CA FINAL | PAPER 3 [NEW SCHEME]

ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

[Relevant for May 2024 Exams Onwards]

MODULE 3 OF 3

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14. SPECIALISED AREAS

There are 3 separate SAs for the above specialised areas as under:

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3.	SA 810	Engagements to Report on Summary Financial Statements

SA 800 Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

Q NO 1. WRITE ABOUT SCOPE OF SA 800 AND CONCEPT OF SPECIAL PURPOSE FRAME WORK?

ANSWER:

A. **SCOPE OF SA 800:** SA 800 deals with special considerations applicable in respect of audit of financial statements prepared in accordance with special purpose framework. This SA addresses special considerations that are relevant to:
    1. The acceptance of the engagement
    2. The planning and performance of that engagement and
    3. Forming an opinion and reporting on the financial statements
    4. BUT NOT for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

B. **WHAT IS SPECIAL PURPOSE FRAMEWORK?**
    1. SA 800 defines special purpose framework as a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

    2. The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.

Examples of Special purpose frameworks are:
1. The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors.
2. The financial reporting provisions established by a regulator to meet the requirements of that regulator.
3. The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

3. **GPFW vs SPFW:** Special purpose framework is to be distinguished from general purpose framework. A financial reporting framework designed to meet the common financial information needs of a wide range of users is known as "General purpose framework" whereas a financial reporting framework designed to meet the financial information needs of specific users is known as "Special purpose framework."

Q NO 2. WHAT ARE THE CONSIDERATIONS WHEN ACCEPTING AN AUDIT OF FINANCIAL STATEMENTS USING SPECIAL PURPOSE FRAMEWORK?

ANSWER:

1. **NEEDS OF USERS:** In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.

2. **ACCEPTABLE ORGANISATION STANDARDS:** The applicable financial reporting framework may encompass the financial reporting standards established by an organisation that is authorised or recognised to promote standards for special purpose financial statements.

   In that case, those standards will be presumed acceptable for that purpose if the organisation follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders.

3. **REGULATORY REQUIREMENT:** Some laws or regulations may prescribe the financial reporting framework to be used by management in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator.

   In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such an entity.

4. **CONFLICT BETWEEN ORG SA's AND REGULATORY REQUIREMENTS:** Where the financial reporting standards referred to above are supplemented by legislative or regulatory requirements, SA 210 requires the auditor to determine whether any conflicts between the financial reporting standards and the additional requirements exist and prescribes actions to be taken by the auditor if such conflicts exist.

5. The applicable financial reporting framework may encompass the financial reporting provisions of a contract or sources other than those described in the preceding paras. In that case, the acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks in accordance with the requirements of SA 210.

6. In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment.

For example: For purposes of establishing the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information is not neutral when compared with financial information prepared in accordance with a general-purpose framework.

Q NO 3. WHAT ARE THE CONSIDERATIONS WHEN PLANNING AND PERFORMING AN AUDIT OF FINANCIAL STATEMENTS USING SPECIAL PURPOSE FRAMEWORK?

ANSWER:

1. SA 200 requires the auditor to comply with:
   a. Relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and
   b. All SAs relevant to the audit.

2. **COMPLY WITH SA's:** It also requires the auditor to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist.

3. **DEPART FROM SA's:** In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement.

4. Application of some of the requirements of the SAs in an audit of special purpose financial statements may require special consideration by the auditor. **For example:**

   a. In SA 320, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the intended users.

   b. In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.

   c. SA 260 (Revised) requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate. SA 260 (Revised) notes that, in some cases, all of those charged governance are involved in managing the entity, and the application of the communication requirements is modified to recognize this position.

d. When a complete set of general purpose financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the special purpose financial statements may not be the same as those charged with governance responsible for the oversight of the preparation of those general purpose financial statements.

5. **FORMING AN OPINION:** When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in Revised SA 700.

Q NO 4. WRITE ABOUT DESCRIPTION OF THE APPLICABLE FINANCIAL REPORTING FRAMEWORK IN THE AUDITORS REPORT AND ALERTING USERS ON ITS USAGE AND DISTRIBUTION?

ANSWER:

A. DESCRIPTION IN AUDITORS REPORT:

1. Revised SA 700 requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.

2. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

3. Revised SA 700 deals with the form and content of the auditor’s report. In the case of an auditor’s report on special purpose financial statements:

   a. The auditor’s report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contain that information and

   b. If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management’s responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

B. ALERTING READERS THAT THE FINANCIAL STATEMENTS: The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. To avoid misunderstandings, the auditor alerts users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

C. **RESTRICTION ON DISTRIBUTION OR USE OF AUDITORS REPORT:** In addition to the alert required as discussed above, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users. Depending on the law or regulation applicable, this may be achieved by restricting the distribution or use of the auditor's report. In these circumstances, the paragraph alerting the readers may be expanded to include these other matters, and the heading modified accordingly.

ILLUSTRATION 1.

CA Lalita is auditor of a company. She is also offered professional work of audit of financial statements prepared specifically for meeting requirements of a loan agreement for the same period. She chooses to accept work and has made up her mind to disclose this fact in "Other matter Paragraph" in audit report to be issued by her for this specific engagement. Is her approach proper?

ANSWER:

In the given situation, the approach of CA Lalita is proper. There is no bar upon accepting such an engagement even though she is the auditor of the company.

Besides, she has intended to disclose this fact in "Other Matter Paragraph" of the audit report to be issued by her for such specific engagement.

ILLUSTRATION 2.

CA Lakshmi has prepared a draft audit report for financial statements of X Ltd. prepared in accordance with financial reporting provisions of a contract with Y Ltd. She has drafted an unmodified opinion to be given in audit report. Besides, she has also drawn attention in draft audit report to Note "A "to the financial statements which describes the basis of accounting (under the heading "Basis of accounting"). How she should ensure that report would not be misused? Draft a suitable para to be included in the report for this purpose.

ANSWER:

She may consider it appropriate to indicate that the auditor's report is intended solely for specific users. Depending on the law or regulation applicable, this may be achieved by restricting the distribution or use of the auditor's report.

In these circumstances, the paragraph alerting the readers may be expanded to include these other matters and the heading modified accordingly. The draft para should read as under:

Without modifying our opinion, we draw attention to Note A to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the company to comply with the financial reporting provisions of the contract referred to above.

As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for X Ltd. and Y Ltd. and should not be distributed to or used by parties other than X Ltd. and Y Ltd.

SA 805 Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Q NO 5. WRITE ABOUT SCOPE OF SA 805 AND ITS APPLICABILITY?

ANSWER:

1. Standards on Auditing (SAs) in the 100-700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.

2. SA 805 deals with special considerations in the application of those SAs to an audit of a single financial statement or of a specific element, account or item of a financial statement.

3. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, SA 800 also applies to the audit.

4. SA 805 does not apply to the report of a component auditor issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements.

5. The objective of the auditor, when applying SAs, in such an audit, is to address appropriately the special considerations that are relevant to:
    a. The Acceptance of Engagement,
    b. Planning and Performance of Engagement and
    c. Forming an Opinion and Reporting
    d. BUT NOT for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Q NO 6. WHAT IS A SINGLE FINANCIAL STATEMENT AND ELEMENT OF A FINANCIAL STATEMENT?

ANSWER:

SINGLE FINANCIAL STATEMENT [SFSE]: A single financial statement is to be different from a complete set of financial statements AND includes the related notes ordinarily comprising a summary of significant accounting policies and other explanatory information relevant to the financial statement.

For example**,** a cash flow statement is a single financial statement

ELEMENT [SFSE]: "Element of a financial statement" or "element" means an "element, account or item of a financial statement" AND includes the related notes ordinarily comprising a summary of significant accounting policies and other explanatory information relevant to the financial statement Element.

For example, trade receivables or cash and bank balances

Q NO 7. WHAT ARE THE CONSIDERATIONS WHEN ACCEPTING AUDIT OF SINGLE FINANCIAL STATEMENT OR ELEMENT THEREOF?

ANSWER:

1. SA 200 requires the auditor to comply with all SAs relevant to the audit. In the case of an audit of a single financial statement or of a specific element of a financial statement, this requirement applies irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements.

2. **PRACTICABILITY:** If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with SAs is practicable.

3. **COMPLY AS PER SA 200:** SA 200 requires the auditor to comply with
   a. Relevant ethical requirements, including those pertaining to independence relating to financial statement audit engagements, and
   b. All SAs relevant to the audit.
   c. It also requires the auditor to comply with each requirement of an SA UNLESS, in the circumstances of the audit, the entire SA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist.

4. **DEPART FROM REQUIREMENT OF THE STANDARD:** In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement.

5. **NOT AUDITED CSFS:**
   a. Compliance with the requirements of SAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements.

b. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements.

c. The auditor also does not have audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records.

d. In the case of an audit of a specific element of a financial statement, certain SAs require audit work that may be disproportionate to the element being audited.

   For example, although the requirements of SA 570 are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required.

e. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with SAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

Q NO 8. WRITE ABOUT ACCEPTABILITY OF THE FINANCIAL REPORTING FRAMEWORK?

ANSWER:

1. SA 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

2. A single financial statement or a specific element of a financial statement may be prepared in accordance with an applicable financial reporting framework that is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements.

   If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework on which it is based that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures.

Q NO 9. WHAT ARE THE CONSIDERATIONS WHEN PLANNING AND PERFORMING THE AUDIT OF SINGLE FINANCIAL STATEMENT OR ELEMENT?

ANSWER:

1. **COMPLY WITH ALL RELEVANT SA's:** In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all SAs relevant to the audit as necessary in the circumstances of the engagement.

2. **USAGE OF EVIDENCE OBTAINED EARLIER:** When auditing a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element.

3. **OBTAIN S&A EVIDENCE:** SAs, however, require the auditor to plan and perform the audit of the financial statement or element to obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.

4. **VERIFY INTERRELATED ITEMS:** The individual financial statements that comprise a complete set of financial statements, and many of the elements of those financial statements, including their related notes, are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.

5. **MATERIALITY AND EVALUATION:** Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements, this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements.

Q NO 10. WRITE ABOUT FORM OF OPINION IN CASE OF AUDIT OF SINGLE ELEMENT OR SINGLE FINANCIAL STATEMENT?

ANSWER:

1. **INCORPORATE IN TERMS OF ENGAGEMENT:** SA 210 requires that the agreed terms of the audit engagement include the expected form of any reports to be issued by the auditor. In the case of an audit of a single financial statement or of a specific element of a financial statement, the auditor shall consider whether the expected form of opinion is appropriate in the circumstances.

2. **DEPENDS ON AFRFW:** The form of opinion to be expressed by the auditor depends on the applicable financial reporting framework and any applicable laws or regulations. In accordance with Revised SA 700:

    a. **FAIR PRESENTATION FRAMEWORK:** When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion, unless otherwise required by law or regulation, uses one of the following phrases:
        i. The financial statements present fairly, in all material respects, in accordance with the applicable financial reporting framework OR
        ii. The financial statements give a true and fair view in accordance with the applicable financial reporting framework and

    b. **COMPLIANCE FRAMEWORK:** When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a compliance framework, the auditor's opinion states that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

3. **NO EXPLICIT AFRFW FOR SFSE:**
    a. In the case of a single financial statement or of a specific element of a financial statement, the applicable financial reporting framework may not explicitly address the presentation of the financial statement or of the element. This may be the case when the applicable financial reporting framework is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements.

    b. The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework.

4. **FACTORS FOR WORDINGS OF FAIR PRESENTATION:** Factors that may affect the auditor's consideration as to whether to use the phrases "presents fairly, in all material respects", or "gives a true and fair view" in the auditor's opinion include:
    a. Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.

    b. Whether the single financial statement or the specific element of a financial statement will:

i. Comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element, and the presentation of the financial statement or the specific element of a financial statement include the related notes and disclosures.

ii. If necessary to achieve fair presentation, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.

c. The auditor's decision as to the expected form of opinion is a matter of professional judgment. It may be affected by whether use of the phrases "presents fairly, in all material respects", or "gives a true and fair view" in the auditor's opinion on a single financial statement or on a specific element of a financial statement prepared in accordance with a fair presentation framework is generally accepted in the particular jurisdiction.

Q NO 11. WRITE ABOUT ~~FORM~~ FORMING AN OPINION AND REPORTING CONSIDERATIONS FOR AUDIT OF SINGLE SET OF FINANCIAL STATEMENT OR ELEMENT?

ANSWER:

1. **APPLY SA 700:** When forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in Revised SA 700, adapted as necessary in the circumstances of the engagement.

2. **SAME PERSON AUDITED COMPLETE SET:** If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement.

3. **IF AUDITED SFSE AND AUDITED CSFS ARE PUBLISHED TOGETHER:**
   a. An audited single financial statement or an audited specific element of a financial statement may be published together with the entity's audited complete set of financial statements.

   b. If the auditor concludes that the presentation of a single financial statement or of the specific element of a financial statement does not differentiate it sufficiently from the complete set of financial statements, the auditor shall ask management to rectify the situation.

c. The auditor shall also differentiate the opinion on the single financial statement or on the specific element of a financial statement from the opinion on the complete set of financial statements.

d. The auditor shall not issue the auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement until satisfied with the differentiation.

4. **MODIFIED OPNION / EOMP / OMP IN AUDITORS REPORT ON CSFS:**

   a. **MODIFIED OPINION ON CSFS – M.O. ON SFSE:** If the opinion in the auditor's report on an entity's complete set of financial statements is modified, or that report includes an Emphasis of matter paragraph or other matter paragraph, the auditor shall determine the effect that this may have on the auditor's report on a single financial statement or on a specific element of those financial statements. When deemed appropriate, the auditor shall modify the opinion on the single financial statement or on the specific element of a financial statement, or include an Emphasis of matter paragraph or other matter paragraph in the auditor's report, accordingly.

   b. **ADVERSE OR DISCLAIER OF OPINION ON CSFS – SAME FOR SFSE:**

      i. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, Revised SA705 DOES NOT permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of those financial statements or on a specific element that forms part of those financial statements.

      ii. This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole.

   c. **SFSE – MAJOR ITEM OF CSFS:** The auditor shall not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.

d. **M.O. ON CSFS – U.M.O. ON SFSE [SFSE IS NOT A MAJOR ITEM]:** If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:
   i. The auditor is not prohibited by law or regulation from doing so.

   ii. That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion and

   iii. The specific element does not constitute a major portion of the entity's complete set of financial statements.

e. **CHECK ADEQUACY OF PRESENTATION AND DISCLOSURES IN SFSE:** Revised SA 700 requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements. In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, including the related notes, in view of the requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

f. **REFERENCE IN OMP IN AUDITORS REPORT ON SFSE – MODIFICATION IN CSFS NOT RELATED TO SFSE:** Even when the modified opinion on the entity's complete set of financial statements, Emphasis of matter paragraph or Other matter paragraph does not relate to the audited financial statement or the audited element, the auditor may still deem it appropriate to refer to the modification in an Other matter paragraph in an auditor's report on the financial statement or on the element because the auditor judges it to be relevant to the users' understanding of the audited financial statement or the audited element or the related auditor's report.

g. **ITEMISED OPINION ON CSFS:** In the auditor's report on an entity's complete set of financial statements, the expression of a disclaimer of opinion regarding the results of operations and cash flows, where relevant, and an unmodified opinion regarding the state of affairs is permitted since the disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the financial statements as a whole.

NOTE: SA 800 and 805 do not override the requirements of the other SAs; nor do they purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

Examples of Specific Elements, Accounts or Items of a Financial Statement are	Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not reported" claims in an insurance portfolio, including related notes.
	1. A schedule of externally managed assets and income of a private pension plan, including related notes. 2. A schedule of net tangible assets, including related notes. 3. A schedule of disbursements in relation to a lease property, including explanatory notes.

ILLUSTRATION 1.

CA M. Surya is auditor for financial statements of an entity prepared in accordance with financial reporting provisions of a contract. He is also offered audit of trade receivables appearing in above financial statements. Can he accept such engagement? Discuss brief outline of his audit approach in such a situation.

ANSWER:

The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, SA 800 also applies to the audit.

In the given case, financial statements of the entity are prepared in accordance with financial reporting provisions of a contract. It is a special purpose framework.

The auditor of financial statements prepared in accordance with special purpose framework is also offered audit of trade receivables appearing in above financial statements which relates to audit of element of financial statements prepared in accordance with special purpose framework.

Hence, his audit approach should include considering requirements of both SA 800 and SA 805.

ILLUSTRATION 2.

CA G is offered appointment for audit of trade payables of financial statements of a company. However, financial statements prepared under Companies Act, 2013 are audited by CA Jignesh. Discuss why it would be practically difficult for CA G to perform such an audit.

ANSWER:

Compliance with the requirements of SAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements.

In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records.

In the case of an audit of a specific element of a financial statement, certain SAs require audit work that may be disproportionate to the element being audited. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with SAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

SA 810 Engagements to Report on Summary Financial Statements

Q NO 12. WRITE ABOUT SCOPE OF SA 810 AND CONCEPT OF SUMMARY FINANCIAL STATEMENTS?

ANSWER:

SA 810 deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

SUMMARY FINANCIAL STATEMENTS:
Summary financial statements reflect historical financial information that is derived from financial statements, but that contains less detail than the financial statements while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time.

Q NO 13. WRITE ABOUT AUDITORS ACCEPTING AN ENGAGEMENT OF REPORTING ON SUMMARY FINANCIAL STATEMENTS:

ANSWER:

1. **ENGAGEMENT ACCEPTANCE:** The auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived. If the auditor has not also audited the financial statements from which the summary financial statements are derived, the auditor shall not have the necessary knowledge to discharge his responsibilities in relation to the summary financial statements in accordance with this SA.

2. Before accepting an engagement to report on summary financial statements, the auditor shall:

    a. **DETERMINE ACCEPTABILITY OF APPLIED CRITERIA:**

        i. Applied criteria refer to the criteria applied by management in the preparation of the summary financial statements.

        ii. Management is responsible for the determination of the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements.

iii. Because summary financial statements, by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances.

iv. This risk increases when established criteria for the preparation of summary financial statements do not exist.

b. Factors affecting the auditor's determination of the acceptability of the applied criteria:

i. The nature of the entity.

ii. The purpose of the summary financial statements.

iii. The information needs of the intended users of the summary financial statements and

iv. Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.

c. **CRITERIA SIMILAR TO AFRFW:** The criteria for the preparation of summary financial statements may be established by an authorised or recognised standards setting organisation or by law or regulation. Similar to the case of financial statements, as explained in SA 210, in many such cases, the auditor may presume that such criteria are acceptable. Where established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry.

d. **UNACCEPTABLE CRITERIA:**

i. If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management as discussed above, the auditor shall not accept the engagement to report on the summary financial statements, unless required by law or regulation to do so.

ii. An engagement conducted in accordance with such law or regulation does not comply with this SA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SA.

iii. The auditor shall include appropriate reference to this fact in the terms of the engagement. The auditor shall also determine the effect that this may have on the engagement to audit the financial statements from which the summary financial statements are derived.

e. **PROPER HEADING:** Adequate disclosure of the summarised nature of the summary financial statements and the identity of the audited financial statements, may, for example, be provided by a title such as "Summary financial statements prepared from the audited financial statements for the year ended March 31, 20XX"

Q NO 14. WRITE ABOUT OBTAINING AN AGREEMENT FROM MANAGEMENT REGARDING RESPONSIBILITIES ON SUMMARY FINANCIAL STATEMENTS?

ANSWER:

1. **OBTAIN THE AGREEMENT OF MANAGEMENT THAT IT ACKNOWLEDGES AND UNDERSTANDS ITS RESPONSIBILITY:**
   a. For the preparation of the summary financial statements in accordance with the applied criteria.

   b. To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements)

   c. The auditor's evaluation whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty is affected by factors such as whether:

      i. The summary financial statements describe clearly from whom or where the audited financial statements are available.
      ii. The audited financial statements are on public record.
      iii. Management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements.

   d. To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them.

2. **FORM OF OPINION:** Agree with management on the form of opinion to be expressed on the summary financial statements.

Q NO 15. WRITE ABOUT PROCEDURES TO BE PERFORMED BY THE AUDITOR FOR EXPRESSING OPINION ON SUMMARY FINANCIAL STATEMENTS?

ANSWER:

The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

1. **DISCLOSURE ABOUT AFS:** Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.

2. **NOT ACCOMPAIED AFS:** When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
   a. From whom or where the audited financial statements are available or

   b. The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.

3. **PRESENTATION AND DISCLORE OF APPLIED CRITERIA:** Evaluate whether the summary financial statements are prepared and adequately discloses the applied criteria.

4. **COMPARE WITH AFS:** Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.

5. **NECESSARY INFORMATION:** Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

6. **AFS AVAILABLE TO USERS:** Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements as discussed already.

Q NO 16. WRITE ABOUT Form of Opinion ON SUMMARY FINANCIAL STATEMENTS?

ANSWER:

1. **WORDINGS NOT GIVEN IN LAW:** When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases:

a. The summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria or

b. The summary financial statements are a fair summary of the audited financial statements, in accordance with the applied criteria

2. **LAW CONTAINS WORDINGS:** If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described above, the auditor shall:

    a. Apply the procedures discussed earlier and any further procedures necessary to enable the auditor to express the prescribed opinion and

    b. Evaluate whether users of the summary financial statements might misunderstand the auditor's opinion on the summary financial statements and, if so, whether additional explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding.

    c. If, the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so.

    d. An engagement conducted in accordance with such law or regulation does not comply with this SA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SA.

Q NO 17. WRITE ABOUT ELEMENTS OF AUDITOR'S REPORT ON SUMMARY FINANCIAL STATEMENTS?

ANSWER:

The auditor's report on summary financial statements shall include the following elements: -

1. **TITLE:** A title clearly indicating it as the report of an independent auditor

2. **ADDRESSEE:** If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include:
    a. The terms of the engagement,
    b. The nature of the entity, and

c. The purpose of the summary financial statements.

3. **INTRODUCTORY PARAGRAPH:**

a.	**REFERENCE TO EACH ITEM OF SUMMARY F/S:** Identifies the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements. When the auditor is aware that the summary financial statements will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers to identify the summary financial statements to which the auditor's report relates.
b.	**AFS:** Identifies the audited financial statements.
c.	**AUDITORS REPORT ON AFS:** Refers to the auditor's report on the audited financial statements, the date of that report, and, in cases other than where audited financial statements contain modified opinion, emphasis of matter paragraph and other matter paragraph, the fact that an unmodified opinion is expressed on the audited financial statements.
d.	**DATE OF SUMMARY IS DIFF FROM AFS:** If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, states that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements and
e.	**NOT A SUBSTITUTE FOR AFS:** A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.

4. **MANAGEMENT RESPONSIBILITIES:** A description of management's responsibility for the summary financial statements, explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria.

5. **AUDITORS RESPONSIBILITIES:** A statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by this SA.

6. **OPINION PARA:** A paragraph clearly expressing an opinion.

7. **SIGNATURE AND MEMBERSHIP OF AUDITOR:** The auditor's signature along with the firm registration number, wherever applicable, and the membership number assigned by the Institute of Chartered Accountants of India. Besides, UDIN is required to be stated.

