



(CA Balakrishna Kovuru)



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Chapter-0 Introduction^①
SA-200 - Overall objectives of the independent auditor
and conduct of Audit in accordance with SAs
[Effective from 01/04/2010]

this Standard deals with

① Objectives of independent Auditor.

② Requirements on the part of Auditor to achieve those objectives.

① Objectives of Auditor.

To obtain **reasonable assurance** that F.S as whole are free from **material misstatements** whether due to **fraud (or) error**.

To report on F.S & communicate as required by SAs

↓
enabling auditor to express opinion on whether F.S are prepared in accordance with **AARFW**

⇒ **Reasonable assurance** → high level of assurance but not absolute assurance [Assurance means confidence]

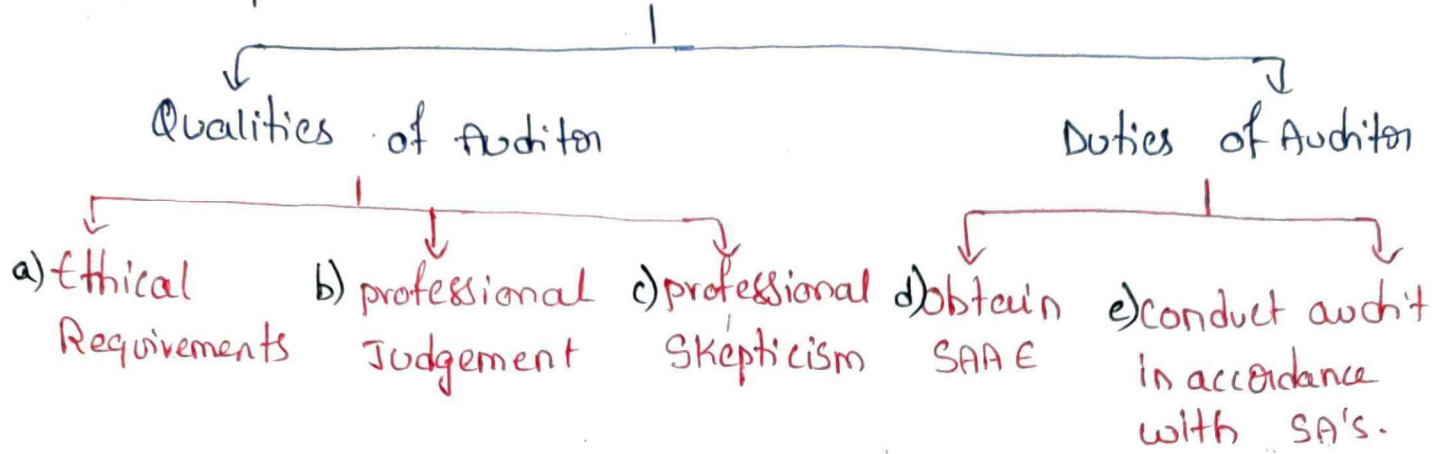
Note: what if auditor fails to achieve objective?

if qualified opinion is sufficient. (no further proceeding)

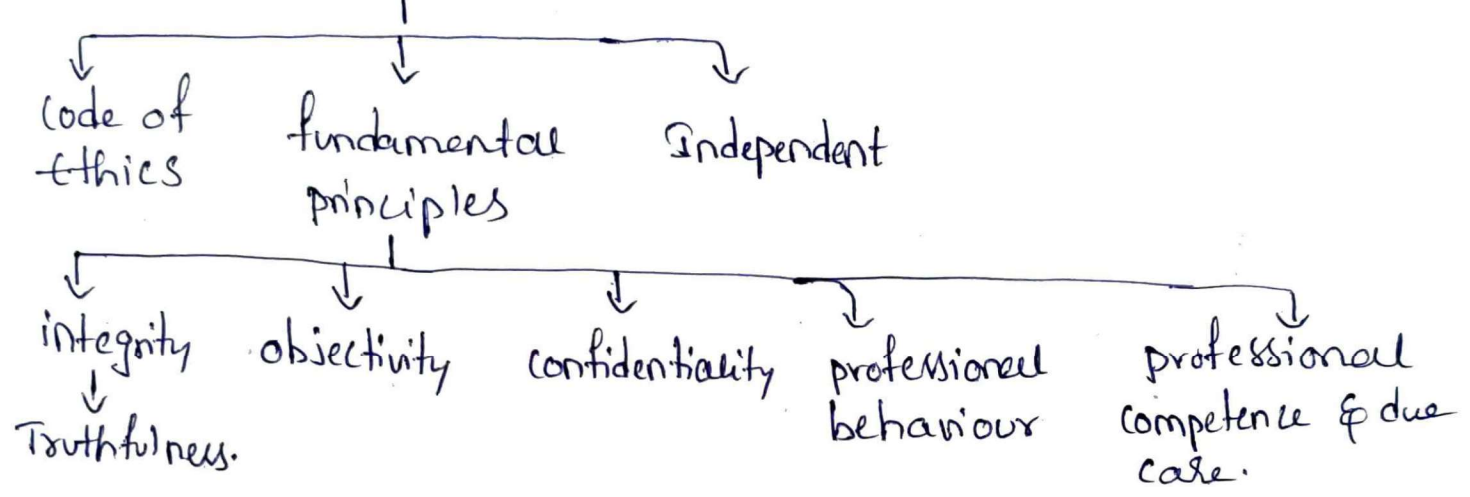
qualified opinion not sufficient
↓
Disclaimer/withdraw.

2

2) Requirements to achieve objectives.

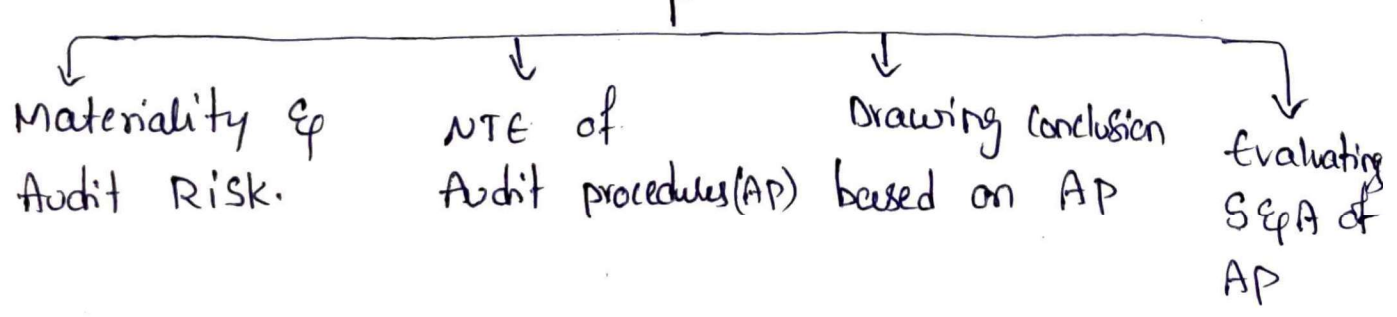


a) Ethical Requirements



b) professional Judgement = Application of Training, Knowledge & experience in making informed decisions.

areas requiring professional Judgement

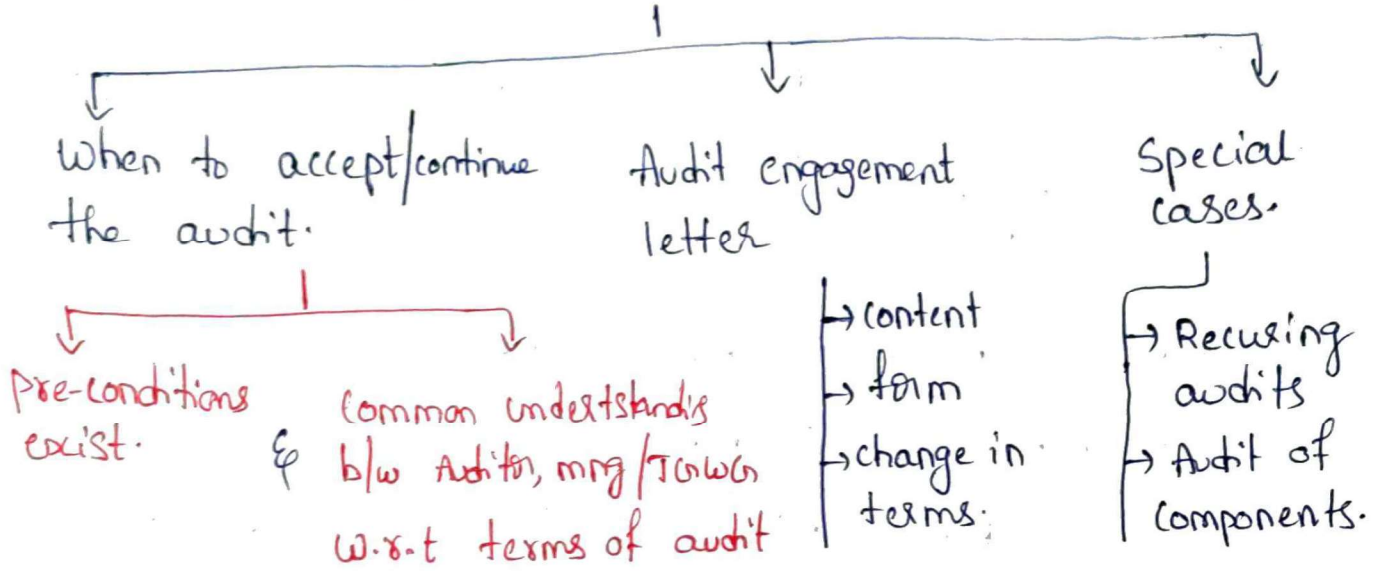


③

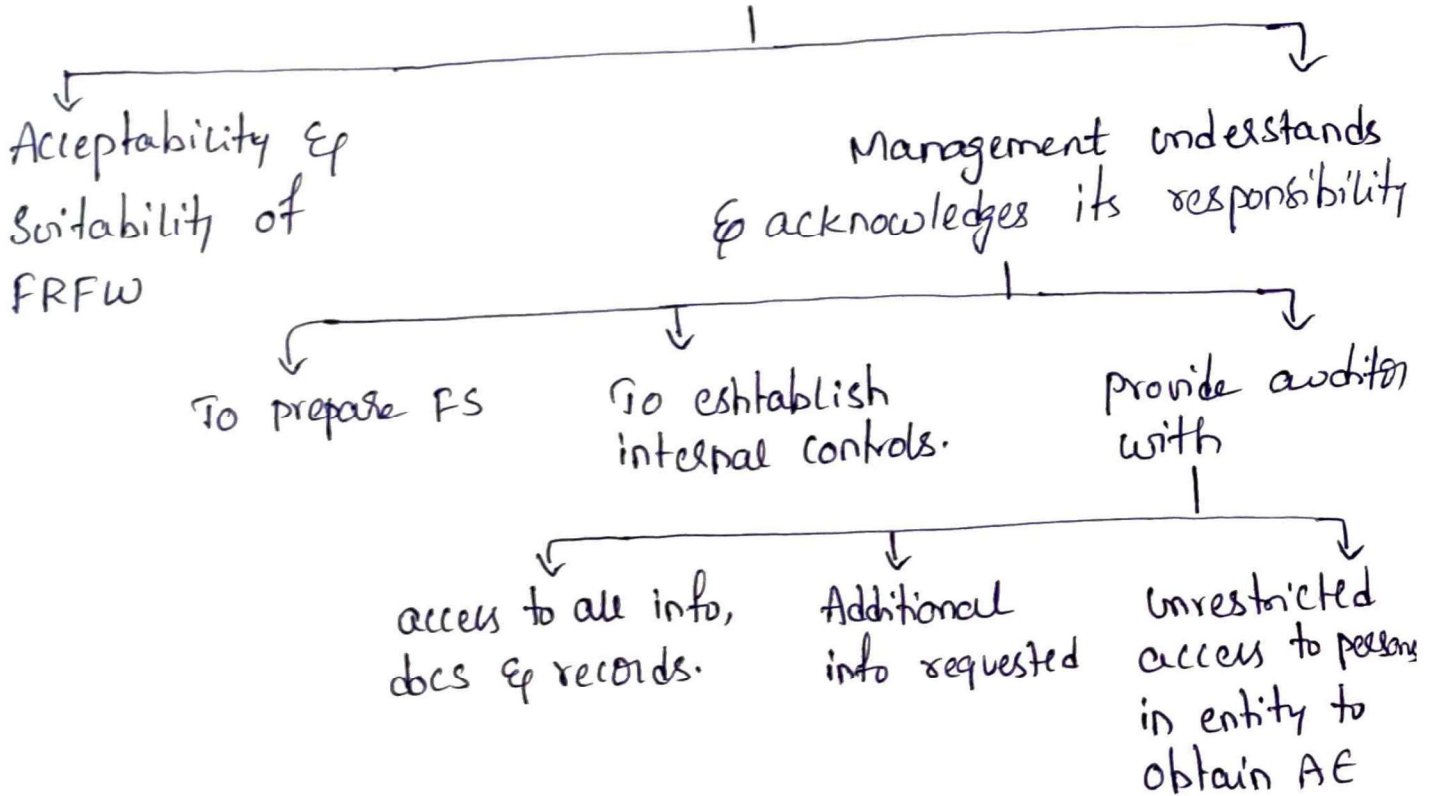
SA-210: Agreeing the terms of Audit Engagement

[Effective - 01/04/2010]

this standard deals with.



Pre-conditions to accept engagement.



(4)

c) Professional Skepticism: Attitude of having questioning mind, being alert to condition which may indicate possible misstatement due to fraud or error.

d) obtain SAAC : To reduce audit risk to acceptably low level.
exercise PJ maintain PS.

e) Conduct Audit in accordance with SA's :

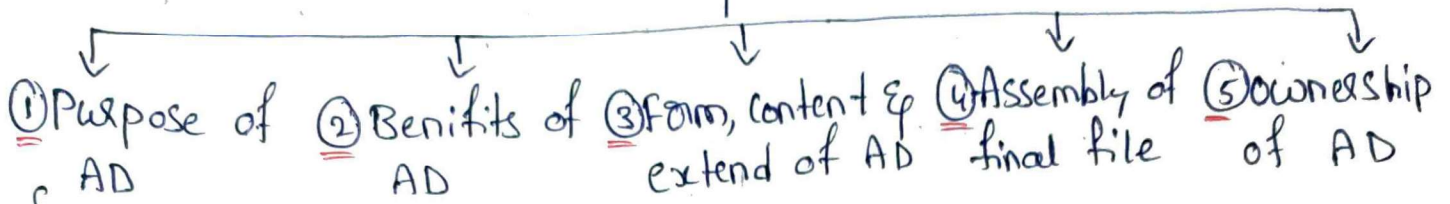
→ understand complete text of SA

→ Any non compliance of SA :- Report in Audit Report

SA-230 - Audit documentation [AD]

(Effective - 01/04/2009)

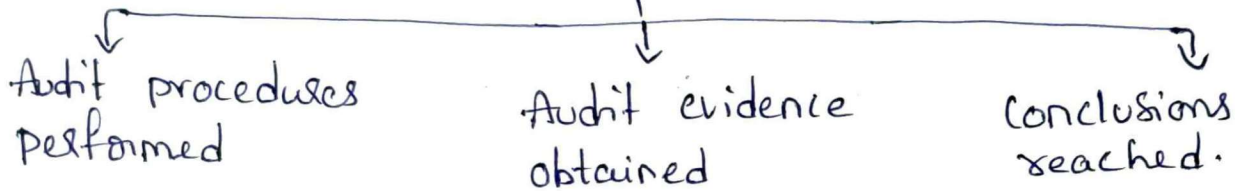
Standard deals with



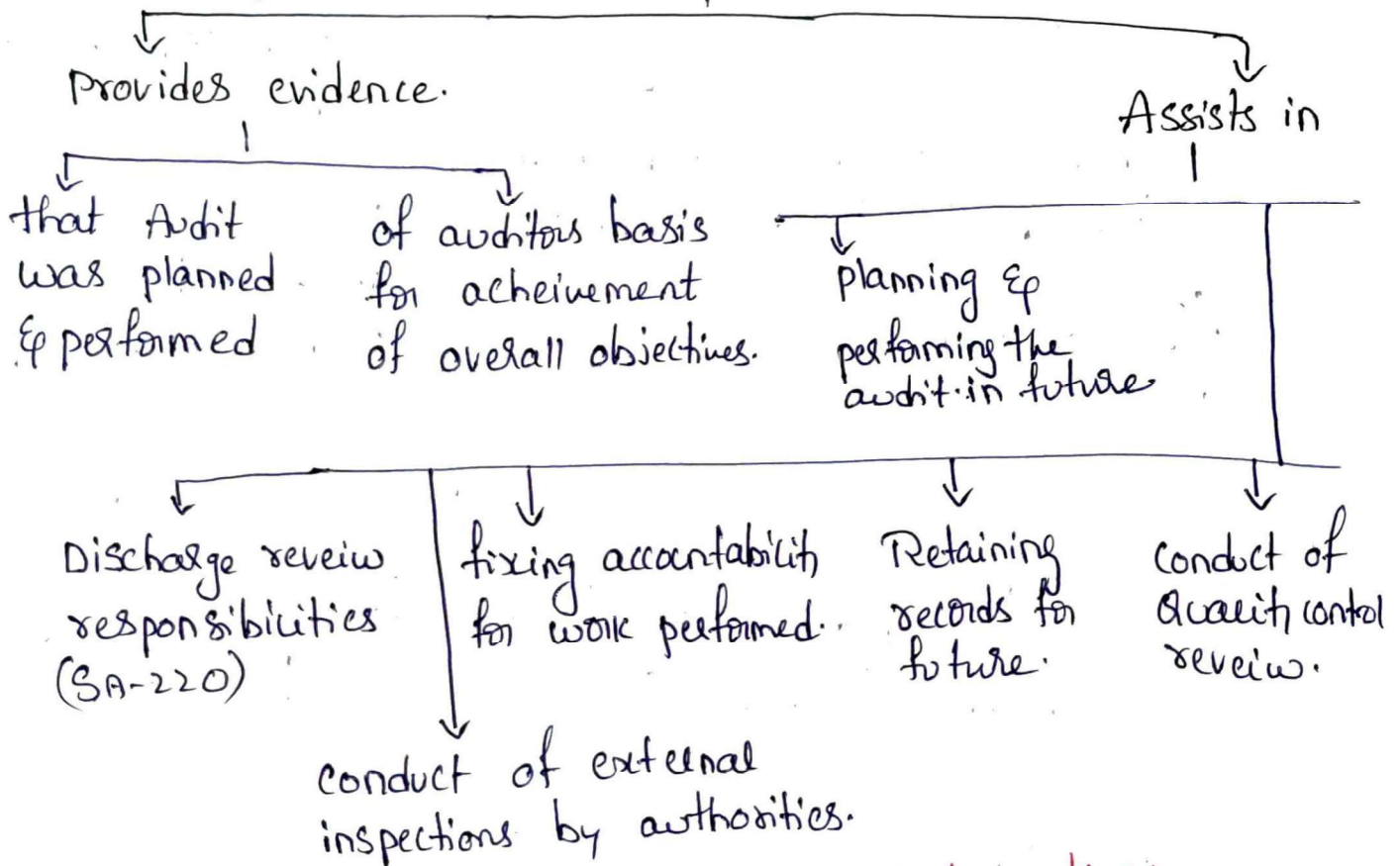
Same.

Audit documentation includes

Record of



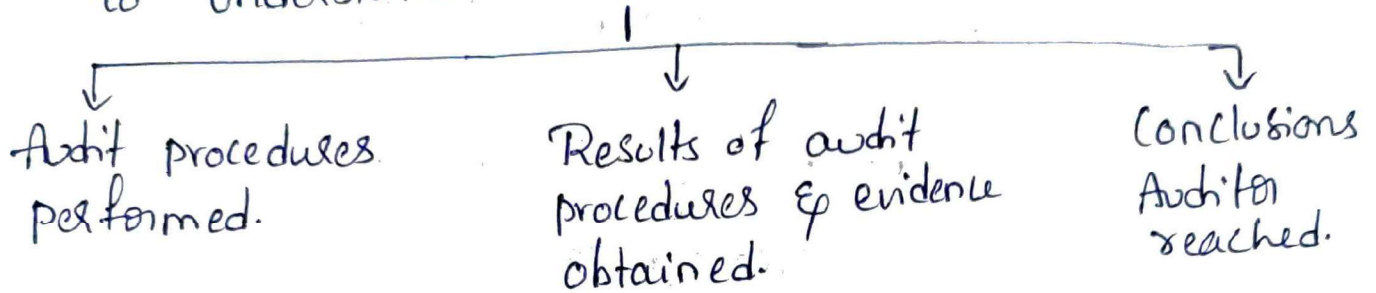
Benefit/purpose/need for audit documentation:



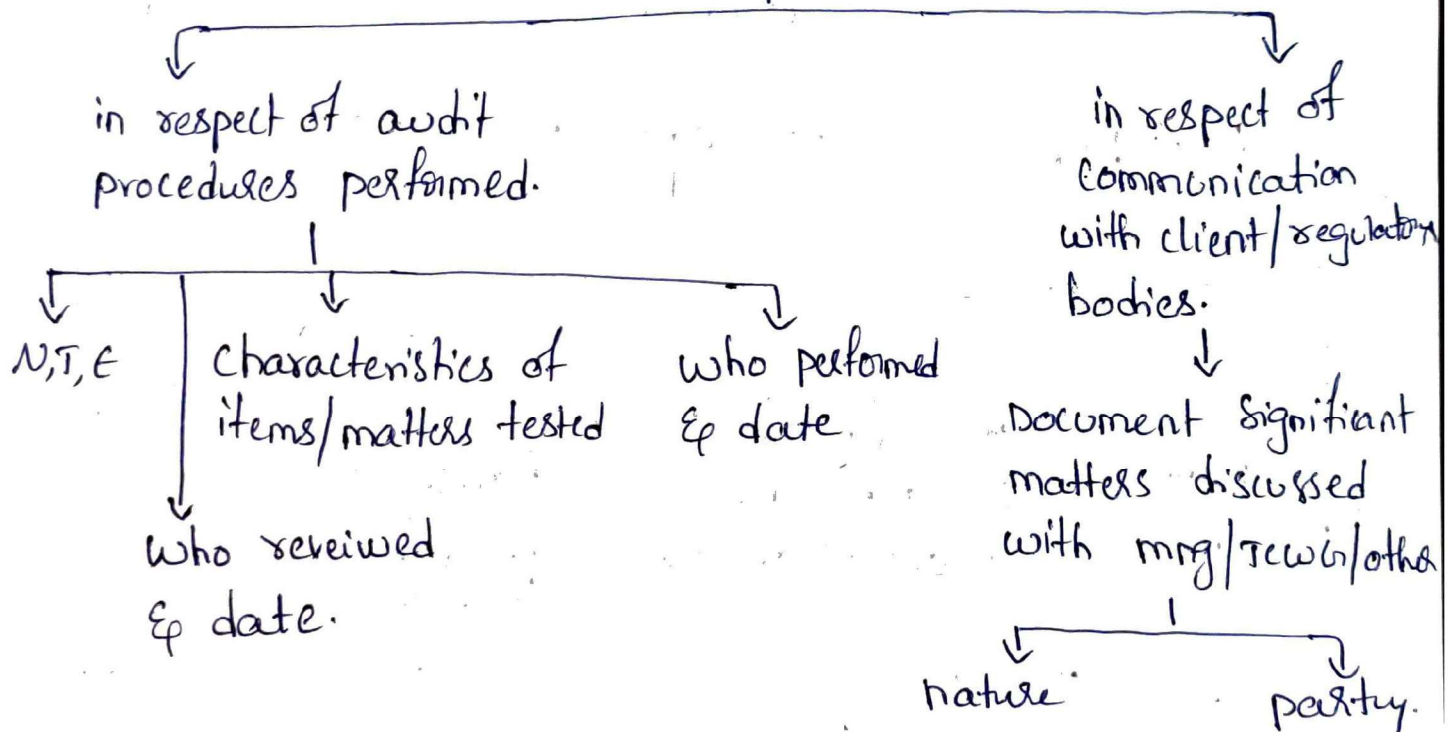
~~8~~ (6) Form, content & extent of AD

Extent of AD (How much?)

that is sufficient to enable experienced auditor to understand.



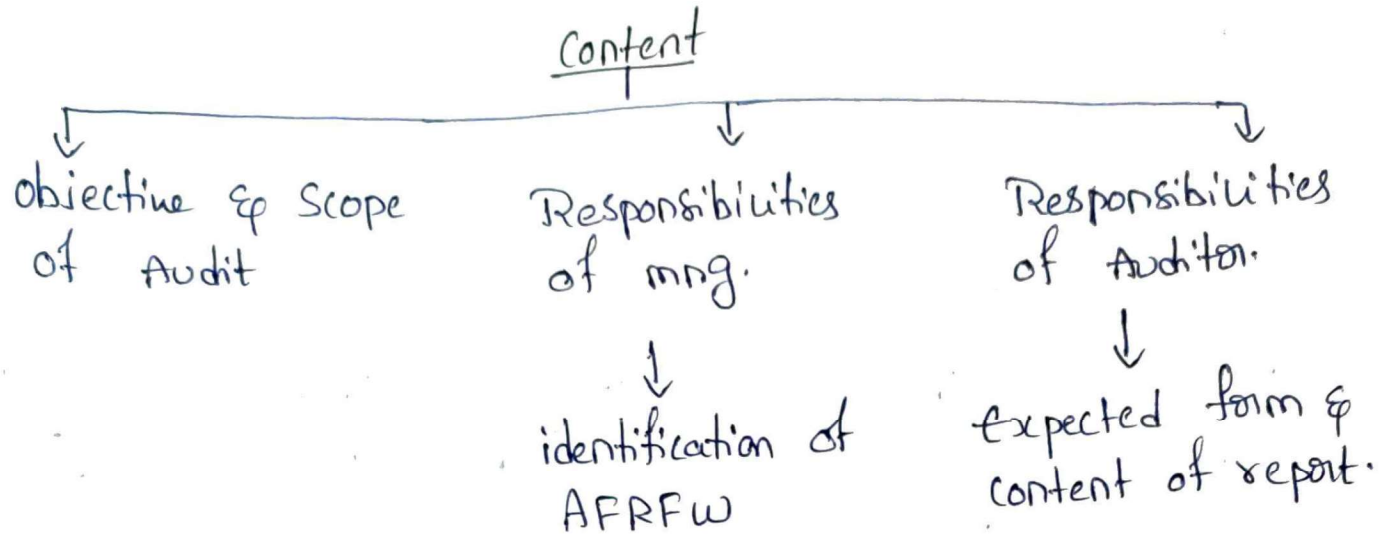
Form & content of AD



Note: Audit documentation must be done in a timely manner (within 60 days from date of AR)

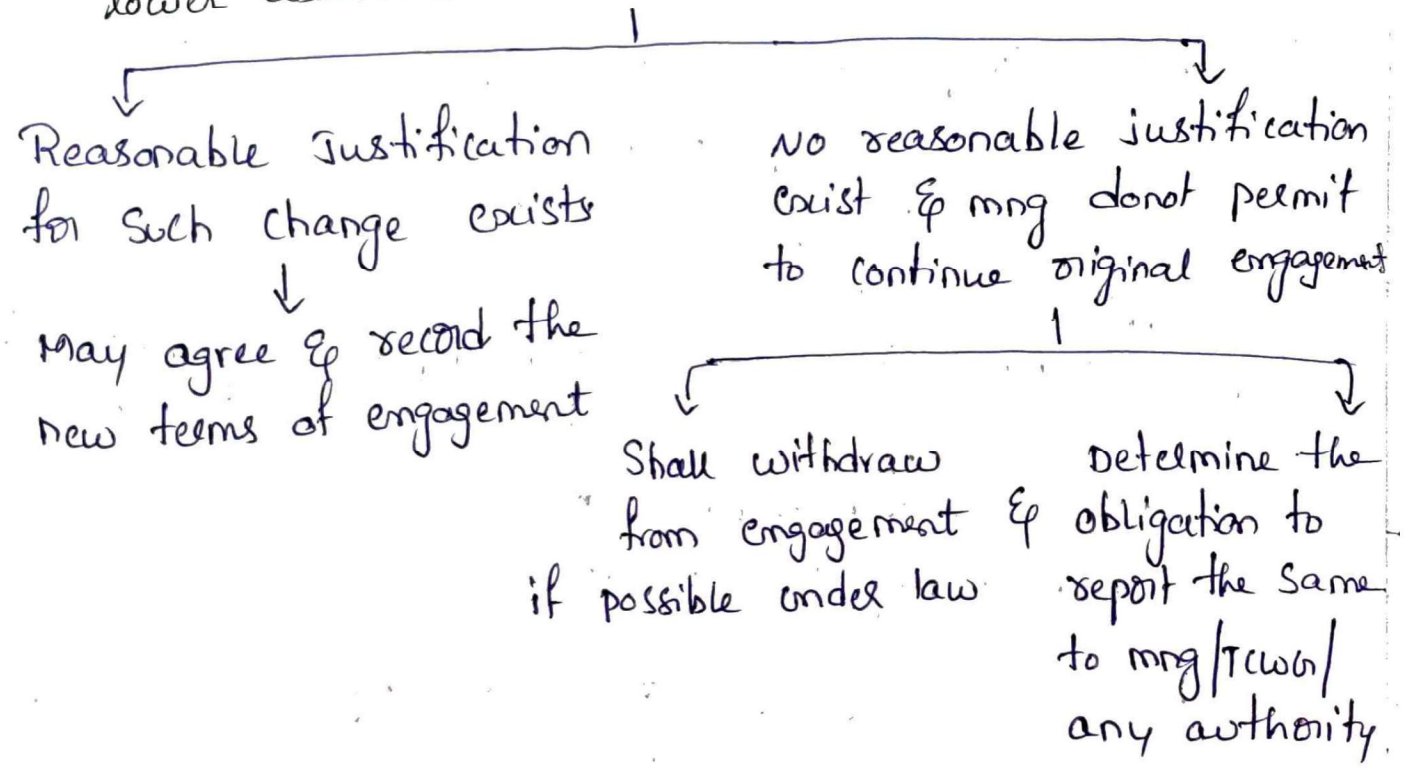
⑦

Audit engagement letter.



form! must be in written format.

change in terms of engagement that results into lower assurance.



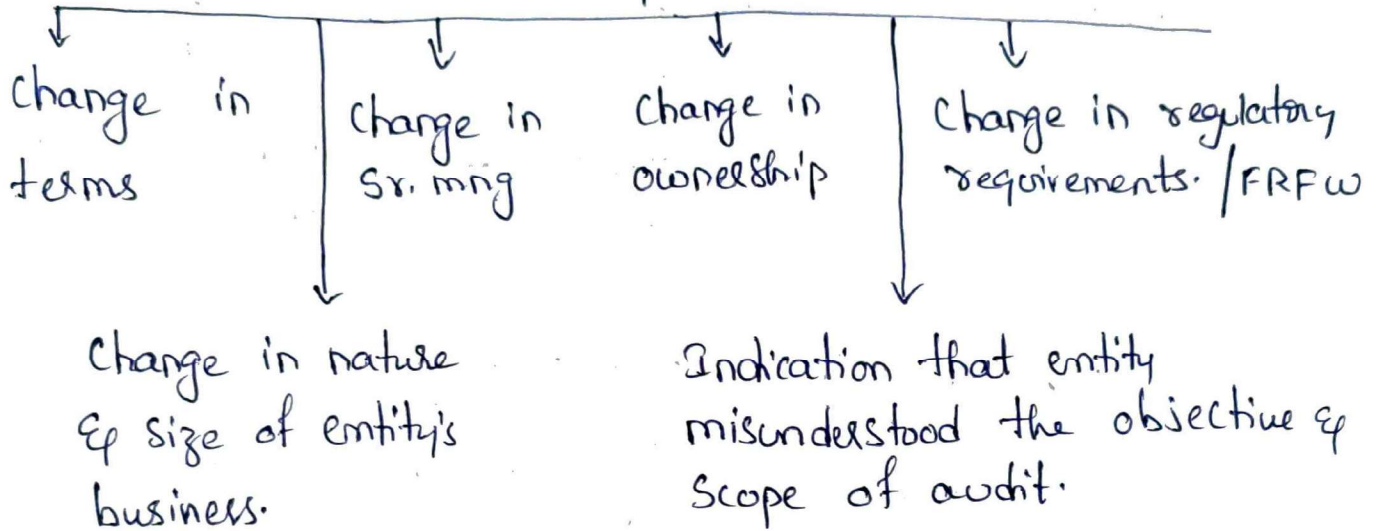
~~8~~ (8)

Special cases

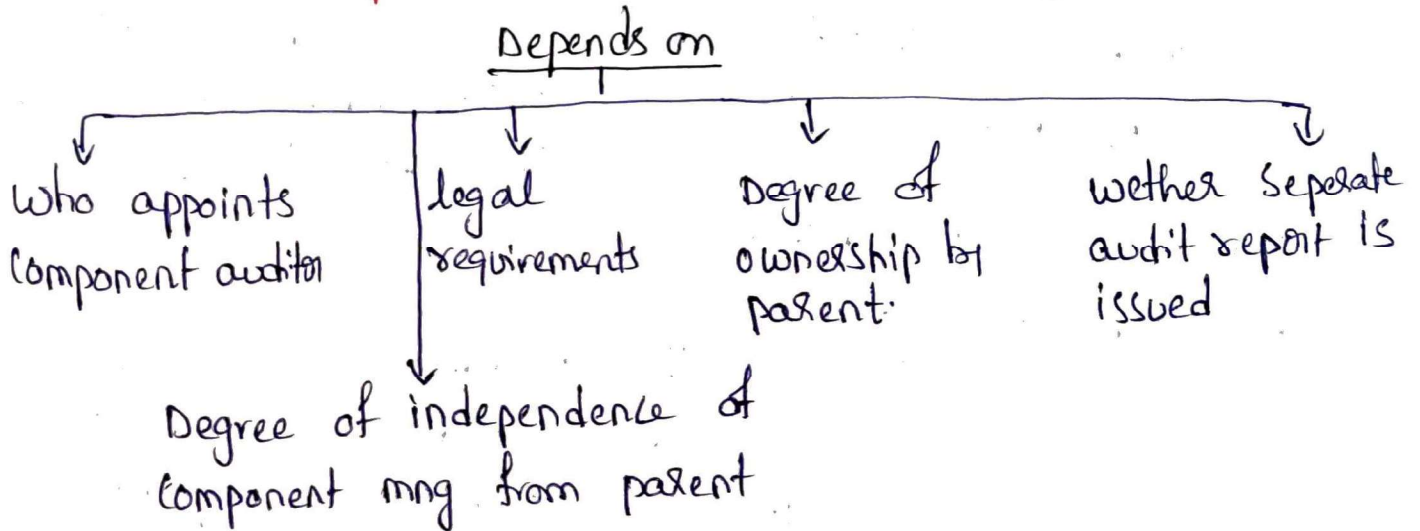
① ^{new} engagement letter in case of recurring Audits.

⇒ Generally not required.

Exceptions.



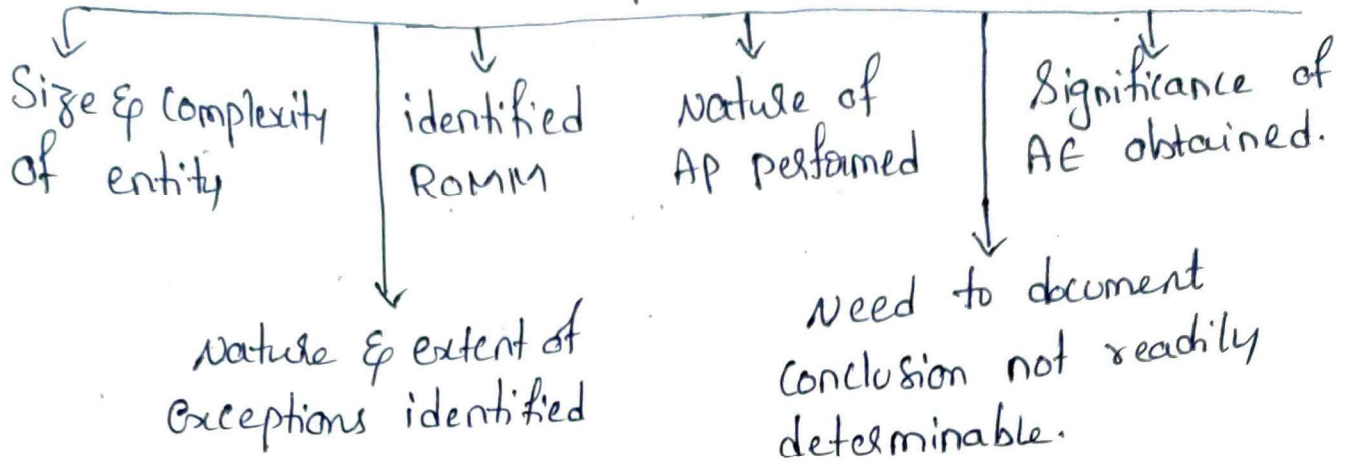
② Audit of components → whether separate eng letter required?



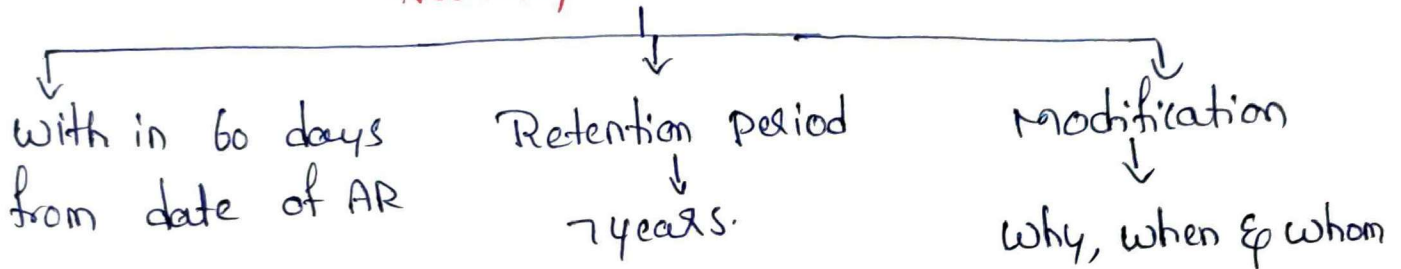
③ limitation on scope prior to Audit engagement acceptance.

↓
Auditor shall not accept unless required by law/
regulation.

(9) factors effecting form, content & extent of AD



Assembly of Audit file.



Ownership of AD

AS per SAC-1 Audit documentation is the property of auditor, unless otherwise specified by law & regulation. He may at his discretion make portion of or extract from audit documentation available to client.

(10)
Matters arising after date of auditor's report.

Auditor shall document

↓
Circumstances encountered.

↓
Additional Ap performed, evidence obtained & conclusion reached.

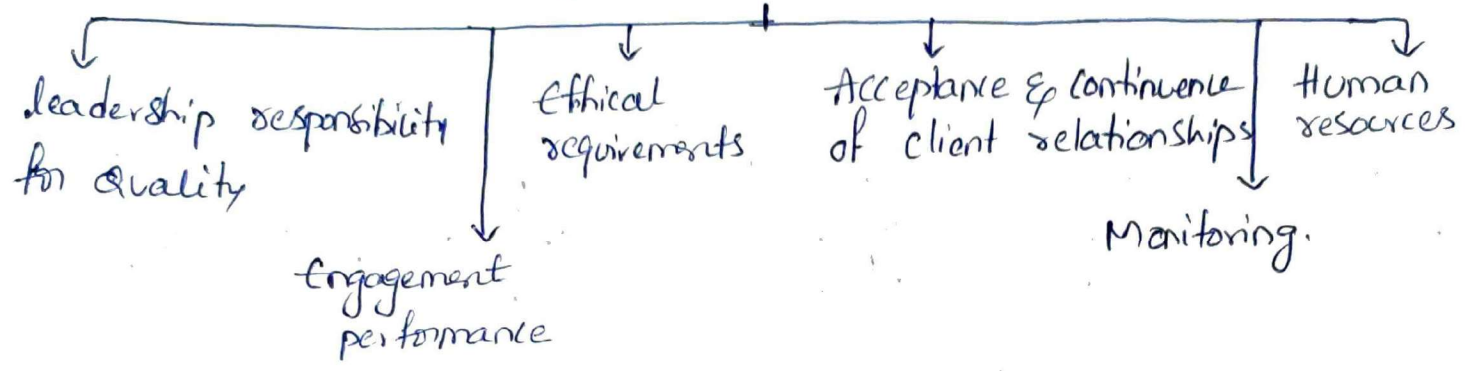
↓
When & who made changes to docs
also
When & who reviewed changes.

SQC-1 & SA-220
Chapter-1 → Quality Control

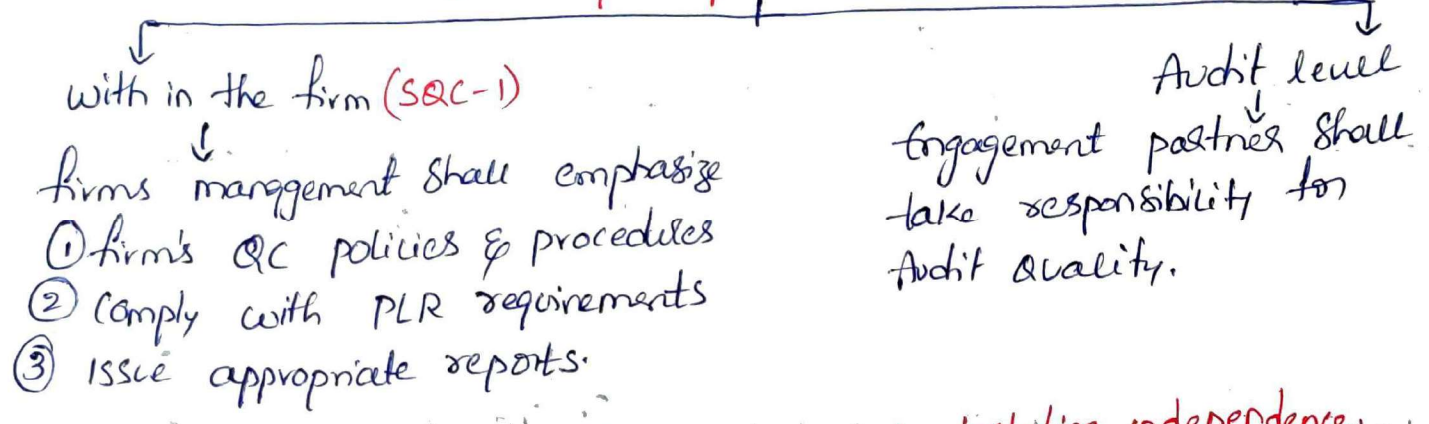
SQC-1 → Quality control at firm level.

SA-220 → Quality control at Audit assignment level.

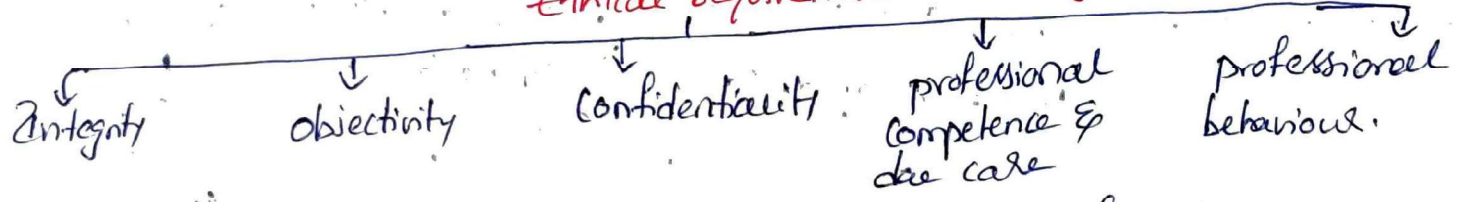
Elements of System of Quality Control.



Leadership responsibility for quality



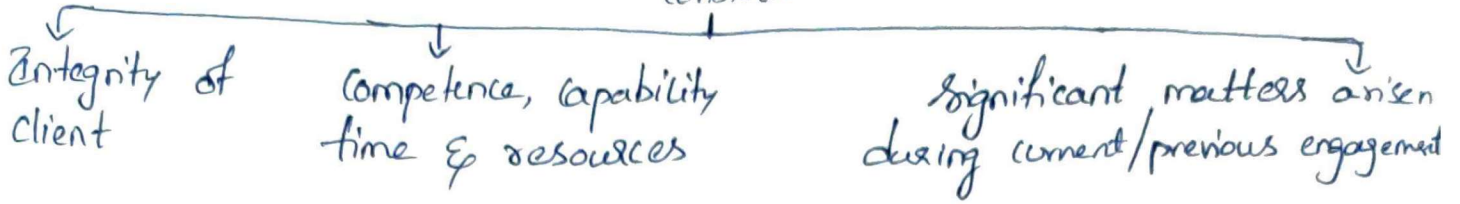
Ethical requirements including independence.



→ Firm shall atleast annually obtain written confirmation on independence from all firm personnel

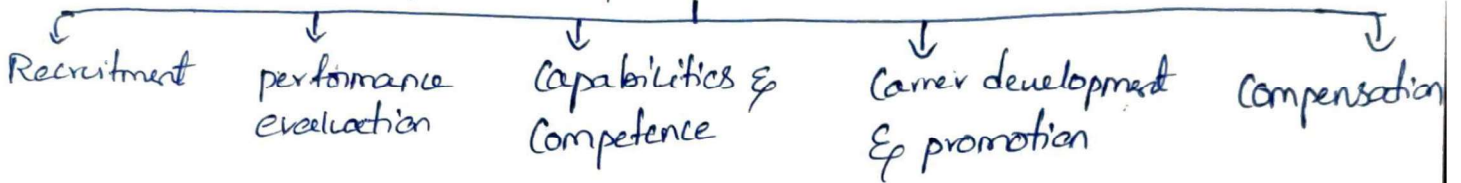
Acceptance & continuance of client relationship

↓
Consider

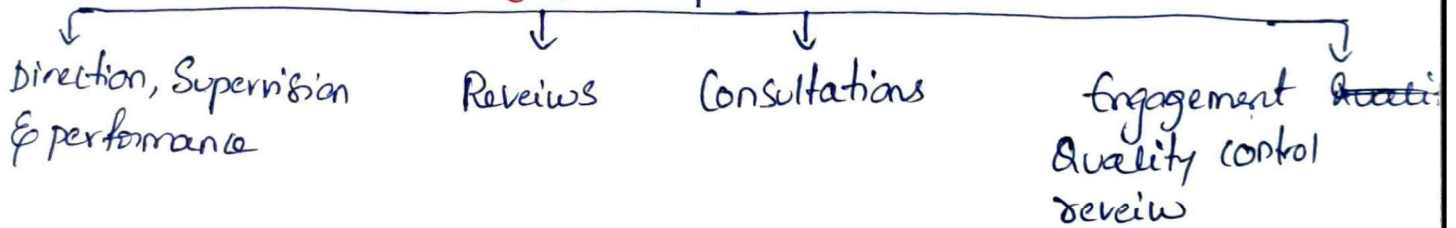


Human Resources

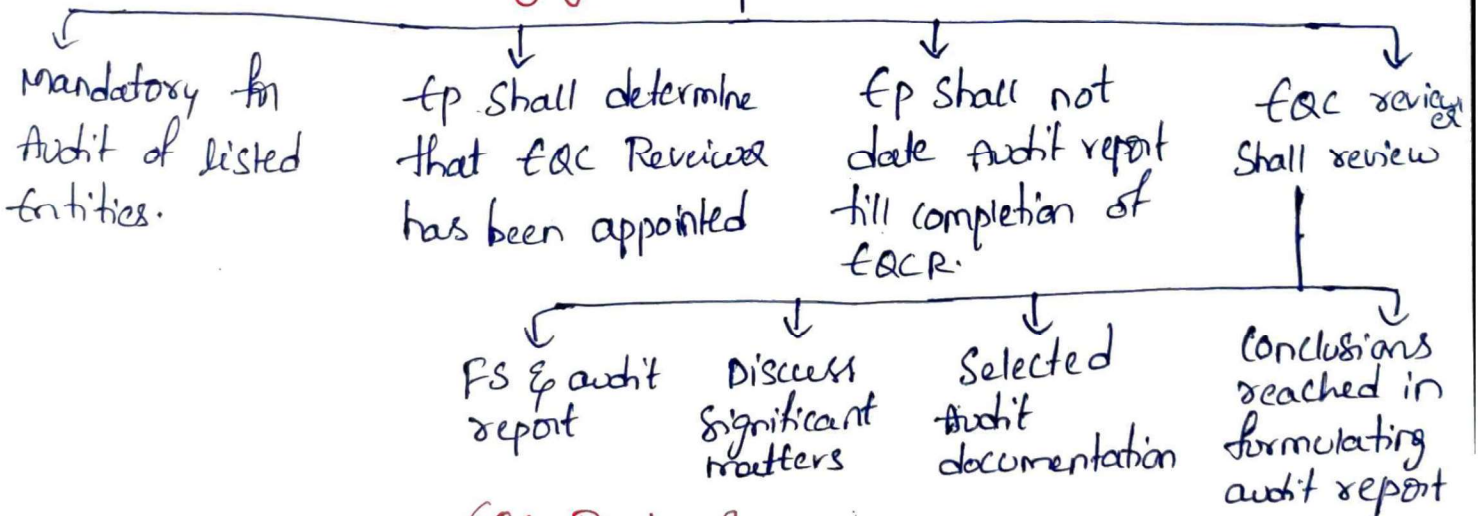
↓
policies & procedures shall address



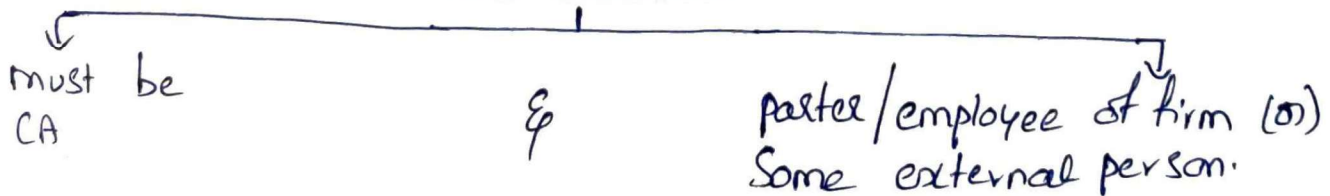
Engagement performance.



Engagement Quality Control Review.



EQC Reviewer



(13)
Chapter-2 → Audit planning, Strategy & execution.

Audit Strategy

Sets the scope, timing & direction of audit. guides to develop audit plan

Audit plan

Includes the nature, timing and extent of planned audit procedures

Responsibility for Audit Strategy & audit plan

is with auditor

Audit programme

Prepared to allocate work to team members it contains

list of audit procedures

Instructions to be followed by member

Duration for completing audit task

factors to be considered in developing audit Strategy

Determine characteristics of audit

Reporting objectives

Team's efforts

results of preliminary engagement activities

NTE of resources

changes to strategy/plan can occur due to

result of unexpected events

Changes in conditions

audit evidence obtained

Change in law, gov policies etc.

(14)

Relationship between audit strategy & audit plan

Strategy is prepared first then audit plan

audit plan is more detailed than strategy

Strategy & plan are inter-related.

Strategy provides guidelines for developing audit plan

EMPTY

(51)

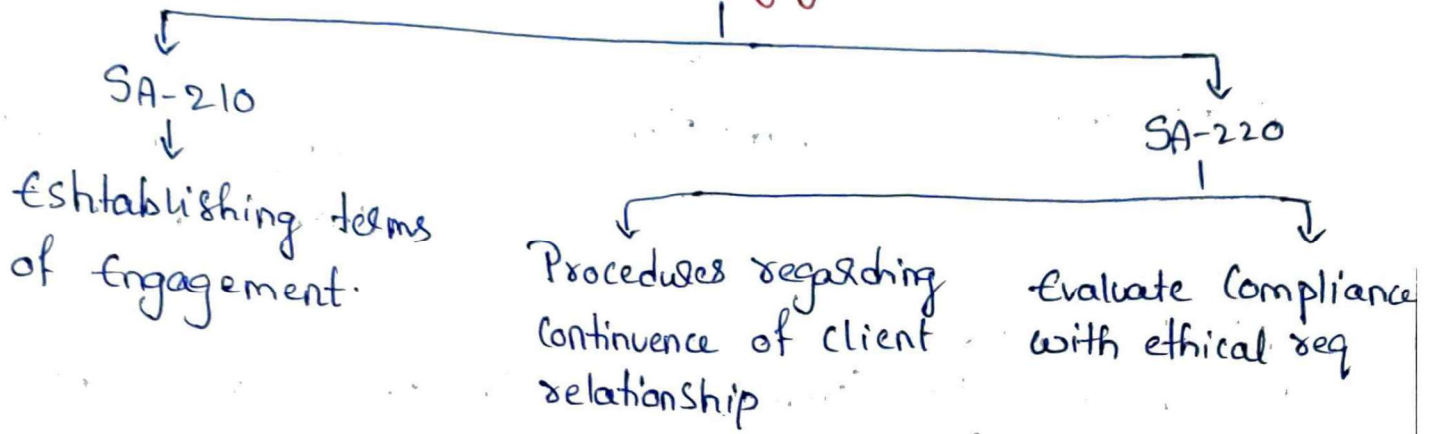
Empty

16

~~28~~ (17)
SA-300 - Planning an Audit of financial Statements
(6/10/2008)

Why to plan the Audit → To perform effectively

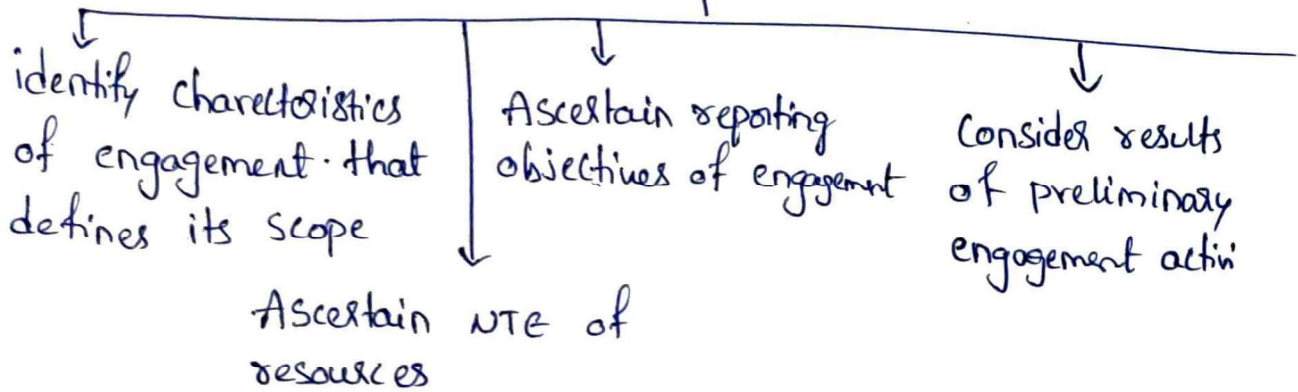
Preliminary Engagement Activities.



