



Guidance Note on Compilation Engagements by a Cost Accountant

Introduction

The purpose of this Guidance Note on Compilation Engagements by a Cost Accountant is to provide guidance on the cost accountant's professional responsibilities to compile cost statements and the form and content of the report, the cost accountant issues in connection with such compilation engagement.

Objective of Compilation Engagement

- (i) The objective of a compilation engagement is for the cost accountant to use cost accounting expertise, as opposed to cost auditing expertise, to collect, classify and summarize costing information.
- (ii) This ordinarily entails summarizing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information.
- (iii) The users of the cost statements derive benefit as a result of the cost accountant's engagement with professional competence and diligence.

Terms of the Engagement

The cost accountant should ensure that there is a clear understanding between the management of the entity and the cost accountant regarding the terms of the engagement. Matters to be considered include the following:

- (i) Nature of the engagement including the fact that neither a cost audit nor a review will be carried out and that accordingly no assurance will be expressed.
- (ii) Fact that the engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, that may exist.
- (iii) Nature of the information to be supplied by the management.
- (iv) Fact that management is responsible for the accuracy and completeness of the information supplied to the cost accountant for the completeness and accuracy of the compiled cost statements.
- (v) Cost Accounting Policy / Manual based on which the cost statement is to be compiled and the fact that it, and any known departures therefrom, will be disclosed by the management.
- (vi) Intended use and distribution of the cost statements.
- (vii) Form of report to be rendered regarding the cost statements compiled.

An engagement letter will be of assistance in planning the compilation work. It is in the



interests of both the cost accountant and the management that the cost accountant sends an engagement letter documenting the key terms of the appointment. An engagement letter confirms the cost accountant's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the cost accountant's responsibilities, responsibilities of the management and form of reports to be issued.

The cost statements are to be compiled for use by the management of an entity. Use and distribution of the cost accountant's report will be as per the engagement letter.

Draft Engagement Letter for a compilation engagement is appended at Annexure I in the Guidance Note.

Engagement Planning

The cost accountant should plan the work so that an effective engagement will be performed. Cost Accountant should obtain an understanding of the entity's business and its operations, including the entity's cost accounting system and cost accounting records, in order to establish a reference within which the cost accountant exercises professional judgment in compiling the cost statements.

Engagement Documentation

The cost accountant should document matters which are important in providing evidence that the engagement was carried out in accordance with the terms of the engagement. The documentation may serve the following purposes:

- (i) Providing a record of matters arising out of compilation engagements;
- (ii) Enabling the engagement team to be accountable for its work, including recording the completion of the engagement.

The Cost Accountant may include in the engagement documentation a copy of the entity's significant financial / cost accounting records or other information that the cost accountant used to perform the compilation engagement.

Engagement Procedures

1. To obtain understanding of the business

The cost accountant should obtain a general understanding of the business and operations of the entity and should be familiar with the financial and cost accounting principles and practices of the industry in which the entity operates and with the form and content of the cost statement that is appropriate in the circumstances.



To compile cost statement, the cost accountant requires a general understanding of the nature of the entity's business and its process, the form of its cost accounting records and the basis on which the cost statements are to be presented. The cost accountant ordinarily obtains knowledge of these matters through experience with the entity or inquiry of the entity's personnel.

2. Withdraw from Engagement in case additional information is not provided

If the cost accountant becomes aware that information supplied by management is incorrect, incomplete, or otherwise unsatisfactory, the cost accountant should take necessary steps and measures to collect additional information and explanation from the management. If management refuses to provide such information, the cost accountant should withdraw from the engagement, informing the management of the reasons for the withdrawal.

3. Disclosure in case of misstatement

The cost accountant should read the compiled information and consider whether it appears to be appropriate in form and free from obvious material misstatements. In this sense, misstatements include the following:

- (a) Mistakes in the application of the cost accounting principles.
- (b) Non-disclosure of the cost reporting framework and any known departures therefrom.
- (c) Non-disclosure of any other significant matters of which the cost accountant has become aware.

The applicable cost reporting framework and any known departures therefrom should be disclosed within the cost statements, though their effects need not be quantified.

If the cost accountant becomes aware of material misstatements, the cost accountant should try to agree appropriate amendments with the management. If such amendments are not made and the cost statements are considered to be misleading, the cost accountant shall disclose the misstatements in Cost Accountant's Report.



