Ch 09 PARAM

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09 Audit-related Services

Part 1 – SA 4400

QNO 4400.100 | **AUP Assignment** | **TITANIUM CNO-- SRS4400.020** | **New Course – (M23R)**

CA P is the auditor of Master Data Ltd. for the year 2021-22. The company requests the auditor to undertake an exercise involving only verification of trade receivables for half year ending 30th September 2021. The company wants to be satisfied that trade receivables are properly confirmed and reconciled.

In this regard, CA P has to verify the arithmetical accuracy of trade receivables, obtain confirmation of trade receivables and ensure verification of proper reconciliations with confirmations.

He is in a dilemma as to whether he can give a report providing assurance to the company in this respect. Guide CA P with reasoning. Assume that above exercise can be undertaken and there is no legal bar.

Answer

In the given case situation, auditor has to verify trade receivables for half year ending 30th September,2021. Such a process/exercise is only a fact finding and reporting exercise. The auditor has to report the facts as these are. Like, he would have to state whether confirmation from a particular debtor has been received or not. Case Discussion

The auditor can issue an assurance report in case of audit and review engagements. By providing assurance, the auditor provides comfort to users of financial statements. Assurance in the above context refers to the auditor's satisfaction as to the reliability of an assertion made by one party for use by another. To provide such assurance, the auditor assesses the evidence collected as a result of procedures conducted and expresses a conclusion. The degree of satisfaction achieved and, therefore, the level of assurance which may be provided is determined by the procedures performed and their results. Assurance Services

However, the types of services described in the given situation falls in the related services domain. These are, in the nature, of agreed-upon procedures to be carried out by the auditor. The auditor cannot issue an assurance report while providing such kind of services. He can only issue a report stating facts as they are without providing any sort of assurance. He can report only facts. Related Services & Reporting Facts

Therefore, the auditor cannot give a report providing assurance for such type of services. He can only issue a factual report. Conclusion

QNO 4400.200 | **Assurance V/s Related services** | **TITANIUM CNO-- SRS 4400.020** | **New Course – (SM23)**

How do "related services" differ from assurance engagements?

Answer

Audit Vs. Agreed-upon Procedures

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

- Assurance Services
- Related Services
- Example

Example: For example, an engagement to evaluate the validity of accounts payable may involve comparing names of major suppliers and amounts outstanding to the trial balance, obtaining supplier statements or confirmations, and comparing these to the amounts in the trial balance. Further, actual findings like variation in balances reflected in trial balance and statements or confirmations are given. The actual findings are reported as such without providing an assurance.

QNO 4400.300 | **Reporting in AUP** | **TITANIUM CNO-- SRS 4400.100** | **New Course – (SM23)**

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

Answer

The report of factual findings should contain: -

Title:
Addressee: The report of factual findings should contain the addressee (ordinarily, the appointing authority).
Identification of Specific Information: Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied.
Purpose of the Procedures: Identification of the purpose for which the agreed-upon procedures were performed.
Statement of Procedures Performed: A statement that the procedures performed were those agreed-upon with the recipient.
Compliance with Standard on Related Services: A statement that the engagement was performed in accordance with the Standard on Related Services applicable to agreed-upon procedures engagements.
Listing of Specific Procedures: A listing of the specific procedures performed.
Factual Findings: A description of the auditor's factual findings including sufficient details of errors and exceptions found.
No Assurance Statement: A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed.
Potential Additional Findings Statement: 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.
Report Restriction Statement: A statement that the report is restricted to those parties that have agreed to the procedures to be performed.
Report Limitation Statement: 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.
Date of the Report: The date of the report should be included.
Place of Signature: The place of signature should be stated.
Auditor's Signature: The report should contain the auditor's signature.

Part 2 SA ~~4400~~ 4410

QNO 4410.100 | **Ethical Requirements & Independence in Compilation Engagement** | **TITANIUM CNO-- SRS 4410.020** | **New Course – (SM23)**

A Chartered Accountant is offered appointment for a compilation engagement to be performed under SRS 4410. Is he required to comply with ethical requirements of Code of Ethics? Discuss briefly

Answer

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

Independence Not a Requirement: 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.

Statement on Lack of Independence: Where the auditor is not independent, a statement to that effect should be made in the report of factual findings.