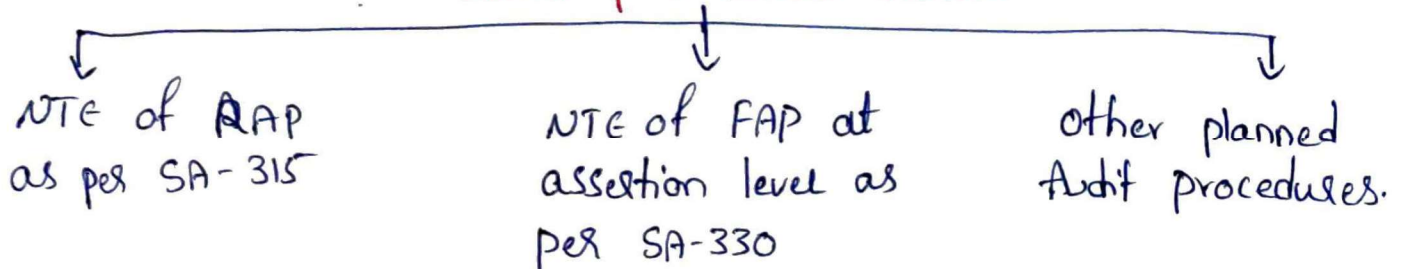
Auditor shall establish overall audit strategy

↓
Develop audit plan.

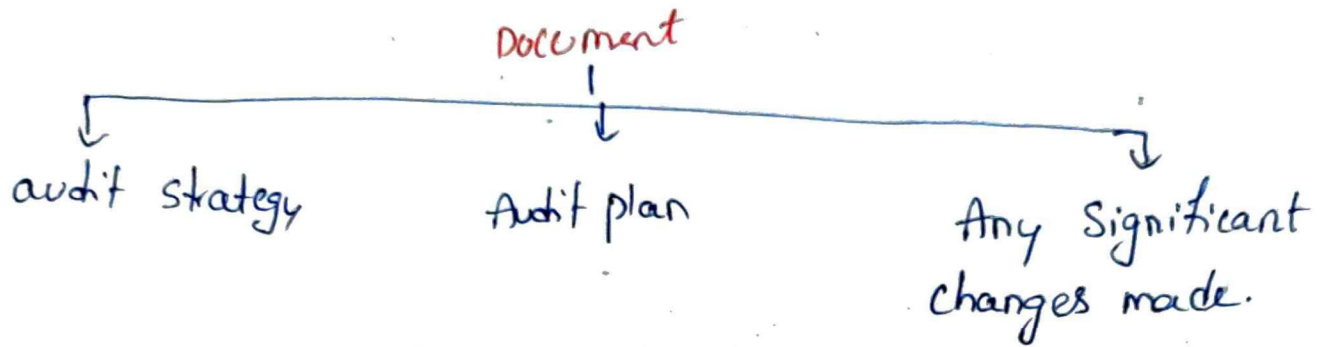
To develop audit strategy



Audit plan shall include.



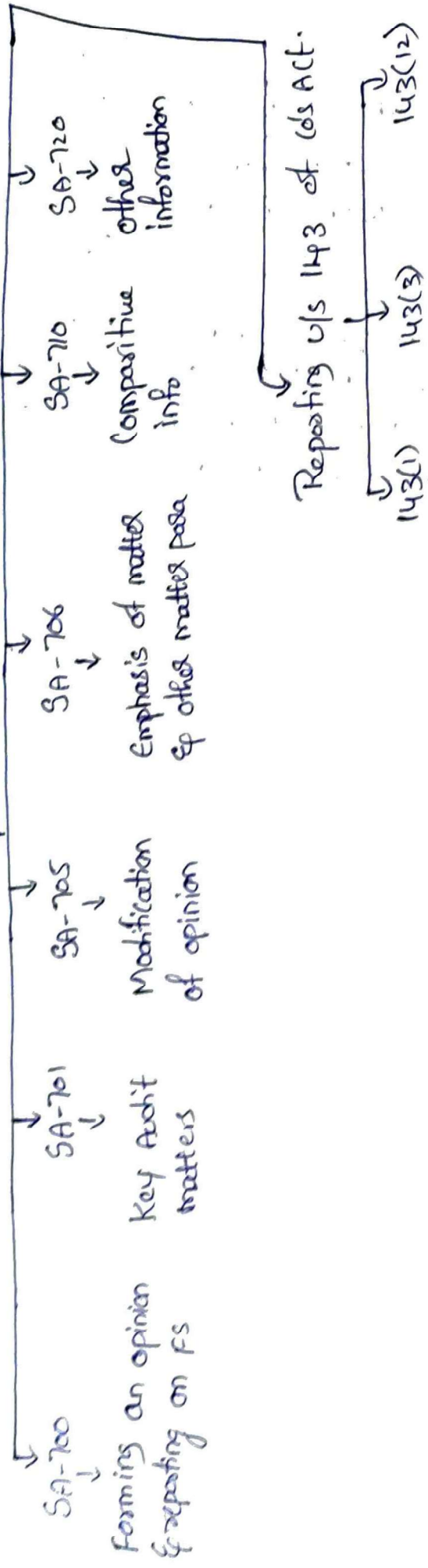
→ Auditor shall update/change audit strategy & plan as necessary during the audit.



Initial audit engagement

} → Communicate with predecessor auditor in case of change in auditor.

Chapter-3 → Reporting (19)



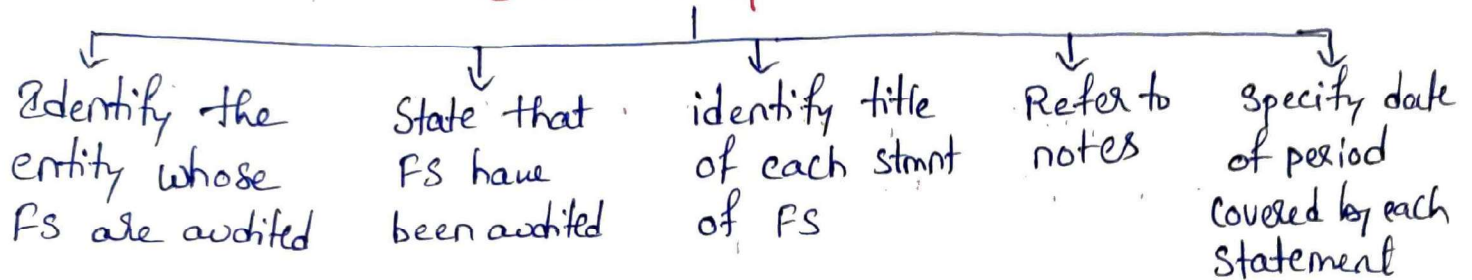
SA-700 - Forming ⁽²⁰⁾ an opinion and reporting on Financial Statements.

Standard deals with form & content of auditors report.

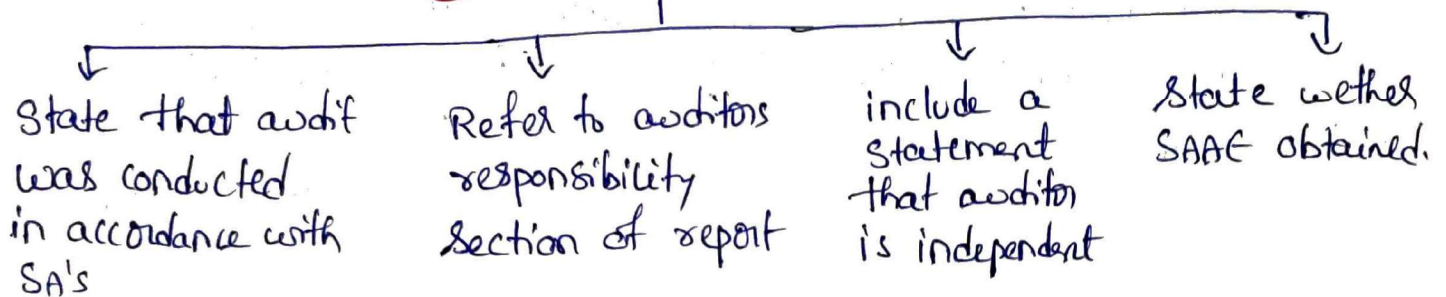
① Title → Independent Auditors report.

② Addressee → As appropriate.

③ Auditors opinion



④ Basis for opinion.



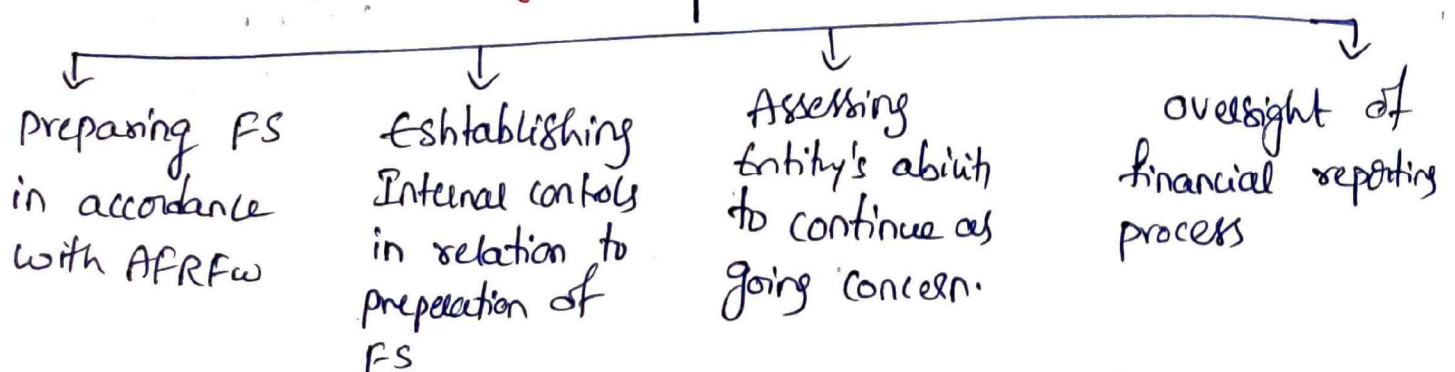
⑤ Going concern: In accordance with SA-570

⑥ Com paragraph → SA-706

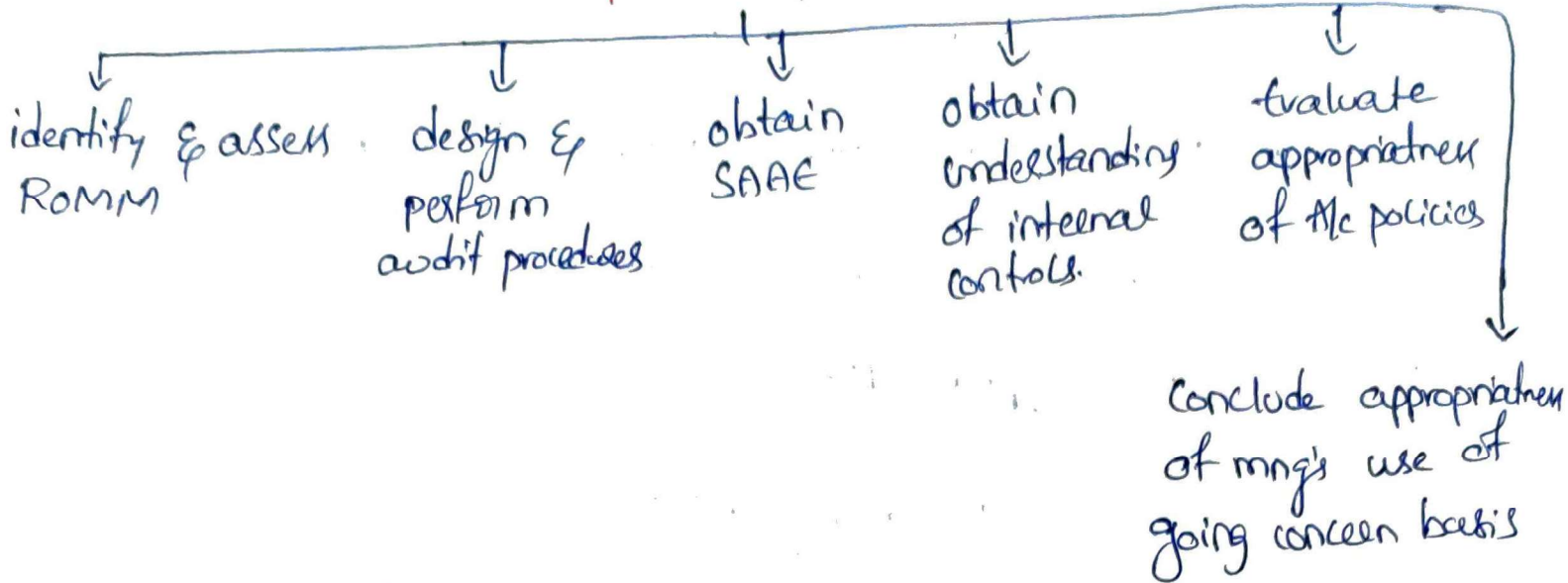
⑦ Key audit matters: In accordance with SA-701

⑧ other matter paragraph → SA-706

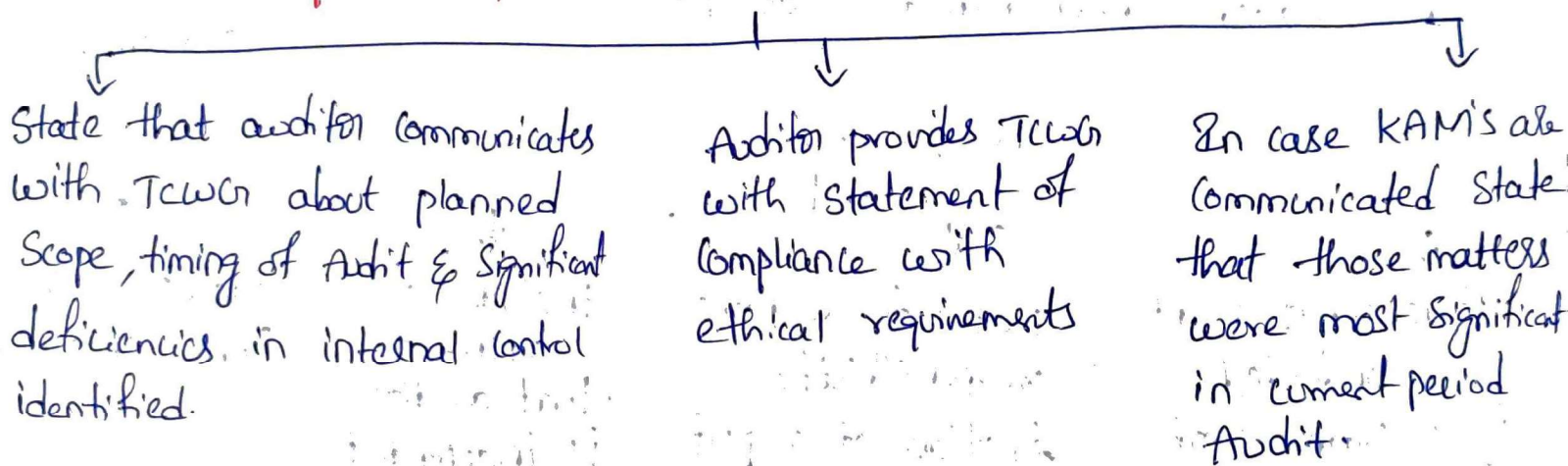
⑨ Management Responsibility for



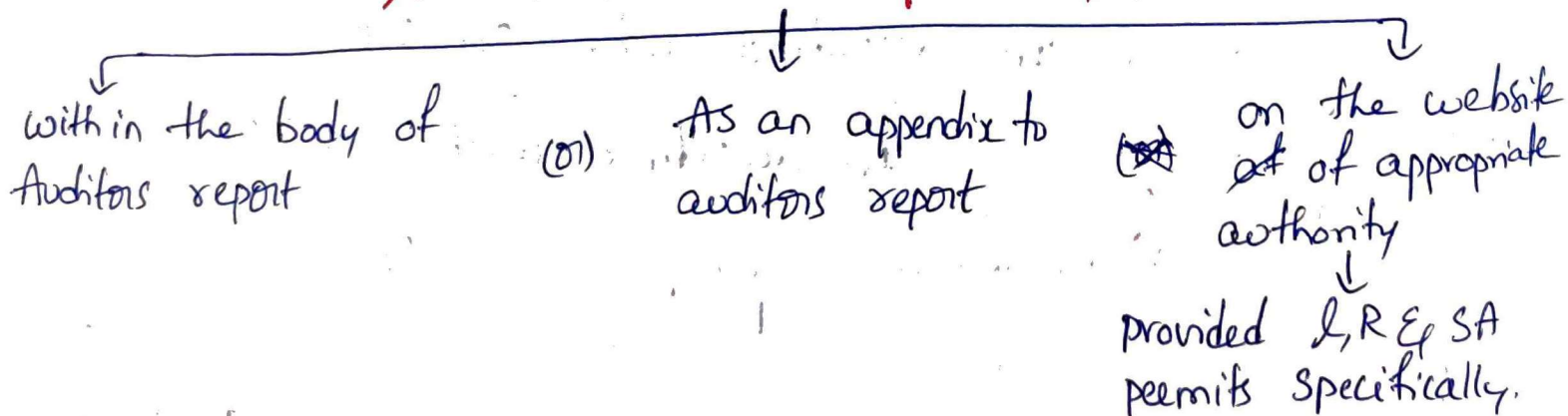
Auditors responsibility to ⁽²¹⁾



Additional matters to be included in Auditors responsibility para

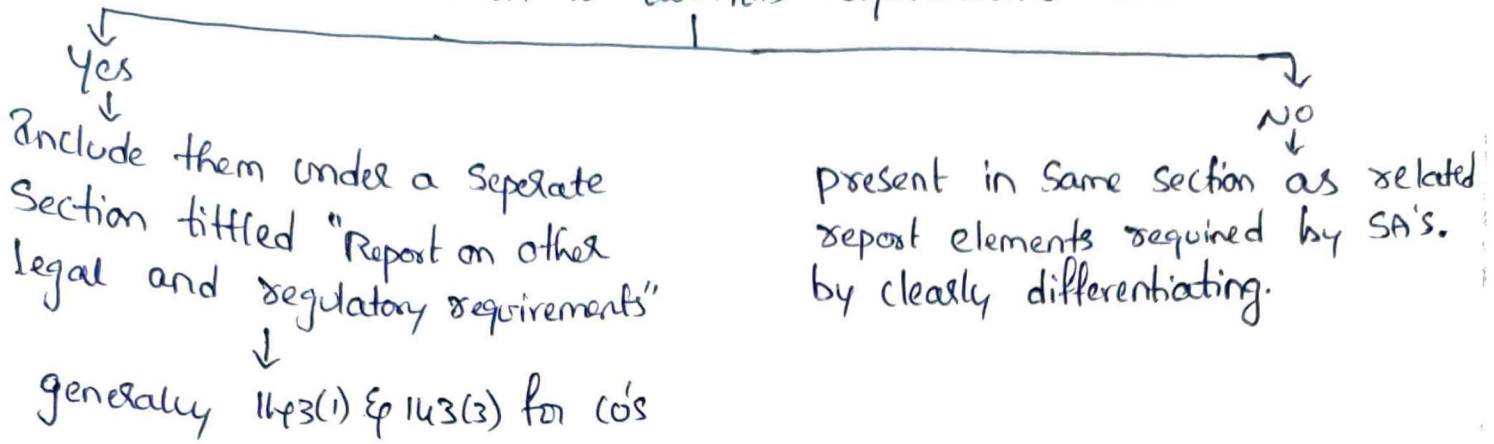


location of Auditors responsibility para



(22) other reporting responsibilities

these are in addition to auditor's responsibilities under SA's



Signature, place of signature and date of audit report.

Audit report for audits conducted as per SA's & ISA/standards of other Jurisdiction.

Can refer SA's in the audit report in addition to ISA only if

no conflict between SA's & ISA that leads to different opinion (or)

(b) not to include Com/om para, but is required as per SAs

Auditors report include at minimum each of elements specified by this SA.

Supplementary info not required by APFRW, presented in FS whether it is integral part of FS

Yes

Auditors opinion shall cover the same.

NO

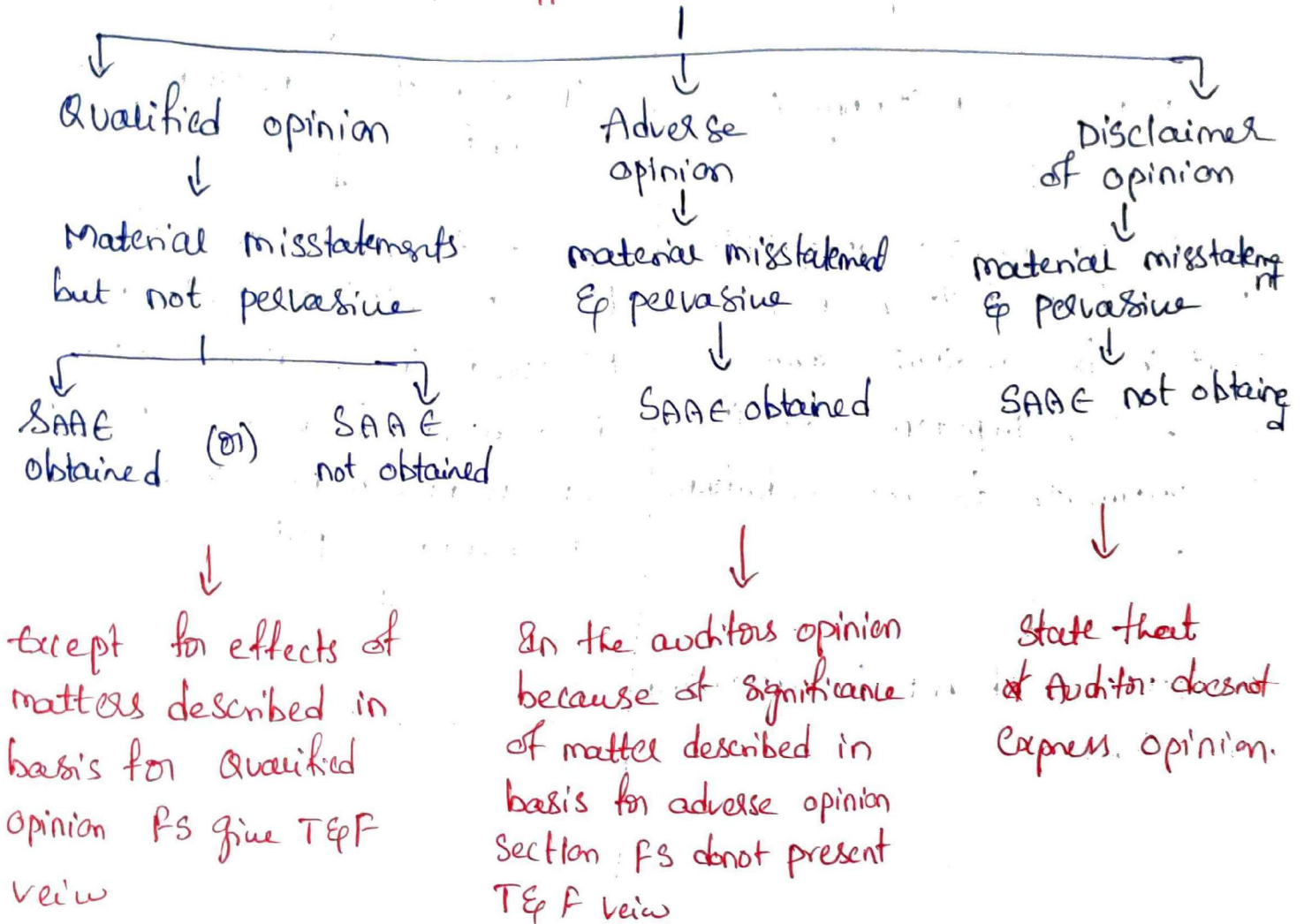
Evaluate whether it is clearly differentiated from audited FS

if not ask mng to change its presentation

if mng refuses, explain in auditors report that supplementary info has not been audited.

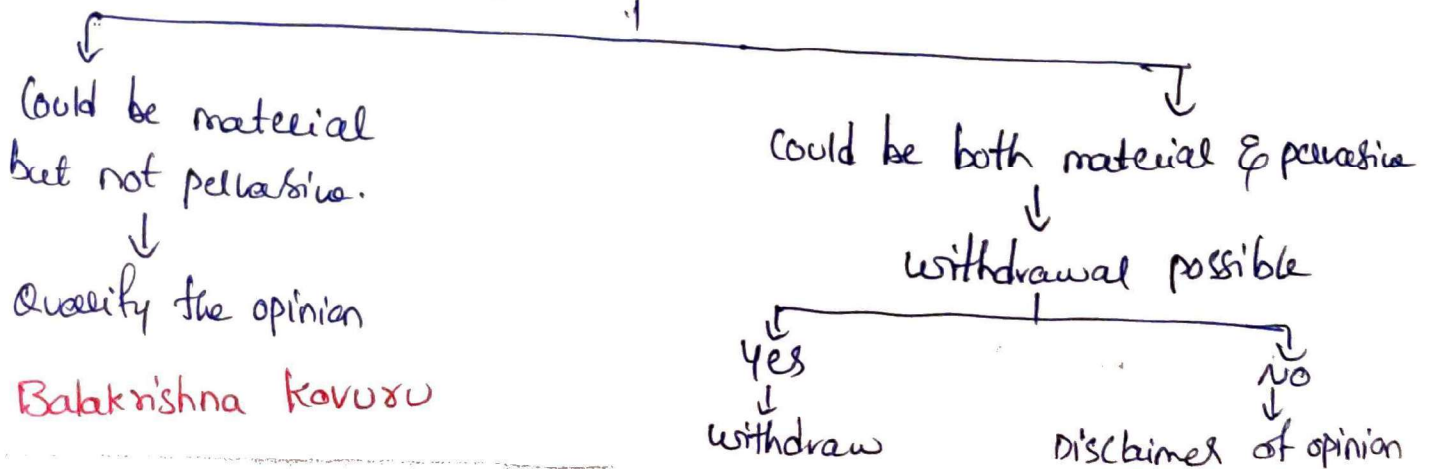
SA-705 - modification to the opinion in the Independent Auditors report

Types of modified opinion.



limitation of scope by mng after acceptance of engagement

Auditor concludes possible effects of undetected misstatements



Responsibility as per LODR in case of withdrawal.
(only for listed entities)

(24)

If auditor proposes to resign

↓
within 45 days from
end of the quarter

↓
Before resignation issue
limited review report for
Such quarter.

↓
After 45 days from
end of the quarter

↓
issue limited review report
for such quarter as well
as next quarter

↓
If limited review
report is issued
for all 3 quarters
then auditor shall
issue audit report
for full year. Eg
CRR for 4th quarter
before resigning.

(25)

SA-706 - Emphasis of matter and other matter paragraphs in the Independent Auditor's report.

EM paragraph

↓
Related to understanding FS

↓
Refers to a matter appropriately presented or disclosed in FS that in the auditor's judgement is of such importance that it is fundamental to users understanding of FS.

↓
Matter should not be determined as KAM

↓
Auditor would not be required to modify opinion because of such matter.

other matter

↓
Related to understanding of Audit

↓
Refers to matter other than those presented or disclosed in FS that in Auditor's judgement is relevant to users understanding of audit, auditor's responsibilities or auditor's report.

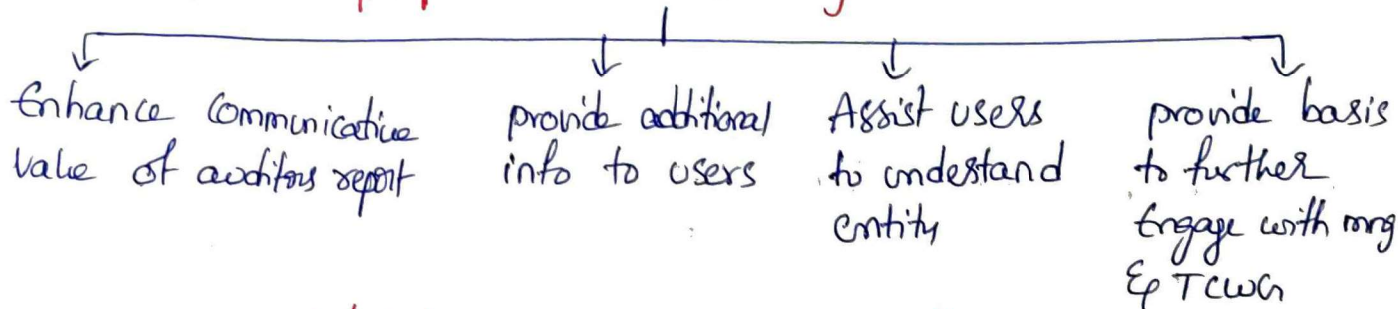
↓
Matter should not be determined as key audit matter.

SA-701- ²⁶Communications Key Audit matters in the Independent Auditors report.
(Mandatory only of listed entities)

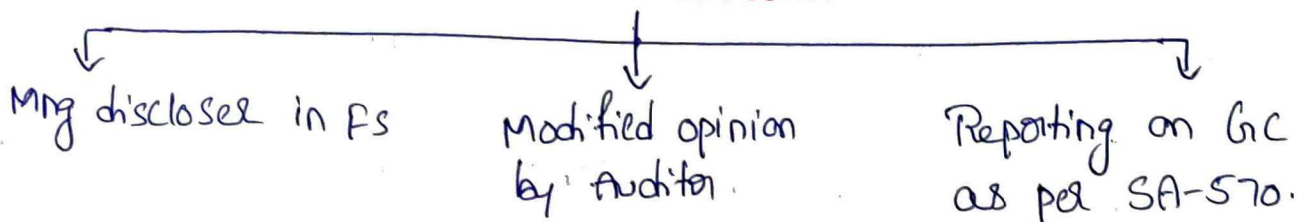
KAM → Those matters that, in the auditors professional judgement were of most significance in the audit of financial statements of the current period.

[Note: KAM are selected from those matters communicated to TCWG]

purpose of communicating KAM

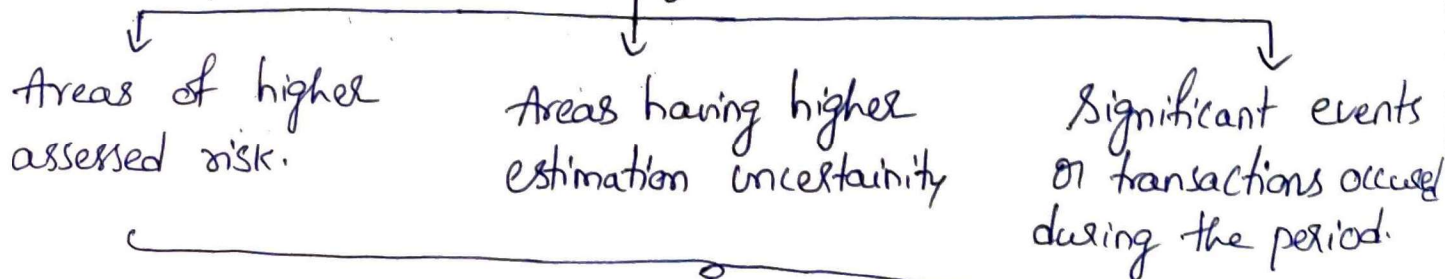


Note: KAM is not substitute for



Determining KAM

From matters communicated with TCWG, taking into account following factors



of matters determined based on above criteria identify most significant matters.

②⑦ How to present KAM

① list them under the heading "Key Audit matters"

② use appropriate sub-heading.

③ Introductory language shall state that

these were of most significant in audit of FS.

these were addressed in the context of audit & auditor does not provide separate opinion on these matters.

④ Individual KAM shall address.

why matter was considered most significant in audit

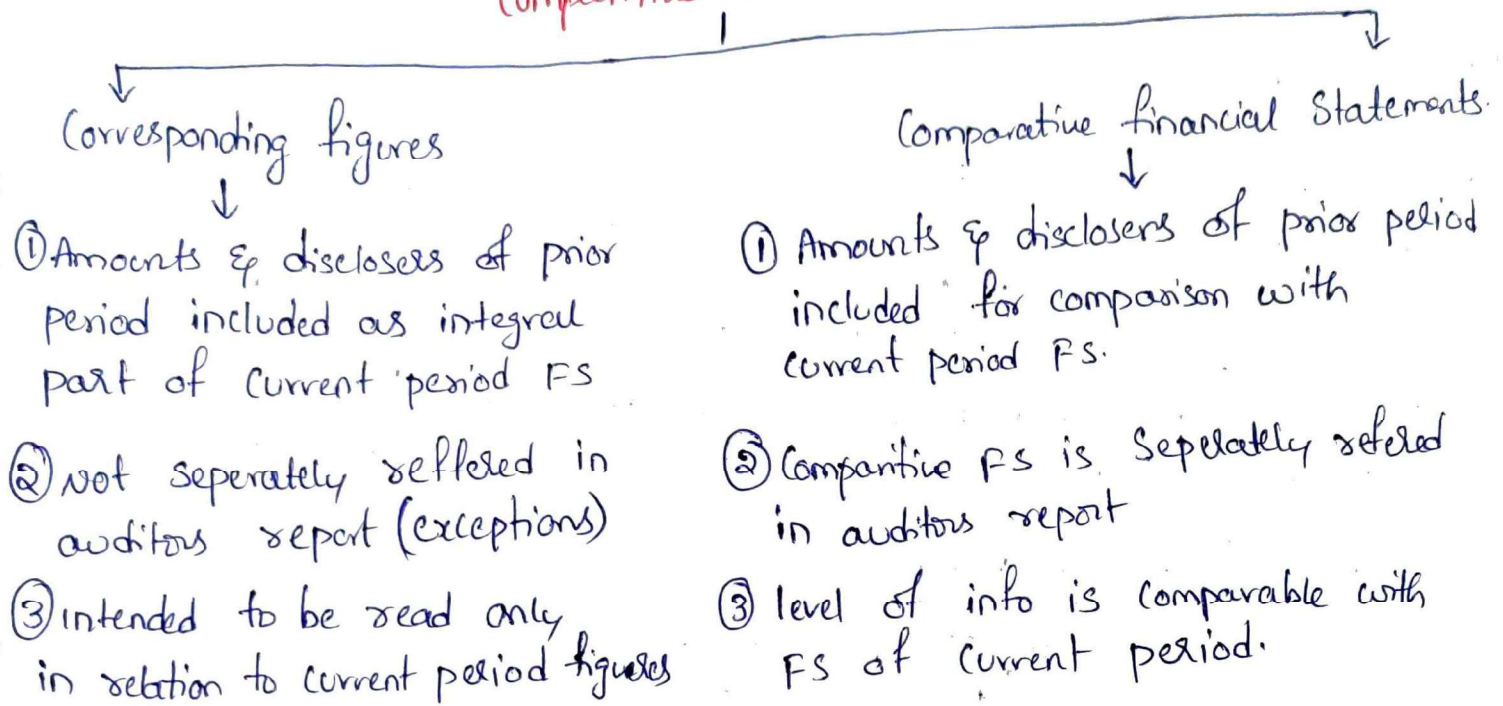
How matter was addressed.

circumstances in which KAM is not communicated.

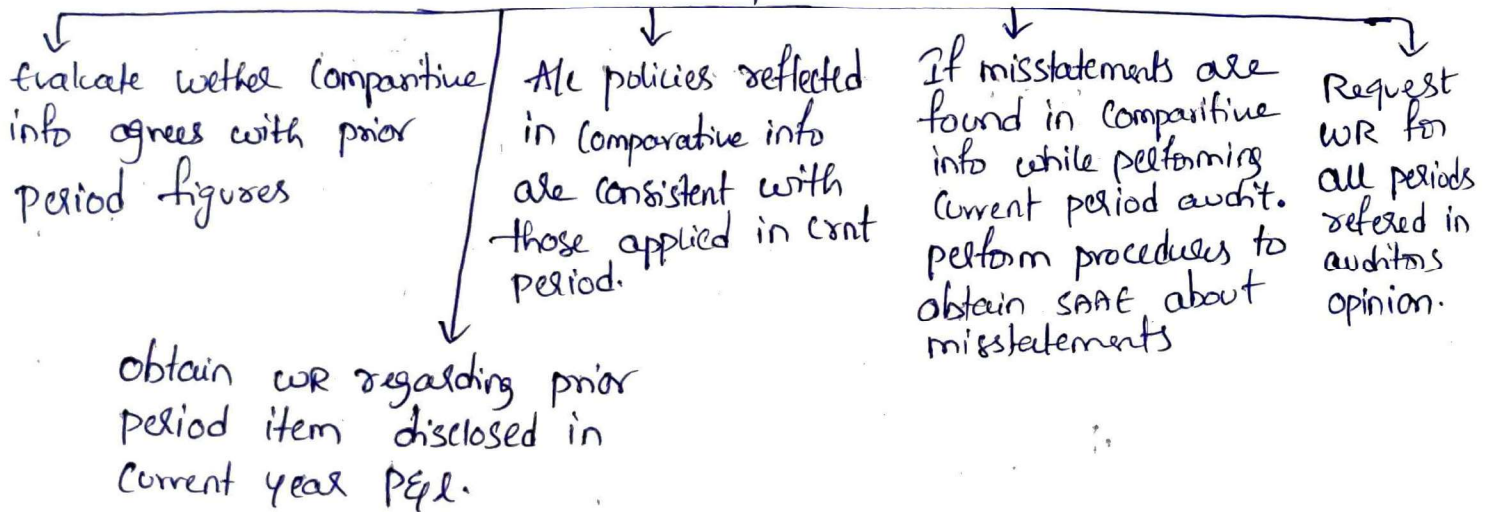
law/regulation precludes public disclosure.

In extremely rare circumstance auditor determines that adverse consequence of doing so would outweigh the public interest benefits.

Comparative Information



Audit procedures w.r.t Comparative information



Audit reporting → Corresponding figures

(29)

Auditors opinion shall not refer corresponding figures except when

prior period audit report is modified & matter giving rise to modification is unresolved

prior period audit report is unmodified, but MM in prior period FS. If those MM are not dealt as per AFRFW → qualify or adverse opinion in current period report modified w.r.t corresponding figures.

prior period FS not audited
↓
State in OM paragraph
↓
this will not relieve auditors responsibility to obtain SAAE about opening balances.

prior period FS audited by predecessor auditor

law/regulation permits referring such report
↓
State in OM para

that prior period FS audited by predecessor auditor

Type of opinion & reasons in such report

Date of such report

Audit reporting → Comparative financial statements.

Auditors opinion shall refer to each of such comparative FS

If opinion on such comparative FS differs from previously expressed opinion
↓
Disclose reasons in OM paragraph.

prior period FS audited by predecessor auditor

State in OM para that

predecessor auditor audited prior period FS

Type of opinion & reasons if modified

Date of report

predecessor auditor issued unmodified opinion, but MM in prior period FS

Communicate to mg & TCW & request that predecessor auditor be informed & amended
↓
If prior period FS modified & new audit report is issued

prior period FS not audited
↓
State the same in OM para

Auditor shall report on current period.

SA-720 → Auditor's responsibility in relation to other information

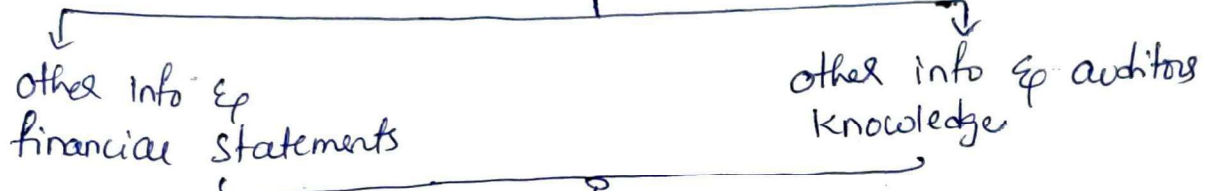
(30)

other information

↓
financial & non-financial info included in annual report (other than FS & audit report)

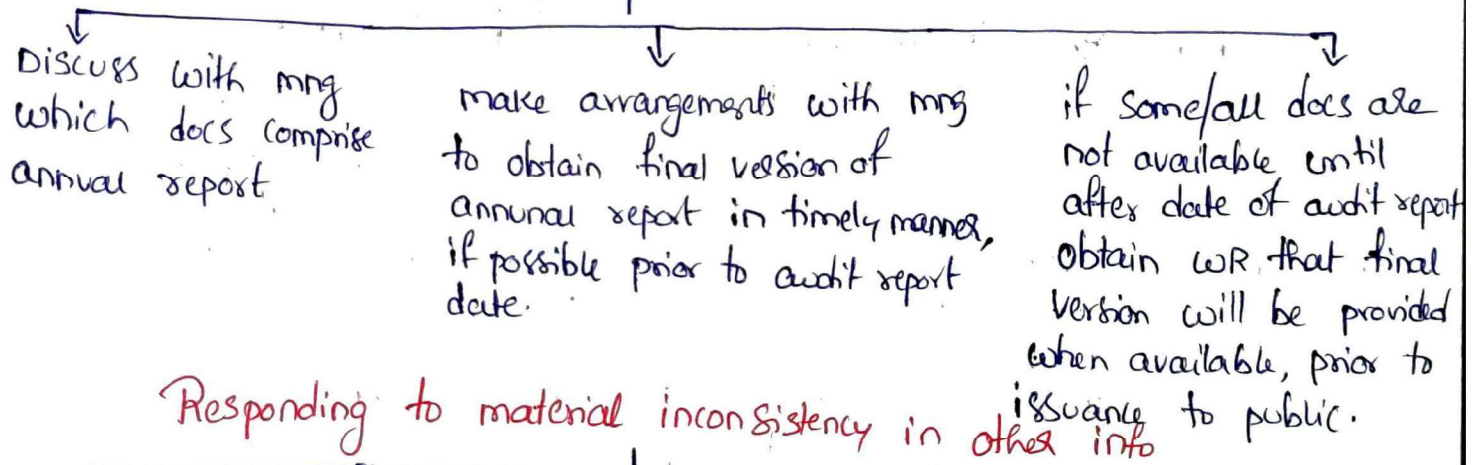
objectives

Consider whether material inconsistency exists between

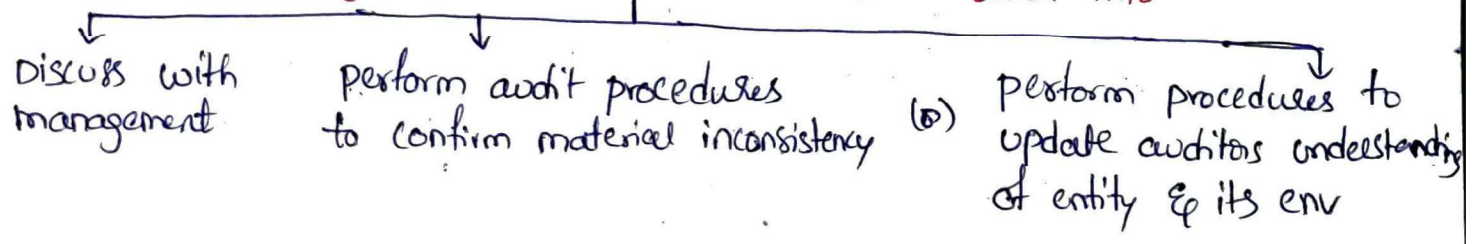


if yes respond appropriately.

obtaining other information



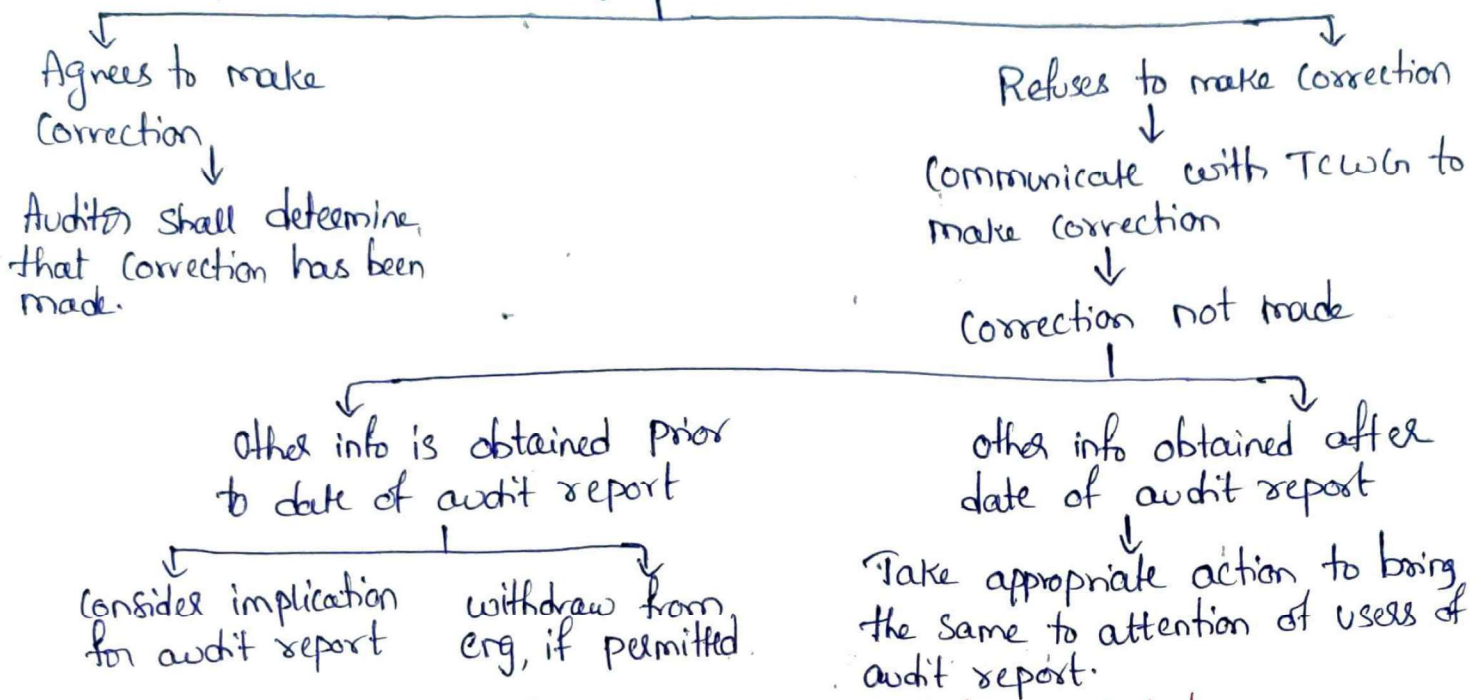
Responding to material inconsistency in other info



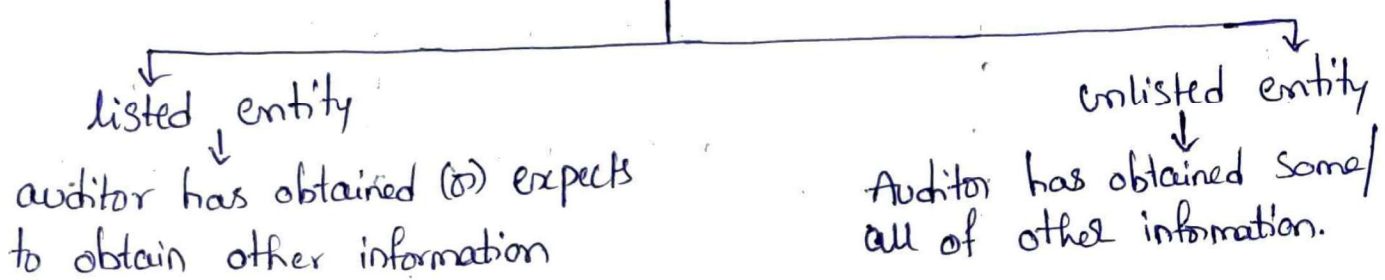
Responding to MM in other info

(31)

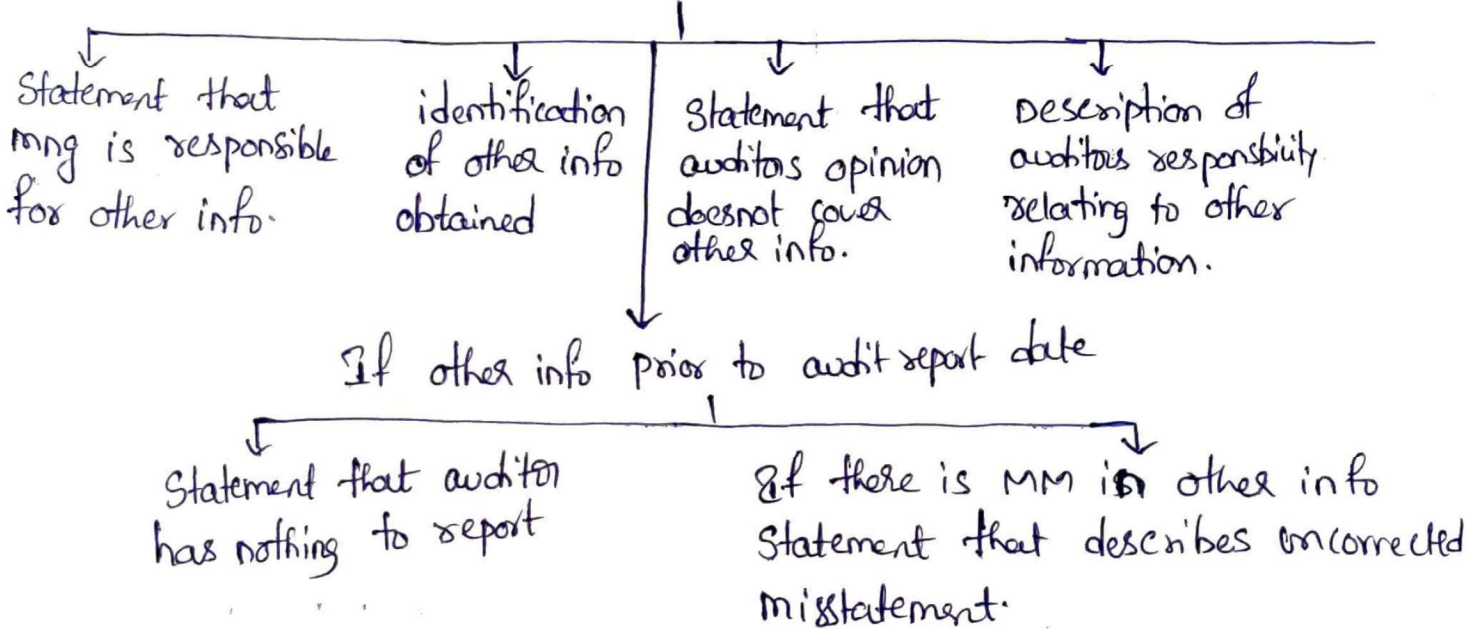
Request management to make correction



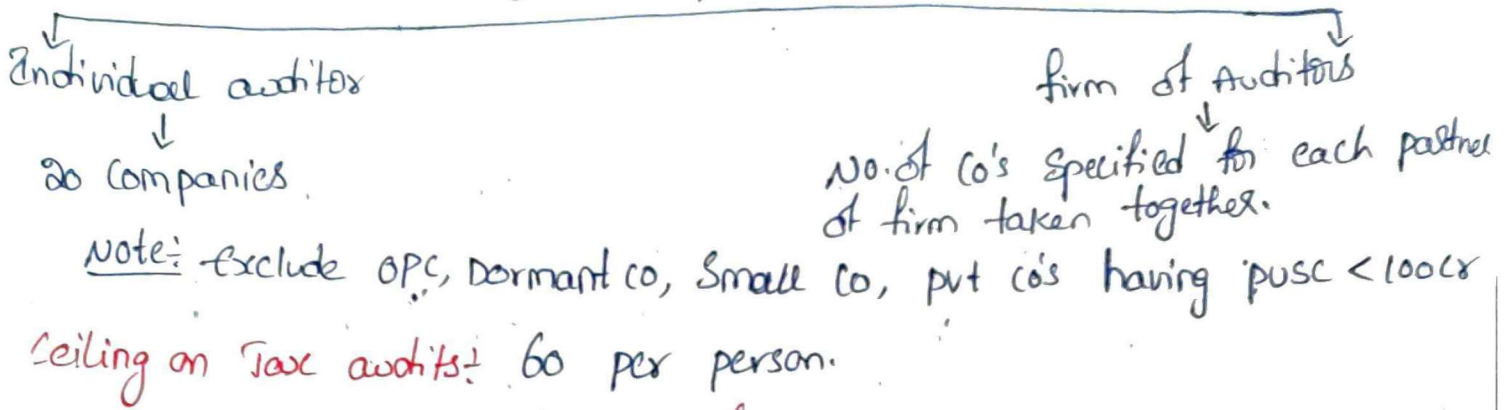
When other information para will be included



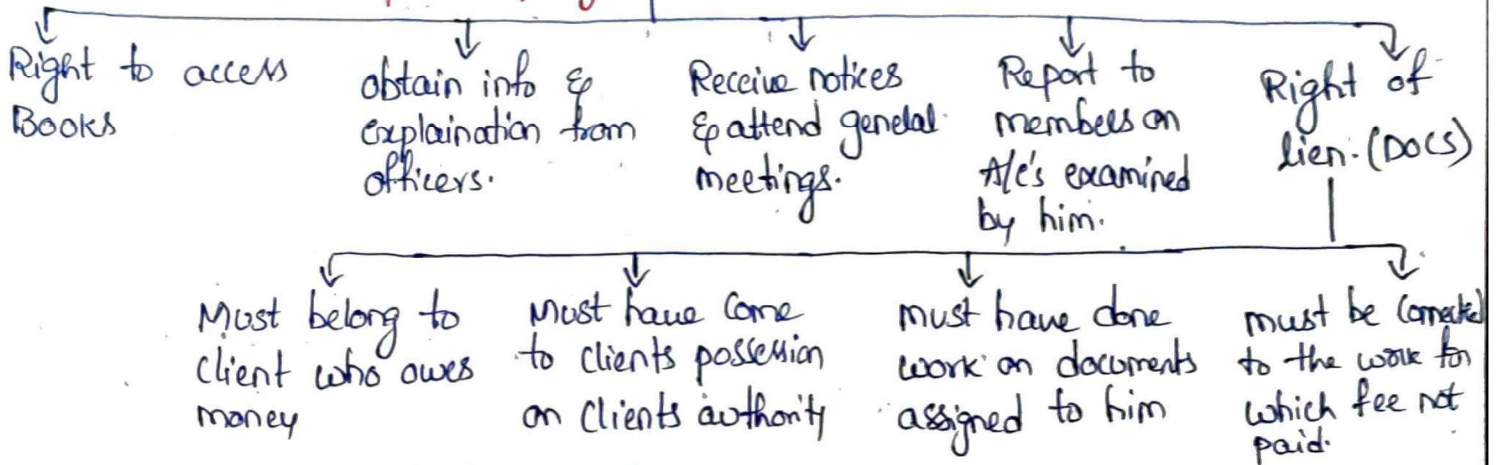
Other information section shall include.



