives a true and fair view” in the auditor’s opinion on a single financial statement or on a specific element of a financial statement prepared in accordance with a fair presentation framework is generally accepted in the particular jurisdiction.

**Considerations When Planning and Performing the Audit (Ref: Para. 10)**

A10. The relevance of each of the SAs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, SAs such as SA 240<sup>19</sup>, SA 550<sup>20</sup> and SA 570(Revised) are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern assumption under the applicable financial reporting framework.

A11. Furthermore, SAs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to the audit of a single financial statement or of a specific element of a financial statement<sup>21</sup>. For example, written representations from management about the complete set of financial statements would be replaced by written representations about the presentation of the financial statement or the element in accordance with the applicable financial reporting framework.

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<sup>19</sup> SA 240, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”.

<sup>20</sup> SA 550, “Related Parties”.

<sup>21</sup> SA 200, paragraph 2.

A12. 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. 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.

A13. 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. 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. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.

A14. 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.

**Forming an Opinion and Reporting Considerations (Ref: Para. 11, 14)**

A15. SA 700 (Revised) requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements<sup>22</sup>. In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, including the related notes, in view of the requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

A16. **Appendix 2** of this SA contains illustrations of auditors' reports on a single financial statement and on a specific element of a financial statement.

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<sup>22</sup> SA 700 (Revised), paragraph 13(e).

**Modified Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Entity's Complete Set of Financial Statements (Ref: Para. 14-15)**

A17. Even when the modified opinion on the entity's complete set of financial statements, Emphasis of Matter paragraph or Other Matter paragraph 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 Other Matter paragraph 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 (see SA 706(Revised))<sup>23</sup>.

A18. In the auditor's report on an entity's complete set of financial statements, the expression of a disclaimer of opinion regarding the results of operations and cash flows, where relevant, and an unmodified opinion regarding the state of affairs is permitted since the disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the financial statements as a whole<sup>24</sup>.

**Modifications *vis-a-vis* ISA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement"**

**Addition**

Paragraph 6(b) of ISA 805 defines the meaning of the International Financial Reporting Standards (IFRS). Since in India, financial reporting standards, used for the preparation and presentation of financial statements, can be 'Accounting Standards issued by the Institute of Chartered Accountants of India or Accounting Standards, notified by the Central Government by publishing the same as Companies (Accounting Standards) Rules, 2006' or 'Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India (ICAI)', the paragraph 6(b) of SA 805 has, accordingly, been changed. Corresponding changes have also been made at the relevant places of the Standard.

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<sup>23</sup> SA 706(Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", paragraph 10-11.

<sup>24</sup> SA 510, "Initial Audit Engagements—Opening Balances", paragraph A5, and SA 705(Revised), paragraph A16.

## **Appendix 1**

(Ref: Para. A3)

### **Examples of Specific Elements, Accounts or Items of a Financial Statement**

- 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.
- A schedule of externally managed assets and income of a private pension plan, including related notes.
- A schedule of net tangible assets, including related notes.
- A schedule of disbursements in relation to a lease property, including explanatory notes.
- A schedule of profit participation or employee bonuses, including explanatory notes.

## Appendix 2

(Ref: Para. A16)

### **Illustrations of Auditors' Reports on a Single Financial Statement and on a Specific Element of a Financial Statement**

- Illustration 1: An auditor's report on a single financial statement prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).
- Illustration 2: An auditor's report on a single financial statement prepared in accordance with a special purpose framework (for purposes of this illustration, a fair presentation framework).
- Illustration 3: An auditor's report on a specific element, account or item of a financial statement prepared in accordance with a special purpose framework (for purposes of this illustration, a compliance framework).

**Illustration 1:**

Circumstances include the following:

- Audit of a balance sheet (i.e., a single financial statement).
- The balance sheet has been prepared by management of the entity in accordance with the requirements of the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 (“the Act”) relevant to preparing a balance sheet.
- The applicable financial reporting framework is a fair presentation framework designed to meet the common financial information needs of a wide range of users.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- The auditor has determined that it is appropriate to use the phrase “presents a true and fair view”, in the auditor’s opinion.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

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

**Management’s<sup>25</sup> Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the requirements of the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 (“the Act”), notified under the Companies Act, 1956 read with general circular 15/2013 dated 13<sup>th</sup> September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013 (“the Act”),<sup>26</sup> relevant to preparing such a financial statement. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI). Those Standards

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<sup>25</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>26</sup> The underlined text has been added pursuant to the decision of the Council of ICAI taken at its 350<sup>th</sup> meeting held in February 2016.

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require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>27</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statement presents a true and fair view of the state of affairs of ABC Company Ltd. as at March 31, 20X1 in accordance with the Companies Act, 1956 read with general circular 15/2013 dated 13<sup>th</sup> September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013 ("the Act"),<sup>28</sup> relevant to preparing such a financial statement.

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

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>29</sup>)  
Membership Number

Place of Signature

Date

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<sup>27</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329<sup>th</sup> adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

<sup>28</sup> The underlined text has been added pursuant to the decision of the Council of ICAI taken at its 350<sup>th</sup> meeting held in February 2016.

<sup>29</sup> Partner or Proprietor, as the case may be.

**Illustration 2:**

Circumstances include the following:

- Audit of a statement of cash receipts and disbursements (i.e., a single financial statement).
- The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. Management has a choice of financial reporting frameworks.
- The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users<sup>30</sup>.
- The auditor has determined that it is appropriate to use the phrase “true and fair view” in the auditor’s opinion.
- Distribution or use of the auditor’s report is not restricted.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

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.

**Management’s<sup>31</sup> Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X; this includes determining that the cash

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<sup>30</sup> SA 800 contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

<sup>31</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

receipts and disbursements basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances, and the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>32</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

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.

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<sup>32</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

**Basis of Accounting**

Without modifying our opinion, we draw attention to Note X to the financial statement, 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.

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

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>33</sup>)  
Membership Number

Place of Signature

Date

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<sup>33</sup> Partner or Proprietor, as the case may be.

**Illustration 3:**

Circumstances include the following:

- Audit of the liability for “incurred but not reported” claims in an insurance portfolio (i.e., element, account or item of a financial statement).
- The financial information has been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework designed to meet the financial information needs of specific users<sup>34</sup>.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SA 210.
- Distribution of the auditor’s report is restricted.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

We have audited the accompanying schedule of the liability for “incurred but not reported” claims of ABC Insurance Company as of March 31, 20X1 (“the schedule”). The schedule has been prepared by management based on [describe the financial reporting provisions established by the regulator].

**Management’s<sup>35</sup> Responsibility for the Schedule**

Management is responsible for the preparation of the schedule in accordance with [describe the financial reporting provisions established by the regulator]; this includes the design, implementation and maintenance of internal control relevant to the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with Standards on Auditing issued by the

<sup>34</sup> SA 800 contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

<sup>35</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

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Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>36</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial information in the schedule of the liability for "incurred but not reported" claims of ABC Insurance Company as of March 31, 20X1 is prepared, in all material respects, in accordance with [describe the financial reporting provisions established by the regulator].

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

Without modifying our opinion, we draw attention to Note X to the schedule, which describes the basis of accounting. The schedule is prepared to assist ABC Insurance Company to meet the requirements of Regulator DEF. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for ABC Insurance Company and Regulator DEF and should not be distributed to parties other than ABC Insurance Company or Regulator DEF.

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<sup>36</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

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

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>37</sup>)  
Membership Number

Place of Signature

Date

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<sup>37</sup> Partner or Proprietor, as the case may be.

# SA 810\*

## Engagements to Report on Summary Financial Statements

*(Effective for engagements for periods  
beginning on or after April 1, 2011)*

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\* Published in April, 2010 issue of the Journal. Pursuant to issuance of SA 810, the 'Guidance Note on Audit of Abridged Financial Statements' issued in 1990 has been withdrawn.

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Standard on Auditing (SA) 810, "Engagements to Report on Summary Financial Statements" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", which sets out the authority of SAs and SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing".
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## **Introduction**

### **Scope of this SA**

1. This Standard on Auditing (SA) deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

### **Effective Date**

2. This SA is effective for engagements for periods beginning on or after April 1, 2011.

### **Objectives**

3. The objectives of the auditor are to:
- (a) Determine whether it is appropriate to accept the engagement to report on summary financial statements;
  - (b) Form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and
  - (c) Express clearly that opinion through a written report that also describes the basis for that opinion.

### **Definitions**

4. For purposes of this SA, the following terms have the meanings attributed below:
- (a) *Applied criteria* – The criteria applied by management in the preparation of the summary financial statements.
  - (b) *Audited financial statements* – Financial statements<sup>1</sup> audited by the auditor in accordance with SAs, and from which the summary financial statements are derived.
  - (c) *Summary financial statements* – Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation

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<sup>1</sup> SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", paragraph 13(f).

consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time<sup>2</sup>. Different jurisdictions may use different terminology to describe such historical financial information.

## **Requirements**

### **Engagement Acceptance**

5. The auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived<sup>3</sup>. (Ref: Para. A1)
6. Before accepting an engagement to report on summary financial statements, the auditor shall: (Ref: Para. A2)
  - (a) Determine whether the applied criteria are acceptable; (Ref: Para. A3-A7)
  - (b) Obtain the agreement of management that it acknowledges and understands its responsibility:
    - i. For the preparation of the summary financial statements in accordance with the applied criteria;
    - ii. To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements); and
    - iii. To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them.

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<sup>2</sup> SA 200, paragraph 13(f).

<sup>3</sup> In some cases however the auditor may be required by a law or a regulation governing the entity to report on summary financial statements even for such accounting periods for which the former was not engaged to conduct the audit in accordance with SAs of the financial statements pertaining to such accounting periods. For example, in case of the report of the auditor of the company to be included in a prospectus under Clauses 1, 2, 3 of Part IIB of Schedule II to the Companies Act, 1956, such auditor might not necessarily have been the auditor of all or some of the financial statements of the company in respect of the accounting periods relating to which financial information has been reported upon by him/ her in the aforementioned report.

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- (c) Agree with management the form of opinion to be expressed on the summary financial statements (see paragraphs 9-11).

7. If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management set out in paragraph 6(b), the auditor shall not accept the engagement to report on the summary financial statements, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this SA. Accordingly, the auditor's report on the summary financial statements 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.

### **Nature of Procedures**

8. The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

- (a) Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.
- (b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
  - (i) From whom or where the audited financial statements are available; or
  - (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
- (c) Evaluate whether the summary financial statements adequately disclose the applied criteria.
- (d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.
- (e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.

- (f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
- (g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements. (Ref: Para. A8)

### **Form of Opinion**

9. When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases: (Ref: Para. A9)

- (a) The summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [the applied criteria]; or
- (b) The summary financial statements are a fair summary of the audited financial statements, in accordance with [the applied criteria].

10. If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described in paragraph 9, the auditor shall:

- (a) Apply the procedures described in paragraph 8 and any further procedures necessary to enable the auditor to express the prescribed opinion; and
- (b) Evaluate whether users of the summary financial statements might misunderstand the auditor's opinion on the summary financial statements and, if so, whether additional explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding.

11. If, in the case of paragraph 10(b), the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this SA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SA.

**Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements**

12. The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. In such cases, the auditor's report on the summary financial statements shall state that the summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements that may require adjustment of, or disclosure in, the audited financial statements. (Ref: Para. A10)

13. The auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements, but of which the auditor previously was unaware. In such cases, the auditor shall not issue the auditor's report on the summary financial statements until the auditor's consideration of such facts in relation to the audited financial statements in accordance with SA 560<sup>4</sup> has been completed.

**Auditor's Report on Summary Financial Statements**

***Elements of the Auditor's Report***

14. The auditor's report on summary financial statements shall include the following elements<sup>5</sup>: (Ref: Para. A15)

- (a) A title clearly indicating it as the report of an independent auditor. (Ref: Para. A11)
- (b) An addressee. (Ref: Para. A12)
- (c) An introductory paragraph that:
  - (i) Identifies the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements; (Ref: Para. A13)
  - (ii) Identifies the audited financial statements;
  - (iii) Refers to the auditor's report on the audited financial statements, the date of that report, and, subject to paragraphs 17-18, the fact that an unmodified opinion is expressed on the audited financial statements;
  - (iv) If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial

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<sup>4</sup> SA 560, "Subsequent Events".

<sup>5</sup> Paragraphs 17-18, which deal with circumstances where the auditor's report on the audited financial statements has been modified, require additional elements to those listed in this paragraph.

statements, states that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements; and

- (v) A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.
- (d) A description of management's responsibility for the summary financial statements, explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria.
- (e) A statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by this SA.
- (f) A paragraph clearly expressing an opinion. (see paragraphs 9-11)
- (g) The auditor's signature along with the firm registration number, wherever applicable, and the membership number assigned by the Institute of Chartered Accountants of India (ICAI).
- (h) The date of the auditor's report. (Ref: Para. A14)
- (i) The place of signature.

15. If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee. (Ref: Para. A12)

16. The auditor shall date the auditor's report on the summary financial statements no earlier than: (Ref: Para. A14)

- (a) The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognised authority have asserted that they have taken responsibility for them; and
- (b) The date of the auditor's report on the audited financial statements.

***Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Audited Financial Statements*** (Ref: Para. A15)

17. When the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph, but the auditor is satisfied that the summary financial statements are

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consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 14:

- (a) State that the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph; and
- (b) Describe:
  - (i) The basis for the qualified opinion on the audited financial statements, and that qualified opinion; or the Emphasis of Matter or the Other Matter paragraph in the auditor's report on the audited financial statements; and
  - (ii) The effect thereof on the summary financial statements, if any.

18. When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 14:

- (a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;
- (b) Describe the basis for that adverse opinion or disclaimer of opinion; and
- (c) State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.

### ***Modified Opinion on the Summary Financial Statements***

19. If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements. (Ref: Para. A15)

### **Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting**

20. When distribution or use of the auditor's report on the audited financial statements is restricted, or the auditor's report on the audited financial statements alerts readers that the audited financial statements are prepared in accordance with a special purpose framework, the auditor shall include a similar restriction or alert in the auditor's report on the summary financial statements.

### **Comparatives**

21. If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements. (Ref: Para. A16)

22. If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that SA 710 requires the auditor to include in the auditor's report on the audited financial statements<sup>6</sup>. (Ref: Para. A17)

### **Unaudited Supplementary Information Presented with Summary Financial Statements**

23. The auditor shall evaluate whether any unaudited supplementary information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited supplementary information is not clearly differentiated from the summary financial statements, the auditor shall ask management to change the presentation of the unaudited supplementary information. If management refuses to do so, the auditor shall explain in the auditor's report on the summary financial statements that such information is not covered by that report. (Ref: Para. A18)

### **Other Information in Documents Containing Summary Financial Statements**

24. The auditor shall read the other information included in a document containing the summary financial statements and related auditor's report to consider whether there is a material inconsistency between the other information and the summary financial statements. If the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If, the auditor becomes aware that the other information needs to be revised, the auditor shall discuss the matter with management. (Ref: Para. A19)

### **Auditor Association**

25. 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

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<sup>6</sup> SA 710, "Comparative Information—Corresponding Figures and Comparative Financial Statements".

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summary financial statements, 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. 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 summary financial statements in that document. (Ref: Para. A20)

26. The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. 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 summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:

- (a) The reference to the auditor is made in the context of the auditor's report on the audited financial statements; and
- (b) The statement does not give the impression that the auditor has reported on the summary financial statements.

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 summary financial statements and include the related auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements 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. (Ref: Para. A20)

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### **Application and Other Explanatory Material**

#### **Engagement Acceptance (Ref: Para. 5-6)**

A1. The audit of the financial statements from which the summary financial statements are derived provides the auditor with the necessary knowledge to discharge the auditor's responsibilities in relation to the summary financial statements in accordance with this SA. Application of this SA will not provide sufficient appropriate evidence on which to base the opinion on the summary financial statements if the auditor has not also audited the financial statements from which the summary financial statements are derived.

A2. Management's agreement with the matters described in paragraph 6 may be evidenced by its written acceptance of the terms of the engagement.

**Criteria** (Ref: Para. 6(a))

A3. Management is responsible for the determination of the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements. Because summary financial statements by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when established criteria for the preparation of summary financial statements do not exist.

A4. Factors that may affect the auditor's determination of the acceptability of the applied criteria include:

- The nature of the entity;
- The purpose of the summary financial statements;
- The information needs of the intended users of the summary financial statements; and
- Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.

A5. The criteria for the preparation of summary financial statements may be established by an authorised or recognised standards setting organisation or by law or regulation. Similar to the case of financial statements, as explained in SA 210<sup>7</sup>, in many such cases, the auditor may presume that such criteria are acceptable.

A6. Where established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry. Criteria that are acceptable in the circumstances will result in summary financial statements that:

- (a) Adequately disclose their summarised nature and identify the audited financial statements;
- (b) Clearly describe from whom or where the audited financial statements are available or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the

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<sup>7</sup> SA 210, "Agreeing the Terms of Audit Engagements", paragraphs A3 and A8-A9.

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summary financial statements and establishes the criteria for the preparation of the summary financial statements, that law or regulation;

- (c) Adequately disclose the applied criteria;
- (d) Agree with or can be re-calculated from the related information in the audited financial statements; and
- (e) In view of the purpose of the summary financial statements, contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

A7. Adequate disclosure of the summarised nature of the summary financial statements and the identity of the audited financial statements, as referred to in paragraph A6(a), may, for example, be provided by a title such as “Summary Financial Statements Prepared from the Audited Financial Statements for the Year Ended March 31, 20X1”.

### **Evaluating the Availability of the Audited Financial Statements (Ref: Para. 8(g))**

A8. The auditor’s evaluation whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty is affected by factors such as whether:

- The summary financial statements describe clearly from whom or where the audited financial statements are available;
- The audited financial statements are on public record; or
- Management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements.

### **Form of Opinion (Ref: Para. 9)**

A9. A conclusion, based on an evaluation of the evidence obtained by performing the procedures in paragraph 8, that an unmodified opinion on the summary financial statements is appropriate enables the auditor to express an opinion containing one of the phrases in paragraph 9. The auditor’s decision as to which of the phrases to use may be affected by generally accepted practice in the particular jurisdiction.

### **Timing of Work and Events Subsequent to the Date of the Auditor’s Report on the Audited Financial Statements (Ref: Para. 12)**

A10. The procedures described in paragraph 8 are often performed during or immediately after the audit of the financial statements. When the auditor reports

on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements since the summary financial statements are derived from the audited financial statements and do not update them.

### **Auditor's Report on Summary Financial Statements**

#### ***Elements of the Auditor's Report***

##### *Title* (Ref: Para. 14(a))

A11. A title indicating the report is the report of an independent auditor, for example, "Report of the Independent Auditor", affirms that the auditor has met all of the relevant ethical requirements regarding independence. This distinguishes the report of the independent auditor from reports issued by others.

##### *Addressee* (Ref: Para. 14(b), 15)

A12. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

##### *Introductory Paragraph* (Ref: Para. 14(c)(i))

A13. When the auditor is aware that the summary financial statements will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers to identify the summary financial statements to which the auditor's report relates.

##### *Date of the Auditor's Report* (Ref: Para. 14(h), 16)

A14. The person or persons with recognised authority to conclude that the summary financial statements have been prepared and take responsibility for them depend on the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

##### *Illustrations* (Ref: Para. 14, 17-18, 19)

A15. The Appendix to this SA contains illustrations of auditors' reports on summary financial statements that:

- (a) Contain unmodified opinions;

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- (b) Are derived from audited financial statements on which the auditor issued modified opinions; and
- (c) Contain a modified opinion.

### **Comparatives** (Ref: Para. 21-22)

A16. If the audited financial statements contain comparatives, there is a presumption that the summary financial statements also would contain comparatives. Comparatives in the audited financial statements may be regarded as corresponding figures or as comparative financial information. SA 710 describes how this difference affects the auditor's report on the financial statements, including, in particular, reference to other auditors who audited the financial statements for the prior period.

A17. Circumstances that may affect the auditor's determination whether an omission of comparatives is reasonable include the nature and objective of the summary financial statements, the applied criteria, and the information needs of the intended users of the summary financial statements.

### **Unaudited Supplementary Information Presented with Summary Financial Statements** (Ref: Para. 23)

A18. SA 700 (Revised)<sup>8</sup> contains requirements and guidance to be applied when unaudited supplementary information is presented with audited financial statements that, adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph 23.

### **Other Information in Documents Containing Summary Financial Statements** (Ref: Para. 24)

A19. SA 720(Revised)<sup>9</sup> contains requirements and guidance regarding the auditor's responsibilities relating to other information in a financial statement audit engagement. Adapted as necessary in the circumstances, they may be helpful in applying the requirement in paragraph 24.

### **Auditor Association** (Ref: Para. 25-26)

A20. Other appropriate actions the auditor may take when management does not take the requested action may include informing the intended users and other

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<sup>8</sup> SA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements", paragraphs 52-53.

<sup>9</sup> SA 720(Revised), The Auditor's Responsibilities Relating to Other Information.

known third-party users of the inappropriate reference to the auditor. The auditor's course of action depends on the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

### **Material Modifications *vis-a-vis* ISA 810, "Engagements to Report on Summary Financial Statements"**

#### **Additions**

1. Paragraph 5 of ISA 810 (Paragraph 5 of SA 810) requires the auditor to accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived. In India, in some cases, the auditor may be required by a law or a regulation governing the entity to report on summary financial statements even for such accounting periods for which the former was not engaged to conduct the audit in accordance with SAs of the financial statements pertaining to such accounting periods. For example, in case of the report of the auditor of the company to be included in a prospectus under Clauses 1, 2, 3 of Part IIB of Schedule II to the Companies Act, 1956, such auditor might not necessarily have been the auditor of all or some of the financial statements of the company in respect of the accounting periods relating to which financial information has been reported upon by him/ her in the aforementioned report, accordingly, the word "ordinarily" has been added in the Paragraph 5 to cover these situations and also added the correspondingly footnote.
2. Paragraph 16 of ISA 810 (Paragraph 14 of SA 810) deals with the elements of the summary financial statements that also include the auditor's address. Since SA 700(Revised), "Forming an Opinion and Reporting on Financial Statements" requires the auditor to mention the "Place of Signature" instead of the "Auditor's Address" in the auditor's report, the requirement of mentioning the auditor's address has been replaced with the place of signature.
3. Paragraph 16 of ISA 810 (Paragraph 14 of SA 810) deals with the elements of the summary financial statements that also include auditor's signature. Since as per SA 700(Revised), "Forming an Opinion and Reporting on Financial Statements", the partner/proprietor signing the audit report also needs to mention the firm registration number, wherever applicable, and the membership number assigned by the Institute of Chartered Accountants of India, the said requirement has also been incorporated in the paragraph 14(g) of SA 810.

## **Appendix**

(Ref: Para. A15)

### **Illustrations of Reports on Summary Financial Statements**

- Illustration 1: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which summary financial statements are derived.
- Illustration 2: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An unmodified opinion is expressed on the audited financial statements.
- Illustration 3: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. A qualified opinion is expressed on the audited financial statements.
- Illustration 4: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An adverse opinion is expressed on the audited financial statements.
- Illustration 5: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.

**Illustration 1:**

Circumstances include the following:

- An unmodified opinion is expressed on the audited financial statements.
- Established criteria for the preparation of summary financial statements exist.
- The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which the summary financial statements are derived.

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 referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") [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 referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") 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 Institute of Chartered Accountants of India.

### **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 referred to in sub-section (3C) of section 211 of the Companies Act, 1956 (“the Act”) 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<sup>10</sup>)  
Membership Number

Place of Signature

Date

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<sup>10</sup> Partner or Proprietor, as the case may be.

**Illustration 2:**

Circumstances include the following:

- An unmodified opinion is expressed on the audited financial statements.
- Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.

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<sup>11</sup>.

The summary financial statements do not contain all the disclosures required by the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") [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 on the basis described in Note X.

**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

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<sup>11</sup> When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "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".

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Auditing (SA) 810, “Engagements to Report on Summary Financial Statements” issued by the Institute of Chartered Accountants of India.

### **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, on the basis described in Note X.

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

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>12</sup>)  
Membership Number

Place of Signature  
Date

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<sup>12</sup> Partner or Proprietor, as the case may be.

**Illustration 3:**

**Circumstances include the following:**

- **A qualified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**

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<sup>13</sup>. We expressed a qualified audit opinion on those financial statements in our report dated May 15, 20X1 (see below).

The summary financial statements do not contain all the disclosures required by the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") [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 on the basis described in Note X.

**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 Institute of Chartered Accountants of India.

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<sup>13</sup> When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "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".

### **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, on the basis described in Note X. However, the summary financial statements are misstated to the equivalent extent as the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1.

The misstatement of the audited financial statements is described in our qualified audit opinion in our report dated May 15, 20X1. Our qualified audit opinion is based on the fact that the company's inventories are carried in the balance sheet in those financial statements at Rs. XXX. Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from the Accounting Standard (AS) 2, "Valuation of Inventories". The company's records indicate that had management stated the inventories at the lower of cost and net realisable value, an amount of Rs. XXX would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by Rs. XXX, and income tax, net income and shareholders' equity would have been reduced by Rs. XXX, Rs. XXX and Rs. XXX, respectively. Our qualified audit opinion states that, except for the effects of the described matter, those financial statements give a true and fair view of the state of affairs of ABC Company Ltd. as of March 31, 20X1, and (of) its results of operations and its cash flows for the year then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act").

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

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>14</sup>)  
Membership Number

Place of Signature

Date

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<sup>14</sup> Partner or Proprietor, as the case may be.

**Illustration 4:**

Circumstances include the following:

- An adverse opinion is expressed on the audited financial statements.
- Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.

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<sup>15</sup>.

The summary financial statements do not contain all the disclosures required by the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") [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 on the basis described in Note X.

**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 Institute of Chartered Accountants of India.

<sup>15</sup> When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "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".

**Denial of Opinion**

In our report dated May 15, 20X1, we expressed an adverse audit opinion on the financial statements of ABC Company Ltd. for the year ended March 31, 20X1. The basis for our adverse audit opinion was [describe basis for adverse audit opinion]. Our adverse audit opinion stated that [describe adverse audit opinion].

Because of the significance of the matter discussed above, it is inappropriate to express an opinion on the summary financial statements of ABC Company Ltd. for the year ended March 31, 20X1.

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

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>16</sup>)  
Membership Number

Place of Signature  
Date

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<sup>16</sup> Partner or Proprietor, as the case may be.

**Illustration 5:**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **Established criteria for the preparation of summary financial statements exist.**
- **The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.**

**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<sup>17</sup>.

The summary financial statements do not contain all the disclosures required by the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") [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 Audited Financial Statements**

Management is responsible for the preparation of a summary of the audited financial statements in accordance with [Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") and accounting principles generally accepted in India].

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<sup>17</sup> When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "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".

### **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 Institute of Chartered Accountants of India.

### **Basis for Adverse Opinion**

[Describe matter that caused the summary financial statements not to be a fair summary of the audited financial statements, in accordance with the applied criteria.]

### **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the summary financial statements referred to above are not a fair summary of the audited financial statements of ABC Company Ltd. for the year ended March 31, 20X1, in accordance with [Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") 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<sup>18</sup>)  
Membership Number

Place of Signature  
Date

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<sup>18</sup> Partner or Proprietor, as the case may be.

## **SECTION – VII**

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### **Standards on Review Engagements**



# **SRE 2400(Revised)**

## **Engagements to Review Historical Financial Statements**

*(Effective for reviews of financial statements for periods  
beginning on or after April 1, 2016)*

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Standard on Review Engagements (SRE) 2400 (Revised), Engagements to Review Historical Financial Statements, should be read in conjunction with the Preface to the Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services.
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## Introduction

### Scope of this SRE

1. This Standard on Review Engagements (SRE) deals with: (Ref: Para. A1)
  - (a) The practitioner's responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements; and
  - (b) The form and content of the practitioner's report on the financial statements.
2. This SRE does not address a review of an entity's financial statements or interim financial information performed by a practitioner who is the independent auditor of the entity's financial statements. (Ref: Para. A2)
3. This SRE is to be applied, adapted as necessary, to reviews of other historical financial information.

### *Relationship with SQC 1*<sup>1</sup>

4. Quality control systems, policies and procedures are the responsibility of the firm. SQC 1 applies to firms of professional accountants in respect of a firm's engagements to review financial statements.<sup>2</sup> The provisions of this SRE regarding quality control at the level of individual review engagements are premised on the basis that the firm is subject to SQC 1. (Ref: Para. A3-A4)

### The Engagement to Review Historical Financial Statements

5. The review of historical financial statements is a limited assurance engagement, as described in the Framework for Assurance Engagements.<sup>3</sup> (Ref: Para. A5-A6)
6. In a review of financial statements, the practitioner expresses a conclusion that is designed to enhance the degree of confidence of intended users regarding the preparation of an entity's financial statements in accordance with an applicable financial reporting framework. The practitioner's conclusion is based on the practitioner obtaining limited assurance. The practitioner's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.
7. The practitioner performs primarily inquiry and analytical procedures to

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<sup>1</sup> Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

<sup>2</sup> SQC 1, paragraph 5.

<sup>3</sup> Framework for Assurance Engagements, Paragraphs 6 and 10.

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obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, expressed in accordance with the requirements of this SRE.

8. If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, the practitioner designs and performs additional procedures, as the practitioner considers necessary in the circumstances, to be able to conclude on the financial statements in accordance with this SRE.

### **Authority of this SRE**

9. This SRE contains the objectives of the practitioner in following the SRE which provide the context in which the requirements of this SRE are set, and are intended to assist the practitioner in understanding what needs to be accomplished in a review engagement.

10. The SRE contains requirements, expressed using “shall,” that are designed to enable the practitioner to meet the stated objectives.

11. In addition, this SRE contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of the SRE.

12. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this SRE that assists in the application of the requirements.

### **Effective Date**

13. This SRE is effective for reviews of financial statements for periods beginning on or after April 1, 2016.

### **Objectives**

14. The practitioner’s objectives in a review of financial statements under this SRE are to:

- (a) 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

(b) Report on the financial statements as a whole and communicate, as required by this SRE.

15. 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 if withdrawal is possible under applicable law or regulation. (Ref. Para. A7-A9, A114-A115)

### **Definitions**

16. The Glossary of Terms issued by the ICAI<sup>4</sup> ("the Glossary") includes the terms defined in this SRE as well as descriptions of other terms used in this SRE, to assist in consistent application and interpretation. For example, the terms "management" and "those charged with governance" used throughout this SRE are as defined in the Glossary. (Ref: Para. A10-A11)

17. For purposes of this SRE, the following terms have the meanings attributed below:

- (a) *Analytical procedures* — Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
- (b) *Engagement risk* — The risk that the practitioner expresses an inappropriate conclusion when the financial statements are materially misstated.
- (c) *General purpose financial statements* — Financial statements prepared in accordance with a general purpose framework.
- (d) *General purpose framework* — A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.
- (e) *Inquiry* — Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.
- (f) *Limited assurance* — The level of assurance obtained where engagement

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<sup>4</sup> The Glossary of Terms relating to Standards issued by the ICAI is contained in the Handbook of Auditing Pronouncements published by the ICAI.

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. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements.<sup>5</sup> (Ref: Para. A12)

- (g) *Practitioner* – A professional accountant in public practice. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where this SRE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used.
- (h) *Professional judgment* – The application of relevant training, knowledge and experience, within the context provided by assurance, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review engagement.
- (i) *Relevant ethical requirements* – Ethical requirements to which the engagement team is subject, which ordinarily comprise the Code of Ethics issued by the Institute of Chartered Accountants of India (ICAI) together with other relevant pronouncements issued by the ICAI.
- (j) *Special purpose financial statements* – Financial statements prepared in accordance with a special purpose framework.
- (k) *Special purpose framework* – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

## **Requirements**

### **Conduct of a Review Engagement in Accordance with this SRE**

18. The practitioner shall have an understanding of the entire text of this SRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A13)

### ***Complying with Relevant Requirements***

19. The practitioner shall comply with each requirement of this SRE, unless a requirement is not relevant to the review engagement. A requirement is relevant

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<sup>5</sup> Attention is also drawn to paragraph 10 of the Framework for Assurance Engagements, issued by ICAI.

to the review engagement when the circumstances addressed by the requirement exist.

20. The practitioner shall not represent compliance with this SRE in the practitioner's report unless the practitioner has complied with all the requirements of this SRE relevant to the review engagement.

### **Ethical Requirements**

21. The practitioner shall comply with relevant ethical requirements, including those pertaining to independence. (Ref: Para. A14-A15)

### **Professional Skepticism and Professional Judgment**

22. 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. (Ref: Para. A16-A19)

23. The practitioner shall exercise professional judgment in conducting a review engagement. (Ref: Para. A20-A24)

### **Engagement Level Quality Control**

24. The engagement partner shall possess competence in assurance skills and techniques, and competence in financial reporting, appropriate to the engagement circumstances. (Ref: Para. A25)

25. The engagement partner shall take responsibility for: (Ref: Para. A26-A29)

- (a) The overall quality of each review engagement to which that partner is assigned;
- (b) The direction, supervision, planning and performance of the review engagement in compliance with professional standards and applicable legal and regulatory requirements; (Ref: Para. A30)
- (c) The practitioner's report being appropriate in the circumstances; and
- (d) The engagement being performed in accordance with the firm's quality control policies, including the following:
  - (i) Being satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and engagements have been followed, and that conclusions reached are appropriate, including considering whether there is information that would lead the engagement partner to conclude that management lacks integrity; (Ref: Para. A31-A32)
  - (ii) Being satisfied that the engagement team collectively has the appropriate competence and capabilities, including assurance skills and techniques and expertise in financial reporting, to:

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- a. Perform the review engagement in accordance with professional standards and applicable legal and regulatory requirements; and
- b. Enable a report that is appropriate in the circumstances to be issued; and
- (iii) Taking responsibility for appropriate engagement documentation being maintained.

### ***Relevant Considerations after Engagement Acceptance***

26. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

### ***Compliance with Relevant Ethical Requirements***

27. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

### ***Monitoring***

28. An effective system of quality control for a firm includes a monitoring process designed to provide the firm with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate and operate effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the review engagement.

## **Acceptance and Continuance of Client Relationships and Review Engagements**

### ***Factors Affecting Acceptance and Continuance of Client Relationships and Review Engagements***

29. Unless required by law or regulation, the practitioner shall not accept a review engagement if: (Ref: Para. A33-A34)

- (a) The practitioner is not satisfied:
  - (i) That there is a rational purpose for the engagement; or (Ref: Para. A35)

- (ii) That a review engagement would be appropriate in the circumstances; (Ref: Para. A36)
- (b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied;
- (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; (Ref: Para. A37)
- (d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review; or (Ref: Para. A36)
- (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.

***Preconditions for Accepting a Review Engagement***

30. Prior to accepting a review engagement, the practitioner shall: (Ref: Para. A38)
- (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 (Ref: Para. A39-A45)
  - (b) Obtain the agreement of management that it acknowledges and understands its responsibilities: (Ref: Para. A46-A49)
    - (i) For preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation;
    - (ii) 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
    - (iii) To provide the practitioner with:
      - a. 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;
      - b. Additional information that the practitioner may request from management for the purpose of the review; and
      - c. Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.

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31. 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 unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with this SRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this SRE.

32. 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:

- (a) Whether the matter can be resolved;
- (b) Whether it is appropriate to continue with the engagement; and
- (c) Whether and, if so, how to communicate the matter in the practitioner's report.

### ***Additional Considerations When the Wording of the Practitioner's Report Is Prescribed by Law or Regulation***

33. The practitioner's report issued for the review engagement shall refer to this SRE only if the report complies with the requirements of paragraph 86.

34. In some cases, when the review is performed pursuant to the specific law or regulation applicable to the entity, such law or regulation may prescribe the layout or wording of the practitioner's report in a form or in terms that are significantly different from the requirements of this SRE. In those circumstances, the practitioner shall evaluate whether users might misunderstand the assurance obtained from the review of the financial statements and, if so, whether additional explanation in the practitioner's report can mitigate possible misunderstanding. (Ref: Para. A50, A141)

35. If the practitioner concludes that additional explanation in the practitioner's report cannot mitigate possible misunderstanding, the practitioner shall not accept the review engagement unless required by law or regulation to do so. A review conducted in accordance with such law or regulation does not comply with this SRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this SRE. (Ref: Para. A50, A141)

### ***Agreeing the Terms of Engagement***

36. The practitioner shall agree the terms of the engagement with management

or those charged with governance, as appropriate, prior to performing the engagement.

37. The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include: (Ref: Para. A51-A53, A55)

- (a) The intended use and distribution of the financial statements, and any restrictions on use or distribution where applicable;
- (b) Identification of the applicable financial reporting framework;
- (c) The objective and scope of the review engagement;
- (d) The responsibilities of the practitioner;
- (e) The responsibilities of management, including those in paragraph 30(b); (Ref: Para. A46-A49, A54)
- (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
- (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.

*Recurring Engagements*

38. On recurring review 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 a need to remind management or those charged with governance, as appropriate, of the existing terms of engagement. (Ref: Para. A56)

**Acceptance of a Change in the Terms of the Review Engagement**

39. The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. (Ref: Para. A57-A59)

40. If, prior to completing the review engagement, the practitioner is requested to change the engagement to an engagement for which no assurance is obtained, the practitioner shall determine whether there is reasonable justification for doing so. (Ref: Para. A60-A61)

41. 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.

**Communication with Management and Those Charged with Governance**

42. The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review 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. (Ref: Para. A62-A68)

**Performing the Engagement**

***Materiality in a Review of Financial Statements***

43. 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. (Ref: Para. A69-A72)

44. 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. (Ref. Para. A73)

***The Practitioner's Understanding***

45. 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. (Ref: Para. A74-A76)

46. The practitioner's understanding shall include the following: (Ref: Para. A77, A86, A88)

- (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework;
- (b) The nature of the entity, including:
  - (i) Its operations;
  - (ii) Its ownership and governance structure;
  - (iii) The types of investments that the entity is making and plans to make;
  - (iv) The way that the entity is structured and how it is financed; and
  - (v) The entity's objectives and strategies;
- (c) The entity's accounting systems and accounting records; and
- (d) The entity's selection and application of accounting policies.

***Designing and Performing Procedures***

47. 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: (Ref: Para. A78-A82, A86, A88)

- (a) To address all material items in the financial statements, including disclosures; and
- (b) To focus on addressing areas in the financial statements where material misstatements are likely to arise.

48. The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A83-A86)

- (a) How management makes the significant accounting estimates required under the applicable financial reporting framework;
- (b) The identification of related parties and related party transactions, including the purpose of those transactions;
- (c) Whether there are significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements, including:
  - (i) Significant changes in the entity's business activities or operations;
  - (ii) Significant changes to the terms of contracts that materially affect the entity's financial statements, including terms of finance and debt contracts or covenants;
  - (iii) Significant journal entries or other adjustments to the financial statements;
  - (iv) Significant transactions occurring or recognized near the end of the reporting period;
  - (v) The status of any uncorrected misstatements identified during previous engagements; and
  - (vi) Effects or possible implications for the entity of transactions or relationships with related parties;
- (d) The existence of any actual, suspected or alleged:
  - (i) Fraud or illegal acts affecting the entity; and
  - (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;
- (e) Whether management has identified and addressed events occurring between the date of the financial statements and the date of the

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practitioner's report that require adjustment of, or disclosure in, the financial statements;

- (f) The basis for management's assessment of the entity's ability to continue as a going concern; (Ref: Para. A87)
- (g) Whether there are events or conditions that appear to cast doubt on the entity's ability to continue as a going concern;
- (h) Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures; and
- (i) Material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration.

49. 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. (Ref: Para. A88-A90)

### *Procedures to Address Specific Circumstances*

#### **Related Parties<sup>6</sup>**

50. 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.

51. If the practitioner identifies significant transactions outside the entity's normal course of business in the course of performing the review, the practitioner shall inquire of management about:

- (a) The nature of those transactions;
- (b) Whether related parties could be involved; and
- (c) The business rationale (or lack thereof) of those transactions.

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

52. 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:

- (a) Communicate that matter to the appropriate level of senior management or those charged with governance as appropriate;
- (b) Request management's assessment of the effect(s), if any, on the financial statements;

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<sup>6</sup> As defined in the "Glossary of Terms" contained in Volume I.A of the Handbook of Auditing Pronouncements.

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- (c) Consider the effect, if any, of management's assessment of the effects of fraud or non-compliance with laws or regulations communicated to the practitioner on the practitioner's conclusion on the financial statements and on the practitioner's report; and
- (d) Determine whether there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity. (Ref: Para. A91)

### Going concern

53. 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.

54. 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: (Ref: Para. A92)

- (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 those plans will improve the situation regarding the entity's ability to continue as a going concern;
- (b) 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

55. 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

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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. (Ref: Para. A79)

### ***Reconciling the Financial Statements to the Underlying Accounting Records***

56. The practitioner shall obtain evidence that the financial statements agree with, or reconcile to, the entity's underlying accounting records. (Ref: Para. A93)

### ***Additional Procedures When the Practitioner Becomes Aware that the Financial Statements May Be Materially Misstated***

57. 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 sufficient to enable the practitioner to: (Ref: Para. A94-A98)

- (a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or
- (b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

### **Subsequent Events**

58. 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.

59. 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 issued, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend the report, the practitioner shall:

- (a) Discuss the matter with management or those charged with governance, as appropriate;
- (b) Determine whether the financial statements need amendment; and
- (c) If so, inquire how management intends to address the matter in the financial statements.

60. If management does not amend the financial statements in circumstances where the practitioner believes they need to be amended, and the practitioner's report has already been provided to the entity, the practitioner shall notify

management and those charged with governance not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the practitioner shall take appropriate action to seek to prevent reliance on the practitioner's report.

**Written Representations**

61. The practitioner shall request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement. The written representation shall include that: (Ref: Para. A99-A101)

- (a) Management has fulfilled its responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and has provided the practitioner with all relevant information and access to information as agreed in the terms of the engagement; and
- (b) All transactions have been recorded and are reflected in the financial statements. If law or regulation requires management to make written public statements about its responsibilities, and the practitioner determines that such statements provide some or all of the representations required by subparagraphs (a)-(b), the relevant matters covered by such statements need not be included in the written representation.

62. The practitioner shall also request management's written representations that management has disclosed to the practitioner: (Ref: Para. A100)

- (a) The identity of the entity's related parties and all the related party relationships and transactions of which management is aware;
- (b) Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;
- (c) Known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's financial statements;
- (d) All information relevant to use of the going concern assumption in the financial statements;
- (e) That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed;
- (f) Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures; and

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- (g) Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration.
63. If management does not provide one or more of the requested written representations, the practitioner shall: (Ref: Para. A99)
- (a) Discuss the matter with management and those charged with governance, as appropriate;
  - (b) Re-evaluate the integrity of management, and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
  - (c) Take appropriate actions, including determining the possible effect on the conclusion in the practitioner's report in accordance with this SRE.
64. The practitioner shall disclaim a conclusion on the financial statements, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, as appropriate, if:
- (a) The practitioner concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable; or
  - (b) Management does not provide the required representations required by paragraph 61.

### ***Date of and Period(s) Covered by Written Representations***

65. The date of the written representations shall be as near as practicable to, but not after, the date of the practitioner's report. The written representations shall be for all financial statements and period(s) referred to in the practitioner's report.

