



# **Overview of ICAI Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)**

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- » Guidance Notes are issued to assist professional accountants in implementing the Engagement Standards and the Standards on Quality Control issued by the AASB under the authority of the Council.
- » ***A professional accountant who does not consider and apply the guidance included in a relevant Guidance Note should be prepared to justify the appropriateness and completeness of the alternate procedures adopted by him to deal with the objectives and basic principles set out in the Guidance Note.***

# Introduction



- » The purpose of this Guidance Note is to provide guidance on engagements which require a practitioner to issue reports other than those which are issued in audits or reviews of historical financial information.
- » The reports which are issued pursuant to audits or reviews of historical financial information are dealt with in Standards on Auditing (SAs) and Standards on Review Engagements (SREs), respectively, issued by the Institute of Chartered Accountants of India (ICAI).

# Use of certain words / phrases

- » Sometimes, the applicable law and regulation or a contractual arrangement that an entity might have entered into, prescribe the wording of report or certificates. The wording often requires the use of word or phrase like “certify” or “true and correct” to indicate absolute level of assurance expected to be provided by the practitioner on the subject matter. Absolute assurance indicates that a practitioner has performed procedures as considered appropriate to reduce the engagement risk to zero.
- » A practitioner is not expected to reduce the engagement risk to zero. This is because there are inherent limitations attached to the procedures which a practitioner may perform in relation to issuance of a report or certificate, as the case may be.

# Objective



- » To obtain either reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement.
- » To express an opinion (in a reasonable assurance engagement)/a conclusion (in a limited assurance engagement) regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report. The report also describes the basis for the conclusion.

# Assurance Report prescribed by Law or Regulation

- » In some cases, law or regulation prescribes the layout or wording of the assurance report. In these circumstances, the practitioner would need to evaluate:
  - (a) Whether intended users might misunderstand the assurance conclusion; and
  - (b) If so, whether additional explanation in the assurance report can mitigate possible misunderstanding
- » If additional explanation cannot mitigate possible misunderstanding, as the law or regulation does not allow the practitioner to provide such additional explanation to mitigate the risk of users misunderstanding of the assurance conclusion, the practitioner should not accept the engagement, unless required by law or regulation to do so.

# Assurance Report prescribed by Law or Regulation

- » In case the practitioner is required to issue an assurance report under the applicable laws or regulations, the practitioner should discuss the matter with the engaging party.
  - » The practitioner should provide a draft of the assurance report to be issued that duly incorporates the essential elements thereof as prescribed in the Guidance Note to the layout or the wordings so prescribed.
  - » Both should agree on the resulting modifications to the layout or wording prescribed under the laws or regulations.
  - » The agreement on layout or wording of the assurance report should be duly documented in the engagement letter.
  - » The practitioner should then accept and perform the engagement and issue the final assurance report duly incorporating therein the essential elements prescribed in the Guidance Note.
  - » If the engaging party does not agree to this approach, the practitioner should consider whether it would be appropriate to accept the engagement.



# Assurance Report prescribed by Law or Regulation

- » It may also happen that the concerned authorities reject the aforesaid assurance report issued by the practitioner on account of the modifications made to the prescribed layout or wording.
- » In such circumstances, the practitioner should obtain the evidence of rejection of the assurance report by the concerned authorities and make it a part of the engagement documentation.
- » The practitioner, in such a case, may issue the assurance report in the format prescribed under the law or regulation since the practitioner would have complied with the requirements of this Guidance Note while issuing the certificate in the first instance.



# Assurance Report prescribed by Law or Regulation

- » The practitioner can also consider enclosing a statement containing essential elements of an assurance report as prescribed in this Guidance Note to the format prescribed under the law or regulation. The enclosure should also state the fact that a report issued earlier in accordance with this Guidance Note had been rejected by the concerned authorities.
- » It is recognised that rejections of assurance reports or certificates issued might have also occurred in the past or there could be a situation where the concerned regulator has expressly indicated that any modification to the layout or the wording of the format is not acceptable and if time period available to follow the process in this Guidance Note is not sufficient, the practitioner may issue the assurance report in the format prescribed under the law or regulation.
- » If the practitioner is required by law or regulation to use a specific layout or wording of the assurance report, the assurance report should refer to this Guidance Note, only if the assurance report includes, at a minimum, each of the elements identified in this Guidance Note.