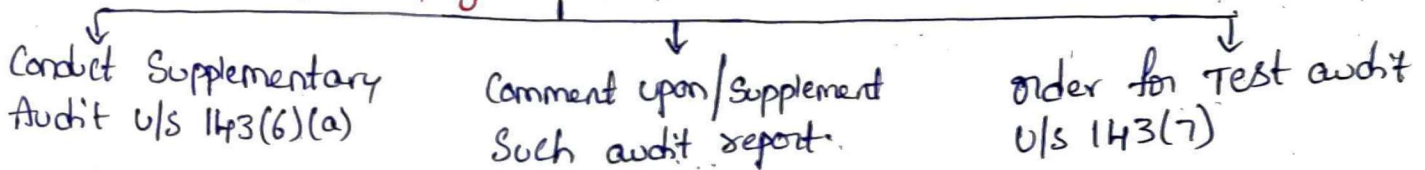
Ceiling on number of Audits



powers/Rights of Auditor.



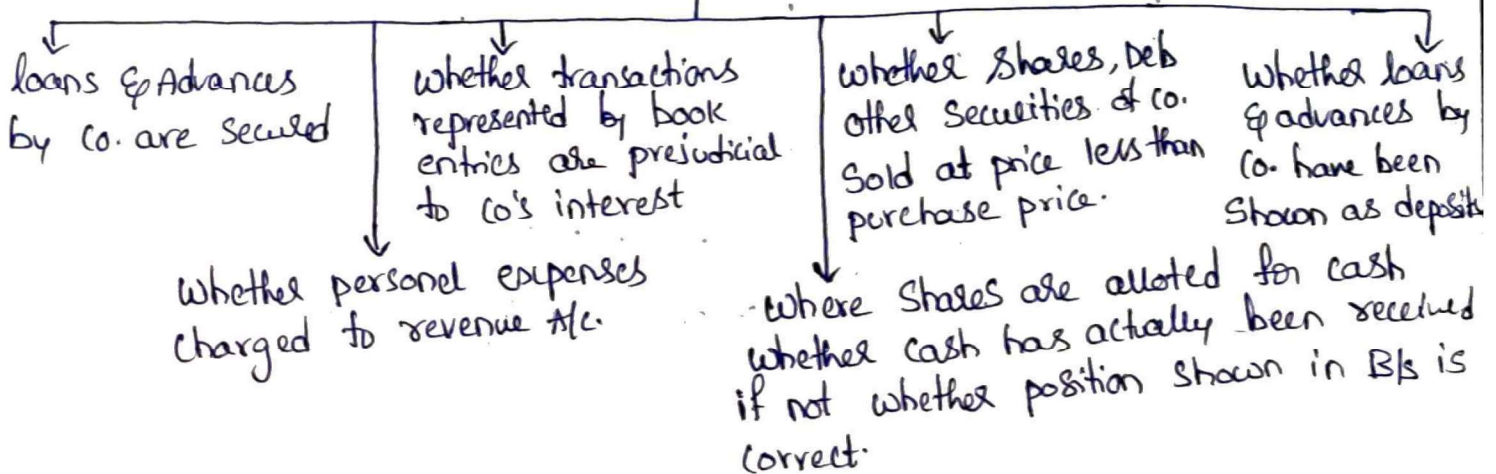
powers/rights of C&A's



Duties of Auditor

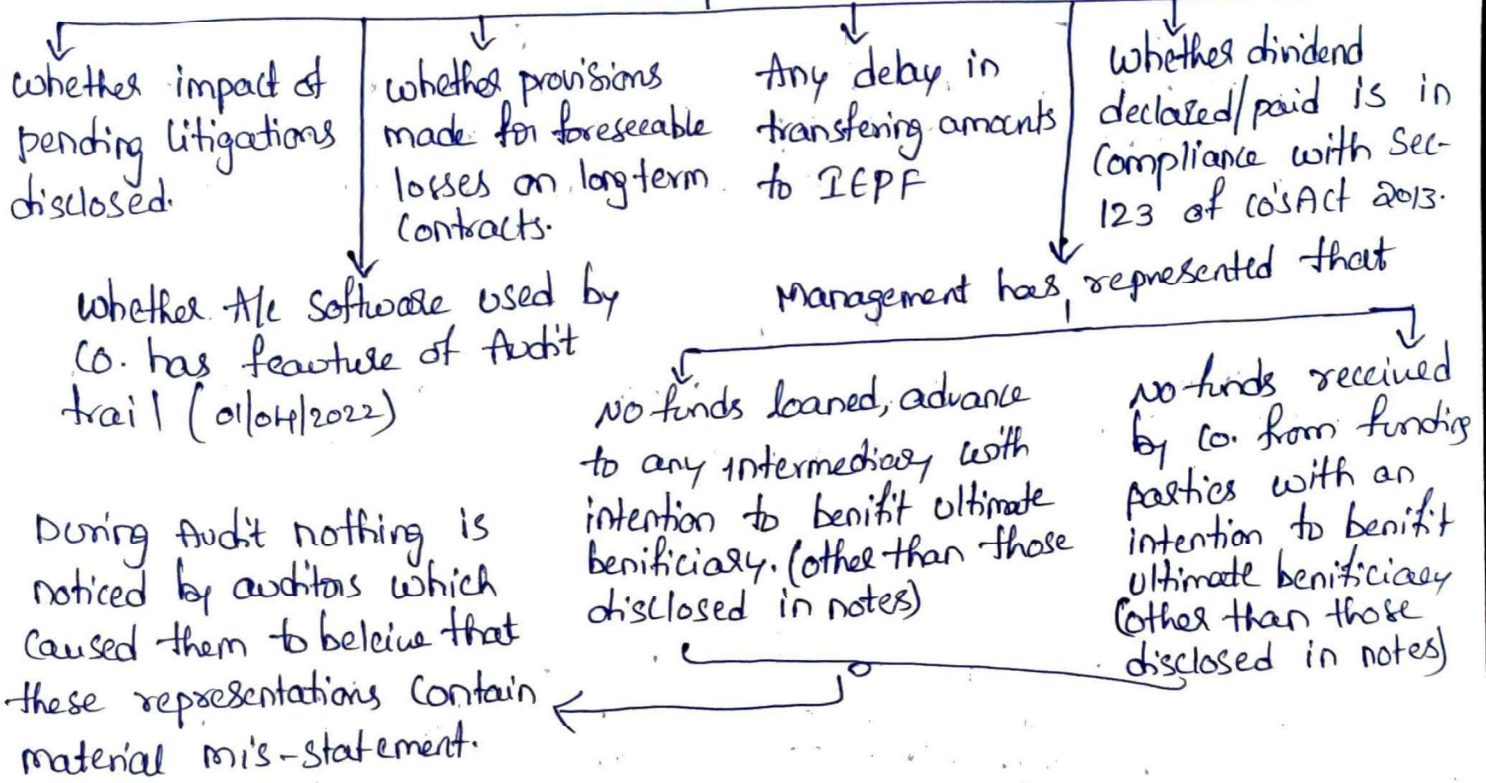
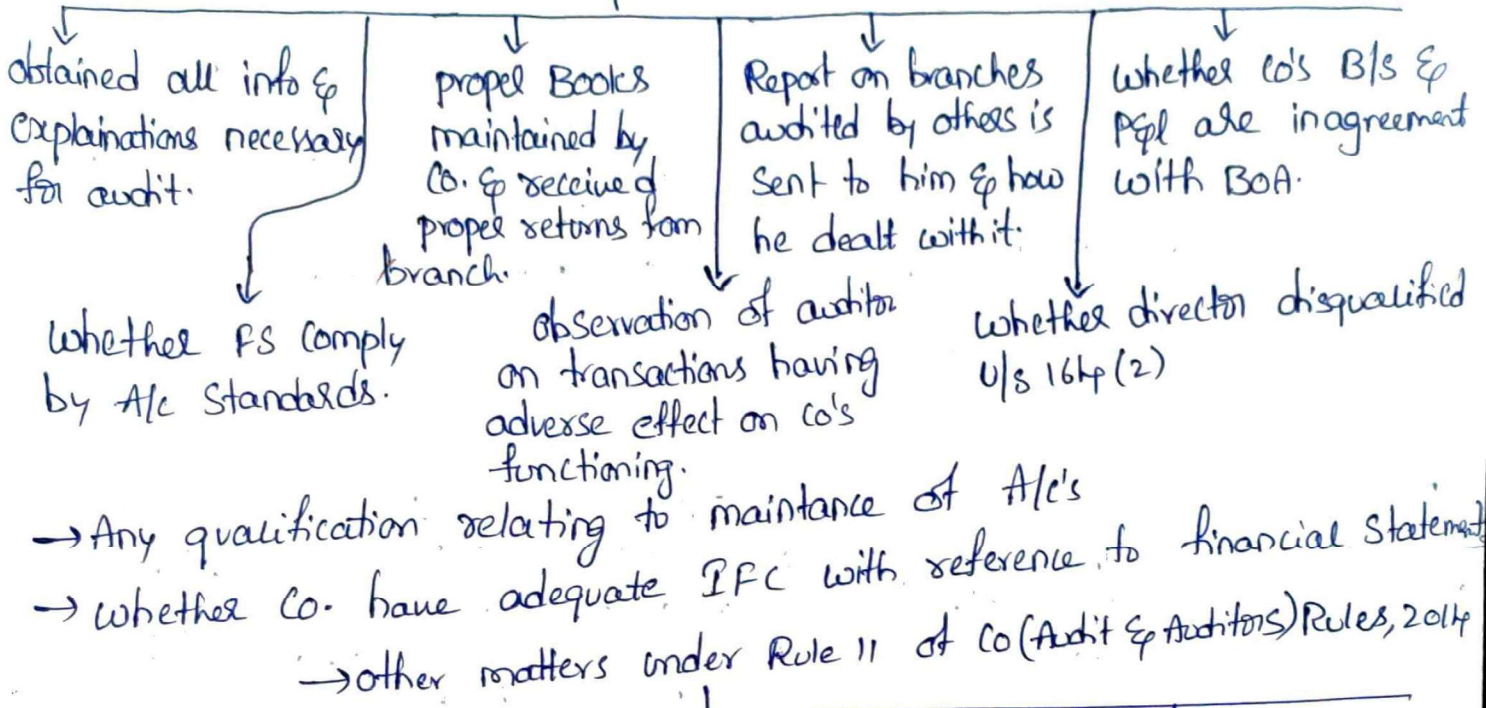
(32)

Inquire on certain matters u/s 143(1)



Duty to report u/s 114(3)

(33)



Other duties

- Duty to Sign audit report
- Duty to Comply with auditing standards.

Fraud Reporting. (34)



Amount involved < 1 crore.

Report to Audit Committee/BOD within 2 days specifying.

- nature of fraud
- Approx amount involved
- parties involved.

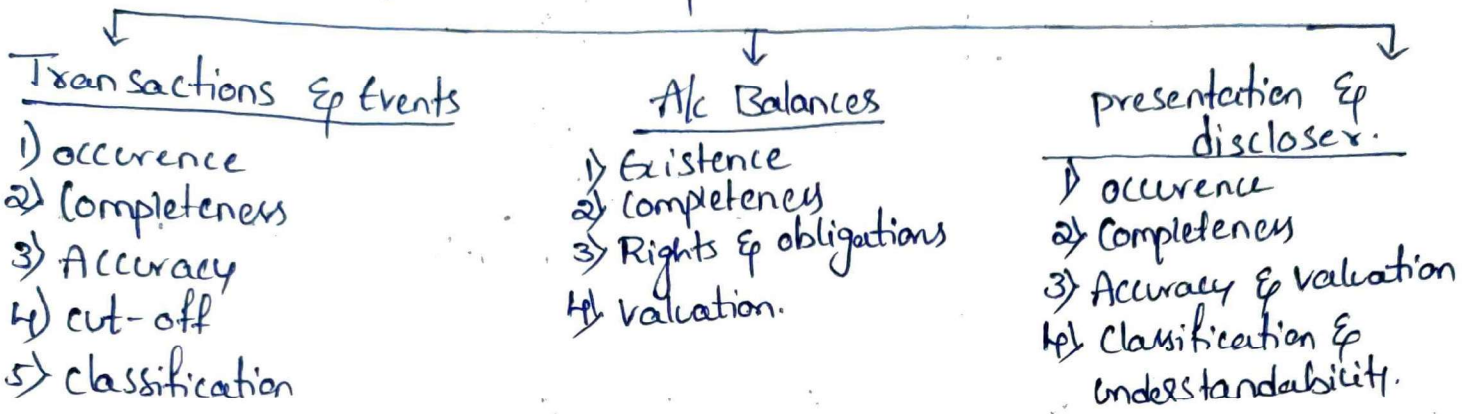
Amount involved \geq 1 crore.

- 1) Report to AC/BOD within 2 days & seek for reply within 45 days
- 2) forward his report & reply to CG within 15 days
- 3) if no reply, forward his report to CG stating no reply received.
- 4) Send report to MCA in form ADT-4 on auditors letterhead.

Chapter-4 - Materiality, Risk Assessment & Internal Control. (SA-315, 320, 330 & 450)

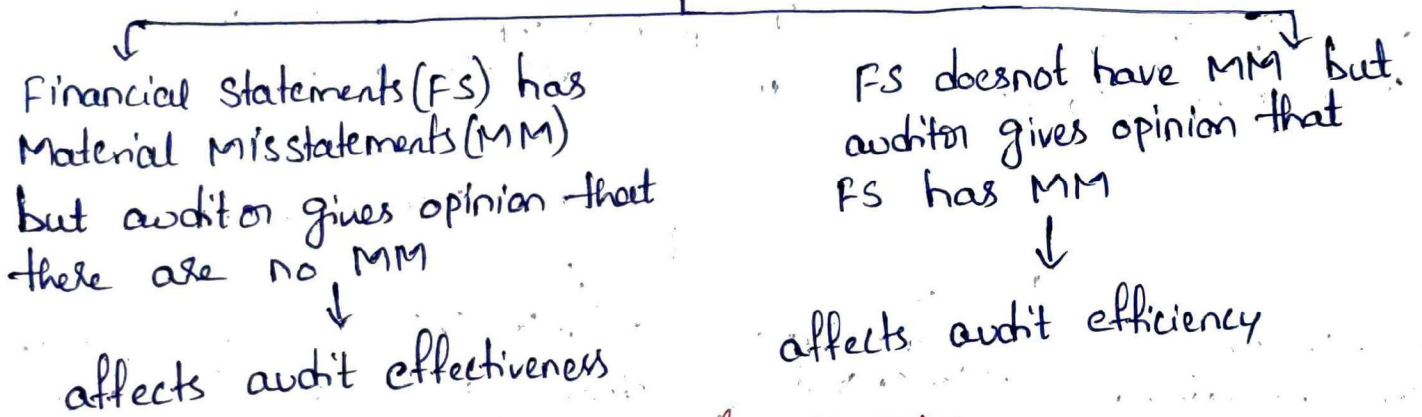
Assertions

Representations made by management

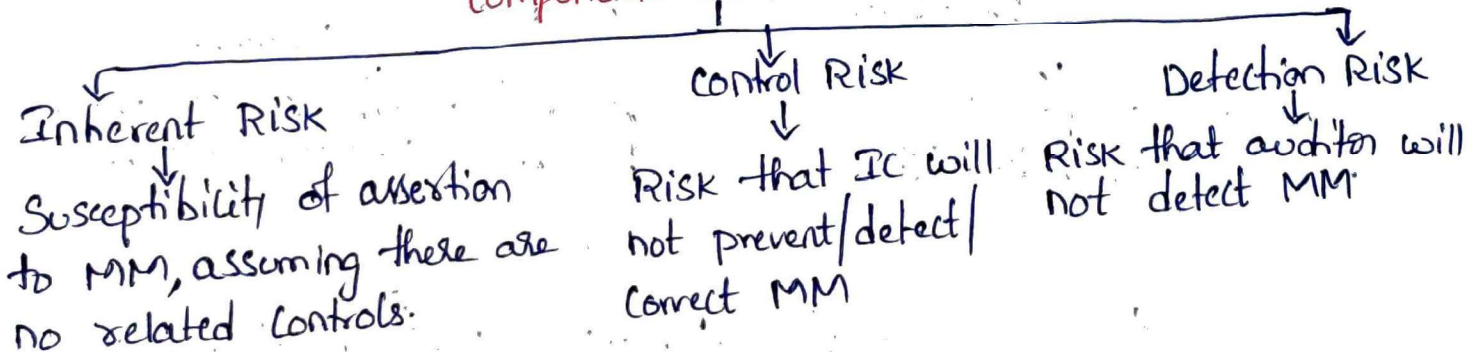


Audit Risk

Risk of expressing inappropriate audit opinion.



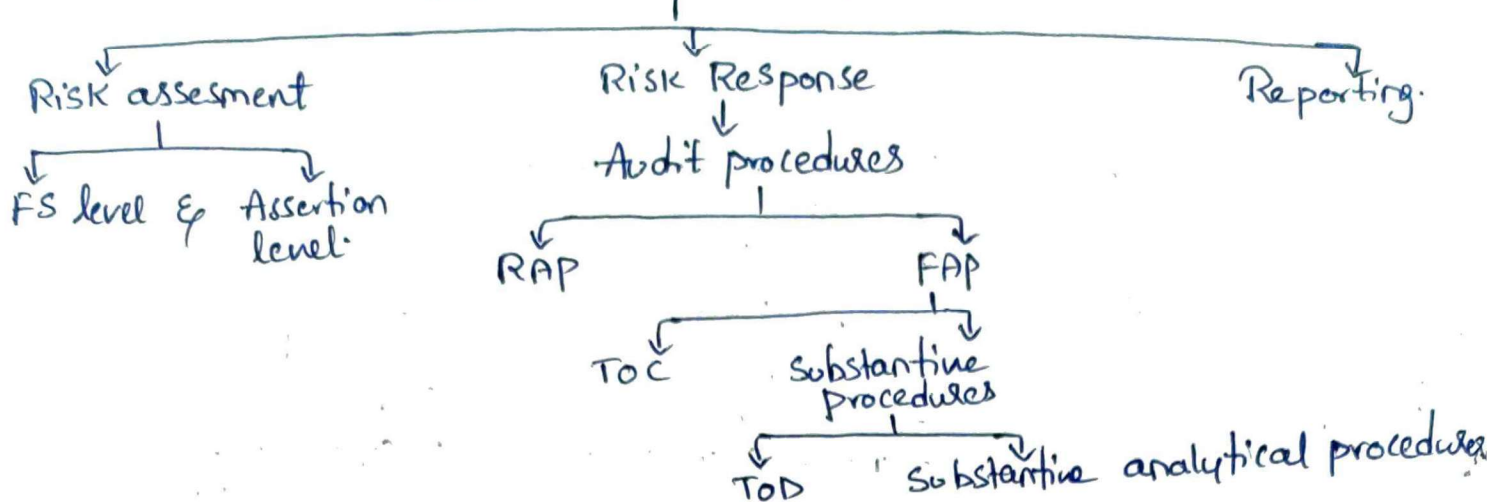
Components of Audit Risk.



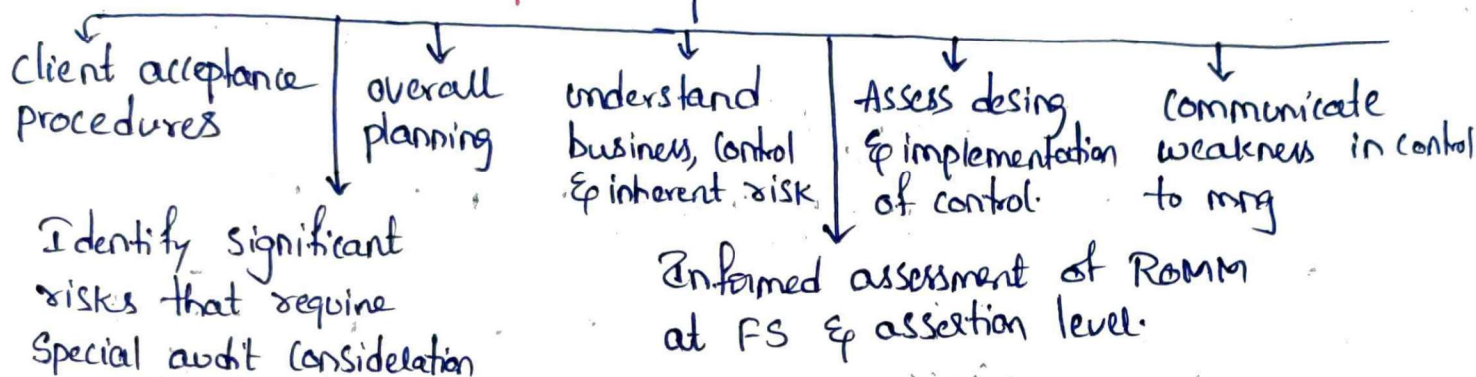
$$\text{Audit Risk} = \text{Inherent Risk} \times \text{Control Risk} \times \text{Detection Risk}$$

$$\text{Audit Risk} = \text{ROMM}$$

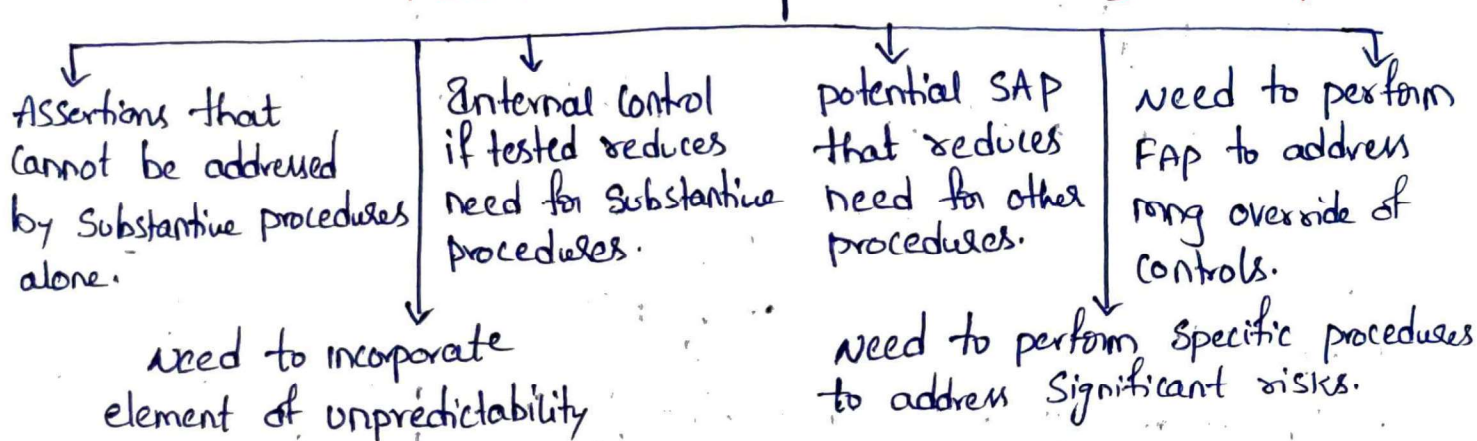
Risk based audit approach.



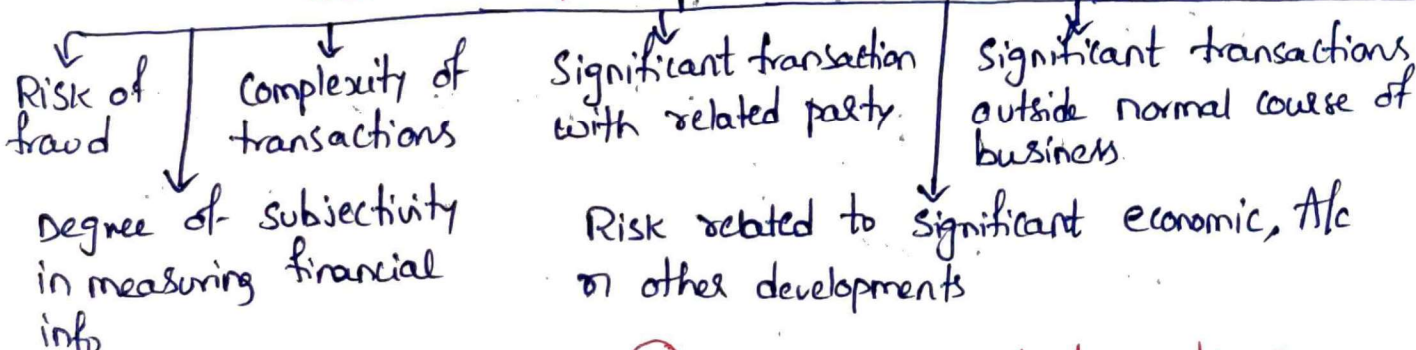
Steps in Risk assessment



Matters to be considered in planning Audit procedures

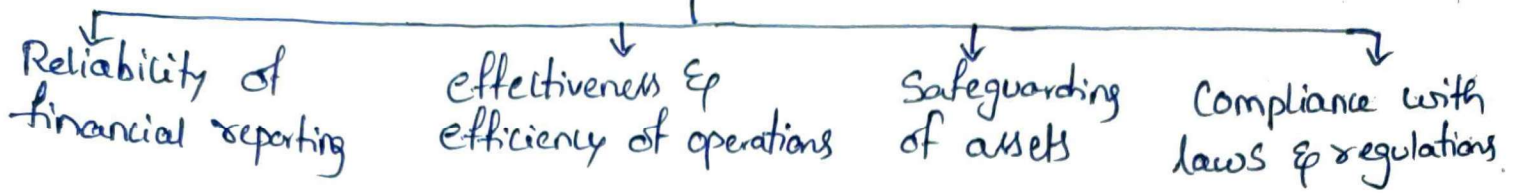


Risk that require special audit consideration

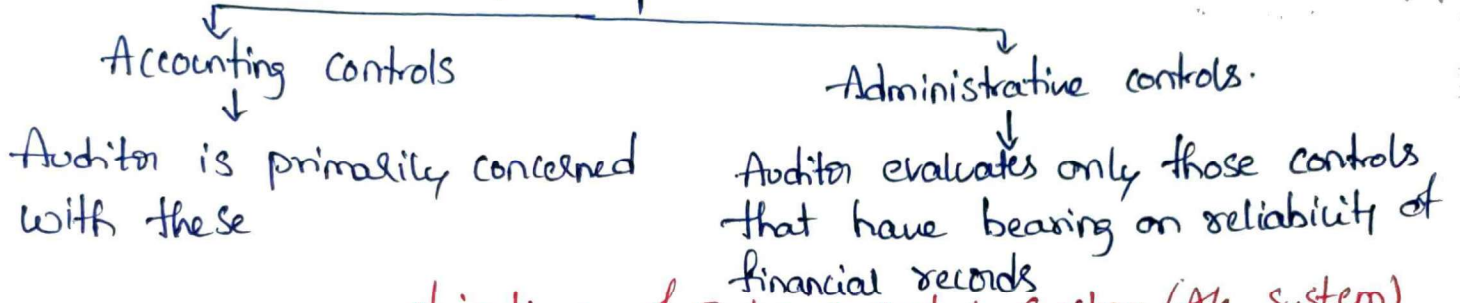


Internal Control System

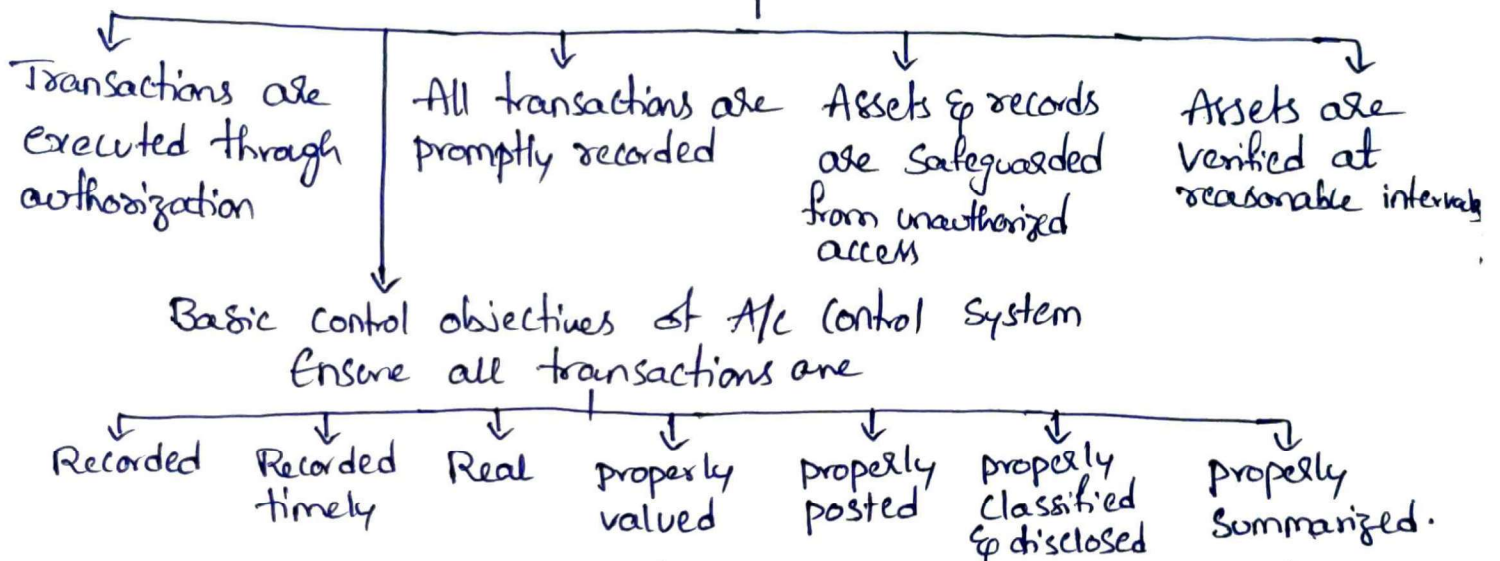
Process designed, implemented and maintained by TCW, mng & other personnel to achieve entity's objectives w-r-t



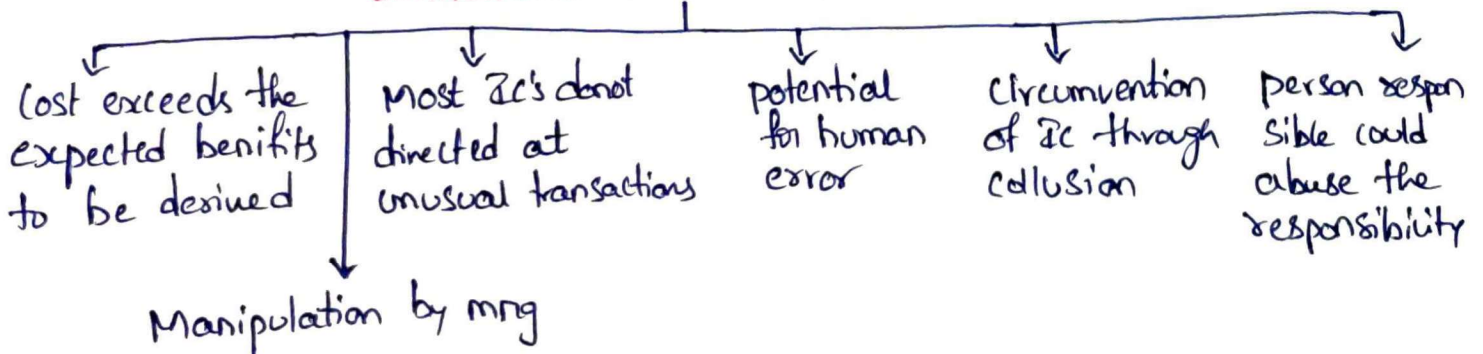
Scope of Internal Controls



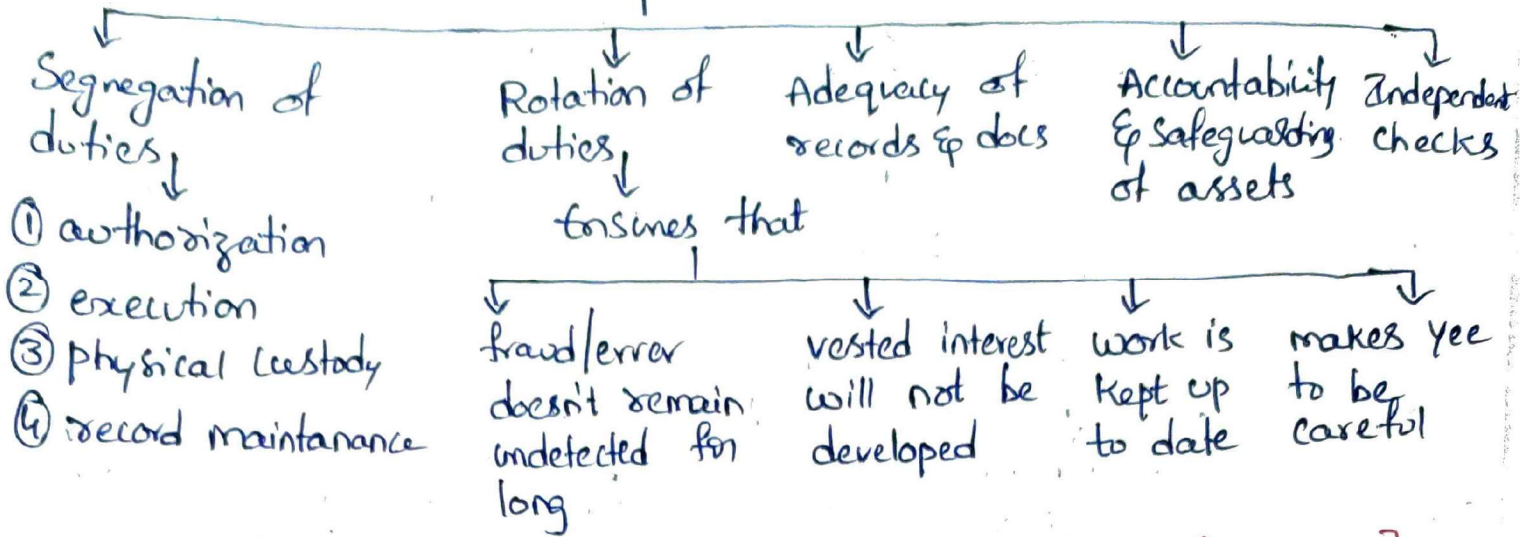
Objectives of Internal Control System (A/c system)



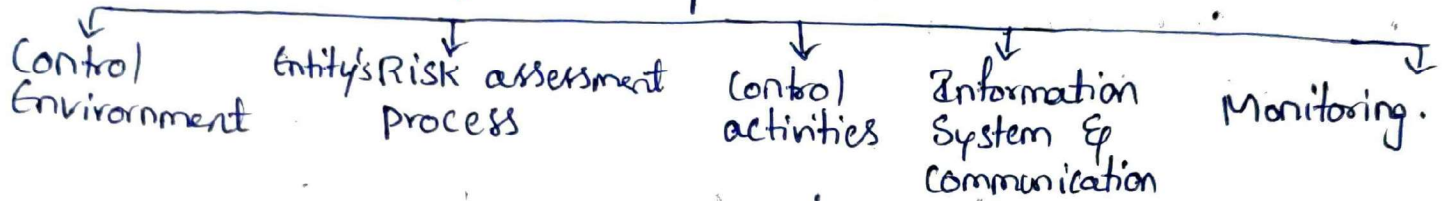
Limitations of Internal Control



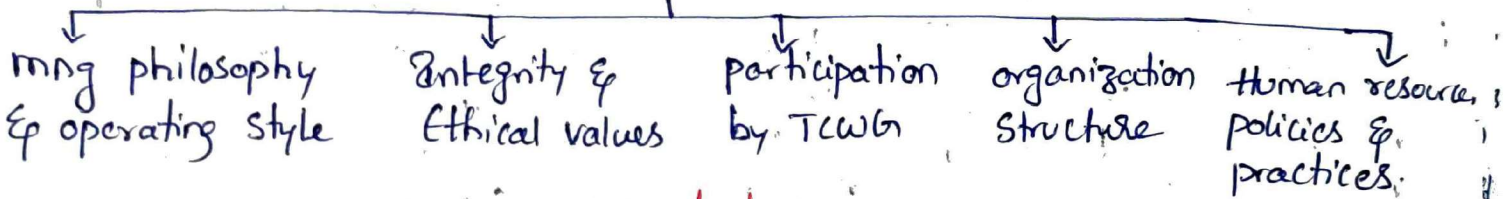
Structure of Internal Control



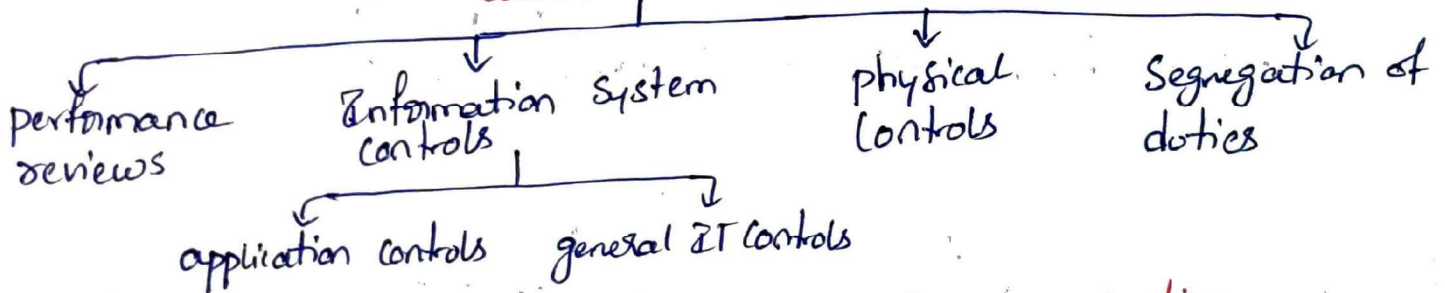
Components of Internal Control [COSO framework]



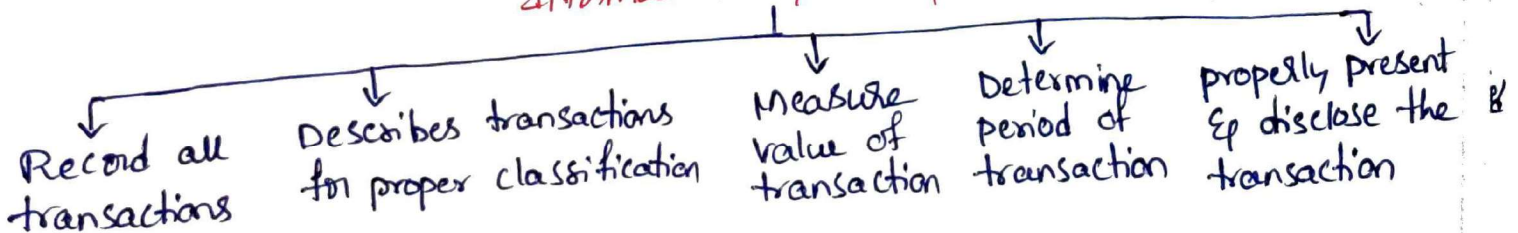
Control Environment



Control activities



Information System & Communication

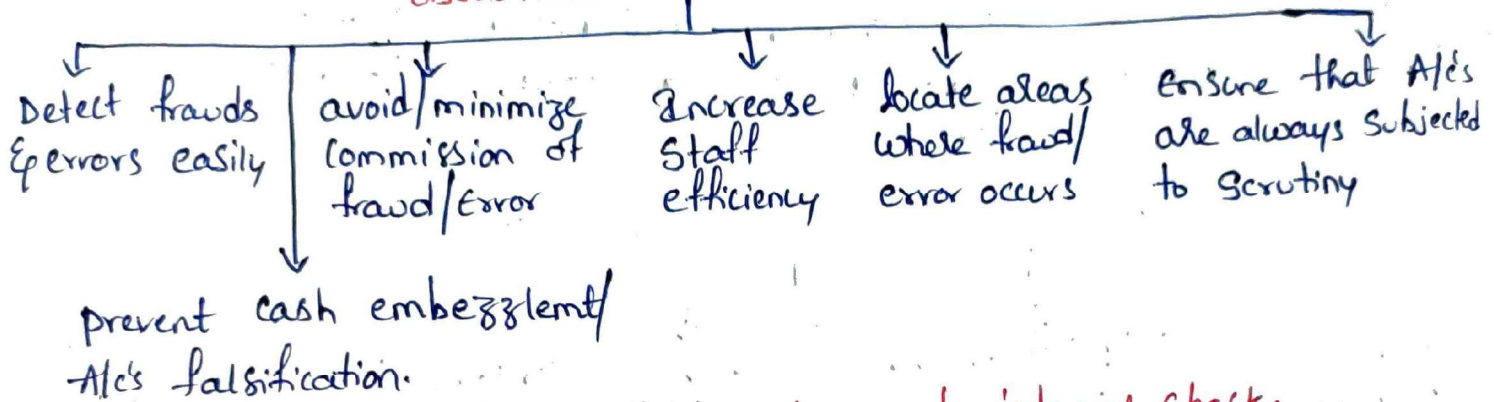


Internal Check System

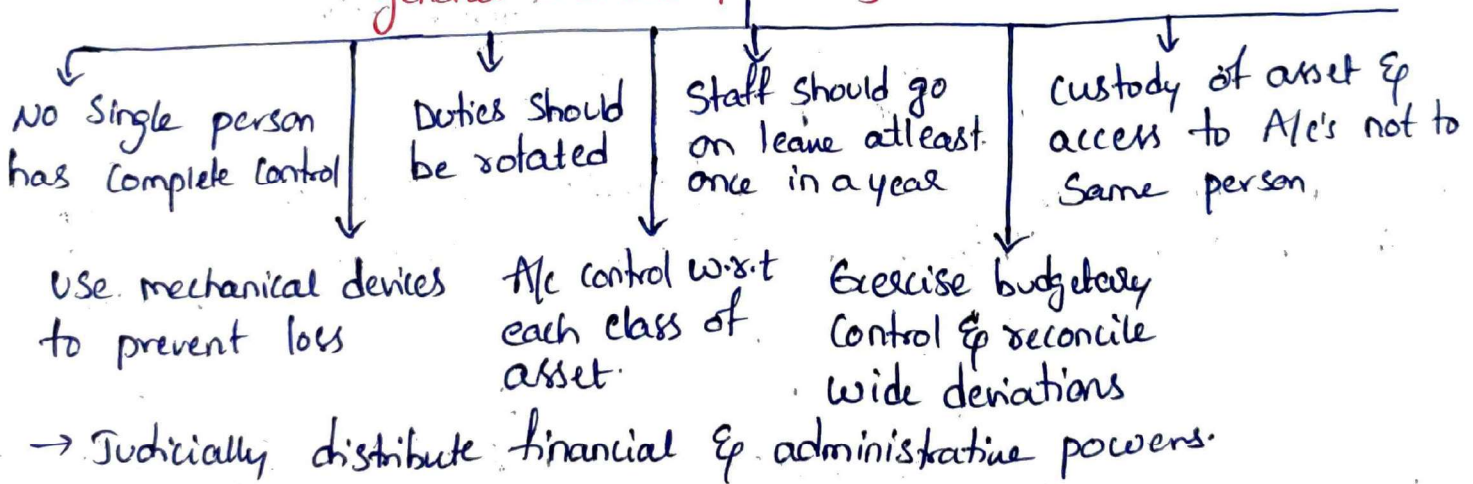
organization of book-keeping & staff duties such that no one person can carry through a transaction

work of each person is made complimentary to work of another.

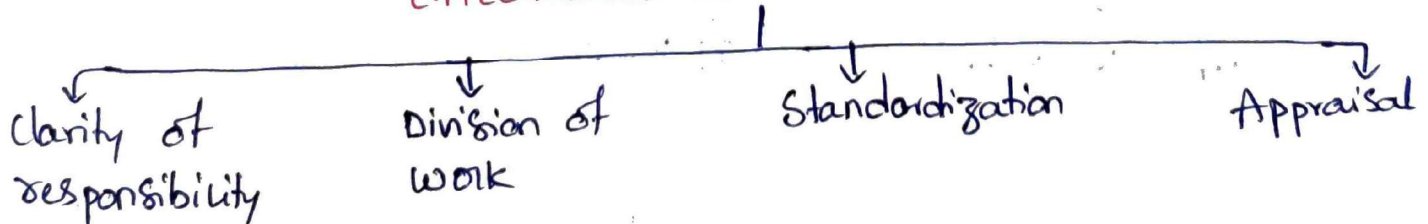
objectives of Internal Check.



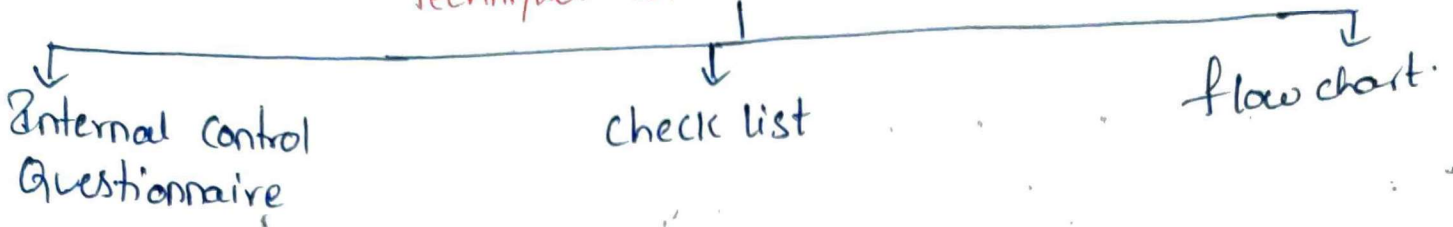
general conditions pertaining to internal check.



Effectiveness of Internal Check depends on



Techniques for evaluation of internal control.



Internal Control Questionnaire

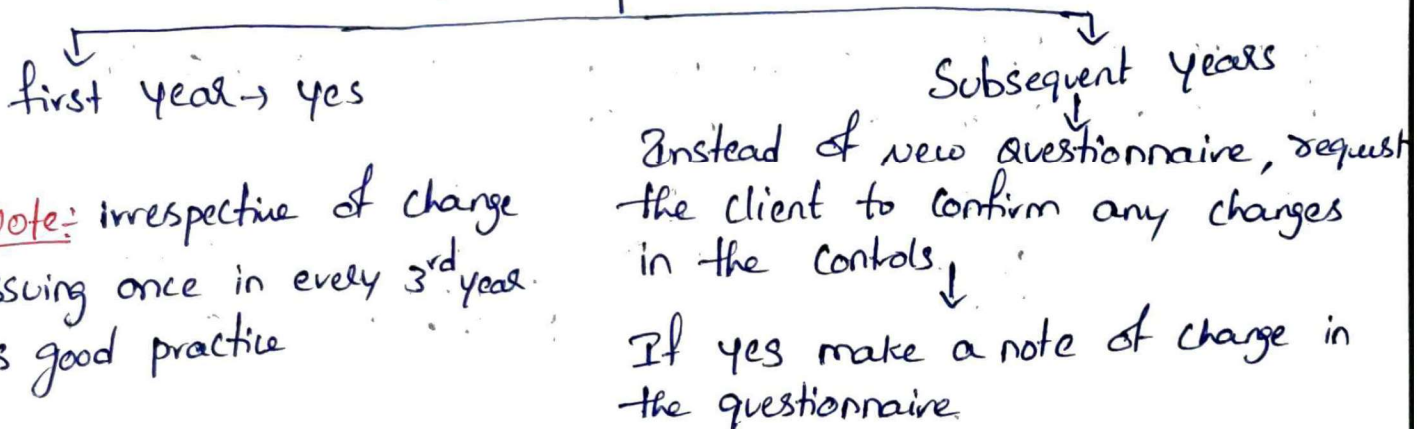
Set of questions to evaluate effectiveness of control & detect weakness

contains answers as yes, NO (or) not applicable

Indicates weakness in control.

→ Asked by auditor answered by others

necessary to issue questionnaire every year.



Note: irrespective of change issuing once in every 3rd year is good practice

Checklist

Series of instructions/questions on internal control which auditor must follow/answer

checklist

(vs)

ICQ

ICQ

(vs)

Check list

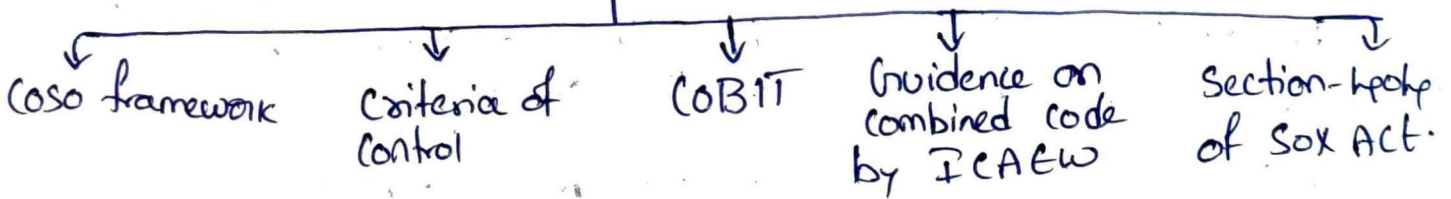
- | | |
|--|--|
| ① large no. of detailed Qns | ① Qns related to main control objective |
| ② Qns are answered by co. executives | ② To be answered by auditor |
| ③ No indicates weakness but significance of weakness is not revealed | ③ Specific statement is required as to whether weakness is material. |

Flowchart

Diagrammatical presentation of Internal controls in the organization

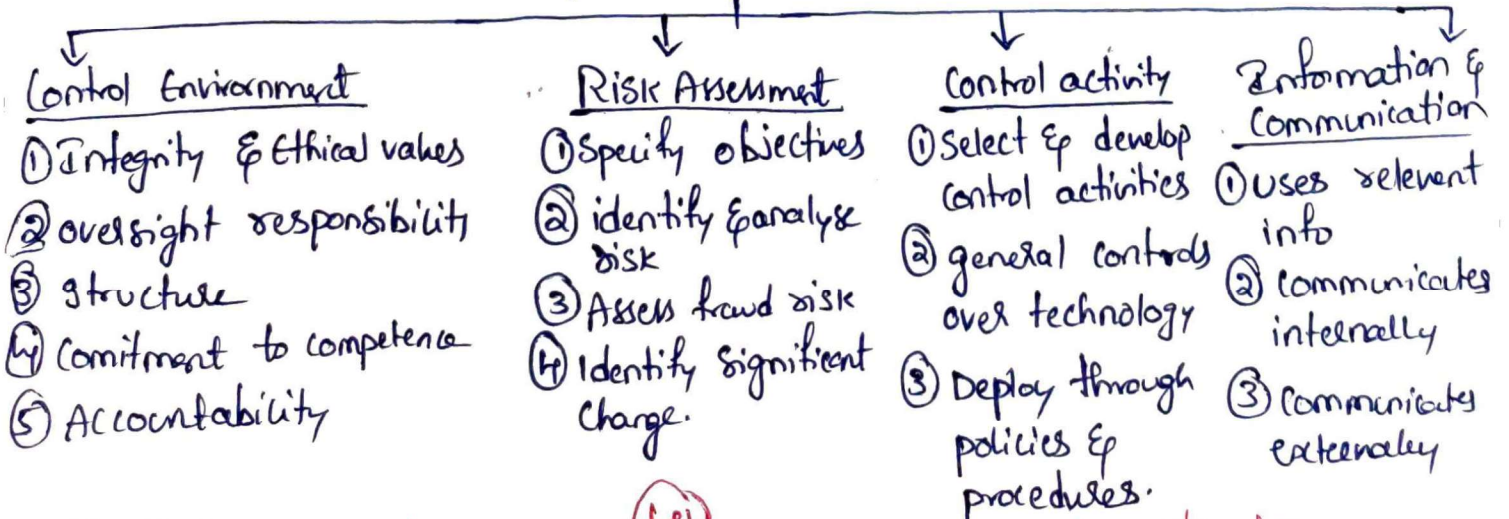
Internal control framework

Benchmark Internal control based on which organisation develops its system of Internal control.