8. **DATE OF AUDITORS REPORT:** The date of the auditor's report

The auditor shall date the auditor's report on the summary financial statements **NO EARLIER THAN:**

(i) The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognised authority have asserted that they have taken responsibility for them and

(ii) The date of the auditor's report on the audited financial statements.

9. **THE PLACE OF SIGNATURE.**

Q NO 18. WRITE ABOUT MODIFICATIONS TO THE OPINION, EMPHASIS OF MATTER PARAGRAPH OR OTHER MATTER PARAGRAPH IN THE AUDITOR'S REPORT ON THE AUDITED FINANCIAL STATEMENTS?

ANSWER:

When the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph, but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, also contain followings:

1. State that the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph and

2. Describe about:
    a. The basis for the qualified opinion on the audited financial statements, and that qualified opinion; or the Emphasis of Matter or the Other Matter paragraph in the auditor's report on the audited financial statements and

b. The effect thereof on the summary financial statements, if any.

3. **ADVERSE OR DISCLAIMER IN AUDITORS REPORT ON AFS:** When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, additionally:
   a. State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion.
   b. Describe the basis for that adverse opinion or disclaimer of opinion; and
   c. State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.

4. **MODIFIED OPINION ON THE SUMMARY FINANCIAL STATEMENTS:** If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements.

5. **RESTRICTION ON DISTRIBUTION OR USE OR ALERTING READERS TO THE BASIS OF ACCOUNTING:** When distribution or use of the auditor's report on the audited financial statements is restricted, or the auditor's report on the audited financial statements alerts readers that the audited financial statements are prepared in accordance with a special purpose framework, the auditor shall include a similar restriction or alert in the auditor's report on the summary financial statements.

6. **COMPARATIVES:**

   a. Comparatives in the audited financial statements may be regarded as corresponding figures or as comparative financial information. If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements.

   b. If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that SA 710 requires the auditor to include in the auditor's report on the audited financial statements.

Q NO 19. WRITE ABOUT UNAUDITED SUPPLEMENTARY INFORMATION PRESENTED WITH SUMMARY FINANCIAL STATEMENTS?

ANSWER:

The auditor shall evaluate whether any unaudited supplementary information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited supplementary information is not clearly differentiated from the summary financial statements, the auditor shall ask management to change the presentation of the unaudited supplementary information.

If management refuses to do so, the auditor shall explain in the auditor's report on the summary financial statements that such information is not covered by that report.

Q NO 20. WRITE ABOUT OTHER INFORMATION IN DOCUMENTS CONTAINING SUMMARY FINANCIAL STATEMENTS?

ANSWER:

1. The auditor shall read the other information included in a document containing the summary financial statements and related auditor's reports to consider whether there is a material inconsistency between the other information and the summary financial statements.

2. If the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised.

3. If, the auditor becomes aware that the other information needs to be revised, the auditor shall discuss the matter with management.

Q NO 21. HOW AUDITOR HAS TO REPOND IF THE ENTITY NOT INCLUDING AUDITORS REPORT ON SUMMARY FINANCIAL STATEMENTS IN A DOCUMENT CONTAINING SUCH F/S OR AUDITORS HAD NOT AUDITED SUMMARY F/S? [AUDITORS ASSOSIATION]

ANSWER:

1. If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document.

2. If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document.

3. The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:

   a. The reference to the auditor is made in the context of the auditor's report on the audited financial statements and

   b. The statement does not give the impression that the auditor has reported on the summary financial statements.

   If (a) or (b) are not met, the auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the related auditor's report in the document.

4. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor.

Q NO 22. WRITE ABOUT TIMING OF WORK AND EVENTS SUBSEQUENT TO THE DATE OF THE AUDITOR'S REPORT ON THE AUDITED FINANCIAL STATEMENTS?

ANSWER:

NO NEED TO OBTAIN EVIDENCE SUBSEQUENT TO AUDITORS REPORT DATE ON AUDITED F/S:

When the auditor reports on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements since the summary financial statements are derived from the audited financial statements.

ILLUSTRATION 3.

CA Madhur is auditor of a company and has issued audit report dated 15th June of a particular year. The audit report on summary financial statements derived from such audited financial

statements is dated 15th July of that particular year. Discuss whether there exists any additional reporting responsibility for auditor in such a situation in respect of audit report on summary financial statements.

ANSWER:

The audit report on summary financial statements derived from audited financial statements is dated 15th July of that particular year. However, the audit report on audited financial statements is dated 15th June of that year.
In the above situation, the auditor's report on summary financial statements should state that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements.

ILLUSTRATION 4.

Consider that the audit report on financial statements issued by CA Madhur for above said company contains qualified opinion. Can he issue an unmodified opinion on summary financial statements derived from audited financial statements? Discuss.

ANSWER:

If the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, he can issue an unmodified opinion.

However, when auditor's report on audited financial statements contains a qualified opinion, the auditor's report on the summary financial statements shall, also contain following:

1. State that the auditor's report on the audited financial statements contains a qualified opinion
2. Describe:
    a. The basis for the qualified opinion on the audited financial statements, and that qualified opinion in the auditor's report on the audited financial statements; and

    b. The effect thereof on the summary financial statements, if any. Hence, above points should be included by CA Madhur.

TEST YOUR KNOWLEDGE

Q.NO.1. CA P is auditor of a company responsible for auditing complete set of financial statements. He intends to express adverse opinion on complete set of financial statements considering conclusions drawn by him during course of audit. He is also auditing trade receivables of company for the same period in a separate engagement. Can he express unmodified opinion in respect of trade receivables? If so, discuss those circumstances.

ANSWER:

Q.NO.2. List out few factors affecting auditor's determination of the acceptability of the applied criteria before accepting audit of summary financial statements.

ANSWER:

Q.NO.3. SA 800 deals with special considerations applicable in respect of audit of financial statements prepared in accordance with special purpose framework. Explain, by giving examples, meaning of special purpose framework.

ANSWER:

Q.NO.4. CA Y is auditor of a company. He has expressed adverse opinion on audited financial statements. What additional points he has to keep in mind while expressing opinion on summary financial statements derived from such audited financial statements?

ANSWER:

15. RELATED SERVICES

Chartered Accountants in practice are often asked to provide services to clients which do not involve the expression of an opinion on the truth and fairness of the financial statements.
For the purpose of standardising the procedures 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.**

The following standards have been issued under Standards on Related Services:

1. SRS 4400 Engagements to Perform Agreed-upon Procedures Regarding Financial Information

2. SRS 4410 Compilation Engagements

Q.NO.1. WHAT ARE RELATED SERVICES?

ANSWER:

1. **ASSURANCE ENGAGEMENTS:**
    a. "Assurance engagement" means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

    b. It means that the practitioner gives an opinion about specific information due to which users of information are able to make confident decisions knowing well that chance of information being incorrect is diminished.

2. **RELATED SERVICES:**
    a. Not all engagements performed by practitioners are assurance engagements.

    b. Other frequently performed engagements that do not meet the definition of assurance engagements are in the nature of Related Services and they include:
        i. The preparation of tax returns where no conclusion conveying assurance is expressed.
        ii. Consulting (or advisory) engagements such as management and tax consulting.
        iii. Engagements covered by Standards for Related Services, such as agreed-upon procedures engagements and compilations of financial or other information.

3. **AGREED-UPON PROCEDURES:** 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.

4. A person performing related services need not necessarily be the auditor of the entity's financial statements.

SRS 4400 Engagements to Perform Agreed upon procedures regarding Financial Information

Q.NO.2. WRITE ABOUT OBJECTIVE IN ACCORDANCE WITH SRS 4400?

ANSWER:

1. 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 agreed and to report on factual findings.

2. As the auditor simply provides a report of the factual findings of agreed upon procedures, no assurance is provided 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.

3. The report is usually 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.

4. Such agreed-upon procedures engagements are non-assurance engagements.

Q.NO.3. WHAT ARE THE DIFFERENCES BETWEEN AUDIT AND AGREED-UPON PROCEDURES GIVE AN EXAMPLE OF AN AGREED UPON PROCEDURES?

ANSWER:

A key difference between an audit and agreed-upon procedures relates to assurance.

1. An audit expresses an opinion and provides assurance to users.

2. In an agreed-procedures engagement, only a report of the factual findings of agreed-upon procedures is provided. No assurance is given to users. Instead, users draw their own conclusions based on factual findings stated in the report.

3. For example, an agreed upon procedures engagement to evaluate validity of accounts payable may state the following:
   a. Comparing of names of major suppliers and the amounts outstanding as on a date to the related names and amounts in the trial balance
   b. Obtaining suppliers statements or confirmations from suppliers to confirm balances outstanding on a date

c. Comparison of such statements or confirmations to the amounts in trial balance
d. 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.

Q.NO.4. WHAT ARE THE GENERAL PRINCIPLES OF AN AGREED-UPON PROCEDURES ENGAGEMENT?

ANSWER:

1. 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 include integrity, objectivity, professional competence and due care, confidentiality, professional conduct and technical standards.

2. 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.

3. Where the auditor is not independent, a statement to that effect should be made in the report of factual findings.

Q.NO.5. WRITE ABOUT THE TERMS OF THE ENGAGEMENT IN AN AGREED UPON PROCEDURES?

ANSWER:

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

2. **MATTERS TO INCLUDE IN AN ENGAGEMENT LETTER:**

   a. 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.

   b. 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. Matters that would be included in the engagement letter include:

i. A listing of the procedures to be performed as agreed-upon between the parties.

ii. 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.

3. **MATTERS TO BE AGREED:** Matters to be agreed include the following:
   a. 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

   b. Stated purpose for the engagement

   c. Identification of the financial information to which the agreed-upon procedures will be applied.

   d. Nature, timing and extent of the specific procedures to be applied

   e. 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.

Q.NO.6. WRITE ABOUT PLANNING AND PROCEDURES IN AN AGREED UPON PROCEDURES?

ANSWER:

1. **PLAN:** The auditor should plan the work so that an effective engagement will be performed.

2. **PROCEDURES AND EVIDENCE:** The auditor should carry out the procedures agreed-upon and use the evidence obtained as the basis for the report of factual findings. The procedures applied in an engagement to perform agreed-upon procedures may include:
   a. Inquiry and analysis
   b. Re computation, comparison and other clerical accuracy checks
   c. Observation
   d. Inspection
   e. Obtaining confirmations

Q.NO.7. WRITE ABOUT DOCUMENTATION AND REPORTING ASPECTS IN AN AGREED UPON PROCEDURES?

ANSWER:

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. The report of factual findings should contain:

ELEMENTS OF THE REPORT IN CASE OF AGREED UPON PROCEDURES
1. Title
2. Addressee (ordinarily, the appointing authority)
3. Identification of specific financial or non-financial information to which the agreed- upon procedures have been applied
4. A statement that the procedures performed were those agreed-upon with the recipient
5. A statement that the engagement was performed in accordance with the Standard on Related Services applicable to agreed-upon procedures engagements
6. Identification of the purpose for which the agreed-upon procedures were performed
7. A listing of the specific procedures performed
8. A description of the auditor's factual findings including sufficient details of errors and exceptions found
9. A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed
10. 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
11. A statement that the report is restricted to those parties that have agreed to the procedures to be performed
12. 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
13. Date of the report
14. Place of signature and
15. Auditor's signature

DOCUMENTATION:

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 SRS and the terms of the engagement.

ILLUSTRATION 1.

A company asks you to carry out process of confirmation of its accounts receivables having balances in excess of Rs.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 described engagement is an agreed-upon procedures engagement. Following points have to be kept in mind for being included in the report:

1. A statement that the procedures performed were those agreed-upon with the recipient
2. A statement that the engagement was performed in accordance with the Standard on Related Services applicable to agreed-upon procedures engagements
3. Identification of the purpose for which the agreed-upon procedures were performed
4. A listing of the specific procedures performed
5. A description of the auditor's factual findings including sufficient details of errors and exceptions found
6. A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed
7. A statement that the report is restricted to those parties that have agreed to the procedures to be performed
8. A statement 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

SRS 4410 Compilation Engagements

Q.NO.8. WRITE ABOUT SA 4410 AND ITS APPLICABILITY?

ANSWER:

1. SRS 4410 deals with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information, and to report on the engagement in accordance with this SRS.

2. It applies to compilation engagements for historical financial information.

3. Compilation engagements for financial information other than historical financial information, and compilation engagements for non-financial information can be performed under this Standard after necessary adaptation.

4. SQC 1 is applicable to all Engagement Standards. Since SRS 4410 is also one of Engagement Standards, SQC 1 applies to firms in respect of firm's compilation engagements too.

Q.NO.9. WHAT IS A COMPILATION ENGAGEMENT AND VARIOUS PURPOSES OF THE SAME?

ANSWER:

1. **MEANING:** 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.

2. **CAP WILL ASSIST:** Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity.

3. **NOT AN ASSURANCE ENGAGEMENT:** A compilation engagement is not an assurance engagement. A compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation, or otherwise to gather evidence to express an audit opinion or a review conclusion on the preparation of the financial information.

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

b. For other purposes including for example:
   i. 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).

   ii. 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).

   iii. 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).

Q.NO.10. WHAT ARE THE OBJECTIVES IN ACCORDANCE WITH SRS 4410?

ANSWER:

The practitioner's objectives in a compilation engagement under this SRS are to:

1. Apply accounting and financial reporting expertise to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework based on information provided by management and

2. Report in accordance with the requirements of this SRS.

Q.NO.11. WRITE ABOUT SCOPE OF COMPILATION ENGAGEMENTS?

ANSWER:

1. The scope of a compilation engagement will vary depending on the circumstances of the engagement. However, in every case it will involve assisting management in the preparation and presentation of the entity's financial information in accordance with the financial reporting framework, based on information provided by management.

2. In some compilation engagements, management may have already prepared the financial information itself in a draft or preliminary form.

3. Management retains responsibility for the financial information and the basis on which it is prepared and presented. That responsibility includes application by management of the judgment required for the preparation and presentation of the financial information, including

the selection and application of appropriate accounting policies and, where needed, developing reasonable accounting estimates.

4. Different financial reporting frameworks can be used to prepare and present financial information, ranging from a simple entity-specific basis of accounting to established financial reporting standards. The financial reporting framework adopted by management to prepare and present the financial information will depend on the nature of the entity and the intended use of the information.

Q.NO.12. WHAT ARE THE ETHICAL REQUIREMENTS IN THE CONTEXT OF COMPLIATION ENGAGEMENTS?

ANSWER:

1. The practitioner shall comply with relevant ethical requirements. In complying with the Code of Ethics, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.

2. Being in nature of non-assurance engagement, independence requirements do not apply to compilation engagements. However, laws or regulations may specify requirements or disclosure rules pertaining to independence.

Q.NO.13. WRITE ABOUT ENGAGEMENT ACCEPTANCE AND CONTINUANCE IN THE CONTEXT OF COMPILATION ENGAGEMENT?

ANSWER:

The practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including:

1. The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable

2. Identification of the applicable financial reporting framework.

3. The objective and scope of the compilation engagement

4. The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements

5. **RESPONSIBILITES OF MANAGEMENT:** The responsibilities of management for:

a. The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users

b. Design, implementation and maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

c. The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement and

d. Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement

6. The expected form and content of the practitioner's report.

7. ENGAGEMENT LETTER:

a. The practitioner shall record the agreed terms of engagement in an engagement letter or other suitable form of written agreement, prior to performing the engagement.

b. On recurring compilation engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is need to remind management of the existing terms of engagement.

Q.NO.14. WRITE ABOUT PERFORMING THE COMPILATION ENGAGEMENT?

ANSWER:

1. The practitioner shall obtain an understanding of the following matters sufficient to be able to perform the compilation engagement:
   a. The entity's business and operations, including the entity's accounting system and accounting records and

   b. The applicable financial reporting framework, including its application in the entity's industry.

2. **COMPILING THE FINANCIAL INFORMATION:**
   a. The practitioner shall compile the financial information using the records, documents, explanations and other information, including significant judgments, provided by management.

b. The practitioner shall discuss with management, or those charged with governance as appropriate, those significant judgments, for which the practitioner has provided assistance in the course of compiling the financial information.

c. Prior to completion of the compilation engagement, the practitioner shall read the compiled financial information in light of the practitioner's understanding of the entity's business and operations, and of the applicable financial reporting framework.

d. If, in the course of the compilation engagement, the practitioner becomes aware that the records, documents, explanations or other information, including significant judgments, provided by management for the compilation engagement are incomplete, inaccurate or otherwise unsatisfactory, the practitioner shall bring that to the attention of management and request the additional or corrected information.

e. If the practitioner is unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.

3. **PROPOSE AMENDMENTS:** If the practitioner becomes aware during the course of the engagement that:
   a. The compiled financial information does not adequately refer to or describe the applicable financial reporting framework
   b. Amendments to the compiled financial information are required for the financial information not to be materially misstated or
   c. The compiled financial information is otherwise misleading,

   The practitioner shall propose the appropriate amendments to management in the above cases.

4. **WITHDRAW FROM ENGAGEMENT:**
   a. 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.

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

5. **OBTAIN ACKNOWLEDGEMENT FROM MANAGEMENT:** The practitioner shall obtain an acknowledgement from management or those charged with governance, as appropriate, that they have taken responsibility for the final version of the compiled financial information.

6. **COMMUNICATION WITH MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE:** The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the compilation engagement, all matters concerning the compilation engagement that, in the practitioner's professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate.

Q.NO.15. WRITE ABOUT THE PRACTITIONER'S REPORT ON COMPILATION ENGAGEMENT?

ANSWER:

The practitioner's report is to clearly communicate the nature of the compilation engagement, and the practitioner's role and responsibilities in the engagement. The practitioner's report is not a vehicle to express an opinion or conclusion on the financial information in any form.

The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements:

1. Title
2. The addressee(s), as required by the terms of the engagement
3. A statement that the practitioner has compiled the financial information based on information provided by management
4. A description of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information
5. Identification of the applicable financial reporting framework and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information
6. Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates.
7. A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this SRS, and that the practitioner has complied with relevant ethical requirements.
8. A description of what a compilation engagement entails in accordance with this SRS

9. Explanations that:
    a. Since a compilation engagement is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation and

    b. Accordingly, the practitioner does not express an audit opinion or a review conclusion on whether the financial information is prepared in accordance with the applicable financial reporting framework.

10. If the financial information is prepared using a special purpose financial reporting framework, an explanatory paragraph that:
    a. Describes the purpose for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information and

    b. Draws the attention of readers of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the information may not be suitable for other purposes.

11. The date of the practitioner's report

12. The practitioner's signature and

13. The place of signature.

Q.NO.16. WRITE ABOUT Engagement Level Quality Control AND DOCUMENTATION IN THE CONTEXT OF COMPILATION ENGAGEMENT?

ANSWER:

1. **ENGAGEMENT LEVEL QUALITY CONTROL:** The engagement partner shall take responsibility for:

    a. The overall quality of each compilation engagement to which that partner is assigned and

    b. The engagement being performed in accordance with the firm's quality control policies and procedures

2. **DOCUMENTATION:**
3. The practitioner shall include in the engagement documentation:
    a. Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner

b. A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management and

c. A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report.

d. The practitioner may consider also including in the engagement documentation a copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.

ILLUSTRATION 2.

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 Rs.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 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 Rs.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 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.

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.

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

TEST YOUR KNOWLEDGE

Q.NO.1. List out few intended purposes of a "compilation engagement."

ANSWER:

Q.NO.2. 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:

Q.NO.3. How do "related services" differ from assurance engagements?

ANSWER:

Q.NO.4. Discuss main documentation requirements to be taken care of by a practitioner while performing a compilation engagement under SRS 4410.

ANSWER:

Q.NO.5. 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:

16. REVIEW OF FINANCIAL INFORMATION

Standards on Review Engagements apply where "Review" of financial information is undertaken by the practitioner. Following Standards on review engagements have been issued in this regard:

SRE 2400 Engagements to Review Historical Financial Statements	
SRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity	

It is worth remembering that Standards on Quality Control (SQCs) are to be applied for all services covered by Engagement Standards. Standards on review engagements are part of Engagement Standards. Therefore, quality control at the level of individual review engagements is premised on the basis that the firm is subject to SQC 1.

Q NO 1. WHAT IS REVIEW?

ANSWER:

1. "Review" is a limited assurance engagement. Limited assurance is the level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion.

2. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements.

3. In simpler terms, limited assurance engagement provides lower level of assurance than audit. It involves fewer procedures and, gathers sufficient and appropriate evidence on basis of which limited conclusions can be drawn up.

4. However, "review" is related to financial statements prepared on basis of historical financial information just like an audit.

Q NO 2. HOW REVIEW IS DIFFERENT FROM AUDIT?

ANSWER:

An audit engagement has many similarities with a review engagement. However, there are certain important areas of distinction relating to the nature of engagement, its performance, objective and reporting highlighted under:

Overview of distinctive areas between Audit and Review:

Audit	Review
Audit is a type of reasonable assurance engagement providing reasonable level of assurance.	Review is a type of limited assurance engagement providing a lower level of assurance than reasonable assurance engagement.
It performs elaborate and extensive procedures including tests of controls and substantive procedures.	It performs fewer procedures primarily focusing on inquiry and analytical procedures.
It draws reasonable conclusions on the basis of sufficient appropriate evidence.	It draws limited conclusions on the basis of sufficient appropriate evidence.
It provides an assurance opinion.	It provides an assurance conclusion.
The language of assurance opinion is positively worded.	The language of assurance conclusion is negatively worded.

SRE 2400 Engagements to Review Historical Financial Statements

Q NO 3. WHAT IS SCOPE OF SRE 2400?

ANSWER:

SRE 2400 deals with: -

- The practitioner's responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements and
- The form and content of the practitioner's report on the financial statements.

1. SRE 2400 deals with the practitioner's responsibilities performing a review of historical financial statements when the practitioner is NOT THE AUDITOR of the entity's financial statements.

2. In a review of financial statements, the practitioner expresses a conclusion that is designed to enhance the degree of confidence of intended users regarding the preparation of an entity's financial statements in accordance with an applicable financial reporting framework.

3. Such financial statements may have been prepared using general purpose framework or special purpose framework.

4. The practitioner's conclusion is based on the practitioner obtaining limited assurance. The practitioner's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.

5. The practitioner performs primarily inquiry and analytical procedures to obtain sufficient and appropriate evidence as the basis for a conclusion on the financial statements as a whole.

6. If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, he/she designs and performs additional procedures, as he/she considers necessary in the circumstances, to be able to conclude on the financial statements.

Q NO 4. WHAT ARE THE OBJECTIVES IN A REVIEW OF FINANCIAL STATEMENTS IN ACCORDANCE WITH SRE 2400?

ANSWER:

1. **OBTAINED LIMITED ASSURANCE:** The practitioner's objectives in a review of financial statements in accordance with SRE 2400 are as under:
   a. Obtain limited assurance, primarily by making an inquiry and performing analytical procedures, about whether the financial statements as a whole are free from material misstatement, thereby enabling the practitioner to express a conclusion on whether anything has come to his attention that causes him to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

   b. Report on the financial statements as a whole and communicate, as required by this SRE.

