

SRS 4410 (AAS 31)

ENGAGEMENTS TO COMPILE FINANCIAL INFORMATION

*(Effective for all compilation
engagements beginning on or after April 1, 2004)*

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Standard on Related Services (SRS) 4410*, "Engagements to Compile Financial Information" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services"¹, which sets out the authority of SAs.

* Issued in April, 2004. With the issuance of this Standard on Related Services, the Guidance Note on Members' Duties regarding Engagements to Compile Financial Statements, issued by the Institute of Chartered Accountants of India, issued in February 2002, shall stand withdrawn.

¹ Published in the July 2007 issue of the Journal.

Engagements to Compile Financial Information

Introduction

1. The purpose of this Standard on Related Services (SRS) is to establish standards on professional responsibilities of an accountant² when an engagement to compile financial statements or other financial information is undertaken and the form and content of the report to be issued in connection with such a compilation so that the association of the name of the accountant with such financial statements or financial information is not misconstrued by a user of those statements or information as having been audited by him.
2. This SRS is directed towards 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 a client in the preparation of financial statements (for example, selection of an appropriate accounting policy), do not constitute an engagement to compile financial statements. This SRS should be read in conjunction with the "Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services³".

Objective of a Compilation Engagement

3. The objective of a compilation engagement is for an 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

² For the purpose of this Standard on Related Services 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.

³ 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.

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statements) but may also include the collection, classification and summarisation of other financial information, for example, preparation of quarterly financial results, restatement of financial statements in accordance with a financial reporting framework other than in accordance with which the financial statements to be restated are already prepared and presented.

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:

- a) Ensuring that the financial information generated in the entity is correct, complete and reliable;
- b) Maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;

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- c) 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;
- d) 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 or other financial information 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 preparation and presentation of the financial statements or other information and of its approval of such information to be compiled. 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

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misunderstanding regarding matters such as the objective and scope of the engagement and the extent of the auditor's responsibilities.

11. The engagement letter would include matters such as the following:
 - (a) Nature of the engagement including the fact that neither an audit nor a review will be carried out and that accordingly no assurance will be expressed.
 - (b) Fact that the engagement cannot be relied upon to disclose fraud or defalcations 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.
 - (c) Nature of the information to be supplied by the client.
 - (d) Fact that 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.
 - (e) Intended use and distribution of the information, once compiled.
 - (f) Basis of accounting on which financial information is to be compiled and the fact that the basis, and any known departures therefrom, if any will be disclosed.
 - (g) The fact that the management is responsible to the users for the information to be compiled by the accountant.

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- (h) Unrestricted access to whatever records, documents and other information is requested in connection with the compilation engagement.
- (i) Basis on which fees would be computed and any billing arrangements.
- (j) 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 Standard on Related Services 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 statements/ other 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, the 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 inquiry of the entity's personnel.

16. Other than as noted in this Standard on Related Services, the accountant is not, ordinarily, required to:

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- (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 or other financial information, 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 he considers 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 procedures 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 misstatements. In this sense, material misstatements include:

- (a) mistakes in the application of the identified financial reporting framework.
- (b) non-disclosure of the financial reporting framework and any known departures therefrom.
- (c) non-disclosure of any other significant matters of which the accountant has become aware.

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

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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 framework⁴, the accountant should ensure that the financial statements or other financial information compiled comply with the requirements of the identified financial reporting framework. In case of any material departures from the requirements of the identified financial reporting framework, the fact should be stated in the Notes to the Accounts or other compiled financial information 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 an identified financial reporting framework is not required or the Accounting Standards issued by the Institute of Chartered Accountants of India are 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 or other compiled financial information as well as the report issued by the accountant on compilation.

⁴ Paragraph 3 of the Framework for Statements on Standard Auditing Practices and Guidance Notes on Related Services states as follows:

"Financial statements are ordinarily prepared and presented annually and are directed toward the common information needs of a wide range of users. Many of those users rely on the financial statements as their major source of information because they do not have the power to obtain additional information to meet their specific information needs. Thus, financial statements need to be prepared in accordance with one, or a combination of :

- (a) relevant statutory requirements, e.g., the Companies Act, 1956, for companies;
- (b) accounting standards issued by the Institute of Chartered Accountants of India; and
- (c) other recognised accounting principles and practices, e.g., those recommended in the Guidance Notes issued by the Institute of Chartered Accountants of India."

(The readers may note that 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.)

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Non-Compliance with the Accounting Standards

21. In the case of a company, the financial statements compiled 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 Standard(s), 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 compilation engagements, it is necessary for certain items in the accounts, for example, work in progress, to be based on estimates by the client. 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 persuade the management to carry out necessary amendments in the financial statements or other compiled financial information. If such amendments are not made and the financial statements are still considered to be misleading, the accountant should withdraw from the engagement.