Responsibility of Management

The cost accountant should obtain an acknowledgment from management of its responsibility for the appropriate presentation of the Cost Statement and of its approval of the cost statement. Such acknowledgment may be provided by representations from management which cover the accuracy and completeness of the underlying cost accounting data and the complete disclosure of all material and relevant information to the cost accountant.

Reporting on a Compilation Engagement

Reports on compilation engagements should contain the following:

- (a) Title;
- (b) Addressee;
- (c) A statement that the engagement was performed in accordance with the applicable costing framework and practices;
- (d) When relevant, a statement that the cost accountant is not independent of the entity;
- (e) Identification of the cost statement noting that it is based on information provided by management;
- (f) It may also be appropriate for the cost accountant to refer to the special purpose for which or party for whom the cost statements have been prepared. Alternatively, or in addition, the cost accountant may add some form of caution designed to ensure that it is not used for purposes other than those intended.
- (g) A statement that neither cost audit nor a review has been carried out and that accordingly no assurance is expressed on the cost statements;
- (h) A paragraph, when considered necessary, drawing attention to the disclosure of material departures from the applicable cost reporting framework;
- (i) Date of the report;
- (j) Cost Accountant's / firm's address; and
- (k) Cost Accountant's membership number
- (l) Cost Accountant Firm's number
- (m) Cost Accountant's signature.

The Cost Statements compiled by the cost accountant should contain a reference such as "Unaudited," or "Compiled without Audit or Review".

Format of Cost Accountant's report for an engagement on compilation of cost statements is appended at Annexure II in the Guidance Note.



Explanations for the purpose of this Guidance Note

1. For the purpose of this Guidance Note, **Entity** means, a person, partnership, organization or business that has a separately identifiable existence and including Government owned establishments. Entity includes non-profit organisations also.
2. For the purpose of this Guidance Note, **Cost Accountant** means a cost accountant or a firm of cost accountants holding valid certificate of practice issued by the Institute of Cost Accountants of India as per the provision of section 6 of the Cost and Works Accountants Act, 1959 and the regulations and rules framed thereunder.
3. For the purpose of this Guidance Note, a **cost statement** includes one or more of the following –
 - a. Statement showing Quantitative Information in respect of cost object/s specified in the Compilation Engagement, showing details of Available Capacity, Actual production and services rendered with reference to respective unit of measurement (UoM) Capacity Utilisation, Production as per Statutory Records, Details of Stock, Details of Wastage / Scrap / Recoveries, Sales Quantity and any other relevant quantity record and if required a reconciliation thereof.
 - b. Statement showing details in respect of all major items of costs constituting Cost of Production / Services, Cost of Sales, Sales and Margin for the Cost Object in total and/or information on the per unit basis.
 - c. Separate cost statements in case the entity is operating more than one plant, factory or service centre,
 - d. Statement showing details of Costs & Profit for Domestic Supplies & Export Supplies.
 - e. Statement of Cost, Margin & Break-even point compiled using the principles of Marginal Costing.
 - f. Statement of Cost, Sales & Margin for the purpose of decision making by the management,
 - g. Any other statement or information considered necessary for suitable presentation of costs and profitability of cost object as desired by the management.
4. **Cost Reporting Framework** means the framework adopted by the management and, where appropriate, by those charged with governance, in the preparation of the cost statements that is acceptable in view of the nature of the entity and the objective of the cost report, or that is required by law or regulation.



5. Any term not defined in this Guidance Note, shall have the same meaning as referred to in the Cost Accounting Standards, Standards on Cost Auditing and Generally Accepted Cost Accounting Principles issued by the Institute of Cost Accountants of India.



Annexure I

Draft Engagement Letter for a Compilation Engagement

The following is the example of an engagement letter for a compilation engagement that illustrates the relevant requirements and guidance contained in this document. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with other considerations. It will need to be adapted according to the requirements and circumstances of individual compilation engagements. It is drafted to refer to the compilation of cost statements for a defined period related to an activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

To the Board of Directors or the appropriate representatives of senior management:

The Management has requested that we provide the following services:

[The objective and scope of the compilation engagement]

On the basis of information provided by the management, we will assist the management in compilation of cost statements for _____(specify the period) of _____(specify activity, contract, cost centre, customer, process, product, project, service or any other object) for which costs are ascertained for _____(Name of the entity). These cost statements will not include explanatory notes, other than a note describing the basis of compilation and summary of significant cost accounting policies.