2. **NOT OBTAINED LIMITED ASSURANCE:** In all cases when limited assurance cannot be obtained and a modified conclusion in the practitioner's report is insufficient in the circumstances, this SRE requires that the practitioner either to disclaim a conclusion in the report issued for the engagement or, where appropriate to withdraw from the engagement if withdrawal is possible under applicable law or regulations.

ILLUSTRATION 1.

Roma Limited has entered into a contract with Dorma Limited. There is a condition in the contract by virtue of which Roma Limited is required to get its financial statements reviewed for a year on a quarterly basis in accordance with the financial reporting provisions of the contract. Can Roma Limited get its financial statements reviewed from a professional accountant in practice?

ANSWER:

The above financial statements are prepared in accordance with special purpose framework in accordance with requirements of a contract. Financial statements prepared in accordance with special purpose framework can also be reviewed by a professional accountant in practice and review report may be issued in accordance with SRE 2400.

Q NO 5. WRITE ABOUT COMPLIANCE WITH ETHICAL REQUIREMENTS AND ENGAGEMENT LEVEL QUALITY CONTROL IN THE CONTEXT OF REVIEW ENGAGEMENT?

ANSWER:

1. **ETHICAL REQUIREMENTS:** The practitioner shall comply with relevant ethical requirements, INCLUDING those pertaining to INDEPENDENCE and the engagement partner is responsible for overall quality of each review engagement.

2. **ACCEPTANCE AND CONTINUANCE OF RELATIONSHIP:** Factors affecting Acceptance and Continuance of Client Relationships and Review Engagements. Unless required by law or regulation, the practitioner SHALL NOT accept a review engagement if:

    a. **NO RATIONALE OR REVIEW ENGAGEMENT IS NOT APPROPRIATE:**

    i. **NO RATIONALE:** The practitioner is NOT SATISFIED that there is a rational purpose for the engagement. Assurance engagements may only be accepted when the engagement exhibits certain characteristics that are conducive to achieving the practitioner's objectives specified for the engagement.

    It may be unlikely that there is a rational purpose for the engagement if, for example, there is a significant limitation on the scope of work or the practitioner suspects association of the practitioner's name with the financial statements in an inappropriate manner.

    Similarly, when the engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited, there is no rational purpose for such a review engagement.

    ii. **REVIEW ENGAGEMENT NOT APPROPRIATE:** The practitioner is NOT SATISFIED that a review engagement would be appropriate in the circumstances.

    When the practitioner's preliminary understanding of the engagement circumstances indicates that accepting a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken.

    Depending on the circumstances, the practitioner may, for example, believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude the performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.

b. **NON-COMPLIANCE WITH ETHICAL REQUIREMENTS:** The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied.

c. **NON-AVAILABILITY OF INFORMATION:** The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable.

d. **DOUBTS ABOUT INTEGRITY OF MANAGEMENT:** The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review.

e. **LIMITATION ON SCOPE BY MANAGEMENT:** Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes that the limitation will result in the practitioner disclaiming a conclusion on the financial statements.

Q NO 6. WHAT ARE THE PRECONDITIONS FOR ACCEPTING A REVIEW ENGAGEMENT?

ANSWER:

1. Acceptability of financial reporting framework applied in preparation of financial statements.

2. Agreement of management in acknowledging and understanding its responsibility for preparation of financial statements and internal control.

3. Providing access to all information to the practitioner for the purpose of review and unrestricted access to persons within the entity.

Q NO 7. WHAT ARE THE POINTS TO BE CONSIDERED PRIOR TO ACCEPTING A REVIEW ENGAGEMENT?

ANSWER:

The practitioner shall:

1. **ACCEPTABILITY OF FRFW:** Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose

financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users.

2. **MANAGEMENT RESPONSIBILITIES:** Obtain the agreement of management that it acknowledges and understands its responsibilities:

    a. For the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation.

    b. For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and

    c. To provide the practitioner with:
        i. Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters.
        ii. Additional information that the practitioner may request from management for the purpose of the review and
        iii. Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.

3. If the practitioner is not satisfied as to any of the matters set out above as preconditions for accepting a review engagement, the practitioner shall discuss the matter with the management or those charged with governance.

4. If changes cannot be made to satisfy the practitioner as to those matters, the practitioner shall not accept the proposed engagement unless required by law or regulation to do so. Further, an engagement conducted under such circumstances does not comply with this SRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this SRE.

5. If it is discovered after the engagement has been accepted that the practitioner is not satisfied as to any of the above preconditions, the practitioner shall discuss the matter with the management or those charged with governance and shall determine:
    a. Whether the matter can be resolved.

    b. Whether it is appropriate to continue with the engagement and

    c. Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.

Q NO 8. WRITE ABOUT AGREEING TO THE TERMS OF REVIEW ENGAGEMENT?

ANSWER:

1. **PRIOR TO PERFORMING THE ENGAGEMENT:** The practitioner shall agree to the terms of the engagement with the management or those charged with governance, as appropriate, prior to performing the engagement.

2. **IN WRITING:** The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement.

3. **RECURRING ENGAGEMENTS:** On recurring review engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is a need to remind management or those charged with governance, as appropriate, of the existing terms of engagement.

4. **CHANGE IN TERMS OF ENGAGEMENT:**

   a. **REASONABLE JUSTIFICATION:** The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. If, prior to completing the review engagement, the practitioner is requested to change the engagement to an engagement for which NO assurance is obtained, the practitioner shall determine whether there is reasonable justification for doing so.

   b. **NEW TERMS IN WRITING:** If the terms of engagement are changed during the course of the engagement, the practitioner and the management or those charged with governance, as appropriate, shall agree on and record the new terms of engagement in an engagement letter or any other suitable form of written agreement.

Q NO 9. WRITE ABOUT OVERVIEW OF PERFORMING THE REVIEW ENGAGEMENT AFTER ITS ACCEPTANCE IN ACCORDANCE WITH SRE2400?

ANSWER:

Determine materiality for financial statements as a whole

Obtain understanding of entity and applicable financial reporting framework to identify areas of possible material misstatements

Design and perform "Inquiry" and "Analytical procedures"

Perform procedures to address specific circumstances

Perform other procedures, if necessary, in circumstances

A. MATERIALITY IN A REVIEW OF FINANCIAL STATEMENTS:

1. The practitioner shall determine materiality for the financial statements as a whole and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures.

2. The practitioner's judgment about what is material in relation to the financial statements as a whole is the SAME regardless of the level of assurance obtained by a practitioner as the basis for expressing the conclusion on the financial statements.

3. The practitioner shall revise materiality for the financial statements as a whole in the event of becoming aware of any information during the review that would have caused the practitioner to have determined a different amount initially.

B. OBTAINING UNDERSTANDING OF THE ENTITY:

The practitioner shall obtain an understanding of the entity and its environment and the applicable financial reporting framework to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas.

C. DESIGNING AND PERFORMING PROCEDURES THROUGH INQUIRY AND ANALYTICAL PROCEDURES:

1. In obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, the practitioner shall design and perform inquiry and analytical procedures:
    a. To address all material items in the financial statements, including disclosures and

    b. To focus on addressing areas in the financial statements where material misstatements are likely to arise.

2. The requirements relating to designing and performing of inquiry and analytical procedures, and procedures addressing specific circumstances, are designed to enable the practitioner to achieve the objectives of this SRE. The circumstances of review engagements vary widely and, accordingly, there may be circumstances where the practitioner may consider it effective or efficient to design and perform other procedures.

   For example, if in the course of obtaining an understanding of the entity, the practitioner becomes aware of a significant contract the practitioner may choose to read the contract.

3. The fact that the practitioner may deem it necessary to perform other procedures does not alter the practitioner's objective of obtaining limited assurance in relation to the financial statements as a whole.

4. The practitioner may consider, reviewing the accounting records with a view to identifying significant or unusual transactions that may require specific attention in the review.

5. **INQUIRY:**
   a. In a review, inquiry includes seeking information from management and other persons within the entity, as the practitioner considers appropriate in the engagement circumstances.

   b. Inquiries may include matters such as those relating to:
      i. Making of accounting estimates,

      ii. Identification of related parties,

      iii. About significant, complex or unusual transactions,

      iv. Existence of any actual, suspected or alleged fraud,

      v. **SUBSEQUENT EVENTS:** Events occurring between the date of the financial statements and practitioner's report,

      vi. Basis for management's assessment of the entity's ability to continue as a going concern,

      vii. Events or conditions that appear to cast doubt on the entity's ability to continue as a going concern,

      viii. **CONTINGENCIES:** Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements including disclosures and material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration.

c. **NON-FINANCIAL INFORMATION:** The practitioner may also extend inquiries to obtain non-financial data if appropriate. Depending on the engagement circumstances, inquiries may also include inquiries about:

   i. Actions taken at meetings of owners, those charged with governance and committees thereof, and proceedings at other meetings, if any, that affect the information and disclosures contained in the financial statements.

   ii. Communications the entity has received, or expects to receive or obtain, from regulatory agencies.

   iii. Matters arising in the course of applying other procedures.

d. Evaluating the responses provided by the management is integral to the inquiry process.

e. When performing further inquiries in relation to identified inconsistencies, the practitioner considers the reasonableness and consistency of management's responses in light of the results obtained from other procedures, and the practitioner's knowledge and understanding of the entity and the industry in which it operates.

6. **ANALYTICAL PROCEDURES:** In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are adequate for the purpose of performing the analytical procedures.

Q NO 10. WHY "INQUIRY" AND "ANALYTICAL PROCEDURES" ARE IMPORTANT IN REVIEW?

ANSWER:

In a review, the practitioner mainly focuses upon inquiry and analytical procedures for obtaining sufficient appropriate evidence as the basis for conclusion on financial statements as a whole:

1. **WHY INQUIRY:**
   a. Evidence obtained through inquiry is often the principal source of evidence about management intent.

   b. **INFORMATION ABOUT MANAGEMENT INTENTS:** However, information available to support management's intent may be limited. In that case:

i. Understanding management's past history of carrying out its stated intentions,

ii. Management's stated reasons for choosing a particular course of action, and

iii. Management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry.

c. **SKEPTICISM IN EVALUATING RESPONSE:** Application of professional scepticism in evaluating responses provided by management is important to enable the practitioner to evaluate whether there are any matters that would cause the practitioner to believe the financial statements may be materially misstated.

d. Performing inquiry procedures also assists the practitioner in obtaining or updating the practitioner's understanding of the entity and its environment, to be able to identify areas where material misstatements are likely to arise in the financial statements.

2. **WHY ANALYTICAL PROCEDURES:** In a review of financial statements, performing analytical procedures assists the practitioner in:

a. Obtaining or updating the practitioner's understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.

b. Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.

c. Providing corroborative evidence in relation to other inquiries or analytical procedures already performed.

d. Serving as additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe that the financial statements may be materially misstated.

An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across profit centers, branches or other components of the entity, to provide evidence about financial information contained in line items or disclosures made in the financial statements.

e. Various methods may be used to perform analytical procedures ranging from performing simple comparisons to performing complex analysis using statistical techniques. The practitioner may, for example:

i. Apply analytical procedures to evaluate the financial information underlying the financial statements and assessment of results for consistency with expected values.

ii. Expectations may be developed by the practitioner on information obtained from relevant sources like information regarding the industry in which entity operates.

Q NO 11. WHAT ARE PROCEDURES TO ADDRESS SPECIFIC CIRCUMSTANCES IN CASE OF REVIEW ENGAGEMENT?

ANSWER:

1. **RELATED PARTIES:** During the review, the practitioner shall remain alert for:

   a. Arrangements or information that may indicate the existence of related party relationships or transactions that the management has not previously identified or disclosed to the practitioner.

   b. If the practitioner identifies significant transactions outside the entity's normal course of business during the course of review, the practitioner shall inquire with the management about the nature of those transactions, possible involvement of related parties and the business rationale (or lack thereof) of those transactions.

2. **FRAUD AND NON-COMPLIANCE WITH LAWS OR REGULATIONS:** When there is an indication that fraud or non-compliance with laws or regulations, or suspected fraud or non-compliance with laws or regulations, has occurred in the entity, the practitioner shall communicate that matter to the appropriate level of senior management or those charged with governance as appropriate and request management's assessment of the effects, if any, on the financial statements.

   The practitioner has to consider the effect, if any, of management's assessment of the effects of fraud or non-compliance with laws or regulations communicated to him on his conclusion on the financial statements and on his report and determine whether there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity.

3. **GOING CONCERN:** A review of financial statements includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall:

   a. Inquire of management about plans for future actions affecting the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes that the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern.

b. Evaluate the results of those inquiries, to consider whether management's responses provide a sufficient basis to:

c. Continue to present the financial statements on the going concern basis if the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern or

d. Conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern and

e. Consider management's responses in light of all relevant information of which the practitioner is aware as a result of the review.

4. **USE OF WORK PERFORMED BY OTHERS:** In performing the review, it may be necessary for the practitioner to use work performed by other practitioners, or the work of an individual or organization possessing expertise in a field other than accounting or assurance. If the practitioner uses work performed by another practitioner or an expert in the course of performing the review, the practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the practitioner's purposes.

5. **REVIEW OF GROUP FINANCIAL STATEMENTS:** When the practitioner is engaged to review the financial statements of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the practitioner's objectives for the review engagement in accordance with this Standard but in the context of the group financial statements.

Q NO 12. WHAT ARE THE ADDITIONAL PROCEDURES WHEN THE PRACTITIONER BECOMES AWARE THAT THE FINANCIAL STATEMENTS MAY BE MATERIALLY MISSTATED?

ANSWER:

1. If the practitioner becomes aware of matters that causes the practitioner to believe that the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

    a. Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated or

    b. Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

2. The practitioner's response in undertaking additional procedures with respect to an item the practitioner has cause to believe may be materially misstated in the financial statements will vary, depending on the circumstances, and is a matter for the practitioner's professional judgment.

3. Additional procedures focus on obtaining sufficient appropriate evidence to enable the practitioner to form a conclusion on matters that the practitioner believes may cause the financial statements to be materially misstated. The procedures may be:

    a. Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e., amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements); or

    b. Other types of procedures, for example, substantive test of details or external confirmations.

An example explaining when additional procedures may be necessary in Review:

In course of performing inquiry and analytical procedures for review, analysis of accounts receivable shows a material amount of past due accounts receivable, for which there is no allowance for bad or doubtful debts. This causes the practitioner to believe that the accounts receivable balance in the financial statements may be materially misstated. The practitioner then inquires of management whether there are uncollectible accounts receivable that would need to be shown as being impaired.

Depending on management's response, the practitioner's evaluation of the response may:

1. Enable the practitioner to conclude that the accounts receivable balance is not likely to be materially misstated. In that case, no further procedures are required.

2. Enable the practitioner to determine that the matter causes the financial statements to be materially misstated. No further procedures are required, and the practitioner would form the conclusion that the financial statements as a whole are materially misstated.

3. Lead the practitioner to continue to believe that the accounts receivable balance is likely to be materially misstated, while not providing sufficient appropriate evidence for the practitioner to determine that they are in fact misstated.

In that case, the practitioner is required to perform additional procedures, for example, requesting from management an analysis of amounts received for those accounts after the balance sheet date to identify uncollectible accounts receivable.

The evaluation of the results of the additional procedures may enable the practitioner to get to (1) or (2) above.

If not, the practitioner is required to:

a. Continue performing additional procedures until the practitioner reaches either (1) or (2) above or

b. If the practitioner is not able to either conclude that the matter is not likely to cause the financial statements as a whole to be materially misstated or to determine that the matter does cause the financial statements as a whole to be materially misstated, then a scope limitation exists and the practitioner is not able to form an unmodified conclusion on the financial statements.

Q NO 13. WHAT ARE THE REVIEW PROCEDURES RELATED TO SUBSEQUENT EVENTS IN THE CONTEXT OF REVIEW ENGAGEMENT?

ANSWER:

1. **SUBSEQUENT EVENTS:** If the practitioner becomes aware of events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements, the practitioner shall request management to correct those misstatements.

2. **AMENDING THE FINANCIAL STATEMENTS:** The practitioner has no obligation to perform any procedures regarding the financial statements after the date of the practitioner's report. However, if, after the date of the practitioner's report but before the date the financial statements are issued, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend the report, the practitioner shall:

    a. Discuss the matter with management or those charged with governance, as appropriate

    b. Determine whether the financial statements need amendment and

    c. If so, inquire how management intends to address the matter in the financial statements.

3. **MANAGEMENT NOT AMENDING THE F/S:** If management does not amend the financial statements in circumstances where the practitioner believes they need to be amended, and the practitioner's report has already been provided to the entity:

    a. **NOTIFY NOT TO ISSUE F/S:** The practitioner shall notify management and those charged with governance not to issue the financial statements to third parties before the necessary amendments have been made.

    b. **TAKE APPROPRIATE ACTIONS:** If the financial statements are nevertheless subsequently issued without the necessary amendments, the practitioner shall take appropriate actions to prevent reliance on the practitioner's report.

Q NO 14. WRITE ABOUT OBTAINING WRITTEN REPRESENTATIONS IN THE CONTEXT OF REVIEW ENGAGEMENTS?

ANSWER:

1. **NOT A SUBSTITUTE FOR EVIDENCE:** Written representations are an important source of evidence in a review engagement. If management modifies or does not provide the requested written representations, it may alert the practitioner to the possibility that one or more significant issues may exist.

2. Further, a request for written, rather than oral, representations in many cases may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations.

3. **REGARDING RESPONSIBILITES OF MANAGEMENT:** The practitioner shall request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement. The written representation shall include that:

    a. Management has fulfilled its responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and

    b. Has provided the practitioner with all relevant information and access to information as agreed in the terms of the engagement and

    c. All transactions have been recorded and are reflected in the financial statements.

    If law or regulation requires management to make written public statements about its responsibilities, and the practitioner determines that such statements provide some or all of the representations required above, the relevant matters covered by such statements need not be included in the written representation.

4. **REPRESENTATIONS RELATED TO DISCLOSURES:** In addition to the written representations required under this SRE, the practitioner may consider it necessary to request other written representations about the financial statements. These may be needed, for example, to complete the practitioner's evidence with respect to certain items or disclosures reflected in the financial statements where the practitioner considers such representations to be important in forming a conclusion on the financial statements on either a modified or unmodified basis.

5. **REPRESENTATION ON ADDITIONAL MATTERS:** The practitioner shall also request management's written representations that management has disclosed to the practitioner:
    a. The identity of the entity's related parties and all the related party relationships and transactions of which management is aware.

    b. Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity.

    c. Known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's financial statements.

    d. All information relevant to use of the going concern assumption in the financial statements.

    e. That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed.

    f. Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures.

    g. Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration.

6. **NOT PROVIDING REPRESENTAION:**
    a. If management does not provide one or more of the requested written representations, the practitioner shall:
        i. Discuss the matter with management and those charged with governance, as appropriate.

        ii. Re-evaluate the integrity of management, and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and

iii. Take appropriate actions, including determining the possible effect on the conclusion in the practitioner's report in accordance with this SRE.

b. **DISCLAIM OR WITHDRAW:** The practitioner shall disclaim a conclusion on the financial statements, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, as appropriate, if:

   i. **NOT RELIBLE:** The practitioner concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable or

   ii. **NOT PROVIDED:** Management does not provide the required representations in respect of its responsibilities for preparation of financial statements and recording of all transactions in financial statements.

Q NO 15. WRITE ABOUT Evaluating evidence obtained from the procedures performed IN THE CONTEXT OF REVIEW ENGAGEMENT?

ANSWER:

1. The practitioner shall evaluate whether sufficient appropriate evidence has been obtained from the procedures performed and, if not, the practitioner shall perform other procedures judged by the practitioner to be necessary in the circumstances to be able to form a conclusion on the financial statements.

2. In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the design of primarily inquiry and analytical procedures and procedures addressing specific circumstances.

3. In these circumstances, the practitioner considers that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the financial statements.

4. The practitioner may:
   a. Extend the work performed or

   b. Perform other procedures judged by the practitioner to be necessary in the circumstances.

5. Where neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion and is required by this SRE to determine the effect on the practitioner's report, or on the practitioner's ability to complete the engagement, for example, if a member of management is unavailable at the time of the review to respond to the practitioner's inquiries on significant matters.

6. If the practitioner is not able to obtain sufficient appropriate evidence to form a conclusion, the practitioner shall discuss with management and those charged with governance, as appropriate, the effects such limitations have on the scope of the review.

7. Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the practitioner is able to obtain sufficient appropriate evidence by performing other procedures.

8. Limitations on the scope of the review imposed by management may have other implications for the review, such as for the practitioner's consideration of areas where the financial statements are likely to be materially misstated, and engagement continuance.

Q NO 16. WRITE ABOUT FORMING THE PRACTITIONER'S CONCLUSION ON THE FINANCIAL STATEMENTS IN THE CASE OF A REVIEW ENGAGEMENT?

ANSWER:

1. In forming conclusion, the practitioner shall also consider the impact of:
   a. Uncorrected misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole

   b. Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

2. If the financial statements are prepared using a fair presentation framework, the practitioner's consideration shall also include:

   a. The overall presentation, structure and content of the financial statements in accordance with the applicable framework and

   b. Whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation or gives a true and fair view, as appropriate, in the context of the financial statements as a whole.

3. The practitioner's conclusion on the financial statements, whether unmodified or modified, shall be expressed in the appropriate form in the context of the financial reporting framework applied in the financial statements.

Q NO 17. WRITE ABOUT UNMODIFIED CONCLUSION IN THE PRACTITIONERS REPORT IN CASE OF REVIEW ENGAGEMENT?

ANSWER:

1. **UNMODIFIED CONCLUSION:** The practitioner shall express an unmodified conclusion in the practitioner's report on the financial statements as a whole when the practitioner has obtained limited assurance to be able to conclude that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.

2. When the practitioner expresses an unmodified conclusion, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:

    a. **FAIR PRESENTATION FRAMEWORK:** "Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework,".

    b. **COMPLIANCE FRAMEWORK:** "Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework,".

Q NO 18. WRITE ABOUT MODIFIED CONCLUSION IN THE PRACTITIONERS REPORT IN CASE OF REVIEW ENGAGEMENT?

ANSWER:

1. **MODIFIED CONCLUSION:** The practitioner shall express a modified conclusion in the practitioner's report on the financial statements as a whole when:

    a. The practitioner determines, based on the procedures performed and the evidence obtained, that the financial statements are materially misstated or

    b. The practitioner is unable to obtain sufficient and appropriate evidence in relation to one or more items in the financial statements that are material in relation to the financial statements as a whole.

2. **MMS IN FINANCIAL STATEMENTS:** If the practitioner determines that the financial statements are materially misstated, the practitioner shall express:

   a. A qualified conclusion, when the practitioner concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements or

   b. An adverse conclusion, when the effects of the matter(s) giving rise to the modification are both material and pervasive to the financial statements.

3. **HEADINGS OF CONCLUSION PARA:** When the practitioner modifies the conclusion expressed on the financial statements, the practitioner shall:

   a. Use the heading "Qualified Conclusion," "Adverse Conclusion" or "Disclaimer of Conclusion," as appropriate, for the conclusion paragraph in the practitioner's report and

   b. Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, "Basis for Qualified Conclusion," "Basis for Adverse Conclusion" or "Basis for Disclaimer of Conclusion," as appropriate) in a separate paragraph in the practitioner's report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph).