### ***Evaluating Evidence Obtained from the Procedures Performed***

66. The practitioner shall evaluate whether sufficient appropriate evidence has been obtained from the procedures performed and, if not, the practitioner shall perform other procedures judged by the practitioner to be necessary in the circumstances to be able to form a conclusion on the financial statements. (Ref: Para. A102)

67. If the practitioner is not able to obtain sufficient appropriate evidence to form a conclusion, the practitioner shall discuss with management and those charged with governance, as appropriate, the effects such limitations have on the scope of the review. (Ref: Para. A103-A104)

### ***Evaluating the Effect on the Practitioner's Report***

68. The practitioner shall evaluate the evidence obtained from the procedures performed to determine the effect on the practitioner's report. (Ref: Para. A102)

**Forming the Practitioner's Conclusion on the Financial Statements**

***Consideration of the Applicable Financial Reporting Framework in Relation to the Financial Statements***

69. In forming the conclusion on the financial statements, the practitioner shall:
- (a) Evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework; (Ref: Para. A105-A106)
  - (b) Consider whether, in the context of the requirements of the applicable financial reporting framework and the results of procedures performed:
    - (i) The terminology used in the financial statements, including the title of each financial statement, is appropriate;
    - (ii) The financial statements adequately disclose the significant accounting policies selected and applied;
    - (iii) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
    - (iv) Accounting estimates made by management appear reasonable;
    - (v) The information presented in the financial statements appears relevant, reliable, comparable, and understandable; and
    - (vi) The financial statements provide adequate disclosures to enable the intended users to understand the effects of material transactions and events on the information conveyed in the financial statements. (Ref: Para. A107-A109)
70. The practitioner shall consider the impact of:
- (a) Uncorrected misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole; and
  - (b) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A110-A111)
71. If the financial statements are prepared using a fair presentation framework, the practitioner's consideration shall also include: (Ref: Para. A108)
- (a) The overall presentation, structure and content of the financial statements in accordance with the applicable framework; and
  - (b) Whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation or gives a true and fair view, as appropriate, in the context of the financial statements as a whole.

***Form of the Conclusion***

72. The practitioner's conclusion on the financial statements, whether unmodified or modified, shall be expressed in the appropriate form in the context of the financial reporting framework applied in the financial statements.

***Unmodified Conclusion***

73. The practitioner shall express an unmodified conclusion in the practitioner's report on the financial statements as a whole when the practitioner has obtained limited assurance to be able to conclude that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.

74. When the practitioner expresses an unmodified conclusion, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate: (Ref: Para. A112-A113)

- (a) "Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or
- (b) "Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).

***Modified Conclusion***

75. The practitioner shall express a modified conclusion in the practitioner's report on the financial statements as a whole when:

- (a) The practitioner determines, based on the procedures performed and the evidence obtained, that the financial statements are materially misstated; or
- (b) The practitioner is unable to obtain sufficient appropriate evidence in relation to one or more items in the financial statements that are material in relation to the financial statements as a whole.

76. When the practitioner modifies the conclusion expressed on the financial statements, the practitioner shall:

- (a) Use the heading "Qualified Conclusion," "Adverse Conclusion" or "Disclaimer of Conclusion," as appropriate, for the conclusion paragraph in the practitioner's report; and

- (b) Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, "Basis for Qualified Conclusion," "Basis for Adverse Conclusion" or "Basis for Disclaimer of Conclusion," as appropriate), in a separate paragraph in the practitioner's report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph).

*Financial statements are materially misstated*

77. If the practitioner determines that the financial statements are materially misstated, the practitioner shall express:

- (a) A qualified conclusion, when the practitioner concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements; or
- (b) An adverse conclusion, when the effects of the matter(s) giving rise to the modification are both material and pervasive to the financial statements.

78. When the practitioner expresses a qualified conclusion on the financial statements because of a material misstatement, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:

- (a) "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or
- (b) "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).

79. When the practitioner expresses an adverse conclusion on the financial statements, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:

- (a) "Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements do not give a true and fair view (or do not present fairly, in all material

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respects), in accordance with the applicable financial reporting framework,” (for financial statements prepared using a fair presentation framework); or

- (b) “Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework,” (for financial statements prepared using a compliance framework).

80. In the basis for conclusion paragraph, in relation to material misstatements that give rise to either a qualified conclusion or an adverse conclusion, the practitioner shall:

- (a) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state;
- (b) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or
- (c) Describe the nature of omitted information if the material misstatement relates to the non-disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so.

### *Inability to obtain sufficient appropriate evidence*

81. If the practitioner is unable to form a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, the practitioner shall:

- (a) Express a qualified conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive; or
- (b) Disclaim a conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

82. The practitioner shall withdraw from the engagement if the following conditions are present: (Ref: Para. A114-A116)

- (a) Due to a limitation on the scope of the review imposed by management after the practitioner has accepted the engagement, the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements;
- (b) The practitioner has determined that the possible effects on the financial statements of undetected misstatements are material and pervasive; and

(c) Withdrawal is possible under applicable law or regulation.

83. When the practitioner expresses a qualified conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:

- (a) "Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or
- (b) "Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).

84. When disclaiming a conclusion on the financial statements the practitioner shall state in the conclusion paragraph that:

- (a) Due to the significance of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements; and
- (b) Accordingly, the practitioner does not express a conclusion on the financial statements.

85. In the basis for conclusion paragraph, in relation to either the qualified conclusion due to inability to obtain sufficient appropriate evidence or when the practitioner disclaims a conclusion, the practitioner shall include the reason(s) for the inability to obtain sufficient appropriate evidence.

### **The Practitioner's Report**

86. The practitioner's report for the review engagement shall be in writing, and shall contain the following elements: (Ref: Para. A117-A120, A141, A143)

- (a) A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement;
- (b) The addressee(s), as required by the circumstances of the engagement;

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- (c) An introductory paragraph that:
  - (i) Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement;
  - (ii) Refers to the summary of significant accounting policies and other explanatory information; and
  - (iii) States that the financial statements have been reviewed;
- (d) A description of the responsibility of management for the preparation of the financial statements, including an explanation that management is responsible for: (Ref: Para. A121-A124)
  - (i) Their preparation in accordance with the applicable financial reporting framework including, where relevant, their fair presentation;
  - (ii) 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;
- (e) If the financial statements are special purpose financial statements:
  - (i) A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information; and
  - (ii) If management has a choice of financial reporting frameworks in the preparation of such financial statements, a reference within the explanation of management's responsibility for the financial statements to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances;
- (f) A description of the practitioner's responsibility to express a conclusion on the financial statements including reference to this SRE and, where relevant, applicable law or regulation; (Ref: Para. A125-126, A142)
- (g) A description of a review of financial statements and its limitations, and the following statements: (Ref: Para. A127)
  - (i) A review engagement under this SRE is a limited assurance engagement;
  - (ii) The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained; and

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- (iii) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing (SAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements;
- (h) A paragraph under the heading "Conclusion" that contains:
  - (i) The practitioner's conclusion on the financial statements as a whole in accordance with paragraphs 72-85, as appropriate; and
  - (ii) A reference to the applicable financial reporting framework used to prepare the financial statements. (Ref: Para. A128-A129)
- (i) When the practitioner's conclusion on the financial statements is modified:
  - (i) A paragraph under the appropriate heading that contains the practitioner's modified conclusion in accordance with paragraphs 72 and 75-85, as appropriate; and
  - (ii) A paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification; (Ref: Para. A130)
- (j) A reference to the practitioner's obligation under this SRE to comply with relevant ethical requirements;
- (k) The date of the practitioner's report; (Ref: Para. A137-A140)
- (l) The practitioner's signature; and (Ref: Para. A131)
- (m) The place of signature.

### ***Emphasis of Matter and Other Matter Paragraphs in the Practitioner's Report***

#### *Emphasis of Matter Paragraphs*

87. The practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In such cases, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report, provided the practitioner has obtained sufficient appropriate evidence to conclude that the matter is not likely to be materially misstated as presented in the financial statements. Such paragraph shall refer only to information presented or disclosed in the financial statements.

88. The practitioner's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the practitioner's

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report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. (Ref: Para. A132-A133)

89. The practitioner shall include an Emphasis of Matter paragraph immediately after the paragraph that contains the practitioner's conclusion on the financial statements under the heading "Emphasis of Matter," or other appropriate heading.

### *Other Matter Paragraphs*

90. If the practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the practitioner's judgment, is relevant to users' understanding of the review, the practitioner's responsibilities or the practitioner's report and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the practitioner's report with the heading "Other Matter" or other appropriate heading.

### *Other Reporting Responsibilities*

91. A practitioner may be requested to address other reporting responsibilities in the practitioner's report on the financial statements that are in addition to the practitioner's responsibilities under this SRE to report on the financial statements. In such situations, those other reporting responsibilities shall be addressed by the practitioner in a separate section in the practitioner's report headed "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section, following the section of the report headed "Report on the Financial Statements." (Ref: Para. A134-A136)

### ***Date of the Practitioner's Report***

92. The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements, including being satisfied that: (Ref: Para. A137-A140)

- (a) All the statements that comprise the financial statements under the applicable financial reporting framework, including the related notes where applicable, have been prepared; and
- (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

### **Documentation**

93. The preparation of documentation for the review provides evidence that the review was performed in accordance with this SRE, and legal and regulatory

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requirements where relevant, and a sufficient and appropriate record of the basis for the practitioner's report. The practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand: (Ref: Para. A144)

- (a) The nature, timing, and extent of the procedures performed to comply with this SRE and applicable legal and regulatory requirements;
- (b) Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results; and
- (c) Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

94. In documenting the nature, timing and extent of procedures performed as required in this SRE, the practitioner shall record:

- (a) Who performed the work and the date such work was completed; and
- (b) Who reviewed the work performed for the purpose of quality control for the engagement, and the date and extent of the review.

95. The practitioner shall also document discussions with management, those charged with governance, and others as relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters.

96. If, in the course of the engagement, the practitioner identified information that is inconsistent with the practitioner's findings regarding significant matters affecting the financial statements, the practitioner shall document how the inconsistency was addressed.

### **Application and Other Explanatory Material**

#### **Scope of this SRE (Ref: Para. 1-2)**

A1. In performing a review of financial statements, the practitioner may be required to comply with legal or regulatory requirements, which may differ from the requirements established in this SRE. While the practitioner may find aspects of this SRE helpful in these circumstances, it is the responsibility of the practitioner to ensure compliance with all relevant legal, regulatory and professional obligations.

#### ***Reviews of Financial Information of Components in the Context of an Audit of the Financial Statements of a Group of Entities***

A2. Review engagements in accordance with this SRE may be requested for

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component entities by the auditor of the financial statements of a group of entities. Such a review engagement performed in accordance with this SRE may be accompanied by a request from the group auditor to undertake additional work or procedures as needed in the circumstances of the group audit engagement.

### ***Relationship with SQC 1*** (Ref: Para. 4)

A3. SQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for assurance engagements, including review engagements. Those responsibilities are directed at establishing the firm's:

- Quality control system; and
- Related policies designed to achieve the objective of the quality control system and the firm's procedures to implement and monitor compliance with those policies, including policies and procedures that address each of the following elements:
  - Leadership responsibilities for quality within the firm.
  - Relevant ethical requirements.
  - Acceptance and continuance of client relationships and specific engagements.
  - Human resources.
  - Engagement performance.
  - Monitoring.

A4. Under SQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- (b) Reports issued by the firm<sup>7</sup> or engagement partners are appropriate in the circumstances.<sup>8</sup>

### **The Engagement to Review Historical Financial Statements** (Ref: Para. 5-8, 14)

A5. Reviews of financial statements may be performed for a wide range of entities that vary by type or size, or by the level of complexity in their financial reporting. In some cases, the review of financial statements of an entity may also

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<sup>7</sup> It is clarified that in India the reports are not issued/signed in the firm's name, rather they are issued/signed on behalf of the firm by the sole practitioner, proprietor or a partner of the firm, as the case may be, in his individual name.

<sup>8</sup> SQC 1, paragraph 3.

be subject to the applicable laws or regulations and related reporting requirements.

A6. Reviews may be performed in a variety of circumstances. For example, they may be required for entities that are exempt from requirements specified in law or regulation for mandatory audit. Reviews may also be requested on a voluntary basis, such as in connection with financial reporting undertaken for arrangements under the terms of a private contract, or to support funding arrangements.

### **Objectives (Ref: Para. 15)**

A7. This SRE requires the practitioner to disclaim a conclusion on the financial statements if:

- (a) The practitioner issues a report, or is required to issue a report for the engagement; and
- (b) The practitioner is unable to form a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, and the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

A8. The situation of being unable to obtain sufficient appropriate evidence in a review engagement (referred to as a scope limitation) may arise from:

- (a) Circumstances beyond the control of the entity;
- (b) Circumstances relating to the nature or timing of the practitioner's work; or
- (c) Limitations imposed by management or those charged with governance of the entity.

A9. This SRE sets out requirements and guidance for the practitioner when the practitioner encounters a scope limitation, either prior to accepting a review engagement, or during the engagement.

### **Definitions (Ref: Para. 16)**

#### ***Use of the Terms "Management" and "Those Charged with Governance"***

A10. The respective responsibilities of management and those charged with governance will differ between entities of various types. These differences affect the way the practitioner applies the requirements of this SRE in relation to management or those charged with governance. Accordingly, the phrase "management and, where appropriate, those charged with governance" used in various places throughout this SRE is intended to alert the practitioner to the fact that different entity environments may have different management and governance structures and arrangements.

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A11. Various responsibilities relating to preparation of financial information and external financial reporting will fall to either management or those charged with governance according to factors such as:

- The resources and structure of the entity; and
- The respective roles of management and those charged with governance within the entity as set out in relevant law or regulation or, if the entity is not regulated, in any formal governance or accountability arrangements established for the entity (for example, as recorded in contracts, a constitution or other type of establishment documents of the entity).

For example, in small entities there is often no separation of the management and governance roles. In larger entities, management is often responsible for execution of the business or activities of the entity and reporting thereon, while those charged with governance oversee management. In some entities, the responsibility for preparation of financial statements for an entity is the legal responsibility of those charged with governance, and in some other entities it is a management responsibility.

**Limited Assurance - Use of the Term Sufficient Appropriate Evidence** (Ref: Para. 17(f))

A12. Sufficient appropriate evidence is required to obtain limited assurance to support the practitioner's conclusion. Evidence is cumulative in nature and is primarily obtained from the procedures performed during the course of the review.

**Conduct of a Review Engagement in Accordance with this SRE** (Ref: Para. 18)

A13. This SRE does not override laws and regulations that govern a review of financial statements. In the event that those laws and regulations differ from the requirements of this SRE, a review conducted only in accordance with laws and regulations will not automatically comply with this SRE.

**Ethical Requirements** (Ref: Para. 21)

A14. The Code of Ethics issued by the ICAI establishes the fundamental principles of professional ethics practitioners must comply with, and provides a conceptual framework for applying those principles. The fundamental principles are:

- (a) Integrity;
- (b) Objectivity;

- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behaviour.

The Code of Ethics also illustrates how the conceptual framework is to be applied in specific situations. In complying with the Code, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.

A15. In the case of an engagement to review financial statements, the Code of Ethics requires that the practitioner be independent of the entity whose financial statements are reviewed. The Code of Ethics describes independence as comprising both independence of mind and independence in appearance. The practitioner's independence safeguards the practitioner's ability to form a conclusion without being affected by influences that might otherwise compromise that conclusion. Independence enhances the practitioner's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.

### **Professional Skepticism and Professional Judgment**

#### ***Professional Skepticism*** (Ref: Para. 22)

A16. Professional skepticism is necessary for the critical assessment of evidence in a review. This includes questioning inconsistencies and investigating contradictory evidence, and questioning the reliability of responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the engagement circumstances.

A17. Professional skepticism includes being alert to, for example:

- Evidence that is inconsistent with other evidence obtained.
- Information that calls into question the reliability of documents and responses to inquiries to be used as evidence.
- Conditions that may indicate possible fraud.
- Any other circumstances that suggest the need for additional procedures.

A18. Maintaining professional skepticism throughout the review is necessary if the practitioner is to reduce the risks of:

- Overlooking unusual circumstances.
- Over-generalizing when drawing conclusions from evidence obtained.
- Using inappropriate assumptions in determining the nature, timing, and extent of the procedures performed in the review, and evaluating the results thereof.

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A19. The practitioner cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism or allow the practitioner to be satisfied with evidence that is inadequate for the purpose of the review.

### ***Professional Judgment*** (Ref: Para. 23)

A20. Professional judgment is essential to the proper conduct of a review engagement. This is because interpretation of relevant ethical requirements and the requirements of this SRE, and the need for informed decisions throughout the performance of a review engagement, require the application of relevant knowledge and experience to the facts and circumstances of the engagement. Professional judgment is necessary, in particular:

- Regarding decisions about materiality, and the nature, timing, and extent of procedures used to meet the requirements of this SRE, and to gather evidence.
- When evaluating whether the evidence obtained from the procedures performed reduces the engagement risk to a level that is acceptable in the engagement circumstances.
- When considering management's judgments in applying the entity's applicable financial reporting framework.
- When forming the conclusion on the financial statements based on the evidence obtained, including considering the reasonableness of the estimates made by management in preparing the financial statements.

A21. The distinguishing feature of the professional judgment expected of the practitioner is that it is exercised by a practitioner whose training, knowledge and experience, including in the use of assurance skills and techniques, have assisted in developing the necessary competencies to achieve reasonable judgments. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assists the practitioner in making informed and reasonable judgments.

A22. The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known by the practitioner throughout the engagement, including:

- Knowledge acquired from engagements carried out with respect to the entity's financial statements in prior periods, where applicable.

- The practitioner's understanding of the entity and its environment, including its accounting system, and of the application of the applicable financial reporting framework in the entity's industry.
- The extent to which the preparation and presentation of the financial statements require the exercise of management judgment.

A23. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and accounting principles, and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's report.

A24. Professional judgment needs to be exercised throughout the engagement. It also needs to be appropriately documented in accordance with the requirements of this SRE. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement, or the evidence obtained.

**Engagement Level Quality Control (Ref: Para. 24-25)**

A25. Assurance skills and techniques include:

- Applying professional skepticism and professional judgment to planning and performing an assurance engagement, including obtaining and evaluating evidence;
- Understanding information systems and the role and limitations of internal control;
- Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures for the review;
- Applying procedures as appropriate to the review engagement, which may include other types of procedures in addition to inquiry and analytical procedures (such as inspection, re-calculation, re-performance, observation and confirmation);
- Systematic documentation practices; and
- Application of skills and practices relevant for writing reports for assurance engagements.

A26. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement, and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.

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A27. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in the context of the engagement partner taking responsibility for the overall quality on each review engagement, emphasize the fact that quality is essential in performing a review engagement, and the importance to the quality of the review engagement of:

- (a) Performing work that complies with professional standards and regulatory and legal requirements.
- (b) Complying with the firm's quality control policies and procedures as applicable.
- (c) Issuing a report for the engagement that is appropriate in the circumstances.
- (d) The engagement team's ability to raise concerns without fear of reprisals.

A28. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Independence through the accumulation and communication of relevant independence information.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to regulatory and legal requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the review engagement, the engagement partner may consider measures taken by the firm to rectify those deficiencies.

A29. A deficiency in the firm's system of quality control does not necessarily indicate that a review engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

### ***Assignment of Engagement Teams*** (Ref: Para. 25(b))

A30. When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, review engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Technical expertise, including expertise with relevant information technology and specialized areas of accounting or assurance.
- Knowledge of relevant industries in which the client operates.
- Ability to apply professional judgment.
- Understanding of the firm's quality control policies and procedures.

***Acceptance and Continuance of Client Relationships and Review Engagements*** (Ref: Para. 25(d)(i))

A31. SQC 1 requires the firm to obtain information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance and continuance of client relationships and review engagements are appropriate may include information concerning:

- The integrity of the principal owners, key management and those charged with governance; and
- Significant matters that have arisen during the current or a previous review engagement, and their implications for continuing the relationship.

A32. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the review, it is not appropriate under this SRE to accept the engagement, unless required by law or regulation, as doing so may lead to the practitioner being associated with the entity's financial statements in an inappropriate manner.

***Acceptance and Continuance of Client Relationships and Review Engagements*** (Ref: Para. 29)

A33. The practitioner's consideration of engagement continuance, and relevant ethical requirements, including independence, occurs throughout the engagement, as conditions and changes in circumstances occur. Performing initial procedures on engagement continuance and evaluation of relevant ethical requirements (including independence) at the beginning of an engagement informs the practitioner's decisions and actions prior to the performance of other significant activities for the engagement.

***Factors Affecting Acceptance and Continuance of Client Relationships and Review Engagements*** (Ref: Para. 29)

A34. Assurance engagements may only be accepted when the engagement exhibits certain characteristics<sup>9</sup> that are conducive to achieving the practitioner's objectives specified for the engagement.

*Rational Purpose* (Ref: Para. 29(a)(i))

A35. It may be unlikely that there is a rational purpose for the engagement if, for example:

- (a) There is a significant limitation on the scope of the practitioner's work;
- (b) The practitioner suspects the engaging party intends to associate the practitioner's name with the financial statements in an inappropriate manner; or
- (c) The engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited.

*Review Engagement is Appropriate* (Ref: Para. 29(a)(ii) and 29(d))

A36. When the practitioner's preliminary understanding of the engagement circumstances indicates that accepting a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example, believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.

*Information Needed to Perform the Review Engagement* (Ref: Para. 29(c))

A37. An example of where the practitioner may have cause to doubt that the information needed to perform the review will be available or reliable is where the accounting records necessary for purposes of performing analytical procedures are suspected to be substantially inaccurate or incomplete. This consideration is not directed at the need that sometimes arises in the course of a review engagement to assist management by recommending adjusting entries required to finalize the financial statements prepared by management.

***Preconditions for Accepting a Review Engagement*** (Ref: Para. 30)

A38. This SRE also requires the practitioner to ascertain certain matters, upon which it is necessary for the practitioner and the entity's management to agree,

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<sup>9</sup> Framework for Assurance Engagements, paragraph 16.

and which are within the control of the entity, prior to the practitioner accepting the engagement.

*The Applicable Financial Reporting Framework (Ref: Para. 30(a))*

A39. A condition for acceptance of an assurance engagement is that the criteria<sup>10</sup> referred to in the definition of an assurance engagement are suitable and available to intended users.<sup>11</sup> For purposes of this SRE, the applicable financial reporting framework provides the criteria the practitioner uses to review the financial statements including, where relevant, the fair presentation of the financial statements. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, including what constitutes a complete set of financial statements.

Acceptability of the applicable financial reporting framework

A40. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the practitioner does not have suitable criteria for the review of the financial statements.

A41. The practitioner's determination of the acceptability of the financial reporting framework applied in the financial statements is made in the context of the practitioner's understanding of who the intended users of the financial statements are. The intended users are the person, persons or group of persons for whom the practitioner prepares the report. The practitioner may not be able to identify all those who will read the assurance report, particularly where there is a large number of people who have access to it.

A42. In many cases, in the absence of any indications to the contrary, the practitioner may presume that the applicable financial reporting framework is acceptable (for example, a financial reporting framework that is prescribed by law or regulation governing the entity to be used in the preparation of general purpose financial statements for certain types of entities).

A43. Factors that are relevant to the practitioner's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:

- The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organization).

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<sup>10</sup> Framework for Assurance Engagements, paragraph 33.

<sup>11</sup> Framework for Assurance Engagements, paragraph 16(b)(ii).

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- The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users).
- The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement).
- Whether the applicable financial reporting framework is prescribed in relevant law or regulation.

A44. If the financial reporting framework used to prepare the financial statements is not acceptable in view of the purpose of the financial statements and management will not agree to use of a financial reporting framework that is acceptable in the practitioner's view, the practitioner is required under this SRE to decline the engagement.

A45. Deficiencies in the applicable financial reporting framework that indicate that the framework is not acceptable may be encountered after the review engagement has been accepted. When use of that financial reporting framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, the practitioner is required under this SRE to agree the new terms of the review engagement with management to reflect the change in the applicable financial reporting framework.

*Responsibilities of Management and Those Charged with Governance* (Ref: Para. 30(b), 37(e))

A46. The financial statements subject to review are those of the entity, prepared by management of the entity with oversight from those charged with governance. This SRE does not impose responsibilities on management and those charged with governance, nor does it override laws and regulations that govern their respective responsibilities. However, a review in accordance with this SRE is conducted on the premise that management, and those charged with governance as appropriate, have acknowledged certain responsibilities that are fundamental to the conduct of the review. The review of the financial statements does not relieve management and those charged with governance of their responsibilities.

A47. As part of its responsibility for the preparation of the financial statements, management is required to exercise judgment in making accounting estimates that are reasonable in the circumstances, and to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.

A48. Because of the significance of the preconditions for undertaking a review of financial statements, the practitioner is required under this SRE to obtain the agreement of management that it understands its responsibilities before accepting a review engagement. The practitioner may obtain management's agreement either orally or in writing. However, management's agreement is subsequently recorded within the written terms of the engagement.

A49. If management, and those charged with governance where appropriate, do not or will not acknowledge their responsibilities in relation to the financial statements, it is not appropriate to accept the engagement unless law or regulation requires the practitioner to do so. In circumstances where the practitioner is required to accept the review engagement, the practitioner may need to explain to management and those charged with governance, where different, the importance of these matters and the implications for the engagement.

***Additional Considerations When the Wording of the Practitioner's Report is Prescribed by Law or Regulation*** (Ref: Para. 34-35)

A50. This SRE requires the practitioner to not represent compliance with this SRE unless the practitioner has complied with all the requirements of this SRE that are relevant to the review engagement. Law or regulation may prescribe matters in relation to an engagement that would ordinarily cause the practitioner to decline the engagement were it possible to do so, for example, if:

- The practitioner considers that the financial reporting framework prescribed by law or regulation is not acceptable; or
- The prescribed layout or wording of the practitioner's report is in a form or in terms that are significantly different from the layout or wording required by this SRE.

Under this SRE, a review conducted in these situations does not comply with this SRE and the practitioner cannot represent compliance with this SRE in the report issued for the engagement. Notwithstanding that the practitioner is not permitted to represent compliance with this SRE, the practitioner is, however, encouraged to apply this SRE, including the reporting requirements, to the extent practicable. When appropriate to avoid misunderstanding, the practitioner may consider including a statement in the report that the review is not conducted in accordance with this SRE.

***Agreeing the Terms of Engagement***

*Engagement Letter or Other Form of Written Agreement* (Ref: Para. 37)

A51. It is in the interests of both management and those charged with governance, and the practitioner, that the practitioner sends an engagement

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letter prior to performing the review engagement, to help avoid misunderstandings with respect to the engagement.

### Form and content of the engagement letter

A52. The form and content of the engagement letter may vary for each engagement. In addition to including the matters required by this SRE, an engagement letter may make reference to, for example:

- Arrangements concerning the involvement of other practitioners and experts in the review engagement.
- Arrangements to be made with the predecessor practitioner, if any, in the case of an initial engagement.
- The fact that a review engagement will not satisfy any statutory or third party requirements for an audit.
- The expectation that management will provide written representations to the practitioner.
- The agreement of management to inform the practitioner of facts that may affect the financial statements of which management may become aware during the period from the date of the practitioner's report to the date the financial statements are issued.
- A request for management to acknowledge receipt of the engagement letter and to agree to the terms of the engagement outlined therein.

### Review of components of groups of entities

A53. The auditor of the financial statements of a group of entities may request that a practitioner perform a review of the financial information of a component entity of the group. Depending on the instructions of the group auditor, a review of the financial information of a component may be performed in accordance with this SRE. The group auditor may also specify additional procedures to supplement the work done for the review performed under this SRE. Where the practitioner conducting the review is the auditor of the component entity's financial statements, the review is not performed in accordance with this SRE.

Responsibilities of Management prescribed by law or regulation (Ref: Para. 37(e))

A54. If, in the circumstances of the engagement, the practitioner concludes that it is not necessary to record certain terms of the engagement in an engagement letter, the practitioner is still required to seek the written agreement from management, and those charged with governance where appropriate, required under this SRE that they acknowledge and understand their responsibilities set

out in this SRE. This written agreement may use the wording of the law or regulation if the law or regulation establishes responsibilities for management that are equivalent in effect to those described in this SRE.

*Illustrative Engagement Letter* (Ref: Para. 37)

A55. An illustrative engagement letter for a review engagement is set out in **Appendix 1** to this SRE.

*Recurring Engagements* (Ref: Para. 38)

A56. The practitioner may decide not to send a new engagement letter or other written agreement each period. However, the following factors may indicate that it is appropriate to revise the terms of the review engagement or to remind management and those charged with governance, as appropriate, of the existing terms of the engagement:

- Any indication that management misunderstands the objective and scope of the review.
- Any revised or special terms of the engagement.
- A recent change of senior management of the entity.
- A significant change in ownership of the entity.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements affecting the entity.
- A change in the applicable financial reporting framework.

***Acceptance of a Change in the Terms of the Review Engagement***

*Request to Change the Terms of the Review Engagement* (Ref: Para. 39)

A57. A request from the entity for the practitioner to change the terms of the review engagement may result from factors including:

- A change in circumstances affecting the need for the service.
- Misunderstanding as to the nature of a review engagement as originally requested.
- A restriction on the scope of the review engagement, whether imposed by management or caused by other circumstances.

A58. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change to the terms of the review engagement.

A59. In contrast, a change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise

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unsatisfactory. An example might be where the practitioner is unable to obtain sufficient appropriate evidence for a material item in the financial statements, and management asks for the engagement to be changed to a related services engagement to avoid the expression of a modified conclusion by the practitioner.

*Request to Change the Nature of the Engagement* (Ref: Para. 40)

A60. Before agreeing to change a review engagement to another type of engagement or related service, a practitioner who was engaged to perform a review in accordance with this SRE may need to assess, in addition to the matters referred to in this SRE, any legal or contractual implications of the change.

A61. If the practitioner concludes that there is reasonable justification to change the review engagement to another type of engagement or related service, the work performed in the review engagement to the date of change may be relevant to the changed engagement; however, the work required to be performed and the report to be issued would be those appropriate to the revised engagement. In order to avoid confusing the reader, the report on the other engagement or related service would not include reference to:

- (a) The original review engagement; or
- (b) Any procedures that may have been performed in the original review engagement, except where the review engagement is changed to an engagement to perform agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.

### **Communication with Management and Those Charged with Governance** (Ref: Para. 42)

A62. In a review engagement, the practitioner's communications with management and those charged with governance take the form of:

- (a) Inquiries the practitioner makes in the course of performing the procedures for the review; and
- (b) Other communications, in the context of having effective two-way communication to understand matters arising and to develop a constructive working relationship for the engagement.

A63. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant factors include the significance and nature of the matter, and any action expected to be taken by management or those charged with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the review as soon as practicable if

management or those charged with governance are able to assist the practitioner to overcome the difficulty.

A64. Law or regulation may restrict the practitioner's communication of certain matters with those charged with governance. For example, law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the practitioner's obligations of confidentiality and obligations to communicate may be complex. In such cases, the practitioner may consider obtaining legal advice.

***Communicating Matters Concerning the Review***

A65. Matters to be communicated to management or those charged with governance, as appropriate, under this SRE may include:

- The practitioner's responsibilities in the review engagement, as included in the engagement letter or other suitable form of written agreement.
- Significant findings from the review, for example:
  - The practitioner's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant findings from the performance of procedures, including situations where the practitioner considered performance of additional procedures necessary under this SRE. The practitioner may need to confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.
  - Matters arising that may lead to modification of the practitioner's conclusion.
  - Significant difficulties, if any, encountered during the review; for example, unavailability of expected information; unexpected inability to obtain evidence that the practitioner considers necessary for the review; or restrictions imposed on the practitioner by management. In some circumstances, such difficulties may constitute a scope limitation that, if not addressed by management or those charged with governance, may lead to modification of the practitioner's conclusion or to the practitioner's withdrawal from the engagement in certain circumstances.

A66. In some entities, different persons are responsible for the management and the governance of an entity. In these circumstances, management may have the

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responsibility to communicate matters of governance interest to those charged with governance. Communication by management with those charged with governance of matters that the practitioner is required to communicate does not relieve the practitioner of the responsibility to also communicate them to those charged with governance. However, communication of these matters by management may affect the form or timing of the practitioner's communication with those charged with governance.

### ***Communication with Third Parties***

A67. In some entities, the practitioner may be required by law or regulation to, for example:

- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some cases the practitioner has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action.
- Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies or, in some cases, make such reports publicly available.

A68. Unless required by law or regulation to provide a third party with a copy of the practitioner's written communications with those charged with governance, the practitioner may need the prior consent of management or those charged with governance before doing so.

### **Performing the Engagement**

#### ***Materiality in a Review of Financial Statements*** (Ref: Para. 43)

A69. The practitioner's consideration of materiality is made in the context of the applicable financial reporting framework. Some financial reporting frameworks discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and

- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

A70. If present in the applicable financial reporting framework, a discussion of the concept of materiality provides a frame of reference for the practitioner in determining materiality for the review. If not present, the above considerations provide the practitioner with a frame of reference.

A71. The practitioner's determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the needs of the intended users of the financial statements. In this context, it is reasonable for the practitioner to assume that users:

- Have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and reviewed to levels of materiality;
- Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
- Make reasonable economic decisions on the basis of the information in the financial statements.

Further, unless the review engagement is undertaken for financial statements that are intended to meet the particular needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

A72. The practitioner's judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by a practitioner as the basis for expressing the conclusion on the financial statements.

*Revising Materiality* (Ref: Para. 44)

A73. The practitioner's determination of materiality for the financial statements as a whole may need to be revised during the engagement as a result of:

- A change in the circumstances that occurred during the review (for example, a decision to dispose of a major part of the entity's business).

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- New information, or a change in the practitioner's understanding of the entity and its environment as a result of performing procedures for the review in accordance with this SRE (for example, if during the review it appears as though actual financial results are likely to be substantially different from the anticipated period-end financial results that were used initially to determine materiality for the financial statements as a whole).

### ***The Practitioner's Understanding*** (Ref: Para. 45-46)

A74. The practitioner uses professional judgment to determine the extent of the understanding of the entity and its environment required to perform the review of the entity's financial statements in accordance with this SRE. The practitioner's primary consideration is whether the understanding obtained is sufficient to meet the practitioner's objectives for the engagement. The breadth and depth of the overall understanding that the practitioner obtains is less than that possessed by management.

A75. Obtaining an understanding of the entity and its environment is a continual dynamic process of gathering, updating and analyzing information throughout the review engagement. The practitioner's understanding is obtained and applied on an iterative basis throughout performance of the engagement, and is updated as changes in conditions and circumstances occur. Initial procedures for engagement acceptance and continuance at the time of commencement of a review engagement are based on the practitioner's preliminary understanding of the entity and of the engagement circumstances. In a continuing client relationship, the practitioner's understanding includes knowledge obtained from prior engagements performed by the practitioner in relation to the entity's financial statements and other financial information.

A76. The understanding establishes a frame of reference within which the practitioner plans and performs the review engagement, and exercises professional judgment throughout the engagement. Specifically, the understanding needs to be sufficient for the practitioner to be able to identify areas in the financial statements where material misstatements are likely to arise, to inform the practitioner's approach to designing and performing procedures to address those areas.

A77. In obtaining an understanding of the entity and its environment, and of the applicable financial reporting framework, the practitioner may also consider:

- Whether the entity is a component of a group of entities, or an associated entity of another entity.
- The complexity of the financial reporting framework.
- The entity's financial reporting obligations or requirements, and whether

those obligations or requirements exist under applicable law or regulation or in the context of voluntary financial reporting arrangements established under formalized governance or accountability arrangements, for example, under contractual arrangements with third parties.

- Relevant 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.
- The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin preparation of the financial statements. Smaller entities often have fewer employees, which may influence how management exercises oversight. For example, segregation of duties may not be practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.
- The "tone at the top" and the entity's control environment through which the entity addresses risks relating to financial reporting and compliance with the entity's financial reporting obligations.
- The level of development and complexity of the entity's financial accounting and reporting systems and related controls through which the entity's accounting records and related information are maintained.
- The entity's procedures for recording, classifying and summarizing transactions, accumulating information for inclusion in the financial statements and related disclosures.
- The types of matters that required accounting adjustments in the entity's financial statements in prior periods.

***Designing and Performing Procedures*** (Ref: Para. 47, 55)

A78. The planned nature, timing and extent of the procedures the practitioner considers are needed to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole are influenced by:

- (a) The requirements of this SRE; and
- (b) Requirements established under applicable law or regulation, including additional reporting requirements contained in applicable laws or regulations.

A79. When the practitioner is engaged to review the financial statements of a group of entities, the planned nature, timing and extent of the procedures for the

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review are directed at achieving the practitioner's objectives for the review engagement stated in this SRE, but in the context of the group financial statements.

A80. The requirements of this SRE relating to designing and performing inquiry and analytical procedures, and procedures addressing specific circumstances, are designed to enable the practitioner to achieve the objectives specified in this SRE. The circumstances of review engagements vary widely and, accordingly, there may be circumstances where the practitioner may consider it effective or efficient to design and perform other procedures. For example, if in the course of obtaining an understanding of the entity, the practitioner becomes aware of a significant contract the practitioner may choose to read the contract.

A81. The fact that the practitioner may deem it necessary to perform other procedures does not alter the practitioner's objective of obtaining limited assurance in relation to the financial statements as a whole.

### *Significant or Unusual Transactions*

A82. The practitioner may consider, reviewing the accounting records with a view to identifying significant or unusual transactions that may require specific attention in the review.

### *Inquiry (Ref: Para. 46-48)*

A83. In a review, inquiry includes seeking information of management and other persons within the entity, as the practitioner considers appropriate in the engagement circumstances. The practitioner may also extend inquiries to obtain non-financial data if appropriate. Evaluating the responses provided by management is integral to the inquiry process.

A84. 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. When performing further inquiries in relation to identified inconsistencies, the practitioner considers the reasonableness and consistency of management's responses in light of the results obtained from other procedures, and the practitioner's knowledge and understanding of the entity and the industry in which it operates.

A85. Evidence obtained through inquiry is often the principal source of evidence about management intent. However, information available to support management's intent may be limited. In that case, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry. Application of professional skepticism in evaluating responses provided by management is important to enable the practitioner to evaluate whether there are any matter(s) that would cause the practitioner to believe the financial statements may be materially misstated.

A86. Performing inquiry procedures assists the practitioner also in obtaining or updating the practitioner's understanding of the entity and its environment, to be able to identify areas where material misstatements are likely to arise in the financial statements.

Inquiry about the entity's ability to continue as a going concern (Ref: Para. 48(f))

A87. Often in smaller entities, management may not have prepared an assessment of the entity's ability to continue as a going concern, but instead may rely on knowledge of the business and anticipated future prospects. In these circumstances, it may be appropriate to discuss the medium and long-term prospects and financing of the entity with management, including consideration of whether management's contentions are not inconsistent with the practitioner's understanding of the entity.

*Analytical Procedures* (Ref: Para. 46-47, 49)

A88. 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 inquiry or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matter(s) that cause the practitioner to believe that the financial statements may be materially misstated. An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across profit

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centers, branches or other components of the entity, to provide evidence about financial information contained in line items or disclosures contained in the financial statements.

A89. Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analysis using statistical techniques. The practitioner may, for example, apply analytical procedures to evaluate the financial information underlying the financial statements through analysis of plausible relationships among both financial and non-financial data, and assessment of results for consistency with expected values with a view to identifying relationships and individual items that appear unusual, or that vary from expected trends or values. The practitioner would compare recorded amounts, or ratios developed from recorded amounts, to expectations developed by the practitioner from information obtained from relevant sources. Examples of sources of information the practitioner often uses to develop expectations, depending on the engagement circumstances, include:

- Financial information for comparable prior period(s), taking known changes into account.
- Information about expected operating and financial results, such as budgets or forecasts including extrapolations from interim or annual data.
- Relationships among elements of financial information within the period.
- Information regarding the industry in which the entity operates, such as gross margin information, or comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.
- Relationships of financial information with relevant non-financial information, such as payroll costs to number of employees.

A90. The practitioner's consideration of whether data to be used for analytical procedures are satisfactory for the intended purpose(s) of those procedures is based on the practitioner's understanding of the entity and its environment, and is influenced by the nature and source of the data, and by the circumstances in which the data are obtained. The following considerations may be relevant:

- Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity;
- Comparability of the information available. For example, broad industry data may need to be supplemented or be adjusted to be comparable to data of an entity that produces and sells specialized products;
- Nature and relevance of the information available; for example, whether the

entity's budgets are established as results to be expected rather than as goals to be achieved; and

- The knowledge and expertise involved in the preparation of the information, and related controls that are designed to ensure its completeness, accuracy and validity.
- Such controls may include, for example, controls over the preparation, review and maintenance of budgetary information.

*Procedures to Address Specific Circumstances*

Fraud and non-compliance with laws or regulations (Ref: Para. 52(d))

A91. Under this SRE, if the practitioner has identified or suspects fraud or illegal acts, the practitioner is required to determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the practitioner's professional duty to maintain the confidentiality of client information may preclude such reporting, the practitioner's legal responsibilities may override the duty of confidentiality in some circumstances.

Events or conditions that may cast doubt regarding use of the going concern assumption in the financial statements (Ref: Para. 54)

A92. The list of factors below gives examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. The list is not all inclusive, and the existence of one or more of the items does not always signify that uncertainty exists about whether the entity can continue as a going concern.

*Financial*

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.

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- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

### *Operating*

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

### *Other*

- Non-compliance with capital or other statutory requirements.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

### ***Reconciling the Financial Statements to the Underlying Accounting Records*** (Ref: Para. 56)

A93. The practitioner ordinarily obtains evidence that the financial statements agree with, or reconcile to, the underlying accounting records by tracing the financial statement amounts and balances to the relevant accounting records such as the general ledger, or to a summary record or schedule that reflects the agreement or reconciliation of the financial statement amounts with the underlying accounting records (such as a trial balance).

***Performing Additional Procedures*** (Ref: Para. 57)

A94. Additional procedures are required under this SRE if the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated.

A95. The practitioner's response in undertaking additional procedures with respect to an item the practitioner has cause to believe may be materially misstated in the financial statements will vary, depending on the circumstances, and is a matter for the practitioner's professional judgment.

A96. The practitioner's judgment about the nature, timing and extent of additional procedures that are needed to obtain evidence to either conclude that a material misstatement is not likely, or determine that a material misstatement exists, is guided by:

- Information obtained from the practitioner's evaluation of the results of the procedures already performed;
- The practitioner's updated understanding of the entity and its environment obtained throughout the course of the engagement; and
- The practitioner's view on the persuasiveness of evidence needed to address the matter that causes the practitioner to believe that the financial statements may be materially misstated.

A97. Additional procedures focus on obtaining sufficient appropriate evidence to enable the practitioner to form a conclusion on matters that the practitioner believes may cause the financial statements to be materially misstated. 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.

A98. The following example illustrates the practitioner's evaluation of the need to perform additional procedures, and the practitioner's response when the practitioner believes additional procedures are necessary.

- In the course of performing the inquiry and analytical procedures for the review, the practitioner's analysis of accounts receivable shows a material amount of past due accounts receivable, for which there is no allowance for bad or doubtful debts.

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- 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.

### **Written Representations (Ref: Para. 61-63)**

A99. Written representations are an important source of evidence in a review engagement. If management modifies or does not provide the requested written representations, it may alert the practitioner to the possibility that one or more significant issues may exist. Further, a request for written, rather than oral, representations in many cases may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations.

A100. In addition to the written representations required under this SRE, the practitioner may consider it necessary to request other written representations about the financial statements. These may be needed, for example, to complete the practitioner's evidence with respect to certain items or disclosures reflected in the financial statements where the practitioner considers such representations to be important in forming a conclusion on the financial statements on either a modified or unmodified basis.

A101. In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of management's knowledge and belief. It is reasonable for the practitioner to accept such wording if the practitioner is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

**Evaluating Evidence Obtained from the Procedures Performed (Ref: Para. 66-68)**

A102. In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the design of primarily inquiry and analytical procedures and procedures addressing specific circumstances. In these circumstances, the practitioner considers that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the financial statements. The practitioner may:

- Extend the work performed; or
- Perform other procedures judged by the practitioner to be necessary in the circumstances.

Where neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion and is required by this SRE to determine the effect on the practitioner's report, or on the practitioner's ability to complete the engagement, for example, if a member of management is unavailable at the time of the review to respond to the practitioner's inquiries on significant matters. This situation may arise even though the practitioner has not become aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, as addressed in paragraph 57.

**Scope Limitations**

A103. Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the practitioner is able to obtain sufficient appropriate evidence by performing other procedures.

A104. Limitations on the scope of the review imposed by management may have other implications for the review, such as for the practitioner's consideration of areas where the financial statements are likely to be materially misstated, and engagement continuance.