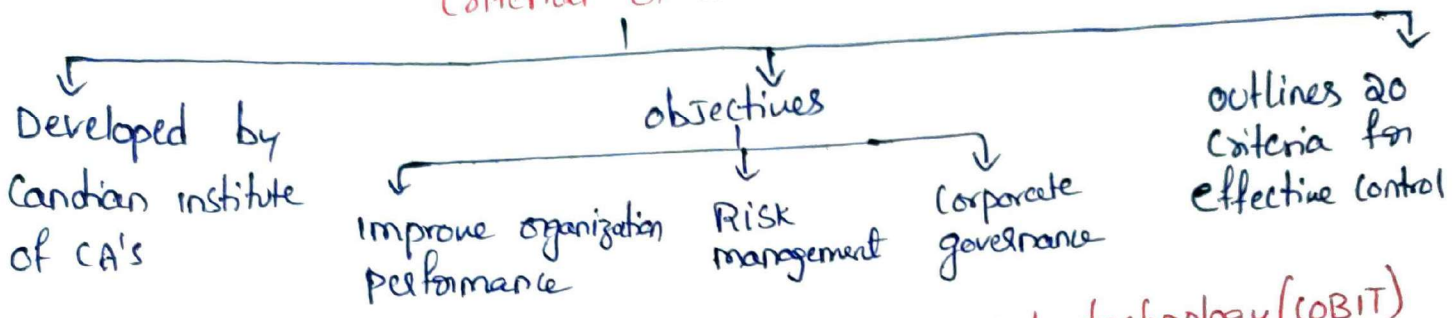
COSO framework

guidance on how to establish controls to achieve objectives
5 components & 17 principle

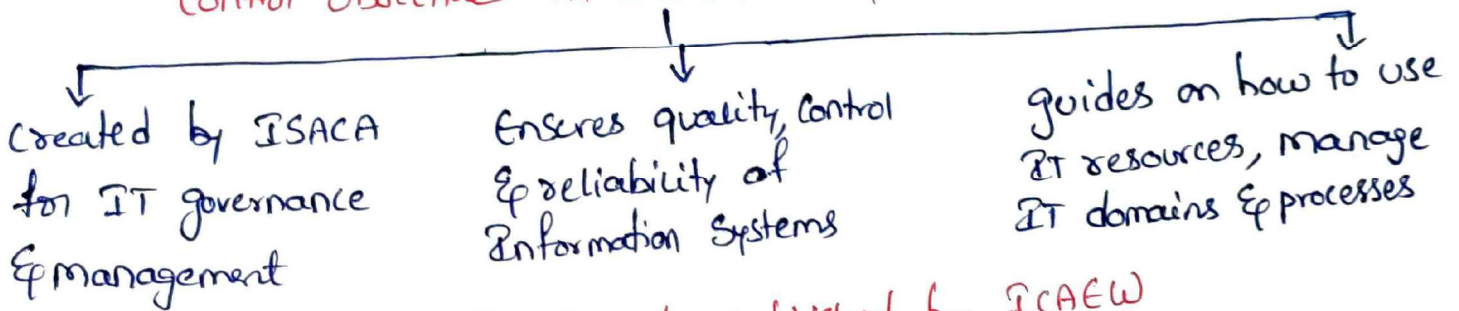


Monitoring → Conducts ongoing evaluation
 → Evaluate & communicate deficiency

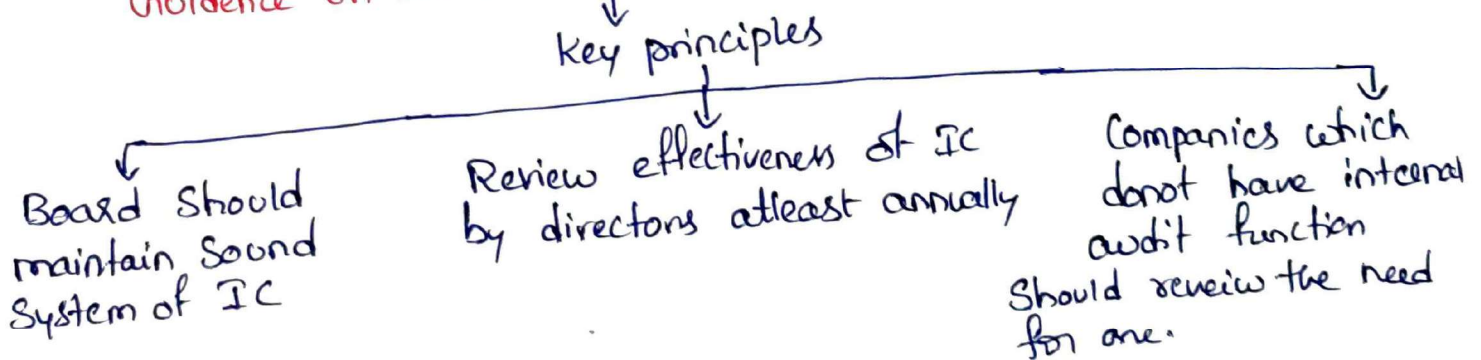
Criteria of control



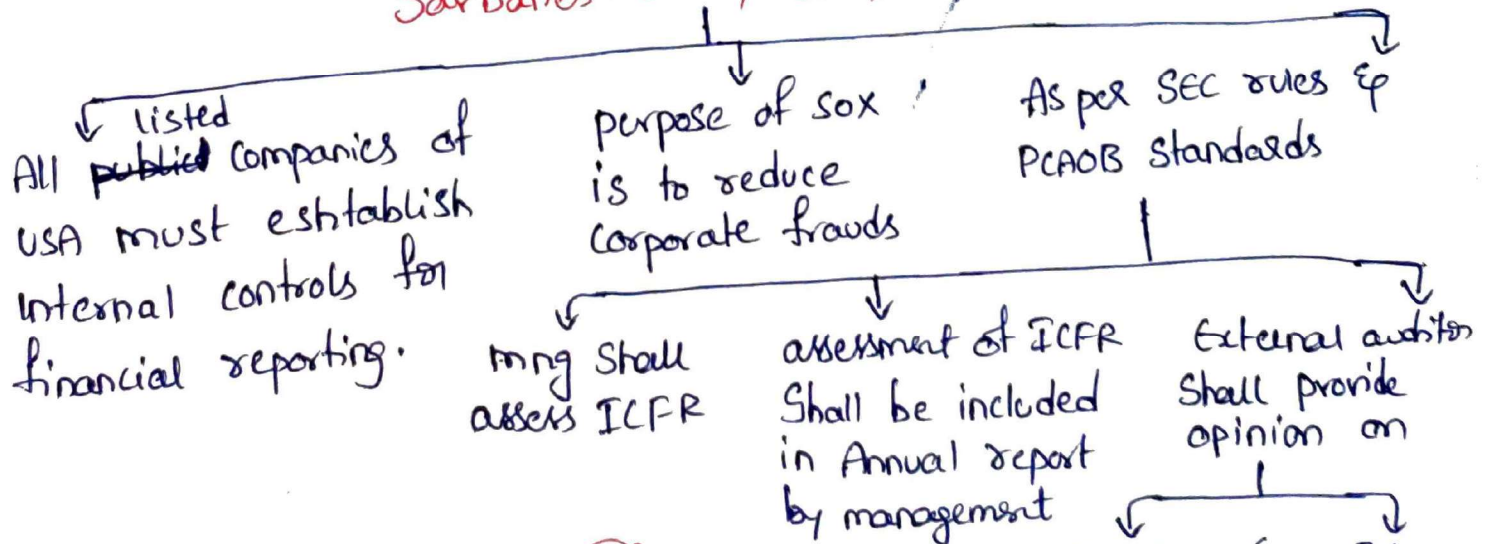
Control objectives for information & Related technology (COBIT)



Guidance on combined code published by ICAEW



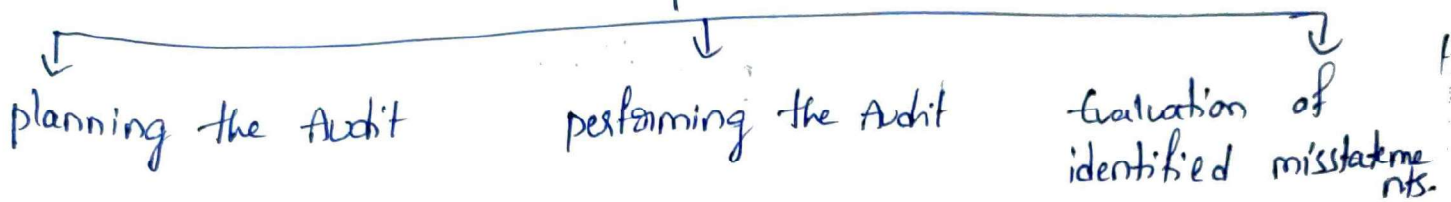
Sarbanes-Oxley Act, Sec-404



SA-320 - Materiality in ~~an~~ planning & performing an Audit.

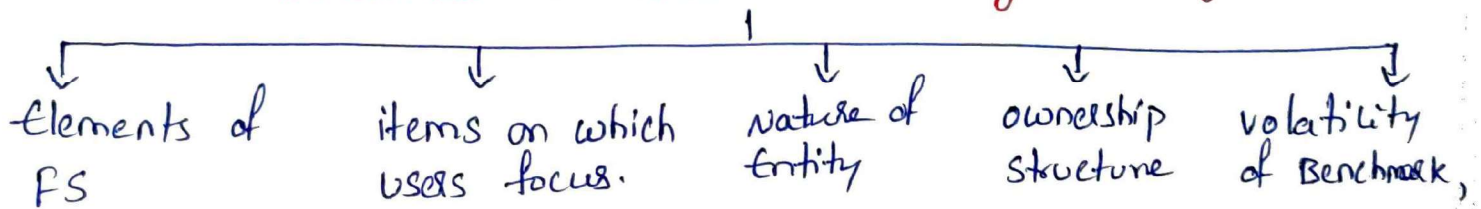
Materiality means: Misstatements that influence economic decisions of users.

Materiality is used in



$$\text{Materiality} = \text{Benchmark} \times \%$$

Determine Benchmark considering following factors.



→ % has to be determined based on PS of auditor.

Performance materiality

This is set to reduce the probability of aggregate of unconnected misstatements exceeding the materiality for FS as whole.

Note:-

- ① Materiality can be quantitative or qualitative.
- ② Materiality can be revised during the audit.

Materiality & Audit Risk.



inversely proportion.

Chapter-5

SA-500 - Audit Evidence [01/04/2009] (45)

Information used by the auditor in arriving at conclusions on which auditor's opinion is based.

Standard covers.

How to obtain Audit evidence?

By performing Audit procedures

Characteristics of Audit Evidence.

Specific procedures in case mg's expert is used.

Audit procedures.

Inspection

records, docs & assets.

observation

of process/ procedure.

Confirmation

from 3rd party

Recalculation

check mathematical accuracy.

Re-performance

Analytical procedures

Inquiry

Characteristics of Audit Evidence.

Sufficiency (Quantity)

Affected by ROMM & quality of AE

Appropriateness (Quality)

Relevance

Reliability

more reliable if

obtained from independent source

controls are effective

obtained directly by auditor

documentary form than oral

original than photocopy

~~87~~ (p6)
Using work of mng's expert.

Auditor Shall

Evaluate competence,
capability & objectivity
of that expert.

Sources of info.

- ① personal experience with previous work of expert
- ② Discussion with expert
- ③ Discussion with others familiar with work of that expert
- ④ published papers or books
- ⑤ Qualification, membership etc.

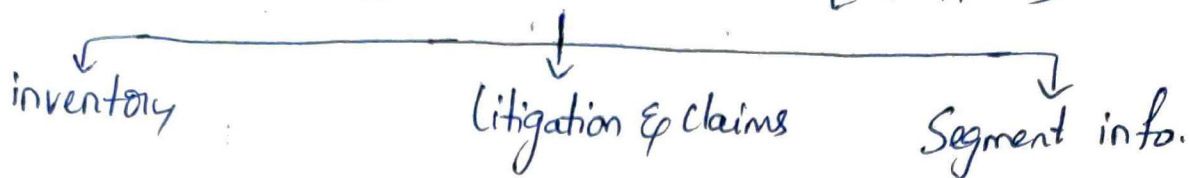
obtain understanding
of work of mng's
expert

- ① Any professional/regulatory requirements apply to his work.
- ② Assumptions & methods used.

evaluate
appropriateness
of mng expert's
work.

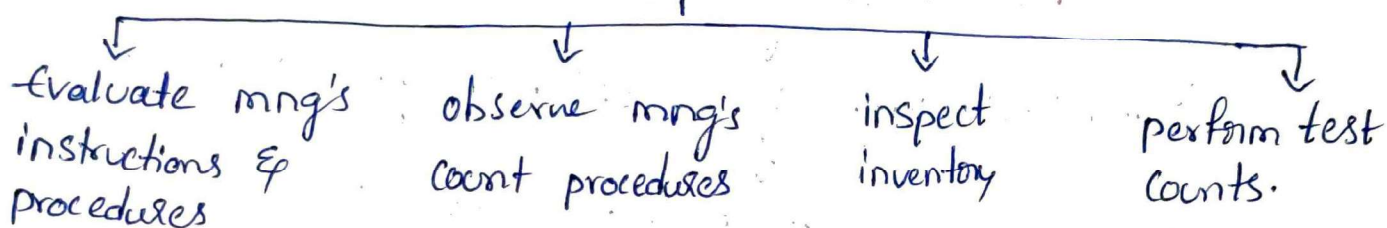
- ① Relevance & reasonableness of expert's findings
- ② Reasonableness of Assumptions & methods used
- ③ Relevance, accuracy & completeness of source data.

SA-501 - Audit Evidence - Specific consideration
for selected items. (01/04/2010)

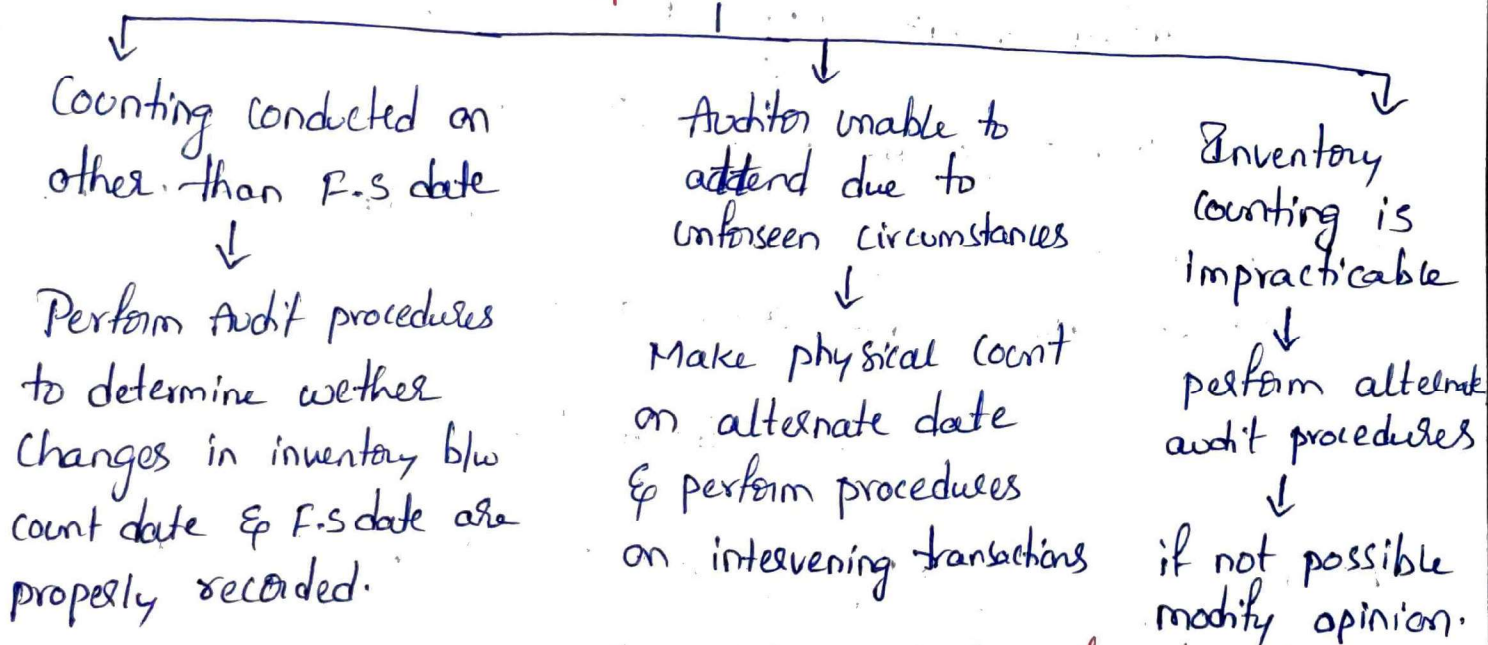


① Inventory

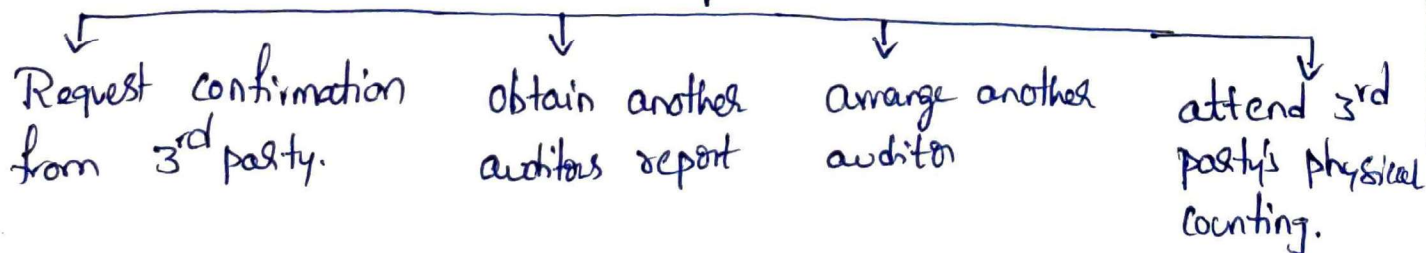
Obtain SAAE regarding existence & condition by attending physical inventory counting.



Special cases.

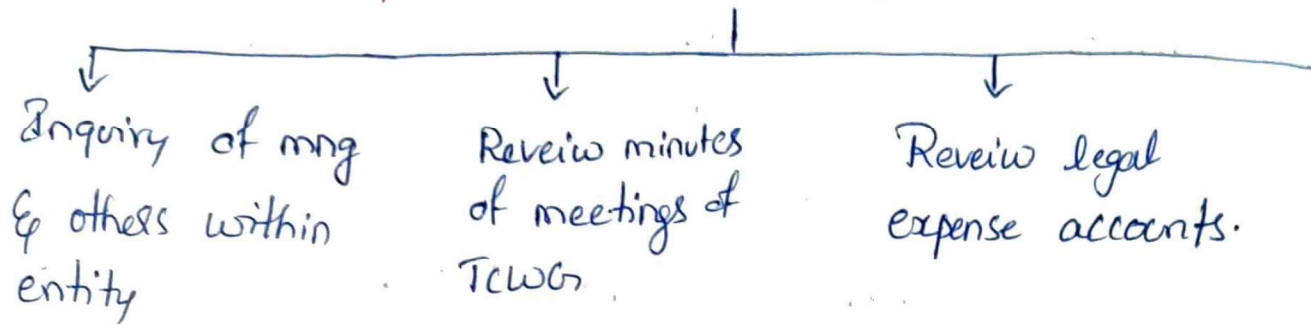


Inventory under custody of 3rd party.



Litigation & claims. ~~39~~ (48)

procedures to identify litigation & claims:



based on above auditor assesses ROMM

↓
Communicate with entity's external legal counsel.

↓
if mng refuses to permit auditor to communicate

↓
obtain audit evidence by performing alternate procedures

↓
if not possible modify the opinion.

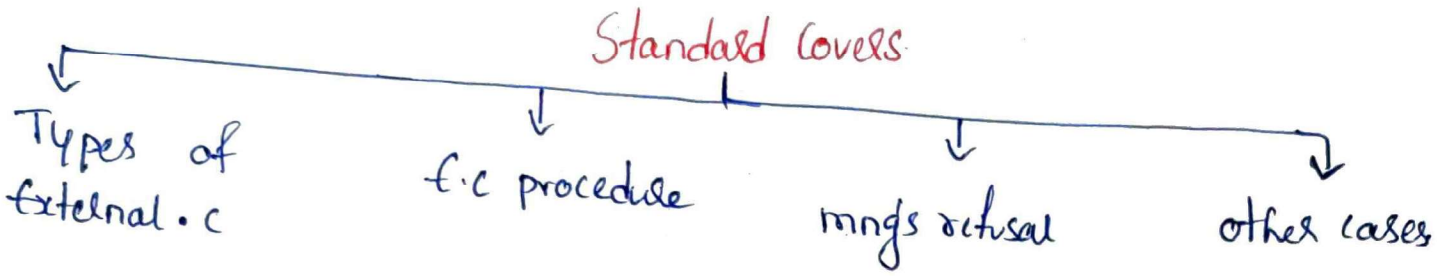
Note: obtain written representation that all known or possible litigations/claims are disclosed to auditor.

Segment information.

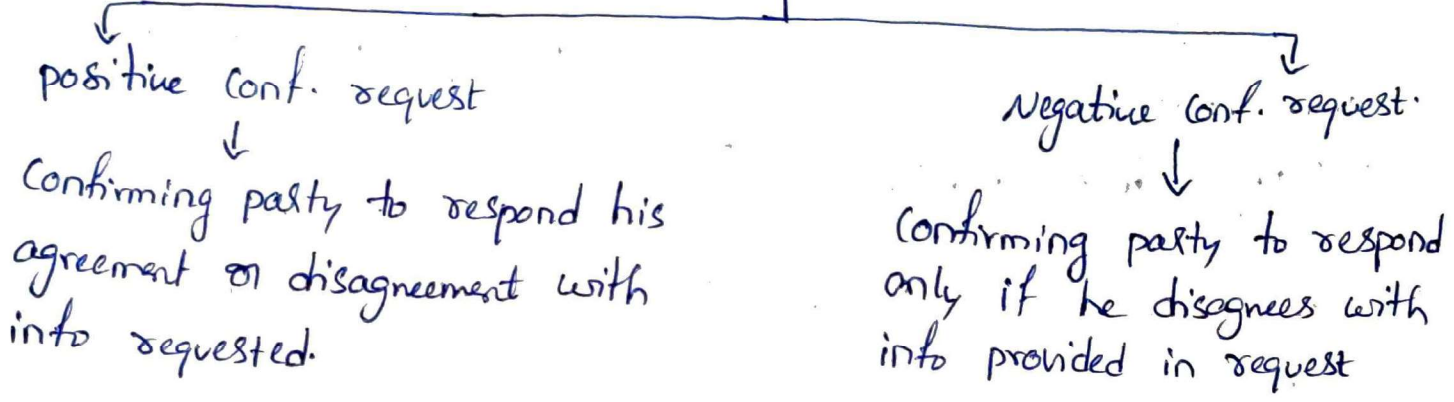
obtain SAAE regarding presentation & disclosure of segment info as per AFRFW [and AS-108 & AS-17]

SA-505 - External Confirmations.

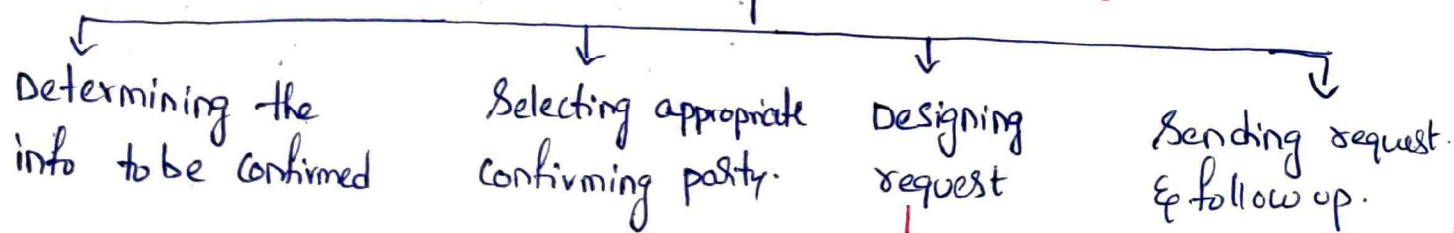
AE obtained as direct written response to auditor from 3rd party.



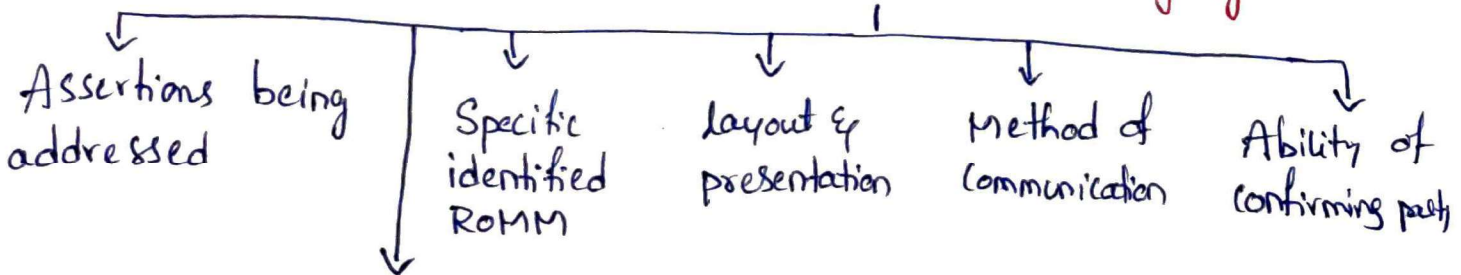
Types of confirmation requests



Auditor shall maintain control over following procedures.



Factors to be considered in designing.



mngr's authorization / encouragement to confirming party.

Mng refusal to allow ^(ppt) auditor ^(SO) to send E.C request.

↓
Inquire reasons for refusal (obtain A.C of their validity)

↓
Evaluate implication on ROMM, fraud

↓
Auditor concludes that

↓
Mng's refusal is unreasonable

↓
Communicate to TCWG & accordingly draft opinion

↓
Reasons are valid but auditor unable to obtain SAAE from Alternate procedures

←

Circumstances in which negative confirmations can be used.

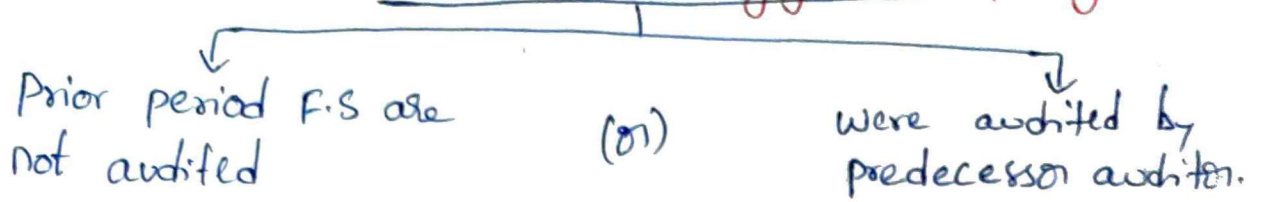
↓
low ROMM

↓
low exception rate expected

↓
large no. of small homogeneous A/c balances.

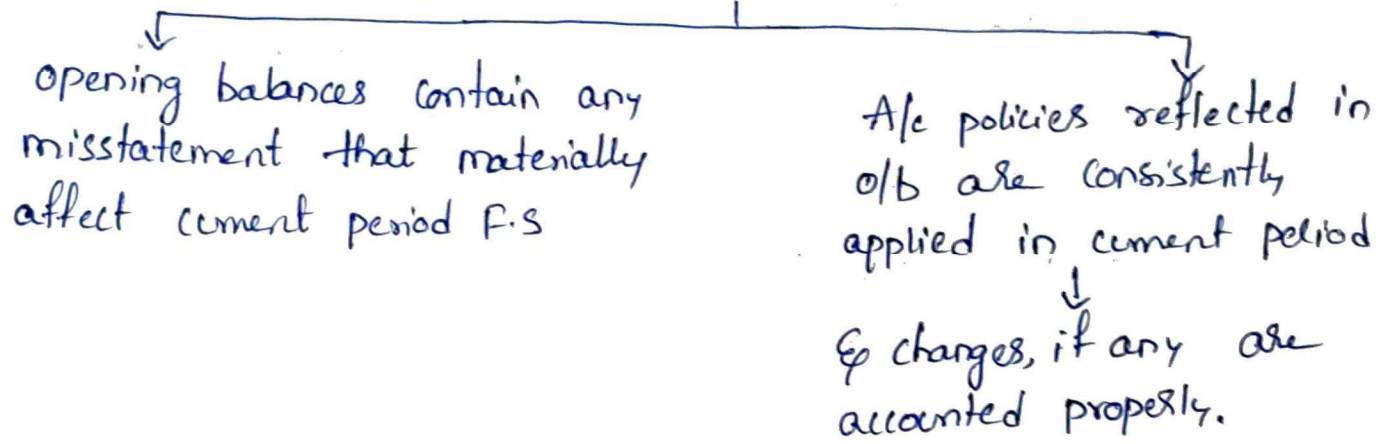
↓
Auditor not aware of circumstance that 3rd party disregards such requests.

SA-510 - Initial Audit Engagements - opening balances

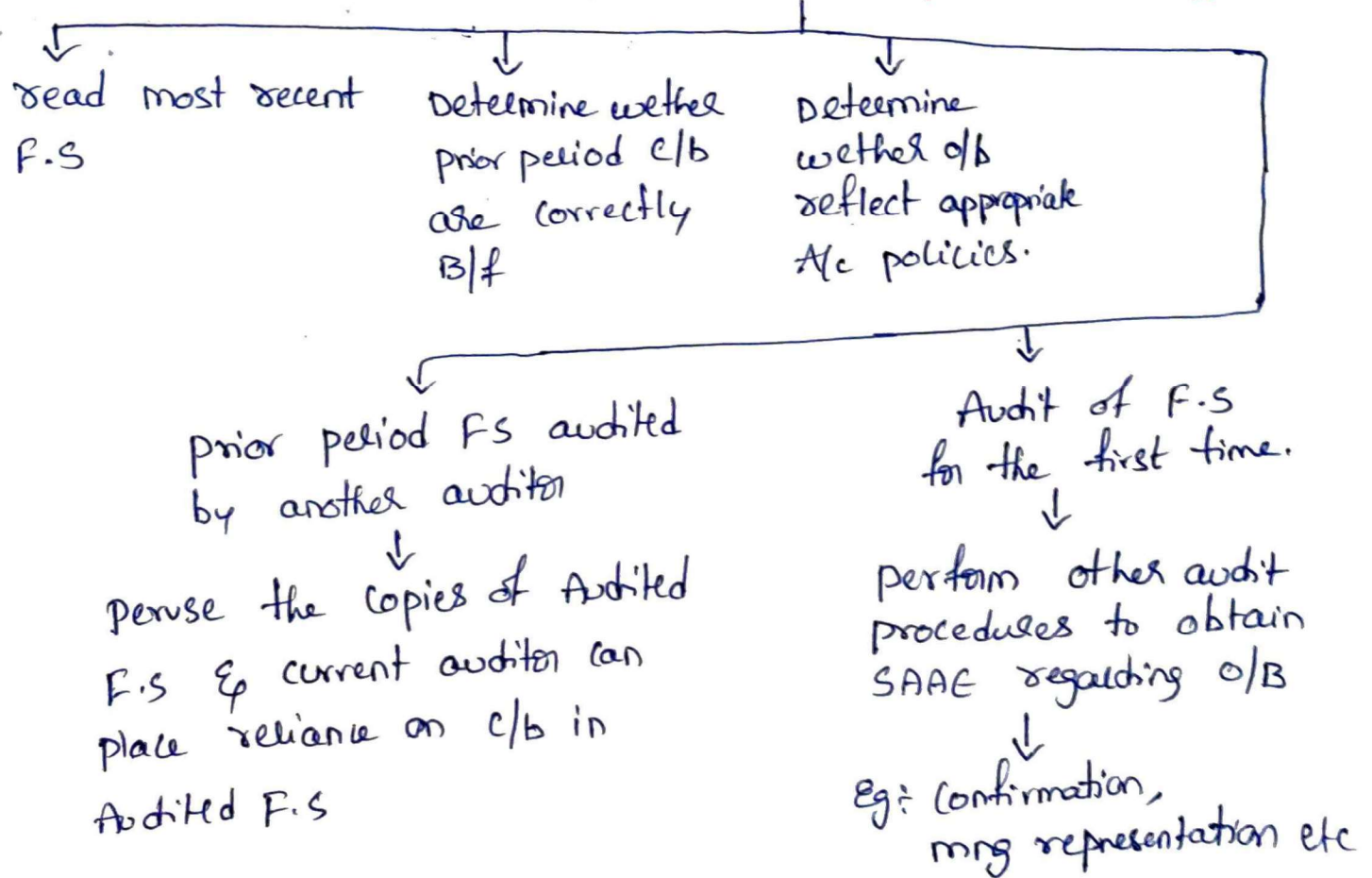


objective as per this standard.

obtain SAAE about whether



Audit procedures in respect of opening bal



(43) (52)
Audit reporting.

Auditor concludes that O/B contain misstatements & effect is not properly accounted for

(or)

A/c policies are not applied consistently



Qualified or adverse

Auditor is unable to obtain SAAE regarding O/B



Qualified or disclaimer.

Note: predecessor Auditor's opinion includes modification.



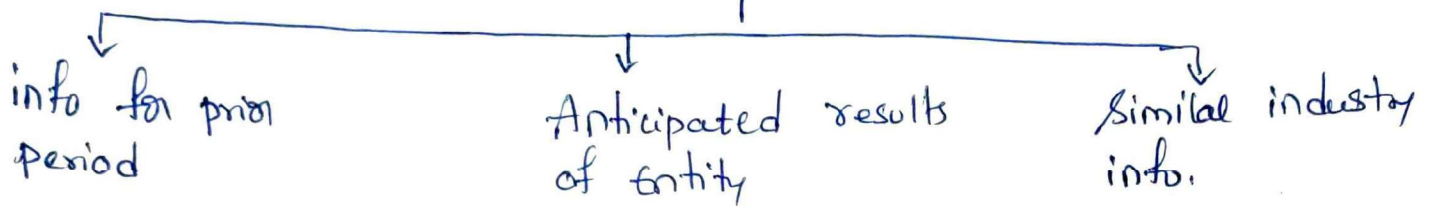
Remains material & relevant to current period



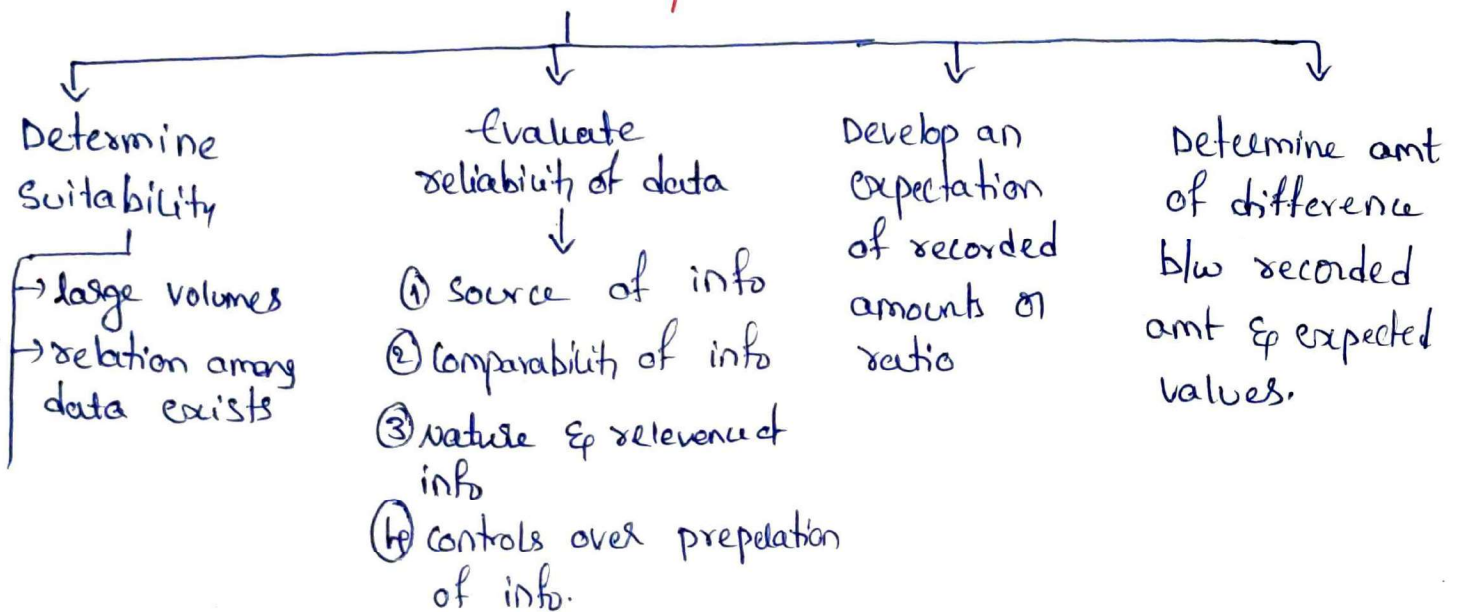
Modify current period opinion also.

Analysis of plausible relationship among financial & non-financial data.

Involves comparison of entity's financial info with.



Process of SAP/How SAP performed?



Auditor shall investigate the differences by

→ inquiring with management

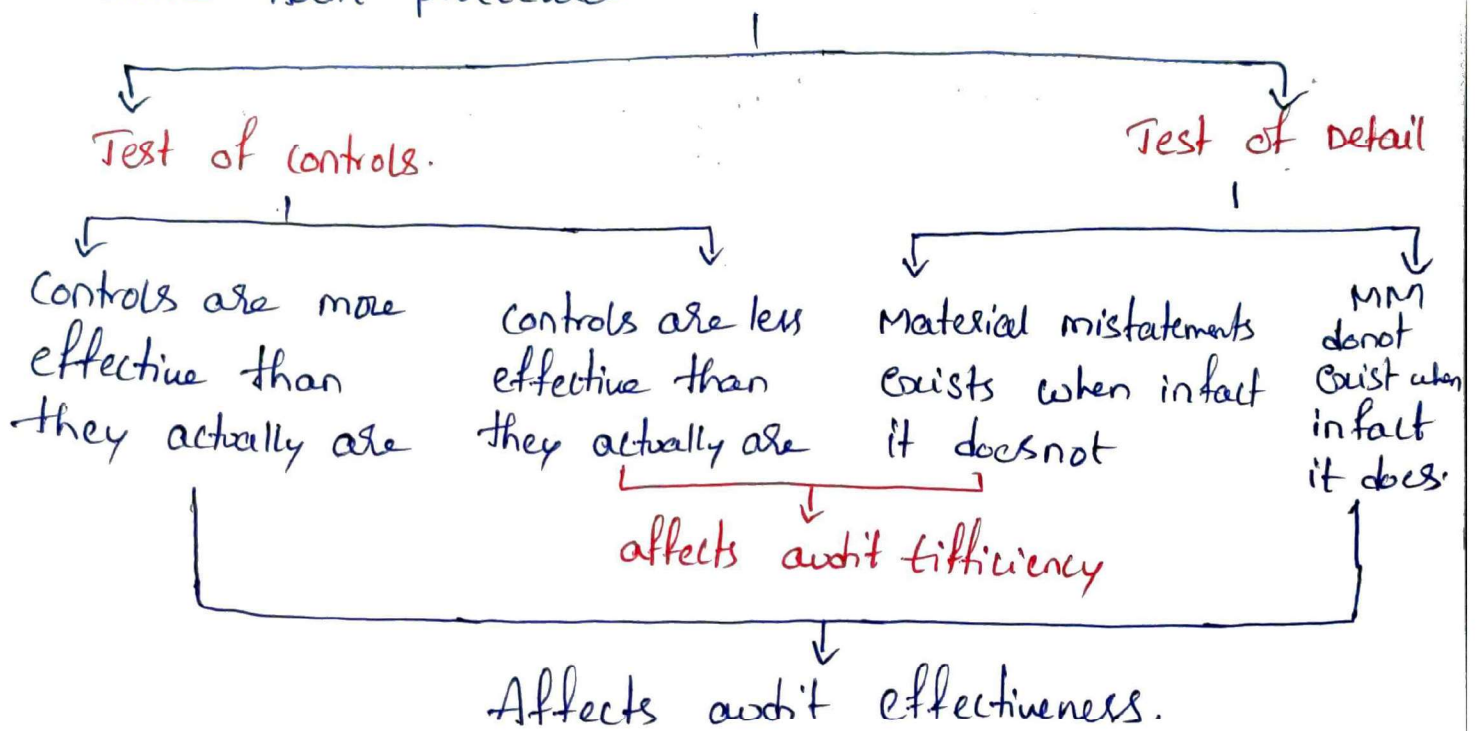
→ performing other audit procedures.

SA-530 - Audit Sampling. (4rs) (5hp)

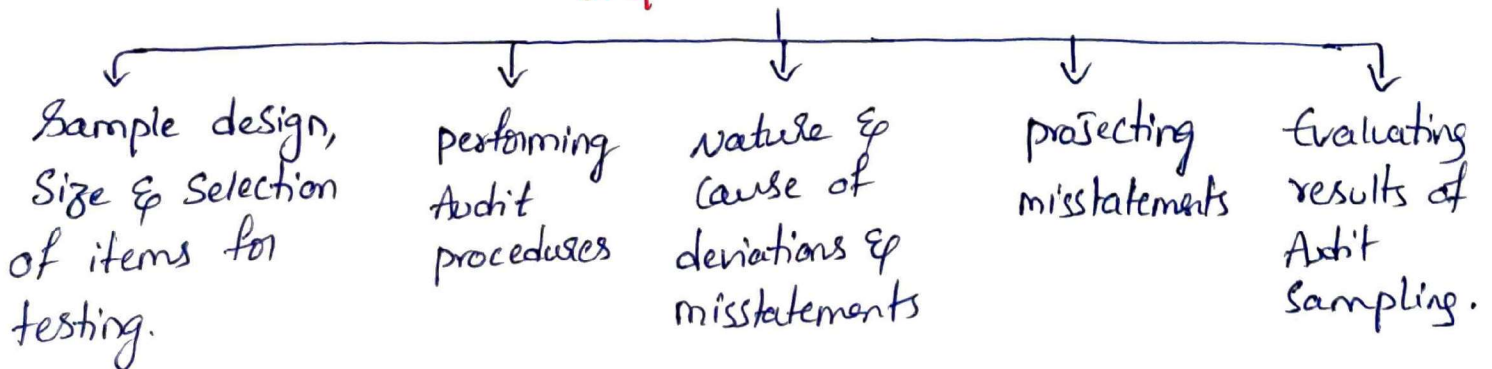
Application of Audit procedures to $< 100\%$ of population.

Sampling risk

Risk that auditors conclusions based on sample may be different from conclusions if entire population were subjected to same Audit procedures.



Steps in Audit Sampling.



Sample design

↓
Consider purpose of
audit procedure &
characteristics of
population.

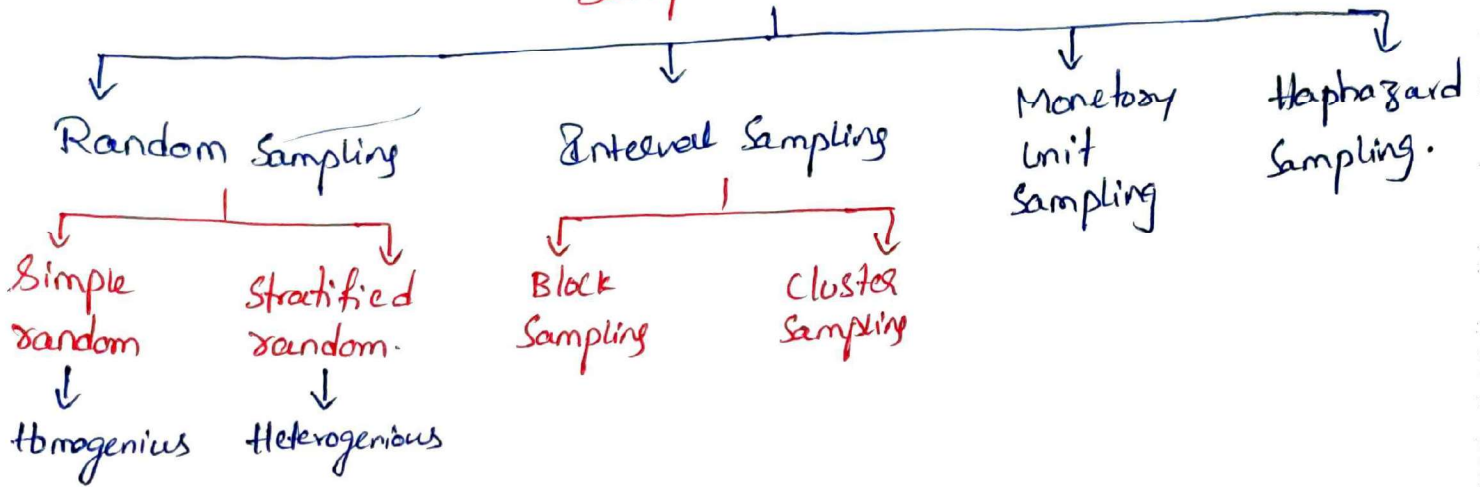
(46) (55)
Sample Size.

↓
Sufficient to reduce
Sample risk.

Sampling unit
Selection.

↓
Each sampling
unit in population
has chance of
selection.

Sample Selection methods

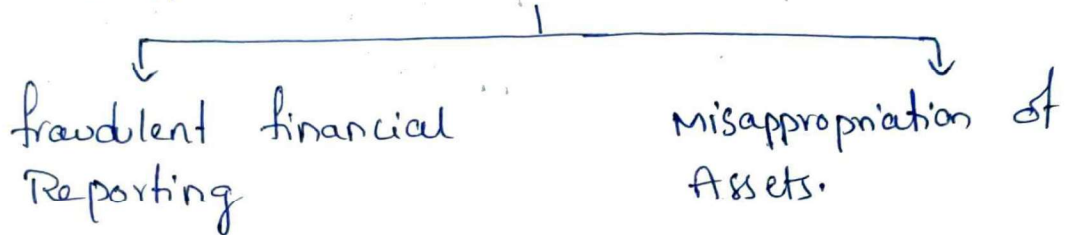


Chapter-6 (56) SA-240 - Auditors responsibilities relating to fraud in an audit of financial statements.

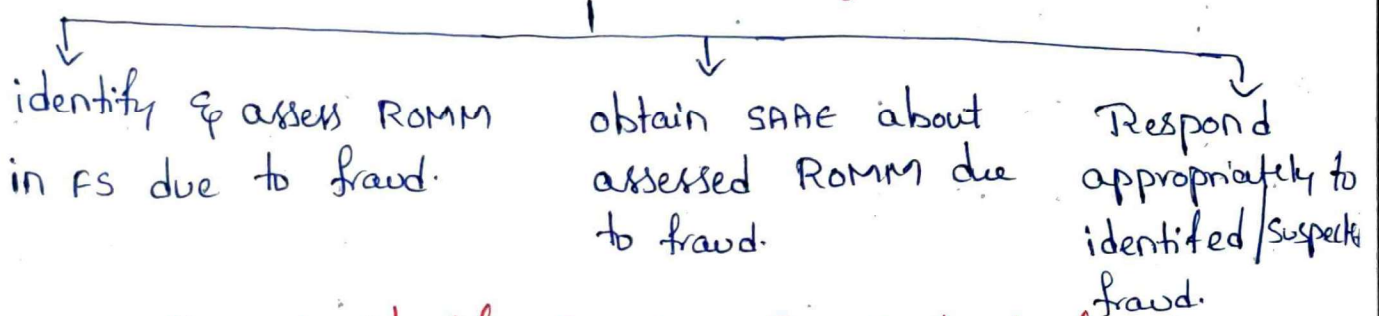
① fraud (vs) ERROR
 ↓ ↓
 intentional unintentional.

② Primary responsibility to prevent & detect fraud
 ↓ ↓
 Mng & TCWn

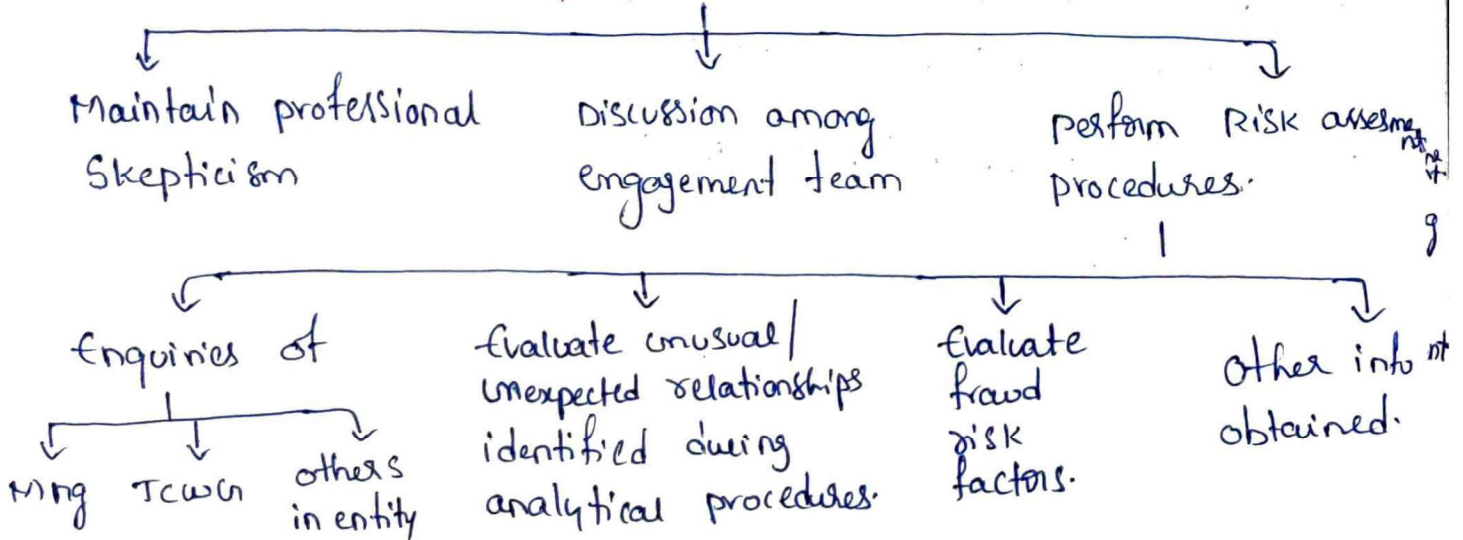
③ Types of frauds auditor is concerned with



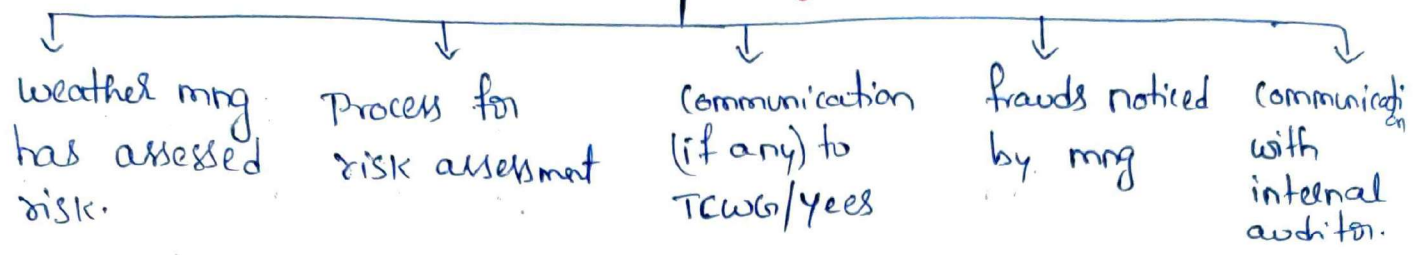
Responsibility of auditor relating to fraud.



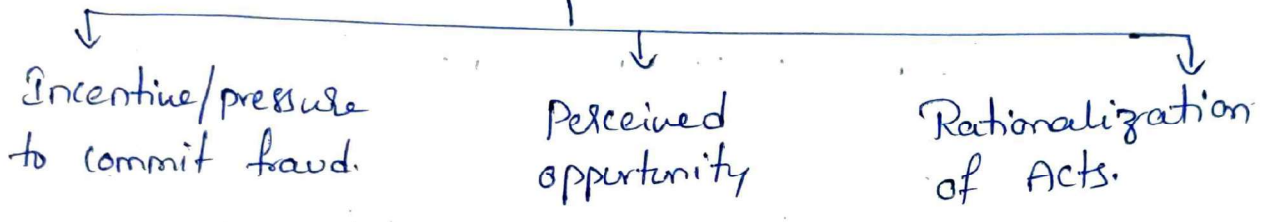
How to identify & assess ROMM due to fraud.