4. **WORDINGS OF CONCLUSION PARA IN CASE OF QUALIFIED OPINION:** When the practitioner expresses a qualified conclusion on the financial statements because of a material misstatement, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:

   a. **FAIR PRESENTATION FRAMEWORK:** "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework) or

   b. **COMPLIANCE FRAMEWORK:** "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).

5. **WORDINGS OF CONCLUSION PARA IN CASE OF ADVERSE CONCLUSION:** When the practitioner expresses an adverse conclusion on the financial statements, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:

    a. **FAIR PRESENTATION FRAMEWORK:** "Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework,"or

    b. **COMPLIANCE FRAMEWORK:** "Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework,".

6. **BASIS FOR CONCLUSION PARA:** In the basis for conclusion paragraph, in relation to material misstatements that give rise to either a qualified conclusion or an adverse conclusion, the practitioner shall:

    a. Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state;

    b. Explain how disclosures are misstated if the material misstatement relates to narrative disclosures or

    c. Describe the nature of omitted information if the material misstatement relates to the non- disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so.

    MEANING OF NARRATIVE DISCLOSURES: Narrative accounting disclosures are an integral part of the corporate financial reporting package. They are deemed to provide a view of the company "through the eyes of management". The narratives represent management's construal of corporate events and are largely discretionary.

Q NO 19. WRITE ABOUT PRACTITIONERS CONCLUSION ON REPORTING IN CASE OF INABILITY TO OBTAIN SUFFICIENT AND APPROPRIATE EVIDENCE IN A REVIEW ENGAGEMENT?

ANSWER:

1. **UNABLE TO OBTAIN EVIDENCE:** If the practitioner is unable to form a conclusion on the financial statements due to the inability to obtain sufficient appropriate and evidence, the practitioner shall:
    a. Express a qualified conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive or

    b. Disclaim a conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

2. **WITHDRAW FROM ENGAGEMENT:** The practitioner shall withdraw from the engagement if the following conditions are present:

    a. Due to a limitation on the scope of the review imposed by management after the practitioner has accepted the engagement, the practitioner is unable to obtain sufficient appropriate and evidence to form a conclusion on the financial statements.

    b. The practitioner has determined that the possible effects on the financial statements of undetected misstatements are material and pervasive and Withdrawal is possible under applicable law or regulation.

3. **WORDINGS OF QUALIFIED CONCLUSION PARA:** When the practitioner expresses a qualified conclusion on the financial statements due to inability to obtain sufficient and appropriate evidence, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:

    a. **FAIR PRESENTATION FRAMEWORK:** "Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects) in accordance with the applicable financial reporting framework," or

    b. **COMPLIANCE FRAMEWORK:** "Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework,".

4. **WORDINGS OF DISCLAIMER OF CONCLUSION PARA:** When disclaiming a conclusion on the financial statements the practitioner shall state in the conclusion paragraph that:

a. Due to the significance of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements and

b. Accordingly, the practitioner does not express a conclusion on the financial statements.

5. **BASIS FOR CONCLUSION PARA:** In the basis for conclusion paragraph, in relation to either the qualified conclusion due to inability of obtaining sufficient and appropriate evidence or when the practitioner disclaims a conclusion, the practitioner shall include the reason(s) for the inability to obtain sufficient and appropriate evidence.

Q NO 20. WRITE ABOUT THE ELEMENTS OF PRACTITIONER'S REPORT ON A REVIEW ENGAGEMENT?

ANSWER:

The practitioner's report for the review engagement shall be in writing and shall contain the following elements:

1. **TITLE:** A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement

2. **ADDRESSEE:** The addressee(s), as required by the circumstances of the engagement

3. **INTRODUCTORY PARAGRAPH:**
   a. Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement
   b. Refers to the summary of significant accounting policies and other explanatory information and
   c. States that the financial statements have been reviewed

4. **MANAGEMENT RESPONSIBILITIES:** A description of the responsibility of management for the preparation of the financial statements, including an explanation that management is responsible for:
   a. Their preparation in accordance with the applicable financial reporting framework including, where relevant, their fair presentation;
   b. Such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

IF THE FINANCIAL STATEMENTS ARE SPECIAL PURPOSE FINANCIAL STATEMENTS:

c. A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information; and
d. If management has a choice of financial reporting frameworks in the preparation of such financial statements, a reference within the explanation of management's responsibility for the financial statements to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances

5. **PRACTITIONERS RESPONSIBILTIES:**
    1. A description of the practitioner's responsibility to express a conclusion on the financial statements including reference to this SRE and, where relevant, applicable law or regulation.

    2. **A description of a review of financial statements and its limitations, and the following statements:**
        a. A review engagement under this SRE is a limited assurance engagement.
        b. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained and
        c. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing (SAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements.

    3. **A paragraph under the heading "Conclusion" that contains:**
        a. The practitioner's conclusion on the financial statements as a whole as appropriate and
        b. A reference to the applicable financial reporting framework used to prepare the financial statements.

    4. **When the practitioner's conclusion on the financial statements is modified:**
        a. A paragraph under the appropriate heading that contains the practitioner's modified conclusion as appropriate and
        b. A paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification

    5. A reference to the practitioner's obligation under this SRE to comply with relevant ethical requirements

6. **THE DATE OF THE PRACTITIONER'S REPORT:** The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements, including being satisfied

that:

a. All the statements that comprise the financial statements under the applicable financial reporting framework, including the related notes where applicable, have been prepared and

b. Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

7. The **PRACTITIONER'S SIGNATURE** and

8. The **PLACE OF SIGNATURE**

Q NO 21. WRITE ABOUT INCLUSION OF EMPHASIS OF MATTER AND OTHER MATTER PARAGRAPHS IN THE PRACTITIONER'S REPORT IN CASE OF A REVIEW ENGAGEMENT?

ANSWER:

1. **EMPHASIS OF MATTER PARA:**
   a. **MEANING:** The practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Such paragraph shall refer only to the information presented or disclosed in the financial statements.

   b. **NO MMS:** In such cases, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report, provided the practitioner has obtained sufficient appropriate evidence to conclude that the matter is not likely to be materially misstated as presented in the financial statements.

   c. **PLACING OF EOMP IN REPORT:** The practitioner shall include an Emphasis of Matter paragraph immediately after the paragraph that contains the practitioner's conclusion on the financial statements under the heading "Emphasis of Matter," or other appropriate heading.

2. **OTHER MATTER PARA:** If the practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the practitioner's judgment, is relevant to users' understanding of the review, the practitioner's responsibilities or the practitioner's report and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the practitioner's report with the heading "Other Matter" or other appropriate heading.

Q NO 22. WRITE ABOUT OTHER REPORTING RESPONSIBILITIES IN THE PRACTITIONER REPORT IN CASE OF REVIEW ENGAGEMENT?

ANSWER:

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS: A practitioner may be requested to address other reporting responsibilities in the practitioner's report on the financial statements that are in addition to the practitioner's responsibilities under this SRE to report on the financial statements. In such situations, those other reporting responsibilities shall be addressed by the practitioner in a separate section in the practitioner's report headed "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the context of the section, following the section of the report headed "Report on the Financial Statements."

Q NO 23. WRITE ABOUT DOCUMENTATION BY PRACTITIONER IN CASE OF REVIEW ENGAGEMENT?

ANSWER:

The preparation of documentation for the review provides evidence that the review was performed in accordance with this SRE along with legal and regulatory requirements where relevant and a sufficient and appropriate record of the basis for the practitioner's report.

The practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:

1. The nature, timing, and extent of the procedures performed to comply with this SRE and applicable legal and regulatory requirements. While documenting the nature, timing and extent of procedures performed as required in this SRE, the practitioner shall record: a. Who performed the work and the date such work was completed and b. Who reviewed the work performed for the purpose of quality control for the engagement, and the period and extent of the review.
2. Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results and
3. Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
4. The practitioner shall also document discussions with the management, those charged with governance, and others as relevant to the performance of the review of significant matters

	arising during the engagement, including the nature of those matters.
5.	If, in the course of the engagement, the practitioner identified information that is inconsistent with the practitioner's findings regarding significant matters affecting the financial statements, the practitioner shall document how the inconsistency was addressed.

ILLUSTRATION 2.

You are conducting a review of the financial statements of a company. It is gathered upon inquiry that there is a possibility of material misstatements in financial statements. Discuss, how you would proceed further in the matter under SRE 2400.

ANSWER:

If the practitioner becomes aware of matters that causes the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

1. Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated or

2. Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

3. Additional procedures focus on obtaining sufficient appropriate evidence to enable the practitioner to form a conclusion on matters that the practitioner believes may cause the financial statements to be materially misstated. The procedures may be:

    a. Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e., amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements) or

    b. Other types of procedures, for example, substantive test of details or external confirmations.

SRE 2410 Review of Interim Financial Information Performed by The Independent Auditor of The Entity

SRE 2410 deals with the auditor's professional responsibilities when the auditor undertakes an engagement to review the interim financial information of an audit client and on the form and content of the report. In other words, SRE 2410 applies when review of interim financial information is performed by the independent auditor of the financial statements of the entity.

Q NO 24. WHAT IS INTERIM FINANCIAL INFORMATION?

ANSWER:

Interim financial information is financial information that is prepared and presented in accordance with an applicable financial reporting framework and comprises either a complete or a condensed set of financial statements for a period that is shorter than the entity's financial year.

For example, interim financial information may relate to financial statements of a quarter of financial year.

Q NO 25. WRITE ABOUT OBJECTIVE OF AN ENGAGEMENT TO REVIEW INTERIM FINANCIAL INFORMATION IN ACCORDANCE WITH SRE 2410?

ANSWER:

1. The objective of an engagement to review interim financial information is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework.

2. The auditor makes inquiries and performs analytical and other review procedures in order to reduce to a moderate level risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.

3. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with Standards on Auditing (SAs). A review of interim financial information does not provide a basis for expressing an opinion on whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

4. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement.

5. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

6. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Q NO 26. WRITE ABOUT AGREEING THE TERMS OF THE ENGAGEMENT?

ANSWER:

The auditor and the client should agree on the terms of the engagement. The agreed terms of the engagement are ordinarily recorded in an engagement letter. Such communication helps to avoid misunderstandings regarding:

1. The nature of the engagement

2. The objective and scope of the review,

3. Management's responsibilities,

4. The extent of the auditor's responsibilities, the assurance obtained, and

5. The nature and form of the report.

Q NO 27. WRITE ABOUT UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT INCLUDING ITS INTERNAL CONTROL IN A REVIEW OF INTERIM FINANCIAL STATEMENTS BY THE AUDITOR?

ANSWER:

1. The **AUDITOR** should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement so as to be able to:

   a. Identify the types of potential material misstatement and consider the likelihood of their occurrence and

b. Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

2. **RECURRING AUDITOR:**
   a. **EVIDENCE OBTAINED IN EARLIER AUDITS:** The auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of annual financial information that was sufficient to conduct the audit.

   b. **UPDATE THE EVIDENCE:** In planning a review of interim financial information, the auditor updates this understanding.

   c. **ICS DIFF FROM ANNUAL F/I:** The auditor also obtains a sufficient understanding of internal control as it relates to the preparation of interim financial information as it may differ from internal control as it relates to annual financial information.

3. **PROCURES TO OBTAIN THE UNDERSTANDING:** Some of the procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:
   a. Reading the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period interim financial information.

   b. Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements.

   c. Reading the most recent annual and comparable prior period interim financial information.

   d. Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.

   e. Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.

   f. Considering significant financial accounting and reporting matters that may be of continuing significance such as material weaknesses in internal control.

g. Considering the results of any audit procedures performed with respect to the current year's financial statements. [PRIOR TO THE DATE OF REVIEW]

h. Considering the results of any internal audit performed and the subsequent actions taken by the management.

i. Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.

j. Inquiring of management about the effect of changes in the entity's business activities.

k. Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of interim financial information.

l. Inquiring of management of the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or reconciled.

4. **NEW AUDITOR:** In order to plan and conduct a review of interim financial information, a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with SAs, should obtain an understanding of the entity and its environment, including of its internal control, as it relates to the preparation of both annual and interim financial information.

5. **COMMUNICATION WITH COMPONENT AUDITORS:** Besides, the auditor determines the nature of the review procedures, if any, to be performed for components and, where applicable, communicates these matters to other auditors involved in the review.

Q NO 28. WRITE ABOUT INQUIRIES, ANALYTICAL AND OTHER REVIEW PROCEDURES IN THE CONTEXT OF REVIEW OF INTERIM FINANCIAL INFORMATION?

ANSWER:

1. A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of interim financial information are ordinarily limited to making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures, rather than corroborating information obtained concerning significant accounting matters relating to the interim financial information.

2. The auditor's understanding of the entity and its environment including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of

materiality as it relates to the interim financial information, affects the nature and extent of the inquiries made, and analytical and other review procedures applied.

3. The auditor ordinarily performs the following procedures:

   a. **READING THE MINUTES:** Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.

   b. **UNADJUSTED ITEMS IN PRECEEDING YEAR:** Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.

   c. **OTHER AUDITORS:** Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant components.

   d. **INQUIRIEIS WITH MANAGEMENT:** Inquiring of members of management responsible for financial and accounting matters, and others as appropriate about the following:
      1) Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework.

      2) Whether there have been any changes in accounting principles or in the methods of applying them.

      3) Whether any new transactions have necessitated the application of a new accounting principle.

      4) Whether the interim financial information contains any known uncorrected misstatements.

      5) Unusual or complex situations that may have affected the interim financial information, such as a business combination or disposal of a segment of the business.

      6) Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.

      7) Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.

      8) Significant changes in commitments and contractual obligations.

9) Significant changes in contingent liabilities including litigation or claims.

10) Compliance with debt covenants.
11) Matters about which questions have arisen in the course of applying the review procedures.

12) Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period. [CUTT-OFF]

13) Knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the interim financial information.

14) Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others.

15) Knowledge of any actual or possible non-compliance with laws and regulations that could have a material effect on the interim financial information.

16) Applying analytical procedures to the interim financial information designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial information.

17) Reading the interim financial information, and considering whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

e. **CONCURRENT REVIEW ALONG WITH F/S:** The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the interim financial information.

   For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the interim period.

f. **EARLY DAYS OF THE INTERIM PERIOD:** Performing some of the review procedures earlier in the interim period also permits early identification and consideration of significant accounting matters affecting the interim financial information.

g. **CONCURRENTLY WITH AUDIT:** The auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures CONCURRENTLY with the review of interim financial information.

h. **LITIGATIONS AND CLAIMS:**
   1) A review of interim financial information ordinarily does not require corroborating the inquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an inquiry letter to the entity's lawyer.
   2) Direct communication with the entity's lawyer with respect to litigation or claims may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework, and the auditor believes the entity's lawyer may have pertinent information.

i. **RECONCILE WITH ACCOUNTING RECORDS:** The auditor may obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim financial information to:

   1) The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records and

   2) Other supporting data in the entity's records as necessary.

j. **INQUIRING ABOUT SUBSEQUENT EVENTS:** The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information. It is not necessary for the auditor to perform other procedures to identify events occurring after the date of the review report.

k. **GOING CONCERN:** The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. When, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:

   1) Inquire of management as to its plans for future actions such as:
      i. Its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital based on its going concern assessment

      ii. The feasibility of these plans, and

iii. Whether management believes that the outcome of these plans will improve the situation and

However, it is not ordinarily necessary for the auditor to corroborate the feasibility of management's plans and whether the outcome of these plans will improve the situation.

2) Consider the adequacy of the disclosure about such matters in the interim financial information.

l. **ADDITIONAL INQUIRIES:** When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial information to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report.

For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel, or reading the sales contract.

Q NO 29. WRITE ABOUT EVALUATION OF MISSTATEMENTS IDENTIFIED IN A REVIEW ENGAGEMENT OF INTERIM FINANCIAL INFORMATION?

ANSWER:

1. The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information.

2. Misstatements which come to the auditor's attention, including inadequate disclosures, are evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

3. The auditor exercises professional judgment in evaluating the materiality of any misstatements that the entity has not corrected.

Q NO 30. WRITE ABOUT OBTAINING Management representations IN A REVIEW OF INTERIM FINANCIAL STATEMENTS?

ANSWER:

The auditor should obtain written representation from management that:

(a) It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error

(b) The interim financial information is prepared and presented in accordance with the applicable financial reporting framework

(c) It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations

(d) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity

(e) It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud

(f) It has disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects are to be considered when preparing the interim financial information; and

(g) It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.

Q NO 31. WRITE ABOUT AUDITOR'S RESPONSIBILITY FOR ACCOMPANYING INFORMATION [OTHER INFORMATION] IN A DOCUMENT CONTAINING REIVEWED INTERIM FINANCIAL STATEMENTS?

ANSWER:

1. **READ THE OTHER INFORMATION:** The auditor should read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information.

2. **MATERIAL INCONSISTENCY:** If the auditor identifies a material inconsistency, the auditor considers whether the interim financial information or the other information needs to be amended.

a. **MMS IN INTERIM FINANCIAL INFORMATION:** If an amendment is necessary in the interim financial information and management refuses to make such amendment, the auditor considers the implications for the review report.

b. **MMS IN OTHER INFORMATION:** If an amendment is necessary in the other information and management refuses to make such amendment, the auditor considers including in the review report an additional paragraph describing the material inconsistency, or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement.

   For example, management may present alternative measures of earnings that more positively portray results of operations than the interim financial information, and such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial information such that they are confusing and potentially misleading.

c. If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management.

3. **OTHER INFORMATION NOT RELATED TO FINANCIAL INFORMATION:**
   a. While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (i.e., information, *not related to matters appearing in the interim financial information*, that is incorrectly stated or presented). When discussing the matter with the entity's management, the auditor considers the validity of the other information and management's responses to the auditor's inquiries, whether valid differences of judgment or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact.

   b. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, the auditor considers taking further action as appropriate, such as notifying those charged with governance and obtaining a legal advice.

Q NO 32. WRITE ABOUT COMMUNICATION OF MATTERS TO MANAGEMENT OR TCWG THAT REQUIRES ADJUSTMENT IN INTERIM FINANCIAL INFORMATON IN THE CONTEXT OF REVIEW UNDER SRE 2410?

ANSWER:

1. **COMMUNICATE TO APPROPRIATE LEVEL OF MANAGEMENT:** When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should communicate this matter as soon as practicable to the appropriate level of management.

2. **COMMUNICATE TO TCWG:** When, in the auditor's judgment, management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance.

3. **MANNER OF COMMUNICATION:** The communication is made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing is affected by factors such as:
    a. The nature,
    b. Sensitivity and significance of the matter to be communicated and
    c. The timing of such communications.
    d. If the information is communicated orally, the auditor documents the communication.

4. **TCWG NOT REPONDED – MODIFIED REPORT:** When, in the auditor's judgment, those charged with governance do not respond appropriately within a reasonable period, the auditor should consider:
    a. Whether to modify the report or
    b. The possibility of withdrawing from the engagement and
    c. The possibility of resigning from the appointment to audit the annual financial statements.

5. **COMMUNICATION OF FRAUD:**
    a. When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations, the auditor should communicate the matter as soon as practicable to the appropriate level of management.
    b. The determination of which level of management is the appropriate one is affected by the likelihood of collusion or the involvement of a member of management. The

auditor also considers the need to report such matters to those charged with governance and considers the implication for the review.

6. **GOVERNANCE MATTERS TO TCWG:**
   a. The auditor should communicate relevant matters of governance interest arising from the review of interim financial information with those charged with governance.

   b. As a result of performing the review of the interim financial information, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. The auditor communicates such matters to those charged with governance.

Q NO 33. WRITE ABOUT REVIEW REPORT ON INTERIM FINANCIAL INFORMATION?

ANSWER:

The auditor should issue a written report that contains the following:

Content of Written Report:
1. **TITLE:** An appropriate title. 2. **ADDRESSEE:** An addressee, as required by the circumstances of the engagement. 3. **INTRODUCTORY PARA:** Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information. 4. **MANAGEMENT RESPONSIBILITIES:** a. **FPFW:** If the interim financial information comprises a complete set of general-purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework. b. **CFW:** In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.

5. **AUDITORS RESPONSIBILITIES:**
    a. A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.

    b. A statement that the review of the interim financial information was conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and

    c. a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

    d. A statement that a review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.

6. **CONCLUSION PARA:**
    a. **FPFW:** If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework.

    b. **CFW:** In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework

7. **DATE:** The date of the report.

8. **PLACE:** Place of Signature.

9. **SIGNATURE AND MRN:** The auditor's signature and membership number assigned by the Institute of Chartered Accountants of India (ICAI).

10. **FRN:** The Firm's registration number of the member of the Institute, wherever applicable, as allotted by ICAI

Besides, UDIN has also to be generated and stated for review engagement as it is also in nature of an assurance engagement. UDIN has to be stated for engagements performed in accordance with SRE 2400 or SRE 2410

Q NO 34. WRITE ABOUT DEPARTURE FROM THE APPLICABLE FINANCIAL REPORTING FRAMEWORK FOR PREPARATION AND PRESENTATION OF INTERIM FINANCIAL INFORMATION?

ANSWER:

1. **MODIFIED CONCLUSION:**
   a. The auditor should express qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

   b. If matters have come to the auditor's attention that cause the auditor to believe that the interim financial information is or may be materially affected by a departure from the applicable financial reporting framework, and management does not correct the interim financial information, the auditor modifies the review report.

2. **MANNER OF MODIFICATION:**
   a. The modification describes the nature of the departure and, if practicable, states the effects on the interim financial information.

   b. If the information that the auditor believes is necessary for adequate disclosure is not included in the interim financial information, the auditor modifies the review report and, if practicable, includes the necessary information in the review report.

   c. The modification to the review report is ordinarily accomplished by adding an explanatory paragraph to the review report and qualifying the conclusion.

3. **ADVERSE CONCLUSION:** When the effect of the departure is so material and pervasive to the interim financial information that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial information, the auditor expresses an adverse conclusion.

Q NO 35. WRITE ABOUT LIMITATION ON SCOPE IN CASE OF REVIEW OF INTERIM FINANCIAL INFORMATION?

ANSWER:

1. **MEANING OF LIMITATION ON SCOPE:** A limitation on scope ordinarily prevents the auditor from completing the review. When the auditor is unable to complete the review, the auditor should communicate, in writing, to the appropriate level of management and to those charged with

governance the reason why the review cannot be completed and consider whether it is appropriate to issue a report.

2. LIMITATION ON SCOPE IMPOSED BY MANAGEMENT:

a. **DO NOT ACCEPT AN ENGAGEMENT:** The auditor does not accept an engagement to review the interim financial information if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by the management of the entity.

b. **LIMITATION AFTER ACCEPTING ENGAGEMENT:**

   i. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor requests the removal of that limitation.

   ii. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed.

c. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor communicates such matters.

d. The auditor also considers the legal and regulatory responsibilities, including whether there is a requirement for the auditor to issue a report. If there is such a requirement, the auditor disclaims a conclusion, and provides in the review report the reason why the review cannot be completed.

