

## Exposure Draft

# Auditing and Assurance Standard (AAS)

## Engagements to Perform

### Agreed-upon Procedures regarding

### Financial Information<sup>1</sup>

*The following is the text of the proposed Auditing and Assurance Standard (AAS) \_\_\_\_\_, “Engagements to Perform Agreed-upon Procedures regarding Financial Information, issued by the Institute of Chartered Accountants of India. This Standard should be read in conjunction with the “Preface to the Statements on Standard Auditing Practices”, issued by the Institute. Members and others are requested to send their comments on the Exposure Draft to the Secretary, Auditing and Assurance Standards Board, the Institute of Chartered Accountants of India, Indraprastha Marg, New Delhi – 110002 or email at vijaykapur@icai.org, so as to reach him **not later than 25<sup>th</sup> January, 2004.***

#### Introduction

1. The purpose of this Auditing and Assurance Standard (AAS) is to establish standards and provide guidance on the auditor's<sup>2</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 AAS 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. This AAS is to be read in conjunction with the Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services. The principles laid down in the other AASs, issued by the Institute of Chartered Accountants of India, may be used by the auditor, to the extent practicable, in applying this AAS.

#### 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**

<sup>1</sup> With the issuance of this Auditing and Assurance Standard, 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.

<sup>2</sup> The term “auditor” is used throughout this AAS 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.

**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 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 procedures engagement in accordance with this AAS 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 fac-**

**tual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement.** Matters to be agreed include the:

- 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.
  - Stated purpose for the engagement.
  - Identification of the financial information to which the agreed-upon procedures will be applied.
  - Nature, timing and extent of the specific procedures to be applied.
  - 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 AAS.

## 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 AAS 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 AAS 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 Auditing and Assurance Standard applicable to agreed-upon procedures engagements;
- (g) Identification of the purpose for which the agreed-upon procedures were performed;
- (h) A listing of the specific procedures performed;
- (i) A description of the auditor's factual findings including sufficient details of errors and exceptions found;
- (j) A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed;
- (k) 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;
- (l) A statement that the report is restricted to those parties that have agreed to the procedures to be performed;
- (m) 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;
- (n) Date of the report;
- (o) Place of signature; and
- (p) Auditor's signature, disclosing the name and membership number of the accountant, the name of the firm and his designation (Partner/ Proprietor).

Appendix II to this AAS contains an example of a report of factual findings issued in connection with an engagement to perform agreed-upon procedures regarding financial information.

**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 Auditing and Assurance Standard 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 Auditing and Assurance Standard on 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.

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.

Acknowledged on behalf of  
ABC Company by  
(signed)

.....  
Name and Title

Date  
Address

For XYZ & Co  
Chartered Accountants  
.....

Signature  
(Name of the Member)

Designation<sup>3</sup>  
Date:  
Address:

<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 Auditing and Assurance Standard on Engagements to Perform Agreed-upon Procedures regarding Financial Information, issued by the Institute of Chartered Accountants of India. The procedures were performed solely to assist you in evaluating the validity of the accounts receivable and are summarized as follows:

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

We report our findings below:

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

*(Detail the exceptions)*

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

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

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

Date:

Place:

For XYZ & Co  
Chartered Accountants

.....  
Signature

(Name of the Member and membership number)  
Designation<sup>4</sup>

<sup>4</sup> Partner or proprietor.

## Exposure Draft

# Auditing and Assurance Standard (AAS)

## Engagements to Compile Financial Statements<sup>1</sup>

The following is the text of the proposed Auditing and Assurance Standard (AAS) \_\_\_\_\_, "Engagements to Compile Financial Statements, issued by the Institute of Chartered Accountants of India. This Standard should be read in conjunction with the "Preface to the Statements on Standard Auditing Practices", issued by the Institute. Members and others are requested to send their comments on the Exposure Draft to the Secretary, Auditing and Assurance Standards Board, the Institute of Chartered Accountants of India, Indraprastha Marg, New Delhi - 110002 or email at vijaykapur@icai.org, so as to reach him **not later than 25<sup>th</sup> January, 2004.**

### Introduction

1. The purpose of this Auditing and Assurance Standard (AAS) is to establish standards on the professional responsibilities of the accountant<sup>2</sup>, when an engagement to compile financial statements or other financial information is undertaken and the form and content of the report issued in connection with such a compilation so that the association of the name of the accountant with the financial statements is not misconstrued by a user of the statements as the same having been audited by him.
2. This AAS is directed toward the compilation of financial information. However, it should be applied, to the extent practicable, to engagements to compile non-financial information, provided the accountant has adequate knowledge of the subject matter in question. Engagements to provide limited assistance to the client in the preparation of financial statements (for example, selection of an appropriate accounting policy), do not constitute engagements to compile financial information. This AAS should be read in conjunction with the Framework of

Statements on Standard Auditing Practices and Guidance Notes on Related Services.

### Objective of a Compilation Engagement

3. **The objective of a compilation engagement is for the accountant to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarise financial information.** This ordinarily entails reducing detailed data to a manageable and understandable form without the requirement to test the assertions underlying that information. The procedures employed are not designed and do not enable the accountant to express any assurance on the financial information. However, users of the compiled financial information derive some benefit as a result of the accountant's involvement because the service has been performed with professional competence and due care.
4. A compilation engagement would ordinarily include the preparation of financial statements (which may or may not be a complete set of financial statements)

<sup>1</sup> With the issuance of this Auditing and Assurance Standard, the Guidance Note on Members' Duties regarding Engagements Involving Compilation of Financial Statements, issued by the Institute of Chartered Accountants of India, issued in February 2002, shall stand withdrawn.

<sup>2</sup> For the purpose of this Auditing and Assurance Standards and to distinguish between an audit and a compilation engagement, the term "accountant" (rather than "auditor") has been used throughout to refer to a member of the Institute in practice.

but may also include the collection, classification and summarisation of other financial information.

### General Principles of a Compilation Engagement

5. The accountant should comply with the “Code of Ethics”, issued by the Institute of Chartered Accountants of India. The ethical principles governing the accountant’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 a compilation engagement. **However, where the accountant is not independent, a statement to that effect should be made in the accountant’s report.**

6. **In all circumstances when an accountant’s name is associated with financial information compiled by him, the accountant should issue a report.**

### Responsibility of Management

7. The management is responsible for taking reasonable steps to prevent and detect errors, fraud or other irregularities. This includes:
  - Ensuring that the financial information generated in the entity is correct, complete and reliable;
  - Maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;
  - Establishing controls designed to safeguard the assets of the entity and also to deter fraudulent or other dishonest conduct and to detect any fraud that occurs;
  - Establishing controls to provide reasonable assurance that the entity complies with laws and regulations applicable to its activities, or for detecting any non compliance with laws or regulations that occurs.
8. A compilation engagement cannot be regarded as

providing assurance on the adequacy of the client’s internal control systems or on the actual incidence of fraud or non compliance with laws and regulations. A compilation engagement carried out by the accountant does not relieve the management of these responsibilities.

9. The management is also responsible for preparation and presentation of financial statements in accordance with the applicable laws and regulations, if any. **The accountant should, accordingly, obtain an acknowledgement from the management of its responsibility for the appropriate presentation of the financial information and of its approval of such information. The accountant should also obtain an acknowledgement from management of its responsibility for the accuracy and completeness of the underlying accounting data and the complete disclosure of all material and relevant information to the accountant.**

### Defining the Terms of the Engagement

10. An engagement letter will be of assistance in planning the compilation work. The scope of a compilation engagement would, normally, be defined by the instructions of the client, though in certain cases, for example, in case of compilation of financial statements of a company, the form and content of such financial statements might be laid down under a statute. **The accountant should, therefore, ensure that there is a clear understanding between the client and the accountant regarding the terms of the engagement by means of an engagement letter or such other suitable form of contract. Thus, it is in the interest of both the accountant and the entity that the accountant sends an engagement letter documenting the key terms of the appointment.** An engagement letter confirms the accountant’s acceptance of the engagement and helps avoid misunderstanding regarding matters such as the objective and scope of the engagement and the extent of the accountant’s responsibilities.
11. The engagement letter would include matters such as the:
  - Nature of the engagement, including the fact that neither an audit nor a review will be carried out and accordingly no assurance will be expressed.
  - Fact that the engagement cannot be relied upon to dis-

close frauds or defalcations or illegal acts that may exist but that the accountant will bring to the attention of the management any such matter which might come to his attention during the course of his engagement.

- Nature of the information to be supplied by the client.
- Fact that the management is responsible for:
  - ✓ the accuracy and completeness of the information supplied to the accountant, including maintenance of adequate accounting records and internal controls and selection and application of appropriate accounting policies.
  - ✓ preparation and presentation of the financial statements of the entity, in accordance with the applicable laws and regulations, if any.
  - ✓ safeguarding the assets of the entity and also establishing appropriate controls designed to prevent and detect fraud and other irregularities.
  - ✓ ensuring that the activities of the entity are carried in accordance with applicable laws and regulations and that it institutes appropriate controls to prevent and detect any non compliance.
  - ✓ Ensuring complete disclosure of all material and relevant information to the accountant.
- Intended use and distribution of the information compiled
- Basis of accounting on which the financial information is to be compiled and the fact that the basis, and any known departures therefrom, if any, will be disclosed.
- Fact that management is responsible to the users for the information to be compiled by the accountant.
- Unrestricted access to whatever records, documents and other information is requested in connection with the compilation engagement.
- Basis on which fees would be computed and any billing arrangements.
- Request for the client to confirm the terms of engagement by acknowledging the receipt of the engagement letter.

An example of an engagement letter for a compilation engagement appears in Appendix I.

## Planning

12. **The accountant should plan the work so that an effective engagement will be performed.**

## Documentation

13. **The accountant should document matters which are important in providing evidence that the engagement was carried out in accordance with this Auditing and Assurance Standard and the terms of the engagement.**

## Procedures

14. **The accountant should obtain a general knowledge of the business and operations of the entity and should be familiar with the accounting principles and practices of the industry in which the entity operates and with the form and content of the financial information that is appropriate in the circumstances.**
15. To compile financial information, the accountant requires a general understanding of the nature of the entity's business transactions, form of its accounting records and the accounting basis on which the financial information is to be presented. The accountant ordinarily obtains knowledge of these matters through experience with the entity or enquiry of the entity's personnel.
16. Other than as noted in this Auditing and Assurance Standard, the accountant is not, ordinarily, required to:
  - (a) Make any inquiries of management to assess the reliability and completeness of the information provided;
  - (b) Assess internal controls;
  - (c) Verify any matters; or
  - (d) Verify any explanations.

In a compilation engagement, an accountant would normally have to rely on the management for most of the information needed to compile the financial statements, including accounting estimates as well as the fact that the information given to the accountant is complete and reliable. **The accountant should request management representation letter covering significant information or explanations given orally on which they consider representations are required.**

17. **If the accountant becomes aware that the information supplied by management is incorrect, incomplete, or otherwise unsatisfactory, the accountant should consider performing the pro-**

cedures listed in paragraph 16 and request management to provide additional information. If management refuses to provide additional information, the accountant should withdraw from the engagement, informing the entity of the reasons for the withdrawal.

18. The accountant should read the compiled information and consider whether it appears to be appropriate in form and free from obvious material misstatement. In this sense, material misstatements include:

- Mistakes in application of the identified financial reporting framework.
- Nondisclosure of the financial reporting framework and any known departures therefrom.
- Non disclosure of any other significant matters of which the accountant has become aware.

**The identified financial reporting framework and any known material departures therefrom should be disclosed within the financial information, though their effects need not be quantified.**

### Special Considerations

#### *Clients Having an Identified Financial Reporting Framework*

19. As far as practicable, in case of compilation of financial statements prepared within an identified financial reporting framework, such as those of the clients covered by the Companies Act, 1956, the accountant should ensure that the same comply with the generally accepted accounting practices in India, including the applicable Accounting Standards issued by the Institute of Chartered Accountants of India. In case of any material departures from the generally accepted accounting practices, the fact should be stated in the Notes to the Accounts as well as in the accountant's report on the compilation.

#### *Clients Having No Identified Financial Reporting Framework*

20. In case of clients for whom compliance with the Accounting Standards issued by the Institute of Chartered Accountants of India is not mandatory, the client may specify that the accounts should be

compiled on, for example, based on the requirements of the Income Tax Act, 1961. However, since, accounts are normally assumed to be compliant with the generally accepted accounting practices, including the Accounting Standards issued by the Institute of Chartered Accountants of India, the different basis of compilation should be set out in the Notes to the Accounts as well as the report issued by the accountant on compilation.

#### *Non Compliance with the Accounting Standards*

21. In the case of a company, the accounts must comply with the relevant provisions of the Companies Act, 1956, including the Accounting Standards and, accordingly, give a true and fair view. However, without carrying out the procedures necessary for an audit, the accountant cannot form any opinion on whether the accounts give a true and fair view, even though he has compiled these financial statements. The compilation is based on the information supplied to the accountant by the client and does not include any verification thereof. However, if the accountant becomes aware of material non compliance with any applicable accounting standards the same should be brought to the attention of the management and, if the same is not rectified by the management, it should be included in the Notes to the Accounts and the compilation report of the accountant.