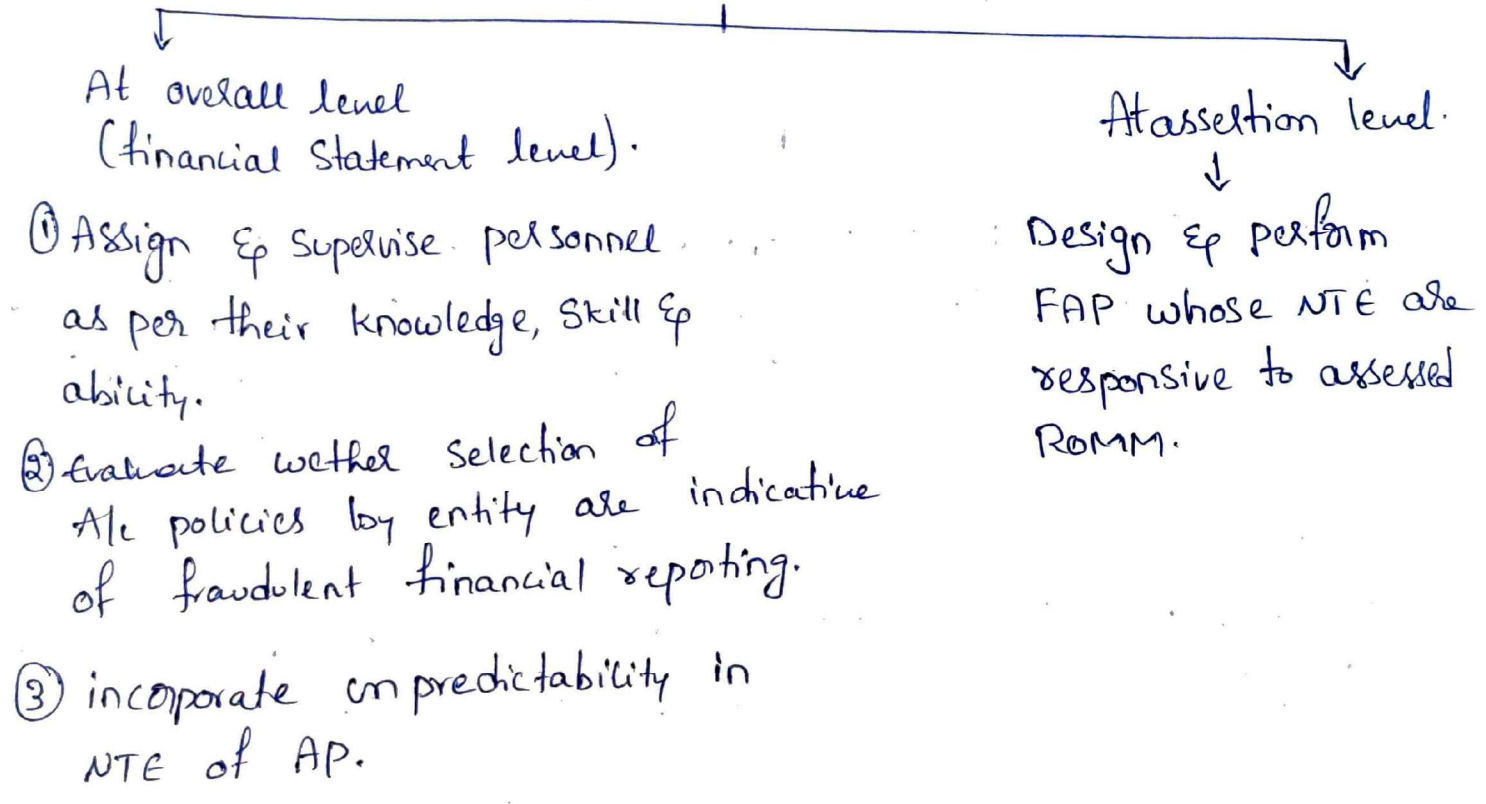
Enquiries of management involves.



fraud risk factors



Response to assessed Risk.



Response to risk related to ~~13~~ 58 mng override of control.

irrespective of auditors assessment of risk of mng override of control auditor shall

Test appropriateness of Journal entries.

Review accounting estimates & judgements

Evaluate significant transacts outside normal course of business.

- Make enquiries of individuals involved in financial reporting
- Select Journal entries made at end of year.
- Consider need to test Journal entries throughout the year.

Evaluation of Audit Evidence.

evaluate whether analytical procedure consistent with understanding of entity & whether there is any previously unrecognized ROMM

When misstatement is identified

whether indicative of fraud.

evaluate impact on other aspects.

Re-evaluate assessment of ROMM & its impact on NTE of AP.

Auditor unable to continue AE

Determine legal/prof responsibility to report to the person who made appointment.

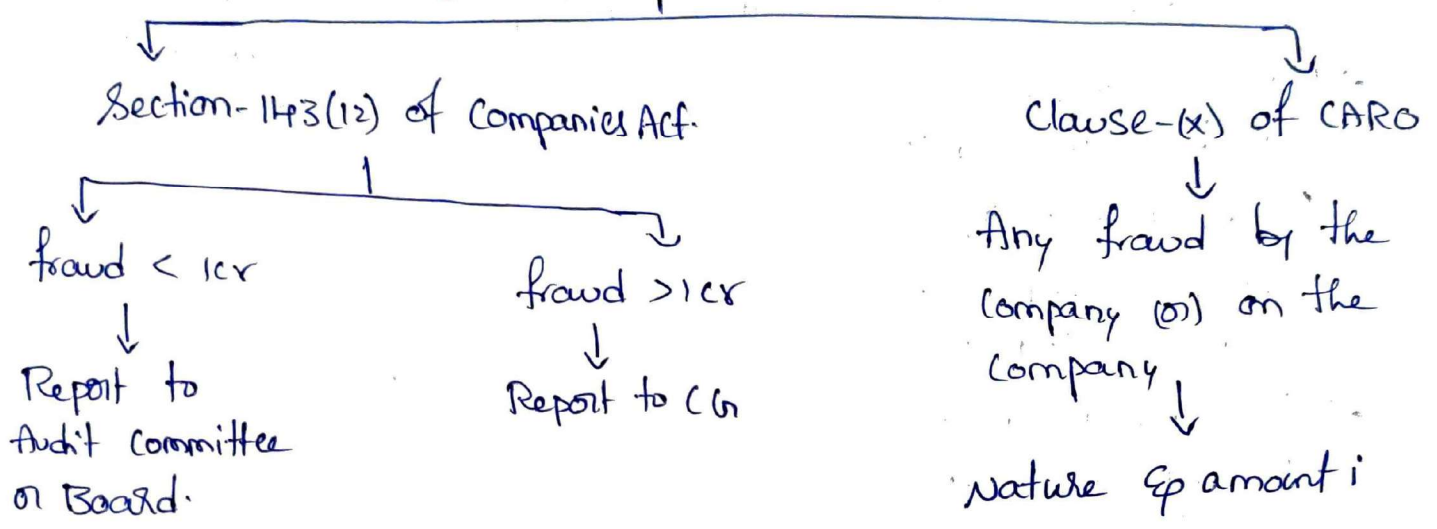
Consider whether it is appropriate to withdraw from engagement.

if auditor withdraws

- ① Discuss with mng & TCW the reasons for withdrawal
- ② legal/prof responsibility to persons who made appointment

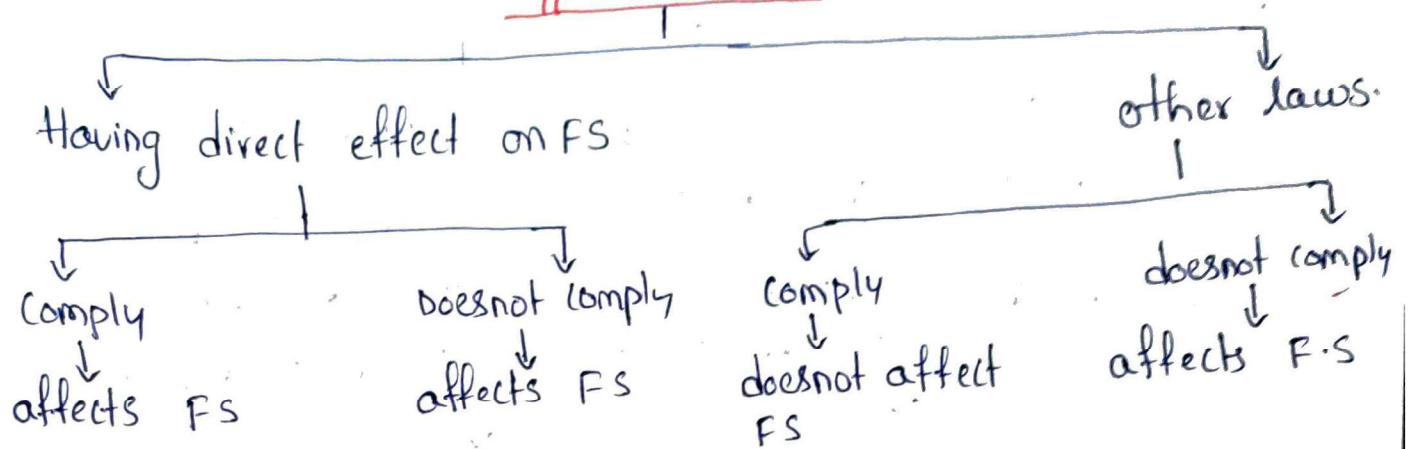
Communication to Mng/TCWGr } Auditor has identified a fraud or indications of fraud.

Regulatory requirement

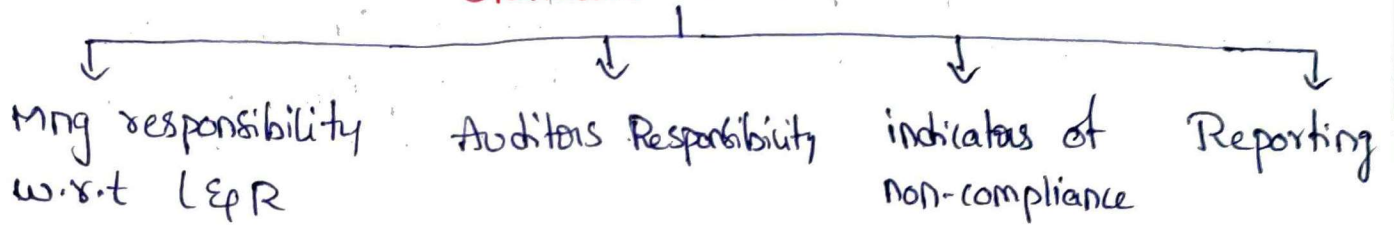


SA-250- Consideration⁽⁶⁰⁾ of laws & Regulations⁽¹⁵⁾ in an Audit of financial statements.

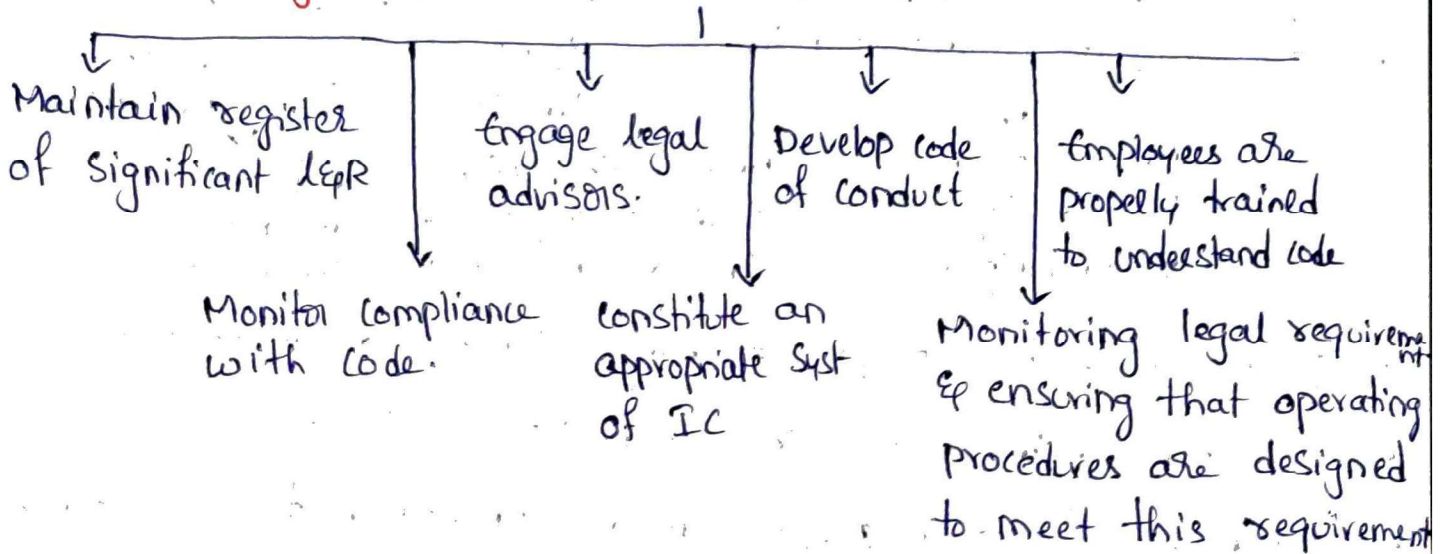
Types of laws.



Standard deals with.

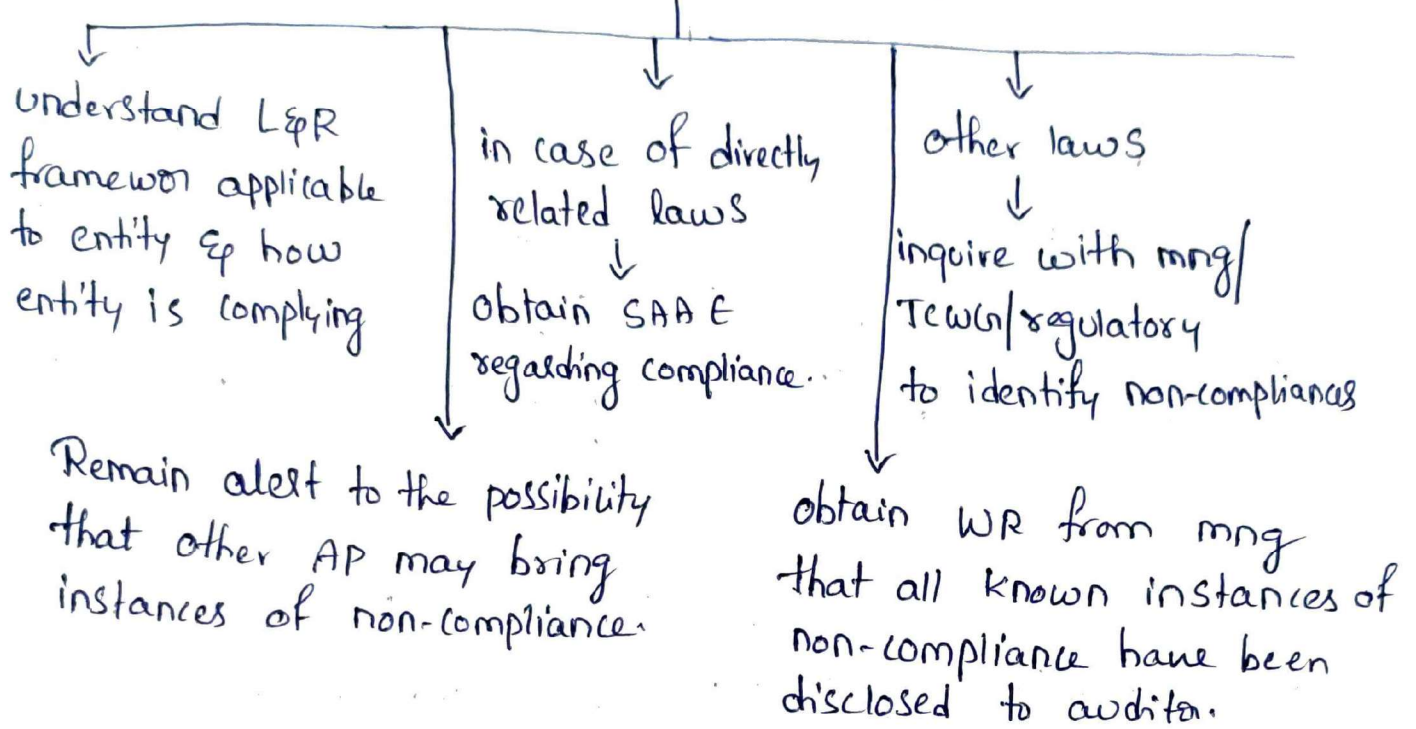


Mng responsibility to comply with laws & regulations.

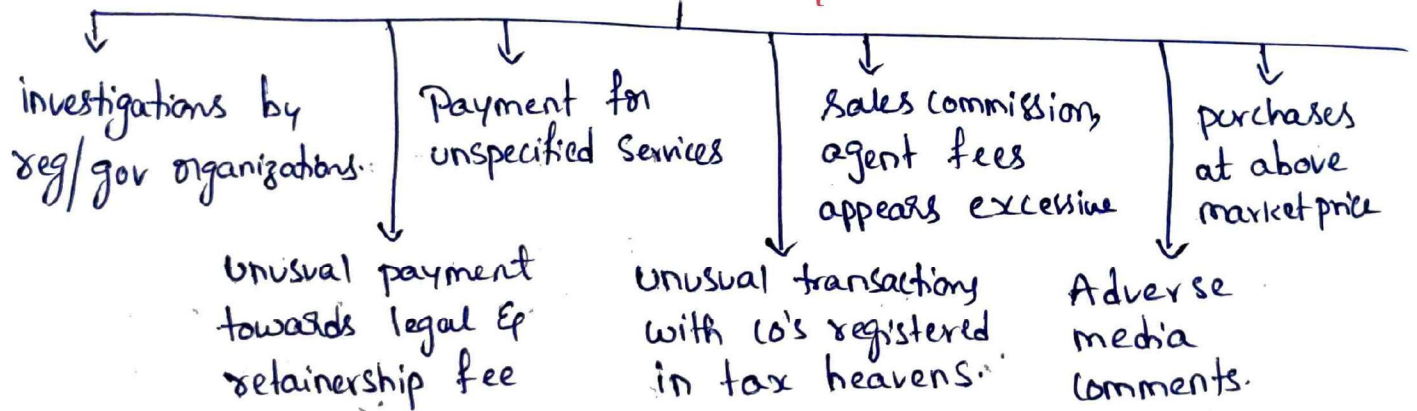


~~16~~ (61) Auditors Responsibility.

↓
Not Responsible for preventing non-compliance, instead



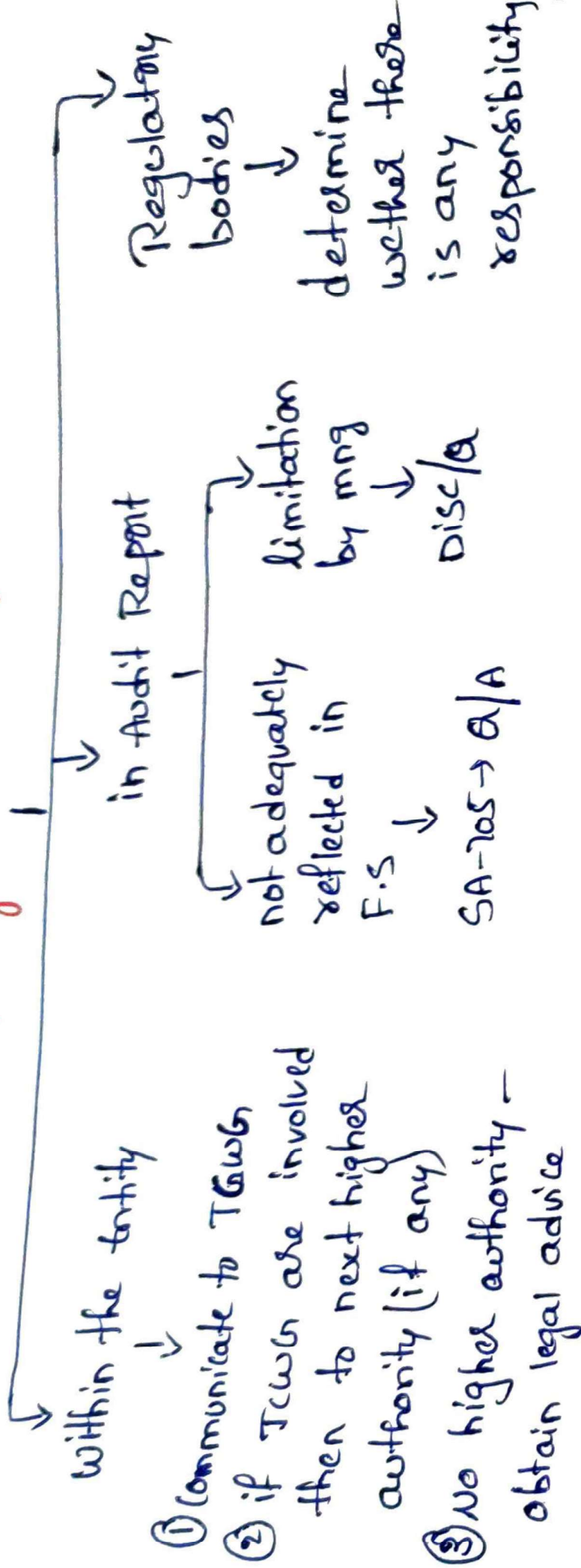
Indicators of non-compliance



- payments without proper exchange control documentation.
- unauthorized/improperly recorded transactions.
- payment for goods/services made other than to the country from which goods/services originated.

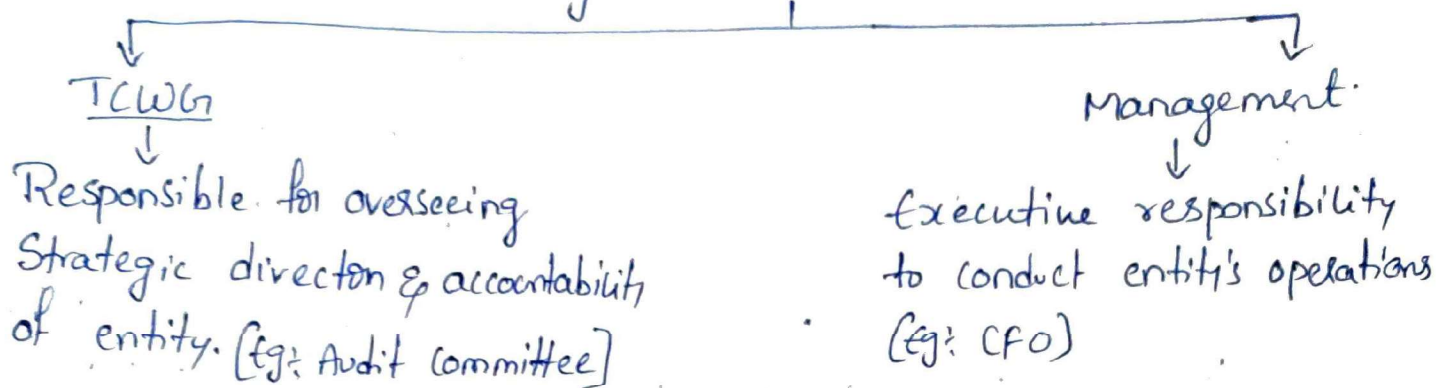
~~61~~ (62)

Reporting of non-compliance.



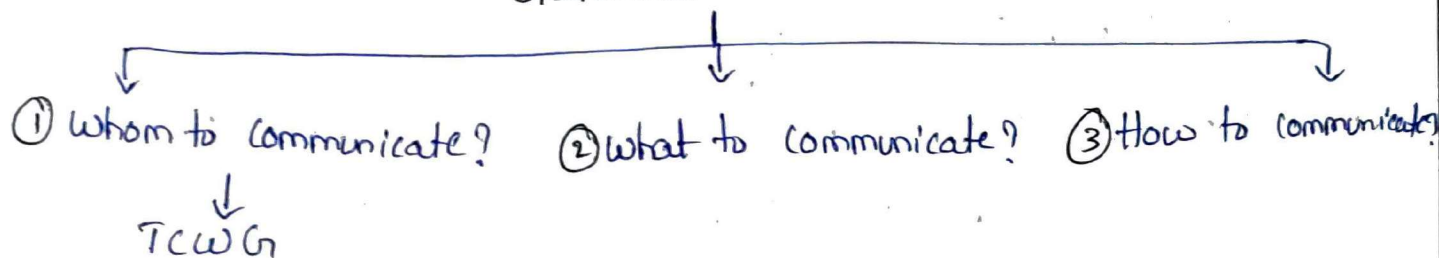
SA-260 Communication with ⁽⁴⁸⁾ ⁽⁶³⁾ Those charged with governance. (TCWG) [01/04/2017]

Management (vs) TCWG



Note: In some cases mng & TCWG can be same persons.

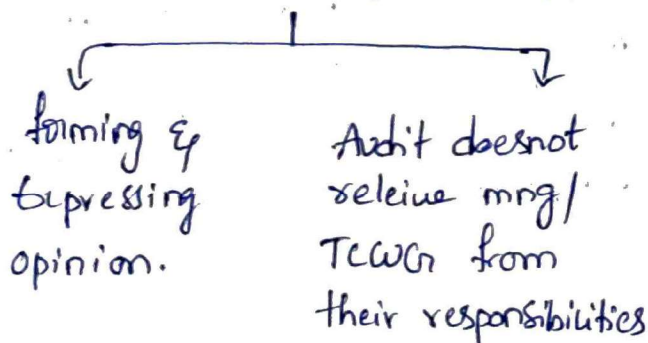
Standard deals with.



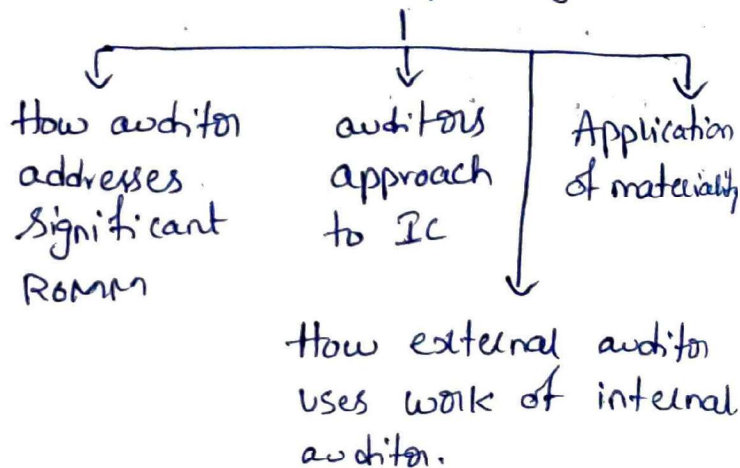
note: if all TCWG involved in managing entity then matters need not be communicated again.

2) What matters to be communicated?

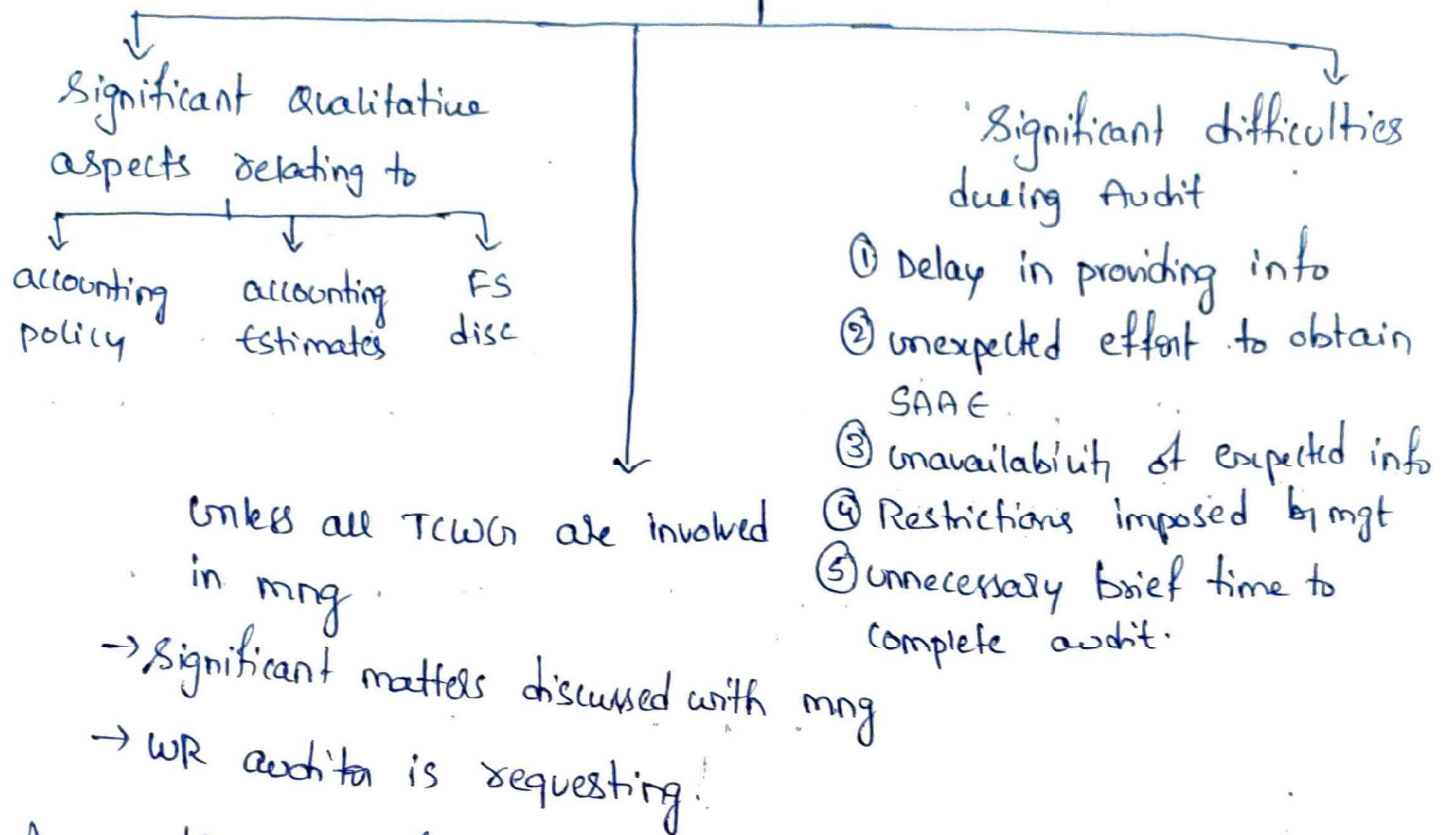
(a) Auditor's Responsibility



(b) planned scope & timing of Audit



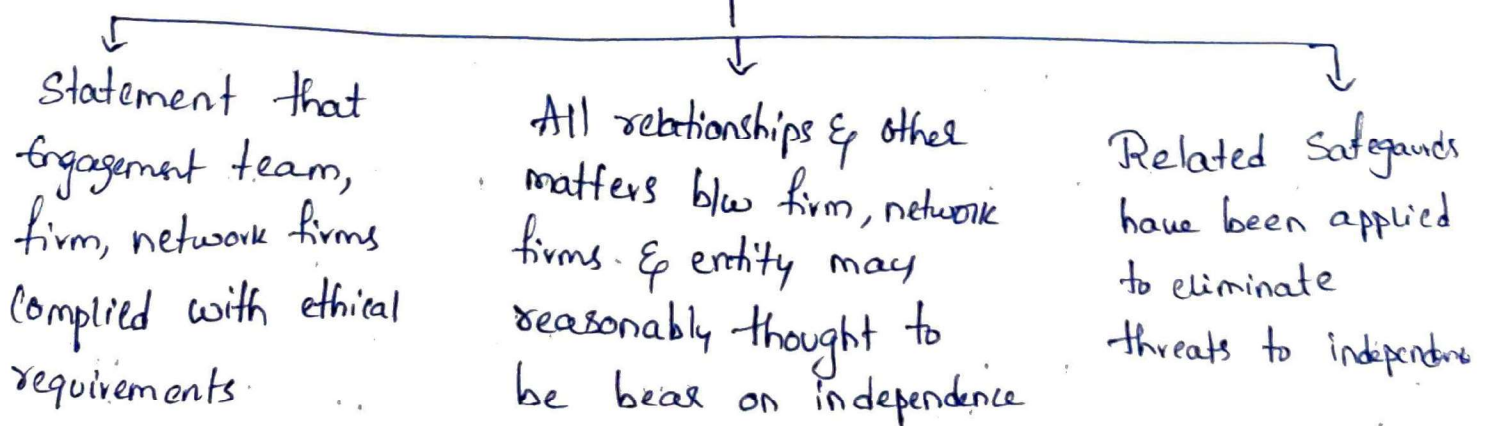
(19) (64) c) Significant findings during the Audit



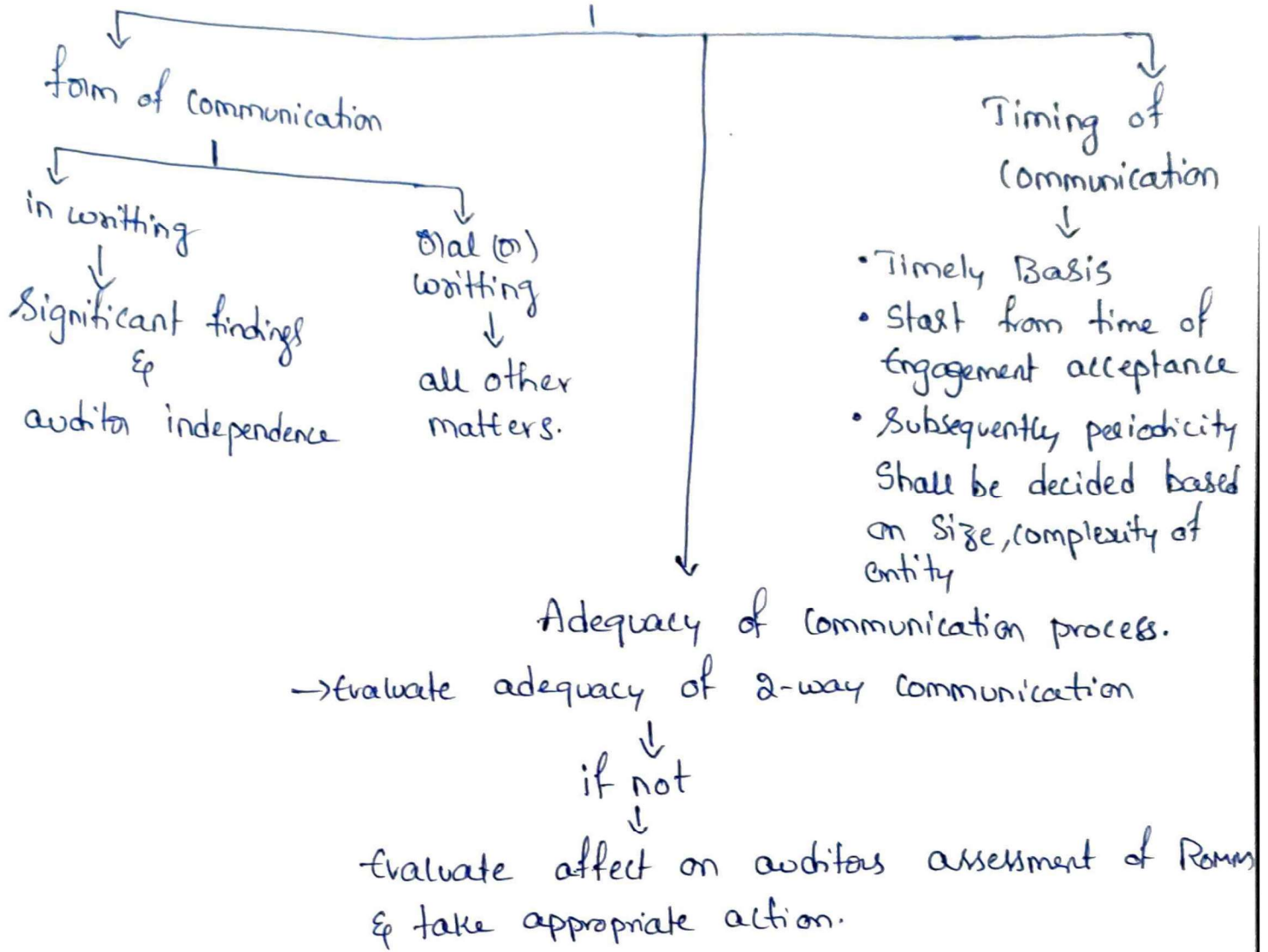
Any other significant matter that in auditors PJ, are relevant to oversight of financial reporting process.

d) Auditors independence.

in case of listed entity Auditor shall communicate



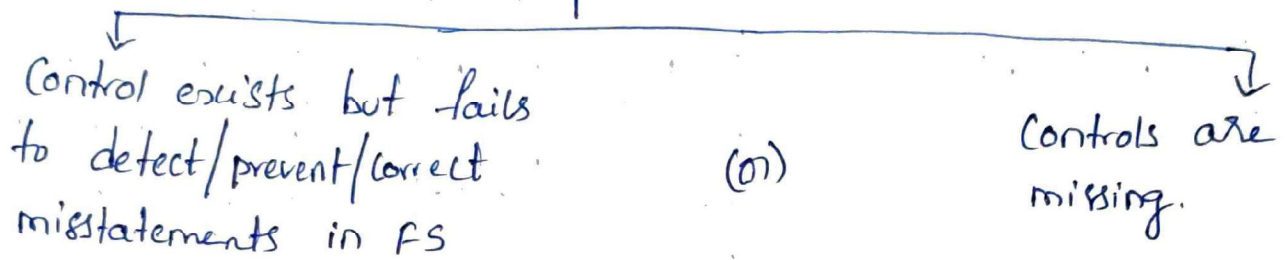
How to communicate? ⁽²⁰⁾ (65)



SA-265-Communicating deficiencies in internal control to TCWG and Management (66) [01/04/2010]

[Auditor considers internal controls only to determine NTE of audit procedures, but not to express opinion on effectiveness of internal controls]

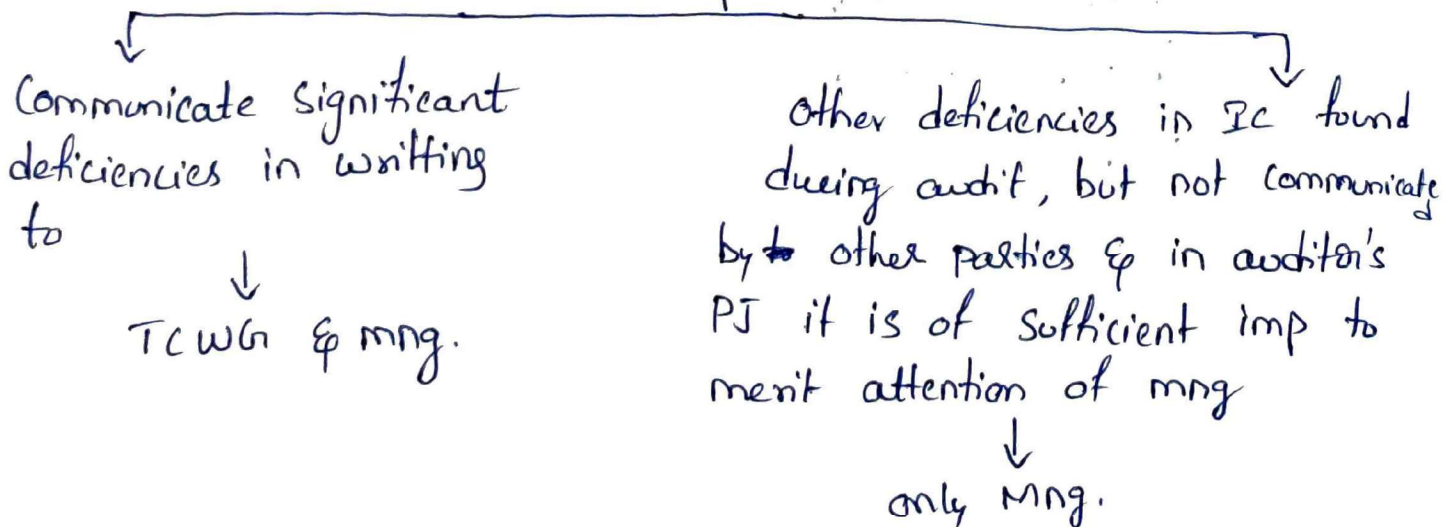
Deficiency in internal control:



if in auditor's PJ it is of sufficient importance to merit attention of TCWG → Significant deficiency in IC

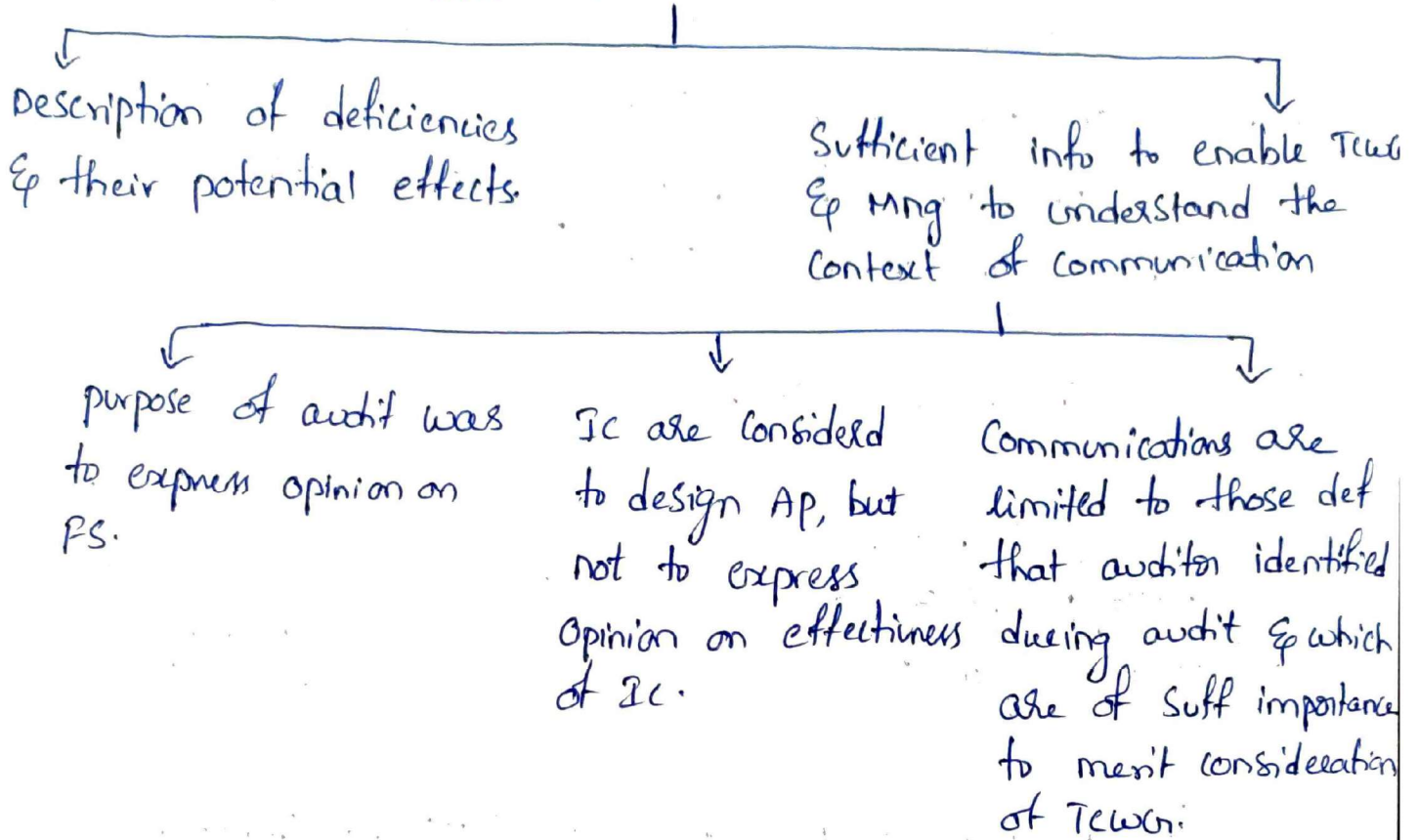


whether auditor finds any deficiencies
↓
whether they are significant

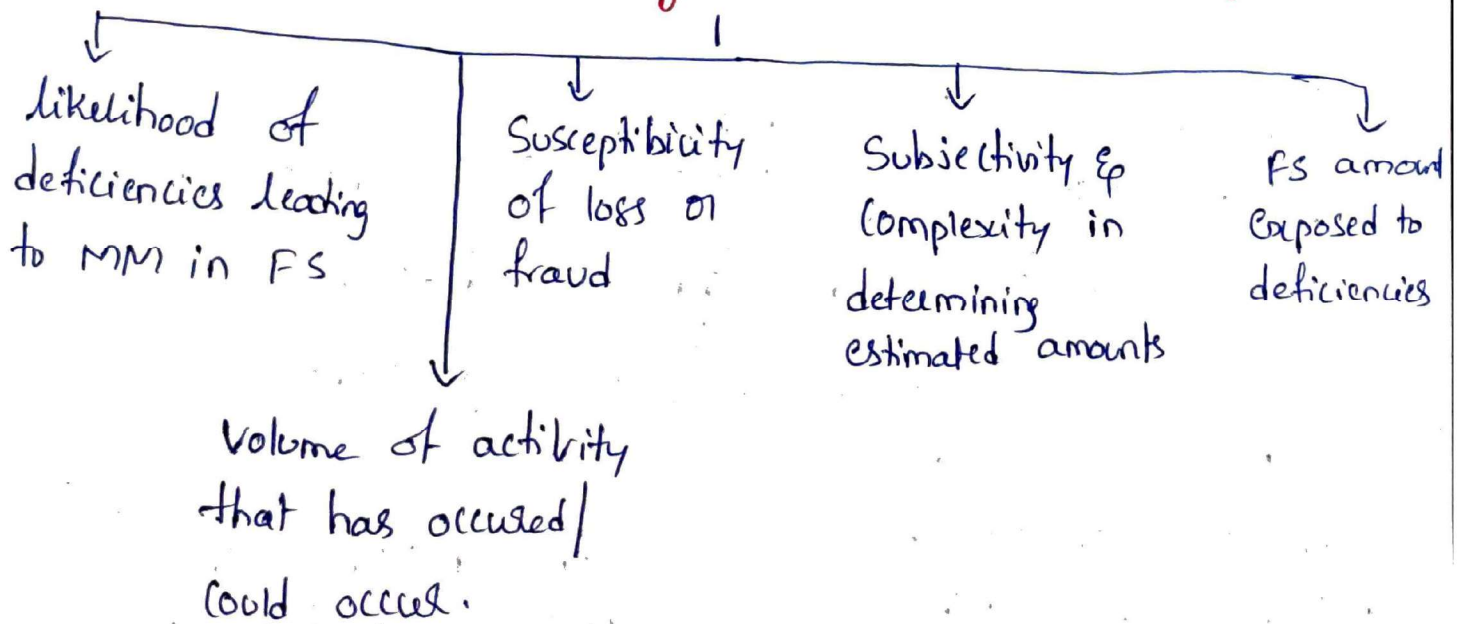


92 (67)

Contents of written communication.

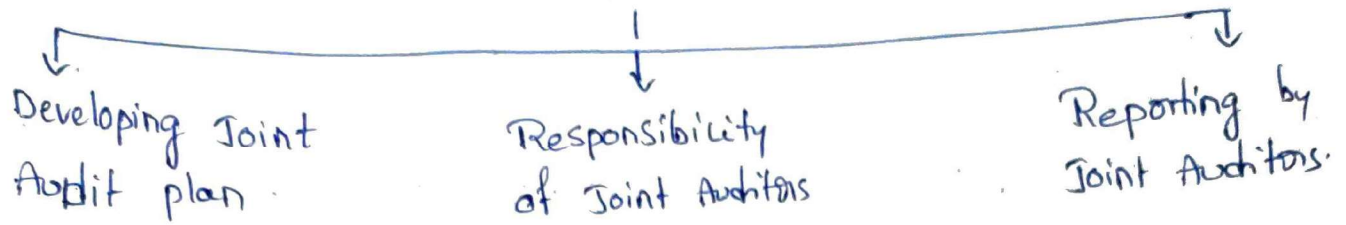


Factors determining whether deficiency is significant.

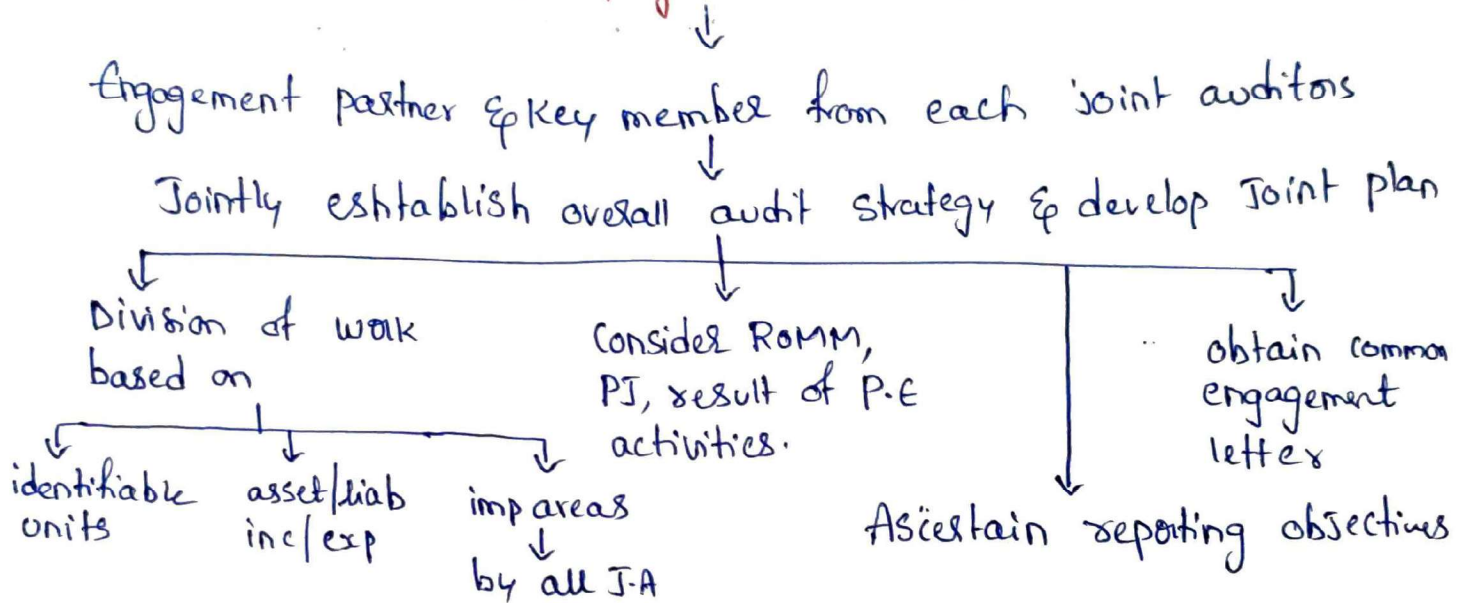


SA-299. Joint Audit of Financial Statements. ⁽²³⁾ ⁽⁶⁸⁾

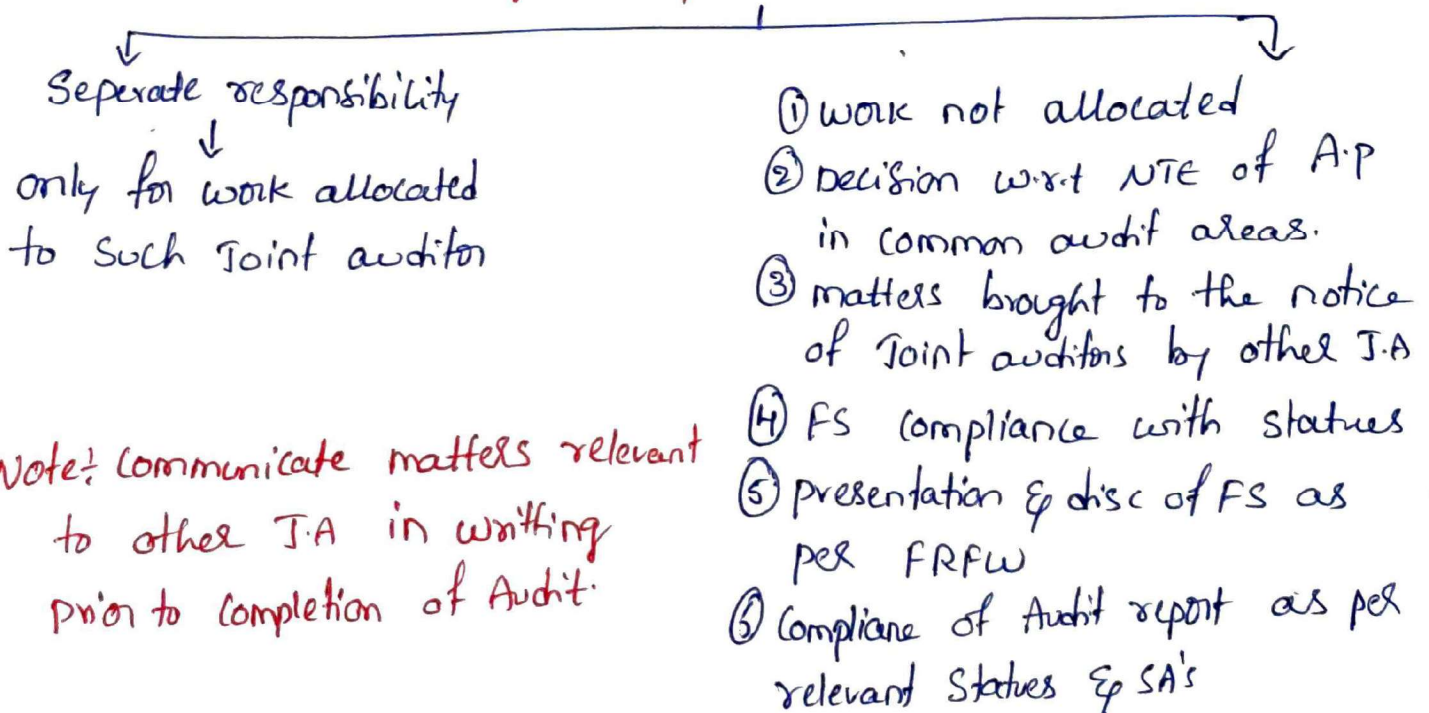
Standard deals with



Developing Joint Audit plan.