24. The financial statements or other financial information 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 or other financial information 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

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financial statements or other financial information, 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 or other financial information 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 a 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 engagements should, ordinarily, be in the following lay out:

- (a) Title: The title of the report should be “Accountant’s Report on Compilation of Unaudited Financial Statements” (and not “Auditor’s Report”);
- (b) Addressee: The report should ordinarily be addressed to the appointing authority;
- (c) Identification of the financial information also noting that it is based on the information provided by the management;
- (d) When relevant, a statement that the accountant is not independent of the entity;
- (e) 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 or other financial information 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;

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- ◆ 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;
- (f) A statement that the engagement was performed in accordance with this Standard on Related Services ;
- (g) A statement that neither an audit nor a review has been carried out and that accordingly no assurance is expressed on the financial information;
- (h) A paragraph, when considered necessary, drawing attention to the disclosure of material departures from the identified financial reporting framework;
- (i) Date of the report;
- (j) Place of signature; and
- (k) Accountant's signature: The report on compilation of financial information should be signed by the auditor in his personal name. Where a firm is appointed for the engagement, 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 compilation of financial information should also mention the membership number assigned by the Institute of Chartered Accountants of India

Appendix II to this Standard contains examples of compilation reports.

26. The financial statements or other financial information compiled by the accountant should contain a reference such as "Unaudited," "Compiled without Audit or Review" and also "Refer to Compilation Report" on each page of the financial information or on the front of the complete set of financial statements.

Effective Date

27. This Standard on Related Services is applicable to all compilation engagements beginning on or after April 1, 2004.

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Compatibility with International Standard on Auditing (ISA) 930**

The standards for compilation engagements 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) 930, "Engagements to Compile Financial Information", except for the additional section titled, "Special Considerations", as given in paragraphs 19 to 22 of this Standard on Related Services .

The said section has been added to provide guidance to members in respect of certain typical issues which might be faced by the members in carrying out compilation engagements. For example, duties and responsibilities of the accountant in case of clients having an identified financial reporting framework, such as the Companies Act, 1956 and any material departures therefrom; clients having no identified financial reporting framework, say, where the financial statements are based on the requirements of the Income Tax Act, 1961. The section also provides guidance in respect of situations where the accountant becomes aware of a material non-compliance with the applicable Accounting Standards; as also duties of the accountant relating to accounting estimates made by the client.

Moreover, the Standard on Related Services , in paragraph 24, unlike the International Standard on Auditing (ISA) 930, also requires that the financial statements should be approved by the client before compilation report is signed by the accountant. The SRS also requires the accountant to ensure that the users of the compiled financial statements are aware of the extent of his/ her involvement with the accounts so that the users do not derive any unwarranted assurance. The SRS, unlike the ISA, also prohibits the accountant from preparing the financial statements on his letter head or other stationery bearing his (or firm's) name or address.

In addition, the SRS, unlike the ISA, does not require the accountant to send a form of expected report to the client alongwith the engagement letter. Also, the SRS requires the accountant to mention the place of signature in his report as compared to the ISA which requires the accountants to give his address.

** Now the International Standard on Related Services (ISRS) 4410.

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 Standard on Related Services . 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 other 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)⁵ 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 would be carried out, no opinion on the financial statements will be expressed. Further, 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:

- (a) the accuracy and completeness of the information supplied to us, including maintenance of adequate accounting records and internal controls and selection and application of appropriate accounting policies.
- (b) preparation and presentation of the financial statements of the entity, in accordance with the applicable laws and regulations, if any.
- (c) safeguarding the assets of the entity and also establishing appropriate controls designed to prevent and detect fraud and other irregularities.
- (d) 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 the applicable Accounting Standard(s), issued by the Institute of Chartered Accountants of India and other recognised accounting principles and practices and inform us of any departures therefrom.

⁵ Only in cases where relevant.

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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 full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information 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.

XYZ & Co.
Chartered Accountants

.....
Signature
(Name of the Member)
Designation⁶

Address:

Date:

For ABC & Co.

Acknowledged on behalf of _____(name of the company)

Signature
Name and Designation

Date
Address

⁶ Partner or proprietor, as the case may be.

Examples of a Report of an Engagement to Compile Financial Statements

Illustration 1: Report on Compilation of Financial Statements

ACCOUNTANT'S REPORT ON COMPILATION OF UNAUDITED FINANCIAL STATEMENTS

To.....

On the basis of the accounting records and other information and explanations provided to us by the management, we have compiled, 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 statement⁷ for the period then ended.

The management of the _____ (name of the entity) is responsible for:

- (a) Completeness and accuracy of the underlying data and complete disclosure of all material and relevant information to the accountant.
- (b) Maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;
- (c) Preparation and presentation of financial statements in accordance with the applicable laws and regulations, if any.
- (d) Establishing controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities.
- (e) 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 Standard on Related Services (SRS) 4410 , "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.

⁷ Where applicable.

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Chartered Accountants

.....

Signature

(Name of the accountant and membership number)

Designation⁸

Date:

Place:

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

ACCOUNTANT'S REPORT ON COMPILATION OF UNAUDITED FINANCIAL STATEMENTS

To.....

On the basis of the accounting records and other information and explanations provided to us by the management, we have compiled 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 statement⁹ for the period then ended.

The management of the _____ (name of the entity) is responsible for:

- (a) Completeness and accuracy of the underlying data and complete disclosure of all material and relevant information to the accountant.
- (b) Maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;
- (c) Preparation and presentation of financial statements in accordance with the applicable laws and regulations, if any.
- (d) Establishing controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities.
- (e) 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 Standard on Related Services (SRS) 4410 , "Engagements to Compile Financial Information", issued by the Institute of Chartered Accountants of India.

⁸ Partner or Proprietor.

⁹ Where applicable.

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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, these financial statements, accordingly, 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 accountant and membership number)
Designation¹⁰

¹⁰ Partner or proprietor.