QNO 4410.200 | **Purposes of "compilation engagement"** | **TITANIUM CNO-- SRS 4410.020** | **New Course – (SM23)**

List out few intended purposes of a "compilation engagement.

Answer

Mandatory periodic financial reporting: Financial information that is the subject of a compilation engagement may be required for various purposes including to comply with mandatory periodic financial reporting requirements established in law or regulation, if any.

Other Purposes: Financial information may also be required for purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example,

- **For internal use:** 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 external parties:** The information can be used 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.
- • **Transactional Purposes:** It may also be used 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.

QNO 4410.300 | **Inaccurate Accounting Treatment** | **TITANIUM CNO-- SRS 4410.060** | **New Course – (SM23)**

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

Answer

In this instant case, amount of ₹ 100 lacs is reflected under the head "current assets" in trial balance. Since client's claim has been repudiated and no appeal has been preferred, it is a loss for the client and should be Case

dealt accordingly. Therefore, amendments are required for the financial information not to be materially misstated.

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

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. Decline

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

QNO 4410.350 | **Performing Compilation Engagement** | **TITANIUM CNO-- SRS 4410.060** | **New Course – (SM23)**

CA. P has been appointed to compile the financial information of X Limited. CA P is confused whether he should apply the same procedures which are required to be applied to conduct an audit or there are some other procedures to discharge the duties under such an engagement. Define the characteristics of Compilation Engagement. What should be the approach of CA P for performing the Engagement ?

Answer

What is a Compilation engagement?

1B **Definition:** Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report.

1A **Request by Management:** Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity.

(CNO SRS 4410.060) Performing the Engagement

1A. Knowledge of Entity's Business:
• The practitioner must obtain sufficient knowledge of the entity's business, operations, accounting system, and accounting records to perform the compilation engagement effectively.
1B. Knowledge of Reporting Framework:
• The practitioner needs to understand the applicable financial reporting framework and its application in the entity's industry.
2A. Compilation using Provided Information:
• Financial information should be compiled using records, documents, explanations, and other information, including significant judgments, provided by management.
2B. Discussion of Significant Judgments:
• The practitioner should discuss with management or those charged with governance any significant judgments, especially those that the practitioner assisted with, in the course of compiling the financial information.
3. Review before Completion:
• Before completing the compilation engagement, the practitioner must read the compiled financial information, considering their understanding of the entity's business and the applicable financial reporting framework.
4A. Addressing Incomplete or Inaccurate Information:
• If the practitioner discovers any incomplete, inaccurate or unsatisfactory records or information provided by management, they should bring this to the attention of management and request the corrected or additional information needed.
4B. Withdrawal for Inadequate Information:
• If management fails to provide the necessary information, the practitioner should withdraw from the engagement, informing management and those charged with governance of the reasons for withdrawal.
5A. Proposing Amendments:
• If any issues with the financial information or its adherence to the financial reporting framework are found, the practitioner must propose the appropriate amendments to management.

5B. Withdrawal for Declined Amendments:
• If management declines or does not permit the proposed amendments, the practitioner must withdraw from the engagement, notifying management and those charged with governance of the reasons.
5C. Determining Responsibilities if Withdrawal is Impossible:
• If withdrawal from the engagement is not possible, the practitioner should determine the professional and legal responsibilities applicable in the circumstances.
6. Acknowledgment of Responsibility for Final Version: (Like WR)
• The practitioner should obtain acknowledgment from management or those charged with governance that they are responsible for the final version of the compiled financial information.

QNO 4410.400 | **Documentation** | **TITANIUM CNO-- SRS 4410.100** | **New Course – (SM23)**

Discuss main documentation requirements to be taken care of by a practitioner while performing a compilation engagement under SRS 4410

Answer

Documentation

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

Record of Reconciliation:
- The documentation should include a record of how the compiled financial information reconciles with the underlying records, documents, and other information provided by management.

Copy of Final Version and Report:
- The documentation must contain a copy of the final version of the compiled financial information and the practitioner's report, for which responsibility has been acknowledged by management or those charged with governance.

Significant Matters:
- The practitioner shall document significant matters arising during the compilation engagement and how those matters were addressed.