

CA FINAL

**HANDWRITTEN NOTES
ADVANCED AUDITING**

For MAY 24 & onwards

BY DHRUVIKA KOTHARI

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CHAPTER - 9

RELATED SERVICES

★ Overview of chapter :

- ▶ Introduction : CA in practice are often asked to provide services to clients which do not involve Expression of opinion on truth & fairness of FS.

To perform such kind of Non-assurance services, the AASB of ICAI issued 2 standards on 2 different services i.e. Standards on Related Services. (SRS)

- ▶ What are related services ?

'Assurance Engagement' means an Eng. in which practitioner expresses a conclusion designed to enhance degree of Confidence of intended users.

It means practitioner gives an opinion about specific info. due to which users of info. are able to make confident decisions.

Other than assurance Engagements, practitioner perform other engagement also which include which called Related Service

- Preparation of tax return
- Consulting such as Mgt. and tax consulting.
- Agreed upon procedures Engagements.
- Compilations of financial & other info.

- ▶ What are Agreed upon procedures ?

In an Engagement to perform agreed upon procedures, the auditor is engaged by client to issue report on factual findings, based on specified procedures performed on specified subject matter of specified elements, a/c or items of FS.

However, a person performing related services need not necessary be auditor of Entity's FS.

- ▶ Standards which are covered in this chapter :

→ SRS 4400 : Eng. to Perform Agreed upon Procedures

→ SRS 4410 : Compilation Engagements.

SRS 4400 : Engagements to Perform Agreed-Upon Procedures regarding Fin. Info.

Concept 1 : Objective in Accordance with SRS 4400

Concept 2 : Audit vs. Agreed upon procedures

Concept 3 : General Principles of an Agreed upon procedures.

Concept 4 : Considerations of Agreed upon procedures.

Concept 1 Objectives in Accordance with SRS 4400

SRS 4400 provides guidance on Auditor's professional responsibilities when an Eng. to perform agreed upon procedures is undertaken.

Objective : Obj. is to carry out procedures of audit nature to which auditor, Entity & any appropriate 3rd party have agreed and carry out procedures to report on factual findings.

As auditor provides report on factual findings, No assurance is provided by him in his report. Users of the report assess for themselves procedures & findings and draw their own conclusions from work done by auditor.

Such Agreed upon procedures Eng. are Non-assurance Eng. (Auditor को रिपोर्ट, factual finding बताता है और user उस decision लेता है)

Concept 2 Audit vs. Agreed Upon procedures

A key difference b/w Audit and Agreed-upon procedures relates to Assurance.

Audit Expresses an opinion and provides assurance to users. However, In Agreed upon procedures, only a report of factual findings is provided and No assurance is given to users and users draw their own conclusions.

Concept 3 General Principles of an Agreed Upon Procedures

Auditor should comply with Code of Ethics by ICAI. & include:

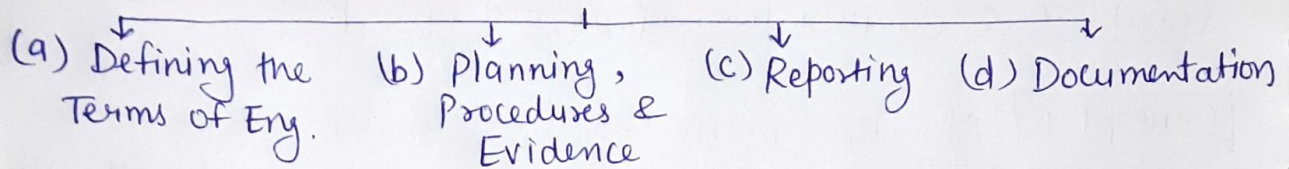
Integrity	Objectivity	Confidentiality	Technical Standards	Professional Conduct	Prof. comp. & Due care.
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Independence is not a requirement of agreed upon procedures.

However, terms or obj. of Eng. may require to comply with independence.