**Forming the Practitioner's Conclusion on the Financial Statements**

***Description of the Applicable Financial Reporting Framework*** (Ref: Para. 69(a))

A105. The description of the applicable financial reporting framework in the financial statements is important because it advises users of the financial statements of the framework on which the financial statements are based. If the financial statements are special purpose financial statements, they may be prepared under a special purpose financial reporting framework that is available only to the engaging party and the practitioner. Description of the special purpose financial reporting framework used is important as the special purpose financial statements may not be appropriate for any use other than the intended use identified for the special purpose financial statements.

A106. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, "the financial statements are in substantial compliance with Accounting Standards issued by the ICAI or Accounting Standards notified by the Central Government under the Companies Act, 2013<sup>12</sup>, or the Accounting Standards for Local Bodies issued by the ICAI, as may be applicable") is not an adequate description of that framework as it may mislead users of the financial statements.

***Disclosure of Effects of Material Transactions and Events on Information Conveyed in the Financial Statements*** (Ref: Para. 69(b)(vi), 71)

A107. The practitioner is required under this SRE to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows.

A108. In the case of financial statements prepared in accordance with the requirements of a fair presentation framework, management may need to include additional disclosures in the financial statements beyond those specifically required by the applicable financial reporting framework or, in extremely rare circumstances, to depart from a requirement in the framework, in order to achieve the fair presentation of the financial statements.

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<sup>12</sup> Read with the General Circular No. 15/2013 dated 13<sup>th</sup> September 2013 issued by the Ministry of Corporate Affairs.

*Considerations When a Compliance Framework is Used*

A109. It will be extremely rare for the practitioner to consider financial statements prepared in accordance with a compliance framework to be misleading if, in accordance with this SRE, the practitioner has determined at the time of engagement acceptance that the framework is acceptable.

**Qualitative Aspects of the Entity's Accounting Practices** (Ref: Para. 70(b))

A110. In considering the qualitative aspects of the entity's accounting practices, the practitioner may become aware of possible bias in management's judgments. The practitioner may conclude that the cumulative effect of a lack of neutrality, together with the effect of apparent uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the practitioner's evaluation of whether the financial statements as a whole may be materially misstated include the following:

- The selective correction of apparent misstatements brought to management's attention during the review (for example, correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
- Possible management bias in the making of accounting estimates.

A111. Indicators of possible management bias do not necessarily mean there are misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the practitioner's consideration of whether the financial statements as a whole may be materially misstated.

**Form of the Conclusion** (Ref: Para. 74)

*Description of the Information the Financial Statements Present*

A112. In the case of financial statements prepared in accordance with a fair presentation framework, the practitioner's conclusion states that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements do not give a true and fair view of ... (or do not present fairly, in all material respects, ...) in accordance with [the applicable fair presentation framework]. In the case of many general purpose frameworks, for example, the financial statements are required to give a true and fair view of (or fairly present) the financial position of the entity as at the end of a period, and the entity's financial performance and cash flows for that period.

*“Gives a true and fair view” or “present fairly, in all material respects”*

A113. Whether the phrase “gives a true and fair view” or the phrase “present fairly, in all material respects,” is used in any particular entity is determined by the law or regulation governing the review of financial statements of that entity, or by generally accepted practice in that regard. Where the relevant law or regulation requires the use of different wording, this does not affect the requirement in this SREs for the practitioner to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.

***Inability to Form a Conclusion Due to a Management-Imposed Limitation on the Scope of the Review after Engagement Acceptance*** (Ref: Para. 15, 82)

A114. The practicality of withdrawing from the engagement may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the practitioner has substantially completed the review, the practitioner may decide to complete the review to the extent possible, disclaim a conclusion and explain the scope limitation in the paragraph in the report that describes the basis for disclaiming a conclusion.

A115. In certain circumstances, withdrawal from the engagement may not be possible if the practitioner is required by law or regulation to continue the engagement. For example, this may be the case for a practitioner appointed to review the financial statements of a public sector entity. It may also be the case in entities where the practitioner is appointed to review the financial statements covering a specific period, or appointed for a specific period, and is prohibited from withdrawing before the completion of the review of those financial statements or before the end of that period, respectively. The practitioner may also consider it necessary to include an Other Matter paragraph in the practitioner’s report to explain why it is not possible for the practitioner to withdraw from the engagement.

*Communication with Regulators or the Entity’s Owners*

A116. When the practitioner concludes that withdrawal from the engagement is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the practitioner to communicate matters relating to the withdrawal from the engagement to regulators or the entity’s owners.

**The Practitioner’s Report** (Ref: Para. 86-92)

A117. The written report encompasses reports issued in hard copy format and those using an electronic medium.

***Elements of the Practitioner's Report*** (Ref: Para. 86)

A118. A title indicating the report is the report of an independent practitioner, for example, "Independent Practitioner's Review Report," affirms that the practitioner has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent practitioner's report from reports issued by others.

A119. Law or regulation applicable to the entity may specify to whom the practitioner's report is to be addressed. The practitioner's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being reviewed.

A120. When the practitioner is aware that the financial statements that have been reviewed will be included in a document that contains other information, such as a financial report, the practitioner may consider, if the form of presentation allows, identifying the page numbers on which the financial statements that have been reviewed are presented. This helps users to identify the financial statements to which the practitioner's report relates.

***Management's Responsibility for the Financial Statements*** (Ref: Para. 86(d))

A121. The requirement of this SRE that the practitioner must obtain management's agreement that it acknowledges and understands its responsibilities, both in relation to the preparation of the financial statements and in relation to the review engagement, is fundamental to performing the review and reporting on the engagement. The description of management's responsibilities in the practitioner's report provides context for readers of the practitioner's report about management's responsibilities, as they relate to the review engagement performed.

A122. The practitioner's report need not refer specifically to "management" but instead may use the term that is appropriate in the context of the legal framework applicable to the entity. In some entities, the appropriate reference is to those charged with governance of the entity.

A123. There may be circumstances when it is appropriate for the practitioner to add to the description of management's responsibilities as described in this SRE to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of law or regulation applicable to the entity, or due to the type of entity.

A124. In some entities, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of the accounting books and records, or accounting system. As books, records and

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systems are an integral part of internal control, this SRE does not use these descriptions or make any specific reference to them.

*The Practitioner's Responsibility* (Ref: Para. 86(f))

A125. The practitioner's report states that the practitioner's responsibility is to express a conclusion on the financial statements based on the review performed, in order to contrast the practitioner's responsibility with management's responsibility for preparation of the financial statements.

*Reference to standards* (Ref: Para. 86(f))

A126. The reference to the standards used by the practitioner for the review conveys to the users of the practitioner's report that the review has been conducted in accordance with established standards.

*Communication of the Nature of a Review of Financial Statements* (Ref: Para. 86(g))

A127. The description of the nature of a review engagement in the practitioner's report explains the scope and limitations of the engagement undertaken for the benefit of the readers of the report. This explanation clarifies, for avoidance of doubt, that the review is not an audit and that accordingly, the practitioner does not express an audit opinion on the financial statements.

*Description of the Applicable Financial Reporting Framework and How it May Affect the Practitioner's Conclusion* (Ref: Para. 86(h)(ii))

A128. The identification of the applicable financial reporting framework in the practitioner's conclusion is intended to advise users of the practitioner's report of the context in which that conclusion is expressed. It is not intended to limit the evaluation required in paragraph 30(a). The applicable financial reporting framework is identified in such terms as:

"... in accordance with the Financial Reporting Standards<sup>13</sup> or

"... in accordance with accounting principles generally accepted in India ..."

A129. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in terms such as "... in accordance with the Financial Reporting Standards and the requirements of the applicable Act ...."

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<sup>13</sup> Accounting Standards issued by the ICAI or Accounting Standards notified by the Central Government under the Companies Act, 2013 or Accounting Standards for Local Bodies issued by the ICAI, as may be applicable.

*Basis for Modification Paragraph When the Conclusion is Modified* (Ref: Para. 86(i)(ii))

A130. An adverse conclusion or a disclaimer of conclusion relating to a specific matter described in the basis for modification paragraph does not justify the omission of a description of other identified matters that would have otherwise required a modification of the practitioner's conclusion. In such cases, the disclosure of such other matters of which the practitioner is aware may be relevant to users of the financial statements.

*Signature of the Practitioner* (Ref: Para. 86(l))

A131. The report is signed by the practitioner who is the partner/ proprietor in his personal name. Where the firm is appointed as the reviewer, the report is signed in the personal name of the partner/ proprietor and in the name of the firm. The partner/proprietor signing the review report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the review reports signed by them<sup>14</sup>.

***Alerting Readers that the Financial Statements are Prepared in Accordance with a Special Purpose Framework*** (Ref: Para. 88)

A132. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. For avoidance of misunderstanding, it is important that the practitioner alert users of the practitioner's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

*Restriction on Distribution or Use*

A133. In addition to the alert to the reader of the practitioner's report that is required by this SRE when the financial statements are prepared using a special

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<sup>14</sup> The Council of the ICAI, at its 292<sup>nd</sup> meeting held in January 2010, decided to require the members of the ICAI to include, in addition to the other requirements relating to signature on the audit report, as prescribed under the relevant Standard on Auditing, the registration number of the firm as allotted by ICAI, in the audit reports signed by them, and ensure that the resolution passed by the company regarding appointment of the statutory auditor of the company under section 224 of the Companies Act, 1956, also contain the registration number of the firm of the auditor(s) with the ICAI. These requirements came into effect from April 1, 2010. Subsequently, the Council of the ICAI, at its 296<sup>th</sup> meeting held in June 2010, decided to extend the requirement to mention the firm registration number to all reports issued pursuant to any attestation engagement, including certificates, issued by the members as proprietor of/ partner in the said firm. The requirement applies where such firm registration number has been allotted by the ICAI. The Council further decided to make this requirement effective for all attestation reports/ certificates issued on or after 1<sup>st</sup> October, 2010.

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purpose framework, the practitioner may consider it appropriate to indicate that the practitioner's report is intended solely for the specific users. Depending on the law or regulation applicable to the entity, this may be achieved by restricting the distribution or use of the practitioner's report. In these circumstances, the paragraph containing the alert about the use of a special purpose framework may be expanded to include these other matters, and the heading modified accordingly.

### ***Other Reporting Responsibilities*** (Ref: Para. 91)

A134. In some cases, the practitioner may have additional responsibilities under the relevant law or regulation to report on other matters that are supplementary to the practitioner's responsibility under this SRE. For example, the practitioner may be asked to report certain matters if they come to the practitioner's attention during the course of the review of the financial statements. Alternatively, the practitioner may be asked to perform and report on additional specified procedures, or to express a conclusion on specific matters, such as the adequacy of accounting books and records. Such law or regulation may provide guidance on the practitioner's responsibilities with respect to specific additional reporting responsibilities.

A135. In some cases, the relevant law or regulation may require or permit the practitioner to report on these other responsibilities within the practitioner's report on the financial statements. In other cases, the practitioner may be required or permitted to report on them in a separate report.

A136. These other reporting responsibilities are addressed in a separate section of the practitioner's report, to clearly distinguish them from the practitioner's responsibility under this SRE to report on the financial statements. Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s). In some cases, the additional reporting responsibilities may be addressed in a report that is separate from the practitioner's report provided for the review of the financial statements.

### ***Date of the Practitioner's Report*** (Ref: Para. 86(k), 92)

A137. The date of the practitioner's report informs the user of the practitioner's report that the practitioner has considered the effect of events and transactions of which the practitioner became aware and that occurred up to that date.

A138. The practitioner's conclusion is provided on the financial statements and the financial statements are the responsibility of management. The practitioner is not in a position to conclude that sufficient appropriate evidence

has been obtained until the practitioner is satisfied that all the statements that comprise the financial statements, including the related notes, have been prepared and management has accepted responsibility for them.

A139. In some entities, law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In some entities, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation may identify the point in the financial statement reporting process at which the review is expected to be complete.

A140. In some entities, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these entities, final approval by shareholders is not necessary for the practitioner to conclude on the financial statements. The date of approval of the financial statements for purposes of this SRE is the earlier date on which those with the recognized authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

***Practitioner's Report Prescribed by Law or Regulation*** (Ref: Para. 34-35, 86)

A141. Consistency in the practitioner's report, when the review has been conducted in accordance with this SRE, promotes credibility in the global marketplace by making more readily identifiable those reviews of financial statements that have been conducted in accordance with globally recognized standards. The practitioner's report may refer to this SRE when the differences between the legal or regulatory requirements and this SRE relate only to the layout or wording of the practitioner's report and, at a minimum, the report complies with the requirements of paragraph 86 of this SRE. Accordingly, in such circumstances the practitioner is considered to have complied with the requirements of this SRE, even when the layout and wording used in the practitioner's report are specified by legal or regulatory reporting requirements. Where specific requirements applicable to the entity do not conflict with this SRE,

adoption of the layout and wording used in this SRE assists users of the practitioner's report to more readily recognize the practitioner's report as a report on a review of financial statements conducted in accordance with this SRE. Circumstances where law or regulation prescribes the layout or wording of the practitioner's report in terms that are significantly different from the requirements of this SRE are addressed in the requirements of this SRE concerning acceptance of review engagements and continuance of client relationships.

***Practitioner's Report for Reviews Conducted in Accordance with Both Relevant Legal or Regulatory Requirements and this SRE*** (Ref: Para. 86(f))

A142. When, in addition to complying with the requirements of this SRE, the practitioner also complies with other specific relevant legal or regulatory requirements, governing the review engagement, the report may refer to the review having been performed in accordance with both this SRE and such legal or regulatory requirements for engagements to review financial statements. However, a reference to both this SRE and such legal or regulatory requirements is not appropriate if there is a conflict between the requirements of this SRE and those legal or regulatory requirements that would lead the practitioner to form a different conclusion or not to include an Emphasis of Matter paragraph that, in the particular circumstances, would be required by this SRE. In such a case, the practitioner's report refers only to the relevant standards (either this SRE or the relevant legal or regulatory requirements) in accordance with which the practitioner's report has been prepared.

***Illustrative Review Reports*** (Ref: Para. 86)

A143. **Appendix 2** to this SRE contains illustrations of practitioners' reports for a review of financial statements incorporating the reporting requirements of this SRE.

**Documentation**

***Timeliness of Engagement Documentation*** (Ref: Para. 93)

A144. SQC 1 requires the firm to establish time limits that reflect the need to complete the assembly of final engagement files on a timely basis.

**Material Modifications *vis-a-vis* ISRE 2400 (Revised), "Engagements to Review Historical Financial Statements"**

There are no material modifications in SRE 2400 (Revised) *vis-à-vis* ISRE 2400 (Revised), "Engagements to Review Historical Financial Statements"

## Appendix 1

(Ref: Para. A55)

### Illustrative Engagement Letter for an Engagement to Review Historical Financial Statements

The following is an example of an engagement letter for a review of general purpose financial statements (prepared in accordance with the applicable fair presentation Financial Reporting Framework), which illustrates the relevant requirements and guidance contained in this SRE. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this SRE. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the review of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring reviews. It may be appropriate to seek legal advice that any proposed letter is suitable.

To the appropriate representative of management or those charged with governance of ABC Company:<sup>15</sup>

[The objective and scope of the review]

You<sup>16</sup> have requested that we review the general purpose financial statements of ABC Company, which comprise the Balance Sheet as at March 31, 20XX, 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. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

Our review will be conducted with the objective of expressing our conclusion on the financial statements. Our conclusion, if unmodified, will be in the form "Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not give a true and fair view of (or do not present fairly, *in all material respects*,) the financial position of the company as at [date] and of its financial performance and cash flows for the year then ended in accordance with [indicate the applicable financial reporting framework]."

[The practitioner's responsibilities]

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<sup>15</sup> The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement. It is important to refer to the appropriate persons — see paragraph 36 of this SRE.

<sup>16</sup> Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "practitioner" would be used or amended as appropriate in the circumstances.

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We will conduct our review in accordance with Standard on Review Engagements (SRE) 2400 (Revised), Engagements to Review Historical Financial Statements. SRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. SRE 2400 also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with SRE 2400(Revised) is a limited assurance engagement. We will perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe the financial statements as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the financial statements in accordance with SRE 2400(Revised). The procedures selected will depend on what we consider necessary applying our professional judgment, based on our understanding of ABC Company and its environment, and our understanding of the applicable financial reporting framework and its application in the industry context.

A review is not an audit of the financial statements, therefore:

- (a) There is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the financial statements reviewed may not be revealed by the review, even though the review is properly performed in accordance with SRE 2400 (Revised).
- (b) In expressing our conclusion from the review of the financial statements, our report on the financial statements will expressly disclaim any audit opinion on the financial statements.

[The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example, it is assumed that the practitioner has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 30(b) of this SRE are therefore used).]

Our review will be conducted on the basis that [management and, where appropriate, those charged with governance]<sup>17</sup> acknowledge and understand that they have the responsibility:

- (a) For the preparation of financial statements that give a true and fair view in

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<sup>17</sup> Use terminology as appropriate in the circumstances.

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accordance with [indicate the applicable financial reporting framework];<sup>18</sup>

- (b) 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
- (c) To provide us with:
  - (i) Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other matters;
  - (ii) Additional information that we may request from management for the purpose of the review; and
  - (iii) Unrestricted access to persons within ABC Company from whom we determine it necessary to obtain evidence.

As part of our review, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the review.

We look forward to full cooperation from your staff during our review.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

[Insert appropriate reference to the expected form and content of the practitioner's report.]

The form and content of our report may need to be amended in the light of our findings obtained from the review.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the financial statements including our respective responsibilities.

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

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<sup>18</sup> Or, if appropriate, "For preparation and fair presentation of the financial statements in accordance with [indicate the applicable financial reporting framework]"

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Signature  
(Name of Member signing the Review Report)  
(Designation<sup>19</sup>)  
Membership Number

Place of Signature

Date

Acknowledged on behalf of ABC Company by

(Signature)

Name and Designation

Date

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<sup>19</sup> Partner or proprietor, as the case may be.

## Appendix 2

(Ref: Para. A143)

### Illustrative Practitioners' Review Reports

#### Review Reports on General Purpose Financial Statements

##### *Illustrative Review Reports with Unmodified Conclusions*

*Illustration 1:* A practitioner's report on financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (for example, Accounting Standards referred to in the Companies Act, 2013).

##### *Illustrative Review Reports with Modified Conclusions*

*Illustration 2:* A practitioner's report containing a qualified conclusion due to an apparent material misstatement of the financial statements. Financial statements prepared in accordance with a compliance framework designed to meet the common information needs of a wide range of users. (Financial statements prepared using a compliance framework)

*Illustration 3:* A practitioner's report containing a qualified conclusion due to the practitioner's inability to obtain sufficient appropriate evidence. (Financial statements prepared using a fair presentation framework)

*Illustration 4:* A practitioner's report containing an adverse conclusion due to material misstatement of the financial statements. (Financial statements prepared using a fair presentation framework)

*Illustration 5:* A practitioner's report containing a disclaimer of conclusion due to the practitioner's inability to obtain sufficient appropriate evidence about multiple elements of the financial statements resulting in inability to complete the review. (Financial statements prepared using a fair presentation framework)

#### Review Reports on Special Purpose Financial Statements

*Illustration 6:* A practitioner's report on financial statements prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).

*Illustration 7:* A practitioner's report on a single financial statement prepared in accordance with the cash receipts and disbursements basis of accounting (for purposes of this illustration, a fair presentation framework).

**Illustration 1**

Circumstances include the following:

- Review of a complete set of financial statements.
- The financial statements are prepared for a general purpose by management of the entity under the Companies Act, 2013 financial reporting framework, designed to achieve fair presentation
- The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this SRE.
- In addition to the review of the financial statements, the practitioner has other reporting responsibilities under the law.

**INDEPENDENT PRACTITIONER'S REVIEW REPORT**

[Appropriate Addressee]

**Report on the Financial Statements<sup>20</sup>**

We have reviewed the accompanying financial statements of ABC Company, which comprise the Balance Sheet as at March 31, 20XX, 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.

***Management's<sup>21</sup> Responsibility for the Financial Statements***

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Accounting Standards referred to in the Companies Act, 2013 (the Act) and other accounting principles generally accepted in India<sup>22</sup>, and 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.

***Practitioner's Responsibility***

Our responsibility is to express a conclusion on the accompanying financial

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<sup>20</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>21</sup> Or other term that is appropriate in the context of the legal framework applicable to the particular entity.

<sup>22</sup> Where management is responsible for the preparation and fair presentation of financial statements, this may read: "Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Standards referred to in the Companies Act, 2013 (the Act) and other accounting principles generally accepted in India, and for such ..."

statements. We conducted our review in accordance with Standard on Review Engagements (SRE) 2400 (Revised), Engagements to Review Historical Financial Statements. SRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with SRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not give a true and fair view of (or *present fairly, in all material respects,*) the financial position of ABC Company as at March 31, 20XX, and of its financial performance and cash flows for the year then ended, in accordance with the Accounting Standards referred to in the Companies Act, 2013 and other accounting principles generally accepted in India.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

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

Signature  
(Name of Member signing the Review Report)  
(Designation<sup>23</sup>)  
Membership Number

Place of Signature

Date

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<sup>23</sup> Partner or proprietor, as the case may be.

**Illustration 2**

Circumstances include the following:

- Review of a complete set of financial statements required by law or regulation.
- The financial statements are prepared for a general purpose by management of the entity in accordance with the Financial Reporting Framework (DEF Law) (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this SRE.
- Based on the review, inventories are misstated. The misstatement is material but not pervasive to the financial statements.
- In addition to the review of the financial statements, the practitioner has other reporting responsibilities under the law.

**INDEPENDENT PRACTITIONER'S REVIEW REPORT**

[Appropriate Addressee]

**Report on the Financial Statements<sup>24</sup>**

We have reviewed the accompanying financial statements of ABC Company, which comprise the Balance Sheet as at March 31, 20XX, 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.

***Management's<sup>25</sup> Responsibility for the Financial Statements***

Management is responsible for the preparation of these financial statements in accordance with DEF Law, and 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.

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<sup>24</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>25</sup> Or other term that is appropriate in the context of the legal framework applicable to the particular entity.

***Practitioner's Responsibility***

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with Standard on Review Engagements (SRE) 2400 (Revised), Engagements to Review Historical Financial Statements. SRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with SRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

***Basis for Qualified Conclusion***

The company's inventories are carried in the Balance Sheet at Rs. XXX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the requirements of the Financial Reporting Framework (DEF Law). The company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of Rs. XXX would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by Rs. XXX, and income tax, net income and shareholders' equity would have been reduced by Rs. XXX, XXX and XXX, respectively.

***Qualified Conclusion***

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements of ABC Company are not prepared, in all material respects, in accordance with the Financial Reporting Framework (DEF Law).

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

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

Signature  
(Name of Member signing the Review Report)  
(Designation<sup>26</sup>)  
Membership Number

Place of Signature

Date

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<sup>26</sup> Partner or proprietor, as the case may be.

**Illustration 3**

Circumstances include the following:

- Review of a complete set of general purpose financial statements prepared by management of the entity under the Companies Act, 2013 financial reporting framework, designed to achieve fair presentation.
- The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this SRE.
- The practitioner was unable to obtain sufficient appropriate evidence regarding an investment in a foreign affiliate. The possible effects of the inability to obtain sufficient appropriate evidence are deemed to be material but not pervasive to the financial statements.
- The practitioner does not have other reporting responsibilities under the law in addition to the review of the consolidated financial statements.

**INDEPENDENT PRACTITIONER'S REVIEW REPORT**

[Appropriate Addressee]

We have reviewed the accompanying financial statements of ABC Company, which comprise the Balance Sheet as at March 31, 20XX, 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.

**Management's<sup>27</sup> Responsibility for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Accounting Standards referred to in the Companies Act, 2013 (the Act) and other accounting principles generally accepted in India,<sup>28</sup> and 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.

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<sup>27</sup> Or other term that is appropriate in the context of the legal framework applicable to the particular entity.

<sup>28</sup> Where management is responsible for the preparation and fair presentation of financial statements, this may read: "Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Standards referred to in Companies Act, 2013 (the Act) and other accounting principles generally accepted in India, and for such ..."

**Practitioner's Responsibility**

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with Standard on Review Engagements (SRE) 2400 (Revised), Engagements to Review Historical Financial Statements. SRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with SRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

**Basis for Qualified Conclusion**

ABC Company's investment in DEF Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs. XXX on the Balance Sheet as at March 31, 20XX, and ABC's share of DEF 's net income of Rs. XXX is included in ABC's income for the year then ended. We were unable to obtain access to the relevant financial information of DEF concerning the carrying amount of ABC's investment in DEF as at March 31, 20XX and ABC's share of DEF's net income for the year. Consequently, we were unable to perform the procedures we considered necessary.

**Qualified Conclusion**

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view of (or do not *present fairly, in all material respects* ) the financial position of ABC Company as at March 31, 20XX, and of its financial performance and cash flows for the year then ended in accordance with the Accounting Standards referred to in Companies Act, 2013 and other accounting principles generally accepted in India.

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

Signature  
(Name of Member signing the Review Report)  
(Designation<sup>29</sup>)  
Membership Number

Place of Signature  
Date

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<sup>29</sup> Partner or proprietor, as the case may be.

**Illustration 4**

Circumstances include the following:

- Review of consolidated general purpose financial statements prepared by management of the parent under the accounting principles generally accepted in India (as required for compliance with SEBI's regulatory requirements), designed to achieve fair presentation .
- The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this SRE.
- The financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so.
- The practitioner does not have other reporting responsibilities under the law in addition to the review of the consolidated financial statements.

**INDEPENDENT PRACTITIONER'S REVIEW REPORT**

[Appropriate Addressee]

We have reviewed the accompanying consolidated financial statements of ABC Company, which comprise the consolidated Balance Sheet as at March 31, 20XX, and the consolidated 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.

**Management's<sup>30</sup> Responsibility for the Financial Statements**

Management is responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with the accounting principles generally accepted in India,<sup>31</sup> and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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<sup>30</sup> Or other term that is appropriate in the context of the legal framework applicable to the particular entity.

<sup>31</sup> Where management is responsible for the preparation and fair presentation of financial statements, this may read: "Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting principles generally accepted in India , and for such ..."

**Practitioner's Responsibility**

Our responsibility is to express a conclusion on the accompanying consolidated financial statements. We conducted our review in accordance with Standard on Review Engagements (SRE) 2400 (Revised), Engagements to Review Historical Financial Statements. SRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of consolidated financial statements in accordance with SRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated financial statements.

**Basis for Adverse Conclusion**

As explained in Note X to the Financial Statements, the company has not consolidated the financial statements of subsidiary DEF Company it acquired during 20XX because the financial statements of this subsidiary company have not been prepared by its management. This investment is therefore accounted for on a cost basis. Under the accounting principles generally accepted in India, the subsidiary should have been consolidated because it is controlled by the company. Had DEF been consolidated, many elements in the accompanying financial statements would have been materially affected.

**Adverse Conclusion**

Based on our review, due to the significance of the matter discussed in the Basis for Adverse Conclusion paragraph, the consolidated financial statements do not give a true and fair view of (or do not present fairly) the financial position of ABC Company and its subsidiaries as at March 31, 20XX, and of their financial performance and cash flows for the year then ended in accordance with the accounting principles generally accepted in India.

For XYZ and Co.,  
Chartered Accountants

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Firm's Registration Number

Signature  
(Name of Member signing the Review Report)  
(Designation<sup>32</sup>)  
Membership Number

Place of Signature

Date

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<sup>32</sup> Partner or proprietor, as the case may be.

**Illustration 5**

Circumstances include the following:

- Review of a complete set of general purpose financial statements prepared by management of the entity under the Companies Act, 2013 financial reporting framework, designed to achieve fair presentation.
- The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this SRE.
- The practitioner was unable to form a conclusion on the financial statements, due to inability to obtain sufficient appropriate evidence about multiple elements of the financial statements, and the practitioner believes the effect is material and pervasive to the financial statements. Specifically, the practitioner was unable to obtain evidence about the entity's physical inventory and accounts receivable.

**INDEPENDENT PRACTITIONER'S REVIEW REPORT**

[Appropriate Addressee]

We were engaged to review the accompanying financial statements of ABC Company, which comprise the Balance Sheet as at March 31, 20XX, 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.

**Management's<sup>33</sup> Responsibility for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Accounting Standards referred to in the Companies Act, 2013 (the Act) and other accounting principles generally accepted in India,<sup>34</sup> and 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.

**Practitioner's Responsibility**

Our responsibility is to express a conclusion on the accompanying financial

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<sup>33</sup> Or other term that is appropriate in the context of the legal framework applicable to the particular entity.

<sup>34</sup> Where management is responsible for the preparation and fair presentation of financial statements, this may read: "Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Standards referred to in the Companies Act, 2013 and other accounting principles generally accepted in India, and for such ..."

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statements. Because of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, however, we were not able to obtain sufficient appropriate evidence as a basis for expressing a conclusion on the financial statements.

### **Basis for Disclaimer of Conclusion**

Management did not conduct a count of physical inventory on hand at the end of the year. We were unable to perform the procedures we considered necessary concerning the inventory quantities held at March 31, 20XX, which are stated at Rs. XXX in the Balance Sheet at March 31, 20XX.

In addition, the introduction of a new computerized accounts receivable system in January 20XX resulted in numerous errors in accounts receivable and inventory. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors.

As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the Statement of Profit and Loss and Cash Flow Statement.

### **Disclaimer of Conclusion**

Due to the significance of the matters described in the Basis for Disclaimer of Conclusion paragraph, we were unable to obtain sufficient appropriate evidence to form a conclusion on the accompanying financial statements. Accordingly, we do not express a conclusion on these financial statements.

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

Signature  
(Name of Member signing the Review Report)  
(Designation<sup>35</sup>)  
Membership Number

Place of Signature

Date

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<sup>35</sup> Partner or proprietor, as the case may be.

**Illustration 6**

Circumstances include the following:

- The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework), to comply with the provisions of the contract. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this SRE.
- Distribution or use of the practitioner's report is restricted.

**INDEPENDENT PRACTITIONER'S REVIEW REPORT**

[Appropriate Addressee]

We have reviewed the accompanying financial statements of ABC Company, which comprise the balance sheet as at March 31, 20XX, 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 based on the financial reporting provisions of Section Z of the contract dated January 1, 20XX between ABC Company and DEF Company ("the contract").

**Management's<sup>36</sup> Responsibility for the Financial Statements**

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of Section Z of the contract, and 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.

**Practitioner's Responsibility**

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with Standard on Review Engagements (SRE) 2400(Revised), Engagements to Review Historical Financial Statements. SRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in

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<sup>36</sup> Or other term that is appropriate in the context of the legal framework applicable to the particular entity.

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accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with SRE 2400(Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not prepared, in all material respects, in accordance with the financial reporting provisions of Section Z of the contract.

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

Without modifying our conclusion, 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 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 and DEF Company and should not be distributed to or used by parties other than ABC Company or DEF Company.

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

Signature  
(Name of Member signing the Review Report)  
(Designation<sup>37</sup>)  
Membership Number

Place of Signature  
Date

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<sup>37</sup> Partner or proprietor, as the case may be.

**Illustration 7**

Circumstances include the following:

- Review of a statement of cash receipts and disbursements.
- The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. The basis of accounting applied to prepare the financial statement has been agreed between the entity and the creditor.
- The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users.
- The practitioner has determined that it is appropriate to use the phrase “presents fairly, in all material respects,” in the practitioner’s conclusion.
- The terms of the review engagement reflect the description of management’s responsibility for the financial statement in paragraph 30(b) of this SRE.
- Distribution or use of the practitioner’s report is not restricted.

**INDEPENDENT PRACTITIONER’S REVIEW REPORT**

[Appropriate Addressee]

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

**Management’s<sup>38</sup> Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X, and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Practitioner’s Responsibility**

Our responsibility is to express a conclusion on the accompanying financial statement. We conducted our review in accordance with Standard on Review

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<sup>38</sup> Or other term that is appropriate in the context of the legal framework applicable to the particular entity.

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Engagements (SRE) 2400 (Revised), Engagements to Review Historical Financial Statements. SRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statement is not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with SRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing. Accordingly, we do not express an audit opinion on this financial statement.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the financial statement does not present fairly, in all material respects, (or does not give a true and fair view of) the cash receipts and disbursements of ABC Company for the year ended March 31, 20XX in accordance with the cash receipts and disbursements basis of accounting described in Note X.

### **Basis of Accounting**

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

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

Signature  
(Name of Member signing the Review Report)  
(Designation<sup>39</sup>)  
Membership Number

Place of Signature  
Date

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<sup>39</sup> Partner or proprietor, as the case may be.

**SRE 2410\***  
**Review of Interim Financial Information  
Performed by the Independent  
Auditor of the Entity**  
*(Effective for reviews of interim financial information for periods  
beginning on or after April 1, 2010)*

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\* Published in May, 2010 issue of the Journal.

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Appendix 3: Example of a Management Representation Letter

Appendix 4: Examples of Review Reports on Interim Financial Information

Appendix 5: Examples of Review Reports with a Qualified Conclusion for a Departure from the Applicable Financial Reporting Framework

Appendix 6: Examples of Review Reports with a Qualified Conclusion for a Limitation on Scope Not Imposed by Management

Appendix 7: Examples of Review Reports with an Adverse Conclusion for a Departure from the Applicable Financial Reporting Framework

Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", which sets out the application and authority of SREs.

## **Introduction**

1. The purpose of this Standard on Review Engagements (SRE) is to establish standards and provide guidance on the auditor's professional responsibilities when the auditor undertakes an engagement to review interim financial information of an audit client, and on the form and content of the report. The term "auditor" is used throughout this SRE, not because the auditor is performing an audit function but because the scope of this SRE is limited to a review of interim financial information performed by the independent auditor of the financial statements of the entity.

2. For purposes of this SRE, interim financial information is financial information that is prepared and presented in accordance with an applicable financial reporting framework<sup>1</sup> and comprises either a complete or a condensed set of financial statements for a period that is shorter than the entity's financial year.

**3. The auditor who is engaged to perform a review of interim financial information should perform the review in accordance with this SRE.**

Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the interim financial information, this understanding is updated through inquiries made in the course of the review, and assists the auditor in focusing the inquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of interim financial information, and who is not the auditor of the entity, performs the review in accordance with SRE 2400 (Revised), "Engagements to Review Financial Statements." As the practitioner does not ordinarily have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity, the practitioner needs to carry out different inquiries and procedures to meet the objective of the review.

3a. This SRE is directed towards a review of interim financial information by an entity's auditor. However, it is to be applied, adapted as necessary in the circumstances, when an entity's auditor undertakes an engagement to review historical financial information other than interim financial information of an audit client.

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<sup>1</sup> For example, Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies issued by the ICAI, as may be applicable.

## General Principles of a Review of Interim Financial Information

4. **The auditor should comply with the ethical requirements relevant to the audit of the annual financial statements of the entity.** These ethical requirements govern the auditor's professional responsibilities in the following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, professional behavior, and technical standards.

5. **The auditor should implement quality control procedures that are applicable to the individual engagement.** The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.

6. **The auditor should plan and perform the review with an attitude of professional skepticism, recognizing that circumstances may exist that cause the interim financial information to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.** An attitude of professional skepticism means that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by management of the entity.

## Objective of an Engagement to Review Interim Financial Information

7. The objective of an engagement to review interim financial information is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework. The auditor makes inquiries, and performs analytical and other review procedures in order to reduce to a moderate level the risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.

8. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with Standards on Auditing (SAs). A review of interim financial information does not provide a basis for expressing an opinion whether the financial information gives a true and fair view, or is

presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

9. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

### **Agreeing the Terms of the Engagement**

**10. The auditor and the client should agree on the terms of the engagement.**

11. The agreed terms of the engagement are ordinarily recorded in an engagement letter. Such a communication helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:

- The objective of a review of interim financial information.
- The scope of the review.
- Management's responsibility for the interim financial information.
- Management's responsibility for establishing and maintaining effective internal control relevant to the preparation of interim financial information.
- Management's responsibility for making all financial records and related information available to the auditor
- Management's agreement to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records.
- The anticipated form and content of the report to be issued, including the identity of the addressee of the report.
- Management's agreement that where any document containing interim financial information indicates that the interim financial information has been reviewed by the entity's auditor, the review report will also be included in the document.

An illustrative engagement letter is set out in Appendix 1 to this SRE. The terms of engagement to review interim financial information can also be combined with the terms of engagement to audit the annual financial statements.

## **Procedures for a Review of Interim Financial Information**

### **Understanding the Entity and its Environment, Including its Internal Control**

12. **The auditor should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement so as to be able to:**

- (a) **Identify the types of potential material misstatement and consider the likelihood of their occurrence; and**
- (b) **Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.**

13. As required by SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment," the auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of annual financial information that was sufficient to conduct the audit. In planning a review of interim financial information, the auditor updates this understanding. The auditor also obtains a sufficient understanding of internal control as it relates to the preparation of interim financial information as it may differ from internal control as it relates to annual financial information.

14. The auditor uses the understanding of the entity and its environment, including its internal control, to determine the inquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which inquiries may be directed or analytical or other review procedures applied.

15. The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:

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- Reading the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period interim financial information.
- Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements.
- Reading the most recent annual and comparable prior period interim financial information.
- Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.
- Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.
- Considering significant financial accounting and reporting matters that may be of continuing significance such as material weaknesses in internal control.
- Considering the results of any audit procedures performed with respect to the current year's financial statements.
- Considering the results of any internal audit performed and the subsequent actions taken by management.
- Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
- Inquiring of management about the effect of changes in the entity's business activities.
- Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of interim financial information.
- Inquiring of management of the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or reconciled.

16. The auditor determines the nature of the review procedures, if any, to be performed for components and, where applicable, communicates these matters to other auditors involved in the review. Factors to be considered include the materiality of, and risk of misstatement in, the interim financial information of components, and the auditor's understanding of the extent to which internal control over the preparation of such information is centralized or decentralized.

**17. In order to plan and conduct a review of interim financial information, a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with SAs, should obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information.**

18. This understanding enables the auditor to focus the inquiries made, and the analytical and other review procedures applied in performing a review of interim financial information in accordance with this SRE. As part of obtaining this understanding, the auditor ordinarily makes inquiries of the predecessor auditor and, peruses the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements such as supporting schedules to the audited financial statements. In doing so, the auditor considers the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the predecessor auditor, any significant risks, including the risk of management override of controls, and significant accounting and any reporting matters that may be of continuing significance, such as material weaknesses in internal control.

**Inquiries, Analytical and Other Review Procedures**

**19. The auditor should make inquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.**

20. A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of interim financial information are ordinarily limited to making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures, rather than corroborating information obtained concerning significant accounting matters relating to the interim financial information. The auditor's understanding of the entity and its environment,

including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the interim financial information, affects the nature and extent of the inquiries made, and analytical and other review procedures applied.

21. The auditor ordinarily performs the following procedures:

- Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.
- Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
- Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant components.
- Inquiring of members of management responsible for financial and accounting matters, and others as appropriate about the following:
  - ◆ Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework.
  - ◆ Whether there have been any changes in accounting principles or in the methods of applying them.
  - ◆ Whether any new transactions have necessitated the application of a new accounting principle.
  - ◆ Whether the interim financial information contains any known uncorrected misstatements.
  - ◆ Unusual or complex situations that may have affected the interim financial information, such as a business combination or disposal of a segment of the business.
  - ◆ Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.
  - ◆ Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.
  - ◆ Significant changes in commitments and contractual obligations.
  - ◆ Significant changes in contingent liabilities including litigation or claims.

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- ◆ Compliance with debt covenants.
  - ◆ Matters about which questions have arisen in the course of applying the review procedures.
  - ◆ Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period.
  - ◆ Knowledge of any fraud or suspected fraud affecting the entity involving:
    - Management;
    - Employees who have significant roles in internal control; or
    - Others where the fraud could have a material effect on the interim financial information.
  - ◆ Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others.
  - ◆ Knowledge of any actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information.
- Applying analytical procedures to the interim financial information designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial information. Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted techniques. Appendix 2 to this SRE contains examples of analytical procedures the auditor may consider when performing a review of interim financial information.
  - Reading the interim financial information, and considering whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.
22. The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the interim financial information. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the interim period. Performing some of the review procedures earlier in the interim period also permits early identification and consideration of significant accounting matters affecting the interim financial information.

23. The auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of interim financial information. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review of the interim financial information also may be used for the annual audit. The auditor may also decide to perform, at the time of the interim review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial statements, for example, performing audit procedures on significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions.

24. A review of interim financial information ordinarily does not require corroborating the inquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an inquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework, and the auditor believes the entity's lawyer may have pertinent information.

**25. The auditor should obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records.** The auditor may obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim financial information to:

- (a) The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
- (b) Other supporting data in the entity's records as necessary.

**26. The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information.** It is not necessary for the auditor to perform other procedures to identify events occurring after the date of the review report.

**27. The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. When, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:**

- (a) **Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation; and**
- (b) **Consider the adequacy of the disclosure about such matters in the interim financial information.**

28. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial statements or may be identified as a result of inquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, the auditor inquires of management as to its plans for future action, such as its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor also inquires as to the feasibility of management's plans and whether management believes that the outcome of these plans will improve the situation. However, it is not ordinarily necessary for the auditor to corroborate the feasibility of management's plans and whether the outcome of these plans will improve the situation.

29. **When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial information to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report.** For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel, or reading the sales contract.

### **Evaluation of Misstatements**

30. **The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information.**

31. A review of interim financial information, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. However, misstatements which come to the auditor's attention, including inadequate disclosures, are evaluated individually and in the aggregate to determine whether a material

adjustment is required to be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

32. The auditor exercises professional judgment in evaluating the materiality of any misstatements that the entity has not corrected. The auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or interim period of the current year, and the potential effect of the misstatements on future interim or annual periods.

33. The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the interim financial information. In so doing, the auditor considers the fact that the determination of materiality involves quantitative as well as qualitative considerations, and that misstatements of a relatively small amount could nevertheless have a material effect on the interim financial information.

### **Management Representations**

34. **The auditor should obtain written representation from management that:**

- (a) **It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error;**
- (b) **The interim financial information is prepared and presented in accordance with the applicable financial reporting framework;**
- (c) **It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations;**
- (d) **It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;**
- (e) **It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud<sup>2</sup>;**

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<sup>2</sup> Refer SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements".

- (f) **It has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects are to be considered when preparing the interim financial information; and**
- (g) **It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.**

35. The auditor obtains additional representations as are appropriate related to matters specific to the entity's business or industry. An illustrative management representation letter is set out in Appendix 3 to this SRE.

### **Auditor's Responsibility for Accompanying Information**

36. **The auditor should read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information.** If the auditor identifies a material inconsistency, the auditor considers whether the interim financial information or the other information needs to be amended. If an amendment is necessary in the interim financial information and management refuses to make the amendment, the auditor considers the implications for the review report. If an amendment is necessary in the other information and management refuses to make the amendment, the auditor considers including in the review report an additional paragraph describing the material inconsistency, or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, management may present alternative measures of earnings that more positively portray results of operations than the interim financial information, and such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial information such that they are confusing and potentially misleading.

37. **If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management.** While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (i.e., information, not related to matters appearing in the interim financial information, that is incorrectly stated or presented). When discussing the matter with the entity's management, the auditor considers the validity of the other information and management's responses to the auditor's inquiries, whether valid differences of judgment or

opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, the auditor considers taking further action as appropriate, such as notifying those charged with governance and obtaining legal advice.

### **Communication**

**38. When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should communicate this matter as soon as practicable to the appropriate level of management.**

**39. When, in the auditor's judgment, management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance.** The communication is made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of such communications. If the information is communicated orally, the auditor documents the communication.

**40. When, in the auditor's judgment, those charged with governance do not respond appropriately within a reasonable period of time, the auditor should consider:**

- (a) **Whether to modify the report; or**
- (b) **The possibility of withdrawing from the engagement; and**
- (c) **The possibility of resigning from the appointment to audit the annual financial statements.**

**41. When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations the auditor should communicate the matter as soon as practicable to the appropriate level of management.** The determination of which level of management is the appropriate one is affected by the likelihood of collusion or the involvement of a member of management. The auditor also considers the need to report such matters to those charged with governance and considers the implication for the review.

**42. The auditor should communicate relevant matters of governance interest arising from the review of interim financial information to those charged with governance.** As a result of performing the review of the interim financial information, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. The auditor communicates such matters to those charged with governance.