The purpose for which the cost statements will be used is to provide cost information in respect of an activity, contract, cost centre, customer, process, product, project, service or any other object for the period specified. The cost statements are compiled for use by the management of _____ (Name of the entity). Use and distribution of the cost accountant's report will be as per the engagement letter..

Our Responsibilities

A compilation engagement involves applying expertise in cost and management accounting to assist the management in compilation of the cost statements. Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information provided to us for the compilation engagement, or otherwise to gather evidence to express an audit opinion or a review conclusion. Accordingly, we will not express an audit opinion or a review conclusion on the cost statements compiled as part of this engagement.



We will perform the compilation engagement in accordance with the Guidance Note on Compilation Engagement issued by the Institute of Cost Accountants of India. The Guidance Note requires that, in undertaking this engagement, we comply with Cost Accounting Standards and Generally Accepted Cost Accounting Principles. We are also required to comply with the Code of Ethics issued by the Institute of Cost Accountants of India.

Management's Responsibilities

The compilation engagement to be performed is conducted on the basis that management acknowledges and understands that our role is to assist the management in compilation of cost statements in respect of _____ (specify activity, contract, cost centre, customer, process, product, project, service or any other object) for the period _____ (specify period) in accordance with the Cost Accounting Standards (CASs) and Generally Accepted Cost Accounting Principles (GACAP) management has adopted for compilation of the cost statements. Accordingly, the management has the following overall responsibilities that are fundamental to our undertaking the compilation engagement:

- (a) Responsibility for the design, implementation and maintenance of such internal control as management determines, is necessary to enable the compilation of cost statements that are free from material misstatement, whether due to fraud or error.
- (b) Responsibility for the accuracy and completeness of the records, documents, explanations and other information provided by the management to us for the purpose of compiling the cost statements.
- (c) Responsibility for the judgments needed in the preparation and presentation of the cost statements, including those for which we may provide assistance in the course of the compilation engagement.

Our Compilation Report

As part of our engagement, we will issue our report attached to the cost statements, which will describe the cost statements of _____ (specify activity, contract, cost centre, customer, process, product, project, service or any other object) and the work we performed for this compilation engagement. The report will also note that the use of the cost statements is restricted to the purpose set out in this engagement letter, and that use and distribution of our report provided for the compilation engagement will be as per the engagement letter.

We understand that the intended use and distribution of the cost statements, we have compiled is _____ (specify intended use) and that should this change,



that management shall obtain from us prior permission in writing.

We look forward to full cooperation from the management and we trust that they will make available to us records, documentation and other information required in connection with this engagement.

Please sign and return the attached copy of this letter to indicate acknowledgement of the management, and agreement with, the arrangements for our engagement to compile the cost statements described herein, and our respective responsibilities.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

For _____ (specify name of the cost accountant / firm)
Cost Accountant/s
Firm's Registration Number

(Signature)
(Name of the Member Signing the Compilation Report)
(Designation)
Membership Number
Place:
Date:

Acknowledged and agreed on behalf of the management of _____ (specify the name of the entity) by

(Signature)
.....
Name and Designation
Date



Annexure II

Format of Cost Accountant's report for an engagement on compilation of cost statements

COST ACCOUNTANT'S REPORT

To the Board of Directors or the appropriate representatives of senior management:

We have compiled the accompanying cost statements of _____
(specify name and address of the entity) in respect of _____ (specify activity,
contract, cost centre, customer, process, product, project, service or any other object)
based on information provided by the Management. The report includes cost statement,
basis for compilation of Cost Statement and summary of significant cost accounting policies.

We performed this compilation engagement in accordance with the Guidance Note on
Compilation of Cost Statements issued by the Institute of Cost Accountants of India.

We have applied our expertise in cost and management accounting in the compilation of
these cost statements in accordance with Cost Accounting Standards and Generally
Accepted Cost Accounting Principles. We have complied with the Code of Ethics issued by
the Institute of Cost Accountants of India.

These cost statements and the accuracy and completeness of the information used to
compile them are the responsibility of the management.

Since a compilation engagement is not an assurance engagement, we are not required to
verify the accuracy or completeness of the information provided by the management to us
to compile these cost statements. Accordingly, we do not express an audit opinion or a
review conclusion on the cost statements compiled as part of this engagement.

For _____ (specify name of the cost accountant / firm)
Cost Accountant/s Firm's Registration Number

Signature
(Name of the Member Signing the Compilation Report)
(Designation)
Membership Number
Place:
Date: