

GUIDANCE NOTE ON MEMBERS' DUTIES REGARDING ENGAGEMENTS INVOLVING COMPILATION OF FINANCIAL STATEMENTS*

Contents

	Paragraph(s)
Introduction	1
Objective of a Compilation Engagement	2-3
General Principles of a Compilation Engagement	4-5
Defining the terms of the Engagement	6-7
Planning	8
Documentation	9
Procedures	10-12
Responsibility of Management	13-14
Reporting on the Compilation Engagement	15-16
<i>Appendices</i>	

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Introduction

1. The purpose of this Guidance Note is to provide guidance on the professional responsibilities of the members of the Institute of Chartered Accountants of India, 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 member with the financial statements is not misconstrued by a user of the statements as the same having been audited by him. This Guidance Note supersedes paragraph 9.1 of the Guidance Note on Audit Reports and Certificates for Special Purpose, issued by the Institute of Chartered Accountants of India.

Objective of a Compilation Engagement

2. For the member, the objective of a compilation engagement is 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 member to express any opinion on the financial information. However, users of the compiled financial information derive some benefit as a result of the member's involvement because the service has been performed with professional competence and due care.

3. A compilation engagement would ordinarily include the preparation of financial statements (which may or may not be a complete set of financial statements) but may also include the collection, classification and summarisation of other financial information. Engagements to provide limited assistance to a client in the preparation of financial statements (for example, on the selection of an appropriate accounting policy) do not constitute an engagement to compile financial information.

General Principles of a Compilation Engagement

4. As in any other professional assignment, the member should comply with the 'Code of Conduct' issued by the Institute of Chartered Accounts of India.

Compilation of Financial Statements

5. In all circumstances, when a member's name is associated with financial information compiled by him the member should issue a report.

Defining the Terms of the Engagement

6. The member should ensure that there is a clear understanding between the client and the member regarding the terms of the engagement. Matters to be considered include:

- ◆ Nature of the engagement, including the fact that neither an audit nor a review will be carried out and accordingly no opinion will be expressed.
- ◆ Fact that the engagement cannot be relied upon to disclose frauds or defalcations or illegal acts that may exist.
- ◆ Nature of the information to be supplied by the client.
- ◆ Fact that management is responsible for the accuracy and completeness of the information supplied to the member and for the completeness and accuracy of the compiled financial information.
- ◆ Basis of accounting on which the financial information is to be compiled and the fact that it and any known departures therefrom, will be disclosed.
- ◆ Intended use and distribution of the information compiled.

7. An engagement letter will be of assistance in planning the compilation work. It is in the interest of both the member and the entity that the member should send an engagement letter documenting the key terms of the appointment. An engagement letter confirms the members acceptance of the appointment and helps to avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the member's responsibilities and the form of report to be issued. An example of an engagement letter for a compilation engagement appears in Appendix 1.

Planning

8. The member should plan the work so that an effective engagement will be performed.

Documentation

9. The member should document matters which are important in providing evidence that the engagement was carried out in accordance with this Guidance Note and the terms of engagement.

Procedures

10. The member should obtain 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.

11. If the member becomes aware that information supplied by management is incorrect, incomplete, or otherwise unsatisfactory, the member should request management to provide such information as is in consonance with the objective of the compilation engagement. If management refuses to provide the information, the member should consider withdrawing from the engagement.

12. The member should ensure that the compiled information is in appropriate form and *prima facie* in accordance with accounting standards and other recognised accounting principles and practices (e.g., necessary provisions have been made and the bank reconciliation statement has been prepared and it does not contain apparent inconsistencies and material misstatements. Where the member is not satisfied, he should persuade the entity to agree to make appropriate amendments. If such amendments are not made and the financial information is considered to be misleading, he should consider withdrawing from the engagement.

Responsibility of Management

13. The member should 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 member.

14. The word audit should not be used in describing the nature of services involving compilation of financial statements, nor the fee for these services

Compilation of Financial Statements

be described as 'auditors' fee", or remuneration in the accounts, correspondence or any other document.

Reporting on the Compilation Engagement

15. It is essential that the member clearly brings out the nature of association with the financial statements and the nature of the work performed by him. The following recommendations are made in this regard:

- (i) The title of the report should be "Accountant's Report on Unaudited Financial Statements" and not an 'Auditor's Report'.
- (ii) The report should be addressed to the appointing authority.
- (iii) The report should identify the financial information compiled, also stating that it is based on the information provided by the management.
- (iv) The report should clearly state that the financial statements are not audited.
- (v) In describing the engagement, ambiguous terms such as 'review', 'general review', 'check' etc., should not be used.
- (vi) Date of the report should be mentioned.
- (vii) Name and address of the firm of the member appointed for carrying out the compilation engagement should be mentioned.
- (viii) Signatures and the designation (sole proprietor/partner) and membership number should appear in the report.

An example of the report is given in Appendix 2.

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

Appendix 1

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 6 of this Guidance Note and will need to be varied according to individual requirements and circumstances. This example is for the compilation of financial statements.

(Date)

To M/s. XYZ (Client)

This is in reference to your letter dated _____ appointing us to compile the Balance Sheet and the Statement of Profit and Loss for the year _____.

This letter is to confirm our understanding of the terms of our engagement and the nature of the services we will provide.

You have requested that we perform the following services:

On the basis of information you provide, we will compile, the Balance Sheet of _____ (M/s. XYZ) as of March 31, XXXX and the Statement of Profit and Loss for the year then ended. As no audit or review engagement procedures are carried out, no opinion on the financial statements will be expressed. Our engagement can not be relied upon to disclose whether frauds or defalcations, or illegal acts exist.

As management, you are responsible for both the accuracy and completeness of the information supplied to us and are responsible to users of the financial statements to be compiled by us. This includes the maintenance of adequate accounting records and internal controls and the selection and application of appropriate accounting policies.

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.

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

Compilation of Financial Statements

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 A & Co.
Signature (Name of the partner and membership number)
Partner
Chartered Accountants
Address

Acknowledged on behalf of
M/s. XYZ by
(signed)
Name and Designation
Date

Appendix 2

Example of an Accountant's Report on Unaudited Financial Statements

Accountant's Report on Unaudited Financial Statements

To.....

On the basis of information provided by management we have compiled the Balance Sheet of (*name of the entity*) as of March 31, XXXX and the Statement of Profit and Loss for the period then ended. The Balance Sheet and the Statement of Profit and Loss are in agreement with the books of account. We have not audited or reviewed these financial statements and accordingly express no opinion thereon.

Date:

For A & Co.

Signature (Name of the partner and membership number)

Partner

Chartered Accountants