### **Reporting the Nature, Extent and Results of the Review of Interim Financial Information**

- 43. The auditor should issue a written report that contains the following:**
- (a) An appropriate title.**
  - (b) An addressee, as required by the circumstances of the engagement.**
  - (c) Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.**
  - (d) If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.**
  - (e) In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.**
  - (f) A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.**
  - (g) A statement that the review of the interim financial information was conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.**
  - (h) A statement that a review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and**

consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.

- (i) If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>3</sup> applicable in India).
- (j) In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards applicable in India).
- (k) The date of the report.
- (l) Place of Signature.
- (m) The auditor's signature and membership number assigned by the Institute of Chartered Accountants of India (ICAI).
- (n) The Firm's registration number of the member of the Institute, wherever applicable, as allotted by ICAI.

Illustrative review reports are set out in Appendix 4 to this SRE.

44. In some jurisdictions, law or regulation governing the review of interim financial information may prescribe wording for the auditor's conclusion that is different from the wording described in paragraph 43(i) or (j). Although the auditor may be obliged to use the prescribed wording, the auditor's

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<sup>3</sup> Accounting Standards issued by the Institute of Chartered Accountants of India or Accounting Standards notified by the Central Government as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India, as may be applicable.

responsibilities as described in this SRE for coming to the conclusion remain the same.

### **Departure from the Applicable Financial Reporting Framework**

**45. The auditor should express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.**

46. If matters have come to the auditor's attention that cause the auditor to believe that the interim financial information is or may be materially affected by a departure from the applicable financial reporting framework, and management does not correct the interim financial information, the auditor modifies the review report. The modification describes the nature of the departure and, if practicable, states the effects on the interim financial information. If the information that the auditor believes is necessary for adequate disclosure is not included in the interim financial information, the auditor modifies the review report and, if practicable, includes the necessary information in the review report. The modification to the review report is ordinarily accomplished by adding an explanatory paragraph to the review report, and qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 5 to this SRE.

47. When the effect of the departure is so material and pervasive to the interim financial information that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial information, the auditor expresses an adverse conclusion. Illustrative review reports with an adverse conclusion are set out in Appendix 7 to this SRE.

### **Limitation on Scope**

48. A limitation on scope ordinarily prevents the auditor from completing the review.

**49. When the auditor is unable to complete the review, the auditor should communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a report.**

### **Limitation on Scope Imposed by Management**

50. The auditor does not accept an engagement to review the interim financial information if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review

because there will be a limitation on the scope of the auditor's review imposed by management of the entity.

51. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor requests the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor communicates such matters in accordance with the guidance in paragraphs 38-40.

52. The auditor also considers the legal and regulatory responsibilities, including whether there is a requirement for the auditor to issue a report. If there is such a requirement, the auditor disclaims a conclusion, and provides in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor also communicates such a matter in the report.

### **Other Limitations on Scope**

53. A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion and is guided by paragraphs 51-52. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgment pervasive to the interim financial information. In such circumstances, the auditor modifies the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with this SRE, and by qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 6 to this SRE.

54. The auditor may have expressed a qualified opinion on the audit of the latest annual financial statements because of a limitation on the scope of that audit. The auditor considers whether that limitation on scope still exists and, if so, the implications for the review report.

**Going Concern and Significant Uncertainties**

55. In certain circumstances, an emphasis of matter paragraph may be added to a review report, without affecting the auditor's conclusion, to highlight a matter that is included in a note to the interim financial information that more extensively discusses the matter. The paragraph would preferably be included after the conclusion paragraph and ordinarily refers to the fact that the conclusion is not qualified in this respect.

**56. If adequate disclosure is made in the interim financial information, the auditor should add an emphasis of matter paragraph to the review report to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.**

57. The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty.

58. If, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.

**59. If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.**

**60. The auditor should consider modifying the review report by adding a paragraph to highlight a significant uncertainty (other than a going concern problem) that came to the auditor's attention, the resolution of which is dependent upon future events and which may affect the interim financial information.**

**Other Considerations**

61. The terms of the engagement include management's agreement that where any document containing interim financial information indicates that such information has been reviewed by the entity's auditor, the review report will also be included in the document. If management has not included the review report

in the document, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances<sup>4</sup>.

62. If the auditor has issued a modified review report and management issues the interim financial information without including the modified review report in the document containing the interim financial information, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial statements<sup>5</sup>.

63. Interim financial information consisting of a condensed set of financial statements does not necessarily include all the information that would be included in a complete set of financial statements, but may rather present an explanation of the events and changes that are significant to an understanding of the changes in the state of affairs and performance of the entity since the annual reporting date. This is because it is presumed that the users of the interim financial information will have access to the latest audited financial statements, such as is the case with listed entities. In other circumstances, the auditor discusses with management the need for such interim financial information to include a statement that it is to be read in conjunction with the latest audited financial statements. In the absence of such a statement, the auditor considers whether, without a reference to the latest audited financial statements, the interim financial information is misleading in the circumstances, and the implications for the review report.

### **Documentation**

**64. The auditor should prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and to provide evidence that the review was performed in accordance with this**

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<sup>4</sup> The Council of the ICAI, at its 308<sup>th</sup> meeting held in August 2011, considered an issue relating to difficulties being faced by the members of the Institute in compliance with paragraphs 61 and 62 of the SRE 2410 raised by the Auditing and Assurance Standards Board of the Institute. On a consideration of the matter, the Council was of the opinion that paragraphs 61 and 62 did not envisage the auditor to take steps to ensure that on every occasion when the review results were published by the management, it also published the review report therewith. The responsibility of the auditor was upto issuance of the review report on the results, at most till the time the interim results, along with the review report, were filed by the company with the concerned stock exchange. Further, since such filing led to the concerned interim results and the review report thereon becoming available in the public domain, the same would be construed as sufficient compliance by the auditor with the requirements of paragraphs 61 and 62 of SRE 2410. The complete text of the Announcement is published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

<sup>5</sup> *ibid*

**SRE and applicable legal and regulatory requirements.** The documentation enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the inquiries made, and analytical and other review procedures applied, information obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

### **Effective Date**

65. This SRE is effective for reviews of interim financial information for periods beginning on or after April 1, 2010.

### **Material Modifications vis-a-vis ISRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”**

#### **Additions**

Paragraph 43 of ISRE 2410 (Paragraph 43 of SRE 2410) deals with the basic elements of the written report of an auditor on the Review of Interim Financial Information, which also includes the location in the country or jurisdiction where the auditor practices. Since in India, Standard on Auditing (SA) 700(Revised) requires the auditor to mention the “Place of Signature”, i.e., name of specific location, which is ordinarily the city where the review report is signed, in his report, the requirement of mentioning the location in the country or jurisdiction where the auditor practices has been replaced with the requirement to mention the place of signature in the auditor’s report.

#### **Deletion**

Paragraph 18 of ISRE 2410 (Paragraph 18 of SRE 2410) deals with the procedures for obtaining the understanding of the entity and its environment for conducting the review of the interim financial information. These procedures also include the review of the predecessor auditor’s documentation for the preceding annual audit, and for any prior interim periods in the current year that have been reviewed by the predecessor auditor. Since in India, Clause 1 of Part I of the Second Schedule to the Code of Ethics provides that a Chartered Accountant in Practice shall be deemed to be guilty of professional misconduct if he discloses information acquired in the course of his professional engagement to any person other than his client, an auditor cannot provide access to his working paper to the another auditor. Therefore, keeping in view the requirements of the Code of Ethics, the requirement of reviewing the predecessor auditor’s documentation has been replaced with the requirement of perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements.

## Appendix 1

### Example of an Engagement Letter for a Review of Interim Financial Information

*The following letter is to be used as a guide in conjunction with the consideration outlined in paragraph 10 of this SRE and will need to be adapted according to individual requirements and circumstances.*

To the Board of Directors of ABC Company Ltd. (or the appropriate representative of senior management)

We are providing this letter to confirm our understanding of the terms and objectives of our engagement to review the entity's interim balance sheet as at September 30, 20X1 and the related statement of profit & loss and cash flows for the six-month period then ended.

Our review will be conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Institute of Chartered Accountants of India (ICAI) with the objective of providing us with a basis for reporting whether anything has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with the [indicate applicable financial reporting framework, including a reference to the relevant jurisdiction of the financial reporting when the financial reporting framework used is not Financial Reporting Standards<sup>6</sup> applicable in India]. Such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of interim financial information is substantially less than the scope of an audit conducted in accordance with Standards on Auditing whose objective is the expression of an opinion regarding the financial statements and, accordingly, we shall express no such opinion.

We expect to report on the interim financial information as follows:

[Include text of sample report.]

Responsibility for the interim financial information, including adequate disclosure, is that of management of the entity. This includes designing, implementing and maintaining internal control relevant to the preparation and presentation of interim financial information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and

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<sup>6</sup> See footnote 4.

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making accounting estimates that are reasonable in the circumstances. As part of our review, we will request written representations from management concerning assertions made in connection with the review. We will also request that where any document containing interim financial information indicates that the interim financial information has been reviewed, our report will also be included in the document.

A review of interim financial information does not provide assurance that we will become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

This letter will be effective for future years unless it is terminated, amended or superseded (if applicable).

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the interim financial information including our respective responsibilities.

XYZ & Co.  
Chartered Accountants  
Firm's Registration Number

(Signature)  
(Name of the Member)  
(Designation<sup>7</sup>)

Date:

Place:

Acknowledged on behalf of ABC Company by

.....

(Signature)  
Name and Designation  
Date

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<sup>7</sup> Partner or proprietor, as the case may be.

## Appendix 2

### **Analytical Procedures the Auditor May Consider When Performing a Review of Interim Financial Information**

Examples of analytical procedures the auditor may consider when performing a review of interim financial information include the following:

- Comparing the interim financial information with the interim financial information of the immediately preceding interim period, with the interim financial information of the corresponding interim period of the preceding financial year, with the interim financial information that was expected by management for the current period, and with the most recent audited annual financial statements.
- Comparing current interim financial information with anticipated results, such as budgets or forecasts (for example, comparing tax balances and the relationship between the provision for income taxes to pretax income in the current interim financial information with corresponding information in (a) budgets, using expected rates, and (b) financial information for prior periods).
- Comparing current interim financial information with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that are reasonably expected to exist based on the auditor's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current interim period with those of entities in the same industry.
- Comparing relationships among elements in the current interim financial information with corresponding relationships in the interim financial information of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
  - ◆ By period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts.

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- ◆ By product line or source of revenue.
- ◆ By location, for example, by component.
- ◆ By attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen.
- ◆ By several attributes of the transaction, for example, sales by product and month.

## Appendix 3

### Example of a Management Representation Letter

*The following letter is not intended to be a standard letter. Representations by management will vary from entity to entity and from one interim period to the next.*

(Entity Letterhead)

(To Auditor)

(Date)

Opening paragraphs if interim financial information comprises condensed financial statements:

This representation letter is provided in connection with your review of the condensed balance sheet of ABC Entity as of June 30, 20X1 and the related condensed statements of profit & loss and cash flows for the three-month period then ended for the purposes of expressing a conclusion whether anything has come to your attention that causes you to believe that the interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>8</sup> applicable in India].

We acknowledge our responsibility for the preparation and presentation of the interim financial information in accordance with [indicate applicable financial reporting framework].

Opening paragraphs if interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation:

This representation letter is provided in connection with your review of the balance sheet of ABC Entity as of June 30, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended and a summary of the significant accounting policies and other explanatory notes for the purposes of expressing a conclusion whether anything has come to your attention that causes you to believe that the interim financial information does not give a true and fair view of (or “does not present fairly, in all material respects,”) the state of affairs of ABC Entity as at June 30, 20X1, and of its results of operations and its cash flows in accordance with [indicate applicable financial reporting framework, including a reference to the relevant jurisdiction of the

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<sup>8</sup> See footnote 4.

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financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>9</sup> applicable in India].

We acknowledge our responsibility for the fair presentation of the interim financial information in accordance with [indicate applicable financial reporting framework].

We confirm, to the best of our knowledge and belief, the following representations:

- The interim financial information referred to above has been prepared and presented in accordance with [indicate applicable financial reporting framework].
- We have made available to you all books of account and supporting documentation, and all minutes of meetings of shareholders and the board of directors (namely those held on [insert applicable dates]).
- There are no material transactions that have not been properly recorded in the accounting records underlying the interim financial information.
- There has been no known actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information in the event of noncompliance.
- We acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud and error.
- We have disclosed to you all significant facts relating to any known frauds or suspected frauds that may have affected the entity.
- We have disclosed to you the results of our assessment of the risk that the interim financial information may be materially misstated as the result of fraud.
- We believe the effects of uncorrected misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole.
- We confirm the completeness of the information provided to you regarding the identification of related parties.
- The following have been properly recorded and, when appropriate, adequately disclosed in the interim financial information:

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<sup>9</sup> See footnote 4.

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- ◆ Related party transactions, including sales, purchases, loans, transfers, leasing arrangements and guarantees, and amounts receivable from or payable to related parties;
  - ◆ Guarantees, whether written or oral, under which the entity is contingently liable; and
  - ◆ Agreements and options to buy back assets previously sold.
- The presentation and disclosure of the fair value measurements of assets and liabilities are in accordance with [indicate applicable financial reporting framework]. The assumptions used reflect our intent and ability to carry specific courses of action on behalf of the entity, where relevant to the fair value measurements or disclosure.
  - We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the interim financial information.
  - We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of realizable value.
  - The entity has satisfactory title to all assets and there are no liens or encumbrances on the entity's assets.
  - We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
  - [Add any additional representations related to new accounting standards that are being implemented for the first time and consider any additional representations required by a new Standard on Auditing that are relevant to interim financial information.]

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that may require adjustment to or disclosure in the aforementioned interim financial information.

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(Senior Executive Officer)

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(Senior Financial Officer)

## Appendix 4

### Examples of Review Reports on Interim Financial Information

#### Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

Report on Review of Interim Financial Information

(Appropriate addressee)

##### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of June 30, 20X1 and the related statements of profit & loss and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

##### *Scope of Review*

We conducted our review in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"<sup>10</sup>. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

##### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or "does not present fairly, in all material respects,") the state of affairs of the entity as at June 30, 20X1, and of its results of operations and its cash flows

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<sup>10</sup> In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: "We conducted our review in accordance with Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity." The remainder of the report should be adapted as necessary in the circumstances.

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for the three month period then ended in accordance with [applicable financial reporting framework, including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>11</sup> applicable in India].

For ABC and Co.,  
Chartered Accountants  
Firm's Registration Number  
  
Auditor's Signature  
(Name of Member signing the Audit Report)  
(Designation<sup>12</sup>)  
Membership Number

Place of Signature

Date

### **Other Interim Financial Information (see paragraph 43(j))**

Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of June 30, 20X1 and the related [condensed] statements of profit & loss and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"<sup>13</sup>. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and

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<sup>11</sup> See footnote 4.

<sup>12</sup> Partner or proprietor, as the case may be.

<sup>13</sup> In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: "We conducted our review in accordance with Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity." The remainder of the report should be adapted as necessary in the circumstances.

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accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with [applicable financial reporting framework, including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>14</sup> applicable in India].

For ABC and Co.,  
Chartered Accountants  
Firm's Registration Number

Auditor's Signature  
(Name of Member signing the Audit Report)  
(Designation<sup>15</sup>)  
Membership Number

Place of Signature

Date

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<sup>14</sup> See footnote 4.

<sup>15</sup> Partner or proprietor, as the case may be.

## Appendix 5

### Examples of Review Reports with a Qualified Conclusion for a Departure from the Applicable Financial Reporting Framework

#### Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

Report on Review of Interim Financial Information

(Appropriate addressee)

##### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of June 30, 20X1 and the related statements of profit & loss and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

##### *Scope of Review*

We conducted our review in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"<sup>16</sup>. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

##### *Basis for Qualified Conclusion*

Based on information provided to us by management, ABC Entity has excluded from property and long-term debt certain lease obligations that we believe should

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<sup>16</sup> In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: "We conducted our review in accordance with Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity." The remainder of the report should be adapted as necessary in the circumstances.

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be capitalized to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalized at June 30, 20X1, property would be increased by Rs.\_\_\_\_\_, long-term debt by Rs.\_\_\_\_\_, and net income and earnings per share would be increased (decreased) by Rs.\_\_\_\_\_, Rs.\_\_\_\_\_, Rs.\_\_\_\_\_, and Rs.\_\_\_\_\_, respectively for the three-month period then ended.

### *Qualified Conclusion*

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or “does not present fairly, in all material respects,”) the state of affairs of the entity as at June 30, 20X1, and of its results of operations and its cash flows for the three month period then ended in accordance with [indicate applicable financial reporting framework, including the reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>17</sup> applicable in India].

For ABC and Co.,  
Chartered Accountants  
Firm’s Registration Number

Auditor’s Signature  
(Name of Member signing the Audit Report)  
(Designation<sup>18</sup>)  
Membership Number

Place of Signature

Date

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<sup>17</sup> See footnote 4.

<sup>18</sup> Partner or proprietor, as the case may be.

**Other Interim Financial Information (see paragraph 43(j))**

Report on Review of Interim Financial Information

(Appropriate addressee)

*Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of June 30, 20X1 and the related [condensed] statements of profit & loss and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of Review*

We conducted our review in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"<sup>19</sup>. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Basis for Qualified Conclusion*

Based on information provided to us by management, ABC Entity has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalized at June 30, 20X1, property would be increased by Rs.\_\_\_\_\_, long-term debt by Rs.\_\_\_\_\_, and net income and earnings per share would be increased (decreased) by Rs.\_\_\_\_\_, Rs.\_\_\_\_\_, Rs.\_\_\_\_\_, and Rs.\_\_\_\_\_, respectively for the three-month period then ended.

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<sup>19</sup> In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: "We conducted our review in accordance with Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity." The remainder of the report should be adapted as necessary in the circumstances.

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### *Qualified Conclusion*

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>20</sup> applicable in India].

For ABC and Co.,  
Chartered Accountants  
Firm's Registration Number

Auditor's Signature  
(Name of Member signing the Audit Report)  
(Designation<sup>21</sup>)  
Membership Number

Place of Signature

Date

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<sup>20</sup> See footnote 4.

<sup>21</sup> Partner or proprietor, as the case may be.

## Appendix 6

### Examples of Review Reports with a Qualified Conclusion for a Limitation on Scope Not Imposed By Management

#### Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

Report on Review of Interim Financial Information

(Appropriate addressee)

##### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of June 30, 20X1 and the related statements of profit & loss and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

##### *Scope of Review*

Except as explained in the following paragraph, we conducted our review in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"<sup>22</sup>. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

##### *Basis for Qualified Conclusion*

As a result of a fire in a branch office on (date) that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totaling Rs. \_\_\_\_\_ included in the interim financial information. The

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<sup>22</sup> In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: "We conducted our review in accordance with Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity." The remainder of the report should be adapted as necessary in the circumstances.

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entity is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the interim financial information.

### *Qualified Conclusion*

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or “does not present fairly, in all material respects,”) the state of affairs of the entity as at June 30, 20X1, and of its Results of Operations and its cash flows for the three-month period then ended in accordance with [indicate applicable financial reporting framework, including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>23</sup> applicable in India].

For ABC and Co.,  
Chartered Accountants  
Firm’s Registration Number

Auditor’s Signature  
(Name of Member signing the Audit Report)  
(Designation<sup>24</sup>)  
Membership Number

Place of Signature

Date

### **Other Interim Financial Information (see paragraph 43(j))**

Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of June 30, 20X1 and the related [condensed] statements of profit & loss and cash flows for the three-month period then ended. Management is responsible

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<sup>23</sup> See footnote 4.

<sup>24</sup> Partner or proprietor, as the case may be.

for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of Review*

Except as explained in the following paragraph, we conducted our review in accordance with Standards on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Auditor of the Entity"<sup>25</sup>. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Basis for Qualified Conclusion*

As a result of a fire in a branch office on (date) that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totaling Rs. \_\_\_\_\_ included in the interim financial information. The entity is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the interim financial information.

*Qualified Conclusion*

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the relevant jurisdiction of the financial reporting

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<sup>25</sup> In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: "We conducted our review in accordance with Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity." The remainder of the report should be adapted as necessary in the circumstances.

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framework when the financial reporting framework used is not Financial Reporting Standards<sup>26</sup> applicable in India].

For ABC and Co.,  
Chartered Accountants  
Firm's Registration Number

Auditor's Signature  
(Name of Member signing the Audit Report)  
(Designation<sup>27</sup>)  
Membership Number

Place of Signature

Date

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<sup>26</sup> See footnote 4.

<sup>27</sup> Partner or proprietor, as the case may be.

## Appendix 7

### Examples of Review Reports with an Adverse Conclusion for a Departure from the Applicable Financial Reporting Framework

#### Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

Report on Review of Interim Financial Information

(Appropriate addressee)

##### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of June 30, 20X1 and the related statements of profit & loss and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

##### *Scope of Review*

We conducted our review in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Auditor of the Entity"<sup>28</sup>. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

##### *Basis for Adverse Conclusion*

Commencing this period, management of the entity ceased to consolidate the financial statements of its subsidiary companies since management considers

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<sup>28</sup> In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: "We conducted our review in accordance with Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity." The remainder of the report should be adapted as necessary in the circumstances.

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consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [indicate applicable financial reporting framework, including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>29</sup> applicable in India]. Had consolidated financial statements been prepared, virtually every account in the interim financial information would have been materially different.

### *Adverse Conclusion*

Our review indicates that, because the entity's investment in subsidiary companies is not accounted for on a consolidated basis, as described in the preceding paragraph, this interim financial information does not give a true and fair view of (or "does not present fairly, in all material respects,") the state of affairs of the entity as at June 30, 20X1, and of its results of operations and its cash flows for the three-month period then ended in accordance with [indicate applicable financial reporting framework, including a reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>30</sup> applicable in India].

For ABC and Co.,  
Chartered Accountants  
Firm's Registration Number

Auditor's Signature  
(Name of Member signing the Audit Report)  
(Designation<sup>31</sup>)  
Membership Number

Place of Signature

Date

### **Other Interim Financial Information (see paragraph 43(j))**

Report on Review of Interim Financial Information

(Appropriate addressee)

### *Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of June 30, 20X1 and the related [condensed] statements of profit & loss and

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<sup>29</sup> See footnote 4.

<sup>30</sup> See footnote 4.

<sup>31</sup> Partner or proprietor, as the case may be.

cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of Review*

We conducted our review in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independence Auditor of the Entity"<sup>32</sup>. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Basis for Adverse Conclusion*

Commencing this period, management of the entity ceased to consolidate the financial statements of its subsidiary companies since management considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [indicate applicable financial reporting framework, including the reference to the relevant jurisdiction of the financial reporting framework when the financial reporting framework used is not Financial Reporting Standards<sup>33</sup> applicable in India]. Had consolidated financial statements been prepared, virtually every account in the interim financial information would have been materially different.

*Adverse Conclusion*

Our review indicates that, because the entity's investment in subsidiary companies is not accounted for on a consolidated basis, as described in the preceding paragraph, this interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction of the financial reporting

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<sup>32</sup> In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: "We conducted our review in accordance with Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity." The remainder of the report should be adapted as necessary in the circumstances.

<sup>33</sup> See footnote 4.

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framework when the financial reporting framework used is not Financial Reporting Standards<sup>34</sup> applicable in India].

For ABC and Co.,  
Chartered Accountants  
Firm's Registration Number

Auditor's Signature  
(Name of Member signing the Audit Report)  
(Designation<sup>35</sup>)  
Membership Number

Place of Signature

Date

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<sup>34</sup> See footnote 4.

<sup>35</sup> Partner or proprietor, as the case may be.

# **SECTION - VIII**

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## **Standards on Assurance Engagements**



# SAE 3400

## The Examination of Prospective Financial Information

*(Effective in relation to reports on  
projections/forecasts issued on or after April 1, 2007)*

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Standard on Assurance Engagements (SAE) 3400\*, "The Examination of Prospective Financial Information" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", which sets out the authority of the Engagement Standards.

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\* Issued in February, 2007. Pursuant to issuance of SAE 3400, the *Guidance Note on Accountant's Report on Profit Forecasts and/or Financial Forecasts*, issued in September, 1982 has been withdrawn.

## **Introduction**

1. The purpose of this Standard on Assurance Engagement (SAE) is to establish standards and provide guidance on engagements to examine and report on prospective financial information including examination procedures for best-estimate and hypothetical assumptions. This SAE does not apply to the examination of prospective financial information expressed in general or narrative terms, such as that found in management's discussion and analysis in an entity's annual report, though many of the procedures outlined herein may be suitable for such an examination<sup>1</sup>. Further, the principles laid down in the other Standards on Auditing, issued by the Institute of Chartered Accountants of India, should be used by the auditor, to the extent practicable, in applying this SAE.

**2. In an engagement to examine prospective financial information, the auditor<sup>2</sup> should obtain sufficient appropriate evidence as to whether:**

- (a) management's best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information;**
- (b) the prospective financial information is properly prepared on the basis of the assumptions;**
- (c) the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and**

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<sup>1</sup> The guidance provided in this Standard is in line with the provisions of clause (3) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 [as amended by the Chartered Accountants (Amendment) Act, 2006]. This clause provides that a chartered accountant in practice shall be deemed to be guilty of professional misconduct "if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast." As per the opinion of the Council while finalising the Guidance Note on Accountant's Report on Profit Forecasts and/or Financial Forecasts at its 100<sup>th</sup> meeting held on 22<sup>nd</sup> through 24<sup>th</sup> July 1982, a chartered accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report **the sources of information, the basis of forecasts** and also the **major assumptions** made in arriving at the forecasts and so long as he does not vouch for the accuracy of the forecasts. The Council has further opined that the same opinion would also apply to projections made on the basis of hypothetical assumptions about future events and management actions which are not necessarily expected to take place so long as the auditor does not vouch for the accuracy of the projection. (*emphasis added*)

<sup>2</sup> The term "auditor" is used throughout this SAE when describing services involving examination of prospective financial information. Such reference is not intended to imply that a member performing such services need necessarily be the statutory auditor of the entity's financial statements.

**(d) the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.**

3. “*Prospective financial information*” means financial information based on assumptions about events that may occur in the future and possible actions by an entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgment. Prospective financial information can be in the form of a forecast, a projection, or a combination of both, for example, a one year forecast plus a five year projection.

4. A “*forecast*” means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).

5. A “*projection*” means prospective financial information prepared on the basis of:

- (a) hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or
- (b) a mixture of best-estimate and hypothetical assumptions.

Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur (a “what-if” scenario).

6. Prospective financial information can include financial statements or one or more elements of financial statements and may be prepared:

- (a) as an internal management tool, for example, to assist in evaluating a possible capital investment; or
- (b) for the distribution/submission to third parties in, for example:
  - a prospectus to provide potential investors with information about future expectations.
  - an annual report to provide information to shareholders, regulatory bodies and other interested parties.
  - a document, for example, cash flow forecasts, for the information of lenders.

7. Management is responsible for the preparation and presentation of the prospective financial information, including the identification and disclosure of the sources of information, the basis of forecasts and the underlying assumptions. The auditor may be asked to examine and report on the prospective financial

information to enhance its credibility, whether it is intended for use by third parties or for internal purposes.

### **The Auditor's Assurance Regarding Prospective Financial Information**

8. Prospective financial information relates to events and actions that have not yet occurred and might not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the examination of historical financial information. The auditor is, therefore, not in a position to express an opinion as to whether the results shown in the prospective financial information will be achieved.

9. Further, given the types of evidence available in assessing the assumptions on which the prospective financial information is based, it may be difficult for the auditor to obtain a level of satisfaction sufficient to provide a positive expression of opinion that the assumptions are free of material misstatement. Consequently, in this SAE, when reporting on the reasonableness of management's assumptions, the auditor provides only a moderate level of assurance.

### **Acceptance of Engagement**

10. Before accepting an engagement to examine prospective financial information, the auditor would consider, amongst other things:

- the intended use of the information;
- whether the information will be for general or limited distribution;
- the nature of the assumptions, that is, whether they are best-estimates or hypothetical assumptions;
- the elements to be included in the information; and
- the period covered by the information.

**11. The auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use.**

**12. In accordance with SA 210, "Terms of Audit Engagement", it is necessary that the auditor and the client should agree on the terms of the engagement.** It is in the interest of both client and auditor that the auditor sends an engagement letter to help in avoiding misunderstandings regarding the engagement. An engagement letter would address the matters in paragraph 10 and set out the management's responsibilities for the assumptions and for

providing the auditor with all relevant information and source data used in developing the assumptions.

### **Knowledge of the Business**

**13. The auditor should obtain a sufficient level of knowledge of the business to be able to evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified.** The auditor would also need to become familiar with the entity's process for preparing prospective financial information, for example, by considering:

- (a) The internal controls over the system used to prepare prospective financial information and the expertise and experience of those persons preparing the prospective financial information.
- (b) The nature of the documentation prepared by the entity supporting management's assumptions.
- (c) The extent to which statistical, mathematical and computer-assisted techniques are used.
- (d) The methods used to develop and apply assumptions.
- (e) The accuracy of prospective financial information prepared in prior periods, if any, and the reasons for any significant variances therein.

**14. The auditor should consider the extent to which reliance on the entity's historical financial information is justified.** The auditor requires knowledge of the entity's historical financial information to assess whether the prospective financial information has been prepared on a basis consistent with the historical financial information and to provide a historical yardstick for considering management's assumptions. The auditor will need to establish, for example, whether relevant historical information was audited or reviewed and whether acceptable accounting principles were used in its preparation.

15. If the audit or review report on prior period historical financial information was other than a clean report<sup>3</sup> or if the entity is in a start-up/expansion phase, the auditor would consider the relevant facts and the effect on the examination of the prospective financial information.

### **Period Covered**

**16. The auditor should consider the period of time covered by the prospective financial information.** Since assumptions become more speculative as the length of the period covered increases, as that period

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<sup>3</sup> Alternatively known as the unmodified report in terms of the Standard on Auditing (SA) 700(Revised), "Forming an Opinion and Reporting on Financial Statements".

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lengthens, the ability of management to make best-estimate assumptions decreases. The period would not extend beyond the time for which management has a reasonable basis for the assumptions. The following are some of the factors that are relevant to the auditor's consideration of the period of time covered by the prospective financial information:

- (a) The operating cycle, for example, in the case of a major construction project undertaken by a construction company, the time required to complete the project may dictate the period covered.
- (b) The degree of reliability of assumptions, for example, if the entity is introducing a new product, the prospective period covered could be short and broken into small segments, such as weeks or months. Alternatively, if for example, the entity's sole business is owning a property under long-term lease, a relatively long prospective period might be reasonable.
- (c) The needs of users, for example, prospective financial information may be prepared in connection with an application for a loan for the period of time required to generate sufficient funds for repayment. Alternatively, the information may be prepared for investors in connection with the issue of securities to illustrate the intended use of the proceeds in the subsequent period.

### **Examination Procedures**

**17. When determining the nature, timing and extent of examination procedures, the auditor should consider matters such as:**

- (a) the knowledge obtained during any previous engagements;**
- (b) management's competence regarding the preparation of prospective financial information;**
- (c) the likelihood of material misstatement;**
- (d) the extent to which the prospective financial information is affected by the management's judgment;**
- (e) the sources of information considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, such as industry statistics, to support the assumptions;**
- (f) the stability of entity's business; and**
- (g) the engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information.**

18. The auditor would assess the source and reliability of the evidence supporting management's best-estimate assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and

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external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity. Examples of external sources are government publications, industry publications, economic forecast, existing or proposed legislation, and reports of changing technology. Examples of internal sources are budgets, the economic substance and viability of the entity and/or transaction or project of the entity, reputation of management responsible for assumptions underlying the prospective financial information, wage agreements, patents, royalty agreements and records, sales backlog records, debt agreements, and actions of the board of directors involving entity plans, etc.

19. The auditor would consider whether, when hypothetical assumptions are used, all significant implications of such assumptions have been taken into consideration. For example, if sales are assumed to grow beyond the entity's current plant capacity, the prospective financial information will need to include the necessary investment in the additional plant capacity or the costs of alternative means of meeting the anticipated sales, such as subcontracting production.

20. The auditor would need to be satisfied that the hypothetical assumptions are consistent with the purpose of the prospective financial information and that there is no reason to believe they are clearly unrealistic.

21. The auditor will need to be satisfied that the prospective financial information is properly prepared from management's assumptions by, for example, making checks such as recomputation and reviewing internal consistency, that is, the actions management intends to take are compatible with each other and there are no inconsistencies in the determination of the amounts that are based on common variables such as interest rates.

22. The auditor would focus on the extent to which those areas that are particularly sensitive to variation will have a material effect on the results shown in the prospective financial information. This will influence the extent to which the auditor will seek appropriate evidence. It will also influence the auditor's evaluation of the appropriateness and adequacy of disclosure.

23. When engaged to examine one or more elements of prospective financial information, such as an individual financial statement, it is important that the auditor considers the interrelationship of other components in the financial statements.

24. When any elapsed portion of the current period is included in the prospective financial information, the auditor would consider the extent to which procedures need to be applied to the historical information. Procedures will vary depending on the circumstances, for example, how much of the prospective period has elapsed.

**25. The auditor should obtain written representations from management regarding the intended use of the prospective financial information, the completeness of significant management assumptions and management's acceptance of its responsibility for the prospective financial information.**

The management is also responsible for identification and disclosure of uncontrollable factors, outstanding litigations, commitments, or any other material factors that are likely to affect the prospective financial information.

### **Presentation and Disclosure**

26. When assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, the auditor will need to consider whether:

- (a) the presentation of prospective financial information is informative and not misleading;
- (b) the accounting policies are clearly disclosed in the notes to the prospective financial information;
- (c) the assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed;
- (d) the date as of which the prospective financial information was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time;
- (e) the basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range; and
- (f) there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements and whether reason for the change and the effect of such change on the prospective financial information has been adequately disclosed.

### **Documentation**

**27. The auditor should document matters, which are important in providing evidence to support his report on examination of prospective financial information, and evidence that such examination was carried out in accordance with this SAE. The working papers will include the sources**

of information, basis of forecasts and the assumptions made in arriving the forecasts, hypothetical assumptions, evidence supporting the assumptions, management representations regarding the intended use and distribution of the information, completeness of material assumptions, management's acceptance of its responsibility for the information, audit plan, the nature, timing and extent of examination procedures performed, and, in case the auditor expresses a modified opinion or withdraws from the engagement, the reasons forming the basis of such decision.

### **Report on Examination of Prospective Financial Information**

28. The report by an auditor on an examination of prospective financial information should contain the following:

- (a) Title;
- (b) Addressee;
- (c) Identification of the prospective financial information;
- (d) Reference to the Standards on Auditing applicable to the examination of prospective financial information;
- (e) Statement that management is responsible for the prospective financial information including the underlying assumptions;
- (f) When applicable, a reference to the purpose and/or restricted distribution of the prospective financial information;
- (g) Statement that the examination procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecast or projection;
- (h) Statement of negative assurance as to whether the assumptions provide a reasonable basis for the prospective financial information;
- (i) Opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework;
- (j) Appropriate caveats concerning the achievability of the results indicated by the prospective financial information;
- (k) Date of report (which should be the date procedures have been completed);
- (l) Place of signature; and
- (m) Signature.

29. Such a report would:

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- State whether, based on the examination of the evidence supporting the assumptions, anything has come to the auditor's attention, which causes the auditor to believe that the assumptions do not provide a reasonable basis for the prospective financial information.
- Express an opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework.
- State that:
  - Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Likewise, when the prospective financial information is expressed as a range, it would be stated that there can be no assurance that actual results will fall within the range; and
  - In the case of a projection, the prospective financial information has been prepared for (intended use), using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that the prospective financial information should not be used for purposes other than the abovementioned intended use.

30. The following is an example of an extract from an unmodified report on a projection:

We have examined the projection of \_\_\_\_\_ (project) \_\_\_\_\_ (name of the entity) for the period from \_\_\_\_\_ to \_\_\_\_\_ as given in<sup>4</sup> \_\_\_\_\_ to the Prospective Financial Information from page \_\_\_ to \_\_\_ in accordance with Standard on Assurance Engagement 3400, "The Examination of Prospective Financial Information", issued by the Institute of Chartered Accountants of India. The preparation and presentation of the projection including the underlying assumptions, set out in note \_\_\_\_\_ to \_\_\_\_\_ to the prospective financial information, is the responsibility of the Management and has been approved by the Board of Directors<sup>5</sup> of the company. Our responsibility is to examine the evidence supporting the assumptions (excluding the hypothetical assumption) and other information in the prospective financial information. Our responsibility does not include verification of the accuracy of the projections. Therefore, we do not vouch for the accuracy of the same.

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<sup>4</sup> Provide suitable identification, such as by reference to page numbers or by identifying the individual schedule.

<sup>5</sup> Other corresponding approving authority in the case of entities other than companies.

This projection has been prepared for (describe purpose). As the entity is in a start-up phase the projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that this projection may not be appropriate for purposes other than that described above.

We have carried out our examination of the prospective financial information on a test basis. Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the projection, assuming that \_\_\_\_\_ (state or refer to the hypothetical assumptions).

Further, in our opinion the projection is properly prepared on the basis of the assumptions as set out in Note \_\_\_\_\_ to the Prospective Financial Information and on a consistent basis in accordance with the historical financial statements, using appropriate accounting principles. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material.

A complete illustrative format of an unmodified report on a projection is given in **Appendix 1**.

31. The following is an example of an extract from an unmodified report on a forecast:

We have examined the forecast of \_\_\_\_\_ (*project*) of the \_\_\_\_\_ (*name of the entity*) for the period from \_\_\_\_\_ to \_\_\_\_\_ in accordance with the Standard on Assurance Engagements (SAE) 3400, "The Examination of Prospective Financial Information", issued by the Institute of Chartered Accountants of India. The preparation and presentation of the forecast including the underlying assumptions, set out in Note \_\_\_\_\_ to the Prospective Financial Information is the responsibility of the management and has been approved by the Board of Directors of the Company. The sources of information are set out in Annexure \_\_\_\_\_ to the prospective financial information. Our responsibility is to examine the evidence supporting the forecast. Our responsibility does not include verification of the accuracy of the forecasts. Therefore, we do not vouch for the accuracy of the same.

**Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to**

**believe that these assumptions do not provide a reasonable basis for the forecast. Further, in our opinion the forecast is properly prepared on the basis of the assumptions as set out in Note \_\_\_\_ and on consistent basis with historical financial statements, using appropriate accounting principles.**

Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.

A complete illustrative format of an unmodified report on a forecast is given in **Appendix 2.**

**32. When the auditor believes that the presentation and disclosure of the prospective financial information is not adequate, the auditor should express a qualified or adverse opinion in the report on the prospective financial information, or withdraw from the engagement as appropriate.** An example would be where financial information fails to disclose adequately the consequences of any assumptions, which are highly sensitive.

**33. When the auditor believes that one or more significant assumptions do not provide a reasonable basis for the prospective financial information prepared on the basis of best-estimate assumptions or that one or more significant assumptions do not provide a reasonable basis for the prospective financial information given the hypothetical assumptions, the auditor should either express an adverse opinion setting out the reasons in the report on the prospective financial information, or withdraw from the engagement.**

**34. When the examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, the auditor should either withdraw from the engagement or disclaim the opinion and describe the scope limitation in the report on the prospective financial information.**

### **Effective Date**

35. This SAE is effective in relation to reports on projections/forecasts, issued on or after April 1, 2007. However, earlier application of the Standard is encouraged.

### **Compatibility with International Standard on Assurance Engagement (ISAE) 3400**

Except for the matters noted below, the basic principles and essential procedures of this SAE and International Standard on Assurance Engagement

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(ISAE) 3400 “The Examination of Prospective Financial Information”, are consistent in all material respects:

- (a) SAE precludes the auditor from expressing positive assurance regarding the assumptions as it may tantamount to vouching for the accuracy of the forecast/projection/hypothetical assumptions. Whereas, the ISAE 3400 permits the auditor to express positive assurance when in his judgment an appropriate level of satisfaction has been obtained.
- (b) The sub points in paragraph 17 (corresponding to paragraph 17 of the ISAE 3400) have been rearranged. Sub point (e) has been elucidated for the sake of better understanding of the readers. The sub points (f) and (g) have been added in the SAE as additional factors to be considered by the auditor.
- (c) In paragraph 20 of the SAE, the phrase “although evidence supporting hypothetical assumptions need not be obtained” has been deleted since it is felt that such a phrase is inconsistent with the necessity for the auditor to obtain evidence to support his conclusions.
- (d) In paragraph 26 (corresponding to paragraph 26 of the ISAE 3400), the term “professional standards” has been changed to “professional pronouncements” since pronouncements would include standards as well as other relevant documents, such as Guidance Notes, announcement(s), issued by the ICAI.
- (e) In line with requirement of SA 700(Revised), “Forming an Opinion and Reporting on Financial Statements” this SAE requires the auditor to include a scope section in the examination report to explain the nature and extent of the auditor’s work. ISAE 3400 does not contain an equivalent requirement.
- (f) SAE specifically provides for the documentation required to be done by the auditor in regard to any engagement of examination of prospective financial information. However, ISAE 3400 does not contain such explicit provision.

**Appendix 1**

**Illustrative Format of an Unmodified Report on a Projection**

***Report on Examination of Prospective Financial Information***

To the ...(addressee).....

We have examined the projection of \_\_\_\_\_ (project) \_\_\_\_\_ (name of the entity) for the period from \_\_\_\_\_ to \_\_\_\_\_ as given in<sup>6</sup> \_\_\_\_\_ to the Prospective Financial Information from page \_\_\_ to \_\_\_ in accordance with Standard on Assurance Engagement 3400, "The Examination of Prospective Financial Information", issued by the Institute of Chartered Accountants of India. The preparation and presentation of the projection including the underlying assumptions, set out in note \_\_\_\_\_ to \_\_\_\_\_ to the prospective financial information, is the responsibility of the Management and has been approved by the Board of Directors<sup>7</sup> of the company. Our responsibility is to examine the evidence supporting the assumptions (excluding the hypothetical assumption) and other information in the prospective financial information. Our responsibility does not include verification of projections. Therefore, we do not vouch for the accuracy of the same.

This projection has been prepared for \_\_\_\_\_ (intended use). The projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, users are cautioned that this projection may not be appropriate for purposes other than that described above.

We have carried out our examination of the prospective financial information on a test basis. Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the projection, assuming that \_\_\_\_\_ (state or refer to the hypothetical assumptions).

Further, in our opinion the projection is properly prepared on the basis of the assumptions as set out in Note \_\_\_\_\_ to the Prospective Financial Information and on a consistent basis with the historical financial statements, using appropriate accounting principles. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to

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<sup>6</sup> Provide suitable identification, such as by reference to page numbers or by identifying the individual schedule.

<sup>7</sup> Other corresponding approving authority in the case of entities other than companies.

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be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material.

For ABC & Co.,  
Chartered Accountants

Signature  
(Name of the member signing the report)  
(Designation)<sup>8</sup>  
Membership Number

Date  
Place of Signature

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<sup>8</sup> Partner or proprietor, as the case may be.

**Appendix 2**

**Illustrative Format of an Unmodified Report on a Forecast**

***Report on Examination of Prospective Financial Information***

To the .....(addressee).....

We have examined the forecast of \_\_\_\_\_(project)\_\_\_\_\_of the \_\_\_\_\_ (name of the entity) for the period from \_\_\_ to \_\_\_ as given<sup>9</sup> in \_\_\_\_\_ to \_\_\_\_\_ of the prospective financial information in accordance with Standard on Assurance Engagement \_\_, The Examination of Prospective Financial Information, issued by the Institute of Chartered Accountants of India. The preparation and presentation of the forecast including the underlying assumptions, set out in Note \_\_\_\_\_ to the Prospective Financial Information, is the responsibility of the management and has been approved by the Board of Directors of the company<sup>10</sup>. The sources of information are set out in Annexure \_\_\_\_\_ to the prospective financial information. Our responsibility is to examine the evidence supporting the forecast. Our responsibility does not include verification of the forecasts. Therefore, we do not vouch for the accuracy of the same.

This forecast has been prepared for \_\_\_\_\_ (intended use). The forecast has been prepared using a set of assumptions as set out in Note \_\_\_\_\_ to the prospective financial information.