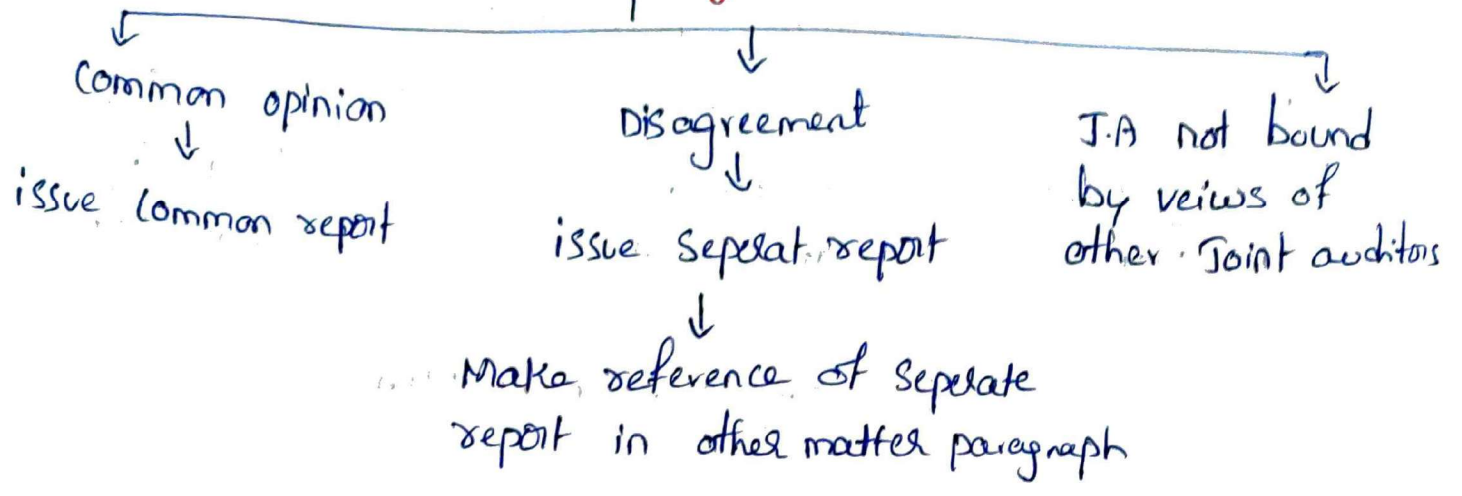


Responsibility of Joint Auditor.



Note: Communicate matters relevant to other J.A in writing prior to completion of Audit.

Reporting



Sat-540 - Auditing Accounting ⁽⁴⁷⁾ ⁽⁷⁰⁾ estimates, including fair value accounting estimates and related disclosures.

Examples

Accounting estimates

- ① Allowance for doubtful A/c's
- ② warranty obligations
- ③ Dep method/asset life
- ④ inventory obsolescence
- ⑤ outcome of longterm contracts

fair value A/c estimates

- ① Complex financial instruments
- ② Share based payments
- ③ Assets acquired under BC
- ④ property or eqp held for disposal
- ⑤ Transactions involving exchange of assets or liabilities.

Estimation uncertainty

↓
lack of precision in measurement of A/c estimate.

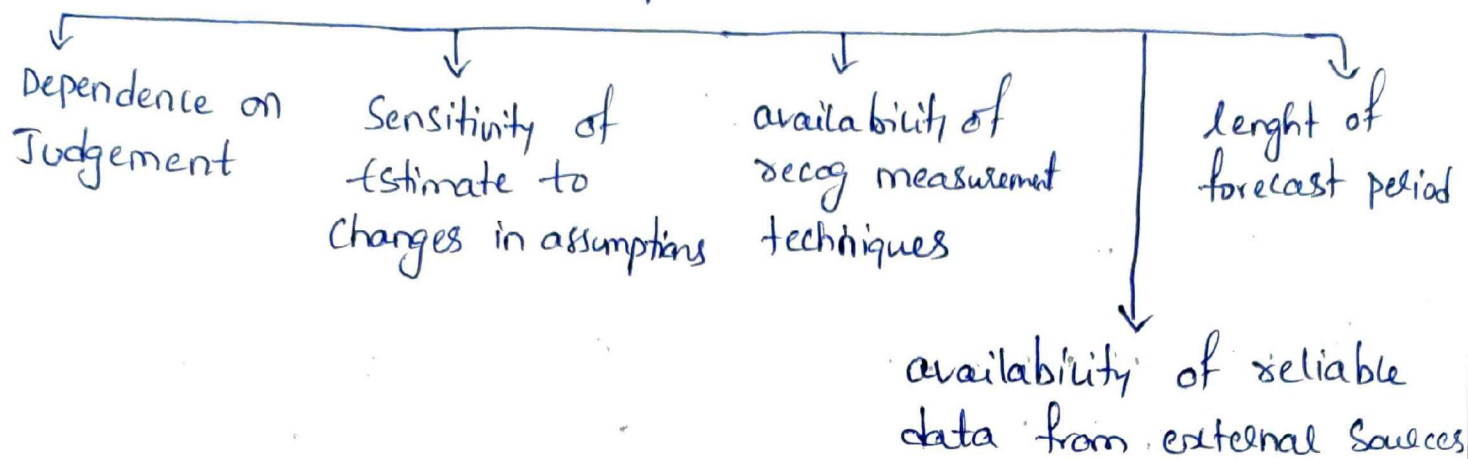
low estimation uncertainty

- ① Business activities are not complex
- ② estimates are made frequently
- ③ Data is readily available.
- ④ method prescribed by AFRFW is simple
- ⑤ model used is well known

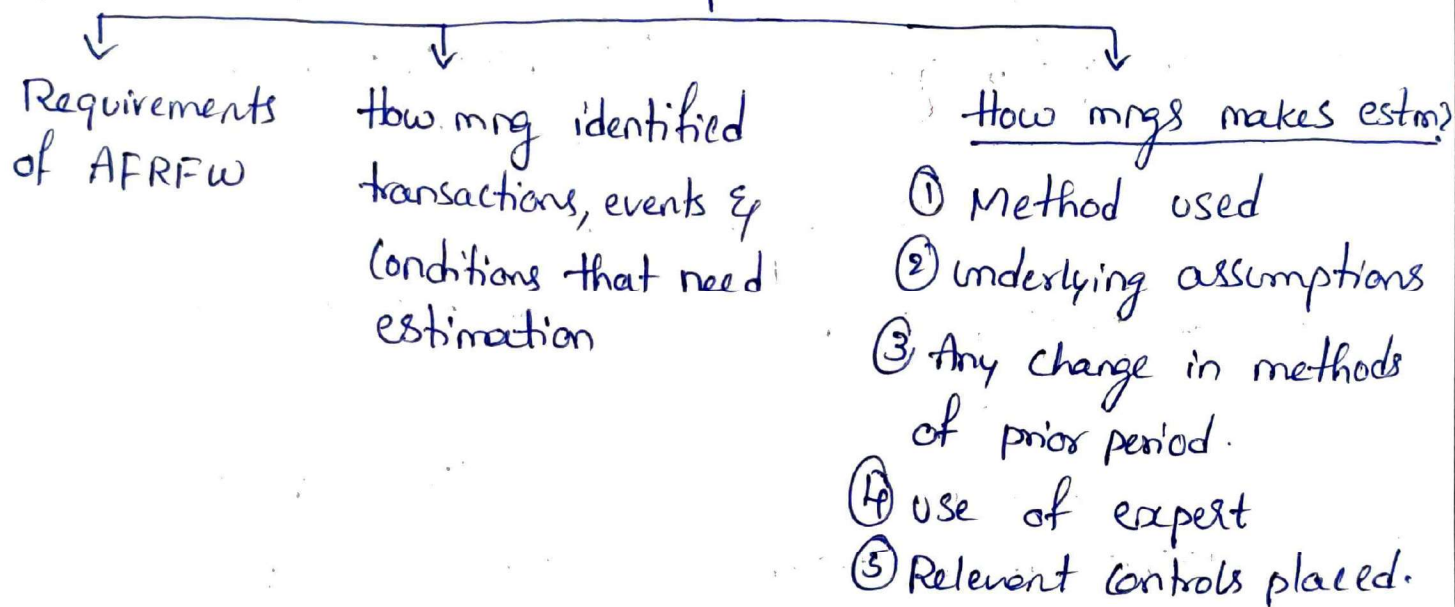
high estimation uncertainty

- ① estimates relating to outcome of litigation
- ② FV of financial instruments not publicly traded
- ③ specialised entity - developed model is used.
- ④ highly dependent on judgement

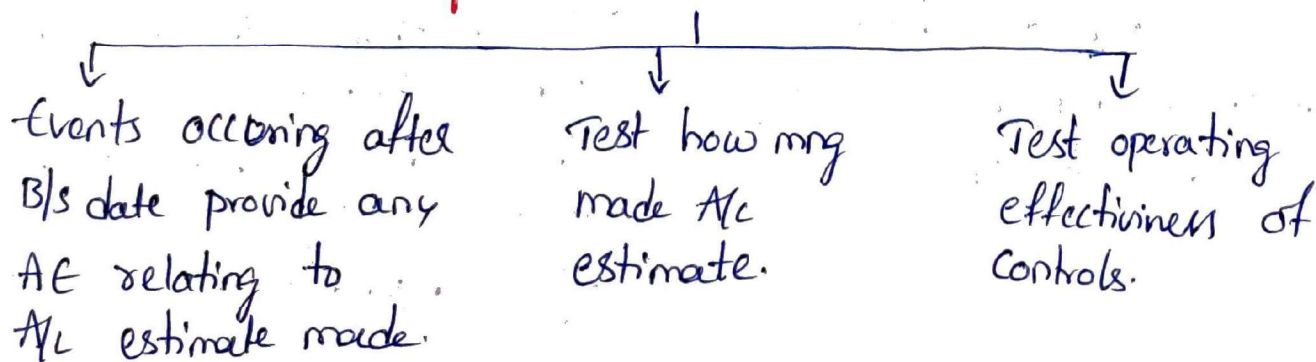
Factors influencing degree of estimation uncertainty.



To determine ROMM for A/c estimates obtain understanding of

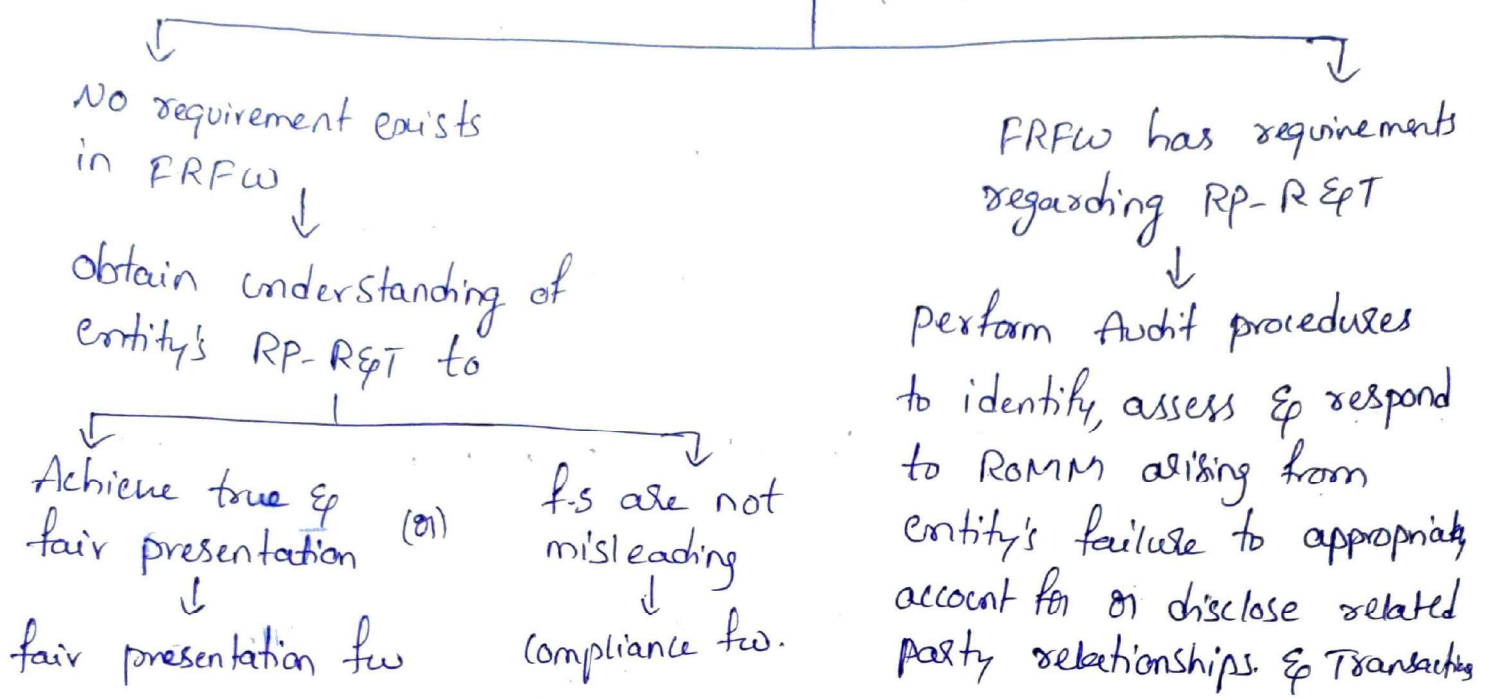


Responses to assessed ROMM:

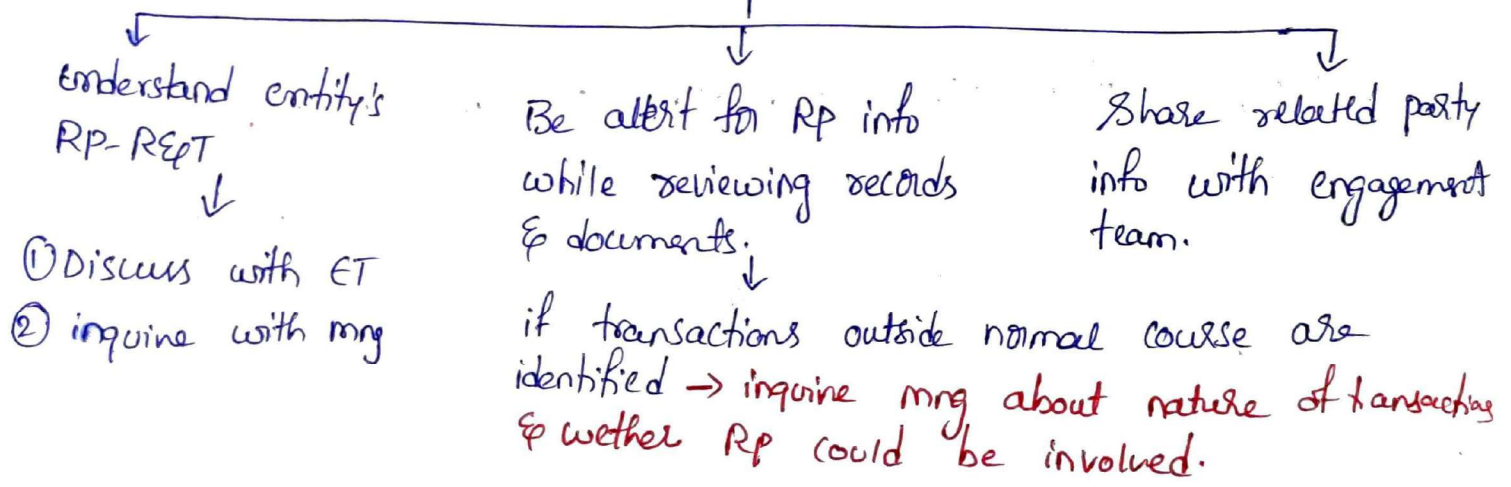


Note: Auditor shall review judgements & decisions made by mng to determine whether there is any possible mgt bias.

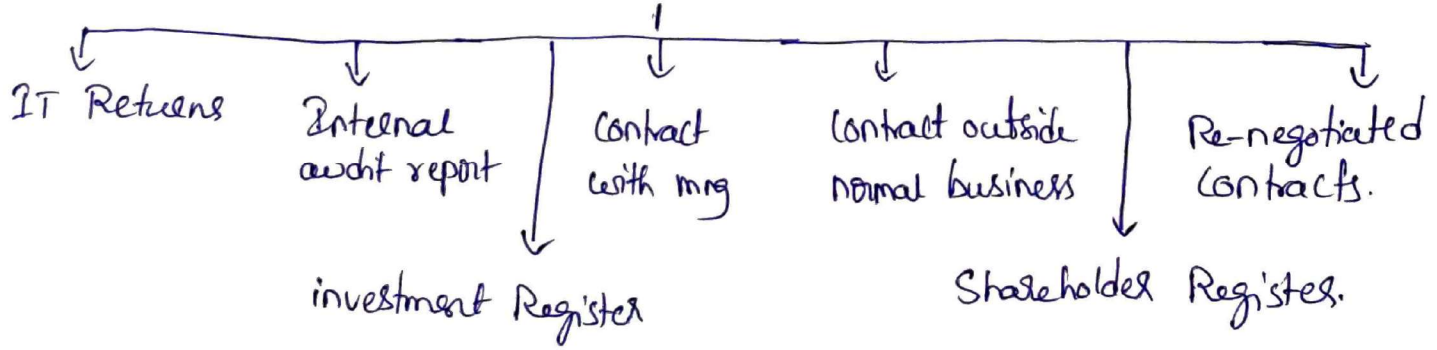
Responsibility of Auditor



Risk assessment procedure

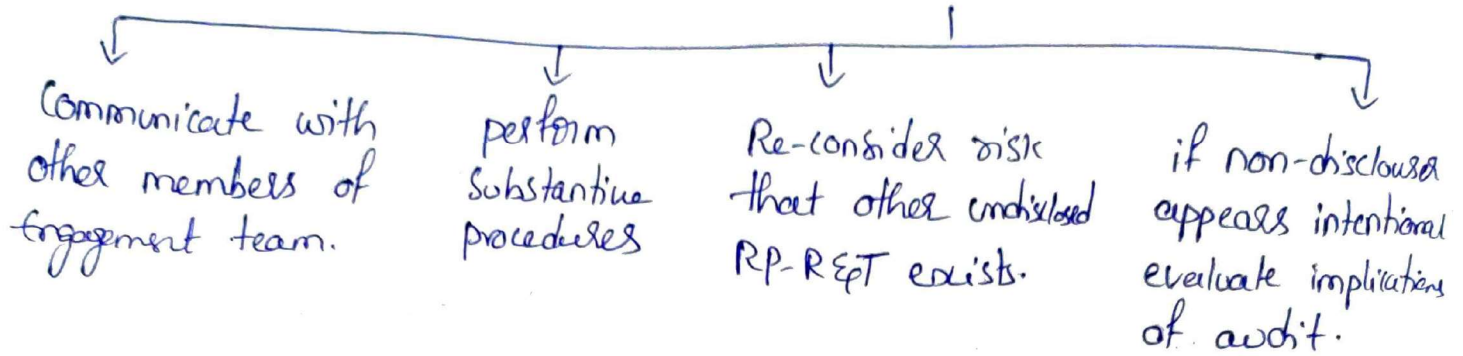


Sources of RP info.

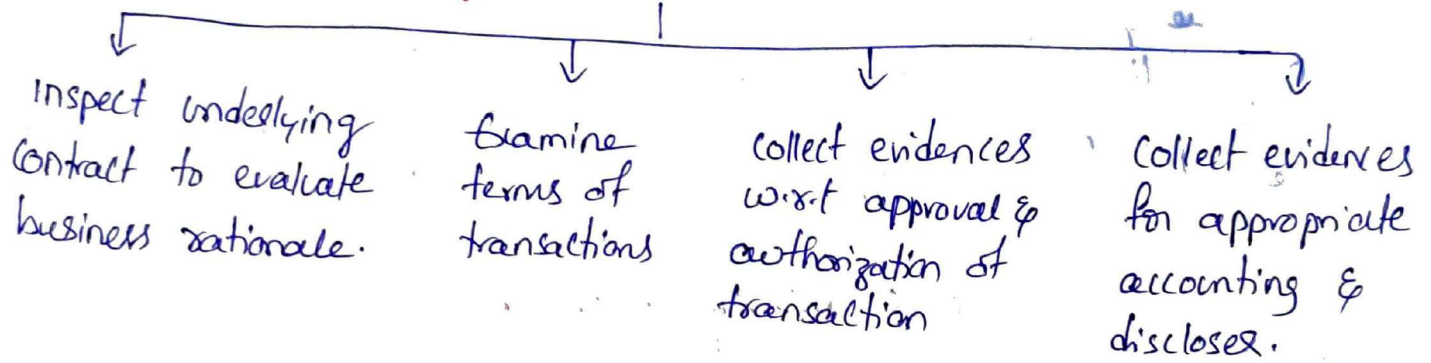


(50) (73)
Responses to ROMM

① identification of undisclosed RP-REP-Auditor shall



② identification of Signification RP-T outside normal course of business

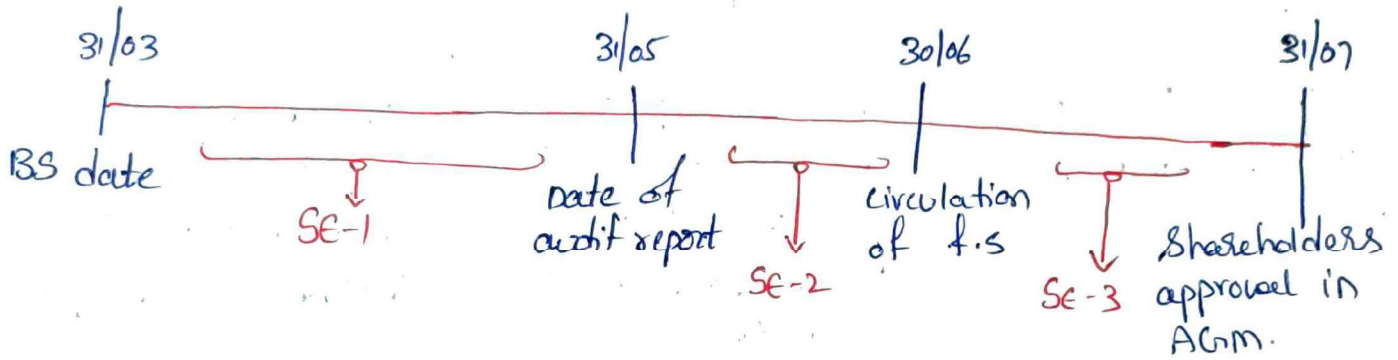


③ Related party transactions conducted at arms length price.

- obtain WR that all known RP-REP are disclosed.
- Documentation includes name of RP & nature of RP relationship.

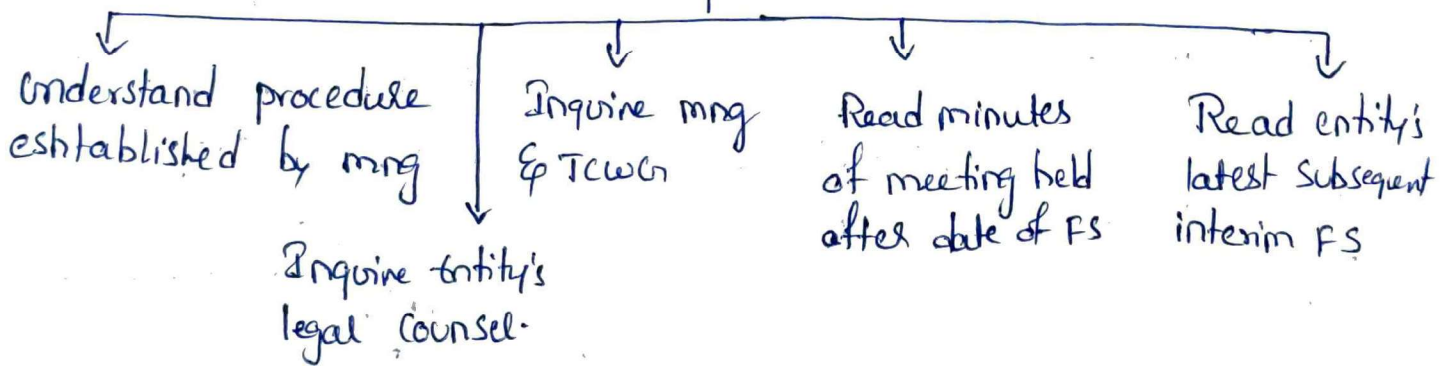
SA-560-Subsequent events

Events occurring between date of FS & date of auditors report and facts that become known to the auditor after the date of auditors report.



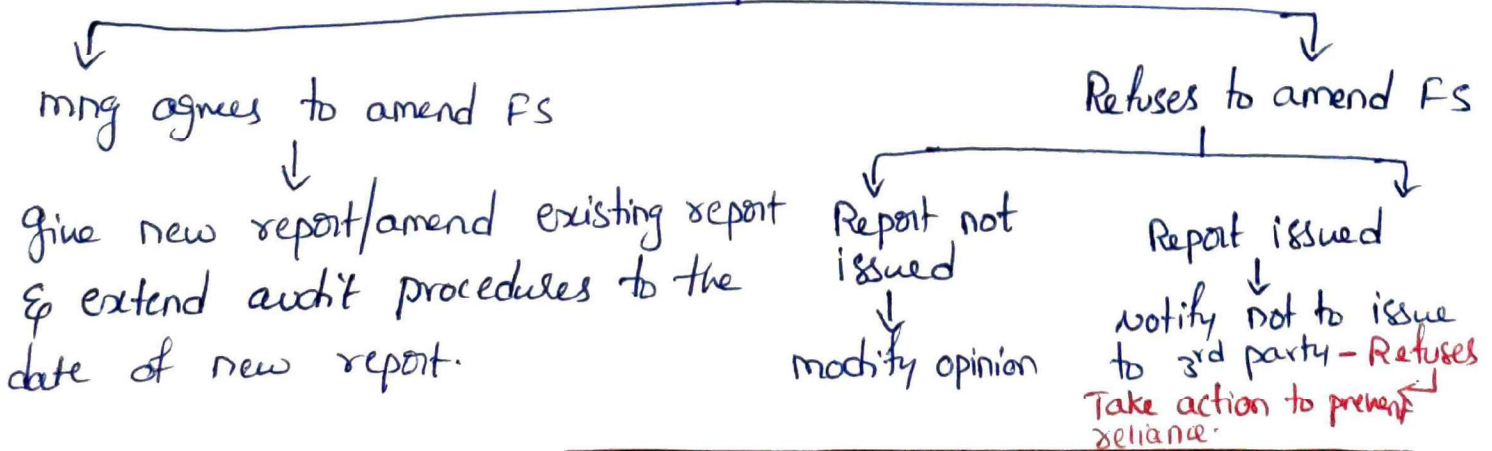
Audit procedures regarding SE-1

Obtain SAAE for the events that require adjustment.



Audit procedures regarding SE-2

Discuss with mng & Determine need to amend F.S



~~52~~ 75
Audit procedures regarding SE-3

↓
Discuss with mng & determine the need to amend FS

① if mng amends FS st Auditor shall

↓
Carryout procedures on amended FS

↓
Review steps taken by mng to ensure that recipient of FS is informed of situation

↓
provide new audit report or amend audit report & include conform para

② if mng refuses to amend FS

↓
notify mng/owners that auditor seeks to prevent further reliance on auditors report

↓
if mng doesnot take necessary steps

↓
Take appropriate action to prevent reliance on auditors report.

SA-570 - Going concern ^{(53) (76)}

Continuing business for foreseeable future.

Mng is responsible to assess entity's ability to continue as a going concern

Auditor is responsible to obtain SAAE regarding appropriateness of entity's ability to continue as going concern

Events/conditions that may cast doubt on Gc assumption.

Financial conditions

- ① Substantial losses
- ② Discontinuation of Dividend
- ③ Adverse financial ratios
- ④ inability to pay creditors
- ⑤ net liability position
- ⑥ withdrawal of financial support
- ⑦ Non-renewal of borrowings
- ⑧ Asset value deterioration

operating conditions

- ① loss of kmp
- ② labour difficulties
- ③ mng intention to liquidate entity
- ④ loss of major market or key customer
- ⑤ Emergence of successful competitor.

others

- ① non-compliance of statutory requirement
- ② pending legal proceeding against entity
- ③ changes in laws & regulations.

Enquire whether mng has made assessment of Gc assumption

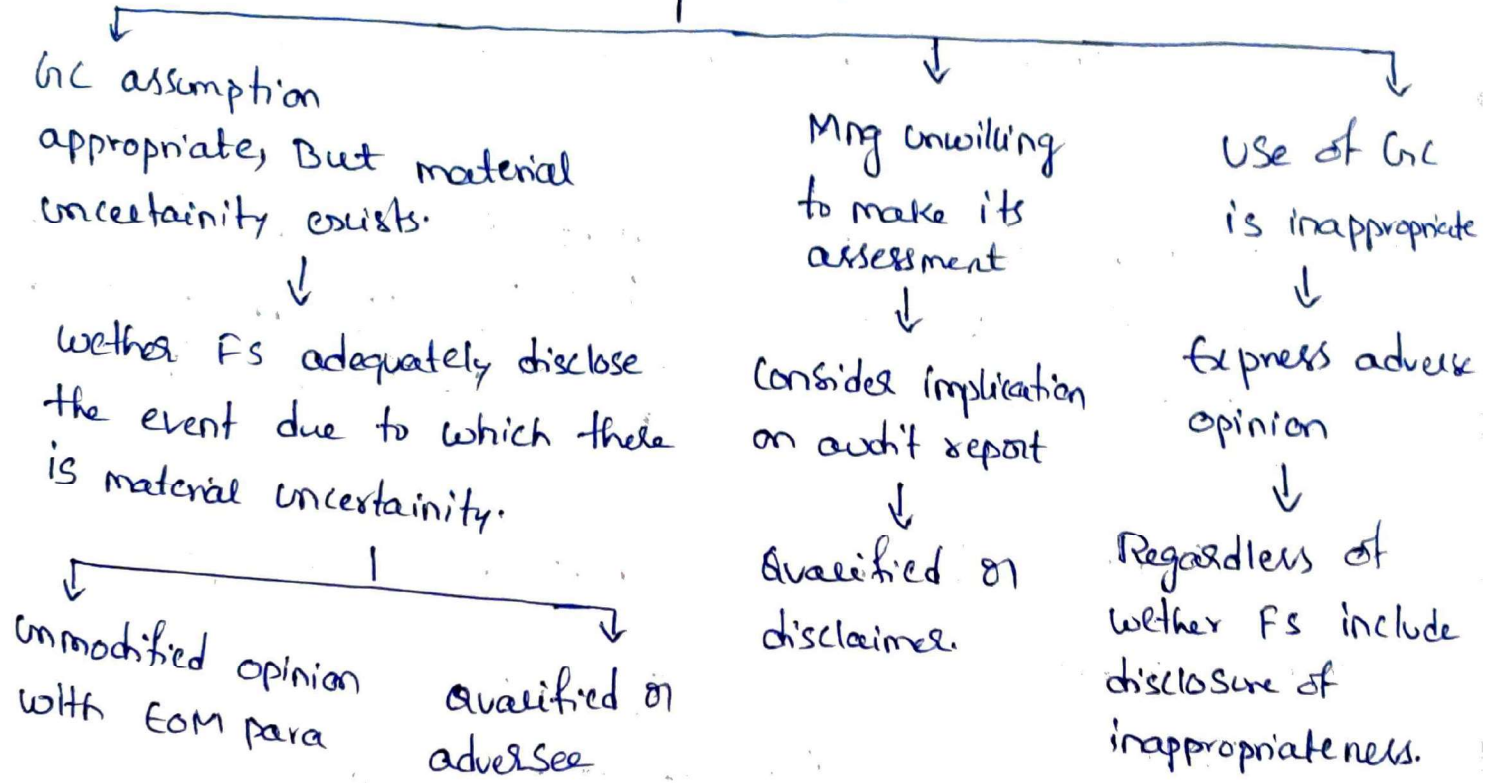
Yes

Discuss whether mng has identified events/conditions that may cast significant doubt on entity's ability to continue as going concern

NO

Discuss with mng basis for intended use of Gc assumption & whether any events or condition exist that may cast significant doubt on ability to continue as Gc

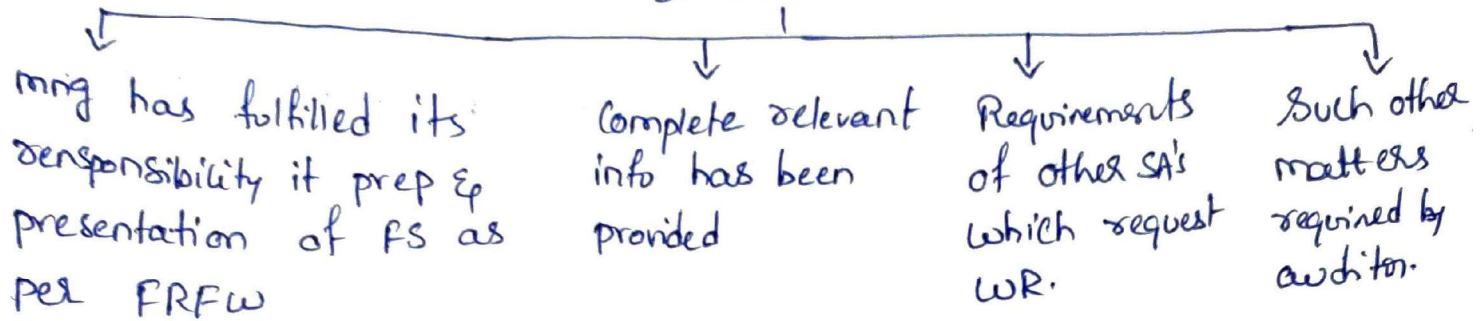
(57) (77)
Audit reporting



SA 580 - Written Representations. ⁽⁵⁵⁾ (78)

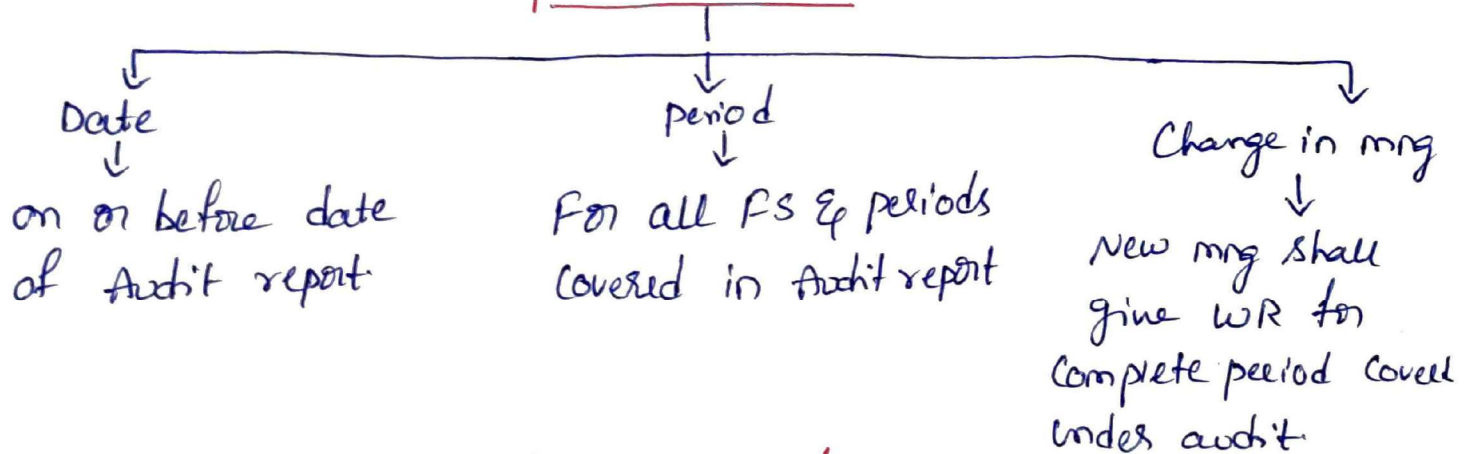
Written Statement by management to the auditor.

It contains that

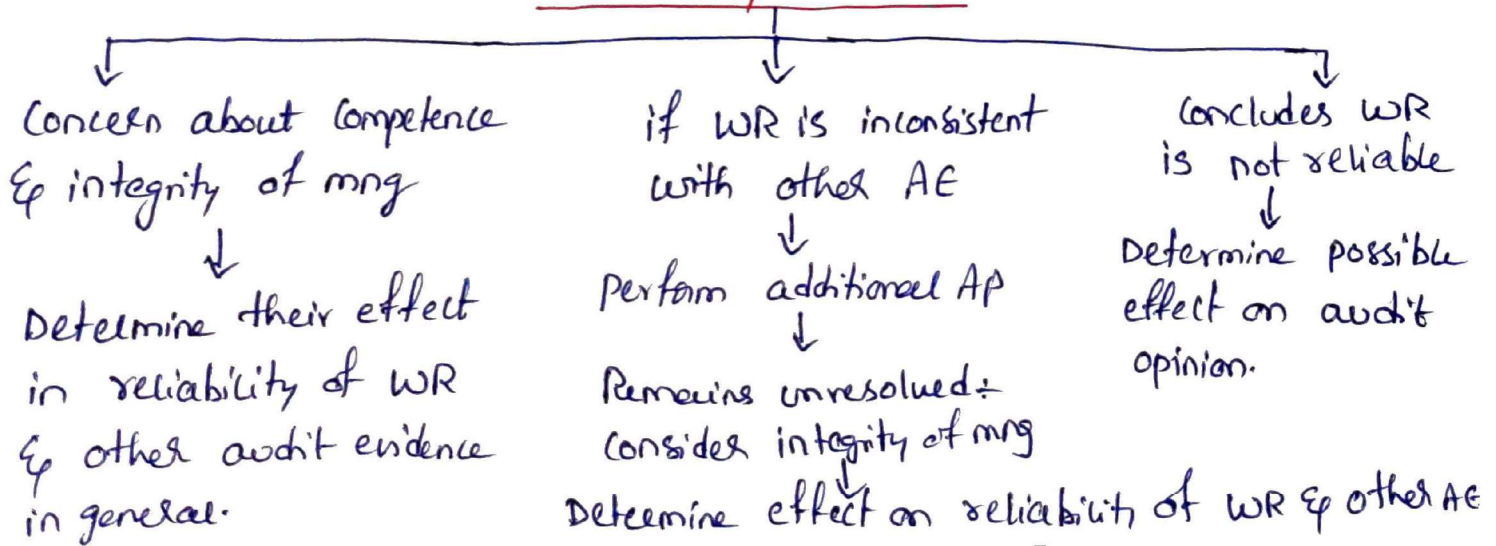


Note! WR can only act as Audit Evidence but not SAAE, they can only be taken as corroborative AE

Period of WR



Reliability of WR



Requested WR not provided :

(56) (79)

↓
Discuss with Mng

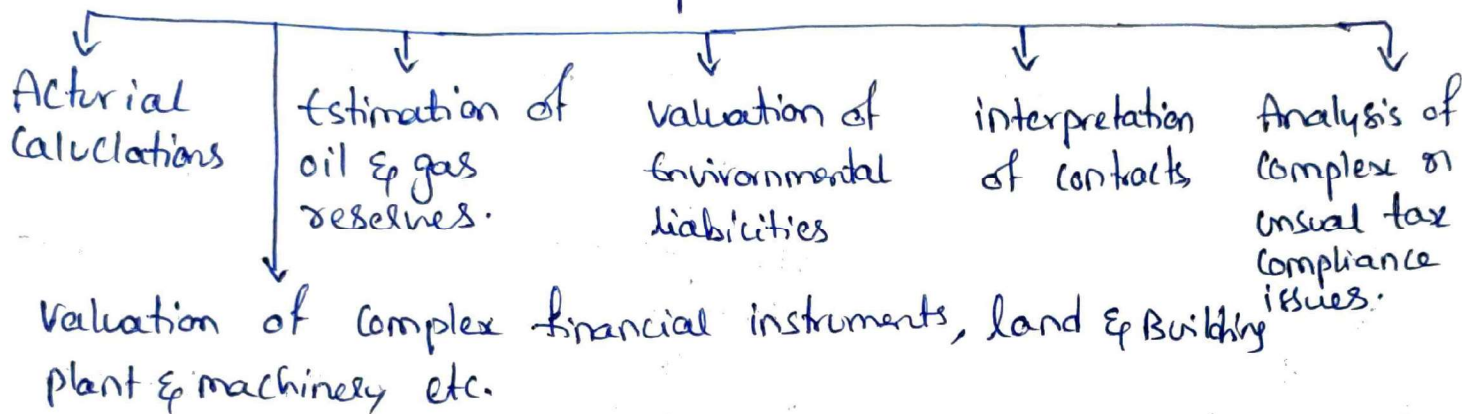
↓
Re-evaluate integrity of mng

↓
Take appropriate action including modification of opinion.

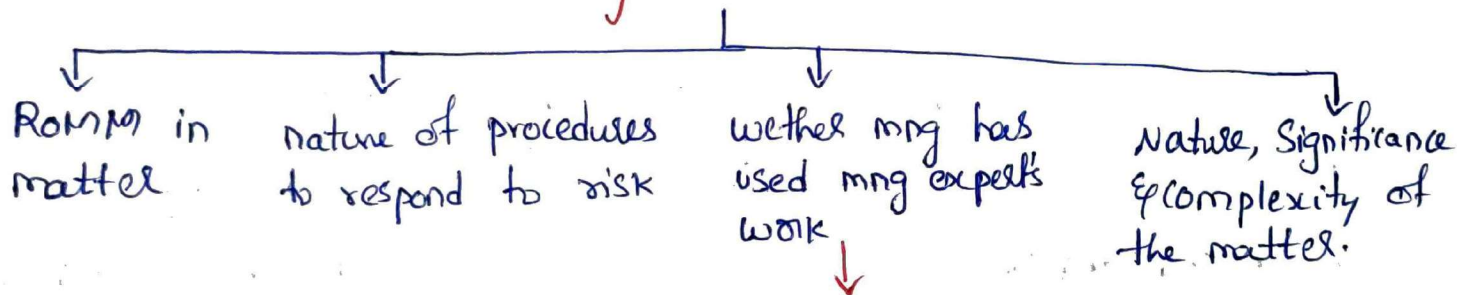
SA-620-Using the work of Auditors Expert. (67) (80)

An individual or org having expertise in field other than A/c & Auditing, whose work is used by the auditor.

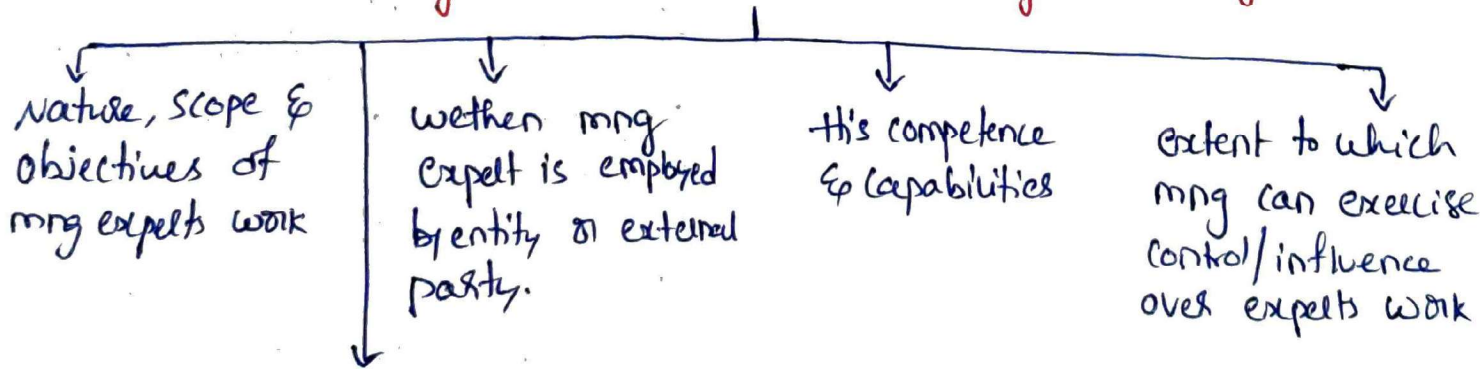
Matters where Auditor can use experts work.



Considerations when deciding whether to use work of auditors expert

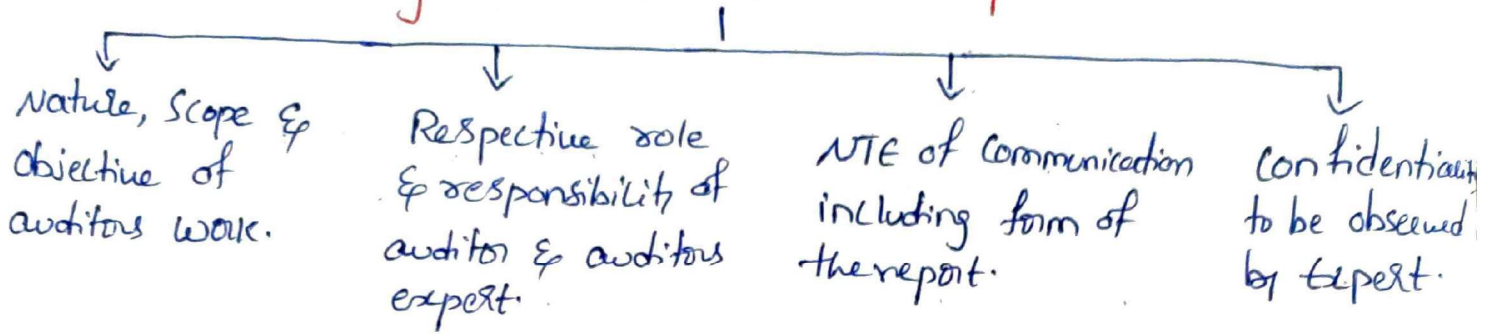


Factors influencing auditors decision when mgng used mgng expert.

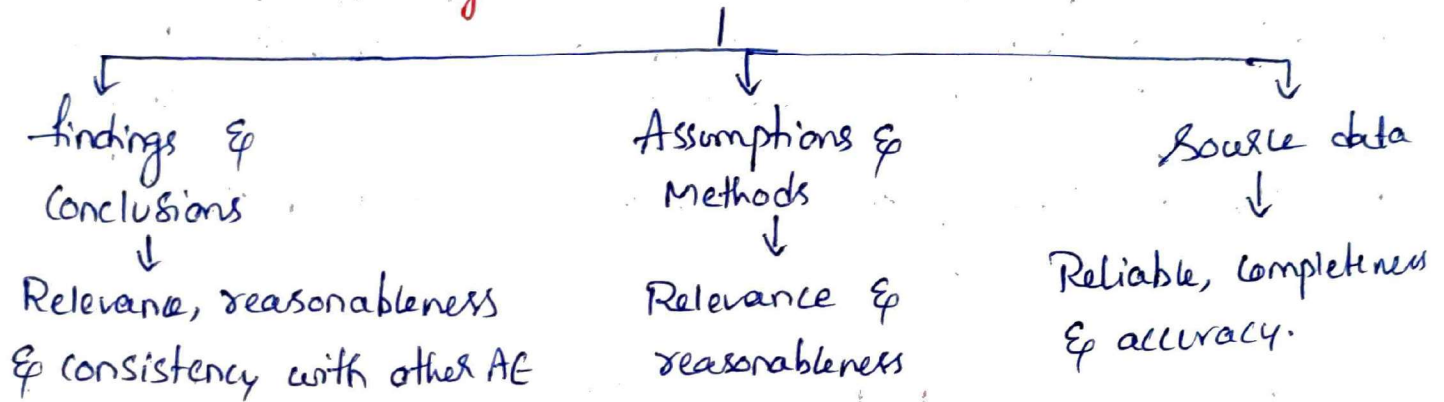


Any controls within the entity over mgng experts work.

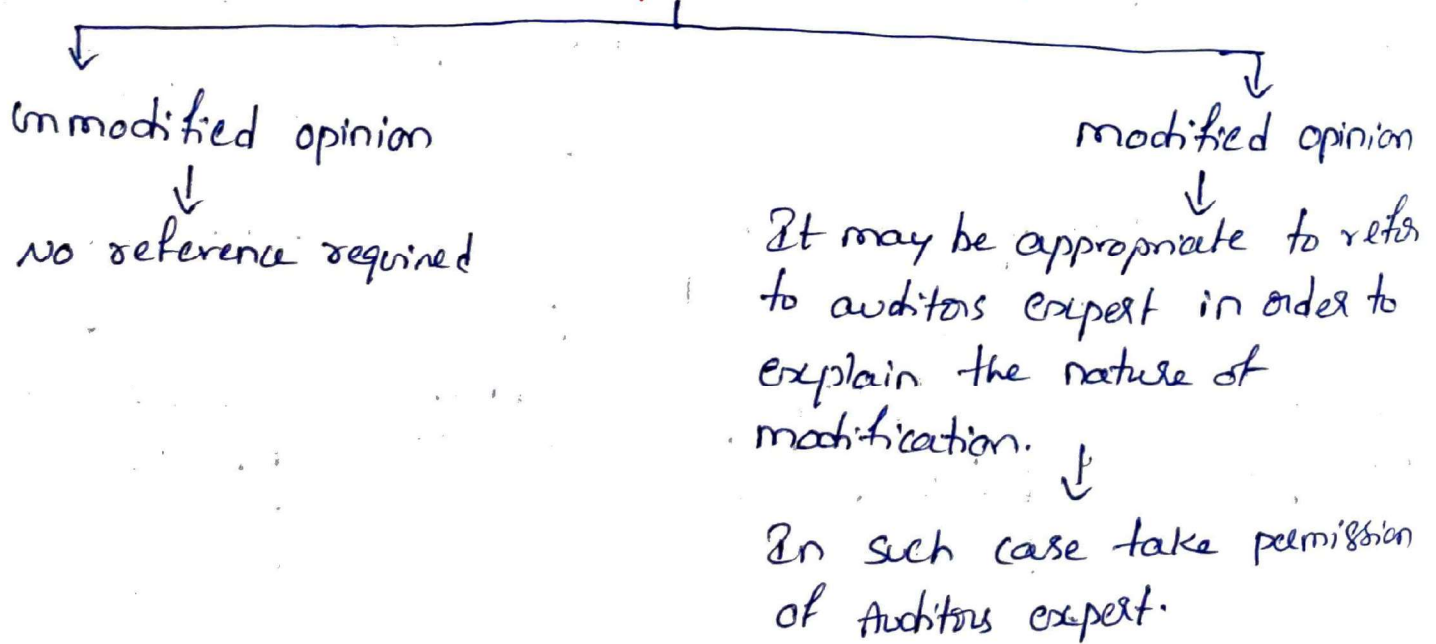
(62) (81) Agreement with Auditor's expert.



Evaluating adequacy of auditor's expert work.

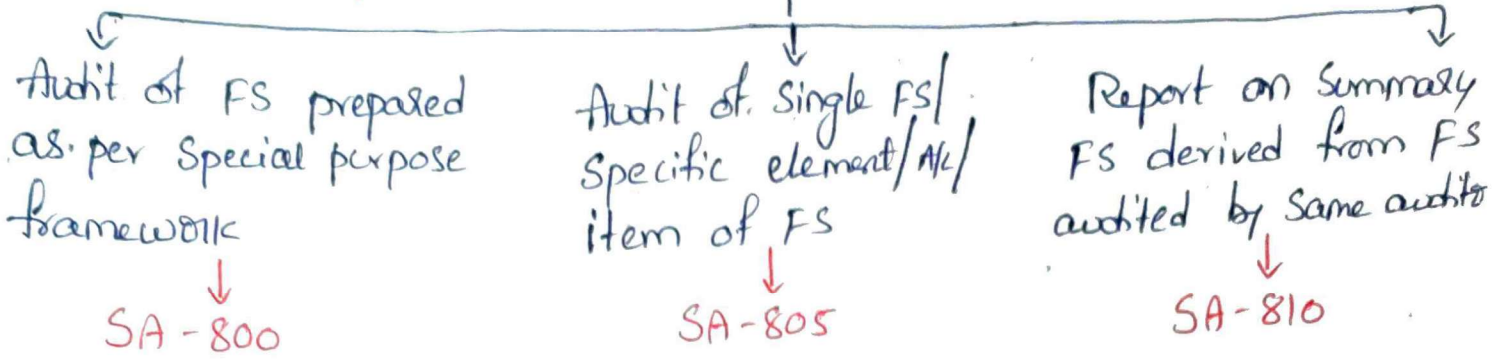


Reference to Auditor's expert in Auditor's report.



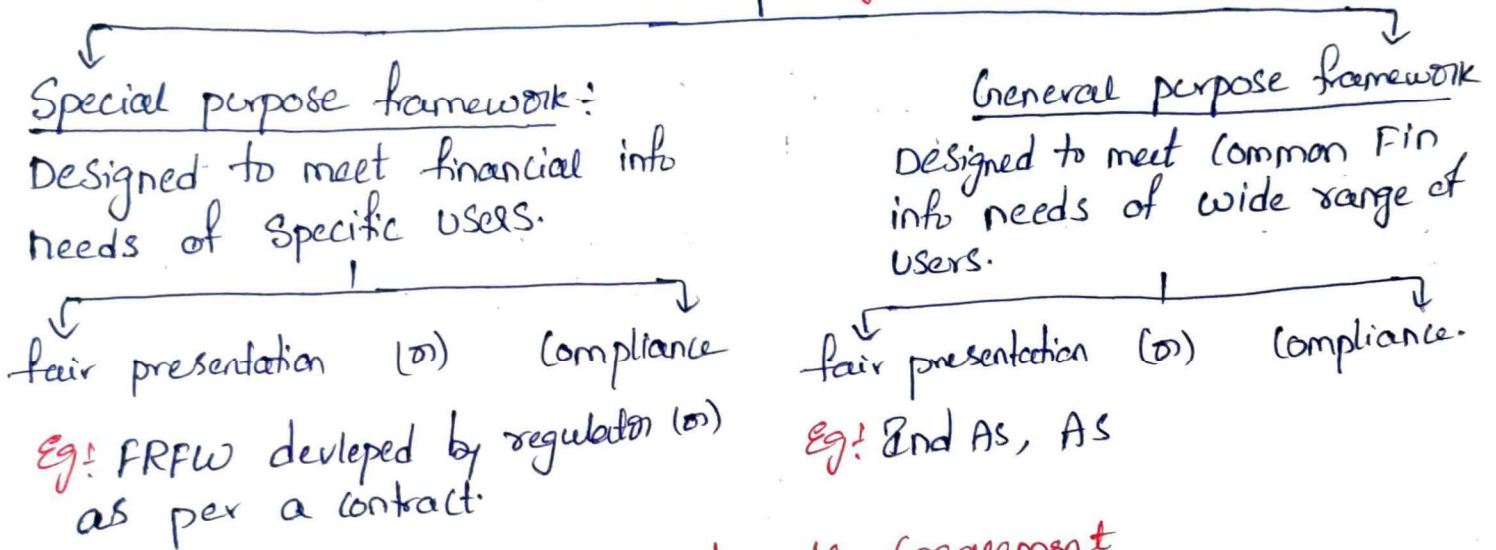
Note! in both the cases auditor's responsibility with regard to the opinion will not be reduced.

800 Series - Special Considerations in Audit of Specialised Areas.

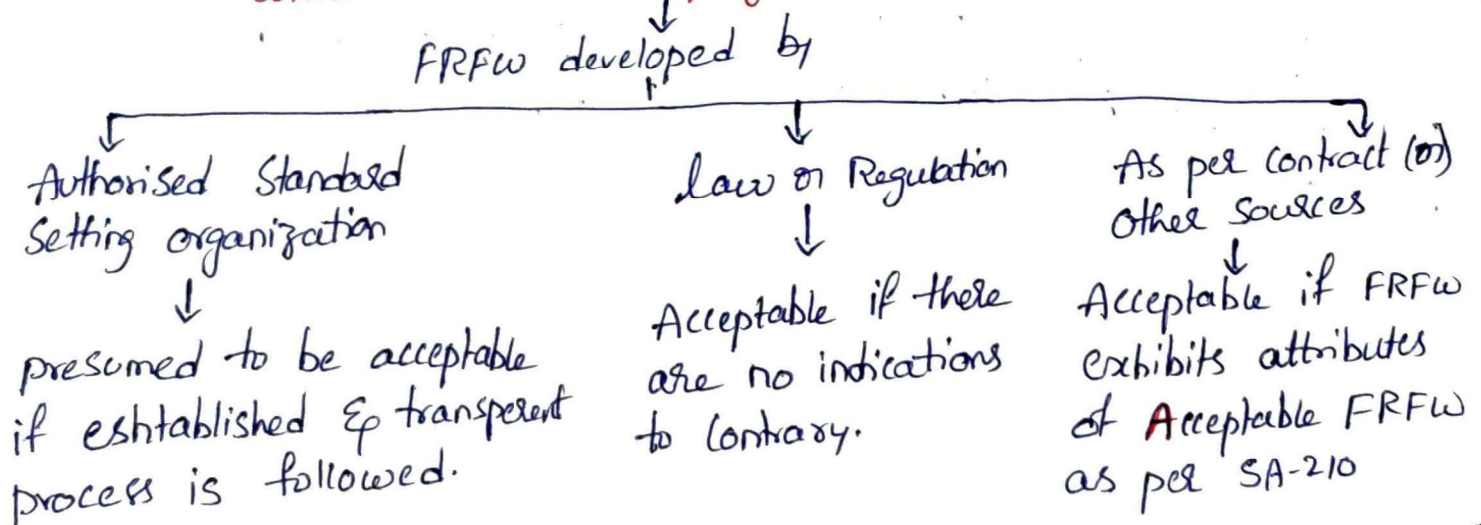


SA-800 - Special Considerations - Audit of FS prepared in accordance with special purpose framework.

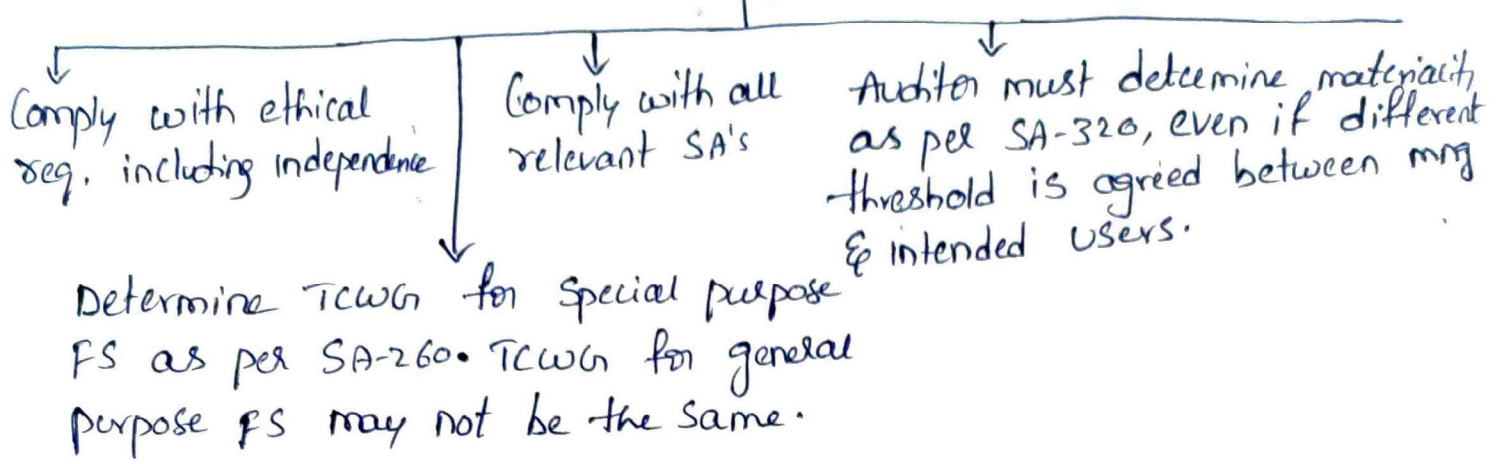
Financial reporting framework



Considerations in Accepting the Engagement



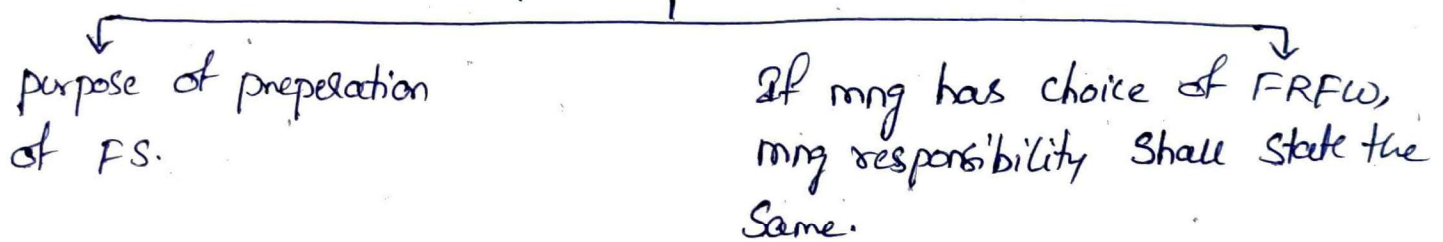
Considerations when planning & perform such audit



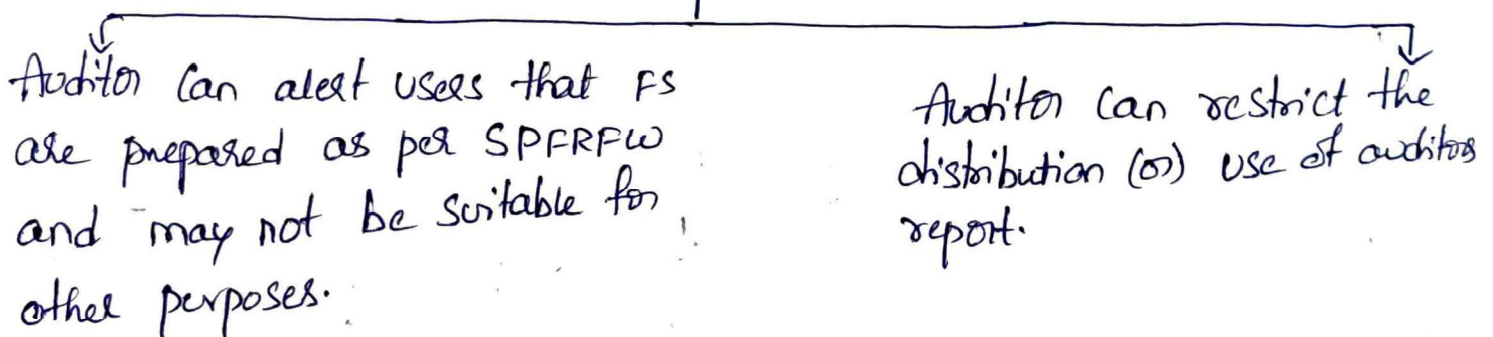
Forming opinion & Reporting.

Same Requirements of SA-700.

Report shall state:



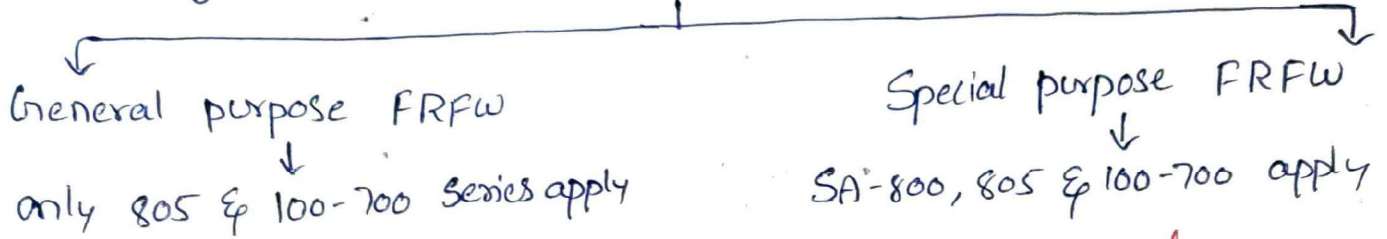
Special points.



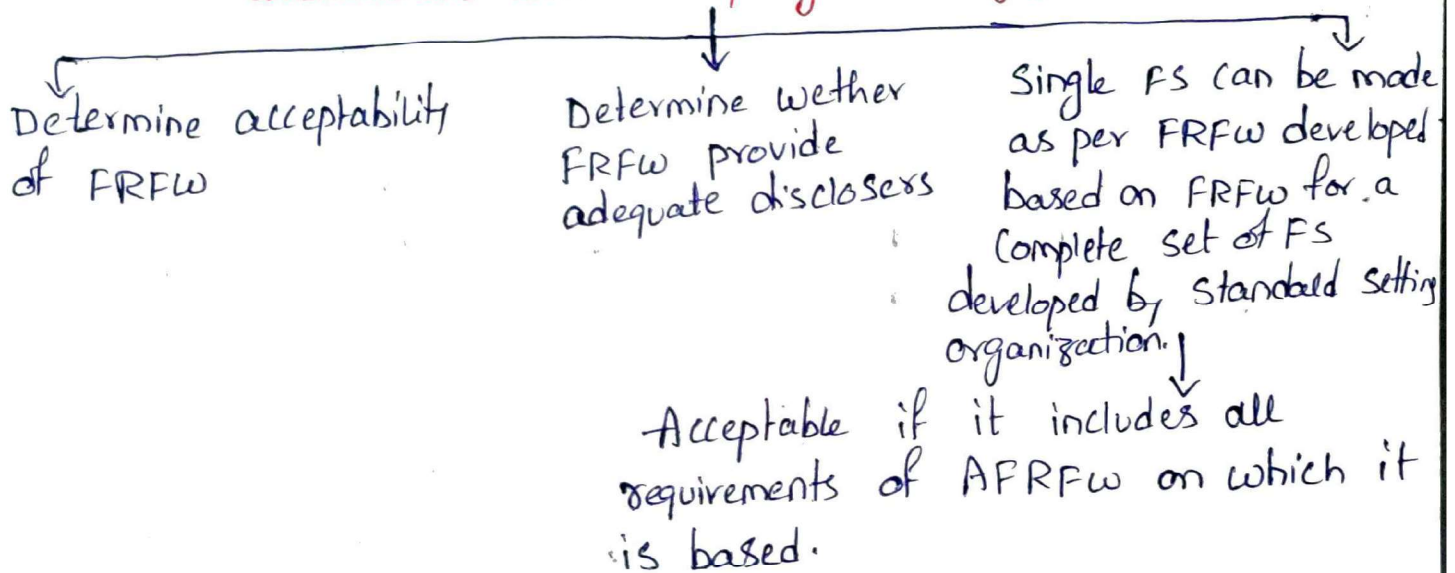
SA-805 → Special considerations - Audit of Single FS & Specific elements, Accounts or items of FS only P&L, Cashflow etc.
 only Audit of Revenue, Inventory etc.

Interplay between SA-800 & SA-805

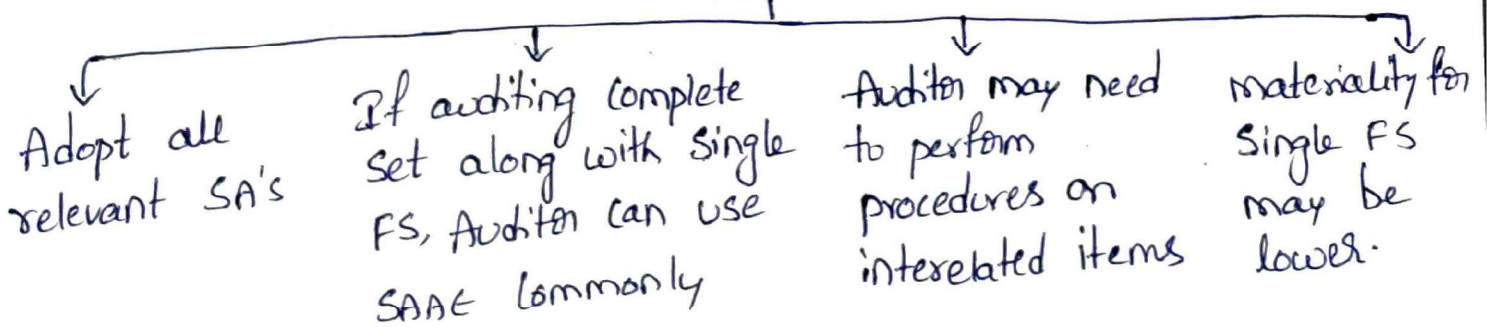
If Single FS (or) Specific element/item of FS prepared as per



Considerations while accepting the engagement.



Considerations in planning & performing the audit.

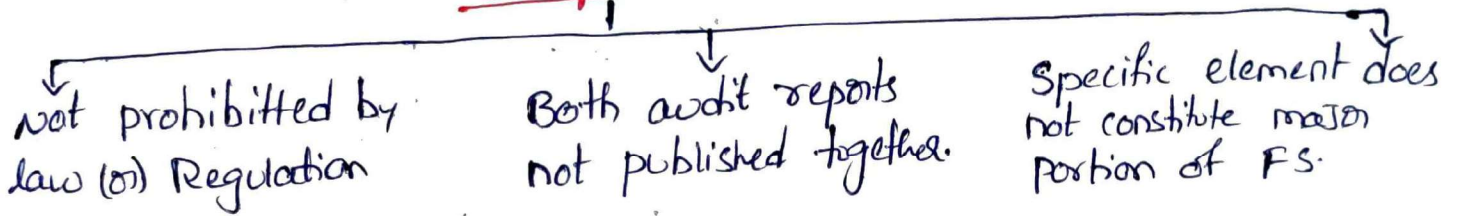


Forming opinion & Reporting considerations.

<u>Complete Set</u>	<u>Single FS</u>	<u>Element/Item</u>
① Unmodified opinion	modify/unmodify	modify/unmodify
② Qualified opinion	modify/unmodify	modify/unmodify
③ Adverse opinion	only modify	only modify (exception-1)
④ Disclaimer opinion	only modify (exception-2)	only modify (exception-1)

* In the exceptional cases you can give unmodified opinion

exception-1



Exception-2

Eg: Disclaimer in complete set is regarding operations & cashflow, unmodified w.r.t state of affairs in single FS is permitted.

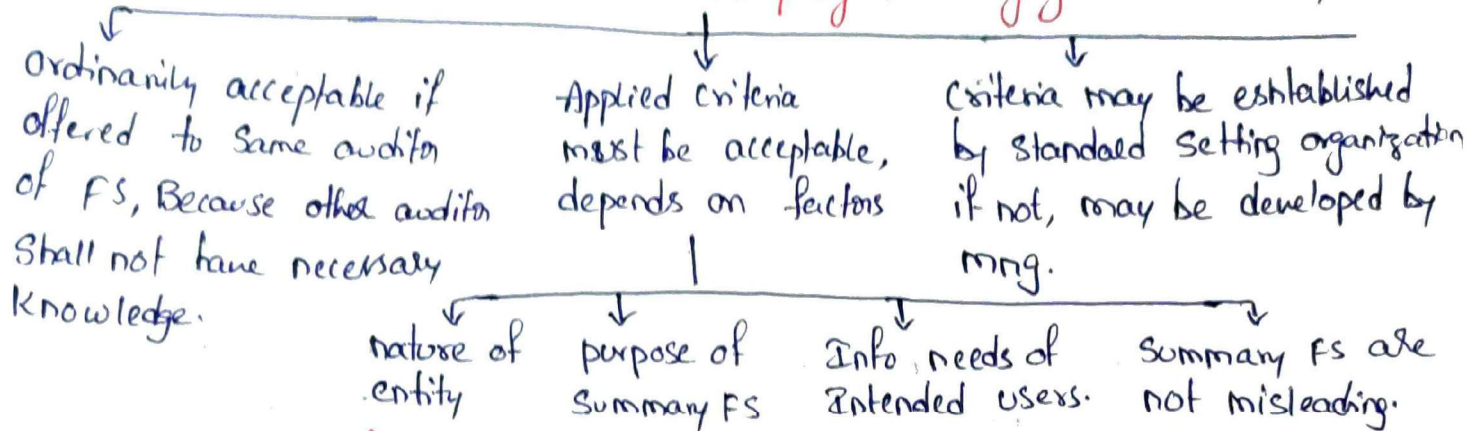
Note: Issue separate report for audit of single FS/element & audit of complete set.

SA-810: Engagement to report on Summary financial Statements

Derived from financial statements, less detail but consistent with financial statements.

eg: Can be used in investor presentation, Submission to credit rating agencies, including in prospectus for IPO

Factors to be considered in accepting the engagement.



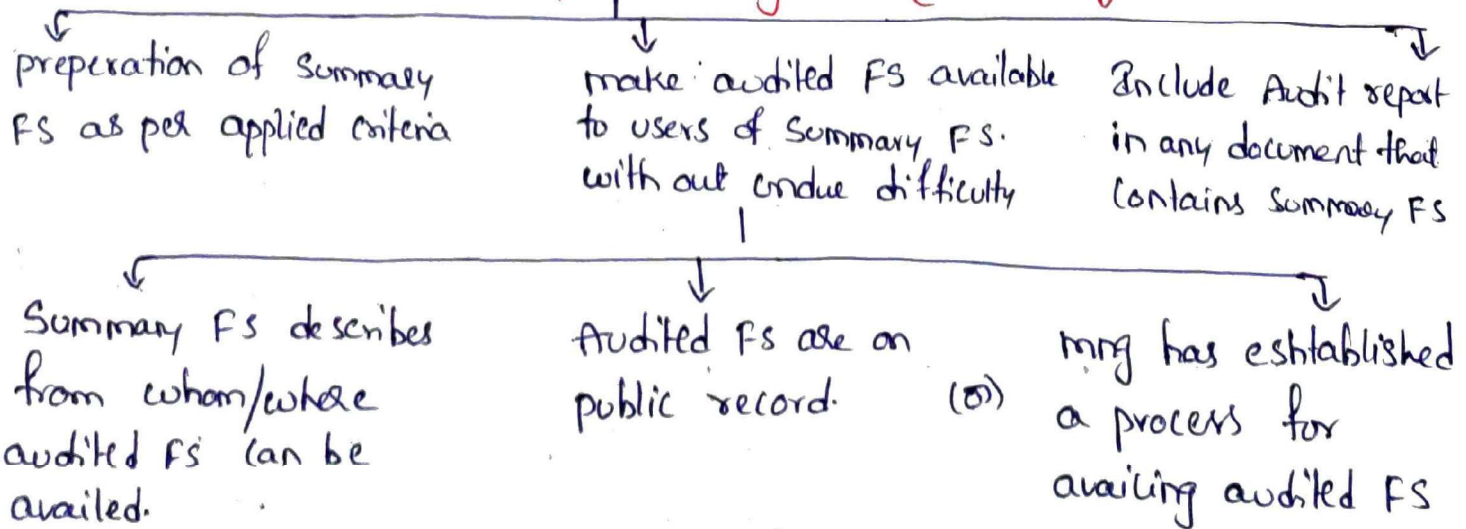
If applied criteria is unacceptable.

Auditor shall not accept the engagement unless required by ~~law~~ law (or) regulation.

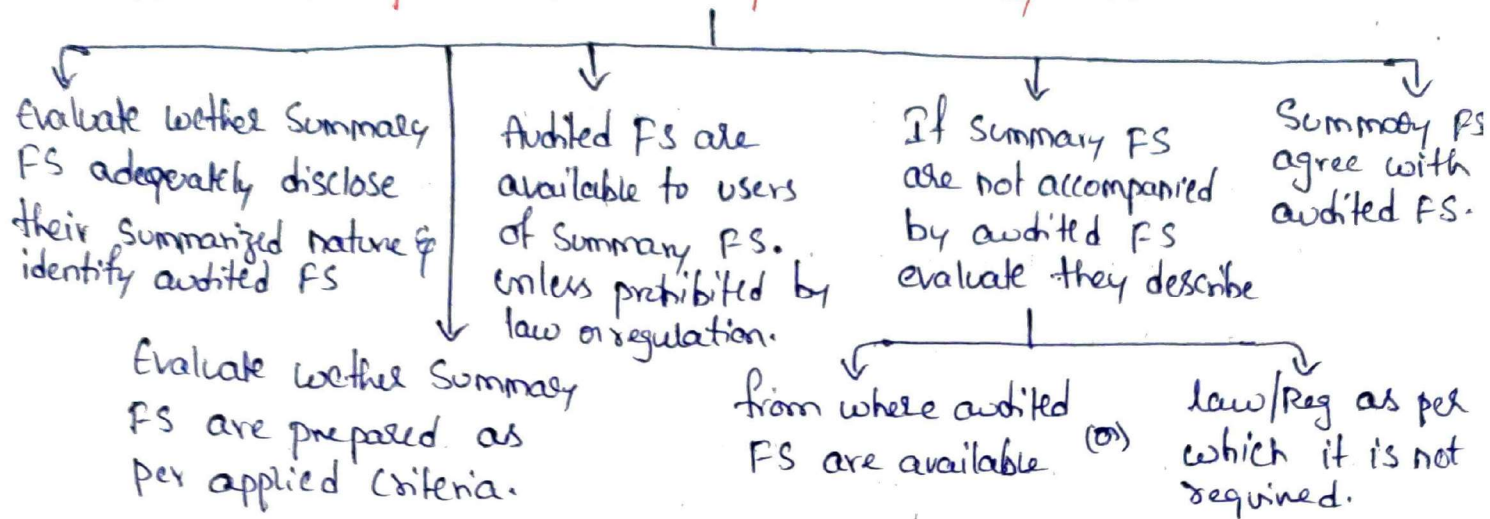
If accepted because of law/regulation

Audit report on summary FS shall not indicate compliance with SA ^{this}

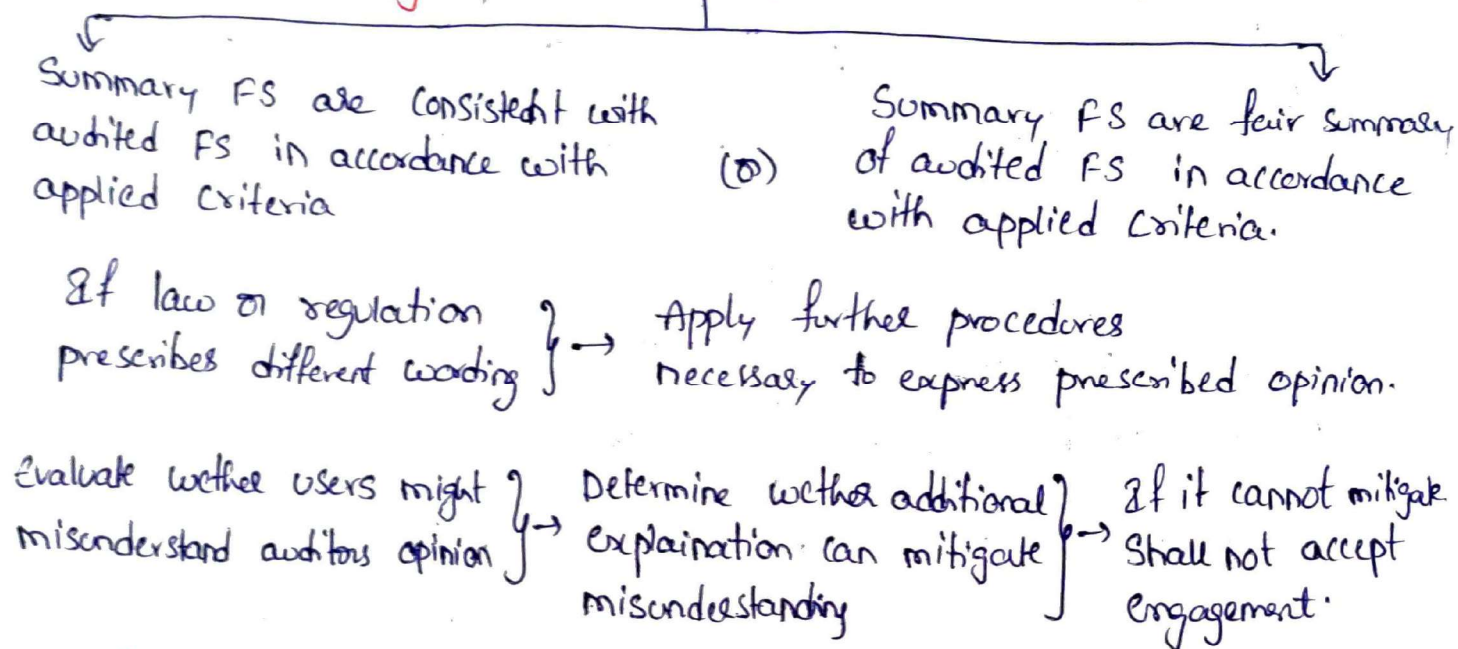
Responsibility of management (obtain agreement)



Nature of procedures to be performed by Auditor.



Wording of unmodified opinion on Summary FS.



Auditors report on FS

① contains qualified opinion/ EOM/OM

② contains adverse/disclaimer.

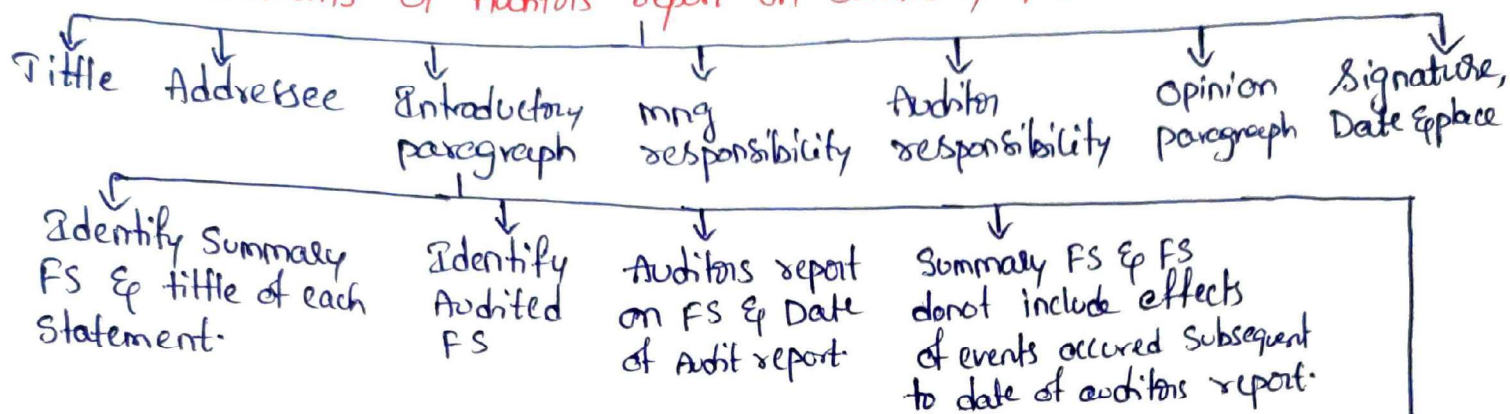
Auditors report on Summary FS

→ State that ~~some~~ AR on FS contain qualified
 → Basis for qualified opinion on FS
 → Effect on Summary FS.

→ state that AR on FS contains adverse/disclaimer
 → Describe basis for adverse/disclaimer
 → State that because of adverse/disclaimer it is inappropriate to express opinion on Summary FS.

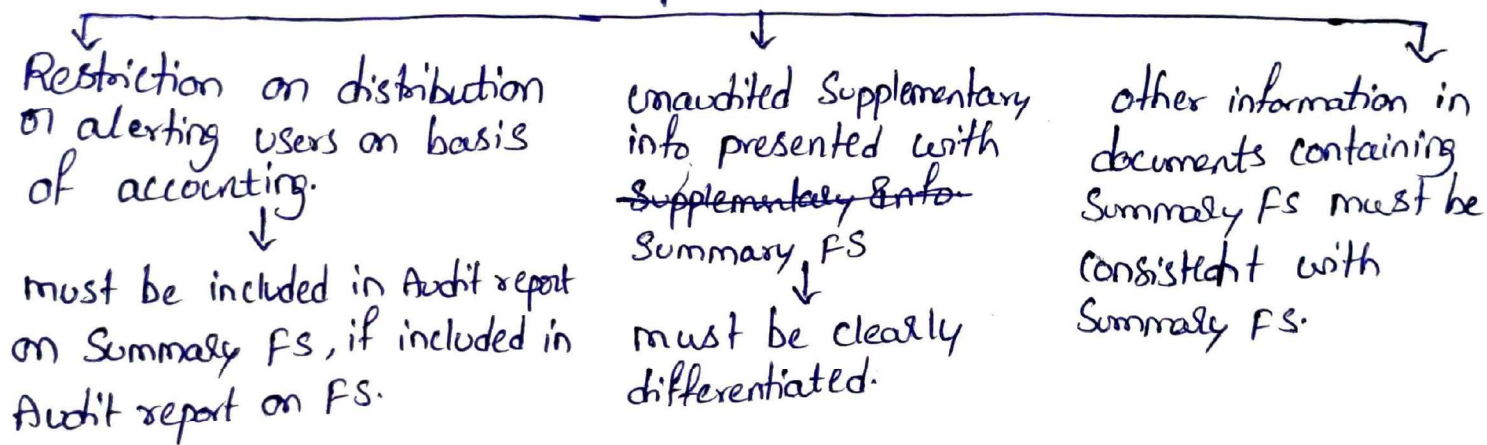
Note: If Summary FS are not consistent in ^{all} material respects with audited FS in accordance with applied criteria express adverse opinion on Summary FS.

Elements of Auditors report on Summary FS.



Summary FS donot contain all disclosures required by FRFW & Summary FS is not substitute for reading audited FS.

Important points.



Chapter-9: Audit Related Services.

Non-Assurance Services (eg: ITR filing, consultancy etc)

SRS-4400

engagement to perform agreed-upon procedures regarding financial information

SRS-4410

Compilation Engagements.

SRS-4400 - Engagement to perform agreed-upon procedures regarding financial information.

Agreed upon procedures Engagement.

Specified procedures

performed on specified subject matter

issues Report on factual findings

no assurance

Agreed between client & Auditor & any appropriate 3rd party. → need not be statutory/Internal Auditor of the entity.

Examples of Agreed-upon procedures.

Balance Confirmation of A/c payable.

Compliance Engagement (Law & Regulation)

Inventory Audit

Asset valuation

Defining Engagement terms.

Stated purpose of engagement.

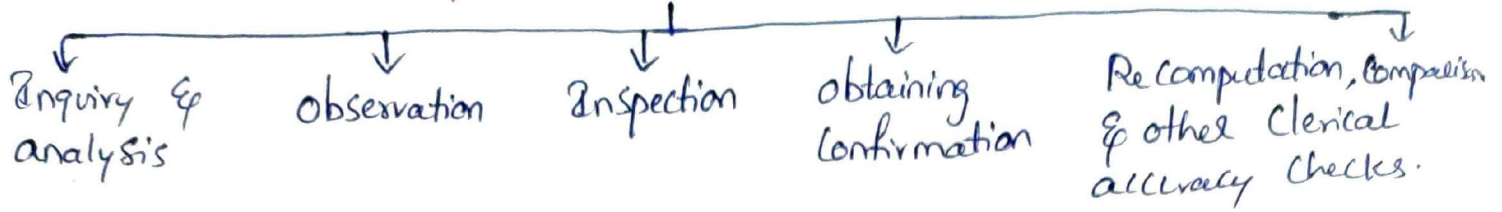
fact that this is not a audit and no assurance will be provided.

Identify financial info on which procedures will be performed.

limitations on distribution of report, if any.

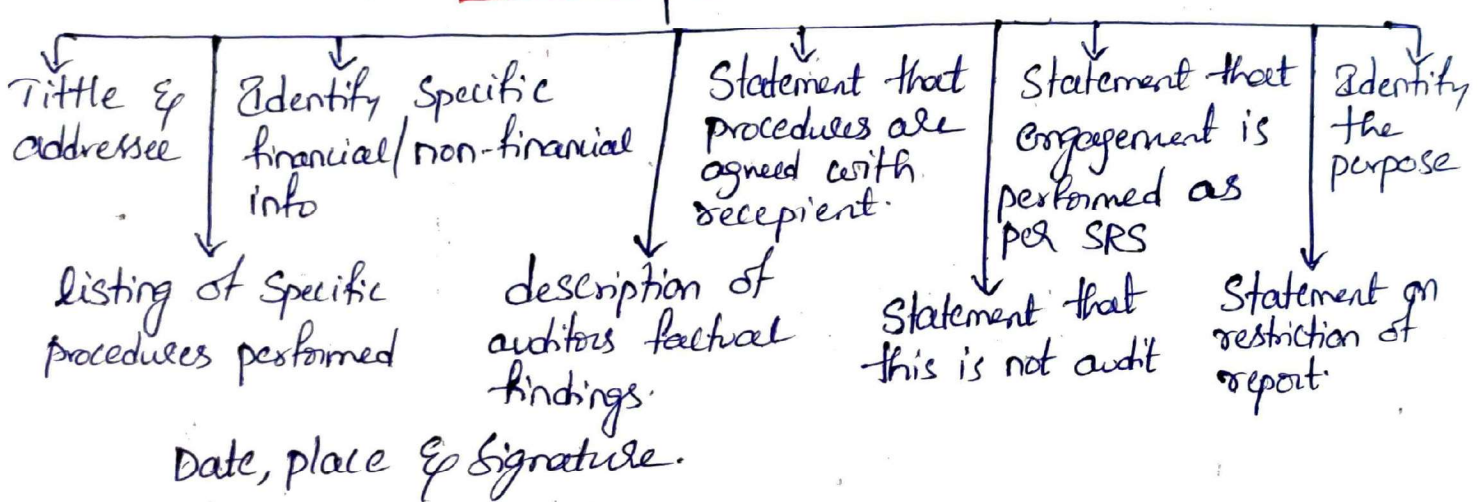
NTE of specific procedures.

procedures may include



Note: In these engagements Auditor should comply with code of ethics. However Independence is not required.

Elements of Report



Note: Auditor should also maintain documentation of evidence.

SRS - 4410 - Compilation Engagements

Engagement to assist management in preparation & presentation of financial statements & issue report.

Scope of Compilation engagement.

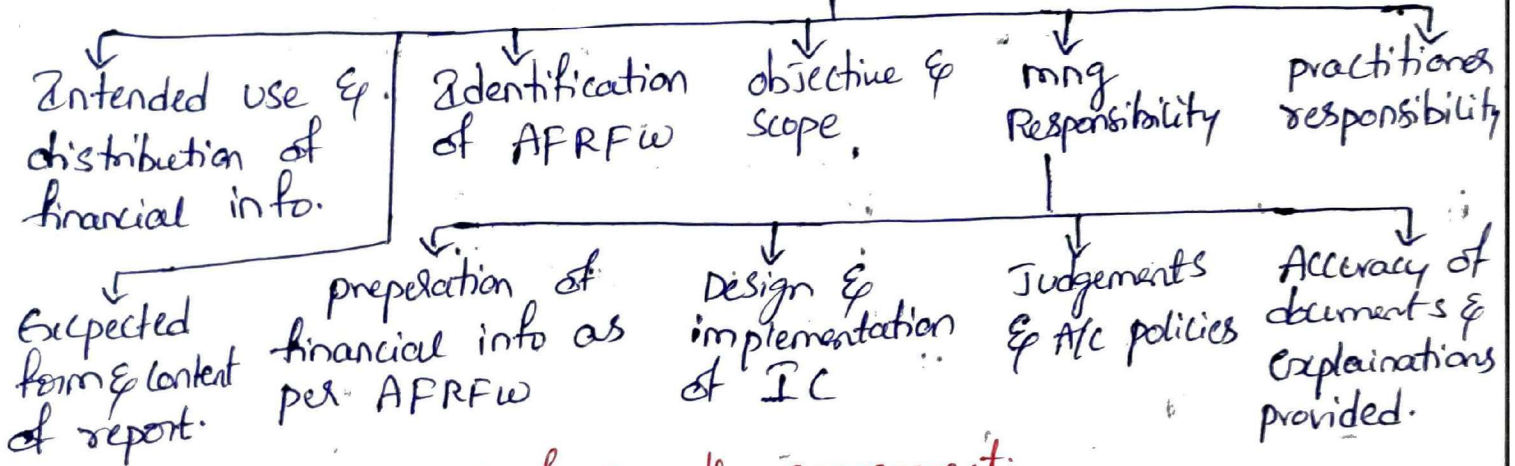
varies depending on circumstances of engagement.

generally assisting mng in preparation & presentation of financial information.

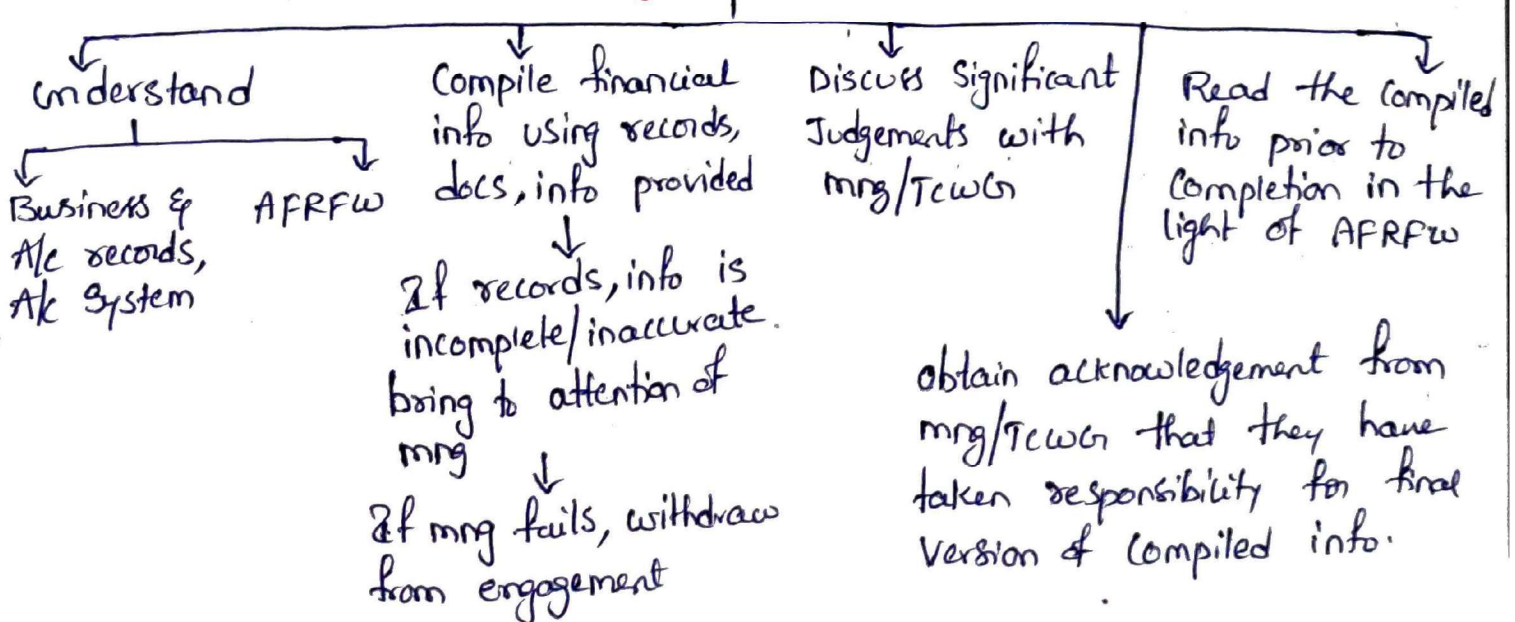
Responsibility to make Judgements, Selection of A/c policies, preparation & presentation of Financial info lies with management.

Engagement acceptance & Continuance.

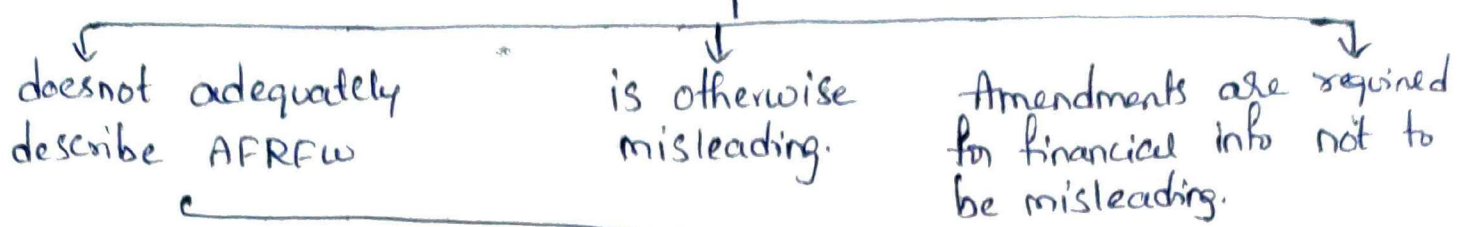
Shall not accept until Terms are acceptable.



performing the engagement.



If practitioner becomes aware that compiled financial info

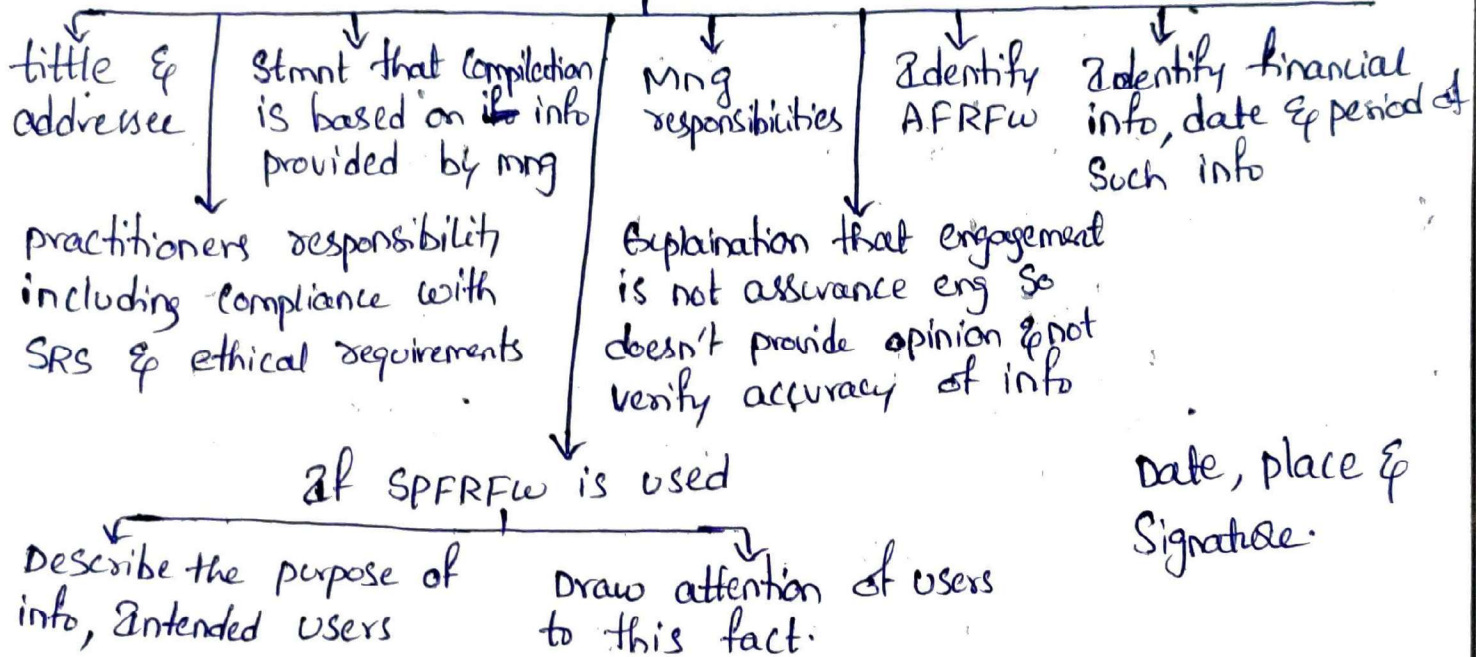


propose appropriate amendment to mng.

If mng declines, withdraw from the engagement.

If withdrawal not possible, determine professional & legal responsibilities ^{Key}

Practitioner's Report



Note:

→ practitioner shall comply with code of ethics, however independence requirements do not apply

→ practitioner is responsible for ensuring quality control at engagement level as per firm's quality control policies.

Review of financial information (Chapter-10)

Audit

(vs)

Review

- ① provides reasonable assurance
- ② assurance opinion is positively worded
- ③ Eg: FS as a whole are free from material misstatements

- ① provides limited assurance.
- ② assurance opinion is negatively worded.
- ③ Eg: Based on the procedures performed nothing has come to our attention

Standard dealing with review engagement.

Engagement to review historical FS
↓
SRE-2400

Review of Interim FS performed by independent Auditor of entity
↓
SRE-2410

SRE-2400 - Engagement to review historical financial statements.

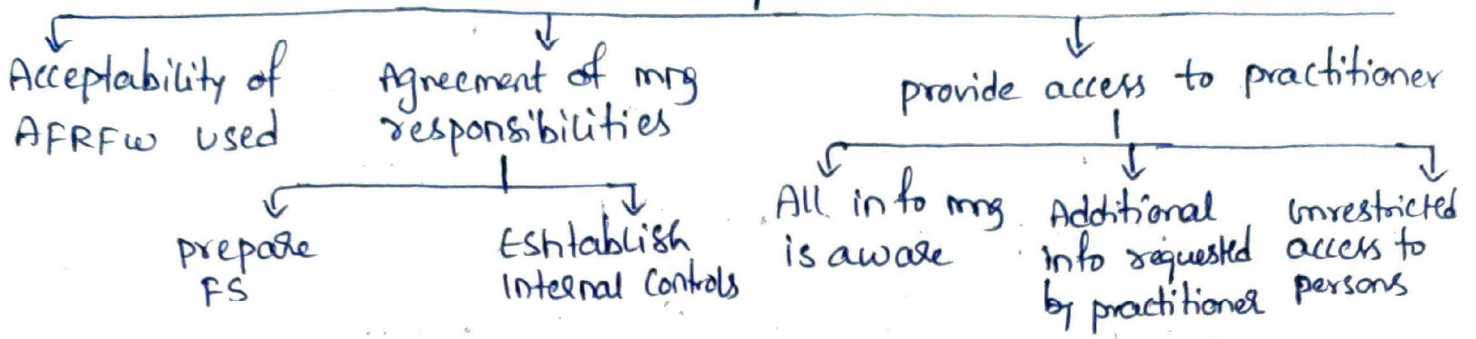
Deals with providing limited assurance (review) by practitioner who is not auditor of the entity

Eg: ① partnership firm to whom tax audit is not applicable gets review of FS by CA

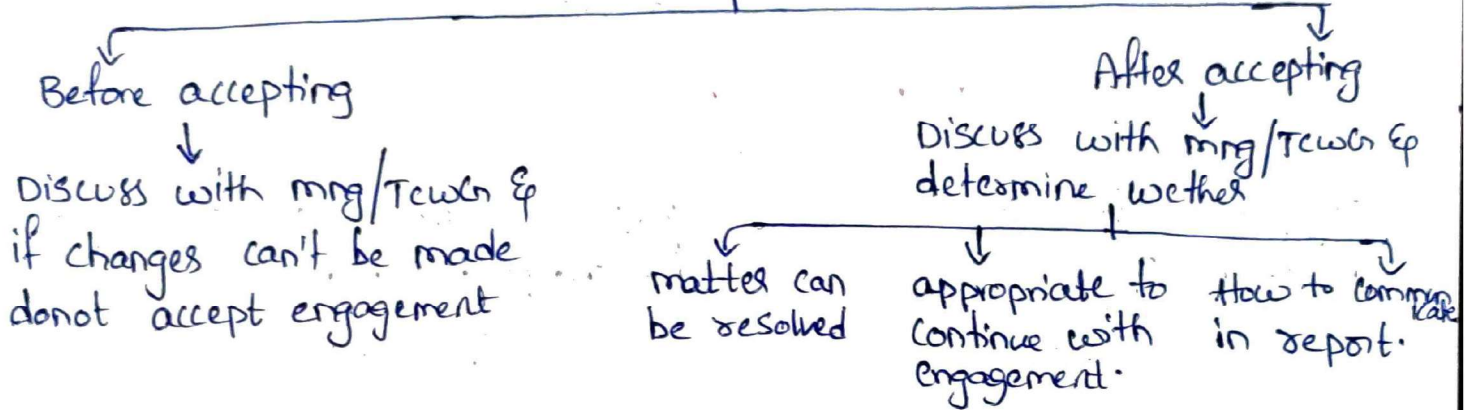
② AS per loan agreement, entity has to get its FS reviewed by CA other than its auditor

Note: Practitioner shall comply with ethical requirements including independence & he is responsible for quality of review engagement

Pre-conditions for accepting review engagement:



If practitioner is not satisfied with any of above



Overview of performing review engagement as per SRE 2400

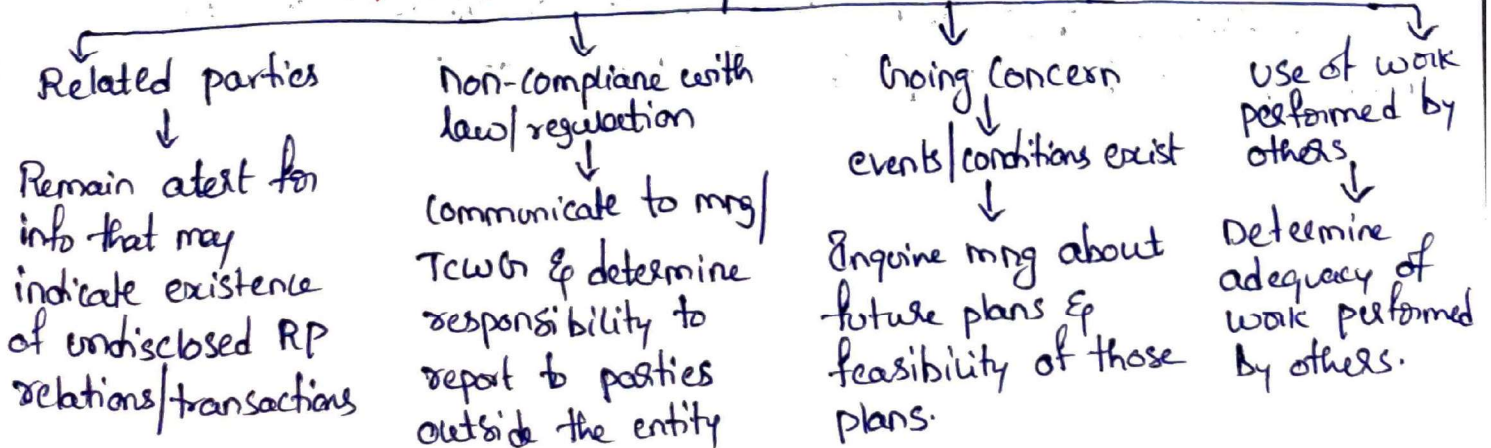
Step 1: obtain understanding of entity

Step 2: Determine materiality (Judgement about materiality is same irrespective of level of assurance)

Step 3: Designing & performing procedures

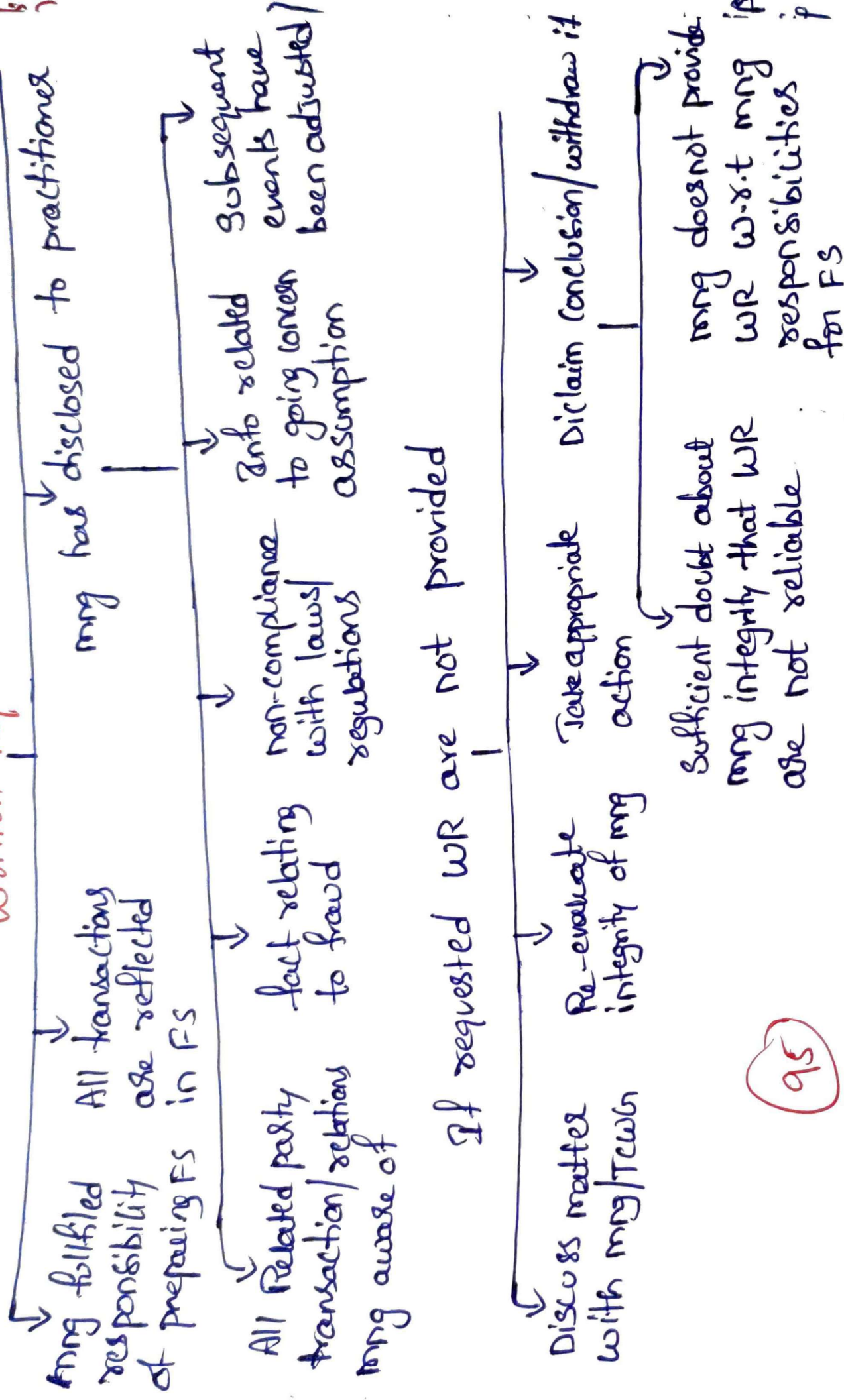
Mainly focuses on inquiry & analytical procedures

Step 4: Procedures to address specific circumstances



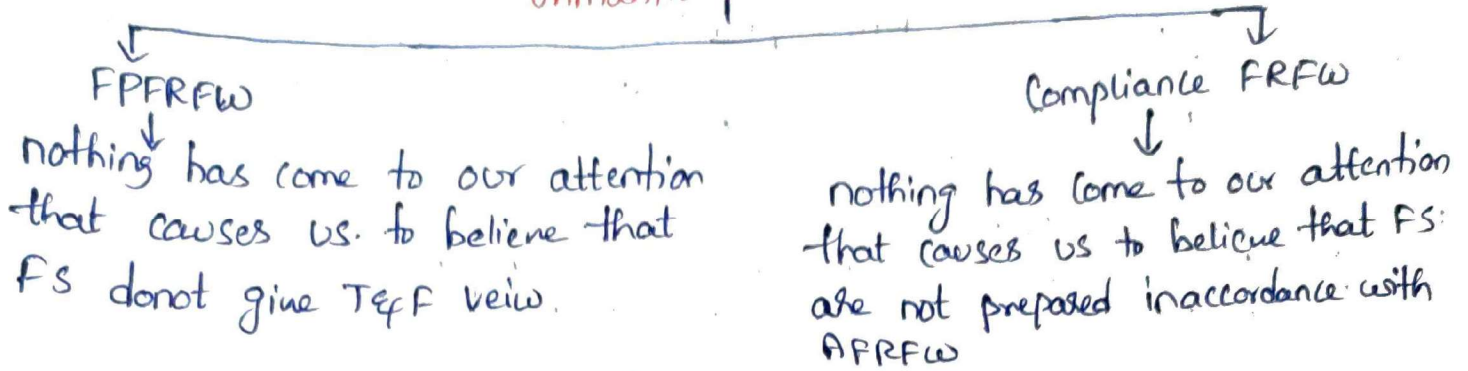
Step 5: Additional procedures when practitioner becomes aware that FS may be materially misstated.