# Reasonable Assurance vs. Limited Assurance

Details	Reasonable Assurance Engagement	Limited Assurance Engagement
Definition	<p>An assurance engagement in which the practitioner <u>reduces engagement risk</u> to an <u>acceptably low level</u> in the circumstances of the engagement, as the basis for the practitioner's opinion. The practitioner's <u>opinion is expressed</u> in a form that conveys the practitioner's opinion <u>on the outcome of the measurement or evaluation of the underlying subject matter against the criteria.</u></p>	<p>An assurance engagement in which the practitioner <u>reduces engagement risk to a level that is acceptable in the circumstances</u> of the engagement but where that <u>risk is greater than for a reasonable assurance engagement</u>, as the basis for <u>expressing a conclusion</u> in a form that conveys whether, based on the procedures performed and evidence obtained, <u>a matter(s) has(have) come to the practitioner's attention to cause the practitioner to believe that the subject matter information is materially misstated.</u></p> <p>The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful.</p>

# Reasonable Assurance vs. Limited Assurance

Details	Reasonable Assurance Engagement	Limited Assurance Engagement
When expressed in terms of the underlying subject matter and the applicable criteria	In our opinion, the entity has complied, in all material respects, with XYZ law	Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the entity has not complied, in all material respects, with XYZ law
When expressed in terms of the subject matter information and the applicable criteria	In our opinion, the Statement of Net Worth is properly prepared, in all material respects, based on XYZ criteria	Based on the procedures performed and evidence obtained, we are not aware of any material amendments that need to be made to the assessment of key performance indicators for them to be in accordance with XYZ criteria
When expressed in terms of a statement made by the appropriate party	In our opinion, the [appropriate party's] statement that the entity has complied with XYZ law is, in all material respects, fairly stated.  In our opinion, the [appropriate party's] statement that the key performance indicators are presented in accordance with XYZ criteria is, in all material respects, fairly stated	Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party's] statement that [the entity] has complied with XYZ law, is not, in all material respects, fairly stated

# Reasonable Assurance vs. Limited Assurance

Details	Reasonable Assurance Engagement	Limited Assurance Engagement
<p>Understanding the Underlying Subject Matter and Other Engagement Circumstances</p>	<p>The practitioner should obtain understanding sufficient to:</p> <ul style="list-style-type: none"> <li>(a) Enable the practitioner to identify and assess the risks of material misstatement in the subject matter information; and</li> <li>(b) Thereby, provide a basis for designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner’s opinion.</li> </ul> <p>The practitioner should obtain an understanding of internal control over the preparation of the subject matter information. This includes evaluating design of those controls relevant to the engagement and determining whether they have been implemented by performing procedures in addition to the inquiry of the personnel responsible for the subject matter information.</p>	<p>The practitioner should obtain understanding sufficient to:</p> <ul style="list-style-type: none"> <li>(a) Enable the practitioner to identify areas where a material misstatement of the subject matter information is likely to arise; and</li> <li>(b) Thereby, provide a basis for designing and performing procedures to address the areas identified above and to obtain limited assurance to support the practitioner’s conclusion.</li> </ul> <p>In obtaining an understanding of the underlying subject matter and other engagement circumstances, the practitioner should consider the process used to prepare the subject matter information.</p>



# Assurance Report content

- (a) A *title* that clearly indicates the report is an independent assurance report.
  - » An appropriate title helps to identify the nature of the assurance report, and to distinguish it from reports issued by others, such as those who do not have to comply with the same ethical requirements as the practitioner.
  - » In case, the applicable law or regulation or the contractual arrangement entered by the entity specifies a title or phrases to identify the assurance report, the practitioner may use the title or phrases so prescribed.
- (b) An *addressee* that identifies the party or parties to whom the assurance report is directed.
  - » The assurance report is ordinarily addressed to the engaging party, but in some cases there may be other intended users.