3. OTHER LIMITATIONS ON SCOPE:

a. A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgment pervasive to the interim financial information.

b. In such circumstances, the auditor modifies the review report by indicating that, *except for the matter which is described* in an explanatory paragraph to the review report, the review was conducted in accordance with this SRE, and by qualifying the conclusion.

c. The auditor may have expressed a qualified opinion on the audit of the latest annual financial statements because of a limitation on the scope of that audit. The auditor considers whether that limitation on scope still exists and, if so, the implications for the review report.

Q NO 36. WRITE ABOUT GOING CONCERN AND SIGNIFICANT UNCERTAINTIES IN A REVIEW OF INTERIM FINANCIAL INFORMATION AS PER SRE 2410?

ANSWER:

1. **EOMP:** If, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.

2. **UNCERTAINITY IN PRIOR PERIOD:**

   a. The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.

   b. **COTINUE TO EXIST IN CURRENT REVIEW:** If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty.

   c. **MODIFIED CONCLUSION:** If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.

Q NO 37. WHAT ARE THE OTHER CONSIDERATIONS IN A REVIEW OF INTERIM FINANCIAL INFORMATION BY THE AUDITOR?

ANSWER:

1. **REVIEW REPORT CUM INTERIM F/I SHALL BE TOGETHER:**
   a. The terms of the engagement include management's agreement that where any document containing interim financial information indicates that such information has been reviewed by the entity's auditor, the review report will also be included in the document.

b. **NOT INCLUDED REVIEW REPORT:** If management has not included the review report in the document, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances.

c. **MODIFIED REVIEW REPORT NOT INCLUDED ALONG WITH INTERIM F/I:** If the auditor has issued a modified review report and management issues the interim financial information without including the modified review report in the document containing the interim financial information, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial statements.

2. **READ IN CONJUCTION WITH LATEST AUDITED F/S:**
   a. Interim financial information consisting of a condensed set of financial statements does not necessarily include all the information that would be included in a complete set of financial statements, but may rather present an explanation of the events and changes that are significant to an understanding of the changes in the state of affairs and performance of the entity since the annual reporting date. This is because it is presumed that the users of the interim financial information will have access to the latest audited financial statements, such as is the case with listed entities.

   b. In other circumstances, the auditor discusses with management the need for such interim financial information to include a statement that it is to be read in conjunction with the latest audited financial statements.

   c. In the absence of such a statement, the auditor considers whether, without a reference to the latest audited financial statements, the interim financial information is misleading in the circumstances, and the implications for the review report.

Q NO 38. WRITE ABOUT DOCUMENTATION IN A REVIEW ENGAGEMENT OF INTERIM FINANCIAL INFORMATION BY AUDITOR?

ANSWER:

The auditor should prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and to provide evidence that the review was performed in accordance with this SRE and applicable legal and regulatory requirements.

ILLUSTRATION 3.

During review of quarterly results of a company of which you are auditor, it is gathered on inquiries made that there has been a major fire in fabric processing plant of the company during the quarter.
It has resulted in massive disruption in operations of the company. Worse still, machinery and inventories of plant were uninsured due to carelessness of concerned staff leading to substantial losses. The matter has been disclosed in interim financial information appropriately. Discuss, how you would proceed to deal with the same in review report?

ANSWER:

Uninsured assets in a disaster are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption.

As a result of fire, there is massive disruption in operations of the company. Besides, the company would have to bear losses as its damaged assets are uninsured.

In accordance with SRE 2410, if, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information, the auditor modifies review report by adding an emphasis of matter paragraph.

Therefore, Emphasis of matter paragraph should be added in review report.

ILLUSTRATION 4.

CA. Seerat is conducting review of the quarterly financial information of a company of which she is also auditor. She believes that it is necessary to make a material adjustment to the quarterly financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. She has communicated the matter to CFO and audit committee. However, no response was received even after waiting for a reasonable time. What are the options available to her?

ANSWER:

In such a case, options available to her in accordance with SRE 2410 are:
a. Whether to modify the report or
b. The possibility of withdrawing from the engagement and
c. The possibility of resigning from the appointment to audit the annual financial statements.

TEST YOUR KNOWLEDGE

Q.NO.1. Discuss why "inquiry" is important as an audit procedure in an engagement to review financial statements.

ANSWER:

Q.NO.2. CA. Aditya Jain is auditor of a listed company. He is also required to carry out quarterly review of financial statements of company in terms of regulatory requirements. He is already well-versed with business of company and has deep understanding of the company. Discuss, any five procedures, by which he can update his understanding of the company for carrying out quarterly review.

ANSWER:

Q.NO.3. What is significance of "date of report" in a review report?

ANSWER:

Q.NO.4. CA. Pankaj Chaturvedi has issued a review report dated 28.7.2022 for financial results of a company for quarter ending 30.6.2022. Describe his responsibility, if any, for events occurring from 1.7.2022 till date of review report in accordance with SRE 2410.

ANSWER:

The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information.

17. PROSPECTIVE FINANCIAL INFORMATION AND OTHER ASSURANCE SERVICES

An assurance engagement may relate to examination of subject matters other than examination of financial statements prepared on basis of "historical financial information".

In such type of assurance engagements, examination may relate to prospective financial information or to providing assurance regarding non-financial matters like design and operation of internal control in an entity.

Standards on Assurance Engagements deal with responsibilities of professional accountants in assurance engagements dealing such matters. The level of assurance provided by these Standards on Assurance Engagements is moderate.

Following Standards on Assurance Engagements have been issued:
SAE 3400 The Examination of Prospective Financial Information
SAE 3402 Assurance Reports on Controls at a Service Organisation
SAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

SAE 3400 The Examination of Prospective Financial Information

Q.NO.1. WHAT IS PROSPECTIVE FINANCIAL INFORMATION?

ANSWER:

1. **"Prospective financial information"** is financial information based on:
   a. Assumptions about events that may occur in the future and
   b. Possible actions by an entity.

2. It is highly subjective in nature and its preparation requires the exercise of considerable judgment. Prospective financial information can be in the form of:
   a. a forecast,
   b. a projection,
   c. or a combination of both (for example a 1-year, forecast plus a 5-year, projection.)

3. SAE 3400 provides guidance on engagements to examine and report on prospective financial information including examination procedures for best-estimate and hypothetical assumptions.

4. Examination of prospective financial information need not necessarily be performed by statutory auditor of the entity's financial statements.

Q.NO.2. WHAT IS FORECAST AND PROJECTION. GIVE AN EXAMPLE?

ANSWER:

A. FORECAST: Forecast means Prospective Financial Information prepared on the basis of:

1. Assumptions as to future events which management expects to take place and

2. The actions management expects to take as of the date the information is prepared.

Best- estimate assumptions: An assumption that reflects anticipated experience with no provision for risk of adverse deviation.

Example: In present market conditions, supply availability, historical buying patterns and seasonal trends, the CFO of a X ltd a expects sales to increase by 5% over the next quarter. Therefore, a 5% sales increase is his financial forecast for the period.

B. PROJECTION: Prospective Financial Information prepared on the basis of:

1. Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or

2. A mixture of best-estimate and hypothetical assumptions (imagined or suggested)

Example 1. X Ltd may project a course of action to take when one or more hypothetical situations arise, such as creating a new product to meet the demand of expected market growth. As a result of assuming the possibility of different events occurring, financial projections typically serve as an outline for evaluating the desired outcomes x ltd. is expects to see, including its financial, cash flow and operational outcomes.

Example 2. A company plans to raise funds from a prospective equity investor and has asked a firm of Chartered Accountants to examine the profit forecast for placing it before prospective equity investor.

Example 3. A company is in the process of setting up a new plant. It needs financial assistance from bank in shape of term loan and working capital credit facilities. The company has prepared a projection of its profits, cash flows for next 7 years along with its underlying assumptions.

Q.NO.3. WRITE ABOUT SCOPE OF SAE-3400?

ANSWER:

1. The purpose of this Standard on Assurance Engagement (SAE) is to establish standards and provide guidance on engagements to examine and report on prospective financial information including examination procedures for best-estimate and hypothetical assumptions.

2. This SAE does not apply to the examination of prospective financial information expressed in general or narrative terms, such as that found in management's discussion and analysis in an entity's annual report, though many of the procedures outlined herein may be suitable for such an examination.

3. Further, the principles laid down in the other Standards on Auditing, issued by the Institute of Chartered Accountants of India, should be used by the auditor, to the extent practicable, in applying this SAE.

4. The term “auditor” is used throughout this SAE when describing services involving examination of prospective financial information. Such reference is not intended to imply that a member performing such services need necessarily be the statutory auditor of the entity’s financial statements.

Q.NO.4. WRITE ABOUT NATURE OF ASSURANCE REGARDING PROSPECTIVE FINANCIAL INFORMATION?

ANSWER:

SPECULATIVE: Prospective financial information relates to events and actions that have not yet occurred and might not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the examination of historical financial information.

Therefore, an opinion as to whether the results shown in the prospective financial information will be achieved cannot be expressed.

Q.NO.5. WHOSE RESPONSIBILITY IS OF PREPARATION AND PRESENTATION OF PROSPECTIVE FINANCIAL INFORMATION?

ANSWER:

Management is responsible for the preparation and presentation of the prospective financial information including the:

1. Identification and disclosure of Prospective Financial Information;
2. Explaining the basis of forecast;
3. Underlying assumptions.

Q.NO.6. CAN PROFESSIONAL ACCOUNTANTS BE ASSOCIATED WITH PROSPECTIVE FINANCIAL INFORMATION?

ANSWER:

1. **NEED FOR CA’s:** Traditionally, the attest function performed by a Chartered Accountant in practice has been in relation to “historical financial information”. Recognizing the professional skill and competence of Chartered accountants, varied stakeholders like banks, financial institutions and prospective investors intend to place greater reliance on reports of projected cash flow and profitability statements examined and signed by Chartered accountants.

2. **CODE OF ETHICS:**

   a. **PROHIBITS:** Clause 3 of the Second Schedule to the Chartered Accountants Act, 1949 states that that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast.

   b. **EXCEPTION TO PROHIBITION:** The above clause does not preclude a Chartered accountant from associating his name with prospective financial statements. A chartered accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report:
      i. The sources of information,

      ii. The basis of forecasts and also the major assumptions made in arriving at the forecasts and so long

      iii. Statement that he does not vouch for the accuracy of the forecasts.

3. The same also applies to projections made on the basis of hypothetical assumptions about future events and management actions which are not necessarily expected to take place so long as vouching for the accuracy of the projection is not made.

Q.NO.7. WHAT ARE THE DUTIES OF MEMBER WHO IS EXAMINING THE PROSPECTIVE FINANCIAL INFORMATION?

ANSWER:

In an engagement to examine prospective financial information, the auditor should obtain sufficient appropriate evidence as to whether:

1. Management's best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information.

2. The prospective financial information is properly prepared on the basis of the assumptions.

3. The prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions and

4. The prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.

While examining prospective financial information, principles laid down in other Standards on Auditing should be applied to the extent practicable.

Q.NO.8. WHAT IS THE NATURE OF ASSURANCE REGARDING PROSPECTIVE FINANCIAL INFORMATION?

ANSWER:

1. Prospective financial information relates to events and actions that have not yet occurred and might not occur.

2. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future- oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the examination of historical financial information.

3. Therefore, an opinion as to whether the results shown in the prospective financial information will be achieved cannot be expressed.

Q.NO.9. WRITE ABOUT ACCEPTANCE OF ENGAGEMENT BY AUDITOR IN RELATION TO PROSPECTIVE FINANCIAL INFORMATION?

ANSWER:

1. Before accepting an engagement to examine prospective financial information, the auditor would consider the following precautions, amongst other things:
   a. The intended use of the information;

   b. Whether the information will be for general or limited distribution.

   c. The nature of the assumptions, that is, whether they are best estimates or hypothetical Assumptions.

   d. The elements to be included in the information and

   e. The period covered by the information.

2. Further, the auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial

information will be inappropriate for its intended use. The auditor should consider the extent to which reliance on the entity's historical financial information is justified. Like in other engagements, it is necessary that terms of engagements should be agreed with client by sending an engagement letter.

Q.NO.10. WHAT ARE THE EXAMINATION PROCEDURES FOR PROSPECTIVE FINANCIAL INFORMATION?

ANSWER:

When determining the nature, timing and extent of examination procedures, the following matters should be considered such as:

Examination Procedures	1. The knowledge obtained during any previous engagements
	2. Management's competence regarding the preparation of prospective financial information
	3. The likelihood of material misstatement
	4. The extent to which the prospective financial information is affected by the management's judgment
	5. The sources of information considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, 6. Such as industry statistics, to support the assumptions
	7. The stability of entity's business and
	8. The engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information

In performing these procedures, source and reliability of the evidence supporting management's best-estimate assumptions needs to be assessed. Such evidence may be available from varied sources like entity's budgets, debt agreements, industry publications etc.

When hypothetical assumptions are used, all significant implications of such assumptions should have been taken into consideration.

For example, if sales are assumed to grow beyond the entity's current plant capacity, the prospective financial information will need to include the necessary investment in the additional plant capacity or the costs of alternative means of meeting the anticipated sales, such as subcontracting production. It needs to be verified that the hypothetical assumptions are consistent with the purpose of the prospective financial information and that there is no reason to believe they are clearly unrealistic.

Q.NO.11. WRITE ABOUT ASSESSING PRESENTATION AND DISCLOSURE OF PROSPECTIVE FINANCIAL INFORMATION?

ANSWER:

1. When assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, it needs to be considered whether:

    a. The presentation of prospective financial information is informative and not misleading.

    b. The accounting policies are clearly disclosed in the notes to the prospective financial information.

    c. If there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements, whether reason for the change and the effect of such change on the prospective financial information has been adequately disclosed.

    d. The assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed.

    e. The date as of which the prospective financial information was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time.

    f. The basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range and

Q.NO.12. WRITE ABOUT AUDITORS REPORT ON EXAMINATION OF PROSPECTIVE FINANCIAL INFORMATION?

ANSWER:

The report for an examination of prospective financial information should contain the following:

1.	Title
2.	Addressee
3.	Identification of the prospective financial information
4.	Reference to the Standards on Auditing applicable to the examination of prospective financial information
5.	Statement that management is responsible for the prospective financial information including the underlying assumptions
6.	When applicable, a reference to the purpose and/or restricted distribution of the prospective financial information
7.	Statement that the examination procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecast or projection
8.	Statement of negative assurance as to whether the assumptions provide a reasonable basis for the prospective financial information
9.	Opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework
10.	Appropriate caveats concerning the achievability of the results indicated by the prospective financial information
11.	Date of report (which should be the date procedures have been completed)
12.	Place of signature and
13.	Signature.

SUCH A REPORT WOULD INCLUDE THE FOLLOWING DISCLAIMERS:

1. State whether, based on the examination of the evidence supporting the assumptions, anything has come to attention, which causes the belief that the assumptions do not provide a reasonable basis for the prospective financial information.

2. Express an opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework.

3. State that:
   a. Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Likewise, when the prospective financial information is expressed as a range, it would be stated that there can be no assurance that actual results will fall within the range and

   b. In the case of a projection, the prospective financial information has been prepared for (intended use), using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur.

Consequently, readers are cautioned that the prospective financial information should not be used for purposes other than the abovementioned intended use.

Q.NO.13. HOW AUDITOR REPORTS WHEN THE PRESENTATION AND DISCLOSURE OF THE PROSPECTIVE FINANCIAL INFORMATION IS NOT ADEQUATE?

ANSWER:

1. **P & D NOT ADEQUATE:** When it is believed that the presentation and disclosure of the prospective financial information is not adequate:

    a. A qualified or adverse opinion in the report on the prospective financial information should be expressed or

    b. Withdrawal from engagement should be made as appropriate.

    An example would be where financial information fails to disclose adequately the consequences of any assumptions, which are highly sensitive.

2. **ASSUMPTIONS ARE NOT REASONABLE:** When it is believed that one or more significant assumptions do not provide a reasonable basis for the prospective financial information prepared on the basis of best-estimate assumptions or that one or more significant assumptions do not provide a reasonable basis for the prospective financial information given the hypothetical assumptions:

    a. An adverse opinion setting out the reasons in the report on the prospective financial information should be expressed, or

    b. Withdrawal from the engagement should be made.

3. **UNABLE TO APPLY AUDIT PROCEDURES:** When the examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, either:

    a. Withdrawal from the engagement or

    b. Disclaimer of the opinion and describing the scope limitation in the report on the prospective financial information is considered.

DOCUMENTATION:

Matters, which are important in providing evidence to support report on examination of prospective financial information, and evidence that such examination was carried out in accordance with this SAE should be documented.

ILLUSTRATION 1.

A company has approached CA. Hemant for an assurance report in respect of prospective financial information of a project. On going through the project details, it is noticed that depreciation reflected on proposed fixed assets to be acquired in prospective financial information has been calculated in accordance with provisions of the Income Tax Act. No disclosure is made in this respect too. How the matter should be proceeded with?

ANSWER:

In such types of engagements, it is the duty of a professional accountant to see that prospective financial information is based on a consistent basis with historical financial statements using appropriate accounting principles.

In the case of a company, historical financial statements are prepared considering the requirements of the Companies Act, and depreciation is calculated accordingly.

However, in the given situation, depreciation has been calculated in accordance with Income Tax Act which is not consistent with historical financial statements. Therefore, it is not proper.

The fact that the projection has not been prepared on a consistent basis with the historical financial statements, using appropriate accounting principles needs to be stated.

Further, when presentation and disclosure are not adequate, a qualified or adverse opinion should be given or withdrawal from engagement should be made as appropriate.

SAE 3402 Assurance Reports on Controls at a Service Organisation

SAE 3402 deals with assurance engagements undertaken by a professional accountant in public practice to provide a report for use by user entities and their auditors on the controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting.

It complements SA 402, in that reports prepared in accordance with this SAE are capable of providing appropriate evidence under SA 402.

Q.NO.14. WRITE ABOUT SCOPE OF SAE 3402?

ANSWER:

1. SAE 3402 applies only when the service organization is responsible for, or otherwise able to make an assertion about, the suitable design of controls. It does not deal with assurance engagements:

    a. To report only on whether controls at a service organization operated as described or

    b. To report only on controls at a service organization other than those related to a service that is likely to be relevant to user entities' internal control as it relates to financial reporting (for example, controls that affect user entities' production or quality control).

Q.NO.15. WHAT IS A SERVICE ORGANISATION AND WHY CONTROLS OF A SERVICE ORGANISATION ARE IMPORTANT TO USER ENTITIES INTERNAL CONTROLS RELEVANT TO FINANCIAL REPORTING?

ANSWER:

SERVICE ORGANISATION: Service organization refers to a third-party organization (or segment of a third-party organization) that provides services to user entities that are likely to be relevant to user entities internal control as it relates to financial reporting.

USER ENTITY: User entity refers to an entity that uses a service organization.

IMPORTANCE OF CONTROLS AT S.O.:

1. Controls related to a service organization's operations and compliance objectives may be relevant to a user entity's internal control as it relates to financial reporting. Such controls may pertain to assertions about presentation and disclosure relating to account balances, classes of

transactions, or disclosures, or may pertain to evidence that the user auditor evaluates or uses in applying auditing procedures.

For example, a company has outsourced its payroll processing functions to a service organization. The service organization is responsible for the accurate preparation of payrolls and timely remittance of statutory dues to government authorities on behalf of the company.

Payroll processing service organization's controls related to the timely remittance of payroll deductions to government authorities may be relevant to the company (user entity) as late remittances could result in interest and penalties resulting in liabilities for the user entity.

2. "Controls at the service organization" includes aspects of user entities' information systems maintained by the service organization, and may also include aspects of one or more of the other components of internal control at a service organization.

   For example, such controls at a service organization may include aspects of a service organization's control environment, monitoring, and control activities when they relate to the services provided. It does not, however, include controls at a service organization that are not related to the achievement of the control objectives stated in the service organization's description of its system, for example, controls related to the preparation of the service organization's own financial statements.

3. The determination of whether controls at a service organization related to operations and compliance are likely to be relevant to user entities' internal control as it relates to financial reporting is a matter of professional judgment, having regard to the control objectives set by the service organization and the suitability of the criteria.

Q.NO.16. WHAT DO YOU MEAN BY USER AUDITOR AND SERVICE AUDITOR. WHAT ARE THE OBJECTIVES OF SERVICE AUDITOR?

ANSWER:

USER AUDITOR: User auditor refers to an auditor who audits and reports on the financial statements of a user entity.

SERVICE AUDITOR: Service auditor refers to a professional accountant in public practice who, at the request of the service organization, provides an assurance report on controls at a service organization.

OBJECTIVES OF SERVICE AUDITOR:

The objectives of the service auditor are as per SAE 3402:

1. To obtain reasonable assurance about whether, in all material respects, based on suitable criteria:

    a. The service organization's description of its system fairly presents the system as designed and implemented throughout the specified period (or in the case of a type 1 report, as at a specified date)

    b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period (or in the case of a type 1 report, as at a specified date)

    c. Where included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved throughout the specified period. (Type 2 Report)

2. To report on the matters in (a) above in accordance with the service auditor's findings.

Q.NO.17. WRITE ABOUT TYPE 1 AND TYPE 2 REPORTS?

ANSWER:

Type 1 report is a report that comprises:	**Type 2 report is a report that comprises:**
1. The service organization's description of its system. 2. A written assertion by the service organization that, in all material respects, and based on suitable criteria: a. The description fairly presents the service organization's system as designed and implemented at the specified date b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date and	1. The service organization's description of its system. 2. A written assertion by the service organization that, in all material respects, and based on suitable criteria: a. The description fairly presents the service organization's system as designed and implemented THROUGHOUT THE SPECIFIED PERIOD. b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout THE SPECIFIED PERIOD and

3. A service auditor's assurance report that conveys reasonable assurance about the matters referred to in (2)	c. The controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period and 3. A service auditor's assurance report that: a. Conveys reasonable assurance about the matters in (2) and b. Includes a description of the tests of controls and the results thereof.
Type 1 report is a report on the description and design of controls at a service organization whereas Type 2 report is a report on the description, design and OPERATING EFFECTIVENESS of controls at a service organization.	

Q.NO.18. HOW AN ENGAGEMENT OF ASSURANCE ON SERVICE ORGANIZATIONS SYSTEMS IS PROCEEDED WITH?

ANSWER:

1. **COMPLIANCE WITH ETHICAL REQUIREMENTS:** The service auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to assurance engagements.

2. **COMMUNICATION WITH APPROPRIATE MANAGEMENT AND TCWG:**

   a. The service auditor shall inquire of, request representations from, communicate with, or otherwise interact with the service organization wherever required.

   b. The service auditor shall determine the appropriate persons within the service organization's management or governance structure with whom to interact.

3. **ACCEPTANCE AND CHANGES IN TERMS OF ENGAGEMENT:**
   a. Before, accepting such an engagement, it has to be ensured by service auditor that

necessary capabilities and competence to carry out such engagement are possessed by him.

b. It also needs to be ensured that the criteria to be applied by the service organization to prepare the description of its system will be suitable and available to user entities and their auditors and

c. The scope of the engagement and the service organization's description of its system will not be so limited that they are unlikely to be useful to user entities and their auditors.

d. If the service organization requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall be satisfied that there is a reasonable justification for the change.