We have carried out our examination of the prospective financial information on a test basis.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention, which causes us to believe that assumptions do not provide a reasonable basis for the forecast. Further, in our opinion the forecast, read with the notes thereon, is properly prepared on the basis of the assumptions as set out in Note \_\_\_\_\_ and on a consistent basis with the historical financial statements, using appropriate accounting principles.

Actual results are likely to be different from the forecast since anticipated events might not occur as expected and the variation might be material.

For ABC & Co.,  
Chartered Accountants

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<sup>9</sup> Provide suitable identification, such as by reference to page numbers or by identifying the individual schedule.

<sup>10</sup> Other corresponding approving authority in the case of entities other than companies.

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Signature  
(Name of the member signing the report)  
(Designation)<sup>11</sup>  
Membership Number

Place of Signature:

Date:

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<sup>11</sup> Partner or proprietor, as the case may be.

# **SAE 3402**

## **Assurance Reports on Controls at a Service Organisation**

*(Effective for service auditors' assurance  
reports covering periods ending on or after april 1, 2011)*

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Standard on Assurance Engagements (SAE) 3402, “Assurance Reports on Controls at a Service Organization,” should be read in the context of the “Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services”.

## **Introduction**

### **Scope of this SAE**

1. This Standard on Assurance Engagements (SAE) deals with assurance engagements undertaken by a professional accountant in public practice<sup>1</sup> to provide a report for use by user entities and their auditors on the controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting. It complements SA 402<sup>2</sup>, in that reports prepared in accordance with this SAE are capable of providing appropriate evidence under SA 402. (Ref: Para. A1)
2. The "Framework for Assurance Engagements" states that an assurance engagement may be a "reasonable assurance" engagement or a "limited assurance" engagement; that an assurance engagement may be either an "assertion-based" engagement or a "direct reporting" engagement; and, that the assurance conclusion for an assertion-based engagement can be worded either in terms of the responsible party's assertion or directly in terms of the subject matter and the criteria<sup>3</sup>. This SAE only deals with assertion-based engagements that convey reasonable assurance, with the assurance conclusion worded directly in terms of the subject matter and the criteria<sup>4</sup>.
3. This SAE applies only when the service organization is responsible for, or otherwise able to make an assertion about, the suitable design of controls. This SAE does not deal with assurance engagements:
  - (a) To report only on whether controls at a service organization operated as described, or
  - (b) To report only on controls at a service organization other than those related to a service that is likely to be relevant to user entities' internal control as it relates to financial reporting (for example, controls that affect user entities' production or quality control). (Ref: Para. A2)
4. In addition to issuing an assurance report on controls, a service auditor may also be engaged to provide reports such as the following, which are not dealt with in this SAE:

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<sup>1</sup> As per the Framework for Assurance Engagements, issued by the Institute of Chartered Accountants of India, the term "professional accountant in public practice (practitioner)" refers to the member of the Institute of Chartered Accountants of India who is in practice in terms of section 2 of the Chartered Accountants Act, 1949. The term is also used to refer to a firm of chartered accountants in public practice.

<sup>2</sup> SA 402, "Audit Considerations Relating to an Entity Using a Service Organization".

<sup>3</sup> Framework for Assurance Engagements, paragraphs 9, 10 and 56.

<sup>4</sup> Paragraphs 13 and 53(k) of this SAE.

- (a) A report on a user entity's transactions or balances maintained by a service organization; or
- (b) An agreed-upon procedures report on controls at a service organization.

***Relationship with Other Professional Pronouncements***

5. Framework for Assurance Engagements provides requirements in relation to such topics as engagement acceptance, planning, evidence, and documentation that apply to all assurance engagements, including engagements in accordance with this SAE. This SAE expands on how such requirements are to be applied in a reasonable assurance engagement to report on controls at a service organization. The Framework for Assurance Engagements, which also defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this SAE.

6. Compliance with Framework for Assurance Engagements requires, among other things, that the service auditor comply with the Code of Ethics of the Institute of Chartered Accountants of India, and implement quality control procedures that are applicable to the individual engagement<sup>5</sup>.

**Effective Date**

7. This SAE is effective for service auditors' assurance reports covering periods ending on or after April 1, 2011.

**Objectives**

- 8. The objectives of the service auditor are:
  - (a) To obtain reasonable assurance about whether, in all material respects, based on suitable criteria:
    - (i) The service organization's description of its system fairly presents the system as designed and implemented throughout the specified period (or in the case of a type 1 report, as at a specified date);
    - (ii) The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period (or in the case of a type 1 report, as at a specified date);
    - (iii) Where included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the

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<sup>5</sup> Framework for Assurance Engagements, paragraph 4. Members attention is also drawn to ISAE 3000(Revised), paragraphs 20 and 31-36.

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control objectives stated in the service organization's description of its system were achieved throughout the specified period.

- (b) To report on the matters in (a) above in accordance with the service auditor's findings.

### Definitions

9. For purposes of this SAE, the following terms have the meanings attributed below:

- (a) *Carve-out method* – Method of dealing with the services provided by a subservice organization, whereby the service organization's description of its system includes the nature of the services provided by a subservice organization, but that subservice organization's relevant control objectives and related controls are excluded from the service organization's description of its system and from the scope of the service auditor's engagement. The service organization's description of its system and the scope of the service auditor's engagement include controls at the service organization to monitor the effectiveness of controls at the subservice organization, which may include the service organization's review of an assurance report on controls at the subservice organization.
- (b) *Complementary user entity controls* – Controls that the service organization assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives stated in the service organization's description of its system, are identified in that description.
- (c) *Control objective* – The aim or purpose of a particular aspect of controls. Control objectives relate to risks that controls seek to mitigate.
- (d) *Controls at the service organization* – Controls over the achievement of a control objective that is covered by the service auditor's assurance report. (Ref: Para. A3)
- (e) *Controls at a subservice organization* – Controls at a subservice organization to provide reasonable assurance about the achievement of a control objective.
- (f) *Criteria* – Benchmarks used to evaluate or measure a subject matter including, where relevant, benchmarks for presentation and disclosure.
- (g) *Inclusive method* – Method of dealing with the services provided by a

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- subservice organization, whereby the service organization's description of its system includes the nature of the services provided by a subservice organization, and that subservice organization's relevant control objectives and related controls are included in the service organization's description of its system and in the scope of the service auditor's engagement. (Ref: Para. A4)
- (h) *Internal audit function* – An appraisal activity established or provided as a service to the service organization. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.
- (i) *Internal auditors* – Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.
- (j) *Report on the description and design of controls at a service organization (referred to in this SAE as a “type 1 report”)* – A report that comprises:
- (i) The service organization's description of its system;
  - (ii) A written assertion by the service organization that, in all material respects, and based on suitable criteria:
    - a. The description fairly presents the service organization's system as designed and implemented as at the specified date;
    - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date; and
  - (iii) A service auditor's assurance report that conveys reasonable assurance about the matters in (ii)a.-b. above.
- (k) *Report on the description, design and operating effectiveness of controls at a service organization (referred to in this SAE as a “type 2 report”)* – A report that comprises:
- (i) The service organization's description of its system;
  - (ii) A written assertion by the service organization that, in all material respects, and based on suitable criteria:
    - a. The description fairly presents the service organization's system as designed and implemented throughout the specified period;

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- b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; and
    - c. The controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period; and
  - (iii) A service auditor's assurance report that:
    - a. Conveys reasonable assurance about the matters in (ii)a.-c. above; and
    - b. Includes a description of the tests of controls and the results thereof.
- (l) *Service auditor* – A professional accountant in public practice who, at the request of the service organization, provides an assurance report on controls at a service organization.
- (m) *Service organization* – A third-party organization (or segment of a third-party organization) that provides services to user entities that are likely to be relevant to user entities' internal control as it relates to financial reporting.
- (n) *Service organization's system (or the system)* – The policies and procedures designed and implemented by the service organization to provide user entities with the services covered by the service auditor's assurance report. The service organization's description of its system includes identification of: the services covered; the period, or in the case of a type 1 report, the date, to which the description relates; control objectives; and related controls.
- (o) *Service organization's assertion* – The written assertion about the matters referred to in paragraph 9(k)(ii) (or paragraph 9(j)(ii) in the case of a type 1 report).
- (p) *Subservice organization* – A service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to user entities' internal control as it relates to financial reporting.
- (q) *Test of controls* – A procedure designed to evaluate the operating effectiveness of controls in achieving the control objectives stated in the service organization's description of its system.

- (r) *User auditor* – An auditor who audits and reports on the financial statements of a user entity<sup>6</sup>.
- (s) *User entity* – An entity that uses a service organization.

## **Requirements**

### **Framework for Assurance Engagements**

10. The service auditor shall not represent compliance with this SAE unless the service auditor has complied with the requirements of this SAE and the requirements of the Framework for Assurance Engagements.

### **Ethical Requirements**

11. The service auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to assurance engagements. (Ref: Para. A5)

### **Management and Those Charged with Governance**

12. Where this SAE requires the service auditor to inquire of, request representations from, communicate with, or otherwise interact with the service organization, the service auditor shall determine the appropriate person(s) within the service organization's management or governance structure with whom to interact. This shall include consideration of which person(s) have the appropriate responsibilities for and knowledge of the matters concerned. (Ref: Para. A6)

### **Acceptance and Continuance**

13. Before agreeing to accept, or continue, an engagement the service auditor shall:

- (a) Determine whether:
  - (i) The service auditor has the capabilities and competence to perform the engagement; (Ref: Para. A7)
  - (ii) The criteria to be applied by the service organization to prepare the description of its system will be suitable and available to user entities and their auditors; and
  - (iii) The scope of the engagement and the service organization's description of its system will not be so limited that they are unlikely to be useful to user entities and their auditors.

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<sup>6</sup> In the case of a subservice organization, the service auditor of a service organization that uses the services of the subservice organization is also a user auditor.

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- (b) Obtain the agreement of the service organization that it acknowledges and understands its responsibility:
  - (i) For the preparation of the description of its system, and accompanying service organization's assertion, including the completeness, accuracy and method of presentation of that description and assertion; (Ref: Para. A8)
  - (ii) To have a reasonable basis for the service organization's assertion accompanying the description of its system; (Ref: Para. A9)
  - (iii) For stating in the service organization's assertion the criteria it used to prepare the description of its system;
  - (iv) For stating in the description of its system:
    - a. The control objectives; and
    - b. Where they are specified by law or regulation, or another party (for example, a user group or a professional body), the party who specified them;
  - (v) For identifying the risks that threaten achievement of the control objectives stated in the description of its system, and designing and implementing controls to provide reasonable assurance that those risks will not prevent achievement of the control objectives stated in the description of its system, and therefore that the stated control objectives will be achieved; and (Ref: Para. A10)
  - (vi) To provide the service auditor with:
    - a. Access to all information, such as records, documentation and other matters, including service level agreements, of which the service organization is aware that is relevant to the description of the service organization's system and the accompanying service organization's assertion;
    - b. Additional information that the service auditor may request from the service organization for the purpose of the assurance engagement; and
    - c. Unrestricted access to persons within the service organization from whom the service auditor determines it necessary to obtain evidence.

### ***Acceptance of a Change in the Terms of the Engagement***

14. If the service organization requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall

be satisfied that there is a reasonable justification for the change. (Ref: Para. A11-A12)

### **Assessing the Suitability of the Criteria**

15. As required by Framework for Assurance Engagements, the service auditor shall assess whether the service organization has used suitable criteria in preparing the description of its system, in evaluating whether controls are suitably designed, and, in the case of a type 2 report, in evaluating whether controls are operating effectively<sup>7</sup>.

16. In assessing the suitability of the criteria to evaluate the service organization's description of its system, the service auditor shall determine if the criteria encompass, at a minimum:

- (a) Whether the description presents how the service organization's system was designed and implemented, including, as appropriate:
  - (i) The types of services provided, including, as appropriate, classes of transactions processed;
  - (ii) The procedures, within both information technology and manual systems, by which services are provided, including, as appropriate, procedures by which transactions are initiated, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities;
  - (iii) The related records and supporting information, including, as appropriate, accounting records, supporting information and specific accounts that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities;
  - (iv) How the service organization's system deals with significant events and conditions, other than transactions;
  - (v) The process used to prepare reports and other information for user entities;
  - (vi) The specified control objectives and controls designed to achieve those objectives;
  - (vii) Complementary user entity controls contemplated in the design of the controls; and

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<sup>7</sup> Framework for Assurance Engagements, paragraphs 33-36.

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- (viii) Other aspects of the service organization's control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that are relevant to the services provided.
  - (b) In the case of a type 2 report, whether the description includes relevant details of changes to the service organization's system during the period covered by the description.
  - (c) Whether the description omits or distorts information relevant to the scope of the service organization's system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities and their auditors and may not, therefore, include every aspect of the service organization's system that each individual user entity and its auditor may consider important in its particular environment.
17. In assessing the suitability of the criteria to evaluate the design of controls, the service auditor shall determine if the criteria encompass, at a minimum, whether:
- (a) The service organization has identified the risks that threaten achievement of the control objectives stated in the description of its system; and
  - (b) The controls identified in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved.

18. In assessing the suitability of the criteria to evaluate the operating effectiveness of controls in providing reasonable assurance that the stated control objectives identified in the description will be achieved, the service auditor shall determine if the criteria encompass, at a minimum, whether the controls were consistently applied as designed throughout the specified period. This includes whether manual controls were applied by individuals who have the appropriate competence and authority. (Ref: Para. A13-A15)

### **Materiality**

19. When planning and performing the engagement, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of controls. (Ref: Para. A16-A18)

### **Obtaining an Understanding of the Service Organization's System**

20. The service auditor shall obtain an understanding of the service organization's system, including controls that are included in the scope of the

engagement. (Ref: Para. A19-A20)

### **Obtaining Evidence Regarding the Description**

21. The service auditor shall obtain and read the service organization's description of its system, and shall evaluate whether those aspects of the description included in the scope of the engagement are fairly presented, including whether: (Ref: Para. A21-A22)

- (a) Control objectives stated in the service organization's description of its system are reasonable in the circumstances; (Ref: Para. A23)
- (b) Controls identified in that description were implemented;
- (c) Complementary user entity controls, if any, are adequately described; and
- (d) Services performed by a subservice organization, if any, are adequately described, including whether the inclusive method or the carve-out method has been used in relation to them.

22. The service auditor shall determine, through other procedures in combination with inquiries, whether the service organization's system has been implemented. Those other procedures shall include observation, and inspection of records and other documentation, of the manner in which the service organization's system operates and controls are applied. (Ref: Para. A24)

### **Obtaining Evidence Regarding Design of Controls**

23. The service auditor shall determine which of the controls at the service organization are necessary to achieve the control objectives stated in the service organization's description of its system, and shall assess whether those controls were suitably designed. This determination shall include: (Ref: Para. A25-A27)

- (a) Identifying the risks that threaten the achievement of the control objectives stated in the service organization's description of its system; and
- (b) Evaluating the linkage of controls identified in the service organization's description of its system with those risks.

### **Obtaining Evidence Regarding Operating Effectiveness of Controls**

24. When providing a type 2 report, the service auditor shall test those controls that the service auditor has determined are necessary to achieve the control objectives stated in the service organization's description of its system, and assess their operating effectiveness throughout the period. Evidence obtained in prior engagements about the satisfactory operation of controls in prior periods does not provide a basis for a reduction in testing, even if it is supplemented with evidence obtained during the current period. (Ref: Para. A28-A32)

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25. When designing and performing tests of controls, the service auditor shall:

- (a) Perform other procedures in combination with inquiry to obtain evidence about:
  - (i) How the control was applied;
  - (ii) The consistency with which the control was applied; and
  - (iii) By whom or by what means the control was applied;
- (b) Determine whether controls to be tested depend upon other controls (indirect controls) and, if so, whether it is necessary to obtain evidence supporting the operating effectiveness of those indirect controls; and (Ref: Para. A33-A34)
- (c) Determine means of selecting items for testing that are effective in meeting the objectives of the procedure. (Ref: Para. A35-A36)

26. When determining the extent of tests of controls, the service auditor shall consider matters including the characteristics of the population to be tested, which includes the nature of controls, the frequency of their application (for example, monthly, daily, a number of times per day), and the expected rate of deviation.

### **Sampling**

27. When the service auditor uses sampling, the service auditor shall: (Ref: Para. A35-A36)

- (a) Consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn when designing the sample;
- (b) Determine a sample size sufficient to reduce sampling risk to an appropriately low level;
- (c) Select items for the sample in such a way that each sampling unit in the population has a chance of selection;
- (d) If a designed procedure is not applicable to a selected item, perform the procedure on a replacement item; and
- (e) If unable to apply the designed procedures, or suitable alternative procedures, to a selected item, treat that item as a deviation.

### **Nature and Cause of Deviations**

28. The service auditor shall investigate the nature and cause of any deviations identified and shall determine whether:

- (a) Identified deviations are within the expected rate of deviation and are acceptable; therefore, the testing that has been performed provides an appropriate basis for concluding that the control is operating effectively throughout the specified period;
- (b) Additional testing of the control or of other controls is necessary to reach a conclusion on whether the controls relative to a particular control objective are operating effectively throughout the specified period; or (Ref: Para. A25)
- (c) The testing that has been performed provides an appropriate basis for concluding that the control did not operate effectively throughout the specified period.

29. In the extremely rare circumstances when the service auditor considers a deviation discovered in a sample to be an anomaly and no other controls have been identified that allow the service auditor to conclude that the relevant control objective is operating effectively throughout the specified period, the service auditor shall obtain a high degree of certainty that such deviation is not representative of the population. The service auditor shall obtain this degree of certainty by performing additional procedures to obtain sufficient appropriate evidence that the deviation does not affect the remainder of the population.

### **The Work of an Internal Audit Function<sup>8</sup>**

#### ***Obtaining an Understanding of the Internal Audit Function***

30. If the service organization has an internal audit function, the service auditor shall obtain an understanding of the nature of the responsibilities of the internal audit function and of the activities performed in order to determine whether the internal audit function is likely to be relevant to the engagement. (Ref: Para. A37)

#### ***Determining Whether and to What Extent to Use the Work of the Internal Auditors***

31. The service auditor shall determine:
- (a) Whether the work of the internal auditors is likely to be adequate for purposes of the engagement; and
  - (b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures.
32. In determining whether the work of the internal auditors is likely to be adequate for purposes of the engagement, the service auditor shall evaluate:

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<sup>8</sup> This SAE does not deal with instances when individual internal auditors provide direct assistance to the service auditor in carrying out audit procedures.

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- (a) The objectivity of the internal audit function;
- (b) The technical competence of the internal auditors;
- (c) Whether the work of the internal auditors is likely to be carried out with due professional care; and
- (d) Whether there is likely to be effective communication between the internal auditors and the service auditor.

33. In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures, the service auditor shall consider: (Ref: Para. A38)

- (a) The nature and scope of specific work performed, or to be performed, by the internal auditors;
- (b) The significance of that work to the service auditor's conclusions; and
- (c) The degree of subjectivity involved in the evaluation of the evidence gathered in support of those conclusions.

### ***Using the Work of the Internal Audit Function***

34. In order for the service auditor to use specific work of the internal auditors, the service auditor shall evaluate and perform procedures on that work to determine its adequacy for the service auditor's purposes. (Ref: Para. A39)

35. To determine the adequacy of specific work performed by the internal auditors for the service auditor's purposes, the service auditor shall evaluate whether:

- (a) The work was performed by internal auditors having adequate technical training and proficiency;
- (b) The work was properly supervised, reviewed and documented;
- (c) Adequate evidence has been obtained to enable the internal auditors to draw reasonable conclusions;
- (d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and
- (e) Exceptions relevant to the engagement or unusual matters disclosed by the internal auditors are properly resolved.

### ***Effect on the Service Auditor's Assurance Report***

36. If the work of the internal audit function has been used, the service auditor shall make no reference to that work in the section of the service auditor's assurance report that contains the service auditor's opinion. (Ref: Para. A40)

37. In the case of a type 2 report, if the work of the internal audit function has been used in performing tests of controls, that part of the service auditor's assurance report that describes the service auditor's tests of controls and the results thereof shall include a description of the internal auditor's work and of the service auditor's procedures with respect to that work. (Ref: Para. A41)

### **Written Representations**

38. The service auditor shall request the service organization to provide written representations: (Ref: Para. A42)

- (a) That reaffirm the assertion accompanying the description of the system;
- (b) That it has provided the service auditor with all relevant information and access agreed to;<sup>9</sup> and
- (c) That it has disclosed to the service auditor any of the following of which it is aware:
  - (i) Non-compliance with laws and regulations, fraud, or uncorrected deviations attributable to the service organization that may affect one or more user entities;
  - (ii) Design deficiencies in controls;
  - (iii) Instances where controls have not operated as described; and
  - (iv) Any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report.

39. The written representations shall be in the form of a representation letter addressed to the service auditor. The date of the written representations shall be as near as practicable to, but not after, the date of the service auditor's assurance report.

40. If, having discussed the matter with the service auditor, the service organization does not provide one or more of the written representations requested in accordance with paragraph 38(a) and (b) of this SAE, the service auditor shall disclaim an opinion. (Ref: Para. A43)

### **Other Information**

41. The service auditor shall read the other information, if any, included in a document containing the service organization's description of its system and the

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<sup>9</sup> Paragraph 13(b)(vi) of this SAE.

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service auditor's assurance report, to identify material inconsistencies, if any, with that description. While reading the other information for the purpose of identifying material inconsistencies, the service auditor may become aware of an apparent misstatement of fact in that other information.

42. If the service auditor becomes aware of a material inconsistency or an apparent misstatement of fact in the other information, the service auditor shall discuss the matter with the service organization. If the service auditor concludes that there is a material inconsistency or a misstatement of fact in the other information that the service organization refuses to correct, the service auditor shall take further appropriate action. (Ref: Para. A44-A45)

### **Subsequent Events**

43. The service auditor shall inquire whether the service organization is aware of any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report. If the service auditor is aware of such an event, and information about that event is not disclosed by the service organization, the service auditor shall disclose it in the service auditor's assurance report.

44. The service auditor has no obligation to perform any procedures regarding the description of the service organization's system, or the suitability of design or operating effectiveness of controls, after the date of the service auditor's assurance report.

### **Documentation**

45. The service auditor shall prepare documentation that is sufficient to enable an experienced service auditor, having no previous connection with the engagement, to understand:

- (a) The nature, timing, and extent of the procedures performed to comply with this SAE and applicable legal and regulatory requirements;
- (b) The results of the procedures performed, and the evidence obtained; and
- (c) Significant matters arising during the engagement, and the conclusions reached thereon and significant professional judgments made in reaching those conclusions.

46. In documenting the nature, timing and extent of procedures performed, the service auditor shall record:

- (a) The identifying characteristics of the specific items or matters being tested;

(b) Who performed the work and the date such work was completed; and

(c) Who reviewed the work performed and the date and extent of such review.

47. If the service auditor uses specific work of the internal auditors, the service auditor shall document the conclusions reached regarding the evaluation of the adequacy of the work of the internal auditors, and the procedures performed by the service auditor on that work.

48. The service auditor shall document discussions of significant matters with the service organization and others including the nature of the significant matters discussed and when and with whom the discussions took place.

49. If the service auditor has identified information that is inconsistent with the service auditor's final conclusion regarding a significant matter, the service auditor shall document how the service auditor addressed the inconsistency.

50. The service auditor shall assemble the documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the service auditor's assurance report<sup>10</sup>.

51. After the assembly of the final engagement file has been completed, the service auditor shall not delete or discard documentation before the end of its retention period. (Ref: Para. A46)

52. If the service auditor finds it necessary to modify existing engagement documentation or add new documentation after the assembly of the final engagement file has been completed and that documentation does not affect the service auditor's report, the service auditor shall, regardless of the nature of the modifications or additions, document:

(a) The specific reasons for making them; and

(b) When and by whom they were made and reviewed.

### **Preparing the Service Auditor's Assurance Report**

#### ***Content of the Service Auditor's Assurance Report***

53. The service auditor's assurance report shall include the following basic elements: (Ref: Para. A47)

(a) A title that clearly indicates the report is an independent service auditor's assurance report.

(b) An addressee.

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<sup>10</sup> Standard on Quality Control (SQC) 1, paragraphs 74-76, provide further guidance.

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- (c) Identification of:
  - (i) The service organization's description of its system, and the service organization's assertion, which includes the matters described in paragraph 9(k)(ii) for a type 2 report, or paragraph 9(j)(ii) for a type 1 report.
  - (ii) Those parts of the service organization's description of its system, if any, that are not covered by the service auditor's opinion.
  - (iii) If the description refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the service organization's description of its system can be achieved only if complementary user entity controls are suitably designed or operating effectively, along with the controls at the service organization.
  - (iv) If services are performed by a subservice organization, the nature of activities performed by the subservice organization as described in the service organization's description of its system and whether the inclusive method or the carve-out method has been used in relation to them. Where the carve-out method has been used, a statement that the service organization's description of its system excludes the control objectives and related controls at relevant subservice organizations, and that the service auditor's procedures do not extend to controls at the subservice organization. Where the inclusive method has been used, a statement that the service organization's description of its system includes control objectives and related controls at the subservice organization, and that the service auditor's procedures extended to controls at the subservice organization.
- (d) Identification of the criteria, and the party specifying the control objectives.
- (e) A statement that the report and, in the case of a type 2 report, the description of tests of controls are intended only for user entities and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. (Ref: Para. A48)
- (f) A statement that the service organization is responsible for:
  - (i) Preparing the description of its system, and the accompanying assertion, including the completeness, accuracy and method of

- presentation of that description and that assertion;
- (ii) Providing the services covered by the service organization's description of its system;
  - (iii) Stating the control objectives (where not identified by law or regulation, or another party, for example, a user group or a professional body); and
  - (iv) Designing and implementing controls to achieve the control objectives stated in the service organization's description of its system.
- (g) A statement that the service auditor's responsibility is to express an opinion on the service organization's description, on the design of controls related to the control objectives stated in that description and, in the case of a type 2 report, on the operating effectiveness of those controls, based on the service auditor's procedures.
- (h) A statement that the engagement was performed in accordance with SAE 3402, "Assurance Reports on Controls at a Service Organization," which requires that the service auditor comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the service organization's description of its system is fairly presented and the controls are suitably designed and, in the case of a type 2 report, are operating effectively.
- (i) A summary of the service auditor's procedures to obtain reasonable assurance and a statement of the service auditor's belief that the evidence obtained is sufficient and appropriate to provide a basis for the service auditor's opinion, and, in the case of a type 1 report, a statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and therefore no opinion is expressed thereon.
- (j) A statement of the limitations of controls and, in the case of a type 2 report, of the risk of projecting to future periods any evaluation of the operating effectiveness of controls.
- (k) The service auditor's opinion, expressed in the positive form, on whether, in all material respects, based on suitable criteria:
- (i) In the case of a type 2 report:
    - a. The description fairly presents the service organization's system that had been designed and implemented throughout the specified period;
    - b. The controls related to the control objectives stated in the

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service organization's description of its system were suitably designed throughout the specified period; and

- c. The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.
- (ii) In the case of a type 1 report:
    - a. The description fairly presents the service organization's system that had been designed and implemented as at the specified date; and
    - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date.
  - (l) The date of the service auditor's assurance report, which shall be no earlier than the date on which the service auditor has obtained sufficient appropriate evidence on which to base the opinion.
  - (m) **Practitioner's Signature**-The report should be signed by the practitioner in his personal name. Where the firm is appointed, the report should be signed in the personal name of the engagement partner and in the name of the firm. The partner/proprietor signing the assurance report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India (the Institute). If Partnership/proprietorship firm is appointed, the registration number of the firm, as may be allotted by the Institute, also needs to be mentioned in the assurance reports signed by them.
  - (n) **The place of signature** – the report should name specific location, which is ordinarily the city where the report is signed.

54. In the case of a type 2 report, the service auditor's assurance report shall include a separate section after the opinion, or an attachment, that describes the tests of controls that were performed and the results of those tests. In describing the tests of controls, the service auditor shall clearly state which controls were tested, identify whether the items tested represent all or a selection of the items in the population, and indicate the nature of the tests in sufficient detail to enable user auditors to determine the effect of such tests on their risk assessments. If deviations have been identified, the service auditor shall include the extent of testing performed that led to identification of the deviations (including the sample size where sampling has been used), and the number and

nature of the deviations noted. The service auditor shall report deviations even if, on the basis of tests performed, the service auditor has concluded that the related control objective was achieved. (Ref: Para. A18 and A49)

**Modified Opinions**

55. If the service auditor concludes that: (Ref: Para. A50-A52)
- (a) The service organization's description does not fairly present, in all material respects, the system as designed and implemented;
  - (b) The controls related to the control objectives stated in the description were not suitably designed, in all material respects;
  - (c) In the case of a type 2 report, the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved, did not operate effectively, in all material respects; or
  - (d) The service auditor is unable to obtain sufficient appropriate evidence, the service auditor's opinion shall be modified, and the service auditor's assurance report shall contain a clear description of all the reasons for the modification.

**Other Communication Responsibilities**

56. If the service auditor becomes aware of non-compliance with laws and regulations, fraud, or uncorrected errors attributable to the service organization that are not clearly trivial and may affect one or more user entities, the service auditor shall determine whether the matter has been communicated appropriately to affected user entities. If the matter has not been so communicated and the service organization is unwilling to do so, the service auditor shall take appropriate action. (Ref: Para. A53)

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**Application and Other Explanatory Material**

**Scope of this SAE (Ref: Para. 1 and 3)**

A1. Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives related to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Controls related to a service organization's operations and compliance objectives may be relevant to a user entity's internal control as it relates to financial reporting. Such controls may pertain to assertions about presentation and disclosure relating to account balances, classes of transactions or disclosures, or may pertain to evidence that the user auditor

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evaluates or uses in applying auditing procedures. For example, a payroll processing service organization's controls related to the timely remittance of payroll deductions to government authorities may be relevant to a user entity as late remittances could incur interest and penalties that would result in a liability for the user entity. Similarly, a service organization's controls over the acceptability of investment transactions from a regulatory perspective may be considered relevant to a user entity's presentation and disclosure of transactions and account balances in its financial statements. The determination of whether controls at a service organization related to operations and compliance are likely to be relevant to user entities' internal control as it relates to financial reporting is a matter of professional judgment, having regard to the control objectives set by the service organization and the suitability of the criteria.

A2. The service organization may not be able to assert that the system is suitably designed when, for example, the service organization is operating a system that has been designed by a user entity or is stipulated in a contract between a user entity and the service organization. Because of the inextricable link between the suitable design of controls and their operating effectiveness, the absence of an assertion with respect to the suitability of design will likely preclude the service auditor from concluding that the controls provide reasonable assurance that the control objectives have been met and thus from opining on the operating effectiveness of controls. As an alternative, the practitioner may choose to accept an agreed-upon procedures engagement to perform tests of controls, or an assurance engagement to conclude on whether, based on tests of controls, the controls have operated as described.

### **Definitions (Ref: Para. 9(d) and 9(g))**

A3. The definition of "controls at the service organization" includes aspects of user entities' information systems maintained by the service organization, and may also include aspects of one or more of the other components of internal control at a service organization. For example, it may include aspects of a service organization's control environment, monitoring, and control activities when they relate to the services provided. It does not, however, include controls at a service organization that are not related to the achievement of the control objectives stated in the service organization's description of its system, for example, controls related to the preparation of the service organization's own financial statements.

A4. When the inclusive method is used, the requirements in this SAE also apply to the services provided by the subservice organization, including obtaining agreement regarding the matters in paragraph 13(b)(i)-(v) as applied to the subservice organization rather than the service organization. Performing

procedures at the subservice organization entails coordination and communication between the service organization, the subservice organization, and the service auditor. The inclusive method generally is feasible only if the service organization and the subservice organization are related, or if the contract between the service organization and the subservice organization provides for its use.

**Ethical Requirements** (Ref: Para. 11)

A5. The service auditor is subject to relevant independence requirements, which ordinarily comprise *Code of Ethics* of the Institute. In performing an engagement in accordance with this SAE, the *Code of Ethics* of the ICAI does not require the service auditor to be independent from each user entity.

**Management and Those Charged with Governance** (Ref: Para. 12)

A6. Management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Such diversity means that it is not possible for this SAE to specify for all engagements the person(s) with whom the service auditor is to interact regarding particular matters. For example, the service organization may be a segment of a third-party organization and not a separate legal entity. In such cases, identifying the appropriate management personnel or those charged with governance from whom to request written representations may require the exercise of professional judgment.

**Acceptance and Continuance**

***Capabilities and Competence to Perform the Engagement*** (Ref: Para. 13(a)(i))

A7. Relevant capabilities and competence to perform the engagement include matters such as the following:

- Knowledge of the relevant industry;
- An understanding of information technology and systems;
- Experience in evaluating risks as they relate to the suitable design of controls; and
- Experience in the design and execution of tests of controls and the evaluation of the results.

***Service Organization's Assertion*** (Ref: Para. 13(b)(i))

A8. Refusal, by a service organization, to provide a written assertion, subsequent to an agreement by the service auditor to accept, or continue, an engagement, represents a scope limitation that causes the service auditor to

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withdraw from the engagement. If law or regulation does not allow the service auditor to withdraw from the engagement, the service auditor disclaims an opinion.

### ***Reasonable Basis for Service Organization's Assertion*** (Ref: Para. 13(b)(ii))

A9. In the case of a type 2 report, the service organization's assertion includes a statement that the controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period. This assertion may be based on the service organization's monitoring activities. Monitoring of controls is a process to assess the effectiveness of controls over time. It involves assessing the effectiveness of controls on a timely basis, identifying and reporting deficiencies to appropriate individuals within the service organization, and taking necessary corrective actions. The service organization accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of both. The greater the degree and effectiveness of ongoing monitoring activities, the less need for separate evaluations. Ongoing monitoring activities are often built into the normal recurring activities of a service organization and include regular management and supervisory activities. Internal auditors or personnel performing similar functions may contribute to the monitoring of a service organization's activities. Monitoring activities may also include using information communicated by external parties, such as customer complaints and regulator comments, which may indicate problems or highlight areas in need of improvement. The fact that the service auditor will report on the operating effectiveness of controls is not a substitute for the service organization's own processes to provide a reasonable basis for its assertion.

### ***Identification of Risks*** (Ref: Para. 13(b)(v))

A10. As noted in paragraph 9(c), control objectives relate to risks that controls seek to mitigate. For example, the risk that a transaction is recorded at the wrong amount or in the wrong period can be expressed as a control objective that transactions are recorded at the correct amount and in the correct period. The service organization is responsible for identifying the risks that threaten achievement of the control objectives stated in the description of its system. The service organization may have a formal or informal process for identifying relevant risks. A formal process may include estimating the significance of identified risks, assessing the likelihood of their occurrence, and deciding about actions to address them. However, since control objectives relate to risks that controls seek to mitigate, thoughtful identification of control objectives when designing and implementing the service organization's system may itself comprise an informal process for identifying relevant risks.

**Acceptance of a Change in the Terms of the Engagement (Ref: Para. 14)**

A11. A request to change the scope of the engagement may not have a reasonable justification when, for example, the request is made to exclude certain control objectives from the scope of the engagement because of the likelihood that the service auditor's opinion would be modified; or the service organization will not provide the service auditor with a written assertion and the request is made to perform the engagement under Framework for Assurance Engagements.

A12. A request to change the scope of the engagement may have a reasonable justification when, for example, the request is made to exclude from the engagement a subservice organization when the service organization cannot arrange for access by the service auditor, and the method used for dealing with the services provided by that subservice organization is changed from the inclusive method to the carve-out method.

**Assessing the Suitability of the Criteria (Ref: Para. 15-18)**

A13. Criteria need to be available to the intended users to allow them to understand the basis for the service organization's assertion about the fair presentation of its description of the system, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of the controls related to the control objectives.

A14. Framework for Assurance Engagements requires the service auditor, among other things, to assess the suitability of criteria, and the appropriateness of the subject matter<sup>11</sup>. The subject matter is the underlying condition of interest to intended users of an assurance report. The following table identifies the subject matter and minimum criteria for each of the opinions in type 2 and type 1 reports.

	<b>Subject matter</b>	<b>Criteria</b>	<b>Comment</b>
<b>Opinion about the fair presentation of the description of</b>	The service organization's system that is likely to be relevant to user entities' internal control as it relates to	The description is fairly presented if it: (a) presents how the service organization's system was designed and implemented	The specific wording of the criteria for this opinion may need to be tailored to be consistent with criteria established by, for example, law or regulation, user groups, or a professional body.

<sup>11</sup> Framework for Assurance Engagements, paragraph 16(b). Members attention is also drawn to ISAE 3000, paragraphs 18-19.

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<p><b>the service organization's system (type 1 and type 2 reports)</b></p>	<p>financial reporting and is covered by the service auditor's assurance report.</p>	<p>including, as appropriate, the matters identified in paragraph 16(a)(i)-(viii); (b) in the case of a type 2 report, includes relevant details of changes to the service organization's system during the period covered by the description; and (c) does not omit or distort information relevant to the scope of the service organization's system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities and may not, therefore, include every aspect of the service organization's system that each individual user entity may consider important in its own particular environment.</p>	<p>Examples of criteria for this opinion are provided in the illustrative service organization's assertion in <b>Appendix 1</b>. Paragraphs A21-A24 offer further guidance on determining whether these criteria are met. (The subject matter information<sup>12</sup> for this opinion is the service organization's description of its system and the service organization's assertion that the description is fairly presented.)</p>
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<sup>12</sup> The "subject matter information" is the outcome of the evaluation or measurement of the subject matter.

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<p><b>Opinion about suitability of design, and operating effectiveness (type 2 reports)</b></p>	<p>The suitability of the design and operating effectiveness of those controls that are necessary to achieve the control objectives stated in the service organization's description of its system.</p>	<p>The controls are suitably designed and operating effectively if: (a) the service organization has identified the risks that threaten achievement of the control objectives stated in the description of its system; (b) the controls identified in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved; and (c) the controls were consistently applied as designed throughout the specified period. This includes whether manual controls were applied by individuals who have the appropriate competence and authority.</p>	<p>When the criteria for this opinion are met, controls will have provided reasonable assurance that the related control objectives were achieved throughout the specified period. (The subject matter information for this opinion is the service organization's assertion that controls are suitably designed and that they are operating effectively.)</p>	<p>The control objectives, which are stated in the service organization's description of its system, are part of the criteria for these opinions. The stated control objectives will differ from engagement to engagement. If, as part of forming the opinion on the description, the service auditor concludes the stated control objectives are not fairly presented</p>
<p><b>Opinion about</b></p>	<p>The suitability of the design</p>	<p>The controls are suitably designed</p>	<p>Meeting these criteria</p>	<p>Meeting these criteria</p>

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<p><b>suitability of design (type 1 reports)</b></p>	<p>of those controls that are necessary to achieve the control objectives stated in the service organization's description of its system.</p>	<p>if: (a) the service organization has identified the risks that threaten achievement of the control objectives stated in the description of its system; and (b) the controls identified in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved.</p>	<p>does not, of itself, provide any assurance that the related control objectives were achieved because no assurance has been obtained about the operation of controls. (The subject matter information for this opinion is the service organization's assertion that controls are suitably designed.)</p>	<p>then those control objectives would not be suitable as part of the criteria for forming an opinion on either the design or operating effectiveness of controls.</p>
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A15. Paragraph 16(a) identifies a number of elements that are included in the service organization's description of its system as appropriate. These elements may not be appropriate if the system being described is not a system that processes transactions, for example, if the system relates to general controls over the hosting of an IT application but not the controls embedded in the application itself.

**Materiality** (Ref: Para. 19 and 54)

A16. In an engagement to report on controls at a service organization, the concept of materiality relates to the system being reported on, not the financial statements of user entities. The service auditor plans and performs procedures

to determine whether the service organization's description of its system is fairly presented in all material respects, whether controls at the service organization are suitably designed in all material respects and, in the case of a type 2 report, whether controls at the service organization are operating effectively in all material respects. The concept of materiality takes into account that the service auditor's assurance report provides information about the service organization's system to meet the common information needs of a broad range of user entities and their auditors who have an understanding of the manner in which that system has been used.

A17. Materiality with respect to the fair presentation of the service organization's description of its system, and with respect to the design of controls, includes primarily the consideration of qualitative factors, for example: whether the description includes the significant aspects of processing significant transactions; whether the description omits or distorts relevant information; and the ability of controls, as designed, to provide reasonable assurance that control objectives would be achieved. Materiality with respect to the service auditor's opinion on the operating effectiveness of controls includes the consideration of both quantitative and qualitative factors, for example, the tolerable rate and observed rate of deviation (a quantitative matter), and the nature and cause of any observed deviation (a qualitative matter).

A18. The concept of materiality is not applied when disclosing, in the description of the tests of controls, the results of those tests where deviations have been identified. This is because, in the particular circumstances of a specific user entity or user auditor, a deviation may have significance beyond whether or not, in the opinion of the service auditor, it prevents a control from operating effectively. For example, the control to which the deviation relates may be particularly significant in preventing a certain type of error that may be material in the particular circumstances of a user entity's financial statements.

**Obtaining an Understanding of the Service Organization's System**  
(Ref: Para. 20)

A19. Obtaining an understanding of the service organization's system, including controls, included in the scope of the engagement, assists the service auditor in:

- Identifying the boundaries of that system, and how it interfaces with other systems.
- Assessing whether the service organization's description fairly presents the system that has been designed and implemented.

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- Determining which controls are necessary to achieve the control objectives stated in the service organization's description of its system.
- Assessing whether controls were suitably designed.
- Assessing, in the case of a type 2 report, whether controls were operating effectively.

A20. The service auditor's procedures to obtain this understanding may include:

- Inquiring of those within the service organization who, in the service auditor's judgment, may have relevant information.
- Observing operations and inspecting documents, reports, printed and electronic records of transaction processing.
- Inspecting a selection of agreements between the service organization and user entities to identify their common terms.
- Reperforming control procedures.

### **Obtaining Evidence Regarding the Description (Ref: Para. 21-22)**

A21. Considering the following questions may assist the service auditor in determining whether those aspects of the description included in the scope of the engagement are fairly presented in all material respects:

- Does the description address the major aspects of the service provided (within the scope of the engagement) that could reasonably be expected to be relevant to the common needs of a broad range of user auditors in planning their audits of user entities' financial statements?
- Is the description prepared at a level of detail that could reasonably be expected to provide a broad range of user auditors with sufficient information to obtain an understanding of internal control in accordance with SA 315<sup>13</sup>? The description need not address every aspect of the service organization's processing or the services provided to user entities, and need not be so detailed as to potentially allow a reader to compromise security or other controls at the service organization.
- Is the description prepared in a manner that does not omit or distort information that may affect the common needs of a broad range of user auditors' decisions, for example, does the description contain any

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<sup>13</sup> SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment".

significant omissions or inaccuracies in processing of which the service auditor is aware?

- Where some of the control objectives stated in the service organization's description of its system have been excluded from the scope of the engagement, does the description clearly identify the excluded objectives?
- Have the controls identified in the description been implemented?
- Are complementary user entity controls, if any, described adequately? In most cases, the description of control objectives is worded such that the control objectives are capable of being achieved through effective operation of controls implemented by the service organization alone. In some cases, however, the control objectives stated in the service organization's description of its system cannot be achieved by the service organization alone because their achievement requires particular controls to be implemented by user entities. This may be the case where, for example, the control objectives are specified by a regulatory authority. When the description does include complementary user entity controls, the description separately identifies those controls along with the specific control objectives that cannot be achieved by the service organization alone.
- If the inclusive method has been used, does the description separately identify controls at the service organization and controls at the subservice organization? If the carve-out method is used, does the description identify the functions that are performed by the subservice organization? When the carve-out method is used, the description need not describe the detailed processing or controls at the subservice organization.

A22. The service auditor's procedures to evaluate the fair presentation of the description may include:

- Considering the nature of user entities and how the services provided by the service organization are likely to affect them, for example, whether user entities are from a particular industry and whether they are regulated by government agencies.
- Reading standard contracts, or standard terms of contracts, (if applicable) with user entities to gain an understanding of the service organization's contractual obligations.
- Observing procedures performed by service organization personnel.
- Reviewing the service organization's policy and procedure manuals and

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other systems documentation, for example, flowcharts and narratives.