# Assurance Report content

*(c) An identification or description of the level of assurance obtained by the practitioner, the subject matter information and, when appropriate, the underlying subject matter.*

- » The point in time or period of time to which the measurement or evaluation of the underlying subject matter relates.
- » Where applicable, the name of the responsible party or component of the responsible party to which the underlying subject matter relates.
- » An explanation of those characteristics of the underlying subject matter or the subject matter information of which the intended users should be aware, and how such characteristics may influence the precision of the measurement or evaluation of the underlying subject matter against the applicable criteria, or the persuasiveness of available evidence.



# Assurance Report content

(d) *Identification of the applicable criteria* against which the underlying subject matter was measured or evaluated so that the intended users can understand the basis for the practitioner's opinion/conclusion.

- » It may be relevant in the circumstances, to disclose:
  - » The source of the applicable criteria, and whether or not the applicable criteria are embodied in law or regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process, that is, whether they are established criteria in the context of the underlying subject matter (and if they are not, a description of why they are considered suitable).
  - » Measurement or evaluation methods used when the applicable criteria allows for choice between a number of methods.
  - » Any significant interpretations made in applying the applicable criteria in the engagement circumstances.
  - » Whether there have been any changes in the measurement or evaluation methods used.



# Assurance Report content

(e) Where appropriate, a description of any *significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria*. While in some cases, inherent limitations can be expected to be well-understood by the intended users of an assurance report, in other cases it may be appropriate to make explicit reference to them in the assurance report.

(f) When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose. In some cases the applicable criteria used to measure or evaluate the underlying subject matter may be designed for a specific purpose. For example, a regulator may require certain entities to use particular applicable criteria designed for regulatory purposes. To avoid misunderstandings, the practitioner alerts readers of the assurance report to this fact and that therefore, the subject matter information may not be suitable for another purpose.

(g) *A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the practitioner's responsibilities*. Identifying relative responsibilities informs the intended users that the responsible party is responsible for the underlying subject matter, that the measurer or evaluator is responsible for the measurement or evaluation of the underlying subject matter against the applicable criteria, and that the Practitioner's role is to independently express an opinion/conclusion about the subject matter information.



# Assurance Report content

- (h) A statement that the engagement was performed in accordance with this Guidance Note.
- (i) A statement that the firm, of which the practitioner is a partner has applied SQC 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*.
- (j) A statement that the practitioner complies with the independence and other ethical requirements of the Code of Ethics issued by the ICAI.
- (k) An informative summary of the work performed as the basis for the practitioner's opinion/conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the practitioner's opinion/conclusion.
- (l) The practitioner's opinion/conclusion
  - » It may be appropriate to inform the intended users of the context in which the practitioner's opinion/conclusion is to be read when the assurance report includes an explanation of particular characteristics of the underlying subject matter of which the intended users should be aware. The practitioner's opinion/conclusion may, for example, include wording such as: "This opinion/conclusion has been formed on the basis of the matters outlined elsewhere in this independent assurance report."



# Assurance Report content

## (I) The practitioner's opinion/conclusion

- » The opinion/conclusion should be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances and need to be phrased in terms of:
  - a. The underlying subject matter and the applicable criteria;
  - b. The subject matter information and the applicable criteria; or
  - c. A statement made by the appropriate party.
- » When the practitioner expresses a modified opinion/conclusion, the assurance report should contain:
  - a. A section that provides a description of the matter(s) giving rise to the modification; and
  - b. A section that contains the practitioner's modified opinion/conclusion

# Assurance Report content

(m) *The practitioner's signature.* The assurance report is signed by the practitioner in his personal name. Where a Firm is appointed to carry out the engagement, the report is signed in the personal name of the practitioner and in the name of the audit firm.