4. **ASSESSING OF SUITABILITY OF THE CRITERIA:** The service auditor shall assess whether the service organization has used suitable criteria in preparing the description of its system, in evaluating whether controls are suitably designed, and, in the case of a type 2 reports, in evaluating whether controls are operating effectively.

5. **DETERMINATION OF MATERIALITY:** When planning and performing the engagement, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of controls.

6. **OBTAINING AN UNDERSTANDING OF THE SERVICE ORGANIZATION'S SYSTEM:** The service Auditor shall obtain an understanding of the service organization's system, including controls that are included in the scope of engagement.

7. **OBTAINING EVIDENCE REGARDING THE DESCRIPTION:** The service auditor shall obtain and read the service organization's description of its system and evaluate whether those aspects of the description included in the scope of engagement are fairly presented.

8. **OBTAINING EVIDENCE REGARDING THE DESIGN OF CONTROLS:** The service auditor shall determine which of the controls at the service organization are necessary to achieve the control objectives stated in the service organization's description of its system and shall assess whether those controls were suitably designed.

9. **OBTAINING EVIDENCE REGARDING OPERATING EFFECTIVENESS OF CONTROLS:** When providing a type 2 report, the service auditor shall test those controls that the service auditor has determined are necessary to achieve the control objectives stated in the service organization's description of its system, and assess their operating effectiveness throughout the period.

10. **UNDERSTANDING THE INTERNAL AUDIT FUNCTION:** If the service organization has an internal

audit function, the service auditor shall obtain an understanding of the nature of the responsibilities of the internal audit function and of the activities performed in order to determine whether the internal audit function is likely to be relevant to the engagement in order for the service auditor to use specific work of the internal auditors.

11. **ASKING FOR WRITTEN REPRESENTATIONS:** The service auditor shall request the service organization to provide written representations:

    a. That reaffirm the assertion accompanying the description of the system

    b. That it has provided the service auditor with all relevant information and access agreed to and

    c. That it has disclosed to the service auditor any of the following of which it is aware:

        1) Non-compliance with laws and regulations, fraud, or uncorrected deviations attributable to the service organization that may affect one or more user entities.

        2) Design deficiencies in controls

        3) Instances where controls have not operated as described and

        4) Any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report.

12. **SUBSEQUENT EVENTS:** The service auditor shall inquire whether the service organization is aware of any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report.

Q.NO.19. WRITE ABOUT ELEMENTS OF ASSURANCE REPORT BY SERVICE AUDITOR?

ANSWER:

The service auditor's assurance report shall include the following basic elements:

1. **TITLE:** A title that clearly indicates the report is an independent service auditor's assurancereport.

2. **AN ADDRESSEE**

3. **INTRODUCTORY PARA:** Identification of:

a. The service organization's description of its system, and the service organization's assertion, which includes the matters for a type 2 report, or for a type 1 report.

b. Those parts of the service organization's description of its system, if any, that are not covered by the service auditor's opinion.

c. If the description refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the service organization's description of its system can be achieved only if complementary user entity controls are suitably designed or operating effectively, along with the controls at the service organization.

d. If services are performed by a subservice organization, the nature of activities performed by the subservice organization as described in the service organization's description of its system.

e. **CRITERIA:** Identification of the criteria, and the party specifying the control objectives.

f. A statement that the report and, in the case of a type 2 report, the description of tests of controls are intended only for user entities and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements.

4. **S.O. RESPONSIBILITIES:** A statement that the service organization is responsible for:

a. Preparing the description of its system, and the accompanying assertion, including the completeness, accuracy and method of presentation of that description and that assertion.

b. Providing the services covered by the service organization's description of its system.

c. Stating the control objectives (where not identified by law or regulation, or another party, for example, a user group or a professional body) and

d. Designing and implementing controls to achieve the control objectives stated in the service organization's description of its system.

5. **SERVICE AUDITORS' RESPONSIBILITIES:**

a. A statement that the service auditor's responsibility is to express an opinion on the service organization's description, on the design of controls related to the control objectives stated in that description and, in the case of a type 2 report, on the operating effectiveness of those controls, based on the service auditor's procedures.

b. A statement that the engagement was performed in accordance with SAE 3402, "Assurance Reports on Controls at a Service Organization," which requires that the service auditor comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the service organization's description of its system is fairly presented and the controls are suitably designed and, in the case of a type 2 report, are operating effectively.

c. A summary of the service auditor's procedures to obtain reasonable assurance and a statement of the service auditor's belief that the evidence obtained is sufficient and appropriate to provide a basis for the service auditor's opinion, and, in the case of a type 1 report, a statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and therefore no opinion is expressed thereon.

d. A statement of the limitations of controls and, in the case of a type 2 report, of the risk of projecting to future periods any evaluation of the operating effectiveness of controls.

6. **OPINION OF SERVICE AUDITOR:** The service auditor's opinion, expressed in the positive form, on whether, in all material respects, based on suitable criteria:

i. In the case of a type 2 report: - **a.** The description fairly presents the service organization's system that had been designed and implemented throughout the specified period; **b.** The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; and **c.** The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.	**ii.** In the case of a type 1 report: - **a.** The description fairly presents the service organization's system that had been designed and implemented as at the specified date and **b.** The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date.

7. **DATE OF REPORT:** The date of the service auditor's assurance report, which shall be NO earlier than the date on which the service auditor has obtained sufficient appropriate evidence on which to base the opinion.

8. **SIGNATURE:** The report should be signed by the practitioner.

9. **THE PLACE OF SIGNATURE: T**he report should name specific location, which is ordinarily the city where the report is signed.

ADDITIONAL MATTERS REQUIRING REPORTING IN TYPE 2 REPORT:

1. In the case of a type 2 report, the service auditor's assurance report shall include a separate section after the opinion, or an attachment, that describes the tests of controls that were performed and the results of those tests.

2. In describing the tests of controls, the service auditor shall clearly state which controls were tested, identify whether the items tested represent all or a selection of the items in the population, and indicate the nature of the tests in sufficient detail to enable user auditors to determine the effect of such tests on their risk assessments.

3. If deviations have been identified, the service auditor shall include the extent of testing performed that led to identification of the deviations (including the sample size where sampling has been used), and the number and nature of the deviations noted.

4. The service auditor shall report deviations even if, on the basis of tests performed, the service auditor has concluded that the related control objective was achieved.

Q.NO.20. WRITE ABOUT MODIFIED OPINIONS IN THE SERVICE AUDITORS ASSURANCE REPORT?

ANSWER:

MODIFIED OPINION: If the service auditor concludes that:

1. The service organization's description does not fairly present, in all material respects, the system as designed and implemented.

2. The controls related to the control objectives stated in the description were not suitably designed, in all material respects.

3. In the case of a type 2 report, the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved, did not operate effectively, in all material respects or

4. The service auditor is unable to obtain sufficient appropriate evidence,

The service auditor's opinion shall be modified, and the service auditor's assurance report shall contain a clear description of all the reasons for the modification.

DOCUMENTATION:

The service auditor shall prepare documentation that is sufficient to enable an experienced service auditor, having no previous connection with the engagement, to understand:

1. The nature, timing, and extent of the procedures performed to comply with this SAE and applicable legal and regulatory requirements

2. The results of the procedures performed, and the evidence obtained and

3. Significant matters arising during the engagement, and the conclusions reached thereon and significant professional judgments made in reaching those conclusions

ILLUSTRATION 2.

Bansi Group is a leading institution running prestigious post graduate courses in the field of management. Its financial statements are audited by an independent auditor. Before the start of this academic session, the Board of the institution had outsourced its entire process of inviting student applications, submission of applications, and collection of application fees including late fees and such matters to Easy Solutions Limited.

The auditors of Bansi Group want to be sure about the design and operating effectiveness of controls at Easy Solutions Limited. What should be the nature of the report to be provided by auditors of Easy Solutions Limited specifically for use by Bansi Group and its auditors in this regard in terms of SA 3402?

ANSWER:

In such a case, the auditors of Bansi Group want to be sure about the design and operating effectiveness of controls at the organization which is providing services to their client.

Type 2 report is a report on the description, design and operating effectiveness of controls operating at the service organization.

Auditors of Easy Solutions Limited should provide such a report giving assurance on these matters. It should also include details of tests of controls performed and details of deviations, if any.

SAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

SA 3420 deals with reasonable assurance engagements undertaken by a practitioner to report on the responsible party's compilation of pro forma financial information included in a prospectus.

It applies where such reporting is required by securities law or regulation of the security exchange in the jurisdiction in which the prospectus is to be issued or this reporting is generally accepted practice in such jurisdiction.

Q.NO.21. WHAT IS PROFORMA FINANCIAL INFORMATION?

ANSWER:

1. Pro forma financial information refers to financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration.

2. The Pro forma financial information is, normally, used in the offer documents to demonstrate the effect of a transaction on the financial statements of a company as if those transactions had occurred at an earlier date.

3. The Pro forma financial information may take the form of Statement of Profit and Loss and Balance Sheet to illustrate how the transactions might have affected the assets, liabilities and earnings of the Issuer.

4. They also include notes in relation to the significant aspects of the transactions, assumptions used to prepare the Pro forma financial information and the adjustments made.

5. The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. This is achieved by applying pro forma adjustments to the unadjusted financial information.

6. Pro forma financial information does not represent the entity's actual financial position, financial performance, or cash flows.

Q.NO.22. WHAT ARE THE OBJECTIVES IN ACCORDANCE WITH SA 3420?

ANSWER:

The objectives of the practitioner in accordance with SA 3420 are:

1. To obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria and

2. To report in accordance with the practitioner's findings.

Q.NO.23. WRITE ABOUT COMPILATION OF PRO FORMA FINANCIAL INFORMATION?

ANSWER:

The compilation of pro forma financial information involves the responsible party gathering, classifying, summarising and presenting financial information that illustrates the impact of a significant event or transaction on the unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at the selected date.

Steps involved in this process include:

1. Identifying the source of the unadjusted financial information to be used in compiling the pro forma financial information, and extracting the unadjusted financial information from that source

2. Making pro forma adjustments to the unadjusted financial information for the purpose for which the pro forma financial information is presented and

3. Presenting the resulting pro forma financial information with accompanying disclosures.

Q.NO.24. WRITE ABOUT NATURE OF THE PRACTITIONER'S RESPONSIBILITY IN AN ENGAGEMENT OF REPORT ON PROFORMA FINANICAL INFORMATION UNDER SAE 3420?

ANSWER:

1. The practitioner has no responsibility to compile the pro forma financial information for the entity. Such responsibility rests with the responsible party.

2. The practitioner’s sole responsibility is to report on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

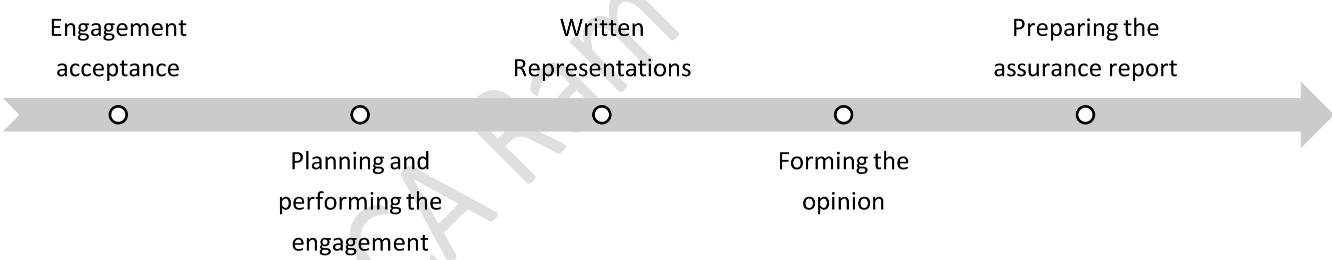
3. It is a reasonable assurance engagement to report on the compilation of pro forma financial information involving performing the procedures to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction.

“Applicable criteria” are criteria used by the responsible party when compiling the pro forma financial information. Criteria may be established by an authorized or recognized standard-setting organization or by law or regulation.

Where established criteria do not exist, they will be developed by the responsible party.

Q.NO.25. WHAT ARE THE STEPS INVOLVED IN REPORTING ON PROFORMA FINANCIAL INFORMATION?

ANSWER:



A. ENGAGEMENT ACCEPTANCE: Before agreeing to accept an engagement to report on whether pro forma financial information included in a prospectus has been compiled, in all material respects, on the basis of the applicable criteria, the practitioner shall consider matters stated below:

1. Determine that the practitioner has the capabilities and competence to perform the engagement

2. On the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, determine that the applicable criteria are suitable and that it is unlikely that the pro forma financial information will be misleading for the purpose for which it is intended.

3. Evaluate the wording of the opinion prescribed by the relevant law or regulation, if any, to

determine that the practitioner will likely be able to express the opinion so prescribed based on performing the procedures specified in this SAE

4. Where the sources from which the unadjusted financial information and any acquiree or divestee financial information have been extracted have been audited or reviewed and a modified audit opinion or review conclusion has been expressed, or the report contains an Emphasis of Matter paragraph, consider whether or not the relevant law or regulation permits the use of, or reference in the practitioner's report to, the modified audit opinion or review conclusion or the report containing the Emphasis of Matter paragraph with respect to such sources

5. If the entity's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the entity and its accounting and financial reporting practices to perform the engagement

6. If the event or transaction includes an acquisition and the acquiree's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement and

7. Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for:

    a. Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available

    b. Compiling the pro forma financial information on the basis of the applicable criteria and

    c. Providing the practitioner with:
        i. Access to all information (including, when needed for purposes of the engagement, information of the acquiree(s) in a business combination), such as records, documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

        ii. Additional information that the practitioner may request from the responsible party for the purpose of the engagement.

        iii. Access to those within the entity and the entity's advisors from whom the practitioner determines it necessary to obtain evidence relating to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and

iv. When needed for purposes of the engagement, access to appropriate individuals within the acquiree(s) in a business combination

B. PLANNING AND PERFORMING THE ENGAGEMENT:

1. **CRITERIA EVALUATION:** The practitioner shall assess whether the applicable criteria are suitable, as required by the Framework for Assurance Engagements

2. **MATERIALITY:** When planning and performing the engagement, the practitioner shall consider materiality with respect to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

3. An understanding of how the responsible party has compiled the pro forma financial Information and other engagement circumstances.

4. **SOURCES OF UNADJUSTED F/I:**

   a. The practitioner shall obtain evidence about the appropriateness of the source from which the unadjusted financial information has been extracted.

   b. If there is no audit or review report on the source from which the unadjusted financial information has been extracted, the practitioner shall perform procedures to be satisfied that the source is appropriate.

   c. The practitioner shall determine whether the responsible party has appropriately extracted the unadjusted financial information from the source.

   d. The practitioner shall obtain evidence about the appropriateness of the pro forma adjustments.

5. In relation to unadjusted financial information, Pro forma adjustments include:

   a. Adjustments to unadjusted financial information that illustrate the impact of a significant event or transaction as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration and

   b. Adjustments to unadjusted financial information that are necessary for the pro forma financial information to be compiled on a basis consistent with the applicable financial reporting framework of the reporting entity and its accounting policies under that framework.

6. **PRESENTATION:** The practitioner shall evaluate the presentation of pro forma financial

information.

7. **OTHR INFORMATION:** The practitioner shall read the other information included in the Prospectus containing the pro forma financial information to identify material inconsistencies, if any, with pro forma financial information.

C. WRITTEN REPRESENTATIONS: The practitioner shall request written representations from the responsible party that:

1. In compiling the pro forma financial information, the responsible party has identified all appropriate pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration and

2. The pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

D. OPINION:

1. **UNMODIFIED OPINION:** The practitioner shall express an unmodified opinion when the practitioner concludes that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

2. **MODIFIED OPINION:**

   a. **LAW DO NOT PERMIT MODIFIED OPINION:** Where the relevant law or regulation precludes publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner concludes that a modified opinion is nevertheless appropriate in accordance with the Framework for Assurance Engagements, the practitioner shall discuss the matter with the responsible party.

If the responsible party does not agree to make the necessary changes, the practitioner shall:

- Withdraw from the engagement or
- Consider seeking legal advice.

   b. **LAW PERMITS MODIFIED OPINION:** Where the relevant law or regulation may not preclude publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner determines that a modified opinion is appropriate in accordance with the Framework for Assurance Engagements, the practitioner shall apply the requirements in the Framework for Assurance Engagements regarding modified opinions.

3. **EMPHASIS OF MATTER PARAGRAPH:**
   a. In some circumstances, the practitioner may consider it necessary to draw the user's attention to a matter presented or disclosed in the pro forma financial information or the accompanying explanatory notes. This would be the case when, in the practitioner's opinion, the matter is of such importance that it is fundamental to the user's understanding of whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

   b. In such circumstances, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report provided that the practitioner has obtained sufficient appropriate evidence that the matter does not affect whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

   c. Such a paragraph shall refer only to information presented or disclosed in the pro forma financial Information or the accompanying explanatory notes.

4. **PREPARING THE ASSURANCE REPORT:**
   The practitioner's report shall include the following basic elements:

Basic elements of Assurance Report
a. A title that clearly indicates that the report is an independent assurance report b. An addressee(s), as agreed in the terms of engagement c. **Introductory paragraphs that identify:** i. The pro forma financial information ii. The source from which the unadjusted financial information has been extracted and whether or not an audit or review report on such a source has been published iii. The period covered by, or the date of, the pro forma financial information and iv. A reference to the applicable criteria on the basis of which the responsible party has performed the compilation of the pro forma financial information, and the source of the criteria d. A statement that the responsible party is responsible for compiling the pro forma financial information on the basis of the applicable criteria

e. **A description of the practitioner's responsibilities, including statements that:**

i. The practitioner's responsibility is to express an opinion about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria

ii. For purposes of this engagement, the practitioner is not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor has the practitioner, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information and

iii. The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, the practitioner does not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented

iv. A statement that the engagement was performed in accordance with SAE 3420, 'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus', which requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the responsible party has compiled, in all material respects, the pro forma financial information on the basis of the applicable criteria

v. **Statements that**:

1) A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction and to obtain sufficient appropriate evidence about whether:

The related pro forma adjustments give appropriate effect to those criteria and	The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information

2) The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the entity, the event or

transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances and

3) The <u>engagement also involves evaluating the overall presentation</u> of the pro forma financial information

f. OPINION: Unless otherwise required by law or regulation, the practiti<u>oner's opinion using one of the following phrases,</u> which are regarded as being equivalent:
   i. The pro forma financial information <u>has been compiled, in all material respects</u>, on the basis of the applicable criteria or
   ii. The pro forma financial information <u>has been properly compiled on the basis stated</u>.

g. The practitioner's signature

h. The date of the report and

i. The place of signature.

DOCUMENTATION

As in case of all assurance engagements, documentation has to be ensured by the practitioner while performing engagement under SAE 3420.

ILLUSTRATION 3.

The management of S Ltd. requests you to accept an engagement to report on the compilation of pro forma financial information to be included in a prospectus. In light of SAE 3420, what factors you will consider regarding the company acknowledging and understanding its responsibility in this matter before accepting engagement?

<u>ANSWER:</u>

1. The company's responsibility has to be acknowledged for the following matters:
   i. Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available

   ii. Compiling the pro forma financial information on the basis of the applicable criteria and

   iii. Providing the practitioner with:
      1) Access to all information (including, when needed for purposes of the engagement, information of the acquiree(s) in a business combination), such as records,

documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria

2) Additional information that the practitioner may request from the responsible party for the purpose of the engagement

3) Access to those within the entity and the entity's advisors from whom the practitioner determines it necessary to obtain evidence relating to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; and

4) When needed for purposes of the engagement, access to appropriate individuals within the acquiree(s) in a business combination.

TEST YOUR KNOWLEDGE

Q.NO.1. Ayurda Ltd.is a fast-growing and award-winning SaaS software company which is headquartered in Mumbai. It also has offices in the UK and provides cloud-based professional services automation (PSA) software solutions to professional services organizations around the world. They want to engage you to provide an assurance report for one of its major clients over the controls it operates as a service organisation. Can you provide such an assurance report?

ANSWER:

Assurance report can be provided under SAE 3402.

Q.NO.2. Discuss the significance of Pro forma financial information included in prospectus of a company.

ANSWER:

Q.NO.3. Discuss the term "Pro forma adjustment" under SAE 3420.

ANSWER:

Q.NO.4. Discuss, how, a Chartered Accountant can be associated with prospective financial information without violating relevant provisions of the Chartered Accountants Act, 1949.

ANSWER:

18. SUSTAINABLE DEVELOPMENT GOALS (SDG) & ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) ASSURANCE

Sustainability is a concept related to the development of products, goods and services that involves meeting our present needs without compromising the ability of future generations to fulfil their own needs.
Sustainability as a concept recognises that the environment is an exhaustible resource. Therefore, it is important to use the environment and its resources rationally and protect it for the good of the Earth, our environment, humanity, and all living things.

Q.NO.1. DEFINE SUSTAINABLE DEVELOPMENT AS PER BRUNDTLAND REPORT AND THE 3 PILLARS OF SUSTAINABILITY?

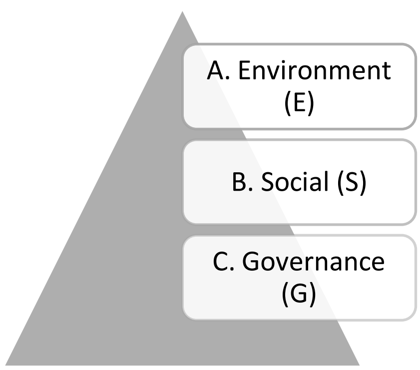
ANSWER:

The concept of sustainable development is named after the Brundtland report, which reports sustainable consumption in developed countries.

SUSTAINABLE DEVELOPMENT:

"Sustainable development is development that strives to meet the needs of developing countries seeking to achieve a more sustainable world. Sustainable development addresses the needs of the present moment without compromising current and future generations to meet their own sustainable lifestyles."

3 PILLARS OF SUSTAINABLE DEVELOPMENT: Sustainable development can be applied to corporate policy in the business world as it encompasses following 3 pillars of sustainability:



A. ENVIRONMENT (E):

1. Environmental stands for corporate climate policies, energy use, waste, pollutions, natural resource conservation, and treatment of animals.

2. It includes the natural resources that every entity absorbs for its functioning like that of coal, electricity, water and so on.

3. Processing this energy into products / services which will leave behind certain wastes like that of carbon emissions, water discharges, e-wastes and so on.

B. SOCIAL (S):

1. It addresses the relationships the entity has and the reputation it fosters with people and institutions in the communities where you do business and the value chain involved.