A23. Paragraph 21(a) requires the service auditor to evaluate whether the control objectives stated in the service organization's description of its system are reasonable in the circumstances.

Considering the following questions may assist the service auditor in this evaluation:

- Have the stated control objectives been designated by the service organization or by outside parties such as a regulatory authority, a user group, or a professional body that follows a transparent due process?
- Where the stated control objectives have been specified by the service organization, do they relate to the types of assertions commonly embodied in the broad range of user entities' financial statements to which controls at the service organization could reasonably be expected to relate? Although the service auditor ordinarily will not be able to determine how controls at a service organization specifically relate to the assertions embodied in individual user entities' financial statements, the service auditor's understanding of the nature of the service organization's system, including controls, and services being provided is used to identify the types of assertions to which those controls are likely to relate.
- Where the stated control objectives have been specified by the service organization, are they complete? A complete set of control objectives can provide a broad range of user auditors with a framework to assess the effect of controls at the service organization on the assertions commonly embodied in user entities' financial statements.

A24. The service auditor's procedures to determine whether the service organization's system has been implemented may be similar to, and performed in conjunction with, procedures to obtain an understanding of that system. They may also include tracing items through the service organization's system and, in the case of a type 2 report, specific inquiries about changes in controls that were implemented during the period. Changes that are significant to user entities or their auditors are included in the description of the service organization's system.

### **Obtaining Evidence Regarding Design of Controls (Ref: Para. 23 and 28(b))**

A25. From the viewpoint of a user entity or a user auditor, a control is suitably designed if, individually or in combination with other controls, it would, when complied with satisfactorily, provide reasonable assurance that material misstatements are prevented, or detected and corrected. A service organization

or a service auditor, however, is not aware of the circumstances at individual user entities that would determine whether or not a misstatement resulting from a control deviation is material to those user entities. Therefore, from the viewpoint of a service auditor, a control is suitably designed if, individually or in combination with other controls, it would, when complied with satisfactorily, provide reasonable assurance that control objectives stated in the service organization's description of its system are achieved.

A26. A service auditor may consider using flowcharts, questionnaires, or decision tables to facilitate understanding the design of the controls.

A27. Controls may consist of a number of activities directed at the achievement of a control objective. Consequently, if the service auditor evaluates certain activities as being ineffective in achieving a particular control objective, the existence of other activities may allow the service auditor to conclude that controls related to the control objective are suitably designed.

### **Obtaining Evidence Regarding Operating Effectiveness of Controls**

#### ***Assessing Operating Effectiveness*** (Ref: Para. 24)

A28. From the viewpoint of a user entity or a user auditor, a control is operating effectively if, individually or in combination with other controls, it provides reasonable assurance that material misstatements, whether due to fraud or error, are prevented, or detected and corrected. A service organization or a service auditor, however, is not aware of the circumstances at individual user entities that would determine whether a misstatement resulting from a control deviation had occurred and, if so, whether it is material. Therefore, from the viewpoint of a service auditor, a control is operating effectively if, individually or in combination with other controls, it provides reasonable assurance that control objectives stated in the service organization's description of its system are achieved. Similarly, a service organization or a service auditor is not in a position to determine whether any observed control deviation would result in a material misstatement from the viewpoint of an individual user entity.

A29. Obtaining an understanding of controls sufficient to opine on the suitability of their design is not sufficient evidence regarding their operating effectiveness, unless there is some automation that provides for the consistent operation of the controls as they were designed and implemented. For example, obtaining information about the implementation of a manual control at a point in time does not provide evidence about operation of the control at other times. However, because of the inherent consistency of IT processing, performing procedures to determine the design of an automated control, and whether it has been implemented, may serve as evidence of that control's operating effectiveness, depending on the service auditor's assessment and testing of other controls, such as those over program changes.

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A30. To be useful to user auditors, a type 2 report ordinarily covers a minimum period of six months. If the period is less than six months, the service auditor may consider it appropriate to describe the reasons for the shorter period in the service auditor's assurance report. Circumstances that may result in a report covering a period of less than six months include when (a) the service auditor is engaged close to the date by which the report on controls is to be issued; (b) the service organization (or a particular system or application) has been in operation for less than six months; or (c) significant changes have been made to the controls and it is not practicable either to wait six months before issuing a report or to issue a report covering the system both before and after the changes.

A31. Certain control procedures may not leave evidence of their operation that can be tested at a later date and, accordingly, the service auditor may find it necessary to test the operating effectiveness of such control procedures at various times throughout the reporting period.

A32. The service auditor provides an opinion on the operating effectiveness of controls throughout each period, therefore, sufficient appropriate evidence about the operation of controls during the current period is required for the service auditor to express that opinion. Knowledge of deviations observed in prior engagements may, however, lead the service auditor to increase the extent of testing during the current period.

### ***Testing of Indirect Controls*** (Ref: Para. 25(b))

A33. In some circumstances, it may be necessary to obtain evidence supporting the effective operation of indirect controls. For example, when the service auditor decides to test the effectiveness of a review of exception reports detailing sales in excess of authorized credit limits, the review and related follow up is the control that is directly of relevance to the service auditor. Controls over the accuracy of the information in the reports (for example, the general IT controls) are described as "indirect" controls.

A34. Because of the inherent consistency of IT processing, evidence about the implementation of an automated application control, when considered in combination with evidence about the operating effectiveness of the service organization's general controls (in particular, change controls), may also provide substantial evidence about its operating effectiveness.

### ***Means of Selecting Items for Testing*** (Ref: Para. 25(c) and 27)

A35. The means of selecting items for testing available to the service auditor are:

- (a) Selecting all items (100% examination). This may be appropriate for testing controls that are applied infrequently, for example, quarterly, or when evidence regarding application of the control makes 100% examination efficient;
- (b) Selecting specific items. This may be appropriate where 100% examination would not be efficient and sampling would not be effective, such as testing controls that are not applied sufficiently frequently to render a large population for sampling, for example, controls that are applied monthly or weekly; and
- (c) Sampling. This may be appropriate for testing controls that are applied frequently in a uniform manner and which leave documentary evidence of their application.

A36. While selective examination of specific items will often be an efficient means of obtaining evidence, it does not constitute sampling. The results of procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selective examination of specific items does not provide evidence concerning the remainder of the population. Sampling, on the other hand, is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it.

### **The Work of an Internal Audit Function**

#### ***Obtaining an Understanding of the Internal Audit Function*** (Ref: Para. 30)

A37. An internal audit function may be responsible for providing analyses, evaluations, assurances, recommendations, and other information to management and those charged with governance. An internal audit function at a service organization may perform activities related to the service organization's own system of internal control, or activities related to the services and systems, including controls, that the service organization is providing to user entities.

#### ***Determining Whether and to What Extent to Use the Work of the Internal Auditors*** (Ref: Para. 33)

A38. In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures, the following factors may suggest the need for different or less extensive procedures than would otherwise be the case:

- The nature and scope of specific work performed, or to be performed, by the internal auditors is quite limited.
- The work of the internal auditors relates to controls that are less significant to the service auditor's conclusions.

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- The work performed, or to be performed, by the internal auditors does not require subjective or complex judgments.

### ***Using the Work of the Internal Audit Function*** (Ref: Para. 34)

A39. The nature, timing and extent of the service auditor's procedures on specific work of the internal auditors will depend on the service auditor's assessment of the significance of that work to the service auditor's conclusions (for example, the significance of the risks that the controls tested seek to mitigate), the evaluation of the internal audit function and the evaluation of the specific work of the internal auditors. Such procedures may include:

- Examination of items already examined by the internal auditors;
- Examination of other similar items; and
- Observation of procedures performed by the internal auditors.

### ***Effect on the Service Auditor's Assurance Report*** (Ref: Para. 36-37)

A40. Irrespective of the degree of autonomy and objectivity of the internal audit function, such function is not independent of the service organization as is required of the service auditor when performing the engagement. The service auditor has sole responsibility for the opinion expressed in the service auditor's assurance report, and that responsibility is not reduced by the service auditor's use of the work of the internal auditors.

A41. The service auditor's description of work performed by the internal audit function may be presented in a number of ways, for example:

- By including introductory material to the description of tests of controls indicating that certain work of the internal audit function was used in performing tests of controls.
- Attribution of individual tests to internal audit.

### **Written Representations** (Ref: Para. 38 and 40)

A42. The written representations required by paragraph 38 are separate from, and in addition to, the service organization's assertion, as defined at paragraph 9(o).

A43. If the service organization does not provide the written representations requested in accordance with paragraph 38(c) of this SAE, it may be appropriate for the service auditor's opinion to be modified in accordance with paragraph 55(d) of this SAE.

### **Other Information** (Ref: Para. 42)

A44. The *Code of Ethics* of the ICAI requires that a service auditor not be

associated with information where the service auditor believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information furnished negligently; or
- (c) Omits or obscures information required to be included where such omission or obscurity would be misleading<sup>14</sup>.

If other information included in a document containing the service organization's description of its system and the service auditor's assurance report contains future-oriented information such as recovery or contingency plans, or plans for modifications to the system that will address deviations identified in the service auditor's assurance report, or claims of a promotional nature that cannot be reasonably substantiated, the service auditor may request that information be removed or restated.

A45. If the service organization refuses to remove or restate the other information, further actions that may be appropriate include, for example:

- Requesting the service organization to consult with its legal counsel as to the appropriate course of action.
- Describing the material inconsistency or material misstatement of fact in the assurance report.
- Withholding the assurance report until the matter is resolved.
- Withdrawing from the engagement.

**Documentation** (Ref: Para. 51)

A46. SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of engagement files<sup>15</sup>. An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the service auditor's report<sup>16</sup>.

**Preparing the Service Auditor's Assurance Report**

***Content of the Service Auditor's Assurance Report*** (Ref: Para. 53)

A47. Illustrative examples of service auditors' assurance reports and related service organizations' assertions are contained in **Appendices 1 and 2**.

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<sup>14</sup> The Code of Ethics of the ICAI, paragraph 110.2.

<sup>15</sup> SQC 1, paragraph 74.

<sup>16</sup> SQC 1, paragraph 75.

***Intended Users and Purposes of the Service Auditor's Assurance Report***

(Ref: Para. 53(e))

A48. The criteria used for engagements to report on controls at a service organization are relevant only for the purposes of providing information about the service organization's system, including controls, to those who have an understanding of how the system has been used for financial reporting by user entities. Accordingly this is stated in the service auditor's assurance report. In addition, the service auditor may consider it appropriate to include wording that specifically restricts distribution of the assurance report other than to intended users, its use by others, or its use for other purposes.

***Description of the Tests of Controls*** (Ref: Para. 54)

A49. In describing the nature of the tests of controls for a type 2 report, it assists readers of the service auditor's assurance report if the service auditor includes:

- The results of all tests where deviations have been identified, even if other controls have been identified that allow the service auditor to conclude that the relevant control objective has been achieved or the control tested has subsequently been removed from the service organization's description of its system.
- Information about causative factors for identified deviations, to the extent the service auditor has identified such factors.

***Modified Opinions*** (Ref: Para. 55)

A50. Illustrative examples of elements of modified service auditor's assurance reports are contained in **Appendix 3**.

A51. Even if the service auditor has expressed an adverse opinion or disclaimed an opinion, it may be appropriate to describe in the basis for modification paragraph the reasons for any other matters of which the service auditor is aware that would have required a modification to the opinion, and the effects thereof.

A52. When expressing a disclaimer of opinion because of a scope limitation, it is not ordinarily appropriate to identify the procedures that were performed nor include statements describing the characteristics of a service auditor's engagement; to do so might overshadow the disclaimer of opinion.

***Other Communication Responsibilities*** (Ref: Para. 56)

A53. Appropriate actions to respond to the circumstances identified in paragraph 56 may include:

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- Obtaining legal advice about the consequences of different courses of action.
- Communicating with those charged with governance of the service organization.
- Communicating with third parties (for example, a regulator) when required to do so.
- Modifying the service auditor's opinion, or adding an Other Matter paragraph.
- Withdrawing from the engagement.

## Appendix 1

(Ref. Para. A47)

### Example Service Organization's Assertions

The following examples of service organization's assertions are for guidance only and are not intended to be exhaustive or applicable to all situations.

#### Example 1: Type 2 Service Organization's Assertion

Assertion by the Service Organization

The accompanying description has been prepared for customers who have used [the type or name of] system and their auditors who have a sufficient understanding to consider the description, along with other information including information about controls operated by customers themselves, when assessing the risks of material misstatements of customers' financial statements. [Entity's name] confirms that:

- (a) The accompanying description at pages [bb-cc] fairly presents [the type or name of] system for processing customers' transactions throughout the period [date] to [date]. The criteria used in making this assertion were that the accompanying description:
  - (i) Presents how the system was designed and implemented, including:
    - The types of services provided, including, as appropriate, classes of transactions processed.
    - The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for customers.
    - The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information was transferred to the reports prepared for customers.
    - How the system dealt with significant events and conditions, other than transactions.
    - The process used to prepare reports for customers.
    - Relevant control objectives and controls designed to achieve those objectives.

- Controls that we assumed, in the design of the system, would be implemented by user entities, and which, if necessary to achieve control objectives stated in the accompanying description, are identified in the description along with the specific control objectives that cannot be achieved by ourselves alone.
  - Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that were relevant to processing and reporting customers' transactions.
- (ii) Includes relevant details of changes to the service organization's system during the period [date] to [date].
- (iii) Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment.
- (b) The controls related to the control objectives stated in the accompanying description were suitably designed and operated effectively throughout the period [date] to [date]. The criteria used in making this assertion were that:
- (i) The risks that threatened achievement of the control objectives stated in the description were identified;
  - (ii) The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved; and
  - (iii) The controls were consistently applied as designed, including that manual controls were applied by individuals who have the appropriate competence and authority, throughout the period [date] to [date].

**Example 2: Type 1 Service Organization's Assertion**

The accompanying description has been prepared for customers who have used [the type or name of] system and their auditors who have a sufficient understanding to consider the description, along with other information including information about controls operated by customers themselves, when obtaining an understanding of customers' information systems relevant to financial reporting. [Entity's name] confirms that:

- (a) The accompanying description at pages [bb-cc] fairly presents [the type or

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*name of*] system for processing customers' transactions as at *[date]*. The criteria used in making this assertion were that the accompanying description:

- (i) Presents how the system was designed and implemented, including:
    - The types of services provided, including, as appropriate, classes of transactions processed.
    - The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for customers.
    - The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the reports prepared customers.
    - How the system dealt with significant events and conditions, other than transactions.
    - The process used to prepare reports for customers.
    - Relevant control objectives and controls designed to achieve those objectives.
    - Controls that we assumed, in the design of the system, would be implemented by user entities, and which, if necessary to achieve control objectives stated in the accompanying description, are identified in the description along with the specific control objectives that cannot be achieved by ourselves alone.
    - Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that were relevant to processing and reporting customers' transactions.
  - (ii) Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment.
- (b) The controls related to the control objectives stated in the accompanying

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description were suitably designed as at [date]. The criteria used in making this assertion were that:

- (i) The risks that threatened achievement of the control objectives stated in the description were identified; and
- (ii) The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved.

## Appendix 2

(Ref. Para. A47)

### Example Service Auditor's Assurance Reports

The following examples of reports are for guidance only and are not intended to be exhaustive or applicable to all situations.

#### Example 1: Type 2 Service Auditor's Assurance Report

##### **Independent Service Auditor's Assurance Report on the Description of Controls, their Design and Operating Effectiveness**

To: XYZ Service Organization

##### **Scope**

We have been engaged to report on XYZ Service Organization's description at pages [bb-cc] of its [type or name of] system for processing customers' transactions throughout the period [date] to [date] (the description), and on the design and operation of controls related to the control objectives stated in the description<sup>17</sup>.

##### **XYZ Service Organization's Responsibilities**

XYZ Service Organization is responsible for: preparing the description and accompanying assertion at page [aa], including the completeness, accuracy and method of presentation of the description and assertion; providing the services covered by the description; stating the control objectives; and designing, implementing and effectively operating controls to achieve the stated control objectives.

##### **Service Auditor's Responsibilities**

Our responsibility is to express an opinion on XYZ Service Organization's description and on the design and operation of controls related to the control objectives stated in that description, based on our procedures. We conducted our engagement in accordance with Standard on Assurance Engagements 3402, "Assurance Reports on Controls at a Service Organization," issued by the Institute of Chartered Accountants of India. That standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls are suitably designed and operating effectively.

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<sup>17</sup> If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

An assurance engagement to report on the description, design and operating effectiveness of controls at a service organization involves performing procedures to obtain evidence about the disclosures in the service organization's description of its system, and the design and operating effectiveness of controls. The procedures selected depend on the service auditor's judgment, including the assessment of the risks that the description is not fairly presented, and that controls are not suitably designed or operating effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the control objectives stated in the description were achieved. An assurance engagement of this type also includes evaluating the overall presentation of the description, the suitability of the objectives stated therein, and the suitability of the criteria specified by the service organization and described at page [aa].

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Limitations of Controls at a Service Organization***

XYZ Service Organization's description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment. Also, because of their nature, controls at a service organization may not prevent or detect all errors or omissions in processing or reporting transactions. Also, the projection of any evaluation of effectiveness to future periods is subject to the risk that controls at a service organization may become inadequate or fail.

***Opinion***

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described at page [aa]. In our opinion, in all material respects:

- (a) The description fairly presents the [the type or name of] system as designed and implemented throughout the period from [date] to [date];
- (b) The controls related to the control objectives stated in the description were suitably designed throughout the period from [date] to [date]; and
- (c) The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from [date] to [date].

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### ***Description of Tests of Controls***

The specific controls tested and the nature, timing and results of those tests are listed on pages [yy-zz].

### ***Intended Users and Purpose***

This report and the description of tests of controls on pages [yy-zz] are intended only for customers who have used XYZ Service Organization's [type or name of] system, and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by customers themselves, when assessing the risks of material misstatements of customers' financial statements.

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

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>18</sup>)  
Membership Number

Place of Signature

Date

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<sup>18</sup> Partner or Proprietor, as the case may be.

## **Example 2: Type 1 Service Auditor's Assurance Report**

### **Independent Service Auditor's Assurance Report on the Description of Controls and their Design**

To: XYZ Service Organization

#### **Scope**

We have been engaged to report on XYZ Service Organization's description at pages [bb-cc] of its [type or name of] system for processing customers' transactions as at [date] (the description), and on the design of controls related to the control objectives stated in the description<sup>19</sup>.

We did not perform any procedures regarding the operating effectiveness of controls included in the description and, accordingly, do not express an opinion thereon.

#### **XYZ Service Organization's Responsibilities**

XYZ Service Organization is responsible for: preparing the description and accompanying assertion at page [aa], including the completeness, accuracy and method of presentation of the description and the assertion; providing the services covered by the description; stating the control objectives; and designing, implementing and effectively operating controls to achieve the stated control objectives.

#### **Service Auditor's Responsibilities**

Our responsibility is to express an opinion on XYZ Service Organization's description and on the design of controls related to the control objectives stated in that description, based on our procedures. We conducted our engagement in accordance with Standard on Assurance Engagements 3402, "Assurance Reports on Controls at a Service Organization," issued by the Institute of Chartered Accountants of India. That standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls are suitably designed in all material respects.

An assurance engagement to report on the description and design of controls at a service organization involves performing procedures to obtain evidence about the disclosures in the service organization's description of its system, and the design of controls. The procedures selected depend on the service auditor's judgment, including the assessment that the description is not fairly presented,

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<sup>19</sup> If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

## **Handbook of Auditing Pronouncements-I.B**

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and that controls are not suitably designed. An assurance engagement of this type also includes evaluating the overall presentation of the description, the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described at page [aa].

As noted above, we did not perform any procedures regarding the operating effectiveness of controls included in the description and, accordingly, do not express an opinion thereon.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Limitations of Controls at a Service Organization***

XYZ Service Organization's description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment. Also, because of their nature, controls at a service organization may not prevent or detect all errors or omissions in processing or reporting transactions.

### ***Opinion***

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described at page [aa]. In our opinion, in all material respects:

- (a) The description fairly presents the [the type or name of] system as designed and implemented as at [date]; and
- (b) The controls related to the control objectives stated in the description were suitably designed as at [date].

### ***Intended Users and Purpose***

This report is intended only for customers who have used XYZ Service Organization's [type or name of] system, and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by customers themselves, when obtaining an understanding of customers' information systems relevant to financial reporting.

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

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Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>20</sup>)  
Membership Number

Place of Signature

Date

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<sup>20</sup> Partner or Proprietor, as the case may be.

## Appendix 3

(Ref. Para. A50)

### Example Modified Service Auditor's Assurance Reports

The following examples of modified reports are for guidance only and are not intended to be exhaustive or applicable to all situations. They are based on the examples of reports in **Appendix 2**.

#### **Example 1: Qualified opinion – the service organization's description of the system is not fairly presented in all material respects**

...

*Service Auditor's Responsibilities*

...

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### **Basis for Qualified Opinion**

The accompanying description states at page [mn] that XYZ Service Organization uses operator identification numbers and passwords to prevent unauthorized access to the system. Based on our procedures, which included inquiries of staff personnel and observation of activities, we have determined that operator identification numbers and passwords are employed in Applications A and B but not in Applications C and D.

#### **Qualified Opinion**

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization's assertion at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...

#### **Example 2: Qualified opinion – the controls are not suitably designed to provide reasonable assurance that the control objectives stated in the service organization's description of its system will be achieved if the controls operate effectively**

...

*Service Auditor's Responsibilities*

...

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

***Basis for Qualified Opinion***

As discussed at page [mn] of the accompanying description, from time to time XYZ Service Organization makes changes in application programs to correct deficiencies or to enhance capabilities. The procedures followed in determining whether to make changes, in designing the changes and in implementing them, do not include review and approval by authorized individuals who are independent from those involved in making the changes. There are also no specified requirements to test such changes or provide test results to an authorized reviewer prior to implementing the changes.

***Qualified Opinion***

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization's assertion at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...

**Example 3: Qualified opinion – the controls did not operate effectively throughout the specified period (type 2 report only)**

...

*Service Auditor's Responsibilities*

...

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

***Basis for Qualified Opinion***

XYZ Service Organization states in its description that it has automated controls in place to reconcile loan payments received with the output generated. However, as noted at page [mn] of the description, this control was not operating effectively during the period from dd/mm/yyyy to dd/mm/yyyy due to a programming error. This resulted in the non-achievement of the control objective "Controls provide reasonable assurance that loan payments received are properly recorded" during the period from dd/mm/yyyy to dd/mm/yyyy. XYZ implemented a change to the program performing the calculation as of [date], and our tests indicate that it was operating effectively during the period from dd/mm/yyyy to dd/mm/yyyy.

***Qualified Opinion***

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization's assertion at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

...

**Example 4: Qualified opinion – the service auditor is unable to obtain sufficient appropriate evidence**

...

*Service Auditor's Responsibilities*

...

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

***Basis for Qualified Opinion***

XYZ Service Organization states in its description that it has automated controls in place to reconcile loan payments received with the output generated. However, electronic records of the performance of this reconciliation for the period from dd/mm/yyyy to dd/mm/yyyy were deleted as a result of a computer processing error, and we were therefore unable to test the operation of this control for that period. Consequently, we were unable to determine whether the control objective "Controls provide reasonable assurance that loan payments received are properly recorded" operated effectively during the period from dd/mm/yyyy to dd/mm/yyyy.

***Qualified Opinion***

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization's assertion at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

- (a) ...

# SAE 3420\*

## Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

*(Effective for Assurance Reports dated on or after April 1, 2016)*

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\* Issued in February 2016.

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Material Modifications *vis-à-vis* ISAE 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus  
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Standard on Assurance Engagements (SAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, should be read in the context of the “Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services”.

## Introduction

### Scope of this SAE

1. This Standard on Assurance Engagements (SAE) deals with reasonable assurance engagements undertaken by a practitioner<sup>1</sup> to report on the responsible party's<sup>2</sup> compilation of pro forma financial information included in a prospectus. The SAE applies where:

- Such reporting is required by securities law or the regulation of the securities exchange ("relevant law or regulation") in the jurisdiction in which the prospectus is to be issued; or
- This reporting is generally accepted practice in such jurisdiction. (Ref: Para. A1)

### *Nature of the Practitioner's Responsibility*

2. In an engagement performed under this SAE, the practitioner has no responsibility to compile the pro forma financial information for the entity; such responsibility rests with the responsible party. The practitioner's sole responsibility is to report on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

3. This SAE does not deal with non-assurance engagements in which the practitioner is engaged by the entity to compile its historical financial statements.

### *Purpose of Pro Forma Financial Information Included in a Prospectus*

4. The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. This is achieved by applying pro forma adjustments to the unadjusted financial information. Pro forma financial information does not represent the entity's actual financial position, financial performance, or cash flows. (Ref: Para. A2–A3)

### *Compilation of Pro Forma Financial Information*

5. The compilation of pro forma financial information involves the responsible party gathering, classifying, summarizing and presenting financial information that illustrates the impact of a significant event or transaction on

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<sup>1</sup> The term "practitioner" is described in the Framework for Assurance Engagements, paragraphs 1, 22 and 23.

<sup>2</sup> The Framework for Assurance Engagements, paragraph 24, describes the meaning of the term "responsible party."

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unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at the selected date. Steps involved in this process include:

- Identifying the source of the unadjusted financial information to be used in compiling the pro forma financial information, and extracting the unadjusted financial information from that source; (Ref: Para. A4–A5)
- Making pro forma adjustments to the unadjusted financial information for the purpose for which the pro forma financial information is presented; and
- Presenting the resulting pro forma financial information with accompanying disclosures.

### ***Nature of Reasonable Assurance Engagement***

6. A reasonable assurance engagement to report on the compilation of pro forma financial information involves performing the procedures set out in this SAE to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether: (Ref: Para. A6)

- The related pro forma adjustments give appropriate effect to those criteria; and
- The resulting pro forma column (see paragraph 11(c)) reflects the proper application of those adjustments to the unadjusted financial information.

It also involves evaluating the overall presentation of the pro forma financial information. The engagement, however, does not involve the practitioner updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, or performing an audit or review of the financial information used in compiling the pro forma financial information.

### ***Relationship with Other Professional Pronouncements***

7. The performance of assurance engagements other than audits or reviews of historical financial information requires the practitioner to comply with the Framework for Assurance Engagements. The Framework includes requirements in relation to such topics as engagement acceptance, planning, evidence, and documentation that apply to all assurance engagements, including engagements in accordance with this SAE. This SAE expands on how the Framework is to be applied in a reasonable assurance engagement to report on

the compilation of pro forma financial information included in a prospectus. The Framework also defines and describes the elements and objectives of an assurance engagement, provides context for understanding this SAE.

8. Compliance with the Framework requires, among other things, that the practitioner:

- Comply with the independence and other requirements of the Code of Ethics, issued by the Institute of Chartered Accountants of India; and
- Implement quality control procedures that are applicable to the individual engagement.

### **Effective Date**

9. This SAE is effective for assurance reports dated on or after 1<sup>st</sup> April, 2016.

### **Objectives**

10. The objectives of the practitioner are:

- (a) To obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria; and
- (b) To report in accordance with the practitioner's findings.

### **Definitions**

11. For purposes of this SAE, the following terms have the meanings attributed below:

- (a) *Applicable criteria* – The criteria used by the responsible party when compiling the pro forma financial information. Criteria may be established by an authorized or recognized standard-setting organization or by law or regulation. Where established criteria do not exist, they will be developed by the responsible party. (Ref: Para. A7–A9)
- (b) *Pro forma adjustments* – In relation to unadjusted financial information, these include:
  - (i) Adjustments to unadjusted financial information that illustrate the impact of a significant event or transaction (“event” or “transaction”) as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration; and
  - (ii) Adjustments to unadjusted financial information that are necessary for the pro forma financial information to be compiled on a basis

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consistent with the applicable financial reporting framework of the reporting entity (“entity”) and its accounting policies under that framework. (Ref: Para. A15–A16)

Pro forma adjustments include the relevant financial information of a business that has been, or is to be, acquired (“acquiree”), or a business that has been, or is to be, divested (“divestee”), to the extent that such information is used in compiling the pro forma financial information (“acquiree or divestee financial information”).

- (c) *Pro forma financial information* – Financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. In this SAE, it is presumed that pro forma financial information is presented in columnar format consisting of (a) the unadjusted financial information; (b) the pro forma adjustments; and (c) the resulting pro forma column. (Ref: Para. A2)
- (d) *Prospectus* – A document issued pursuant to legal or regulatory requirements relating to the entity’s securities on which it is intended that a third party should make an investment decision.
- (e) *Published financial information* – Financial information of the entity or of an acquiree or a divestee that is made available publicly.
- (f) *Unadjusted financial information* – Financial information of the entity to which pro forma adjustments are applied by the responsible party. (Ref: Para. A4–A5)

### **Requirements**

#### **Framework for Assurance Engagements**

12. The practitioner shall not represent compliance with this SAE unless the practitioner has complied with the requirements of both this SAE and the Framework for Assurance Engagements.

#### **Engagement Acceptance**

13. Before agreeing to accept an engagement to report on whether pro forma financial information included in a prospectus has been compiled, in all material respects, on the basis of the applicable criteria, the practitioner shall:

- (a) Determine that the practitioner has the capabilities and competence to perform the engagement; (Ref: Para. A10)

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- (b) On the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, determine that the applicable criteria are suitable and that it is unlikely that the pro forma financial information will be misleading for the purpose for which it is intended;
- (c) Evaluate the wording of the opinion prescribed by the relevant law or regulation, if any, to determine that the practitioner will likely be able to express the opinion so prescribed based on performing the procedures specified in this SAE; (Ref: Para. A54–A56)
- (d) Where the sources from which the unadjusted financial information and any acquiree or divestee financial information have been extracted have been audited or reviewed and a modified audit opinion or review conclusion has been expressed, or the report contains an Emphasis of Matter paragraph, consider whether or not the relevant law or regulation permits the use of, or reference in the practitioner’s report to, the modified audit opinion or review conclusion or the report containing the Emphasis of Matter paragraph with respect to such sources;
- (e) If the entity’s historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the entity and its accounting and financial reporting practices to perform the engagement; (Ref: Para. A31)
- (f) If the event or transaction includes an acquisition and the acquiree’s historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement; and
- (g) Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for:
  - (i) Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available;
  - (ii) Compiling the pro forma financial information on the basis of the applicable criteria; and
  - (iii) Providing the practitioner with:
    - a. Access to all information (including, when needed for purposes of the engagement, information of the acquiree(s) in a business combination), such as records, documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria;

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- b. Additional information that the practitioner may request from the responsible party for the purpose of the engagement;
- c. Access to those within the entity and the entity's advisors from whom the practitioner determines it necessary to obtain evidence relating to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; and
- d. When needed for purposes of the engagement, access to appropriate individuals within the acquiree(s) in a business combination.

### **Planning and Performing the Engagement**

#### ***Assessing the Suitability of the Applicable Criteria***

14. The practitioner shall assess whether the applicable criteria are suitable, as required by the Framework for Assurance Engagements<sup>3</sup>, and in particular shall determine that they include, at a minimum, that:

- (a) The unadjusted financial information be extracted from an appropriate source; (Ref: Para. A4–A5, A27)
  - (b) The pro forma adjustments be:
    - (i) Directly attributable to the event or transaction; (Ref: Para. A13)
    - (ii) Factually supportable; and (Ref: Para. A14)
    - (iii) Consistent with the entity's applicable financial reporting framework and its accounting policies under that framework; and (Ref: Para. A15–A16)
  - (c) Appropriate presentation be made and disclosures be provided to enable the intended users to understand the information conveyed. (Ref: Para. A2–A3, A42)
15. In addition, the practitioner shall assess whether the applicable criteria are:
- (a) Consistent, and do not conflict, with relevant law or regulation; and
  - (b) Unlikely to result in pro forma financial information that is misleading.

#### ***Materiality***

16. When planning and performing the engagement, the practitioner shall consider materiality with respect to evaluating whether the pro forma financial

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<sup>3</sup> The Framework for Assurance Engagements, paragraph 16.

information has been compiled, in all material respects, on the basis of the applicable criteria. (Ref: Para. A17– A18)

***Obtaining an Understanding of How the Responsible Party Has Compiled the Pro Forma Financial Information and Other Engagement Circumstances***

17. The practitioner shall obtain an understanding of: (Ref: Para. A19)

- (a) The event or transaction in respect of which the pro forma financial information is being compiled;
- (b) How the responsible party has compiled the pro forma financial information; (Ref: Para. A20–A21)
- (c) The nature of the entity and any acquiree or divestee, including: (Ref: Para. A22–A23)
  - (i) Their operations;
  - (ii) Their assets and liabilities; and
  - (iii) The way they are structured and how they are financed;
- (d) Relevant industry, legal and regulatory, and other external factors pertaining to the entity and any acquiree or divestee; and (Ref: Para. A24–A26)
- (e) The applicable financial reporting framework and the accounting and financial reporting practices of the entity and of any acquiree or divestee, including their selection and application of accounting policies.

***Obtaining Evidence about the Appropriateness of the Source from Which the Unadjusted Financial Information Has Been Extracted***

18. The practitioner shall determine whether the responsible party has extracted the unadjusted financial information from an appropriate source. (Ref: Para. A27–A28)

19. If there is no audit or review report on the source from which the unadjusted financial information has been extracted, the practitioner shall perform procedures to be satisfied that the source is appropriate. (Ref: Para. A29–A31)

20. The practitioner shall determine whether the responsible party has appropriately extracted the unadjusted financial information from the source.

***Obtaining Evidence about the Appropriateness of the Pro Forma Adjustments***

21. In evaluating whether the pro forma adjustments are appropriate, the practitioner shall determine whether the responsible party has identified the pro

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forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration. (Ref: Para. A32)

22. In determining whether the pro forma adjustments are in accordance with the applicable criteria, the practitioner shall determine whether they are:

- (a) Directly attributable to the event or transaction; (Ref: Para. A13)
- (b) Factually supportable. If acquiree or divestee financial information is included in the pro forma adjustments and there is no audit or review report on the source from which such financial information has been extracted, the practitioner shall perform procedures to be satisfied that the financial information is factually supportable; and (Ref: Para. A14, A33–A38)
- (c) Consistent with the entity's applicable financial reporting framework and its accounting policies under that framework. (Ref: Para. A15-A16)

### ***Modified Audit Opinion or Review Conclusion, or Emphasis of Matter Paragraph, with Respect to the Source from Which the Unadjusted Financial Information Has Been Extracted or the Source from Which the Acquiree or Divestee Financial Information Has Been Extracted***

23. A modified audit opinion or review conclusion may have been expressed with respect to either the source from which the unadjusted financial information has been extracted or the source from which the acquiree or divestee financial information has been extracted, or a report containing an Emphasis of Matter paragraph may have been issued with respect to such source. In such circumstances, if the relevant law or regulation does not prohibit the use of such a source, the practitioner shall evaluate:

- (a) The potential consequence on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; (Ref: Para. A39)
- (b) What further appropriate action to take; and (Ref: Para. A40)
- (c) Whether there is any effect on the practitioner's ability to report in accordance with the terms of the engagement, including any effect on the practitioner's report.

### ***Source from Which the Unadjusted Financial Information Has Been Extracted or Pro Forma Adjustments Not Appropriate***

24. If, on the basis of the procedures performed, the practitioner identifies that the responsible party has:

- (a) Used an inappropriate source from which to extract the unadjusted financial information; or
- (b) Omitted a pro forma adjustment that should be included, applied a pro forma adjustment that is not in accordance with the applicable criteria or otherwise inappropriately applied a pro forma adjustment,

the practitioner shall discuss the matter with the responsible party. If the practitioner is unable to agree with the responsible party as to how the matter should be resolved, the practitioner shall evaluate what further action to take. (Ref: Para. A40)

***Obtaining Evidence about the Calculations within the Pro Forma Financial Information***

25. The practitioner shall determine whether the calculations within the pro forma financial information are arithmetically accurate.

***Evaluating the Presentation of the Pro Forma Financial Information***

26. The practitioner shall evaluate the presentation of the pro forma financial information. This shall include consideration of:

- (a) The overall presentation and structure of the pro forma financial information, including whether it is clearly labeled to distinguish it from historical or other financial information; (Ref: Para. A2–A3)
- (b) Whether the pro forma financial information and related explanatory notes illustrate the impact of the event or transaction in a manner that is not misleading; (Ref: Para. A41)
- (c) Whether appropriate disclosures are provided with the pro forma financial information to enable the intended users to understand the information conveyed; and (Ref: Para. A42)
- (d) Whether the practitioner has become aware of any significant events subsequent to the date of the source from which the unadjusted financial information has been extracted that may require reference to, or disclosure in, the pro forma financial information. (Ref: Para. A43)

27. The practitioner shall read the other information included in the prospectus containing the pro forma financial information to identify material inconsistencies, if any, with the pro forma financial information. If, on reading the other information, the practitioner identifies a material inconsistency or becomes aware of a material misstatement of fact in that other information, the practitioner shall discuss the matter with the responsible party.

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If correction of the matter is necessary and the responsible party refuses to do so, the practitioner shall take further appropriate action. (Ref: Para. A44)

### **Written Representations**

28. The practitioner shall request written representations from the responsible party that:

- (a) In compiling the pro forma financial information, the responsible party has identified all appropriate pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration; and (Ref: Para. A45)
- (b) The pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

### **Forming the Opinion**

29. The practitioner shall form an opinion on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria. (Ref: Para. A46–A48)

30. In order to form that opinion, the practitioner shall conclude whether the practitioner has obtained sufficient appropriate evidence about whether the compilation of the pro forma financial information is free from material omissions, or inappropriate use or application of a pro forma adjustment. That conclusion shall include an evaluation of whether the responsible party has adequately disclosed and described the applicable criteria to the extent that these are not publicly available. (Ref: Para. A49–A50)

### **Form of Opinion**

#### ***Unmodified Opinion***

31. The practitioner shall express an unmodified opinion when the practitioner concludes that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

#### ***Modified Opinion***

32. Where the relevant law or regulation precludes publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner concludes that a modified opinion is nevertheless appropriate in accordance with the Framework for Assurance

Engagements, the practitioner shall discuss the matter with the responsible party. If the responsible party does not agree to make the necessary changes, the practitioner shall:

- (a) Withdraw from the engagement; or
- (b) Consider seeking legal advice.

33. Where the relevant law or regulation may not preclude publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner determines that a modified opinion is appropriate in accordance with the Framework for Assurance Engagements, the practitioner shall apply the requirements in the Framework for Assurance Engagements regarding modified opinions.

***Emphasis of Matter Paragraph***

34. In some circumstances, the practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the pro forma financial information or the accompanying explanatory notes. This would be the case when, in the practitioner's opinion, the matter is of such importance that it is fundamental to users' understanding of whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. In such circumstances, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report provided that the practitioner has obtained sufficient appropriate evidence that the matter does not affect whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. Such a paragraph shall refer only to information presented or disclosed in the pro forma financial information or the accompanying explanatory notes.

**Preparing the Assurance Report**

35. The practitioner's report shall include the following basic elements: (Ref: Para. A57)

- (a) A title that clearly indicates that the report is an independent assurance report; (Ref: Para. A51)
- (b) An addressee(s), as agreed in the terms of engagement; (Ref: Para. A52)
- (c) Introductory paragraphs that identify: (Ref: Para. A53)
  - (i) The pro forma financial information;

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- (ii) The source from which the unadjusted financial information has been extracted, and whether or not an audit or review report on such a source has been published;
  - (iii) The period covered by, or the date of, the pro forma financial information; and
  - (iv) A reference to the applicable criteria on the basis of which the responsible party has performed the compilation of the pro forma financial information, and the source of the criteria;
- (d) A statement that the responsible party is responsible for compiling the pro forma financial information on the basis of the applicable criteria;
- (e) A description of the practitioner's responsibilities, including statements that:
- (i) The practitioner's responsibility is to express an opinion about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria;
  - (ii) For purposes of this engagement, the practitioner is not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor has the practitioner, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information; and
  - (iii) The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, the practitioner does not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented;
- (f) A statement that the engagement was performed in accordance with SAE 3420, *'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus'*, which requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the responsible party has compiled, in all material respects, the pro forma financial information on the basis of the applicable criteria;
- (g) Statements that:

- (i) A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:
  - The related pro forma adjustments give appropriate effect to those criteria; and
  - The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information;
- (ii) The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the entity, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances; and
- (iii) The engagement also involves evaluating the overall presentation of the pro forma financial information;
- (h) Unless otherwise required by law or regulation, the practitioner's opinion using one of the following phrases, which are regarded as being equivalent: (Ref: Para. A54–A56)
  - (i) The pro forma financial information has been compiled, in all material respects, on the basis of the [applicable criteria]; or
  - (ii) The pro forma financial information has been properly compiled on the basis stated;
- (i) The practitioner's signature;
- (j) The date of the report; and
- (k) The place of signature.

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## **Application and Other Explanatory Material**

### **Scope of this SAE (Ref: Para.1)**

A1. This standard does not deal with circumstances where pro forma financial information is provided as part of the entity's financial statements pursuant to the requirements of an applicable financial reporting framework.

**Purpose of Pro Forma Financial Information Included in a Prospectus** (Ref: Para. 4, 11(c), 14(c), 26(a))

A2. Pro forma financial information is accompanied by related explanatory notes that often disclose the matters set out in paragraph A42.

A3. Different presentations of pro forma financial information may be included in the prospectus depending on the nature of the event or transaction and how the responsible party intends to illustrate the impact of such event or transaction on the unadjusted financial information of the entity. For example, the entity may acquire a number of businesses prior to an initial public offering. In such circumstances, the responsible party may choose to present a pro forma net asset statement to illustrate the impact of the acquisitions on the entity's financial position and key ratios such as debt to equity as if the acquired businesses had been combined with the entity at an earlier date. The responsible party may also choose to present a pro forma income statement to illustrate what the results of operations might have been for the period ended on that date. In such cases, the nature of the pro forma financial information may be described by titles such as "Pro Forma Balance Sheet as at March 31, 20X1" and "Pro Forma Statement of profit and loss for the Year Ended March 31, 20X1."

**Compilation of Pro Forma Financial Information**

***Unadjusted Financial Information*** (Ref: Para. 5, 11(f), 14(a))

A4. In many cases, the source from which the unadjusted financial information has been extracted will be published financial information such as annual or interim financial statements.

A5. Depending on how the responsible party chooses to illustrate the impact of the event or transaction, the unadjusted financial information may comprise either:

- One or more single financial statements, such as a statement of financial position and a statement of profit and loss; or
- Financial information that is appropriately condensed from a complete set of financial statements, for example, a statement of net assets.

**Nature of Reasonable Assurance Engagement** (Ref: Para. 6)

A6. In this SAE, describing the pro forma financial information as being "properly compiled" means that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

## **Definitions**

### ***Applicable Criteria*** (Ref: Para. 11(a))

A7. Where established criteria for compiling the pro forma financial information do not exist, the responsible party will have developed the criteria based on, for example, practice in a particular industry or the criteria of a jurisdiction that has developed established criteria, and disclosed that fact.

A8. The applicable criteria for compiling the pro forma financial information will be suitable in the circumstances if they meet the benchmarks set out in paragraph 14.

A9. Accompanying explanatory notes may include appropriate additional detail about the criteria to describe how they illustrate the effects of the particular event or transaction. This may include, for example:

- The date at which the event is assumed to have occurred or the transaction been undertaken.
- The approach used for allocating income, overheads, assets and liabilities between relevant businesses in a divestment.

## **Engagement Acceptance**

### ***Capabilities and Competence to Perform the Engagement*** (Ref: Para. 13(a))

A10. The Code of Ethics, issued by the Institute of Chartered Accountants of India requires the practitioner to maintain appropriate professional knowledge and skill, including an awareness and understanding of relevant technical, professional and business developments, in order to provide competent professional service<sup>4</sup>. In the context of this requirement of the Code of Ethics, relevant capabilities and competence to perform the engagement also include matters such as the following:

- Knowledge and experience of the industry in which the entity operates;
- An understanding of the relevant securities laws and regulations and related developments;
- An understanding of the listing requirements of the relevant securities exchange and of capital market transactions such as mergers, acquisitions and securities offerings;
- Familiarity with the process of preparing a prospectus and listing securities on the securities exchange; and

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<sup>4</sup> The Code of Ethics, paragraphs 130.1-130.3.

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- Knowledge of the financial reporting frameworks used in the preparation of the sources from which the unadjusted financial information and, if applicable, the acquiree's financial information have been extracted.

### ***The Responsible Party's Responsibilities*** (Ref: Para. 13(g))

A11. An engagement in accordance with this SAE is conducted on the premise that the responsible party has acknowledged and understands that it has the responsibilities set out in paragraph 13(g). In some jurisdictions, such responsibilities may be specified in the relevant law or regulation. In others, there may be little or no legal or regulatory definition of such responsibilities. An assurance engagement to report on whether pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria is based on the assumption that:

- (a) The practitioner's role does not involve taking responsibility for compiling such information; and
- (b) The practitioner has a reasonable expectation of obtaining the information necessary for the engagement.

Accordingly, this premise is fundamental to the conduct of the engagement. To avoid misunderstanding, agreement is reached with the responsible party that it acknowledges and understands that it has such responsibilities as part of agreeing and recording the terms of the engagement as required by the Framework for Assurance Engagements.

A12. If law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need only record the fact that such law or regulation applies and that the responsible party acknowledges and understands its responsibilities as set out in paragraph 13(g).

## **Planning and Performing the Engagement**

### ***Assessing the Suitability of the Applicable Criteria***

#### *Directly Attributable Adjustments* (Ref: Para. 14(b)(i), 22(a))

A13. It is necessary that the pro forma adjustments be directly attributable to the event or transaction to avoid the pro forma financial information reflecting matters that do not arise solely as a result of the event or that are not an integral part of the transaction. Directly attributable adjustments exclude those that relate to future events or are dependent on actions to be taken once the transaction has been completed, even if such actions are key to the entity entering into the transaction (for example, closing of redundant production sites after an acquisition).

*Factually Supportable Adjustments* (Ref: Para. 14(b)(ii), 22(b))

A14. It is also necessary that the pro forma adjustments be factually supportable in order to provide a reliable basis for the pro forma financial information. Factually supportable adjustments are capable of objective determination. Sources of factual support for the pro forma adjustments include, for example:

- Purchase and sale agreements.
- Financing documents for the event or transaction, such as debt agreements.
- Independent valuation reports.
- Other documents relating to the event or transaction.
- Published financial statements.
- Other financial information disclosed in the prospectus.
- Relevant legal or regulatory actions, such as in the area of taxation.
- Employment agreements.
- Actions of those charged with governance.

*Adjustments Consistent with the Entity's Applicable Financial Reporting Framework and Its Accounting Policies under that Framework* (Ref: Para. 11(b)(ii), 14(b)(iii), 22(c))

A15. For the pro forma financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the entity's applicable financial reporting framework and its accounting policies under that framework. In the context of a business combination, for example, compiling the pro forma financial information on the basis of the applicable criteria involves consideration of such matters as:

- Whether differences exist between the acquiree's accounting policies and those of the entity; and
- Whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into account the entity's particular circumstances.

A16. Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event

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or transaction, the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:

- Whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework; and
- Whether it has appropriately applied such policies in compiling the pro forma financial information.

### **Materiality** (Ref: Para. 16)

A17. Materiality with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria does not depend on a single quantitative measure. Instead, it depends on the size and nature of the omission or inappropriate application of an element of the compilation as described in paragraph A18, whether or not intentional. Judgment about these aspects of size and nature will, in turn, depend on such matters as:

- The context of the event or transaction;
- The purpose for which the pro forma financial information is being compiled; and
- The related engagement circumstances.

The determining factor could be the size or the nature of the matter, or a combination of both.

A18. The risk of the pro forma financial information not being considered compiled, in all material respects, on the basis of the applicable criteria may arise when there is evidence of, for example:

- Use of an inappropriate source from which to extract the unadjusted financial information.
- Incorrect extraction of the unadjusted financial information from an appropriate source.
- In relation to adjustments, the misapplication of accounting policies or the failure of the adjustments to be consistent with the entity's accounting policies.
- Failure to make an adjustment required by the applicable criteria.
- Making an adjustment that is not in accordance with the applicable criteria.
- A mathematical or clerical mistake in the calculations within the pro forma financial information.
- Inadequate, incorrect or omitted disclosures.

***Obtaining an Understanding of How the Responsible Party Has Compiled the Pro Forma Financial Information and Other Engagement Circumstances***  
(Ref: Para. 17)

A19. The practitioner may obtain this understanding through a combination of procedures such as:

- Inquiring of the responsible party and other entity personnel involved in compiling the pro forma financial information.
- Inquiring of other appropriate parties such as those charged with governance and the entity's advisors.
- Reading relevant supporting documentation such as contracts or agreements.
- Reading minutes of meetings of those charged with governance.

***How the Responsible Party Has Compiled the Pro Forma Financial Information***  
(Ref: Para. 17(b))

A20. The practitioner may obtain an understanding of how the responsible party has compiled the pro forma financial information by considering, for example:

- The source from which the unadjusted financial information has been extracted.
- The steps taken by the responsible party to:
  - Extract the unadjusted financial information from the source.
  - Identify the appropriate pro forma adjustments, for example, how the responsible party has obtained acquiree financial information in compiling the pro forma financial information.
- The responsible party's competence in compiling pro forma financial information.
- The nature and extent of oversight by the responsible party of other entity personnel involved in compiling the pro forma financial information.
- The responsible party's approach to identifying appropriate disclosures to support the pro forma financial information.

A21. In a business combination or divestment, areas that may give rise to complexity in the compilation of the pro forma financial information include allocations of income, overheads, and assets and liabilities among or between the relevant businesses. Accordingly, it is important that the practitioner

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understand the responsible party's approach and criteria for such allocations and that the explanatory notes accompanying the pro forma financial information disclose these matters.

*Nature of the Entity and Any Acquiree or Divestee* (Ref: Para. 17(c))

A22. An acquiree may be an incorporated entity or a separately identifiable unincorporated operation within another entity such as a division, branch or line of business. A divestee may be an incorporated entity such as a subsidiary or joint venture, or a separately identifiable unincorporated operation within the entity such as a division, branch or line of business.

A23. The practitioner may have all or part of the required understanding of the entity and any acquiree or divestee, and their respective environments, if the practitioner has audited or reviewed their financial information.

*Relevant Industry, Legal and Regulatory, and Other External Factors* (Ref: Para. 17(d))

A24. Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments. Examples of matters the practitioner may consider include:

- The market and competition, including demand, capacity, and price competition.
- Common business practices within the industry.
- Cyclical or seasonal activity.
- Product technology relating to the entity's products.

A25. Relevant legal and regulatory factors include the legal and regulatory environment. This encompasses, among other matters, the applicable financial reporting framework in accordance with which the entity or, if applicable, the acquiree prepares its periodic financial information, and the legal and political environment. Examples of matters the practitioner may consider include:

- Industry-specific accounting practices.
- Legal and regulatory framework for a regulated industry.
- Legislation and regulation that significantly affect the entity's or, if applicable, the acquiree's or divestee's operations, including direct supervisory activities.
- Taxation.
- Government policies currently affecting the conduct of the entity's or, if

applicable, the acquiree's or divestee's business, such as monetary policies (including foreign exchange controls), fiscal policies, financial incentives (for example, government aid programs), and tariffs or trade restrictions policies.

- Environmental requirements affecting the entity's or acquiree's or divestee's industry and business.

A26. Examples of other external factors affecting the entity and, if applicable, the acquiree or divestee that the practitioner may consider include the general economic conditions, interest rates and availability of financing, and inflation or currency revaluation.

***Obtaining Evidence about the Appropriateness of the Source from Which the Unadjusted Financial Information Has Been Extracted***

*Relevant Factors to Consider* (Ref: Para. 14(a), 18)

A27. Factors that affect the appropriateness of the source from which the unadjusted financial information has been extracted include whether there is an audit or review report on the source and whether the source:

- Is permitted or specifically prescribed by the relevant law or regulation, is permitted by the relevant securities exchange with which the prospectus is to be filed, or is used as such under normal market custom and practice.
- Is clearly identifiable.
- Represents a reasonable starting point for compiling the pro forma financial information in the context of the event or transaction, including whether it is consistent with the entity's accounting policies and is at an appropriate date or covers an appropriate period.

A28. An audit or review report on the source from which the unadjusted financial information has been extracted may have been issued by another practitioner. In this situation, the need by the practitioner reporting under this SAE for an understanding of the entity and its accounting and financial reporting practices pursuant to the requirements of paragraphs 17(c) and (e), and to be satisfied that the source from which the unadjusted financial information has been extracted is appropriate, is not diminished.

*No Audit or Review Report on the Source from Which the Unadjusted Financial Information Has Been Extracted* (Ref: Para. 19)

A29. When there is no audit or review report on the source from which the unadjusted financial information has been extracted, it is necessary for the practitioner to perform procedures in relation to the appropriateness of that

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source. Factors that may affect the nature and extent of these procedures include, for example:

- Whether the practitioner has previously audited or reviewed the entity's historical financial information, and the practitioner's knowledge of the entity from such engagement.
- How recently the entity's historical financial information was audited or reviewed.
- Whether the entity's financial information is subject to periodic review by the practitioner, for example, for purposes of meeting regulatory filing requirements.

A30. The entity's financial statements for the period immediately preceding that of the source from which the unadjusted financial information has been extracted are likely to have been audited or reviewed, even if the source from which the unadjusted financial information has been extracted itself is not. For example, the source from which the unadjusted financial information has been extracted may be interim financial statements that have not been audited or reviewed whereas the entity's financial statements for the immediately preceding financial year may have been audited. In such a case, procedures that the practitioner may perform, having regard to the factors in paragraph A29, in relation to the appropriateness of the source from which the unadjusted financial information has been extracted include:

- Inquiring of the responsible party about:
  - The process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled.
  - Whether all transactions have been recorded.
  - Whether the source has been prepared in accordance with the entity's accounting policies.
  - Whether there have been any changes in accounting policies from the most recent audited or reviewed period and, if so, how such changes have been dealt with.
  - Its assessment of the risk that the source may be materially misstated as a result of fraud.
  - The effect of changes in the entity's business activities and operations.
- If the practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such

audit or review and whether these might indicate any issues with the preparation of the source from which the unadjusted financial information has been extracted.

- Corroborating the information provided by the responsible party in response to the practitioner's inquiries when the responses appear inconsistent with the practitioner's understanding of the entity or the engagement circumstances.
- Comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party.

*Historical financial information of the entity never audited or reviewed (Ref: Para. 13(e))*

A31. Other than in the case of an entity formed for purposes of the transaction and which has never had any trading activity, it is unlikely that relevant law or regulation will permit an entity to issue a prospectus if its historical financial information has never been audited or reviewed.

### **Obtaining Evidence about the Appropriateness of the Pro Forma Adjustments**

#### ***Identification of Appropriate Pro Forma Adjustments (Ref: Para. 21)***

A32. Informed by the practitioner's understanding of how the responsible party has compiled the pro forma financial information and other engagement circumstances, the practitioner may obtain evidence regarding whether the responsible party has appropriately identified the necessary pro forma adjustments through a combination of procedures such as:

- Evaluating the reasonableness of the responsible party's approach to identifying the appropriate pro forma adjustments, for example, the method used in identifying appropriate allocations of income, overheads, assets and liabilities among the relevant businesses.
- Inquiring of relevant parties within an acquiree regarding the approach to extracting the acquiree financial information.
- Evaluating specific aspects of the relevant contracts, agreements or other documents.
- Inquiring of the entity's advisors regarding specific aspects of the event or transaction and related contracts and agreements that are relevant to the identification of appropriate adjustments.
- Evaluating relevant analyses and worksheets prepared by the responsible

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party and other entity personnel involved in compiling the pro forma financial information.

- Obtaining evidence of the responsible party's oversight of other entity personnel involved in compiling the pro forma financial information.
- Performing analytical procedures.

### ***Factual Support for Any Acquiree or Divestee Financial Information Included in the Pro Forma Adjustments (Ref: Para. 22(b))***

#### *Divestee financial information*

A33. In the case of a divestment, the divestee's financial information will be derived from the source from which the unadjusted financial information has been extracted, which will often be audited or reviewed. The source from which the unadjusted financial information has been extracted will therefore provide the basis for the practitioner to determine whether there is factual support for the divestee financial information. In such a case, matters to consider include, for example, whether income and expenses attributable to the divestee that are recorded at the consolidated level have been appropriately reflected in the pro forma adjustments.

A34. Where the source from which the unadjusted financial information has been extracted has not been audited or reviewed, the practitioner may refer to the guidance in paragraphs A29–A30 in determining whether the divestee financial information is factually supportable.

#### *Acquiree financial information*

A35. The source from which the acquiree financial information has been extracted may have been audited or reviewed. Where the source from which the acquiree financial information has been extracted has been audited or reviewed by the practitioner, the acquiree financial information will, subject to any implications arising from the circumstances addressed in paragraph 23, be factually supportable.

A36. The source from which the acquiree financial information has been extracted may have been audited or reviewed by another practitioner. In this situation, the need by the practitioner reporting under this SAE for an understanding of the acquiree and its accounting and financial reporting practices pursuant to the requirements of paragraphs 17(c) and (e), and to be satisfied that the acquiree financial information is factually supportable, is not diminished.

A37. When the source from which the acquiree financial information has been extracted has not been audited or reviewed, it is necessary for the

practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:

- Whether the practitioner has previously audited or reviewed the acquiree's historical financial information, and the practitioner's knowledge of the acquiree from such engagement.
- How recently the acquiree's historical financial information was audited or reviewed.
- Whether the acquiree's financial information is subject to periodic review by the practitioner, for example, for purposes of meeting regulatory filing requirements.

A38. The acquiree's financial statements for the period immediately preceding that of the source from which the acquiree financial information has been extracted often will have been audited or reviewed, even if the source from which the acquiree financial information has been extracted itself is not. In such a case, procedures that the practitioner may perform, having regard to the factors in paragraph A37, in relation to whether the acquiree financial information is factually supportable include:

- Inquiring of the acquiree's management about:
  - The process by which the source from which the acquiree financial information has been extracted has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled.
  - Whether all transactions have been recorded.
  - Whether the source from which the acquiree financial information has been extracted has been prepared in accordance with the acquiree's accounting policies.
  - Whether there have been any changes in accounting policies from the most recent audited or reviewed period and, if so, how such changes have been dealt with.
  - Its assessment of the risk that the source from which the acquiree financial information has been extracted may be materially misstated as a result of fraud.
  - The effect of changes in the acquiree's business activities and operations.
- If the practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such

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audit or review and whether these might indicate any issues with the preparation of the source from which the acquiree financial information has been extracted.

- Corroborating the information provided by the acquiree's management in response to the practitioner's inquiries when the responses appear inconsistent with the practitioner's understanding of the acquiree or the engagement circumstances.
- Comparing the source from which the acquiree financial information has been extracted with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the acquiree's management.

### ***Modified Audit Opinion or Review Conclusion, or Emphasis of Matter Paragraph, with Respect to the Source from Which the Unadjusted Financial Information Has Been Extracted or the Source from Which the Acquiree or Divestee Financial Information Has Been Extracted***

*Potential Consequence* (Ref: Para. 23(a))

A39. Not all modified audit opinions, review conclusions or Emphasis of Matter paragraphs with respect to either the source from which the unadjusted financial information has been extracted or the source from which the acquiree or divestee financial information has been extracted may necessarily affect whether the pro forma financial information can be compiled, in all material respects, on the basis of the applicable criteria. For example, a qualified audit opinion may have been expressed on the entity's financial statements because of the non-disclosure of remuneration for those charged with governance as required by the applicable financial reporting framework. If this is the case and these financial statements are used as the source from which the unadjusted financial information has been extracted, such qualification may have no consequence on whether pro forma net asset and income statements can be compiled, in all material respects, on the basis of the applicable criteria.

*Further Appropriate Action* (Ref: Para. 23(b), 24)

A40. Further appropriate action that the practitioner may take includes, for example:

- In relation to the requirement in paragraph 23(b):
  - Discussing the matter with the responsible party.
  - Where possible under relevant law or regulation, making a reference in the practitioner's report to the modified audit opinion, review

conclusion, or the Emphasis of Matter paragraph, if, in the practitioner's professional judgment, the matter is of sufficient relevance and importance to users' understanding of the pro forma financial information.

- In relation to the requirement in paragraph 24, where possible under relevant law or regulation, modifying the practitioner's opinion.
- Where possible under relevant law or regulation, withdrawing from the engagement.
- Seeking legal advice.

### **Evaluating the Presentation of the Pro Forma Financial Information**

#### ***Avoiding Association with Misleading Financial Information (Ref: Para. 26(b))***

A41. The Code of Ethics issued by the Institute of Chartered Accountants of India requires that a practitioner should not be associated with reports, returns, communications or other information where he believes that the information<sup>5</sup>:

- (a) Contain a materially false or misleading statement;
- (b) Contain statements or information furnished negligently; or
- (c) Omits or obscures any information required to be included where such omission or obscurity would be misleading.

#### **Disclosures Accompanying the Pro Forma Financial Information (Ref: Para. 14(c), 26(c))**

A42. Appropriate disclosures may include matters such as:

- The nature and purpose of the pro forma financial information, including the nature of the event or transaction, and the date at which such event is assumed to have occurred or transaction been undertaken;
- The source from which the unadjusted financial information has been extracted, and whether or not an audit or review report on such a source has been published;
- The pro forma adjustments, including a description and explanation of each adjustment. This includes, in the case of acquiree or divestee financial information, the source from which such information has been extracted and whether or not an audit or review report on such a source has been published;

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<sup>5</sup> The Code of Ethics, paragraph 110.2.

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- If not publicly available, a description of the applicable criteria on the basis of which the pro forma financial information has been compiled; and
- A statement to the effect that the pro forma financial information has been compiled for illustrative purposes only and that, because of its nature, it does not represent the entity's actual financial position, financial performance, or cash flows.

### ***Relevant law or regulation may require these or other specific disclosures***

Consideration of Significant Subsequent Events (Ref: Para. 26(d))

A43. As the practitioner is not reporting on the source from which the unadjusted financial information has been extracted, there is no requirement for the practitioner to perform procedures to identify events after the date of the source that require adjustment of, or disclosure in, such source. Nevertheless, it is necessary for the practitioner to consider whether any significant events subsequent to the date of the source from which the unadjusted financial information has been extracted have come to the practitioner's attention that may require reference to, or disclosure in, the explanatory notes to the pro forma financial information to avoid the latter being misleading. Such consideration is based on performing the procedures under this SAE or the practitioner's knowledge of the entity and the engagement circumstances. For example, after the date of the source from which the unadjusted financial information has been extracted, the entity may have entered into a capital transaction involving the conversion of its convertible debt into equity, non-disclosure of which could result in the pro forma financial information being misleading.

### ***Material Inconsistency with Other Information*** (Ref: Para. 27)

A44. Further appropriate action that the practitioner may take if the responsible party refuses to revise the pro forma financial information or the other information as appropriate includes, for example:

- Where possible under relevant law or regulation:
  - Describing the material inconsistency in the practitioner's report.
  - Modifying the practitioner's opinion.
  - withdrawing from the engagement.
- Seeking legal advice.

### **Written Representations** (Ref: Para. 28(a))

A45. In some circumstances, the types of transactions involved may require the responsible party to select accounting policies for the pro forma adjustments that the entity has not previously had to articulate because it had no relevant

transactions. In such a case, the practitioner may request the responsible party to expand the written representations to include confirmation that the selected accounting policies constitute the entity's adopted policies for such types of transactions.

### **Forming the Opinion**

#### ***Assurance on Further Matters Required by the Relevant Law or Regulation***

(Ref: Para. 29)

A46. Relevant law or regulation may require the practitioner to express an opinion on matters other than whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. In some of these circumstances, it may not be necessary for the practitioner to perform additional procedures. For example, the relevant law or regulation may require the practitioner to express an opinion about whether the basis on which the responsible party has compiled the pro forma financial information is consistent with the entity's accounting policies. Compliance with the requirements in paragraphs 18 and 22(c) of this SAE provides a basis for expressing such an opinion.

A47. In other circumstances, the practitioner may need to perform additional procedures. The nature and extent of such additional procedures will vary with the nature of the other matters on which the relevant law or regulation requires the practitioner to express an opinion.

#### ***Statement of the Practitioner's Responsibility for the Report***

A48. The relevant law or regulation may require the practitioner to include in the practitioner's report an explicit statement asserting or confirming the practitioner's responsibility for the report. The inclusion of such an additional legal or regulatory statement in the practitioner's report is not incompatible with the requirements of this SAE.

#### ***Disclosure of the Applicable Criteria*** (Ref: Para. 30)

A49. The responsible party need not repeat in the explanatory notes accompanying the pro forma financial information any criteria that are prescribed by the relevant law or regulation, or promulgated by an authorized or recognized standard-setting organization. Such criteria will be publicly available as part of the reporting regime and are therefore implicit in the responsible party's compilation of the pro forma financial information.

A50. Where the responsible party has developed any specific criteria, it is necessary that those criteria be disclosed so that users may obtain a proper understanding of how the pro forma financial information has been compiled by the responsible party.

## **Preparing the Assurance Report**

### ***Title*** (Ref: Para. 35(a))

A51. A title indicating that the report is the report of an independent practitioner, for example, “Independent Practitioner’s Assurance Report on the Compilation of Pro Forma Financial Information Included in a Prospectus,” affirms that the practitioner has met all of the relevant ethical requirements regarding independence as required by the Framework for Assurance Engagements<sup>6</sup>. This distinguishes the report of the independent practitioner from reports issued by others.

### ***Addressee(s)*** (Ref: Para. 35(b))

A52. The relevant law or regulation may specify the addressee(s) of the report. Alternatively, the practitioner may agree with the entity who the addressee(s) will be as part of the terms of the engagement.

### ***Introductory Paragraphs*** (Ref: Para. 35(c))

A53. As the pro forma financial information will be included in a prospectus that contains other information, the practitioner may consider, if the form of presentation allows, including a reference that identifies the section where the pro forma financial information is presented. This helps readers identify the pro forma financial information to which the practitioner’s report relates.

### ***Opinion*** (Ref: Para. 13(c), 35(h))

A54. Whether the phrase “pro forma financial information has been compiled, in all material respects, on the basis of the [applicable criteria],” or the phrase “pro forma financial information has been properly compiled on the basis stated” is used to express the opinion in any particular jurisdiction is determined by the law or regulation governing reporting on pro forma financial information in that jurisdiction, or by generally accepted practice in that jurisdiction.

A55. The relevant law or regulation in some jurisdictions may prescribe the wording of the practitioner’s opinion in terms other than those specified above. Where this is the case, it may be necessary for the practitioner to exercise judgment to determine whether performing the procedures set out in this SAE would enable the practitioner to express the opinion in the wording prescribed by law or regulation, or whether further procedures would be necessary.

A56. When the practitioner concludes that performing the procedures set out in this SAE would be sufficient to enable the practitioner to express the opinion in the wording prescribed by law or regulation, it may be appropriate to regard that

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<sup>6</sup> The Framework for Assurance Engagements, paragraph 16.

wording as being equivalent to the two alternative wordings of the opinion specified in this SAE.

**Illustrative Report** (Ref: Para. 35)

A57. A practitioner's report with an unmodified opinion is set out in the **Appendix**.

**Material Modifications *vis-à-vis* ISAE 3420, "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus"**

**Deletions**

1 Paragraph 32 of ISAE 3420 (Paragraph 32 of SAE 3420) deals with circumstances where the relevant law or regulation precludes publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner concludes that a modified opinion is nevertheless appropriate, the practitioner shall discuss the matter with the responsible party and if the responsible party does not agree to make the necessary changes, the practitioner shall **withhold the report** or withdraw from the engagement or consider seeking legal advice. Since in India, the practice of withholding the report is not in vogue, the option of withholding the report by the practitioner has been deleted. Similarly in paragraph A40 and paragraph A44, the option of withholding the report by the practitioner has been deleted.

## Appendix

(Ref: Para. A57)

### Illustrative Practitioner's Report with an Unmodified Opinion

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN A  
PROSPECTUS

[Appropriate Addressee(s)]

#### Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

We have completed our assurance engagement to report on the compilation of pro forma financial information of ABC Company by *[the responsible party]*. The pro forma financial information consists of [the pro forma balance sheet as at [date]], [the pro forma statement of profit and loss for the period ended [date]], [the pro forma cash flow statement for the period ended [date],] and related notes [as set out on pages xx-xx of the prospectus issued by the company]. The applicable criteria on the basis of which *[the responsible party]* has compiled the pro forma financial information are [specified in [Securities Regulation XX] and described in [Note X]]/[described in [Note X]].

The pro forma financial information has been compiled by *[the responsible party]* to illustrate the impact of the [event or transaction] [set out in Note X] on the [company's financial position as at *specify date*] [and] [the company's/its financial performance [and cash flows] for the period ended *specify date*] as if the [event or transaction] had taken place at [*specify date*] [and *specify date* respectively]. As part of this process, information about the company's [financial position], [financial performance] [and cash flows] has been extracted by *[the responsible party]* from the company's financial statements [for the period ended [date]], on which [[an audit]/[a review] report]/[no audit or review report] has been published.<sup>7</sup>

#### *[The Responsible Party's] Responsibility for the Pro Forma Financial Information*

*[The responsible party]* is responsible for compiling the pro forma financial information on the basis of the *[applicable criteria]*. This responsibility includes the responsibility for designing, implementing and maintaining internal control relevant for compiling the pro forma financial information on the basis of the

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<sup>7</sup> Where the audit or review report has been modified, reference may be made to where the modification has been described in the prospectus.

[*applicable criteria*] that is free from material misstatement, whether due to fraud or error. The ..... {Responsible party} is also responsible for identifying and ensuring that the Company complies with the laws and regulations applicable to its activities, including compliance with the provisions of the laws and regulations for the compilation of Pro Forma Financial Information.

***Practitioner's Responsibilities***

Our responsibility is to express an opinion, as required by .....[Reference to the relevant law or regulation], about whether the pro forma financial information has been compiled, in all material respects, by ..... [*the responsible party*] on the basis of the .....[*applicable criteria*].

We conducted our engagement in accordance with Standard on Assurance Engagements (SAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Institute of Chartered Accountants of India. This Standard requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether ..... [*the responsible party*] has compiled, in all material respects, the pro forma financial information on the basis of the .....[*applicable criteria*].

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at .....[*specify date*] would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by [*the responsible party*] in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

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- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, [the pro forma financial information has been compiled, in all material respects, on the basis of the ..... *[applicable criteria]*]/[the pro forma financial information has been properly compiled on the basis stated].

### **Report on Other Legal or Regulatory Requirements**

[Relevant law or regulation may require the practitioner to express an opinion on other matters (see paragraphs A46–A47). The form and content of this section of the practitioner's report will vary with the nature of such other reporting responsibilities.]

For XYZ and Co.  
Chartered Accountants  
Firm Registration number

Signature  
(Name of the Member Signing the Report)  
(Designation<sup>8</sup>)  
Membership Number

Place of Signature

Date

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<sup>8</sup> Partner or Proprietor, as the case may be.

# **SECTION - IX**

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## **Standards on Related Services**



# **SRS 4400**

## **Engagements to Perform Agreed-upon Procedures regarding Financial Information**

*(Effective for all agreed upon procedures  
engagements beginning on or after April 1, 2004)*

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Standard on Related Services (SRS) 4400\*, "Engagements to Perform Agreed-upon Procedures regarding Financial Information" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", which sets out the authority of the Engagement Standards.

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\* Issued in April, 2004. With the issuance of this Standard on Related Services, the "Guidance Note on Engagements to Perform Agreed Upon Procedures regarding Financial Information", issued by the Institute of Chartered Accountants of India in July 2001, shall stand withdrawn.

## **Introduction**

1. The purpose of this Standard on Related Services (SRS) is to establish standards and provide guidance on the auditor's<sup>1</sup> 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. 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.

3. This SRS is directed towards engagements regarding financial information. However, it may provide useful guidance for engagements to perform agreed-upon procedures regarding non-financial information; provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base his findings. These Standards on Auditing is to be read in conjunction with the "Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services"<sup>2</sup>. The principles laid down in the other SAs, issued by the Institute of Chartered Accountants of India, may be used by the auditor, to the extent practicable, in applying this SRS.

## **Objective of an Agreed-upon Procedures Engagement**

4. **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.**

5. As the auditor simply provides a report of the factual findings of agreed-upon procedures, no assurance is expressed by him in his report. Instead, users

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<sup>1</sup> The term "auditor" is used throughout this SRS when describing services involving performance of agreed-upon procedures. Such reference is not intended to imply that a person performing related services need necessarily be the auditor of the entity's financial statements.

<sup>2</sup> The Framework issued in 2001 has been withdrawn pursuant to the issuance of the "Framework for Assurance Engagements", which is applicable from April 1, 2008. The text of the Revised Framework is reproduced elsewhere in this Handbook.

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.

6. The report is 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. However, it is possible in certain circumstances that the report of the engagement may not be restricted only to those parties that have agreed to the procedures to be performed, but made available to a wider range of entities or individuals, e.g., in case of government organisations.

### **General Principles of an Agreed-upon Procedures Engagement**

7. **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 are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality;
- (e) Professional conduct; and
- (f) 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.**

8. **The auditor should conduct an agreed-upon procedure engagement in accordance with this SRS and the terms of the engagement.**

### **Defining the Terms of the Engagement**

9. **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.** Matters to be agreed include the following:

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- (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.
10. In certain circumstances, for example, when the procedures have been agreed to between the regulator, industry representatives and representatives of the accounting profession, the auditor may not be able to discuss the procedures with all the parties who will receive the report. In such cases, the auditor may consider, for example, discussing the procedures to be applied with appropriate representatives of the parties involved, reviewing relevant correspondence from such parties.
11. 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.
12. 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.

An example of an engagement letter appears in **Appendix I** to this SRS.

### **Planning**

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

## Documentation

14. 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.

## Procedures and Evidence

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

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

- ◆ Inquiry and analysis.
- ◆ Recomputation, comparison and other clerical accuracy checks.
- ◆ Observation.
- ◆ Inspection.
- ◆ Obtaining confirmations.

**Appendix II** to this SRS is an example report which contains an illustrative list of procedures which may be used as one part of a typical agreed-upon procedures engagement.

## Reporting

17. 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.

18. The report of factual findings should contain:

- (a) Title;
- (b) Addressee (ordinarily, the appointing authority );
- (c) Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied;
- (d) A statement that the procedures performed were those agreed-upon with the recipient;

- (e) A statement that the engagement was performed in accordance with the Standard on Related Services applicable to agreed-upon procedures engagements;
- (f) Identification of the purpose for which the agreed-upon procedures were performed;
- (g) A listing of the specific procedures performed;
- (h) A description of the auditor's factual findings including sufficient details of errors and exceptions found;
- (i) A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed;
- (j) A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported;
- (k) A statement that the report is restricted to those parties that have agreed to the procedures to be performed;
- (l) A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole;
- (m) Date of the report;
- (n) Place of signature ; and
- (o) Auditor's signature

The report should be signed by the accountant in his personal name. Where the firm is appointed, the report should be signed in the personal name of the accountant and in the name of the firm. The partner/proprietor signing the report on agreed-upon procedures should also mention the membership number assigned by the Institute of Chartered Accountants of India

**Appendix II** to this SRS contains an example of a report of factual findings issued in connection with an engagement to perform agreed-upon procedures regarding financial information.

### **Effective Date**

19. This Standard on Related Services is applicable to all agreed upon procedures engagements beginning on or after April 1, 2004.

**Compatibility with the International Standard on Auditing (ISA)\*\* 920**

The standards established in this Standard on Related Services are generally consistent in all material respects with those set out in the International Standard on Auditing (ISA) 920, “Engagements to Perform Agreed-upon Procedures regarding Financial Information”.

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\*\* Now the International Standard on Related Services (ISRS) 4400.

## Appendix I

### Example of an Engagement Letter for an Agreed-upon Procedures Engagement

The following letter is for use as a guide in conjunction with paragraph 12 of this Standard on Related Services and is not intended to be a standard letter. The engagement letter will need to be varied according to individual requirements and circumstances.

Date

**To the Board of Directors (or other appropriate representatives of the client who engaged the auditor).**

This is in reference to your letter dated \_\_\_\_\_, appointing us to perform agreed-upon procedures in respect of \_\_\_\_\_ (*identify the items, e.g., sales, profit of a segment, accounts receivables, etc., of the entity*).

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide.

Our engagement will be conducted 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 and we will indicate so in our report.

We have agreed to perform the following procedures and report to you the factual findings resulting from our work:

*(Describe the nature, timing and extent of the procedures to be performed, including specific reference, where applicable, to the identity of documents and records to be read, individuals to be contacted and parties from whom confirmations will be obtained.)*

The procedures that we will perform are solely to assist you in \_\_\_\_\_ (*state purpose*). Our report is not to be used for any other purpose and is solely for your information, and/ or for use by \_\_\_\_\_ (*in case the terms of reference so require*).

The procedures that we will perform will not constitute an audit or a review made in accordance with the generally accepted auditing standards in India and, consequently, no assurance will be expressed.

We look forward to your full cooperation and trust that you will make available to us whatever records, documentation and other information requested in connection with our engagement.

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Our fees will be billed as work progresses.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the terms of the engagement including the specific procedures, which we have agreed will be performed.

For XYZ & Co  
Chartered Accountants

.....

Signature  
(Name of the Member)  
Designation<sup>3</sup>

Date:  
Address:

Acknowledged on behalf of ABC Company by  
( signed )

.....  
Name and Title  
Date  
Address

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<sup>3</sup> Partner or proprietor, as the case may be.

## Appendix II

### 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.

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- (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 does not extend to any financial statements of ABC Company, taken as a whole.

Date:

For XYZ & Co  
Chartered Accountants

Place:

.....  
Signature  
(Name of the Member and Membership number)  
Designation<sup>4</sup>

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<sup>4</sup> Partner or proprietor as the case may be.

# **SRS 4410(Revised)**

## **Compilation Engagements**

*(Effective for compilation engagements  
undertaken after March 31, 2016)*

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Standard on Related Services (SRS) 4410 (Revised), *Compilation Engagements*, should be read in conjunction with the *Preface to the Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services*.

## **Introduction**

### **Scope of this SRS**

1. This Standard on Related Services (SRS) 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. (Ref: Para. A1–A2)

2. This SRS applies to compilation engagements for historical financial information. The SRS may be applied, adapted as necessary, to compilation engagements for financial information other than historical financial information, and to compilation engagements for non-financial information. Hereinafter in this SRS, reference to "financial information" means "historical financial information." (Ref: Para. A3–A4)

3. When the practitioner is requested to assist management with the preparation and presentation of financial information, appropriate consideration may need to be given to whether the engagement should be undertaken in accordance with this SRS. Factors that indicate that it may be appropriate to apply this SRS, including reporting under this SRS, include whether:

- The financial information is required under provisions of applicable law or regulation, and whether it is required to be publicly filed.
- External parties other than the intended users of the compiled financial information are likely to associate the practitioner with the financial information, and there is a risk that the level of the practitioner's involvement with the information may be misunderstood, for example:
  - If the financial information is intended for use by parties other than management or those charged with governance, or may be provided to, or obtained by, parties who are not the intended users of the information; and
  - If the practitioner's name is identified with the financial information. (Ref: Para. A5)

### ***Relationship with SQC 1<sup>1</sup>***

4. Quality control systems, policies and procedures are the responsibility of the firm. SQC 1 applies to firms of professional accountants in respect of a firm's

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<sup>1</sup> Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

compilation engagements.<sup>2</sup> The provisions of this SRS regarding quality control at the level of individual compilation engagements are premised on the basis that the firm is subject to SQC 1. (Ref: Para. A6–A10)

### **The Compilation Engagement**

5. Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity. The value of a compilation engagement performed in accordance with this SRS to users of financial information results from the application of the practitioner's professional expertise in accounting and financial reporting and compliance with professional standards, including relevant ethical requirements, and the clear communication of the nature and extent of the practitioner's involvement with the compiled financial information. (Ref: Para. A11–A14)

6. Since 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.

7. 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. (Ref: Para. A11–A12)

8. This SRS does not impose responsibilities on management or those charged with governance, or override laws and regulations that govern their responsibilities. An engagement performed in accordance with this SRS is conducted on the premise that management, or those charged with governance where appropriate, have agreed certain responsibilities that are fundamental to the performance of the compilation engagement. (Ref: Para. A11–A12)

9. Financial information that is the subject of a compilation engagement may be required for various purposes including:

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

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<sup>2</sup> SQC 1, paragraph 1.

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- 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).

10. 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. (Ref: Para. A15–A17)

### **Authority of this SRS**

11. This SRS contains the objectives of the practitioner in following the SRS which provide the context in which the requirements of this SRS are set, and are intended to assist the practitioner in understanding what needs to be accomplished in a compilation engagement.

12. This SRS contains requirements, expressed using “shall,” that are designed to enable the practitioner to meet the stated objectives.

13. In addition, this SRS contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of the SRS.

14. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this SRS that assists in the application of the requirements.

### **Effective Date**

15. This SRS is effective for compilation engagements undertaken after March 31, 2016.

## Objectives

16. 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.

## Definitions

17. The Glossary of Terms (the Glossary) includes the terms defined in this SRS and also includes descriptions of other terms found in this SRS, to assist in consistent interpretation. The following terms have the meanings attributed below for the purposes of this SRS:

- (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. (Ref: Para. A29–A31)
- (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.
- (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<sup>3</sup> 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. (Ref: Para. A20)

## **Requirements**

### **Conduct of a Compilation Engagement in Accordance with this SRS**

18. The practitioner shall have an understanding of the entire text of this SRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

#### ***Complying with Relevant Requirements***

19. The practitioner shall comply with each requirement of this SRS unless a particular requirement is not relevant to the compilation engagement, for example if the circumstances addressed by the requirement do not exist in the engagement.

20. The practitioner shall not represent compliance with this SRS unless the practitioner has complied with all requirements of this SRS relevant to the compilation engagement.

### **Ethical Requirements**

21. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A18–A20)

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<sup>3</sup> Attention is also drawn to footnote 1 to the Framework for Assurance Engagements, which clarifies that a “practitioner” refers to the members of the Institute of Chartered Accountants of India who is in practice in terms of section 2 of the Chartered Accountants Act, 1949. The term is also used to refer to a firm of chartered accountants in public practice.

**Professional Judgment**

22. The practitioner shall exercise professional judgment in conducting a compilation engagement. (Ref: Para. A21–A23)

**Engagement Level Quality Control**

23. 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, by: (Ref: Para. A24)
    - (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A25)
    - (ii) Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the compilation engagement;
    - (iii) Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, and determining the appropriate action if matters come to the engagement partner’s attention indicating that members of the engagement team have not complied with relevant ethical requirements; (Ref: Para. A26)
    - (iv) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
    - (v) Taking responsibility for appropriate engagement documentation being maintained.

**Engagement Acceptance and Continuance**

***Continuance of Client Relationships, Engagement Acceptance and Agreeing the Terms of the Engagement***

24. 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; (Ref: Para. A19, A27–A28, A31–A32)

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- (b) Identification of the applicable financial reporting framework; (Ref: Para. A19, A29–A32)
- (c) The objective and scope of the compilation engagement; (Ref: Para. A19)
- (d) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements; (Ref: Para. A19)
- (e) The responsibilities of management for: (Ref: Para. A33–A35)
  - (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; and (Ref: Para. A21)
- (f) The expected form and content of the practitioner’s report.

25. 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. (Ref: Para. A36–A38)

### ***Recurring Engagements***

26. 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. (Ref: Para. A39)

### **Communication with Management and Those Charged with Governance**

27. 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. (Ref: Para. A40)

### **Performing the Engagement**

#### ***The Practitioner's Understanding***

28. The practitioner shall obtain an understanding of the following matters sufficient to be able to perform the compilation engagement: (Ref: Para. A41–A43)

- (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.

#### ***Compiling the Financial Information***

29. The practitioner shall compile the financial information using the records, documents, explanations and other information, including significant judgments, provided by management.

30. 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. (Ref: Para. A44)

31. 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. (Ref: Para. A45)

32. 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.

33. 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. (Ref: Para. A51)

34. If the practitioner becomes aware during the course of the engagement

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that:

- (a) The compiled financial information does not adequately refer to or describe the applicable financial reporting framework; (Ref: Para. A46)
- (b) Amendments to the compiled financial information are required for the financial information not to be materially misstated; or (Ref: Para. A47–A49)
- (c) The compiled financial information is otherwise misleading, (Ref: Para. A50)

the practitioner shall propose the appropriate amendments to management.

35. 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. (Ref: Para. A51)

36. If withdrawal from the engagement is not possible, the practitioner shall determine the professional and legal responsibilities applicable in the circumstances. (Ref: Para A52)

37. 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. (Ref: Para. A62)

### **Documentation**

38. The practitioner shall include in the engagement documentation: (Ref: Para. A53–A55)

- (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. (Ref: Para. A62)

### **The Practitioner's Report**

39. 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

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vehicle to express an opinion or conclusion on the financial information in any form.

40. The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements: (Ref: Para. A56–A57, A63)

- (a) The report title;
- (b) The addressee(s), as required by the terms of the engagement; (Ref: Para. A58)
- (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: (Ref: Para. A59–A61)

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- (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.

41. The practitioner shall date the report on the date the practitioner has completed the compilation engagement in accordance with this SRS. (Ref: Para. A62)

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## **Application and Other Explanatory Material**

### **Scope of this SRS**

#### ***General Considerations (Ref: Para. 1)***

A1. In a compilation engagement where the engaging party is someone other than management or those charged with governance of the entity, this SRS may be applied adapted as necessary.

A2. A practitioner's involvement with services or activities in the course of assisting management of an entity with the preparation and presentation of the entity's financial information can take many different forms. When the practitioner is engaged to provide such services or activities for an entity under this SRS, the practitioner's association with the financial information is communicated through the practitioner's report provided for the engagement in the form required by this SRS. The practitioner's report contains the practitioner's explicit assertion of compliance with this SRS.

#### ***Application to Compilation Engagements Other than for Historical Financial Information (Ref: Para. 2)***

A3. This SRS addresses engagements where the practitioner assists management in the preparation and presentation of historical financial information. The SRS may, however, also be applied, adapted as necessary, when the practitioner is engaged to assist management in preparing and presenting other financial information. Examples include:

- Pro forma financial information.
- Prospective financial information, including financial budgets or forecasts.

A4. Practitioners may also undertake engagements to assist management in the preparation and presentation of non-financial information, for example, greenhouse gas statements, corporate social responsibility reporting, environmental reporting, sustainability reporting, integrated reporting, statistical returns or other information returns. In those circumstances, the practitioner may apply this SRS, adapted as necessary, as relevant to those types of engagements.

***Considerations Relevant to Application of the SRS (Ref: Para. 3)***

A5. Mandatory application of this SRS may be specified in national settings for engagements where practitioners undertake services relevant to the preparation and presentation of financial information of an entity (such as in relation to preparation of historical financial statements required for public filing). If mandatory application is not specified, either under law or regulation, or under applicable professional standards or otherwise, the practitioner may nevertheless conclude that applying this SRS is appropriate in the circumstances.

***Relationship with SQC 1 (Ref: Para. 4)***

A6. SQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for related services engagements, including compilation engagements. Those responsibilities are directed at establishing:

- The firm's quality control system; and
- The firm's related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.

A7. Under SQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>4</sup>

A8. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.

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<sup>4</sup> SQC 1, paragraph 3.

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A9. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to legal and regulatory requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the compilation engagement, the engagement partner may consider measures taken by the firm to rectify the situation that the engagement partner considers are sufficient in the context of that compilation engagement.

A10. A deficiency in the firm's system of quality control does not necessarily indicate that a compilation engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

### **The Compilation Engagement**

#### ***Use of the Terms "Management" and "Those Charged with Governance" (Ref: Para. 5, 7-8)***

A11. The respective responsibilities of management and those charged with governance will differ between entities of various types. These differences affect the way the practitioner applies the requirements of this SRS regarding management or those charged with governance. Accordingly, the phrase "management and, where appropriate, those charged with governance" used in various places throughout this SRS is intended to alert the practitioner to the fact that different entity environments may have different management and governance structures and arrangements.