- » The partner/proprietor signing the assurance report also needs to mention the membership number assigned by the ICAI.
- » They also include the registration number of the Firm, wherever applicable, as allotted by ICAI, in the assurance reports signed by them.

(n) *The date of the assurance report.*

(o) *The place of signature.*

(p) *UDIN.*

# Subsequent Events



- » When relevant to the engagement, the practitioner should consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report.
- » The practitioner should respond appropriately to the facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report.
- » The extent of consideration of subsequent events depends on the potential for such events to affect the subject matter information and to affect the appropriateness of the practitioner's conclusion.
- » However, the practitioner has no responsibility to perform any procedures regarding the subject matter information after the date of the assurance report.

# Other Important aspects



- » Ethical and Quality Control Requirements
- » Engagement Acceptance and Continuance
  - » the practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied
  - » the engagement team have the appropriate competence and capabilities
  - » the basis upon which the engagement is to be performed has been agreed
- » Preconditions for the Assurance Engagement
- » Limitation on Scope Prior to Acceptance of the Engagement
- » Agreeing on the Terms of the Engagement
- » Acceptance of a Change in the Terms of the Engagement
- » Professional Skepticism, Professional Judgment, and Assurance Skills and Techniques

# Other Important aspects



- » Work Performed by a Practitioner's Expert
- » Work Performed by Another Practitioner, a Responsible Party's or Measurer's or Evaluator's Expert, or an Internal Auditor
- » Written Representations
- » Documentation

# SAE 3400 - The Examination of Prospective Financial Information

*“Prospective financial information”* means financial information based on assumptions about events that may occur in the future and possible actions by an entity. 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 forecast, a projection, or a combination of both, for example, a one year forecast plus a five year projection.

Given the types of evidence available in assessing the assumptions on which the prospective financial information is based, it may be difficult for the auditor to obtain a level of satisfaction sufficient to provide a positive expression of opinion that the assumptions are free of material misstatement.

Consequently, in this SAE, when reporting on the reasonableness of management’s assumptions, the auditor provides only a moderate level of assurance.

# SRS 4410 - Compilation Engagements

This Standard on Related Services (SRS) 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.

Since 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.



# #ViShare

#ViShare #01

## Cut off Procedures

### Purchase of Goods

Goods received after end of year/period  
(Inco-Terms: **EXW, FCA, FAS, FOB, CFR, CIF, CIP, CPT**)

**Recognition in Balance Sheet**

- ✓ 01 Inventory as Raw Material / Traded Goods in Transit
- ✓ 02 Trade Payables / Creditors

**Measurement**

- ✓ 01 Invoice Value (in case of imports: foreign currency translated into INR)  
+ All directly attributable costs from seller's premises / port to location of consignment on cut-off date
- ✓ 02 Lower of Cost or Net Realisable Value (subject to Para 24 of AS -2 and Para 32 of Ind AS 2)

• Impact on Profit or Loss will be Nil

#ViShare #02

## Cut off Procedures

### Sale of Goods

Bill of Lading / receipt of goods after end of year/period  
(Inco-Terms: **FCA, FAS, FOB, CFR, CIF, CIP, CPT**)

**Recognition in Balance Sheet**

- ✓ 01 Inventory as Finished Goods in Transit
- ✓ 02 Reversal of Trade Receivables / Debtors (if sale has been recognized)

**Measurement**

- ✓ 01 At manufacturing cost similar to other Finished Goods  
+ All directly attributable costs from factory / warehouse to location of goods on cut off date (already debited to Statement of Profit & Loss)
- ✓ 02 Lower of Cost or Net Realisable Value

- If inventory has already been recognized at cost, there will be no impact on Profit or Loss
- If sales has been recognized, then sale and profit / loss thereon will be derecognized



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