

Compilation Engagement Checklist: Knowing Your Client

The checklist below provides key considerations for accountants to acquire the necessary understanding of their client's business operations, industry context, financial structure, and risk exposure, leading to more accurate and meaningful financial statement compilation.

CONSIDERATIONS	COMMENTS	LINKS TO DOCUMENTS
<p>Client Business Understanding:</p> <ul style="list-style-type: none"> Identify the client's primary business activities. 		
<ul style="list-style-type: none"> Review the type of products or services offered by the client. 		
<ul style="list-style-type: none"> Inquire from the client regarding the current market conditions and competition. 		
<p>Industry-Specific Accounting Practices:</p> <ul style="list-style-type: none"> Research and list industry-specific accounting standards. 		
<ul style="list-style-type: none"> Identify unique industry practices affecting financial reporting. i.e. environmental provisions 		
<ul style="list-style-type: none"> Confirm the financial reporting framework applicable to the client's industry. 		
<p>Accounting Records and Transactions:</p> <ul style="list-style-type: none"> Examine the form and comprehensiveness of the client's accounting records. 		
<ul style="list-style-type: none"> Understand the nature of the client's business transactions. 		
<ul style="list-style-type: none"> Analyse the consistency of the client's accounting practices with industry norms. 		
<ul style="list-style-type: none"> Identify non-disclosures or any known departures from statutory or regulatory requirements or any other significant departures from the financial reporting framework. 		
<p>Industry and Market Understanding:</p>		

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<ul style="list-style-type: none"> Determine the client's industry and any regulatory requirements affecting financial reporting. 		
<ul style="list-style-type: none"> Understand industry trends, challenges, and growth opportunities. 		
<p>Financial Structure and Bank Accounts:</p> <ul style="list-style-type: none"> List all bank accounts maintained by the client, including their purpose and signatories. 		
<ul style="list-style-type: none"> Understand the client's financing arrangements and major creditors or investors. 		
<ul style="list-style-type: none"> Review the client's investment policies and portfolio, if applicable. 		
<p>Revenue Streams and Sales Cycle:</p> <ul style="list-style-type: none"> Identify and describe the client's main revenue sources. 		
<ul style="list-style-type: none"> Understand the sales cycle, including seasonality and any cyclical impacts. 		
<ul style="list-style-type: none"> Understand the client's pricing strategy and discount policies. 		
<p>Cost Structure and Expense Analysis:</p> <ul style="list-style-type: none"> Catalogue the types of expenses incurred by the client. 		
<ul style="list-style-type: none"> Identify fixed versus variable costs and the main drivers of each. 		
<ul style="list-style-type: none"> Review any contracts or agreements that significantly impact costs (e.g., leases, employment contracts). 		
<p>Operational Processes:</p> <ul style="list-style-type: none"> Map out key operational processes that impact financial performance. 		

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<ul style="list-style-type: none"> Understand the inventory management system and its impact on financial statements. 		
<ul style="list-style-type: none"> Identify any outsourcing of significant operational functions. 		
<ul style="list-style-type: none"> Consider any estimates and judgments made by management and question those that appear unreasonable. 		
<ul style="list-style-type: none"> Identify related party transactions and how this may influence business operations. 		
<p>Financial information</p> <ul style="list-style-type: none"> Consider unusual or large transactions to consider the suitability of the recording and/or classification of these entries; and 		
<ul style="list-style-type: none"> Identify unexpected variances within the account balances. 		
<p>Tax Compliance and Planning:</p> <ul style="list-style-type: none"> Review the client's tax compliance status and historical tax planning strategies. 		
<ul style="list-style-type: none"> Understand the impact of tax laws on the client's financial position and operations. 		
<p>Asset Management:</p> <ul style="list-style-type: none"> Review the client's policy for asset acquisition, depreciation, and disposal. 		
<ul style="list-style-type: none"> Understand significant capital expenditures and their financing. 		
<p>Debt and Equity Structure:</p> <ul style="list-style-type: none"> Analyze the structure of the client's debt and equity financing. 		
<ul style="list-style-type: none"> Review terms and conditions of significant loans and their compliance. 		

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Risk Management Practices: <ul style="list-style-type: none"><li data-bbox="212 327 787 394">• Identify financial and operational risks the client faces.		
<ul style="list-style-type: none"><li data-bbox="212 432 722 499">• Review the client's risk management strategies and insurance coverages.		
Technology and Systems: <ul style="list-style-type: none"><li data-bbox="212 600 812 667">• Understand the client's use of technology in operations and financial reporting.		
<ul style="list-style-type: none"><li data-bbox="212 695 795 762">• Review cybersecurity measures in place to protect financial data.		