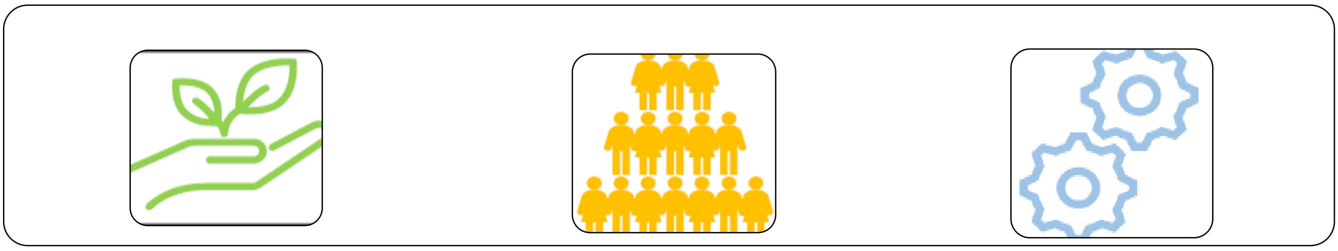
2. It further includes labour relations, diversity, and inclusions. Every company operates within a broader and diverse society.

C. GOVERNANCE (G):

1. It is the internal system of practices, controls, and procedures entity adopts in order to govern itself, make effective investment decisions, comply with the law, and meet the needs of all stakeholders.

2. Every entity, which is itself a legal creation, requires governance.

The above pillars include the following elements as under:



ENVIORNMENT

Climate Change:
- Carbon Emissions
- Product Carbon FootPrints
- Financing Enviornmental Impact
- Climate Change Vulnerability

Natural Resources:
- Water Stress
- Bio-diversity & land use
- Raw Material sourcing

Pollution & Waste:
- Toxic emission and waste
- Packing Material and waste
- E-Waste

Enviornment Opportunity:
- Clean Tech
- Green Building
- Renewable nergy

SOCIAL

Human Capital:
- Labour Management
- Health & Safety
- Human Capital Development
- Supply Chain Labour Standards

Product Liability:
- Product Safety & Quality
- Chemical Safety
- Financial Product Safety
- Privacy and Data Security
- Responsible Investment

Stakeholders Opposition:
- Controversial Sourcing

Social Opportunity:
- Access to Communication
- Access to Finance
- Access to Health Care
- Opportunities in Nutrition & Health

GOVERNANCE

Corporate Governance:
- Broad Diversity
- Executive Pay
- Ownership
- Accounting

Corporate Behaviour
- Business Ethics
- Anti - Competitve Practices
- Corruption & Instability
- Financial system and stability
- Tax Transparency

APPROACH OF REPORTING ON ESG:

1. Environmental, Social and Governance (ESG) reporting is all about disclosure of information, data, metrics that explain the added value in these 3 areas.

2. ESG reporting can be both quantitative and qualitative in nature.

3. Qualitative reports tend to describe a company's strategy or policy around the relevant topics, while a quantitative approach includes metrics, and key performance indicators (KPIs) linked to each area in order to measure progress against goals and report on achievements.

4. Naturally, a mixed approach that makes use of both qualitative and quantitative information tends to add the maximum value to the quality of disclosures.

Q.NO.2. WRITE ABOUT SUSTAINABLE DEVELOPMENT GOALS?

ANSWER:

1. In 2015, Sustainable Development was adopted by all United Nations Members states to provide a blueprint, which mentioned the Sustainable Development Goals (SDGs).

2. There were 17 SDGs which are considered as an urgent call for action by all countries, whether developed or developing countries.

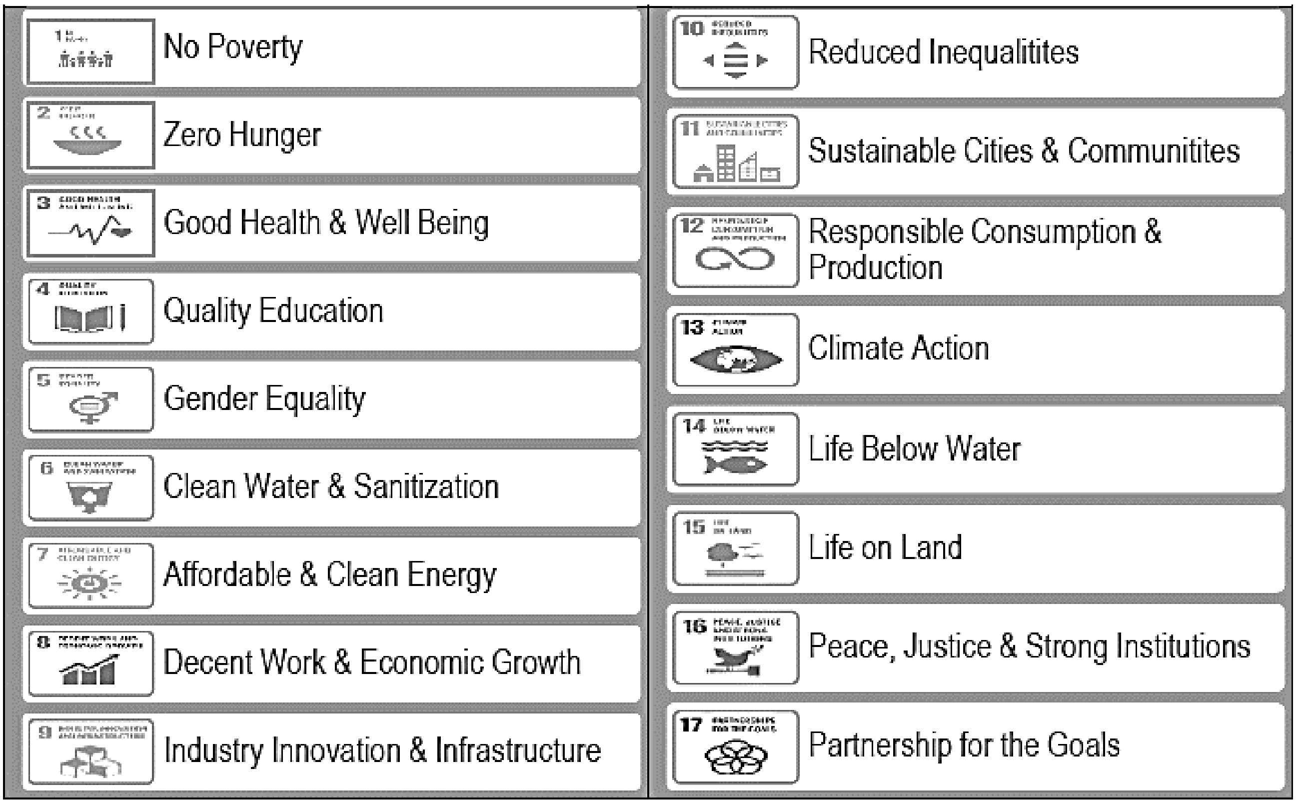
3. They recognized that by ending poverty and other deprivations must go hand in hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

4. Today, the Division for Sustainable Development Goals (DSDG) in the United Nations Department of Economic and Social Affairs (UNDESA) provides substantive support and capacity building for the SDGs and their related thematic issues including water, energy, climate, oceans, urbanization, transport, science and technology, the Global Sustainable Development Report (GSDR), partnerships and Small Island Developing States.

5. SDG plays a key role in the evaluation of UN systemwide implementation of the 2030 Agenda and on advocacy and outreach activities relating to the SDGs.

6. In order to make the 2030 Agenda a reality, broad ownership of the SDGs must translate into a strong commitment by all stakeholders to implement the global goals. DSDG aims to help facilitate this engagement.

7. Following are the 17 SDGs:



Q.NO.3. WHAT ARE THE GLOBAL TRENDS IN SUSTAINABLE REPORTING?

ANSWER:

The mandatory reporting requirements are mostly associated with the public sector or government-run companies, large corporations, multi-national business conglomerates, and listed companies in the stock exchanges. Furthermore, sector-specific, and thematic reporting provisions are also becoming more common.
The most widely used framework in the world is the Global Reporting Initiative (GRI) Sustainability Reporting Standards having 93% of the world's largest 250 corporations report on their sustainability performance through GRI.
It is used in over 100 countries to report sustainability. This independent international organization is based in Amsterdam, the Netherlands, and has operational hubs in Brazil, China, Colombia, India, South Africa, and the United States.
The GRI Sustainability Reporting Standards are developed with true multi-stakeholder contributions and rooted in the public interest.

1. **GLOBAL REPORTING INITIATIVE (GRI):** helps the organizations to report on economic, environmental, and social impacts. The general disclosures which are required to be reported under this standard are Economic, Environment and Social. This report is addressed to all the stakeholders of the entity.

2. **CARBON DISCLOSURE PROJECT (CDP):** captures the environmental performance data which is

related to GHG emissions, water, forests, and supply chain. Major details required to be reported are climate change, Forest, and Water security. This report is addressed to all the investors, buyers, and other stakeholders of the entity.

3. **INTERNATIONAL INTEGRATED REPORTING FRAMEWORK (IIRC):** has established guiding principles and content elements in order to allow the companies to produce integrated reports. This report consists of Organisational overview, Governance structure, Business model, risks and opportunities, strategy, performance, outlook etc.

4. In September 2020, these framework & standard setting institutions came together to show a commitment to working towards a COMPREHENSIVE CORPORATE REPORTING SYSTEM.

5. The intent of the collaboration was:

   a. Joint market guidance on how the frameworks & standards can be applied in a complementary and additive way.

   b. Joint vision of how these elements could complement financial generally accepted accounting principles (Financial GAAP) and serve as a natural starting point for progress towards a more coherent, comprehensive corporate reporting system.

   c. Joint commitment to drive towards this goal, through an ongoing programme of deeper collaboration between the 5 institutions and stated willingness to engage closely with other interested stakeholders.

6. In November 2021, the IFRS Foundation Trustees published a revised Constitution and a Feedback Statement that responds to the feedback from Exposure Draft Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards.

7. International investors with global investment portfolios are increasingly calling for high quality, transparent, reliable, and comparable reporting by companies on climate and other environmental, social and governance (ESG) matters.

8. On 3 November 2021, the IFRS Foundation Trustees announced the creation of a new standard-setting board—THE INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB)—to help meet this demand.

   The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

9. **TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD):** It was created in 2015 by

the Financial Stability Board (FSB) with the goal of helping companies create consistent climate-related disclosures. Unlike GRI, which works on a wide range of organizations, TCFD is targeted at companies that predominantly handle financial-related interests, such as banks and insurance firms.

10. The Climate Disclosure Standards Board (CDSB) was an international group of business and committed to making climate-rated disclosures in the mainstream global corporate reporting.

    The CDSB framework was formed to help organizations to disclose climate related risks and opportunities. The CDSB framework has also set out an approach on for reporting environmental information.

11. Further, the ISSB has taken the technical guidance for developing IFRS Sustainability Disclosure Standards.

12. The Value Reporting Foundation (VRF) is a non-profit organization which was a result of the merger between SASB Foundation and the International Integrated Reporting Council (IIRC).

13. The International Accounting Standards Board (IASB) and the ISSB has agreed to work together in order to build an Integrated Reporting Framework.

14. The International Sustainability Standards Board (ISSB) in March 2022 launched a consultation on its first 2 proposed standards—one on climate-related disclosures and one on general sustainability-related disclosures.

    The proposed standards, when finalised, would form a comprehensive global baseline of sustainability-related disclosures designed to meet the information needs of investors in assessing enterprise value.

IFRS S1: The proposed requirements in the Exposure Draft
IFRS S2: Climate-related Disclosures (Climate Exposure Draft) build upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and incorporate industry-based disclosure requirements derived from the Sustainability Accounting Standards Board (SASB) Standards.

ILLUSTRATION 1.

You have recently joined a listed company after qualifying CA final exams through campus placement programme conducted by CMI&B at ICAI. Although the company you have joined in is not amongst top 1000 listed companies in the country, it wants to include "Sustainability reporting" in accordance with Global Reporting Initiative framework (GRI) in its annual report

on voluntary basis. "Sustainability reporting" seems to be new buzzword in corporate circles and you are assigned responsibility for collating all the information required for such reporting. In above context, dwell upon what is your understanding of "Sustainability reporting"? Can you list some of its expected benefits?

ANSWER:

Sustainability reporting is an organization's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development
Sustainability reporting refers to the information that companies provide about their performance to the outside world on a regular basis in a structured way. It is the comprehensive mechanism of measuring and disclosing sustainability data with performance indicators and management disclosures.

Expected Benefits: It can help stakeholders to understand organizations performance vis a vis sustainability and impacts. The reporting process emphasizes the link between financial and non-financial performance.

Such reporting can help entities to focus on long-term value creation, by addressing environmental, social and governance (ESG) issues.

Since investors are increasingly recognising that environmental and social issues provide both risks and opportunities in respect of their investments and are seeking disclosures on environmental and social performance of businesses, they can use ESG performance of companies to make investment decisions.

Q.NO.4. WHAT IS INTEGRATED REPORTING?

ANSWER:

There are 6 Cs of Integrated Reporting – also known as 6 capitals:

1. **FINANCIAL CAPITAL:**
   a. Pool of funds that is available to the organization for use in the production of goods or provision of services.

   b. Obtained through financing, such as debt, equity, or grants, or generated through operations or investments.

2. **MANUFACTURED CAPITAL:**
    a. Seen as human-created, production-oriented equipment and tools.

    b. Available to the organization for use in the production of goods or the provision of services, including buildings, equipment, infrastructure (such as roads, ports, bridges & waste, and water treatment plants).

3. **NATURAL CAPITAL:**
    a. Is an input to the production of goods or the provision of services.

    b. An organization's activities also impact, positively or negatively, on natural capital.

    c. Includes water, land, minerals and forests, biodiversity, and ecosystem health.

4. **HUMAN CAPITAL:** People's skills and experience, their capacity, and motivations to innovate, including their:
    a. Alignment with and support of the organization's governance framework & ethical values such as its recognition of human rights.

    b. Ability to understand and implement an organization's strategy.

    c. Loyalties and motivations for improving processes, goods, and services, including their ability to lead and to collaborate.

5. **SOCIAL CAPITAL:**

    a. Institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being.

    b. Includes:
        1) Common values and behaviour.

        2) key relationships, the trust and loyalty that an organization has developed and strives to build and protect with customers, suppliers, and business partners.

        3) An organization's social license to operate.

6. **INTELLECTUAL CAPITAL:**
    a. Key element in an organization's future earning potential, with a tight link and contingency between investment in R&D, innovation, human resources, and external relationships, which can determine the organization's competitive advantage.

b. Asia Pacific region continues to dominate in presenting sustainability data in annual reports. Approximately with 60% of Companies reporting in 2022. Integrated reporting is strong in the Middle East.

ILLUSTRATION 2.

Trustworthy Industries Limited (a listed company) has already been preparing and disclosing its sustainability report based upon internationally accepted reporting framework of "Integrated Reporting" on a voluntary basis even some years before BRSR reporting became mandatory. Even after BRSR reporting became mandatory, it is cross-referencing disclosures made under such reporting to disclosures sought under BRSR. The key thrust of "Integrated Reporting" is how company creates value over short, medium and long term.
Following further information is provided in respect of the above company: -

i. **It has increased the number of customers using digital customer mobile app of the company from 2 lac users to 4 lac users. There is 100% increase in digital collection. It has benefitted customers of the company and resulted in use of digital methods for business operations of the company.**
ii. **It has increased the number of beneficiaries under its flagship CSR programmes from previous 10000 to 75000. It has provided value for communities and provided sustainable livelihood to them.**

Discussing above information, identify which of the capitals of "Integrated Reporting" are being referred to at [i] and [ii] respectively?

ANSWER:

The information at [i] states that company has increased the number of customers using digital mobile app. Besides, it has led to 100% increase in digital collection. Therefore, it involves use of technology for deriving business benefits. It has invested in innovation deriving business benefits from digitization. The capital referred to at [i] is "Intellectual Capital".

Increase in number of beneficiaries under flagship CSR programmes providing value for communities and sustainable livelihood is an example of relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. The capital referred to at [ii] is "Social and Relationship Capital."

GLOBAL SCENARIO ON SUSTAINABLE REPORTING IN VARIOUS COUNTRIES

March 2021
Sustainable Finance Disclosures Regulation (SFDR) go into effect for asset managers and financial advisors operating in EU

April 2021
European commission adopts the CSRD proposal, which will require large companies to report on social and environmental impacts starting in 2024

October 2021
GRI standards updated

November 2021
IFRS Foundation announces the formation of its global reporting standardization initiative through the ISSB UK Financial conduct authority releases sustainability requirements disclosure paper

December 2021
The European commission published the first delegated act on sustainable activities for the first two environmental objectives of the EU territory

February 2022
The EU adopts a proposal for a directive on Corporate Sustainability Due Diligence with Rules for companies to respect human rights and the environment in their global value chains

March 2022
US SEC annouces climate change disclosure proposal ISSB exposure draft for public commentary

April 2022
European Financial Reporting Advisory Board issues exposure draft of the European Sustainbility Reporting Standard (ESRS) for public commentary

June 2022
China's voluntary guidance for Enterprise ESG disclosures takes effect

Q.NO.5. WRITE ABOUT EVOLUTION OF ESG IN INDIA?

ANSWER:

In India, the Ministry of Corporate Affairs (MCA) took the initiative to guide the corporates towards responsible conduct and a sustainable future by issuing Corporate Social Responsibility Voluntary Guidelines in December 2009.

The "Voluntary Guidelines on Corporate Social Responsibility", announced by the MCA in 2009, was one of the earliest initiatives taken by the Government of India.
Its ultimate goal was to integrate sustainability into business practices and into decision making process.

The MCA further issued additional guidelines, known as the "National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business, 2011" (NVGs), emphasising the importance of corporate entities' environmental, social, and economic responsibilities, as well as the need to integrate them into business practices and investment decision making processes.

2009 – 'CORPORATE SOCIAL RESPONSIBILITY VOLUNTARY GUIDELINES 2009'

MCA issued CSR voluntary guidelines for the businesses to add value to the operations and contribute towards the long-term sustainability of the business. The most important element of these was to encourage the corporates to focus on Ethical functioning, Rights and welfare of workers, Human Rights, Environmental development and taking social development activities.

2011 – 'NATIONAL VOLUNTARY GUIDELINES ON SOCIAL, ENVIRONMENTAL AND ECONOMIC RESPONSIBILITIES OF BUSINESS'

In July 2011 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' came which contained comprehensive principles to be adopted by companies as part of their business practice.

2012 – SEBI MANDATES TOP 100 LISTED COMPANIES TO FILE BUSINESS RESPONSIBILITY REPORT

Top 100 listed companies by market capitalization were required to file Business Responsibility Report (BRR). This report was in line with the ESG principles.

2015 – BRR BECAME PART OF SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

SEBI vide Circular no. CIR/CFD/CMD/10/2015 dated November 04, 2015, had prescribed the format for the Business Responsibility Report (BRR) in respect of reporting on ESG (Environment, Social and Governance) parameters by listed entities in line with clause (f) of sub regulation (2) of regulation 34 of SEBI(LODR) Regulations 2015. Top 500 listed companies by market capitalization were required to file Business Responsibility Report (BRR).

2017 – SEBI RECOMMENDED INTEGRATED REPORTING FOR TOP 500 LISTED COMPANIES

On 6 February 2017, SEBI issued a circular advising top 500 listed companies which are required to prepare BRR to adopt IR on a voluntary basis from the financial year 2017-18.

2019 - NATIONAL GUIDELINES ON RESPONSIBLE BUSINESS CONDUCT (NGRBC) 2018

MCA revised the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011 (NVGs) and formulated the National Guidelines on Responsible Business Conduct (NGRBC).

2019 – BRR BECAME MANDATORY FOR TOP 1,000 LISTED COMPANIES

As per SEBI (Listing Obligations and Disclosure Requirements) (Fifth Amendment) Regulations, 2019, with effect from December 26, 2019, the annual report of the top 1,000 listed entities based on market capitalization shall contain a business responsibility report as per clause (f) of sub regulation (2) of regulation 34 of Listing Regulations.

2021 – NEW REPORTING REQUIREMENTS ON ESG PARAMETERS CALLED THE BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORT (BRSR).

Under notification no. SEBI/LAD-NRO/GN/2021/22 dated May 05, 2021, SEBI introduced new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR).

The BRSR seeks disclosures from listed entities on their performance against the 9 principles of the 'National Guidelines on Responsible Business Conduct' (NGBRCs) and reporting under each principle is divided into essential and leadership indicators.

The essential indicators are required to be reported on a mandatory basis while the reporting of leadership indicators is on a voluntary basis. Listed entities should endeavour to report the leadership indictors also.

The BRSR is intended towards having quantitative and standardized disclosures on ESG parameters to enable comparability across companies, sectors, and time.

2009 National Voluntary Guidelines (NVGs) *(MCA issued NVGs on corporate social responsibility)*	2012 Business Responsibility Report (BRR) *The top 100 listed companies file BRR based on NVGs along with their annual reports*	2014 Corporate social responsibility (CSR) *CSR is mandated, and CSR Rules come into force*	2015 Extension to top 500 listed companies for filing BRR	2017 Integrated Reporting (IR) *IR may be adopted on a voluntary basis from FY 2017–18 by the top 500 companies which are required to prepare BRR*	2019 - National Guidelines on Responsible Business Conduct (NGRBC) released - Extension to the top 1,000 listed companies for filing BRR	2021 Business Responsibility and Sustainability Report (BRSR) *Introduction of BRSR in May 2021*	2022 Mandatory reporting of top 1,000 listed companies to file BRSR along with the annual reports	

Q.NO.6. WHAT ARE THE INITIATIVES BY ICAI RELATING TO BRSR?

<u>ANSWER:</u>

1. In Feb 2020, ICAI <u>constituted Sustainability Reporting Standards Board</u> (SRSB). Mission of the SRSB is to take <u>appropriate measures to increase awareness and implement measures</u> towards responsible business conduct, <u>developing audit guidance</u> for Integrated Reporting

2. ICAI, encouraged by SEBI, introduced <u>India's first award to celebrate the business practice</u> of Integrated Reporting, internationally <u>acknowledged as the emerging best practice</u> in corporate reporting

3. ICAI has also <u>started a Certificate Course on Sustainable Development Goals</u> (SDGs), Business Responsibility Reports (BRR), Integrated Reporting (IR) & also proposed an ICAI Executive Development Program on Business Responsibility Reporting (BRR)

4. In last 2 years, ICAI has issued following publications:
    a. Standard on Assurance Engagements (SAE 3410) – Assurance <u>Engagements on Greenhouse Gas Statements</u>

    b. Background Material on BRSR (revised 2021)

    c. Sustainable Development Goals – Accountants creating sustainable World – Parts 1 covering SDGs 1 to 5

    d. Sustainable Development Goals – Accountants creating sustainable World – Parts 1 covering SDGs 6 to 11

    e. Sustainable Development Goals – Accountants creating sustainable World – Parts 1 covering SDG 11 to 17

f. FAQs on Sustainability Reporting – Heart of Good Governance

g. Sustainability Reporting Maturity Model (SRMM) – Version 1.0

Q.NO.7. WRITE IN DETAILED ABOUT BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORT (BRSR)?

ANSWER:

Reporting under BRSR is mandatory from financial year 2022-23. However, disclosure was voluntary in financial year 2021-22.
The reporting questionnaire is divided into 3 sections:

1. **SECTION A – GENERAL DISCLOSURES:**

   This section contains the details of the listed companies, its products, services, operations, employee related details, its holding, subsidiary, associate companies etc.