A12. Various responsibilities relating to the preparation of financial information and external financial reporting fall to either management or those charged with governance according to factors such as:

- The resources and structure of the entity.
- The respective roles of management and those charged with governance within the entity as set out in relevant law or regulation or, if the entity is not regulated, in any formal governance or accountability arrangements established for the entity (for example, as recorded in contracts, or a constitution or other type of document by which an entity is established).

In many small entities, there is often no separation of the management and governance roles for the entity, or those charged with governance of the entity may also be involved in managing the entity. In most other cases, especially in larger entities, management is responsible for execution of the business or activities of the entity and reporting thereon, while those charged with governance have oversight of management. In larger entities, those charged with governance will often have or assume responsibility for approving the financial information of the entity, particularly when it is intended for use by external parties. In large entities, often a subgroup of those charged with governance, such as an audit committee, is charged with certain oversight responsibilities.

***Involvement in Other Activities Relating to Preparation and Presentation of Financial Information (Ref: Para. 5)***

A13. 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.

A14. A practitioner may also be engaged to undertake certain other activities on behalf of management, additional to the compilation engagement. For example, the practitioner may be requested to also collect, classify and summarize the underlying accounting data of the entity and process the data in the form of accounting records through to preparation of a trial balance. The trial balance would then be used as the underlying information from which the practitioner can compile the financial information that is the subject of a compilation engagement undertaken in accordance with this SRS. This is often the case for smaller entities that do not have well-developed accounting systems, or entities that prefer to outsource the preparation of accounting records to external providers. This SRS does not address such additional activities that the practitioner may perform to assist management in other areas, in advance of compiling the entity's financial statements.

***Financial Reporting Frameworks (Ref: Para. 10)***

A15. The financial information may be prepared in accordance with a financial reporting framework designed to meet:

- The common financial information needs of a wide range of users (that is, a "general purpose financial reporting framework"); or

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- The financial information needs of specific users (that is, a “special purpose financial reporting framework”).
- The requirements of the applicable financial reporting framework determine the form and content of the financial information. The financial reporting framework may, in some cases, be referred to as the “basis of accounting.”

A16. Examples of commonly used general purpose financial reporting frameworks are:

- International Financial Reporting Standards (IFRS) and established national financial reporting standards applicable to publicly-listed entities.
- International Financial Reporting Standards for Small- and Medium-Sized Entities (IFRS for SMEs) and established national financial reporting standards applicable to small- and medium-sized entities.
- Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006.
- Indian Accounting Standards (Ind AS) issued by ICAI.
- Accounting Standards (AS) issued by ICAI.

A17. Examples of special purpose financial reporting frameworks that may be used, depending on the particular purpose of the financial information, are:

- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
- The financial reporting provisions established by a regulator to meet the requirements of that regulator; or
- The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

### **Ethical Requirements (Ref: Para. 21)**

A18. Chapter 1 of the ICAI’s Code of Ethics establishes the fundamental principles of professional ethics that practitioners must comply with, and provides a conceptual framework for applying those principles. The fundamental principles are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

Chapter 2 of the ICAI's Code of Ethics illustrates how the conceptual framework is to be applied in specific situations. 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.

***Ethical Considerations Regarding the Practitioner's Association with Information (Ref: Para. 21, 24(a)–(d))***

A19. Under the Code of Ethics,<sup>5</sup> in applying the principle of integrity, a professional accountant is required to not be associated with reports, returns, communications or other information where he believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information furnished negligently; or
- (c) Omits or obscures any information required to be included where such omission or obscurity would be misleading.

***Independence (Ref: Para. 17(g), 21)***

A20. Notwithstanding that Section 290, Independence–Assurance Engagements of the ICAI's Code of Ethics does not apply to compilation engagements, laws or regulations may specify requirements or disclosure rules pertaining to independence.

***Professional Judgment (Ref: Para. 22, 24(e)( iv))***

A21. Professional judgment is essential to the proper conduct of a compilation engagement. This is because interpretation of relevant ethical requirements and the requirements of this SRS, and the need for informed decisions throughout the performance of a compilation engagement, require the application of relevant knowledge and experience to the facts and circumstances of the engagement. Professional judgment is necessary, in particular, when the engagement involves assisting management of the entity regarding decisions about:

- The acceptability of the financial reporting framework that is to be used to prepare and present the financial information of the entity, in view of the intended use of the financial information and the intended users thereof.
- The application of the applicable financial reporting framework, including:
  - Selection of appropriate accounting policies under that framework;
  - Development of accounting estimates needed for the financial information to be prepared and presented under that framework; and

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<sup>5</sup> Code of Ethics, paragraph 110.2.

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- Preparation and presentation of financial information in accordance with the applicable financial reporting framework.

The practitioner's assistance to management is always provided on the basis that management or those charged with governance, as appropriate, understand the significant judgments that are reflected in the financial information, and accept responsibility for those judgments.

A22. Professional judgment involves the application of relevant training, knowledge and experience, within the context provided by this SRS and accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the compilation engagement.

A23. The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known to the practitioner up to the date of the practitioner's report on the engagement, including:

- Knowledge acquired from performance of other engagements undertaken for the entity, where applicable (for example, taxation services).
- The practitioner's understanding of the entity's business and operations, including its accounting system, and of the application of the applicable financial reporting framework in the industry in which the entity operates.
- The extent to which the preparation and presentation of the financial information requires the exercise of management judgment.

### **Engagement Level Quality Control (Ref: Para. 23(b))**

A24. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasize the importance to achieving the quality of the engagement of:

- (a) Performing work that complies with professional standards and regulatory and legal requirements;
- (b) Complying with the firm's quality control policies and procedures as applicable; and
- (c) Issuing the practitioner's report for the engagement in accordance with this SRS.

***Acceptance and Continuance of Client Relationships and Compilation Engagements (Ref: Para. 23(b)(i))***

A25. SQC 1 requires the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance or continuance of client relationships and compilation engagements is appropriate may include information concerning the integrity of the principal owners, key management and those charged with governance. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it may not be appropriate to accept the engagement.

***Compliance with Relevant Ethical Requirements in Conducting the Engagement (Ref: Para. 23(b)(iii))***

A26. SQC 1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This SRS sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements.

**Engagement Acceptance and Continuance**

***Identifying the Intended Use of the Financial Information (Ref: Para. 24(a))***

A27. The intended use of the financial information is identified with reference to applicable law, regulation, or other arrangements established concerning the provision of financial information of the entity, bearing in mind the financial information needs of parties internal or external to the entity who are the intended users. Examples are financial information required to be provided by an entity in connection with undertaking transactions or financing applications with external parties such as suppliers, banks or other providers of finance or funding.

A28. The practitioner's identification of the intended use of the financial information also involves understanding such factors as the particular purpose(s) of management, or those charged with governance, where applicable, that are intended to be served through requesting the compilation engagement, and those of the engaging party where different. For example, a grant funding body may require the entity to provide financial information compiled by a professional accountant to obtain information about certain aspects of an entity's operations or activities, prepared in a specified form, to support provision of a grant or continuation of an existing grant.

***Identification of the Applicable Financial Reporting Framework (Ref: Para. 17(a), 24(b))***

A29. The decision about the financial reporting framework that management adopts for the financial information is made in the context of the intended use of the information as described in the agreed terms of engagement, and the requirements of any applicable law or regulation.

A30. The following are examples of factors that indicate it may be relevant to consider whether the financial reporting framework is acceptable:

- The nature of the entity, and whether it is a regulated form of entity, for example, whether it is a profit-oriented business enterprise, a public sector entity or a not-for-profit organization.
- The intended use of the financial information and the intended users. For example, the financial information could be intended to be used by a wide range of users or, alternatively, could be for use by management or by certain external users in the context of a particular purpose specified as part of agreeing the terms of the compilation engagement.
- Whether the applicable financial reporting framework is prescribed or specified, either in applicable law or regulation, or in a contract or other form of agreement with a third party, or as part of governance or accountability arrangements adopted voluntarily by the entity.
- The nature and form of the financial information that is to be prepared and presented under the applicable financial reporting framework, for example, a complete set of financial statements, a single financial statement, or financial information presented in another format agreed between parties to a contract or other form of agreement.

*Relevant Factors When Financial Information is Intended for a Particular Purpose (Ref: Para. 24(a) –(b))*

A31. The engaging party generally agrees the nature and form of financial information that is intended for a particular purpose with the intended users, for example as specified under the financial reporting provisions of a contract or a project grant or as needed to support the entity's transactions or activities. The relevant contract may require use of an established financial reporting framework, such as a general purpose financial reporting framework established by an authorized or recognized standard-setting body or by law or regulation. Alternatively, the parties to the contract may agree on the use of a general purpose framework with modifications or adaptations that fit their particular needs. In that case, the applicable financial reporting framework may be described in the financial information and in the practitioner's report as being the financial

reporting provisions of the specified contract rather than with reference to the modified financial reporting framework. In such cases, notwithstanding that the compiled financial information may be made more broadly available, the applicable financial reporting framework is a special purpose framework, and the practitioner is required to comply with the relevant reporting requirements of this SRS.

A32. When the applicable financial reporting framework is a special purpose financial reporting framework, the practitioner is required by this SRS to record any restrictions on either the intended use or distribution of the financial information in the engagement letter, and to state in the practitioner's report that the financial information is prepared using a special purpose financial reporting framework, and as a result may not be suitable for other purposes.

***Responsibilities of Management (Ref: Para. (24(e))***

A33. Under this SRS, the practitioner is required to obtain the agreement of management, or where applicable those charged with governance, on management's responsibilities in relation to both the financial information and the compilation engagement as a condition precedent to accepting the engagement. In smaller entities, management, or those charged with governance where applicable, may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management's agreement on an informed basis, the practitioner may find it necessary to discuss those responsibilities with management in advance of seeking management's agreement on its responsibilities.

A34. If management does not acknowledge its responsibilities in the context of a compilation engagement, the practitioner is not able to undertake the engagement, and it is not appropriate for the practitioner to accept the engagement unless required to do so under applicable law or regulation. In circumstances where the practitioner is nevertheless required to accept the engagement, the practitioner may need to communicate with management about the importance of these matters and the implications for the engagement.

A35. The practitioner is entitled to rely on management to provide all relevant information for the compilation engagement on an accurate, complete and timely basis. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations and other information relevant to the compilation of the financial information using the applicable financial reporting framework. The information provided may include, for example, information about management assumptions, intentions or plans underlying development of accounting estimates needed to compile the information under the applicable financial reporting framework.

***Engagement Letter or Other Form of Written Agreement (Ref: Para. 25)***

A36. It is in the interest of both management, and the engaging parties where different, and the practitioner that the practitioner sends an engagement letter to management and, where applicable, to the engaging parties prior to performing the compilation engagement, to help avoid misunderstanding with respect to the compilation engagement. An engagement letter confirms the practitioner's acceptance of the engagement and confirms such matters as:

- The objectives and scope of the engagement, including the understanding of the parties to the engagement that the engagement is not an assurance engagement.
- The intended use and distribution of the financial information, and any restrictions on its use or distribution (where applicable).
- The responsibilities of management in relation to the compilation engagement.
- The extent of the practitioner's responsibilities, including that the practitioner will not express an audit opinion or a review conclusion on the financial information.
- The form and content of the report to be issued by the practitioner for the engagement.

*Form and Content of the Engagement Letter*

A37. The form and content of the engagement letter may vary for each engagement. In addition to the matters required by this SRS, an engagement letter may make reference to, for example:

- Arrangements concerning the involvement of other practitioners and experts in some aspects of the compilation engagement.
- Arrangements to be made with the predecessor practitioner, if any, in the case of an initial engagement.
- The possibility that management or those charged with governance, as appropriate, may be requested to confirm in writing certain information or explanations conveyed orally to the practitioner during the engagement.
- Ownership of the information used for purposes of the compilation engagement, distinguishing between documents and information of the entity provided for the engagement and the practitioner's engagement documentation, having regard to applicable law and regulation.
- A request for management, and the engaging party if different, to acknowledge receipt of the engagement letter and to agree to the terms of the engagement outlined therein.

*Illustrative Engagement Letter*

A38. An illustrative engagement letter for a compilation engagement is set out in Appendix 1 to this SRS.

***Recurring Engagements (Ref: Para. 26)***

A39. The practitioner may decide not to send a new engagement letter or other written agreement each period. However, the following factors may indicate that it is appropriate to revise the terms of the compilation engagement, or to remind management or the engaging party, where applicable, of the existing terms of the engagement:

- Any indication that management or the engaging party, where applicable, misunderstands the objective and scope of the engagement.
- Any revised or special terms of the engagement.
- A recent change of senior management of the entity.
- A significant change in ownership of the entity.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements affecting the entity.
- A change in the applicable financial reporting framework.

**Communication with Management and Those Charged with Governance (Ref: Para. 27)**

A40. The appropriate timing for communications will vary with the circumstances of the compilation engagement. Relevant circumstances include the significance and nature of the matter and any action expected to be taken by management or those charged with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the engagement as soon as practicable if management or those charged with governance are able to assist the practitioner to overcome the difficulty.

**Performing the Engagement**

***The Practitioner's Understanding (Ref: Para. 28)***

A41. Obtaining an understanding of the entity's business and its operations, including the entity's accounting system and accounting records, is an ongoing process that occurs throughout the compilation engagement. The understanding establishes a frame of reference within which the practitioner exercises professional judgment in compiling the financial information.

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A42. The breadth and depth of the understanding the practitioner has or obtains about the entity's business and operations is less than that possessed by management. It is directed at the level that is sufficient for the practitioner to be able to compile the financial information under the terms of the engagement.

A43. Examples of matters the practitioner may consider in obtaining an understanding of the entity's business and operations and the applicable financial reporting framework include:

- The legal and regulatory requirements applicable to the entity.
- The size and complexity of the entity and its operations.
- The complexity of the financial reporting framework.
- The entity's financial reporting obligations or requirements, whether they exist under applicable laws and regulation, under the provisions of a contract or other form of agreement with a third party, or in the context of voluntary financial reporting arrangements.
- The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin the preparation of financial information of the entity.
- The level of development and complexity of the entity's financial accounting and reporting systems and related controls.
- The nature of the entity's assets, liabilities, revenues and expenses.

### ***Compiling the Financial Information***

*Significant Judgments (Ref: Para.30)*

A44. In some compilation engagements, the practitioner does not provide assistance to management with significant judgments. In other engagements, the practitioner may provide such assistance, for example, in relation to a required accounting estimate or helping management with its consideration of appropriate accounting policies or estimating the useful life of fixed assets or ascertaining the condition of inventory. Where assistance is provided, discussion is needed so that management and those charged with governance, as appropriate, understand the significant judgments reflected in the financial information, and accept their responsibility for those judgments.

*Reading the Financial Information (Ref: Para. 31)*

A45. The practitioner's reading of the financial information is intended to assist the practitioner in fulfilling the practitioner's ethical requirements relevant to the compilation engagement. (Also refer Para. A19)

*Proposing Amendments to the Financial Information*

Reference to or description of the applicable financial reporting framework (Ref: Para. 34(a))

A46. There may be circumstances when the applicable financial reporting framework is an established financial reporting framework with significant departures therefrom. If the description of the applicable financial reporting framework in the compiled financial information makes reference to the established framework with significant departures, the practitioner may need to consider whether the reference to the established framework is misleading in the circumstances of the engagement.

Amendment for material misstatements, and for the information not to be misleading (Ref: Para. 34(b)–(c))

A47. The practitioner's consideration of materiality is made in the context of the applicable financial reporting framework. Some financial reporting frameworks discuss the concept of materiality in the context of the preparation and presentation of financial information. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial information;
- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgments about matters that are material to users of the financial information are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

For example, in case of companies, the Schedule III to the Companies Act, 2013 gives the following materiality threshold:

A company shall disclose by way of notes additional information regarding aggregate expenditure and income on any item of income or expenditure which exceeds one percent of the revenue from operations or Rs. 1,00,000 whichever is higher.

A48. If present in the applicable financial reporting framework, such a discussion provides a frame of reference for the practitioner in understanding materiality for

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the purpose of the compilation engagement. If not present, the above considerations provide the practitioner with a frame of reference.

A49. The practitioner's perception of the needs of users of the financial information affects the practitioner's view of materiality. In this context, it is reasonable for the practitioner to assume that users:

- Have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the financial information with reasonable diligence;
- Understand that financial information is prepared and presented to levels of materiality;
- Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
- Make reasonable economic decisions on the basis of the information in the financial information.

A50. The applicable financial reporting framework may include the premise that the financial information is prepared on the going concern basis. If the practitioner becomes aware that uncertainties exist regarding the entity's ability to continue as a going concern, the practitioner may, as appropriate, suggest a more appropriate presentation under the applicable financial reporting framework, or appropriate disclosures concerning the entity's ability to continue as a going concern, in order to be in compliance with that framework, and to avoid the financial information being misleading.

*Conditions that Require the Practitioner to Withdraw from the Engagement (Ref: Para. 33, 35)*

A51. In circumstances addressed by the requirements of this SRS where withdrawal from the engagement is necessary, the responsibility to inform management and those charged with governance of the reasons for withdrawing provides an opportunity to explain the practitioner's ethical obligations.

A52. The professional and legal responsibilities of the practitioner may include, for example:

- Reporting to the appointing authority,
- Reporting to the regulatory authority,

- Seeking legal advice,
- Describing the facts in the compilation report.

**Documentation (Ref: Para. 38)**

A53. The documentation required by this SRS serves a number of purposes, including the following:

- Providing a record of matters of continuing relevance to future compilation engagements.
- Enabling the engagement team, as applicable, to be accountable for its work, including recording the completion of the engagement.

A54. 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.

A55. In recording how the compiled financial information reconciles with the underlying records, documents, explanations and other information provided by management for the purpose of the compilation engagement, the practitioner may, for example, keep a schedule showing the reconciliation of the entity's general ledger account balances to the compiled financial information, including any adjusting journal entries or other amendments to the financial information that the practitioner has agreed with management in the course of the engagement.

**The Practitioner's Report (Ref: Para. 40)**

A56. The written report encompasses reports issued in hard copy format and those issued using an electronic medium.

A57. When the practitioner is aware that the compiled financial information and the practitioner's report will be included in a document that contains other information, such as a financial report, the practitioner may consider, if the form of presentation allows, identifying the page numbers on which the financial information is presented. This helps users to identify the financial information to which the practitioner's report relates.

**Addressees of the Report (Ref: Para. 40(b))**

A58. Law or regulation may specify to whom the practitioner's report is to be addressed in the particular jurisdiction. The practitioner's report is normally

addressed to the party who engaged the practitioner under the terms of the engagement, ordinarily the management of the entity.

***Financial Information Prepared Using a Special Purpose Financial Reporting Framework (Ref: Para. 40(j))***

A59. Under this SRS, if the financial information is prepared using a special purpose financial reporting framework, the practitioner's report is required to draw the attention of readers of the report to the special purpose financial reporting framework used in the financial information, and to state that the financial information may therefore not be suitable for other purposes. This may be supplemented by an additional clause that restricts either the distribution or use, or both, of the practitioner's report to the intended users only.

A60. Financial information prepared for a particular purpose may be obtained by parties other than the intended users, who may seek to use the information for purposes other than those for which the information was intended. For example, a regulator may require certain entities to provide financial statements prepared using a special purpose financial reporting framework, and those financial statements to be on public record. The fact of the wider availability of those financial statements to parties other than the intended users does not mean the financial statements would then become general purpose financial statements. The practitioner's statements required to be included in the practitioner's report are needed to draw readers' attention to the fact that the financial statements are prepared under a special purpose financial reporting framework, and may not, therefore, be suitable for other purposes.

*Restriction on Distribution and Use of the Practitioner's Report*

A61. The practitioner may consider it appropriate to indicate that the practitioner's report is intended solely for the specified intended users of the financial information. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting either the distribution or use, or both, of the practitioner's report to the intended users only.

***Completion of the Compilation Engagement and Dating of the Practitioner's Report (Ref: Para. 37, 38, 41)***

A62. The process that exists within the entity for the approval of the financial information by management, or by those charged with governance as appropriate, is a relevant consideration for the practitioner when completing the compilation engagement. Depending on the nature and purpose of the financial information, there may be an established approval process that management or

those charged with governance are required to follow, or that is prescribed in applicable law and regulation, for the preparation and finalization of financial information or financial statements of the entity.

*Illustrative Reports (Ref: Para. 40)*

A63. Appendix 2 to this SRS contains illustrations of practitioners' compilation reports incorporating the required elements of the report.

**Material Modifications *vis-a-vis* ISRS 4410 (Revised),  
“Compilation Engagements”**

There are no material modifications in SRS 4410 (Revised) *vis-a-vis* ISRS 4410 (Revised), 'Compilation Engagements' except addition of the following bullet point in paragraph 24(e):

- 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.

## **Appendix 1**

(Ref: Para. A38)

### **Illustrative Engagement Letter for a Compilation Engagement**

The following is an example of an engagement letter for a compilation engagement that illustrates the relevant requirements and guidance contained in this SRS. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this SRS. It will need to be adapted according to the requirements and circumstances of individual compilation engagements. It is drafted to refer to the compilation of financial statements for a single reporting period and would require adaptation if intended or expected to apply to a recurring engagement as described in this SRS. It may be appropriate to seek legal advice that any proposed letter is suitable.

This engagement letter illustrates the following circumstances:

- The financial statements are to be compiled for sole use by the management of a company (ABC Company), and use of the financial statements will be restricted to management. Use and distribution of the practitioner's report is also restricted to management.
- The compiled financial statements will comprise only the balance sheet of the company as at March 31, 20XX and the Statement of Profit and Loss for the year then ended, without notes. Management has determined that the financial statements be prepared on an accrual basis as described.

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#### **To the Management<sup>6</sup> of ABC Company:**

*[The objective and scope of the compilation engagement]*

You have requested that we provide the following services:

On the basis of information that you will provide, we will assist you in the preparation and presentation of the following financial statements for ABC Company: the balance sheet of ABC Company as at March 31, 20XX and the Statement of Profit and Loss for the year then ended. These financial statements will not include explanatory notes, other than a note describing the basis of accounting as set out in this engagement letter.

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<sup>6</sup> Throughout this illustrative engagement letter, references to "you," "we," "us," "management," "those charged with governance" and "practitioner" would be used or amended as appropriate in the circumstances.

The purpose for which the financial statements will be used is to provide full-year financial information showing the entity's financial position at the financial reporting date of March 31, 20XX and financial performance for the year then ended. The financial statements will be solely for your use, and will not be distributed to other parties.

### **Our Responsibilities**

A compilation engagement involves applying expertise in accounting and financial reporting to assist you in the preparation and presentation of financial information. Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provide to us for the compilation engagement, or otherwise to gather evidence to express an audit opinion or a review conclusion. Accordingly, we will not express an audit opinion or a review conclusion on whether the financial statements are prepared in accordance with the basis of accounting you have specified, as described above.

We will perform the compilation engagement in accordance with the Standard on Related Services (SRS) 4410 (Revised), *Compilation Engagements*. SRS 4410 (Revised) requires that, in undertaking this engagement, we comply with relevant ethical requirements. For that purpose, we are required to comply with the ICAI's Code of Ethics

### **Your Responsibilities**

The compilation engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to assist you in the preparation and presentation of the financial statements in accordance with the financial reporting framework you have adopted for the financial statements. Accordingly, you have the following overall responsibilities that are fundamental to our undertaking the compilation engagement in accordance with SRS 4410 (Revised):

- (a) Responsibility for the financial statements and the preparation and presentation thereof in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial statements and the intended users.
- (b) Responsibility for the design, implementation and maintenance of such internal control as you determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- (c) Responsibility for the accuracy and completeness of the records, documents, explanations and other information you provide to us for the purpose of compiling the financial statements.

- (d) Responsibility for the judgments needed in the preparation and presentation of the financial statements, including those for which we may provide assistance in the course of the compilation engagement.

**Our Compilation Report**

As part of our engagement, we will issue our report attached to the financial statements compiled by us, which will describe the financial statements, and the work we performed for this compilation engagement [see attached]. The report will also note that the use of the financial statements is restricted to the purpose set out in this engagement letter, and that use and distribution of our report provided for the compilation engagement is restricted to you, as the management of ABC Company.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to compile the financial statements described herein, and our respective responsibilities.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]*

XYZ & Co.

Acknowledged and agreed on behalf of the management of ABC Company by

(signed)

.....

Name and Title

Date

## Appendix 2

(Ref: Para. A63)

### Illustrative Practitioners' Compilation Reports

#### Compilation Engagement for General Purpose Financial Statements

- Illustration 1: Practitioner's report for an engagement to compile financial statements using a general purpose financial reporting framework.

#### Compilation Engagement for Financial Statements Prepared for a Special Purpose

- Illustration 2: Practitioner's report for an engagement to compile financial statements using a modified general purpose financial reporting framework.

#### Compilation Engagements for Financial Information Prepared for a Special Purpose where Use or Distribution of the Financial Information is Restricted to the Intended Users

- Illustration 3: Practitioner's report for an engagement to compile financial statements using the basis of accounting specified in a contract.
- Illustration 4: Practitioner's report for an engagement to compile financial statements using a basis of accounting selected by the management of an entity for financial information required for management's own purposes.
- Illustration 5: Practitioner's report for an engagement to compile financial information that is an element, account or item, being *[insert appropriate reference to information required for a regulatory compliance purpose]*.

**Illustration 1: Practitioner's report for an engagement to compile financial statements using a general purpose financial reporting framework.**

- General purpose financial statements required under applicable law that specifies that the entity's financial statements are to be prepared applying accounting principles generally accepted in India.

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<sup>7</sup>)  
Membership Number

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<sup>7</sup> Partner or Proprietor, as the case may be.

**Illustration 2: Practitioner's report for an engagement to compile financial statements using a modified general purpose financial reporting framework.**

- Financial statements prepared using a general purpose financial reporting framework adopted by management on a modified basis.
- The applicable financial reporting framework is accounting principles generally accepted in India excluding the treatment of current investments, which have been valued at fair value rather than being carried at the lower of cost and fair value.
- Use or distribution of the financial statements is not restricted.

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 on the basis of accounting described in Note X to the financial statements. 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 the basis of accounting described in Note X.

As stated in Note X, the financial statements are prepared and presented in accordance with accounting principles generally accepted in India excluding

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current investments which have been valued at fair value rather than being carried at the lower of cost and fair value. The financial statements are prepared for the purpose described in Note Y to the financial statements. Accordingly, these financial statements may not be suitable for other purposes.

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

Signature  
(Name of the Member Signing the Compilation Report)  
(Designation<sup>8</sup>)  
Membership Number

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<sup>8</sup> Partner or Proprietor, as the case may be.

**Illustration 3: Practitioner’s report for an engagement to compile financial statements using the basis of accounting specified in a contract.**

- Financial statements prepared to comply with the provisions of a contract, applying the basis of accounting specified in the contract.
- The practitioner is engaged by a party other than management or those charged with governance of the entity.
- The financial statements are intended for use only by the parties specified in the contract.
- Distribution and use of the practitioner’s report is restricted to the intended users of the financial statements specified in the contract.

ACCOUNTANT’S COMPILATION REPORT

[To the Engaging Party<sup>9</sup>]

We have compiled the accompanying financial statements of ABC Company (“the Company”) based on information provided by the management of the Company (“management”). These financial statements comprise *[name all the elements of the financial statements prepared under the basis of accounting specified in the Contract and the period/date to which they relate]*.

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 management in the preparation and presentation of these financial statements on the basis of accounting described in Note X to the financial statements. We have complied with relevant ethical requirements.

These financial statements and the accuracy and completeness of the information used to compile them are management’s responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information provided to us by management 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 the basis of accounting described in Note X.

As stated in Note X, the financial statements are prepared and presented on the basis described in Clause Z of the provisions of the Company’s contract with

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<sup>9</sup> Alternatively, the appropriate addressee specified in the relevant contract.

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XYZ Limited dated *[insert date of the relevant contract/agreement]* (“the Contract”), and for the purpose described in Note Y to the financial statements. Accordingly, these financial statements are intended for use only by the parties specified in the Contract, and may not be suitable for other purposes.

Our compilation report is intended solely for the parties specified in the Contract, and should not be distributed to other parties.

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

Signature  
(Name of the Member Signing the Compilation Report)  
(Designation<sup>10</sup>)  
Membership Number

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<sup>10</sup> Partner or Proprietor, as the case may be.

**Illustration 4: Practitioner's report for an engagement to compile financial statements using a basis of accounting selected by management of an entity for financial information required for management's own purposes.**

- Financial statements prepared using a special purpose financial reporting framework, intended for use only by the management of a company for management's own purposes.
- The financial statements incorporate certain accruals, and comprise only a balance sheet, a Statement of Profit and Loss, and a single note that refers to the basis of accounting used for the financial statements.
- The financial statements are intended for use only by management.
- Distribution and use of the practitioner's report is restricted to management.

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 and a Statement of Profit and Loss for the year then ended.

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 on the basis of accounting described in Note X to the financial statements. 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 the basis of accounting described in Note X.

Note X states the basis on which these financial statements are prepared, and their purpose is described in Note Y. Accordingly, these financial statements are for your use only, and may not be suitable for other purposes.

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Our compilation report is intended solely for your use in your capacity as management of ABC Company, and should not be distributed to other parties.

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

Signature  
(Name of the Member Signing the Compilation Report)  
(Designation<sup>11</sup>)  
Membership Number

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<sup>11</sup> Partner or Proprietor, as the case may be.

**Illustration 5: Practitioner’s report for an engagement to compile financial information that is an element, account or item, being *[insert appropriate reference to information required for a regulatory compliance purpose]*.**

- Financial information prepared for a special purpose, i.e., to comply with financial reporting requirements established by a regulator, in accordance with provisions established by the regulator prescribing the form and content of the financial information.
- The applicable financial reporting framework is a compliance framework.
- The financial information is intended to meet the needs of particular users, and use of the financial information is restricted to those users.
- Distribution of the practitioner’s report is restricted to the intended users.

ACCOUNTANT’S COMPILATION REPORT

[To the Management of ABC Company<sup>12</sup>]

We have compiled the accompanying schedule of *[identify the compiled financial information]* of ABC Company as at March 31, 20XX (“the Schedule”) based on information you have provided.

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 the Schedule as prescribed by *[insert name of or reference to the relevant regulation]*. We have complied with relevant ethical requirements.

This Schedule and the accuracy and completeness of the information used to compile it 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 the Schedule. Accordingly, we do not express an audit opinion or a review conclusion on whether the Schedule is prepared in accordance with *[insert name of or reference to applicable financial reporting framework as specified in the relevant regulation]*.

As stated in Note X, the Schedule is prepared and presented on the basis prescribed by *[insert name of or reference to the applicable financial reporting*

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<sup>12</sup> Alternatively, the appropriate addressee specified in the applicable financial reporting requirements.

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*framework as specified in the relevant regulation*], for the purpose of ABC Company's compliance with [insert name of or reference to the relevant regulation] Accordingly, the Schedule is for use only in connection with that purpose and may not be suitable for any other purpose.

Our compilation report is intended solely for the use of ABC Company and Regulator F, and should not be distributed to parties other than ABC Company or Regulator F.

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

Signature  
(Name of the Member Signing the Compilation Report)  
(Designation<sup>13</sup>)  
Membership Number

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<sup>13</sup> Partner or Proprietor, as the case may be.

# **SECTION - X**

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## **Statements on Auditing**



## **Statement on Reporting under Section 227 (1A) of the Companies Act, 1956**

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### **Announcement on Withdrawal of the Statement on Qualifications in Auditor's Report [Except Paragraphs 2.1 to 2.30 Dealing with Report under section 227 (1A) of the Companies Act, 1956]**

1. Attention of the members is invited to the Statement on Qualifications in the Auditor's Report ("the Statement") issued by the Institute in 1981 (revised in 1984 and 2000). The Statement, primarily, contains guidance on the following aspects of an auditor's report:

- i. reporting in terms of the requirements of section 227(1A) of the Companies Act, 1956; and
- ii. issuance of qualified/ adverse/ disclaimer of opinion.

In addition, the Statement also deals with other related aspects such as the manner of presenting the opinion in the audit report, directors' comments on qualifications, separate report to directors, branch audit reports as also some examples of situations giving rise to other than unqualified opinion.

2. Members' attention is also invited to the Auditing and Assurance Standard (AAS) 28, The Auditor's Report on Financial Statements, issued by the Institute in January 2003. The said AAS, among other things, discusses in details, the fundamental principles and considerations involved in issuing various types of opinions – unqualified, qualified, adverse, disclaimer and emphasis of matter. The Standard also contains illustrations regarding each type of opinion, model audit report, etc.

3. The Council of the Institute at its 269th meeting held on July 18 to 20, 2007 considered the status of the Statement on Qualifications In Auditor's Report *vis-a-vis* Auditing and Assurance Standard (AAS) 28. The Council noted that in terms of the announcement of the Council on the authority attached to the documents issued by the Council, on the issuance of a Standard, any Statement on the corresponding subject automatically stands withdrawn. This position could not be applied in case of the Statement on Qualifications in Auditor's Report upon issuance of AAS 28 since, as noted in paragraph 1 above, the Statement contains guidance on certain additional aspects such as, reporting under section 227(1A), manner of making

qualifications, the directors' comments on qualifications, separate report to directors and branch audit reports.

4. Paragraphs 1.1 to 1.5 of the Statement on Qualifications in Auditor's Report explain the general principles regarding compliance with section 227 of the Companies Act, 1956, which have become obsolete by now. Also, paragraphs 2.31 to 2.32 of the Statement deal with the reporting under Manufacturing and Other Companies (Auditor's Report) Order, 1975, which also has become obsolete now. Further, paragraphs 3.1 to 4.10 of the Statement on Qualifications in Auditor's Report enunciate the principles involved in issuing other than unqualified reports as well as examples of situations that may give rise to other than a unqualified opinion and suggested wordings therefor. The Council is of the view that these aspects have been amply covered in AAS 28 and also that AAS 28 contains sufficient examples of situations giving rise to other than unqualified opinions as well as suggested wordings. Accordingly, the Council has decided to withdraw the Statement on Qualifications in Auditor's Report except paragraphs 2.1 to 2.30, dealing with report under section 227 (1A) of the Companies Act, 1956.

5. The Council further decided to keep the paragraphs 2.1 to 2.30 of the existing Statement and rename the Statement as "Statement on Reporting under section 227 (1A) of the Companies Act, 1956".

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## **Special Matters in Auditor's Report**

### ***Report under Section 227(1A) of the Companies Act***

2.1 Section 227(1A) requires the auditor to make certain specific enquiries during the course of his audit. This requirement is without prejudice to his general rights, powers and duties regarding access to books, etc., and obtaining information and explanations. He is, however, not required to report on the matters specified in this sub-section, unless he has any special comments to make on any of the items referred to therein. If he is satisfied as a result of the enquiries, he has no further duty to report that he is so satisfied. It should however be noted that the auditor is required to make only enquiries on the matters specified in the sub-section and is not to investigate into the matters referred to therein.

2.2 Clauses (a) to (f) of Section 227(1A) of the Companies Act are discussed in the following paragraphs.

2.3 Clause (a) requires the auditor to inquire:

*"Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the company or its members".*

2.4 This clause applies to loans and advances made by the company during the financial year under audit, whether they are outstanding on the date of the Balance Sheet or not. The inquiry should be made in the light of conditions prevailing when the loan or advance was made.

2.5 Loans and advances have not been defined anywhere in the Act. However, having regard to the requirement of clause (d) of the sub-section, a distinction is obviously intended to be made between "loans and advances" and "deposits". A "deposit" may be defined as the placing of money or money's worth with a third party, either for safe keeping, or by way of security for the performance of the depositor's obligations, or for the purpose of earning interest; in the last case deposit being with a party who customarily accepts deposits. Any items required to be disclosed under the head "Loans and Advances" in Part I of Schedule VI to the Act which do not fall within the above definition of a "deposit" should be construed for the purpose of this clause as "loans and advances".

2.6 The clause applies to all loans and advances made "on the basis of security". "Security" for this purpose would include any movable or immovable property, whether belonging to the borrower or not, of which either physical possession or over which a legally effective charge is given to lender.

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2.7 In order to ascertain that loans and advances are “properly secured”, the auditor should make inquiries to ascertain that *prima facie*:

- (a) the company holds a legally enforceable security, and
- (b) the value of the security fully covers the amount of the loan or advance and is reasonably ascertained.

2.8 In order to comply with requirements of paragraph 2.7(a) above, it will be necessary for the auditor to make appropriate inquiries depending upon the type of security. A few instances are given below:

<i>Type of Security</i>	<i>Documents etc. to be seen</i>
(a) Shares and debentures	The scrips duly transferred in the name of the company.
(b) Government securities, and other securities, documents of title which are transferable by endorsement and delivery, e.g. Bills of Lading, and Railway Receipts.	The scrips or other documents duly endorsed in favour of the lender.
(c) Legal mortgage of immovable properties.	Duly registered mortgage deed.
(d) Equitable mortgage of immovable properties.	Title deeds deposited.  In both the above cases, reports on title by lawyers, showing whether the title is free from encumbrances and whether it is marketable, should be called for.
(e) Life Insurance Policy	Assignment of policy in favour of the lender, duly registered with the insurer.
(f) Pledge of goods	Appropriate record of goods held at the balance sheet date.
(g) Hypothecation of goods	Deed of Hypothecation or other document creating the charge, together with a statement of stocks held at the balance sheet date.

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2.9 The valuation of securities which are quoted on a stock exchange would not normally present any problems. For securities which are not so quoted, the auditor should call for the last accounts of the company whose shares or debentures are deposited as security and satisfy himself that *prima facie* the valuation placed on the security by the management is reasonable. In the case of immovable properties, the auditor should satisfy himself that the valuation placed on the property is *prima facie* reasonable. In the case of life insurance policies, the auditor should call for evidence of the surrender value of the policy. In the case of stocks and other goods held on pledge or hypothecation, the Auditor should ascertain that *prima facie* the valuation placed on the goods is in order.

2.10 The loan agreement or correspondence in regard to the terms of the loan or advance should be seen. Where the loan or advance is made to a company, any charge on the assets of such a company should have been registered under Section 125 of the Act in order to constitute an effective security.

2.11 Loans and advances on the basis of security would include loans or advances which are only partly secured from the commencement, or loans or advances which became partly secured subsequently owing to any reason, such as fall in the value of the security. In the case of partly secured loans or advances, it would be advisable to show them separately in the Balance Sheet as "partly secured", indicating the extent to which they are secured.

2.12 The "terms" on which the loan or advance is made would primarily include the security, the interest charged and the terms of repayment. It would be difficult to lay down any general principles regarding the rate of interest which may be charged on loans and advances. Various considerations, such as the position and standing of the borrower, type of security, purpose of the loan, prevailing market rate of interest, etc., would have to be taken into account. If the loan has been given for business considerations, e.g., loans to staff for purchase of cars, houses, etc., loans to suppliers of raw materials or other goods, there may be justification for interest being charged at a rate lower than the market rate, or even, in appropriate circumstances, no interest being charged at all. However, when a loan is given only with a view to earning interest, the interest charged would be at the commercial rate.

2.13 Particular attention should be paid to loans or advances to concerns in which the directors of the company or their associates are interested.

2.14 The question whether the terms on which a loan or advance has been made are "prejudicial to the interests of the company or its members" is a difficult one. Obviously, the auditor is not to inquire as to how such transactions of the company affect the interests of individual members in their personal capacities.

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The reference to “members” should therefore be construed as a reference to the members of a company as a class, in their capacity as members. The members of the company would be primarily interested in a reasonable return on their investment and in the safety of their capital. The question whether a loan is prejudicial to the interests of the members should therefore be considered from this angle.

2.15 If loan or advance has been approved by the members of the company and/or the Government as required by Section 370 of the Act, this would be a *prima facie* evidence to show that it is not prejudicial to the interests of the company or its members.

2.16. It would appear that, in respect of a continuing loan or advance, the question whether the loan or advance is “properly secured” would have to be considered at the end of each accounting year. However, the question whether a loan is “prejudicial to the interests of the company or its members” would have to be considered only at the time when the loan is given, or renewed.

2.17 Under Clause (b) the auditor has to inquire:

*“Whether transactions of the company which are represented merely by book entries are not prejudicial to the interests of the company.”*

2.18. The transactions of a company are ordinarily matters of fact. The purpose of book entries is to correctly record transactions which have, in fact, taken place. If a book entry is passed which is not in accordance with the facts of the transaction, or is contrary thereto, this should be set right or reported upon by the auditor. Again, if book entries are passed purporting to record “transactions” which have, in fact, not taken place, similar considerations would apply. The clause is therefore intended to cover transactions of the company for which the only evidence, or the principal evidence, is the entry regarding the transactions in the books of account. In such cases, the auditor should inquire whether such transactions have in fact taken place and, if so, whether they are prejudicial to the interests of the company.

2.19 Under Clause (c) the auditor has to inquire:

*“Where the company is not an investment company within the meaning of section 372 or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company”.*

2.20 This clause requires the auditor to inquire in all cases where shares, debentures or other securities have been sold at a price less than their cost. If, as a result of his inquiries, the auditor is satisfied that the sale is *bona fide* and

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the price realised is reasonable, having regard to the circumstances of the cases, he has no further duty to report on the matter.

2.21 The clause applies to companies other than an “investment company” within the meaning of Section 372 or a banking company. The “investment company” referred to in this clause is a company whose principal business is the *acquisition* of shares, stocks, debentures or other securities (vide the proviso to Section 372[10]). It should be noted that clause (c) *applies* to a company whose principal business is dealing in shares, stocks, debentures or other securities.

2.22 Where the investments consist of securities of the same class purchased at various times, and at various prices, the question arises as to the manner of ascertainment of the price at which they were purchased. Such price should be determined in accordance with accepted accounting practice consistently followed by the company.

2.23 Where the cost of shares or debentures or other securities sold is not ascertainable, the book value thereof at the date of sale may be treated as the cost for the purposes of this clause.

2.24 The question of treatment of bonus shares would also arise. When bonus shares are received, the number of shares in the portfolio would be increased by the bonus shares while the cost of the total portfolio would remain the same as before. The result would be that the average cost per unit of the total holding would come down proportionately. The usual accounting practice for apportioning the cost of a part of the total holding on the sale thereof is to take it at its average cost.

2.25 Under Clause (d) the auditor has to inquire:

*“Whether loans and advances made by the company have been shown as deposits”.*

2.26 A reference is invited to the definition of a “deposit” in contradistinction to that of a loan or advance given in the comments on clause (a) above. It should be noted that the inquiry to be made is whether loans and advances have been shown as deposits, and not *vice versa*.

2.27 Clause (e) requires the auditor to inquire:

*“Whether personal expenses have been charged to revenue account”.*

2.28 The practice of meeting certain types of personal expenses of employees is normal and is recognised both by the Income-tax Authorities and the Company Law Board. Illustrative of such expenses are the provision of rent-free quarters, conveyance for personal use, medical expenses, expenses on leave travel,

maternity benefits, canteen facilities, etc. The charging to revenue of such personal expenses, either on the basis of the company's contractual obligations, or in accordance with accepted business practice, is perfectly normal and legitimate and does not call for any special comment by the auditor. Where, however, personal expenses not covered by contractual obligations or by accepted business practice are incurred by the company and charged to revenue account, it would be the duty of the auditor to report thereon.

2.29 Clause (f) requires the auditor to inquire:

*“Where it is stated in the books and papers of the company that any shares have been allotted for cash, whether cash has actually been so received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.”*

2.30 It should be noted that the reference is to “books and papers”. “Papers” would presumably refer to the Return of Allotment filed by the company under Section 75 of the Act. The law on the subject has hitherto been that, where the consideration for the issue of shares is an adjustment against a *bona fide* debt payable in money on demand by the company, the shares are deemed to have been subscribed in cash (vide the decision in Spargo's Case – 1873, 8, Ch. A. 407). According to the legal opinion obtained by the Institute, the expression “shares allotted for cash” may also include shares allotted against a debt. Therefore, in cases which are covered by the decision in Spargo's case, no comment is required by the auditor, even though the company may have in the Return of Allotment under Section 75, shown such shares as allotted against adjustment of a debt.