

The Digital Accounting and Assurance Board (DAAB) of The Institute of Chartered Accountants of India (ICAI) invites comments on a new Forensic Accounting and Investigation Standard (FAIS) on – Engagement Acceptance and Appointment

Comments are most helpful if they indicate a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be Submitted at
<https://forms.office.com/Pages/ResponsePage.aspx?id=DOHF0zhjoU6NJ-O1tggEOvuF6SRz25pIvVExBjm2K8JUQ1E5M1AyOVE0TFINRlk3Q0hFN0JWRDVJNC4u>

Last date for sending comments is October 30, 2020.

FORENSIC ACCOUNTING AND INVESTIGATION STANDARD No. 220

ENGAGEMENT ACCEPTANCE AND APPOINTMENT

Contents

	Paragraph(s)
Introduction and Scope	1
Objectives	2
Requirements	3
Explanatory Comments	4
Documentation for Compliance	5
Effective Date	6
Annexure 1: Typical Contents of Engagement Letter	

This Forensic Accounting and Investigation Standard 220, on “Engagement Acceptance and Appointment” issued by the Council of the Institute of Chartered Accountants of India (ICAI) should be read in conjunction with the “Preface to the Forensic Accounting and Investigation Standards”, the “Framework Governing Forensic Accounting and Investigation Standards” and “Basic Principles of Forensic Accounting and Investigations” issued by the Institute.

1. Introduction and Scope

- 1.1 This Forensic Accounting and Investigation Standard (FAIS) 220 on Engagement Acceptance and Appointment deals with the Professionals' responsibilities in framing the terms of the engagement during their appointment.
- 1.2 Most Forensic Accounting and Investigation (FAI) engagement come with some degree of sensitivity and risk. This Standard establishes certain procedures which Professionals need to follow in conducting due diligence when evaluating the conditions for appointment.
- 1.3 Scope: This Standard applies to all Forensic Accounting and Investigation engagements.

2. Objectives

- 2.1 The main objectives of this Standard on Engagement Acceptance and Appointment are to ensure that:
 - (a) Certain procedures are followed when accepting an engagement;
 - (b) A due diligence is undertaken prior to the appointment; and
 - (c) All key terms of the engagement, as agreed with the client, are documented in the form of a formal Engagement Letter.

3. Requirements

- 3.1. The Professional shall undertake certain preliminary procedures related to the proposed engagement prior to its acceptance. These procedures are aimed at getting a better understanding about the nature and complexity of the engagement and to assess the ability of the Professional to undertake the engagement within the requirements of Basic Principles. (refer Para 4.1).
- 3.2. The Professional shall conduct a due diligence directed to gain an assessment of the inherent risks of accepting the engagement. This due diligence requires communication at an appropriate level of the stakeholders to ascertain the risk parameters, especially the purpose of the engagement and the ultimate use of the outcome by the stakeholders. (refer Para 4.2).
- 3.3. The professional shall identify all key stakeholders (including the ultimate beneficial owner), the individuals covered under the scope and the direct and ultimate users of the engagement output (such as law enforcement or regulatory agencies, lenders, other third parties, etc.). (refer Para 4.2).
- 3.4. A written Engagement Letter shall be signed and documented to confirm the terms of appointment (refer Para 4.4).

4. Explanatory Comments

- 4.1. **Procedures for Engagement Assessment (refer Para 3.1):** Certain preliminary procedures shall be conducted by the Professional prior to accepting a proposed engagement to better understand the requirements of the engagement. These procedures shall be directed towards assessing compliance with the Basic Principles of Forensic Accounting and Investigations.

Examples of such procedures include an evaluation of independence, preliminary capability assessment with available resources and skills, complexity of relevant laws and regulations as well as any constraints or scope limitations. A determination shall also be made of the need to source appropriate skilled resources and time limitations imposed for completion.

- 4.2. **Due diligence of engagement (refer Para 3.2 and 3.3):** The Professional shall, through discussion with the stakeholders and a review of available information, conduct an assessment of the engagement risks and challenges covering some of the following areas:
- (a) Nature of Engagement and primary purpose;
 - (b) Scope of Engagement and any limitations imposed;
 - (c) Execution challenges such as availability of information and evidence;
 - (d) Intended Users (both primary and secondary); and
 - (e) Fees and costs.

Where the engagement risks are substantial with limited mitigations or safeguards and the engagement risk is above the risk appetite, the Professional may choose not to accept the engagement.

- 4.3. **Limitation on Scope Prior to Engagement Acceptance:** A limitation on the scope may sometimes be imposed by the stakeholders prior to engagement acceptance. Where such limitations impose undue restrictions to the smooth performance of the engagement, the Professional may choose not to accept such an engagement.
- 4.4. **Engagement Letter (refer para 3.4):** Acceptance of an engagement is complete when all parties have agreed to the terms of the engagement and signed the Engagement Letter. Subsequent changes to the scope shall also be documented and agreed through an addendum to the Engagement Letter prior to the issuance of the deliverables.

5. Documentation for Compliance

- 5.1 Once the engagement nature, scope, coverage, purpose, timelines and other particulars are clearly understood and agreed upon and no potential conflict of interest has been established or duly resolved, the Professional may draft the Engagement Letter and obtain the written consent of the client.
- 5.2 Key contents of an Engagement Letter are as those which both parties agree on. However, a suggested (indicative list) of these is given in **Annexure 1**.

6. Effective Date

- 6.1 This Standard is applicable for all engagements beginning on or after ... (a date to be notified by the Council of the ICAI).

Typical Contents of an Engagement Letter

The form and content of Engagement Letters vary from one engagement to another, but they should generally include some of the following key contents:

- A. Clauses concerning the nature of engagement (for example):
- The objective of the engagement, including a brief on the nature of the background, concerns and allegations.
 - Scope of coverage - including reference to applicable legislation, regulations, or pronouncements of professional bodies or any limitations.
 - List of entities, functions, departments, geographical regions, or sites which are to be covered.
 - Unresolved Conflicts of interest, if any.
 - Project timeline & milestones
 - Any special requirement, such as the need to be present as Expert witness in Legal proceedings.
- B. Clauses concerning the obligations of the Client (for example):
- Provision of unrestricted access to records, documentation and other information required in connection with the engagement.
 - Access to key personnel and officials.
 - Assistance in Third Party Verifications and such particulars
 - Safeguards in use of Tools, techniques & Methods
 - Specific logistical requirement, arrangements regarding the planning and performance of the engagement
 - Arrangements concerning the involvement of other forensic professionals, professionals and experts in some aspects of the engagement (if any).
- C. Clauses concerning the obligations of the Professional (for example):
- Engagement Team composition in terms of qualification, seniority, experience and involvement in the engagement
 - Need to maintain Confidentiality
 - Reporting- Form of reports or other communication of results of the engagement.
 - Description of any other letters or reports the Professional needs to issue.
- D. Clauses concerning Other matters (for example):
- Billing & payment - Basis on which fees are computed and any billing arrangements.
 - Any restriction of the forensic professional's liability when such possibility exists.

- Termination of Engagement or Situations that may warrant withdrawal from Engagement.