#### *Accounting Estimates Made by Clients*

22. Often in the compilation engagements, it is necessary for certain items in the accounts to be based on estimates by the client, for example, work in progress. Such estimated items should be so described where material. If, based on the information provided to the accountant, it appears that certain estimates are unreasonable, the accountant should draw these to the attention of the management for reconsideration.

23. If the accountant becomes aware of material misstatements, the accountant should try to persuade the management to carry out necessary amendments in the financial statements. If such amendments are not made and the financial statements are still considered to be misleading, the accoun-

tant should withdraw from the engagement.

24. The financial statements compiled should be approved by the client before the compilation report is signed by the accountant. The client should be asked to sign a statement on the face of the accounts retained by the accountant. The accountant should ensure that the users of the financial statements so compiled are aware of the extent of his/her involvement with the accounts so that the users do not derive unwarranted assurance. Accordingly, the word 'audit' should not be used in describing the nature of services involving compilation of financial statements, nor the fee for these services be described as "auditors' fee", or remuneration in the accounts, correspondence or any other document. The accountant should also take note that the financial statements so compiled should not be prepared on the letter-heads or other stationery of the accountant, carrying his (or firm's) name and address since it is liable to be misinterpreted.

## Reporting on the Compilation Engagement

25. It is essential that the accountant clearly brings out the nature of association with the financial statements and the nature of the work performed by him. The report on compilation should, ordinarily, be in the following layout:-

- (i) **Title:** The title of the report should be "ACCOUNTANT'S REPORT ON UNAUDITED FINANCIAL STATEMENTS" (and not "AUDITOR'S REPORT").
- (ii) **Addressee:** The report should ordinarily be addressed to the appointing authority.
- (iii) **Identification of the financial statement compiled,** also noting that that it is based on the information provided by the management.
- (iv) **A statement that the management is responsible for:**
  - completeness and accuracy of the underlying data and complete disclosure of all material and relevant information to the accountant.
  - Maintaining adequate accounting and

other records and internal controls and selecting and applying appropriate accounting policies;

- Preparation and presentation of financial statements in accordance with the applicable laws and regulations, if any.
  - Establishing controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities.
  - Establishing controls for ensuring that the activities of the entity are carried out in accordance with the applicable laws and regulations and preventing and detecting any non compliance.
- (v) A statement that the compilation engagement was performed in accordance with this Auditing and Assurance Standard.
  - (vi) A statement that neither an audit nor a review has been carried out and that accordingly, no assurance has been expressed on the financial statements.
  - (viii) A paragraph, when necessary, drawing attention to the disclosure of material departures from the identified financial reporting framework.
  - (ix) Date of the report.
  - (x) Place of signature
  - (xi) Accountant's signature, disclosing the name and membership number of the accountant, the name of the firm and his designation (Partner/ proprietor).

Appendix II to the Standard contains illustrative compilation reports.

26. Reference should be made on the face of the financial statements to the report of even date.

## Effective Date

27. This Auditing and Assurance Standard is applicable to all compilation engagements in respect of the accounting period ending on or after March 31, 2004.

## APPENDIX I

## Example Of An Engagement Letter For A Compilation Engagement

*The following letter is for use as a guide in conjunction with the considerations outlined in paragraph 11 of this Auditing and Assurance Standard. This example is for the compilation of financial statements of a company and will need to be varied according to individual requirements and circumstances.*

(Date)

*To the Board of Directors (or the appropriate representatives of senior management):*

You have, vide your letter dated \_\_\_\_\_ requested that we compile the balance sheet of \_\_\_\_\_ (*name of the company*) as at \_\_\_\_\_ (*date*) and the related profit and loss account and the (cash flow statement)<sup>3</sup> for the year ended on that date. We are pleased to confirm our acceptance and understanding of the engagement by means of this letter. As no audit or review engagement procedures are carried out, no opinion on the financial statements will be expressed. Our engagement cannot be relied upon to disclose whether frauds or defalcations, or illegal acts exist. However, we will inform you of any such matters which might come to our attention in the course of the engagement.

As management, you are responsible for:

- the accuracy and completeness of the information supplied to the accountant, including maintenance of adequate accounting records and internal controls and selection and application of appropriate accounting policies.
- preparation and presentation of the financial statements of the entity, in accordance with the applicable laws and regulations, if any.
- safeguarding the assets of the entity and also establishing appropriate controls designed to prevent and detect fraud and other irregularities.
- ensuring that the activities of the entity are carried in accordance with applicable laws and regulations and that it institutes appropriate controls to prevent and detect any non compliance.