Where auditor is not independent, statement should be made in report of factual findings.

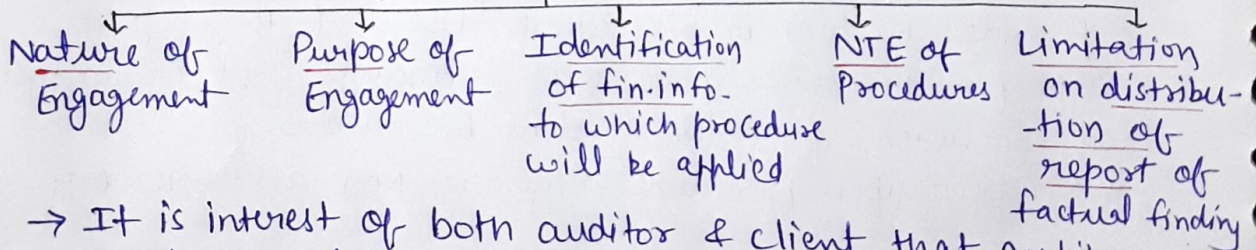
Concept 4 Consideration of Agreed upon procedure Eng.



(a) Defining the Terms of Engagement

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

Matter to be agreed include the following :



→ It is interest of both auditor & client that Auditor sends Eng. letter with documentation of key terms of appointment.

An Eng. letter confirms Auditor's acceptance of appointment & helps to avoid misunderstanding regarding objectives, scope of Eng., extent of auditor's responsibilities & form of report.

Matters to be included in Eng. letter

Listing of procedures to be performed

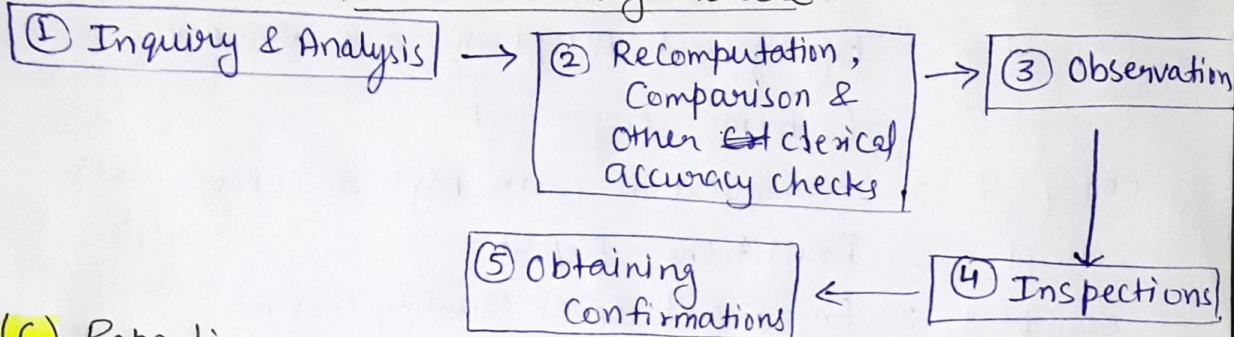
A statement that distribution of report of factual findings would be restricted to specified parties.

(b) Planning, Procedures & Evidence

Auditor should plan the work so that effective Eng. will be performed.

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

Procedures may include :



(c) Reporting : The report should clearly mention that no audit or review has been performed.
The report of factual finding should contain :

- i) Title ii) Addressee (ordinarily, Appointing Authority.)
- iii) Identification of specific fin. or non-fin. info.
- iv) Statement that performed procedure were those which agree
- v) Statement that Eng. was performed with applicable SRS.
- vi) Identification of purpose for which procedures performed.
- vii) Listing of specific procedures performed.
- viii) Description of factual findings including Errors & Exceptions.
- ix) Statement that there is no audit, no review, no assurance
- x) Statement that auditor had performed additional procedure like audit or review then other matters might have come to light that would have been reported.
(Auditor ने कुछ audit, review किया है & other matters पर-परे हो तो उसको report करना है & इसका statement report में होना चाहिए।)
- xi) Statement that report is restricted to those who agreed.
- xii) Statement that report relates to Element, A/c or item only.
- xiii) Date of Report xiv) Place of Signature xv) Auditor's Signature

(d) Documentation : Auditor shall document matter which are important in providing evidence to support report of factual finding and evidence that Eng. carried out with applicable SRS & Term of Eng.