2. **SECTION B – MANAGEMENT PROCESS AND DISCLOSURES:**

   It contains questions related to policy and management processes, governance, leadership, and oversight.

3. **SECTION C – PRINCIPLE-WISE PERFORMANCE DISCLOSURES:**

   Companies are required to report upon Key performance indicators (KPIs) in alignment with the 9 principles of the NGRBC. The section classifies KPIs into 2 categories that companies are required to report upon:

   - **ESSENTIAL INDICATORS** (Mandatory disclosures)
     This would include data on training programs conducted, environmental data on energy, emissions, water, waste management etc.

   - **LEADERSHIP INDICATORS** (Optional disclosures)
     It would include life cycle assessments, details of conflict management policy, additional data, on biodiversity, energy consumptions, supply chain managements etc.

Q.NO.8. WHAT ARE THE 9 PRINCIPLES OF BRSR?

ANSWER:

The 9 principles in BRSR are categorized into the ESG components of Environment, Social and Governance with 2 of the nine in Environment, 3 in social and 4 in Governance.

Even though they are separate, they are interlinked to each other in some way.

For example, the environmental protection is closely linked to the stakeholder engagement and inclusive growth.

PRINCIPLE 1 – ETHICS, TRANSPARENCY AND ACCOUNTABILITY:

The first principle emphasizes that the business decisions in an organisation should be open to disclosure and accessible to the relevant interested parties.
The essence of the core elements associated with the first principle are:

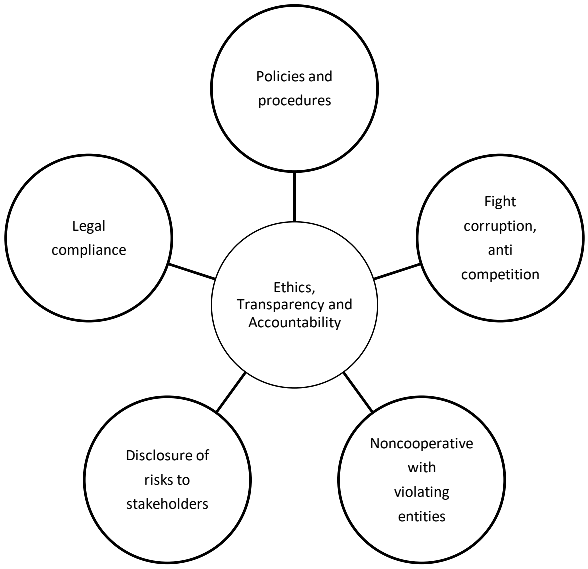
1. **POLICIES AND PROCEDURES:** The entities' governing structure should develop policies, procedures, and practices for their offices, factories, and work areas, ensuring that ethics is not compromised.

2. The information relating to the policies, procedures, and practices along with the performance should be made available to the stakeholders.

3. In case of adverse effects, more care has to be taken for transparent disclosures.

4. The entities in the value chain should be encouraged to adopt these principles by the governance structure.

5. **NON-COOPERATIVE WITH VIOLATING ENTITIES:** The entities should proactively respond to the outside entities that violate the 9 principles of the BRSRs. This includes their suppliers, distributors, sub-contractors, or regulatory officers that may engage with the business concern.



PRINCIPLE 2 – SAFE AND SUSTAINABLE GOALS AND SERVICE:

The entities should make sure that their goods, services, and the operations result in better life for the consumers and end-users.

The essence of the core elements associated with the second principle is:

1. When a product is designed by the entity, the production methods and technologies have to be devised in such a way so as to minimize the resource usage to make it sustainable.

2. The entities are also responsible to educate and make aware their consumers and clients about their rights.

3. The entities should take measures that reduce the over exploitation of the nature's resources by consuming sustainably and encourage methods for reduce, reuse and recycling of the resources.

PRINCIPLE 3 – PROMOTE WELL-BEING OF ALL EMPLOYEES INCLUDING THOSE IN THE VALUE CHAIN:

The third principle relates to all the initiatives an entity has to take for the benefit of its employees from the point of view of their dignity, health, well-being.

The essence of the core elements associated with the principle is:

1. The entity should ensure compliance with all regulatory requirements as far as employees are concerned.

2. The entities are to respect the dignity of employee as a human being and should not restrict their freedom of associations, unions, and other participatory mechanism for collective

bargaining of their rights and redressal of issues they face at the workplace.

3. The entities should prevent all kinds of child labour, bonded labour, and any other forms of involuntary labour.

4. The entities should have a system in which the work-life balance of the employees is not compromised.

5. The businesses have to ensure timely payment of the worker's wages and compensation.

6. The payment of the wages has to be as per the living wages, that can take care of the basic needs and provide economic security to the employees.

7. The entities are responsible to create a workplace and work environment that is safe, hygienic, and comfortable for people to work for long durations.

8. The skill development, career development and training of the workforce is another responsibility of the entities employing them.

9. The creation of a workplace which is free of harassment and violence is also a responsibility of the entity.

PRINCIPLE 4 - RESPECT FOR STAKEHOLDERS' INTERESTS AND RESPONSIVENESS:

The concept of interested party or stakeholders to a business has been a point of discussion in all the regulatory and voluntary systems that relate to the management system of any organisation, be it related to the quality, environment or the occupational health and safety of the workers.
The essence of the core elements associated with the principle is:

1. The entities have to be transparent and communicate with the stakeholders about the impacts of their operations and business decisions on the people and the nature. The policies, decisions, and the impact of the operations of the organisation to the stakeholders have to be disclosed transparently with no ambiguity on the extent of the issues.

2. The entities have to systematically determine the context of their operation and identify their interested parties.

3. The entities should fairly share the benefits to the stakeholders or give an opportunity to them to benefit from the operations in an equitable manner.

PRINCIPLE 5 - RESPECT AND PROMOTE HUMAN RIGHTS:

The concept of human rights is a vast topic that covers a wide variety of violence and belligerent abusive issues faced by people. It refers to the human rights issues that happen directly or indirectly due to the operation of the business.

The essence of the core elements associated with the principle are:

1. The entities should have a clear understanding of the human rights and various ways by which human rights can be violated from the perspective of the Constitution of India, national laws and policies and the content of International Bill of Human Rights.

2. The entities when developing their management systems, should integrate the human rights element into their policies, procedures, and practices.

3. Businesses should recognize and respect the human rights of all relevant stakeholders and groups within and beyond the workplace, including that of communities, consumers, and vulnerable and marginalized groups.

PRINCIPLE 6 – PROTECTION AND RESTORATION OF ENVIRONMENT:

The 6th principle looks at the environmental responsibility as a basic requirement for the economic prosperity and sustainability.

The core elements associated with the principle are:

1. The entities should have policies, procedures, and practices in place to assess and rectify impacts to the environment. This should cover the whole life cycle of the product.

2. The entities have to make use of natural and manmade resources in an optimum manner to ensure their sustainability by taking feedback from the stakeholders.

3. The entities have to measure their performance relating to the prevention of pollution, destruction of forests, waste generation, energy use, land use, etc.

4. The entities have to contribute towards climate change resilience in line with India's commitment to various international mechanisms such as, Paris Agreement and National Action Plans for Climate Change.

5. The entities should explore the comparison of its activities with industry best practices to reduce, reuse and recycle/ recover materials, resources.

6. The companies have to look out for avenues by which they can improve their performance towards various environmental responsibilities.

PRINCIPLE 7 – INFLUENCE ON PUBLIC AND REGULATORY POLICY:

The 7th principle of influencing the policy formulation positively recognizes that the businesses operate within the framework of statutory and legislative policies of the governing authority. The principle further highlights that:

1. The core elements of BRSR are to have met holistically when the organisation go ahead with their contributions to policy formulation and policy advocacy.

2. The collective associations such as, the trade groups and industry chambers have to be utilized when moving ahead with the policy advocacy and formulation.

3. The role in policy advocacy by the organisation should be in such a way that it encourages fair competition and prevents human rights abuses.

PRINCIPLE 8 – PROMOTE INCLUSIVE GROWTH AND EQUITABLE DEVELOPMENT:

This can work only with close participation and collaboration amongst the entities, authorities, the civil associations contributing to one another for a better livelihood, and assistance to the marginalized communities.

The core elements of the 8th principle are:

1. The entities should have systems in place to identify and address impacts of their activities on the social, cultural, and economic aspects of the people. This includes business created issues like, land acquisition and use and construction activities for new facilities.

2. The entities should review, measure, and track the adverse impacts of their activities on the society and environment and make action plans to mitigate them adequately.

3. The entities should make efforts to bring up creative products, technologies, and business concerns that help the marginalized communities to have well-being and a better quality of life.

4. Entities when designing their CSR activities should review the local and regional development priorities to help the marginalized groups and communities.

5. The entities should take care to ensure that business induced displacement or relocation of communities does not happen, and in unavoidable cases, should make sure to have mutually agreed, participative, and informed negotiations to provide fair compensation to the affected people.

6. All forms of intellectual property and traditional knowledge should get the deserved respect

from the organisation, and efforts should be made to ensure that benefits derived from their knowledge are shared equitably.

PRINCIPLE 9 – PROVIDE VALUE TO THE CONSUMERS IN A RESPONSIBLE MANNER:

The primary purpose of any business is to create or provide useful products and services to the customer in exchange of reasonable profits.

The core elements associated with the principle are:

1. Entities should put in their efforts to reduce the negative impacts of their products and services on consumers, natural environment, and society at large.

2. When conceptualizing, designing, and marketing their products, the organisation should not in any manner prevent the freedom of choice and fair competition.

3. The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.

4. When handling customer data, the right to privacy of the customer needs to be maintained.

5. Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over-consumption.

6. When advertising about their products, the organisations should ensure that misleading and confusing information is not exposed to the customers about their products or its usage.

7. Business enterprises should make available transparent and accessible grievance redressal and feedback management system for their customers to raise their voices or to seek clarifications.

8. Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.

Allignment of BRSR Principles with SDGs

Principles/ SDGs	P1	P 2	P 3	P 4	P 5	P 6	P 7	P 8	P 9
SDG 1			✓	✓				✓	
SDG 2		✓				✓	✓	✓	✓
SDG 3			✓					✓	
SDG 4			✓					✓	✓
SDG 5			✓	✓	✓			✓	

SDG 6		✓				✓		✓	
SDG 7		✓				✓	✓		
SDG 8		✓	✓		✓			✓	
SDG 9		✓					✓		
SDG 10		✓					✓		
SDG 11			✓	✓			✓	✓	
SDG 12		✓				✓			✓
SDG 13		✓				✓	✓	✓	
SDG 14		✓				✓	✓	✓	✓
SDG 15		✓				✓	✓	✓	✓
SDG 16	✓		✓	✓	✓			✓	
SDG 17	✓						✓	✓	

Q.NO.9. WRITE ABOUT ASSURANCE IN BRSR?

ANSWER:

1. SEBI has currently started with the top 1,000 listed companies. But very soon, remaining listed companies would also need to comply with the provisions of BRSR.

2. Further, BRSR is expected to be used as a single means for disclosing sustainability related information in India. This would be the main document which the stakeholders, investors would review and do industry analysis.

3. Hence, assurance in this reporting becomes more critical.

4. ESG audit would be a process that would help the companies to evaluate the environmental and social risks for the Company's products, services, operations etc. Conducting an ESG audit also helps businesses look at their supply-chain risks, risk management capabilities and transparency with shareholders.

5. ICAI has recently issued **Standard on Sustainability Assurance Engagements (SSAE) 3000**

6. Assurance Engagements on Sustainability Information

    a. This Standard deals with assurance engagements on an entity's sustainability information. This is an umbrella standard applicable to all assurance engagements on Sustainability information.

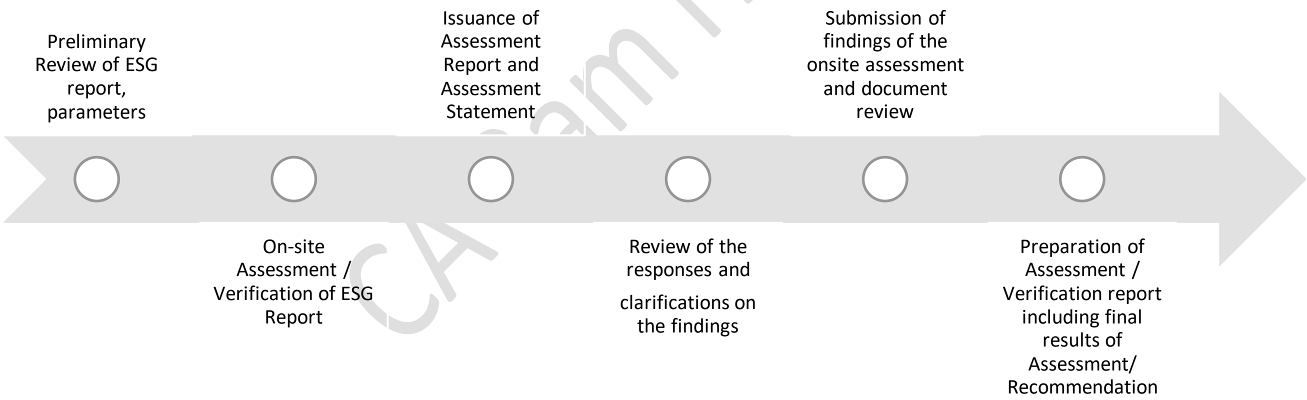
b. The intended users of this Standard include:
    i. Assurance providers providing assurance on sustainability information.
    ii. Entities seeking to engage a professional auditor.
    iii. Regulators, investors, and other users of Sustainability Reporting data.

c. This Standard applies for assurance engagements which pertain to providing reasonable or limited assurance on sustainability information.

d. The effective date of application of SSAE 3000 is as follows:
    i. Voluntary basis for assurance reports covering periods ending on 31st March 2023.
    ii. Mandatory basis for assurance reports covering periods ending on or after 31st March 2024.

7. ICAI has also issued SSAE 3410, Assurance Engagements on Greenhouse Gas Statements which deal with assurance engagements on an entity's sustainability information including assurance of BRSR.

8. Methodology to provide assurance on BRSR:



Q.NO.10. WRITE ABOUT SOCIAL AUDIT STANDARDS?

ANSWER:

1. The Sustainability Reporting Standards Board (SRSB) of the ICAI has recently issued Social Audit Standards (SAS 100 to 1600).

2. These Standards aim to provide the Social Auditor with the necessary guidance in relation to independent impact assessment engagement of Social Enterprises engaged in various areas and the audit steps and procedures that should be applied while conducting the social impact assessment.

3. The Standard sets out the minimum requirements to be followed while conducting impact assessment.

4. Laws or regulations may establish additional requirements which should be followed, as applicable.

Following SASs are issued:

SAS	Particulars
100	Eradicating hunger, poverty, malnutrition and inequality
200	Promoting health care including mental healthcare, sanitation and making available safe drinking water
300	Promoting Education, Employability, and Livelihoods
400	Promoting Gender Equality, Empowerment of Women and LGBTQIA+ communities
500	Ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation
600	Protection of national heritage, art and culture
700	Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports
800	Supporting incubators of social enterprises
900	Supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building
1000	Promoting Livelihoods for rural and urban poor including enhancing income of Small and Marginal Farmers and workers in the non-farm sector
1100	Slum area development, affordable housing and other interventions to build sustainable and resilient cities
1200	Disaster Management, including Relief, Rehabilitation and Reconstruction Activities
1300	Promotion of financial inclusion
1400	Facilitating Access to Land and Property Assets for disadvantaged Communities
1500	Bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection
1600	Promoting welfare of migrants and displaced persons

Q.NO.11. WHAT IS THE ROLE OF AUDITOR - CONSIDERATION OF CLIMATE RELATED RISKS IN AN AUDIT OF FINANCIAL STATEMENTS?

ANSWER:

1. The role of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, to enable auditor to report whether the financial statements are prepared and presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

2. In developing the understanding of an entity, the auditor should include the consideration of climate- related risks and how these risks may be relevant to the audits. The climate-related risks could be more relevant in certain sectors or industries, e.g., banks and insurance, energy, transportation, materials and buildings, agriculture, food, and forestry products.

3. Many investors and stakeholders are seeking information from auditor's reports about how climate- related risks were addressed in the audit. With this increased user focus on climate change, auditor need to be aware of, and may face, increasing pressure for transparency about climate matters in our auditor's reports. However, the auditor's reports must follow the requirements of applicable auditing standards.
4. The auditor's report is a key mechanism of communication to users about the audit that was performed. In addition to the audit opinion, it provides information about auditor's responsibilities and, when required, an understanding of the matters of most significance in our audit and how they were addressed.

5. In some circumstances, it may warrant inclusion of an Emphasis of matter paragraph to draw attention to disclosures that are of fundamental importance to users' understanding of the financial statements. The auditor should also determine whether the entity has appropriately disclosed relevant climate-related information in the financial statements in accordance with the applicable financial reporting framework e.g., Indian Accounting Standards or Accounting Standards, when relevant before considering climate-related matters in the auditor's report.

6. The auditor should also read the other information for consistency with information disclosed in the financial statements and information that may be publicly communicated to stakeholders outside the financial statements, such as management report narratives in the annual report, press releases, or investor updates. This is a requirement under ISA 720 and SA 720, The Auditor's Responsibilities Relating to Other Information.

ILLUSTRATION 3.

The agrochemical sector is about a $35 billion industry in India. The Indian agrochemicals market is segmented by product type (fertilizers, pesticides, adjuvants, and plant growth regulators) and application (crop-based and non-crop-based). India is one of the most prominent exporters of agrochemicals in the world and is being keenly looked at as an ideal hub for export-oriented production of agrochemicals. There has been a recent surge in the production of agrochemicals to overcome problems such as lack of right nutritious elements required for proper growth of crops, etc. While there is low awareness about the use and impact of agrochemicals, there is also a push from the industries to use more agrochemicals, linking it to better yield. The continuous and increased use of agrochemicals seems to have an adverse effect on humans, animals, and nature in whole.

The toxicity levels of the agrochemicals are harmful, not only to the workers in the manufacturing process but also to farmers, the soil, and the end consumers. The Central Insecticide Board (CIB) of India has categorized agrochemical toxicity levels based on a labeling system—using red, yellow, blue, and green labels—where red is the most toxic and green is the least. Most of the red-labeled products are banned abroad but are being sold in India due to the lack of a strong regulatory environment.

In India, it is estimated that almost 25% of the total amount of agrochemicals sold are counterfeit products. The quality and the efficacy of these counterfeit products differ from the original products, which can lead to reputational damages for the companies. Agrochemical companies need to add barcodes or other identifying technologies to their product packaging, to allow end- use consumers to check for authenticity. Also, since India is a multilingual country, the companies will have to publish the usage instructions in multiple languages.

Company A and B are both listed companies and part of top 1000 listed companies. They are engaged in the production of agrochemicals. Company A has been looking for opportunities to comply with the recently launched and evolving guidelines for ESG in India while Company B on the other hand is just focused to increase revenue and profits. In December 2022, Company A made a decision to eliminate red-labeled products from its portfolio and to increase its research and development (R&D) spending to safeguard itself from the market shift due to the new regulatory norms; in 2022, it also discontinued yellow-labeled products. Company A is also planning to incur a small expenditure to improve their backend systems and provide for all its products a unique labeling system that is user friendly and interactive. At the other end of the spectrum, 14% of Company B's top-selling products are derived from red- and yellow labeled products.

Initially, Company A's phasing out of its toxic products negatively affected its revenues by 8%. But as the country's regulatory landscape evolves toward more stringent norms, Company A will be cushioned for regulatory changes and thus, would not face potential future downsides. Company B has recently witnessed a 9% year on year growth in revenue from the last financial year and is planning to increase the production of its bestselling product, an insecticide DDT, categorized as red labelled by the Central Insecticide Board. Company B has recently been approached by the regulatory authority for an investigation for its products which include performing additional tests and studies to testify that its products have no adverse effects.

1. **What would be the reporting requirements for each of the two companies?**
2. **Which Company has absorbed the impacts of possible future regulatory changes? What are the steps taken by that Company for complying with the regulatory standards?**
3. **What would be the consideration by the auditors of Company A and B in the audit of financial statements?**

ANSWERS:

1. Both Companies A and B are among part of top 1000 listed companies. Hence, these companies have to mandatorily provide BRSR reporting (Business responsibility and Sustainability reporting) in accordance with 9 principles of NGBRC as mandated by SEBI.

2. Company A has absorbed impact of regulatory changes. It has decided to eliminate red-labelled and yellow-labelled products from its portfolio which are toxic in nature. Besides, it has increased its expenditure on R & D to meet with new regulatory norms. It has also incurred expenditure for improving its labelling system which would help end users to know about the nature of the product. All these steps have been taken by Company A for complying with regulatory standards.

   Company A is trying to meet with requirements of Principle 2 by making R & D expenditure. Further, it has also eliminated red-labelled/yellow-labelled products from its portfolio. Principle 2 relates to the requirement that businesses should provide goods and services in a manner that is sustainable and safe. Besides, by adopting a friendly bar-coded packaging labelling system, company is adhering to requirements of Principle 9 which states that businesses should engage with and provide value to their consumers in a responsible manner. Steps taken by a company to inform its consumers about safe and responsible usage of products fall in its domain.
   Since toxic agrochemicals are also harmful to workers engaged in their manufacturing process, their discontinuation bodes well for workers in the company A in line with Principle 3 which states that businesses should respect and promote the well-being of all employees including those in their value chains. By discontinuing products which are harmful to soil, company A is meeting requirements of Principle 6 which states that businesses should respect and make efforts to protect and restore the environment.

3. Company A is complying with regulatory norms whereas 14% of company B's revenue are derived from red and yellow labelled products. In fact, company B is planning to increase production of its red labelled product i.e., insecticide DDT which has been categorized as such by Central Insecticide Board. The auditor of Company B would have to keep in mind requirements of SA 250 in this regard. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements. It can result in material misstatements. Central Insecticide Board has already launched its investigation into products of company. All these factors would be taken into consideration by auditor of Company B.

   Auditors of Company A and Company B need to obtain audit evidence regarding compliance with laws and regulations and audit procedures have to be designed accordingly. Auditor of Company A can obtain assurance from regulatory compliance by the company. Fall of revenue by 8% in one year is not a matter of concern to them as it is a transitory phase.
   However, auditors of Company B would also have to take into consideration requirements of SA 570 as non-compliance with regulatory requirements could result into claims from such proceedings which the company may not be able to satisfy.

TEST YOUR KNOWLEDGE

Q.NO.1. What type of companies are required to mandatorily furnish the Business Responsibility and Sustainability Report (BRSR) as per the SEBI circular with effect from FY 2022-23?

ANSWER:

Q.NO.2. What are the nine principles of BRSR? How are the nine principles of BRSR linked with the 17 UN Sustainable Development Goals?

ANSWER:

Q.NO.3. What are the global trends in sustainable reporting?

ANSWER:

Q.NO.4. What are the 6 C's of Integrated reporting?

ANSWER:

Q.NO.5. What is the methodology of providing assurance in BRSR?

ANSWER:

Q.NO.6. What is the auditor's role on ESG aspects in an audit of financial statements of the Company?

ANSWER:

NOTES FOR ADDITIONAL CONTENTS OR REFERENCES IN LECTURES