You will confirm that events and transactions are recorded in accordance with accounting standards and other recognised accounting principles and practices and inform us of any departures therefrom.

As part of our normal procedures, we may request you to provide written confirmations of any information or explanations given to us orally during the course of our work.

We understand that the intended use and distribution of the information we have compiled is \_\_\_\_\_ (*specify*).

We look forward to your full cooperation and trust that you will make available whatever records, documentation and other information are requested in connection with our engagement.

Our fees will be billed as the work progresses.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our compilation of your financial statements.

For ABC & Co.

Chartered Accountants

.....

Signature

(Name of the Member)

Designation<sup>4</sup>

Address:

Date:

Acknowledged on behalf of \_\_\_\_\_ (*name of the company*)

\_\_\_\_\_ Signature

Name and Designation

Date

Address

<sup>3</sup> Only in cases where relevant.

<sup>4</sup> Partner or proprietor, as the case may be.

## Example Of A Report Of An Engagement To Compile Financial Statements

### Illustration 1: Report on Compilation of Financial Statements

#### ACCOUNTANT'S REPORT ON COMPILED UNAUDITED FINANCIAL STATEMENTS

To.....

On the basis of information and explanations provided by the management, we have compiled, from the accounting records provided to us by the management, the unaudited balance sheet of \_\_\_\_\_ (*name of the entity*) as at March 31, XXXX and the related profit and loss account and the cash flow statement<sup>5</sup> for the period then ended.

The management of the \_\_\_\_\_ (*name of the entity*) is responsible for:

- Completeness and accuracy of the underlying data and complete disclosure of all material and relevant information to the accountant.
- Maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;
- Preparation and presentation of financial statements in accordance with the applicable laws and regulations, if any.
- Establishing controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities.
- Establishing controls for ensuring that the activities of the entity are carried out in accordance with the applicable laws and regulations and preventing and detecting any non compliance.

The compilation engagement was carried out by us in accordance with the Auditing and Assurance Standard (AAS) \_\_\_\_\_, Engagements to Compile Financial Information, issued by the Institute of Chartered Accountants of India.

The balance sheet and the profit and loss account are in agreement with the books of account. We have not audited or reviewed these financial statements and accordingly express no opinion thereon.

For ABC & Co.

Chartered Accountants

.....

Signature

(Name of the partner and membership number)

Designation<sup>6</sup>

Date:

Place:

<sup>5</sup> Where applicable.

<sup>6</sup> Partner or proprietor.

**Illustration 2: Report on Compiled Financial Statements Where Such Financial Statements do not Comply with the Generally Accepted Accounting Practices in India.**

**ACCOUNTANT'S REPORT ON COMPILED UNAUDITED FINANCIAL STATEMENTS**

To.....

On the basis of information and explanations provided by the management, we have compiled, from the accounting records provided to us by the management, the unaudited balance sheet of \_\_\_\_\_ (*name of the entity*) as of March 31, XXXX and the related profit and loss account and the cash flow statement<sup>7</sup> for the period then ended.

The management of the \_\_\_\_\_ (*name of the entity*) is responsible for:

- Completeness and accuracy of the underlying data and complete disclosure of all material and relevant information to the accountant.
- Maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;
- Preparation and presentation of financial statements in accordance with the applicable laws and regulations, if any.
- Establishing controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities.
- Establishing controls for ensuring that the activities of the entity are carried out in accordance with the applicable laws and regulations and preventing and detecting any non compliance.

The compilation engagement was carried out by us in accordance with the Auditing and Assurance Standard (AAS) \_\_\_\_\_ on Engagements to Compile Financial Information, issued by the Institute of Chartered Accountants of India.

Since the financial statements have been compiled for the Income Tax Department and have been drawn up on cash basis of accounting to reflect the necessary adjustments for computation of the income by the Department the same, do not comply with the Generally Accepted Accounting Principles in India.

The balance sheet and the profit and loss account are in agreement with the books of account. We have not audited or reviewed these financial statements and accordingly express no opinion thereon.

Date:

Place:

For ABC & Co.

Chartered Accountants

.....

Signature

(Name of the partner and membership number)

Designation<sup>8</sup>

<sup>7</sup> Where applicable.

<sup>8</sup> Partner or proprietor.