SRS 4410 : Compilation Engagements

- Concept 1 : What is Compilation Eng.
- Concept 2 : Objective in accordance with SRS 4410
- Concept 3 : Scope of Compilation Eng.
- Concept 4 : Ethical Requirements
- Concept 5 : Engagement Acceptance & Continuance
- Concept 6 : Performing Engagement
- Concept 7 : Communication with Mgt. & TCWG
- Concept 8 : Practitioner Report
- Concept 9 : Engagement level Quality Control
- Concept 10 : Documentation

Concept 1 What is Compilation Engagement ??

- SRS 4410 deals with practitioner's responsibilities to assist mgt. with preparation & presentation of historical financial info. without assurance and to report on Eng. with SRS.
- It applies to Compilation Engagements. Compilation Eng. for non-fin. info. & other than historical fin. info. can be performed after necessary adaptation.
- SQC-1 applies to all Eng. std.

Compilation Eng. : An engagement in which practitioner applies acing & financial reporting expertise to assist mgt. in the preparation & presentation of financial info. with applicable FRF and issues a report.

* financial info. may be required for various purposes including :-

- (fin. info. मॉडल-मॉडल अर्थ अर्थ) • To comply with mandatory periodic fin. reporting req. established in law or regulation.
 - (इ) • For mgt., TCWG, external parties and for transactional purposes e.g. - txn. involving change in ownership or fin. structure.
- However, Practitioner is not required to verify accuracy or completeness of info. or gather evidence to express an audit opinion or review conclusion.

Concept 2 Objectives in accordance with SRS 4410

Apply a/cing & financial reporting Expertise to assist Mgt. in preparation & Presentation of Fin. info.

Report in accordance with the requirement of this SRS.

Concept 3 Scope of Compilation Engagement

- Scope will depend upon circumstances of Engagement.
- Management retains responsibility for fin. info. & basis on which it is prepared & presented. It includes :
 - Application by Mgt. of judgement required for prep. & pres.
 - Selection & application of Appropriate accounting policies.
 - Developing reasonable accounting estimates.
- Different FRF can be used to prepare & present fin. info. and FRF adopted will depend upon nature of entity and intended use of information.

Concept 4 Ethical Requirements

Practitioner shall Comply with all relevant Ethical requirements and any threat to practitioner's compliance with Ethical req. are required to be identified & appropriately addressed.

Independence requirements do not apply to Compilation Eng. However laws & Reg. may specify requirement or disclosure related to independence.

Concept 5 Engagement Acceptance & Continuance

The practitioner shall not accept Engagement UNLESS the practitioner has agreed terms of Eng. with Mgt. or Engaging party.

Terms of Engagement includes :

- | | | | | | |
|--|----------------------------------|---------------------------------------|--|---|------------------------------------|
| (i) | (ii) | (iii) | (iv) | (v) | (vi) |
| Intended Use or Distribution of fin. info. & Restriction on use or Dist ⁿ , if any. | Identification of applicable FRF | Objective & Scope of Compilation Eng. | Practitioner responsibility including Comply of Ethical Req. | Responsibility of Mgt. for : <ul style="list-style-type: none"> • Acceptable FRF • Design, implementation & maintenance of internal control • Accuracy & Completeness of Records, doc. & other info. | Expected Form & Content of Report. |

Note: Practitioner shall record terms in Eng. letter or other suitable form of written agreement, prior to performing Engagement.

On receiving Compilation Eng., Practitioner shall evaluate need to be revised terms of Eng. and to remind Mgt. of Existing terms.

Concept 6 Performing Engagement

The Practitioner shall :

- (i) Obtain an understanding
 → Entity's Business, operation, Accounting System & records.
 → Applicable FRF
- (ii) Compile Fin. information using records, doc., Explanation.
- (iii) Discuss with Mgt. & TCWR for which practitioner provide assistance.
- (iv) Prior to completion of Compilation Eng., Read the compiled info. in light of understanding of Business operations & FRF.
- (v) Practitioner becomes aware of incomplete, inaccurate & Unsatisfactory records, doc. or other info. provided by Mgt. then → Practitioner shall bring that to attention of Mgt. and Request additional & corrected info.

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If Practitioner is Unable to complete Engagement, because Mgt. has failed to provide as requested info. then Practitioner shall withdraw and inform Mgt. & TCWR.

- (vi) If Practitioner becomes aware during Eng. that :

↓
Compiled fin. info. doesn't adequately refer or describe applicable FRF

↓
Amendment in fin. info. are required so that not to be materially misstated.

↓
Compiled fin. info. is otherwise misleading.

Practitioner shall propose appropriate amendment to Mgt.

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If Mgt. declines or doesn't permit for above amendment then Practitioner shall withdraw & inform Mgt. & TCWR the reasons. If withdrawal not possible, He shall determine legal & Professional responsibility.
 Practitioner shall obtain acknowledgment from Mgt. & TCWR about their responsibility for final version of compiled fin. info.

Concept 7 Communication with Management & TCWG

The Practitioner shall communicate → All matters that are of significant importance → to merit the attention of Mgt. & TCWG → in Practitioner's Professional judgement → On timely basis.

Concept 8 Practitioner's Report

- * Purpose of report is to clearly communicate
- * This report is not a vehicle to express opinion & conclusion on fin. info. in any form.
- * Practitioner report shall include :

Nature of Compilation Eng.
Practitioner's Role & Responsibilities

- (i) Report Title
- (ii) Addressee
- (iii) Statement that compiled fin. info. is based on info. provided by Mgt.
- (iv) Description of responsibilities of Mgt. or TCWG.
- (v) Identification of applicable FRF & special purpose FRF (if any)
- (vi) Identification of fin. info. (Title, date, period to which it relates)
- (vii) Description of Practitioner's responsibility for SRS and Ethical requirement.
- (viii) Description of what a Compilation Eng. entails. (उत्तर)
- (ix) Explanations that :
 - Compilation Eng. is not an assurance Eng. & Practitioner is not required to verify accuracy & completeness of info. provided by Mgt.
 - Practitioner does not express audit opinion or review conclusion.
- (x) If fin. info. is prepared using special purpose FRF, then an explanatory paragraph that :
 - Purpose of preparing fin. info., intended users. **AND**
 - Draw attention to reader that fin. info. is prepared in accordance with special purpose FRF & not suitable for others.
- (xi) Date of practitioner's Report.
- (xii) Practitioner's signature.
- (xiii) Place of signature.

Concept 9 Engagement level Quality Control

Engagement Partner

Shall take responsibility for

- Overall Quality of Each Compilation Eng. to which partner is assigned.
- Eng. being performed with firm's Quality Control Policies & Procedures.

Concept 10 Documentation

In Engagement documentation, the Practitioner shall include :

- (i) Significant matter & how those were addressed by Practitioner.
- (ii) Record of reconciliation of Compiled fin. info. with underlying records, doc., explanations & other info.
- (iii) Copy of final version of Compiled fin. info. for which Mgt. & TCWG take responsibility.
- (iv) Copy of Practitioner's report.
- (v) Practitioner may consider to include : Copy of trial bal., summary of significant Aging records & other info. that he used to perform compilation.