Written Representations

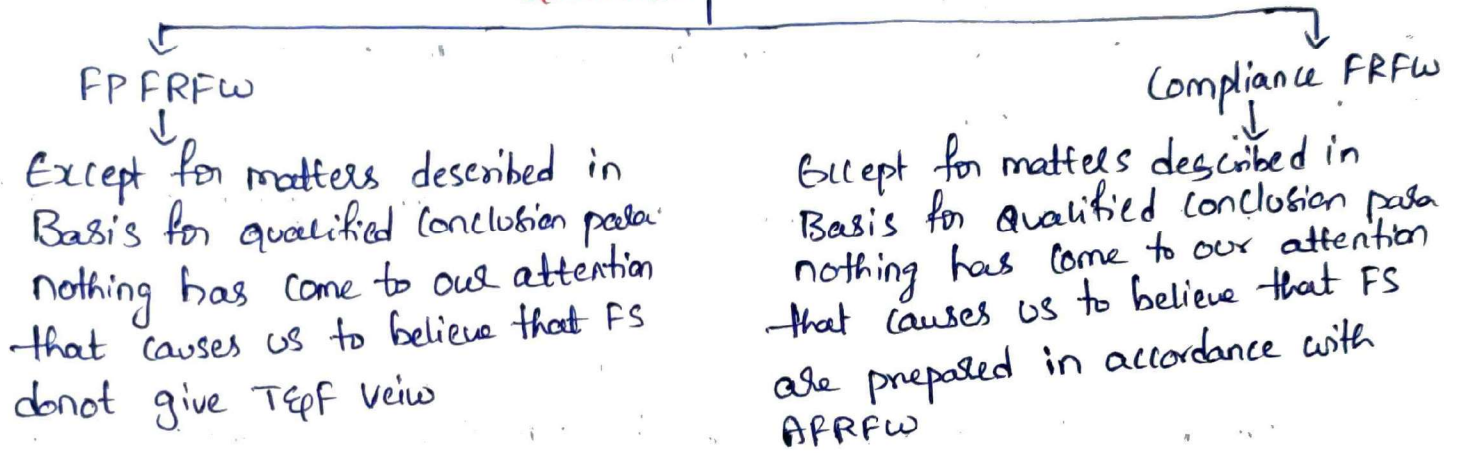


Types of conclusions

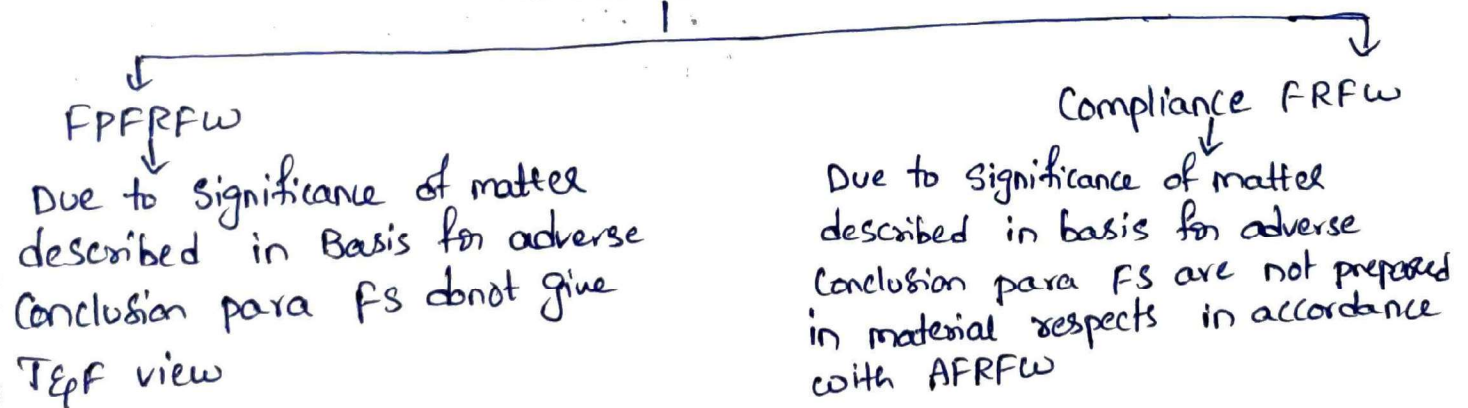
unmodified conclusion



Qualified conclusion



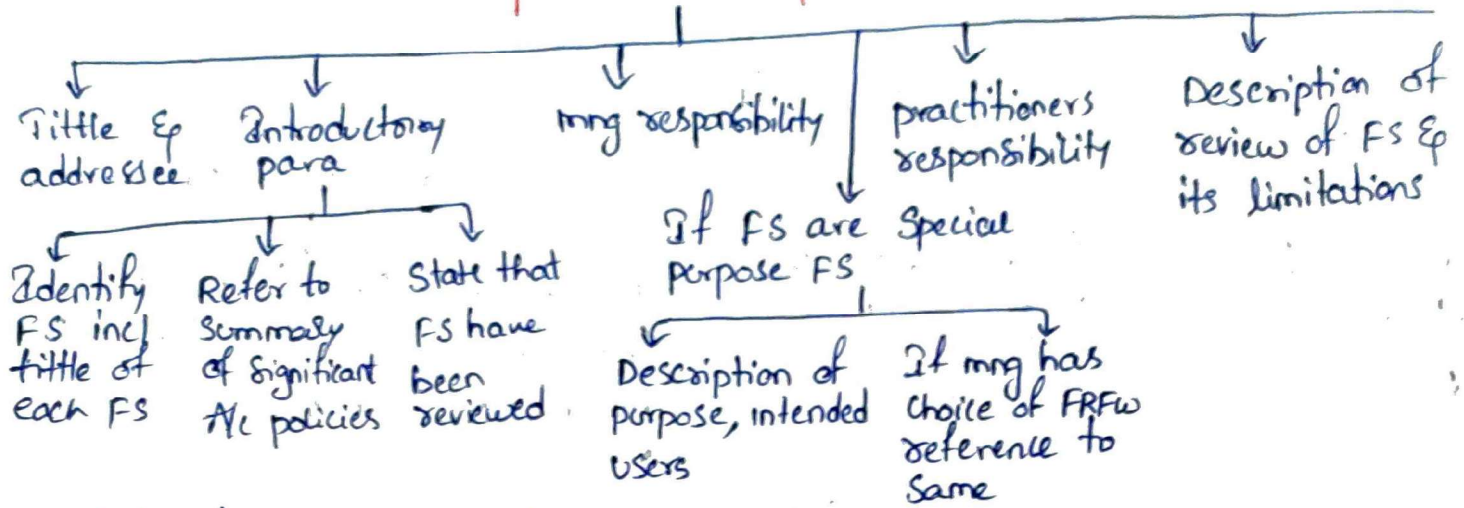
Adverse conclusion



Disclaimer

Due to significance of matters described in Basis for disclaimer of conclusion para, practitioner is unable to obtain SAME to form conclusion on FS

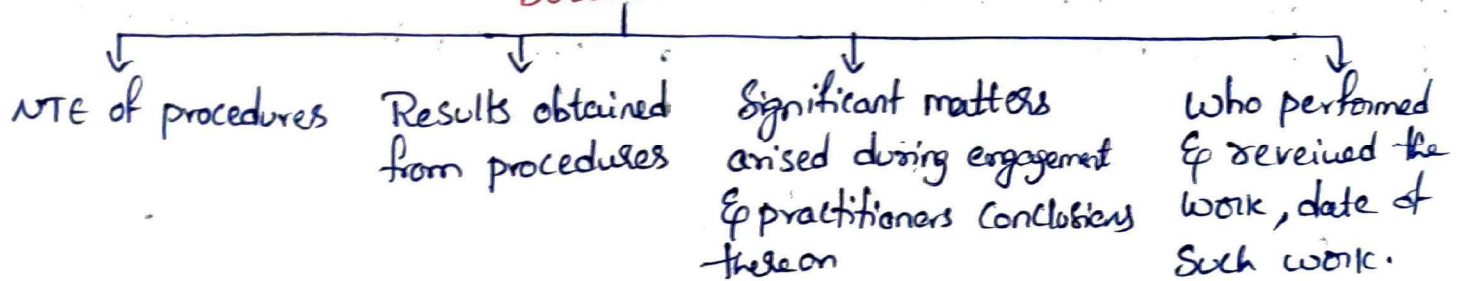
practitioners Report



- Conclusion paragraph
- Basis for conclusion paragraph (In case of modified conclusion)
- Date, Signature & place.

Requirement of Com, other matter para and other reporting responsibilities

Documentation



SRE-2410: Review of Interim financial information performed by independent auditor of the entity

Interim financial information → It is for a period shorter than entity's financial year.

Agreeing terms of engagement → Between client & Auditor and record

Understanding entity & its Environment

↓
It is necessary to

↓
Identify types of potential misstatements & consider likelihood of their occurrence

↓
Select the review procedures that provide basis for auditors reporting.

procedures to update understanding of the entity

↓
Reading preceding year audit documentation, recent Annual & interim financial information

↓
Inquiring about results of mng's risk assessment of interim FS

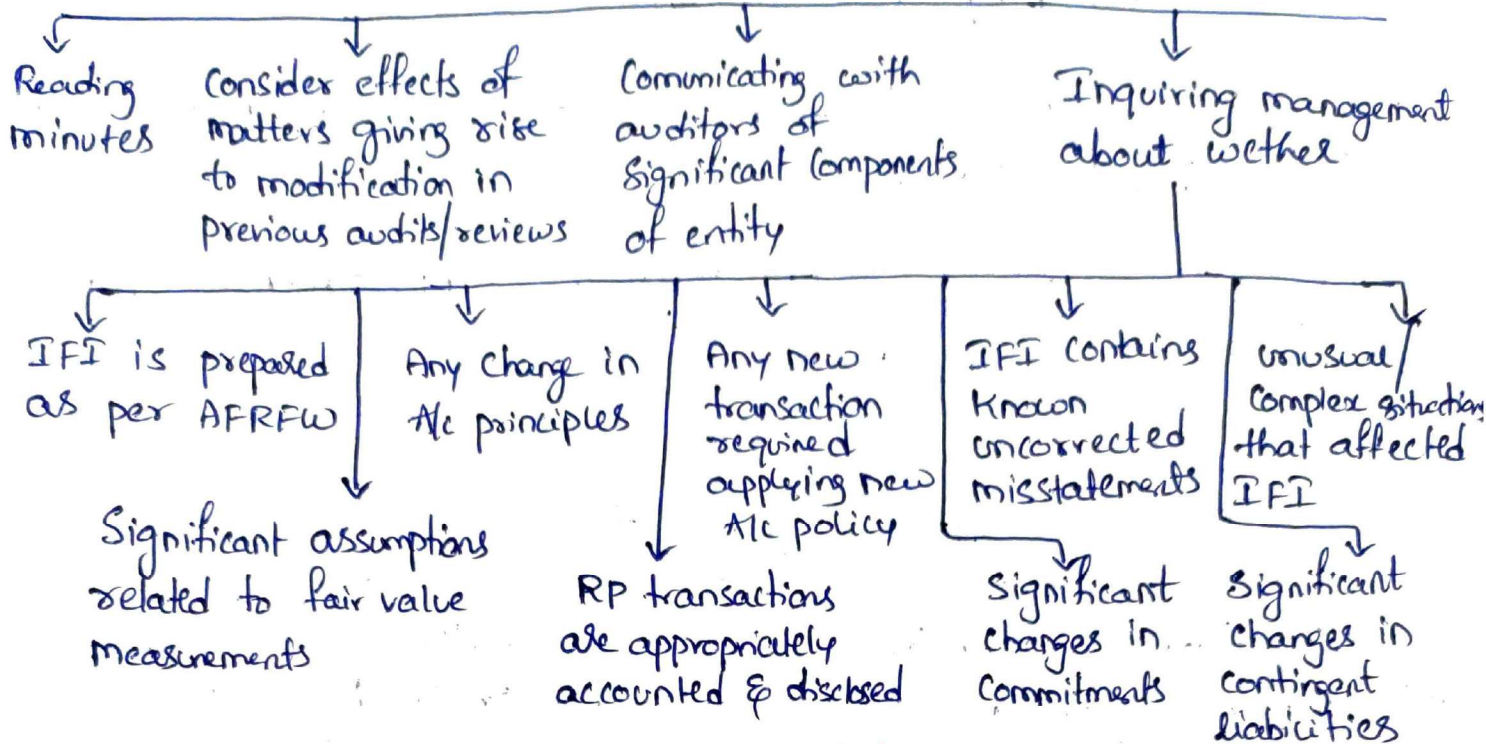
↓
Considering Significant Risks

↓
Inquiring mng about effect of changes in entity's business activity, changes in IC on preparation of Interim financial info

↓
Considering nature of corrected & uncorrected misstatements of prior year FS

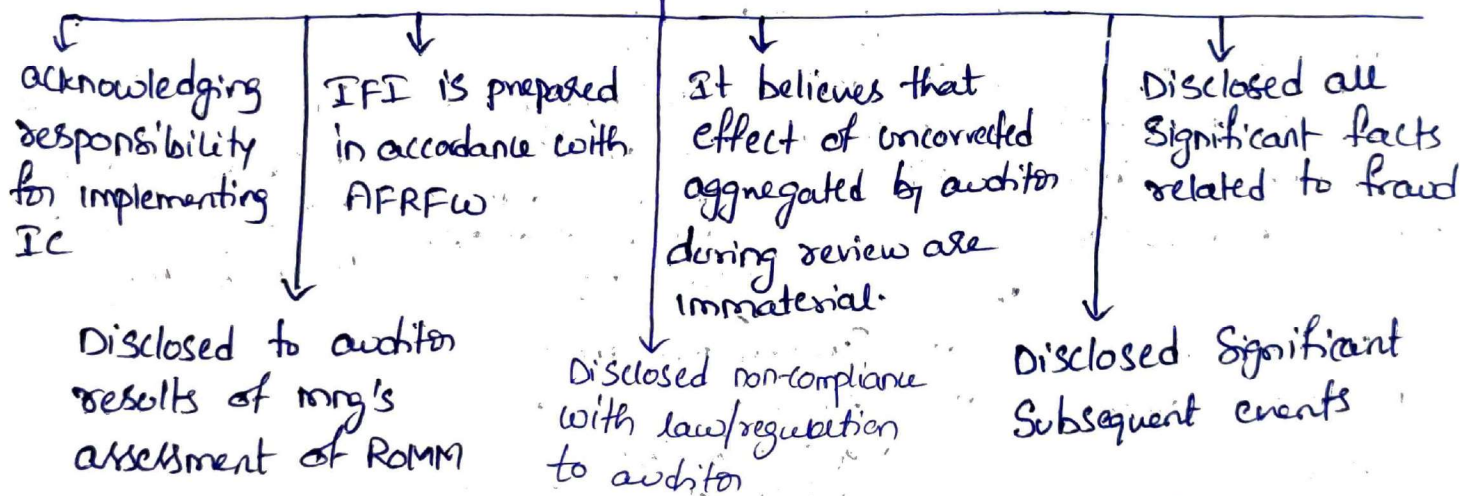
↓
Considering results of Internal audit & subsequent action taken by mng

Inquiry, Analytical and other review procedures



Management Representations

Auditor should obtain written representation from mng that



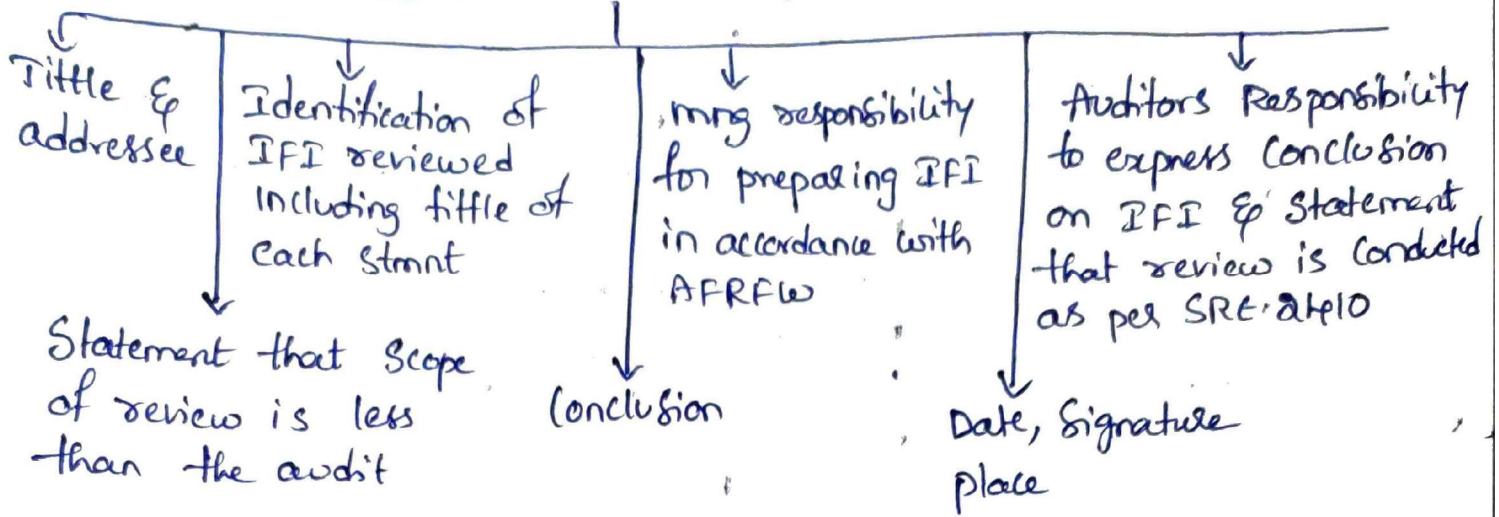
Auditors responsibility for accompanying information

Read & ascertain whether accompanying information is inconsistent with interim financial information

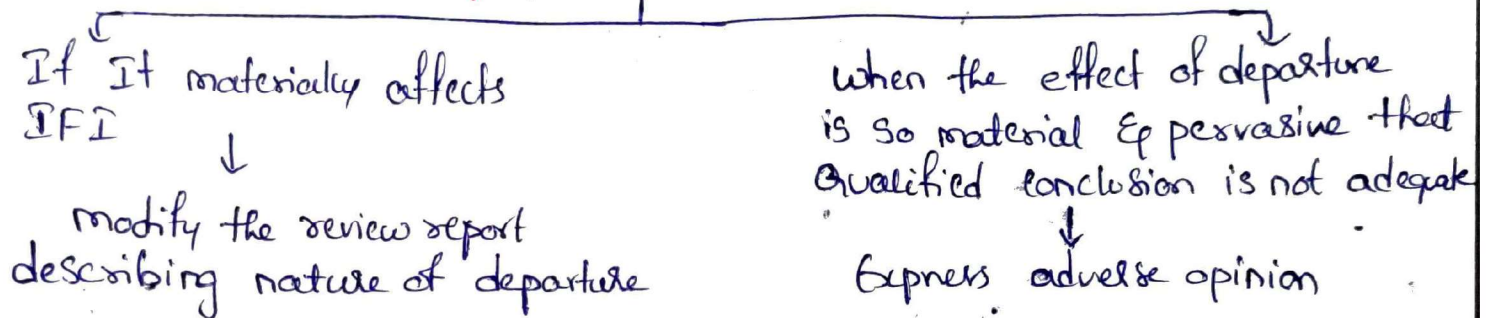
If there is material inconsistency & mng refuses to make amendment

consider including additional paragraph describing material inconsistency (a)
withholding issue of report (b)
withdraw from engagement.

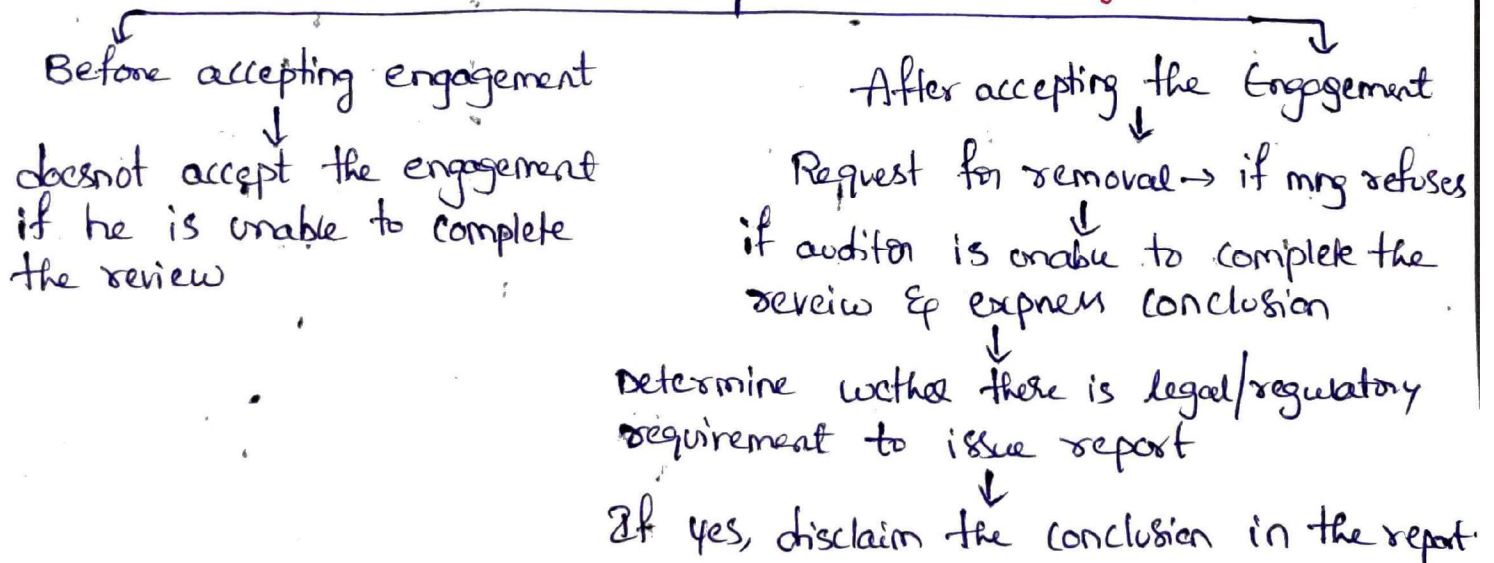
Written Review Report



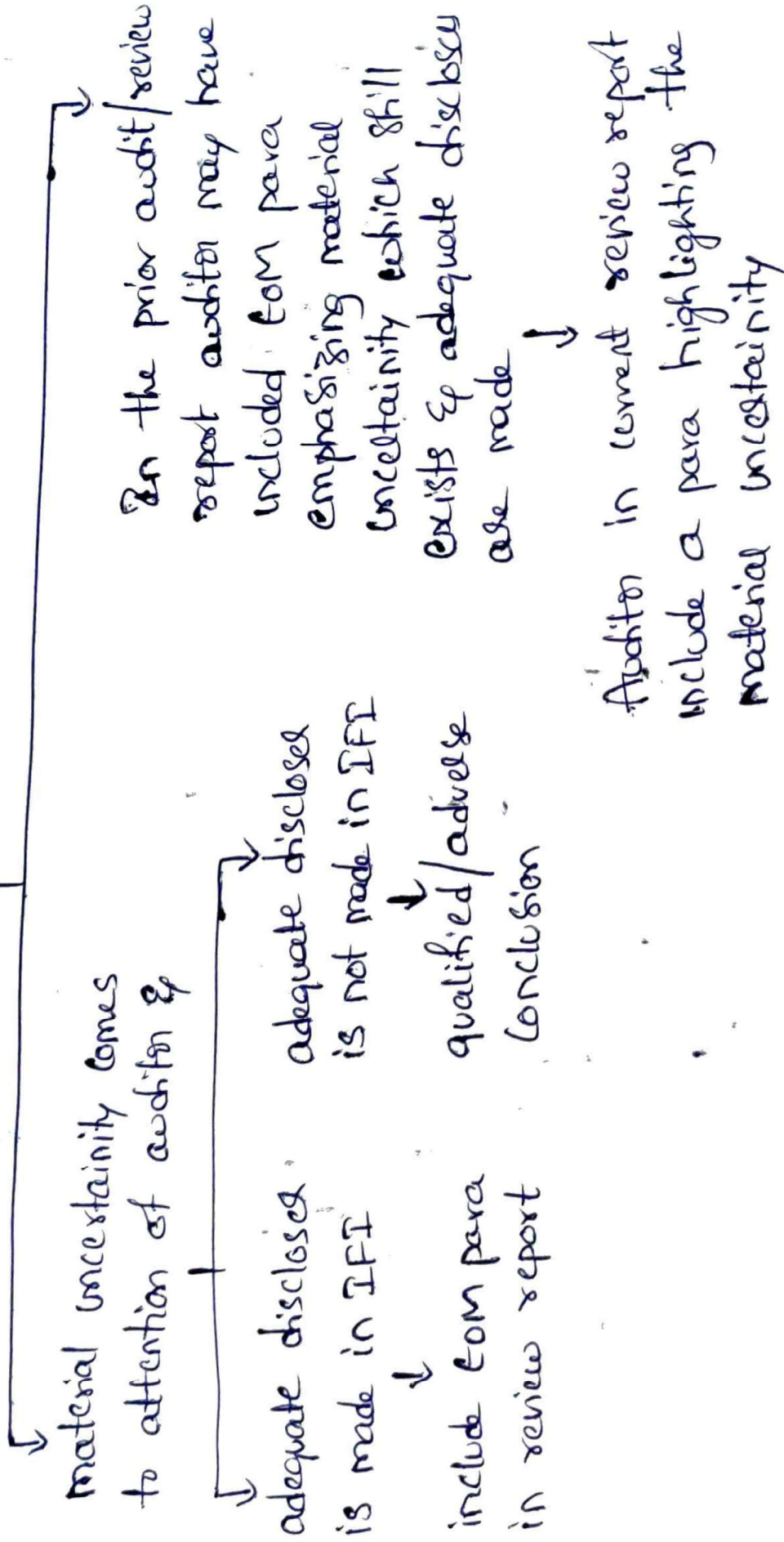
Departure from AFRFW



Limitation on scope imposed by management

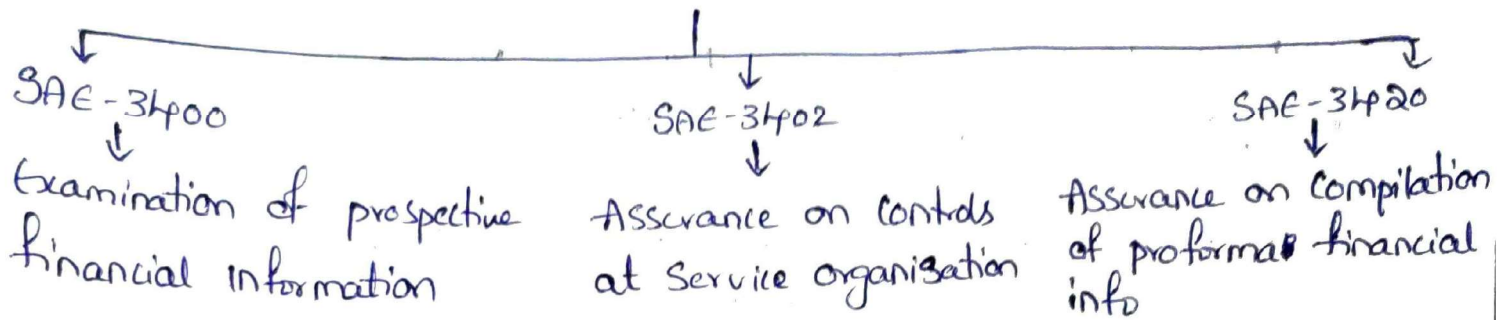


Going Concern



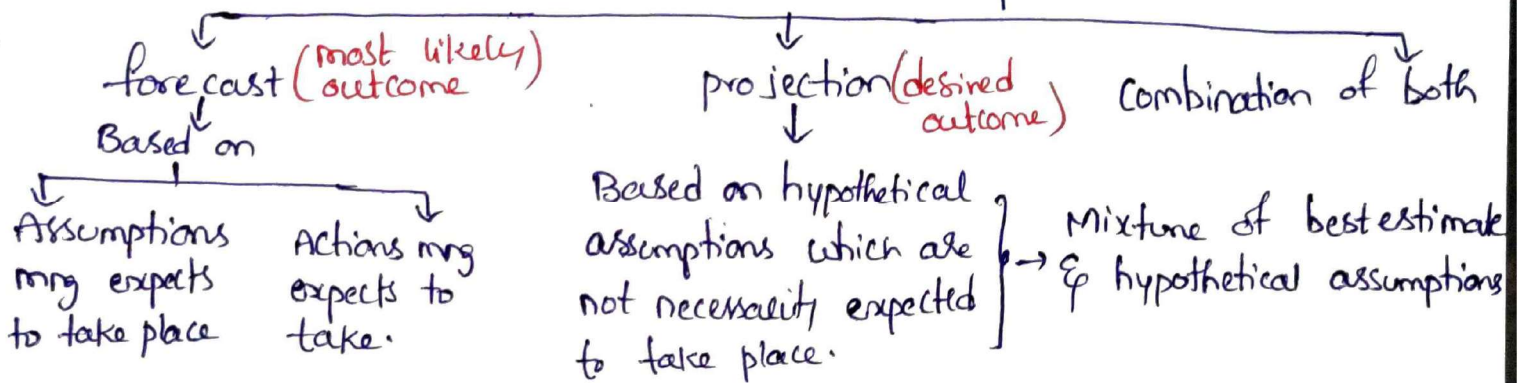
Chapter-11 - prospective financial info & other assurance services

Assurance engagement: Related to examination of subject matter other than historical financial statements.

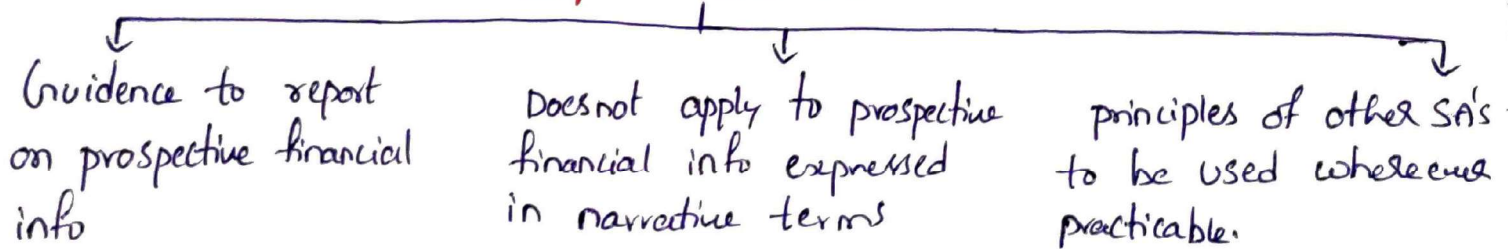


SAE-3400 -> Examination of prospective financial information

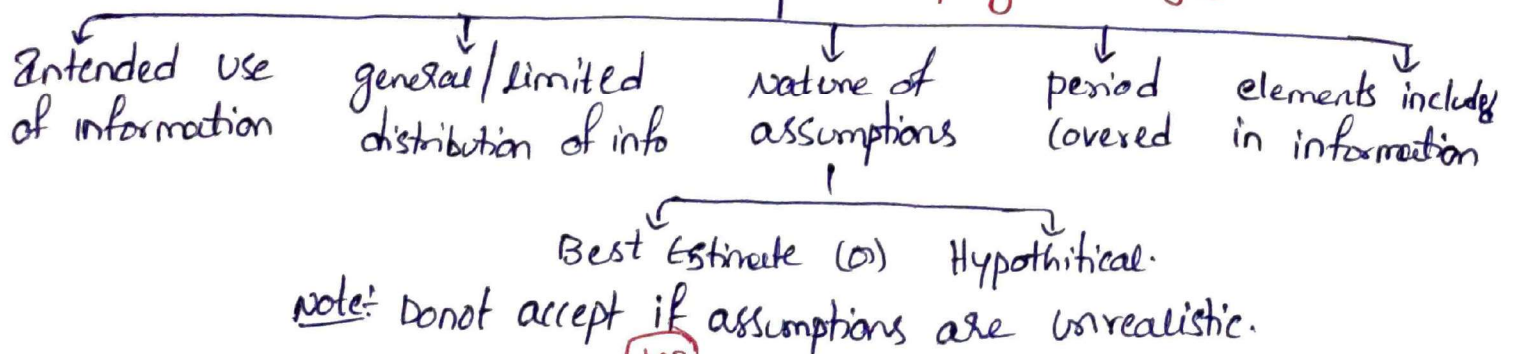
financial info based on assumptions about events that may occur in future & possible action by entity. prospective financial info can be



Scope of SAE-3400



Considerations before accepting the engagement.



Nature of Assurance



Assurance will be given on underlying assumptions but not on prospective financial info (since they are future oriented)

Note: mg is responsible for preparing prospective financial info, including underlying assumptions

Association of professional accountant with prospective fin info

Should not associate in a manner which may lead to belief that he vouches for accuracy of forecast.



Clause-3, part-1, Sch-II of CA, Act

Can participate in review & preparation of forecast if he clearly indicates → Source of info, basis of forecast & major assumptions

Duties of member examining prospective financial info

Obtain SAAE that

P.F.I is properly prepared on the basis of assumptions

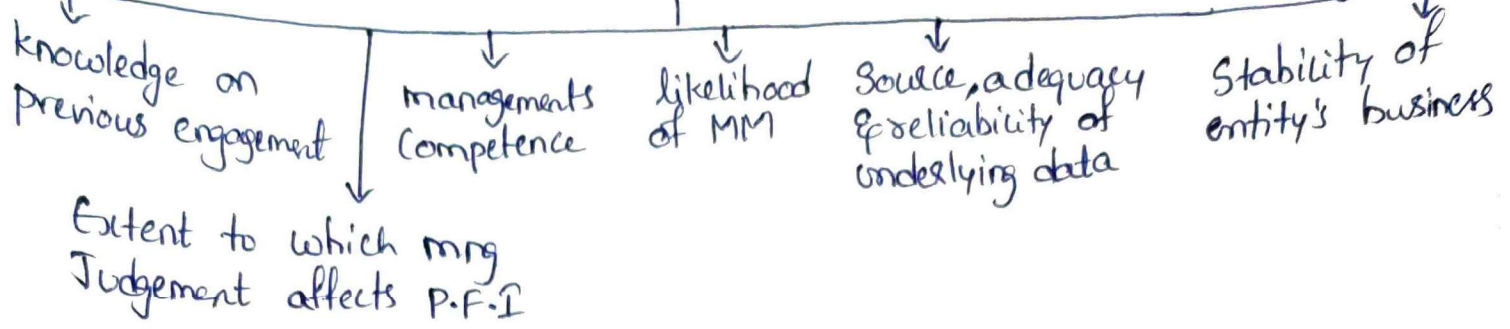
Best-estimate assumptions are not unreasonable

Hypothetical assumptions are consistent with purpose

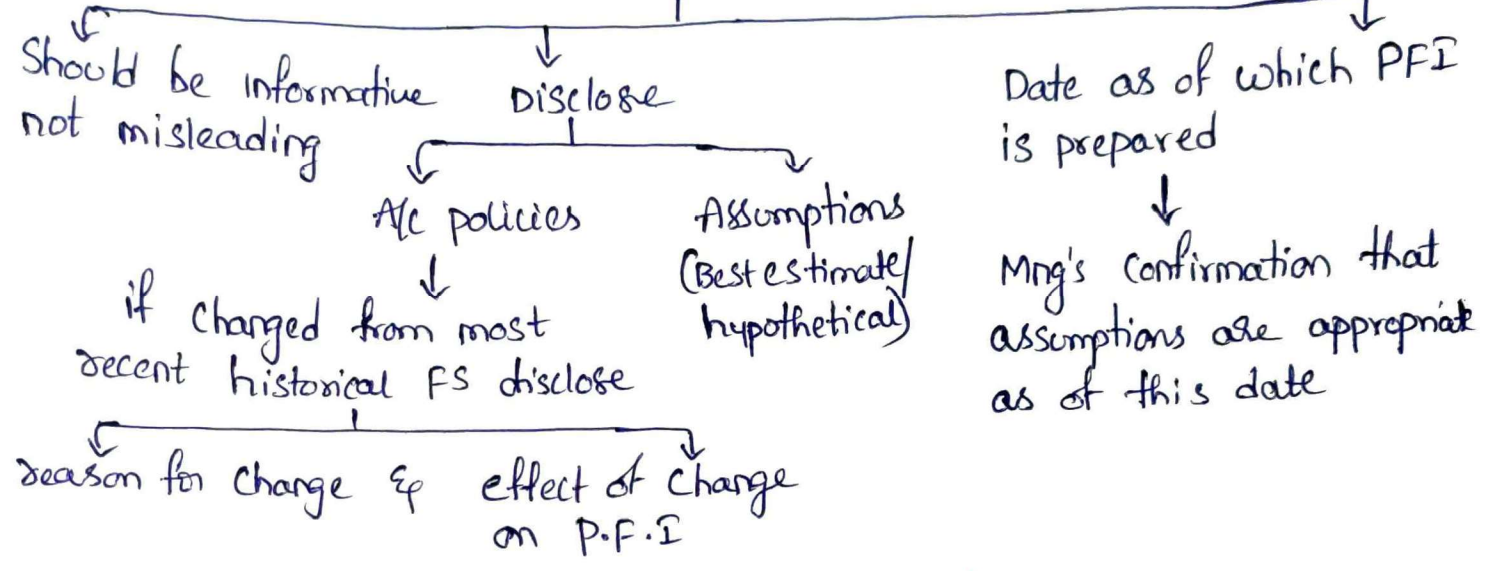
All material assumptions are clearly disclosed

P.F.I are consistent with historical F.S, using appropriate A/c policies

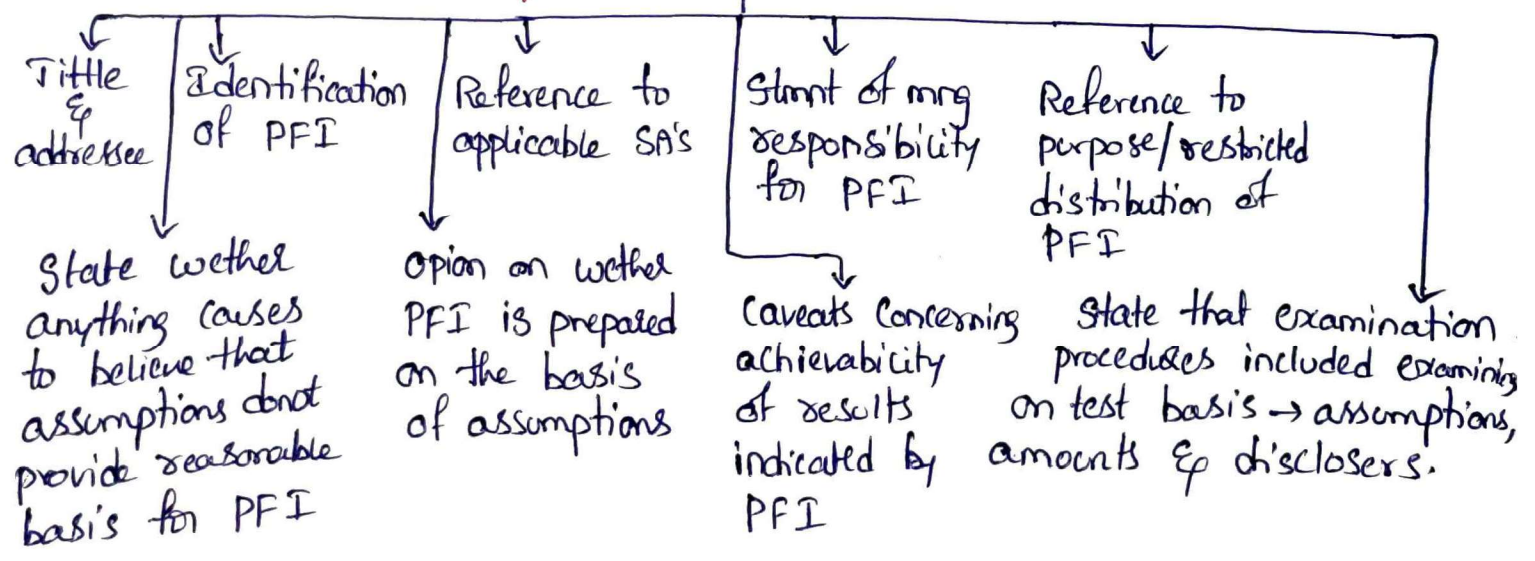
matters to be considered in determining NTE



presentation & disclosures

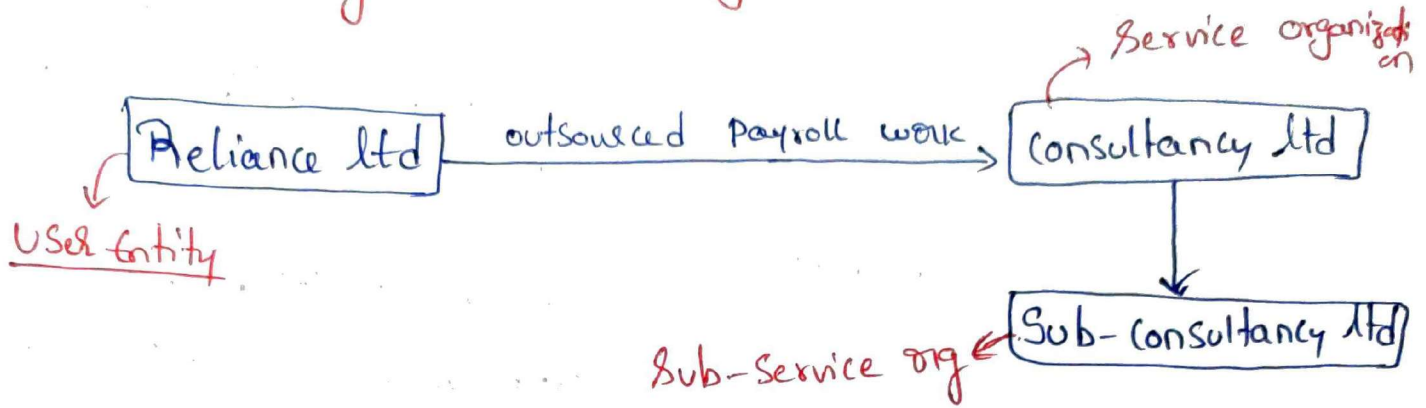


Report on Examination of PFI

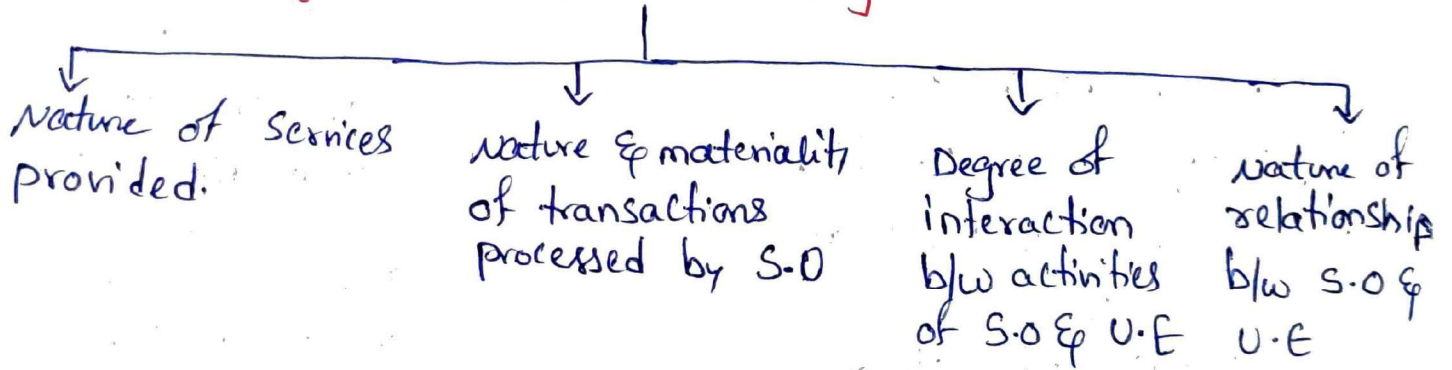


Date, place & Signature.

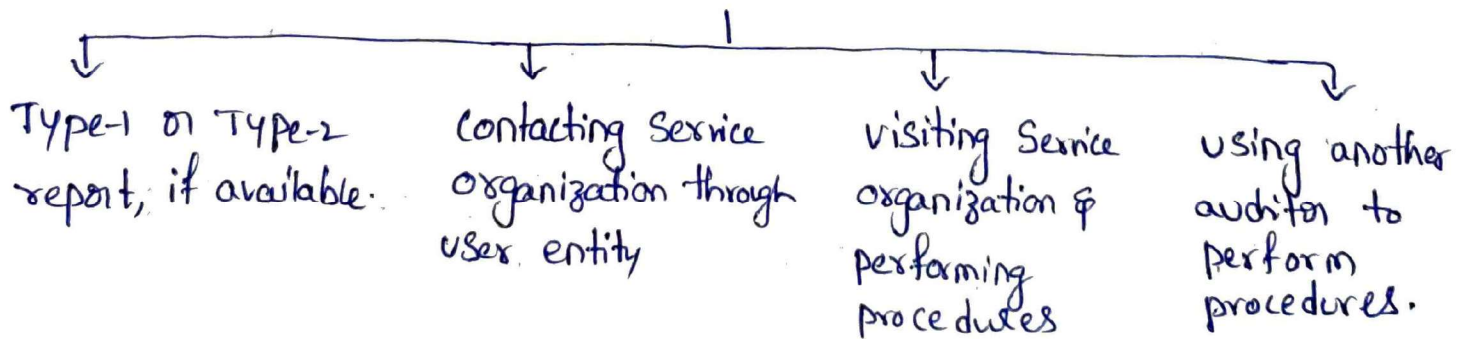
SA-402 - Audit considerations relating to an entity using a service organization. [01/04/2010]



User auditor obtains understanding of services provided by service organization by understanding.



if unable to obtain sufficient understand from user entity then user auditor shall obtain.



~~BT~~ Type-1 report (vs) Type-2 report.

↓
Contains design & implementation of controls at Service org

↓
as on specified date

↓
Contains design, implementation & their operating effectiveness at Service organization

↓
as on specified date or throughout specified period.

Reporting by user auditor.

↓
Unable to obtain SAAE regarding services provided by Service organization

↓
Modify the opinion

↓
In case of unmodified opinion

↓
Donot refer to the work of Service auditor unless required by law.

note! In case sub-Service organization is involved.

① Type-1/Type-2 reports include Services of Subservice organization } → Carve in reports.

② Type-1/Type-2 reports donot include Services of Subservice organization } → Carve out reports.
↓
Apply this standard for Subservice organization.

SAE-3402 - Assurance Reports on Controls at Service organization

Scope of SAE-3402 (So → Service organization)

↓
applies when Service org is responsible for/able to make assertion about suitable design of controls. doesn't deal with engagement

↓
To report only on operation of controls as described at Service org

↓
To report only on controls at Service organization other than related to those services that are related to user entities, financial reporting. (eg: controls related to user entities production)

Objectives of Service Auditor

↓
obtain reasonable assurance about whether

↓
Service organization's description of system fairly presents system as designed & implemented

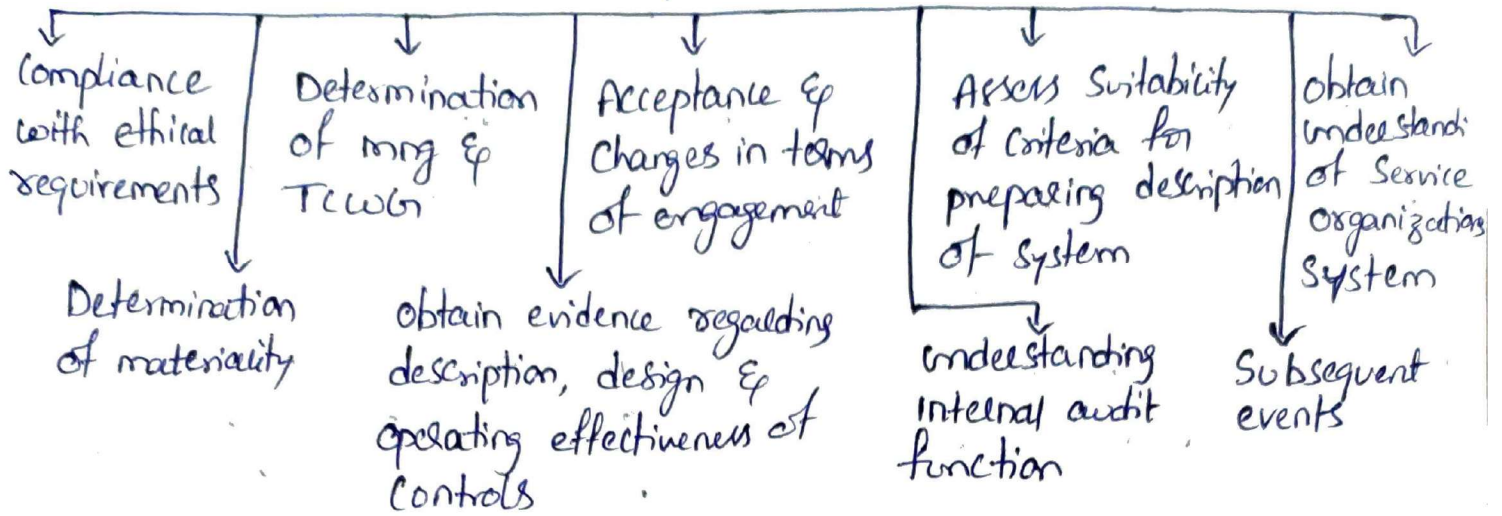
↓
Controls related to control objectives are suitably designed as stated in description of system.

↓
Controls operated effectively to achieve control objectives as stated in description of system

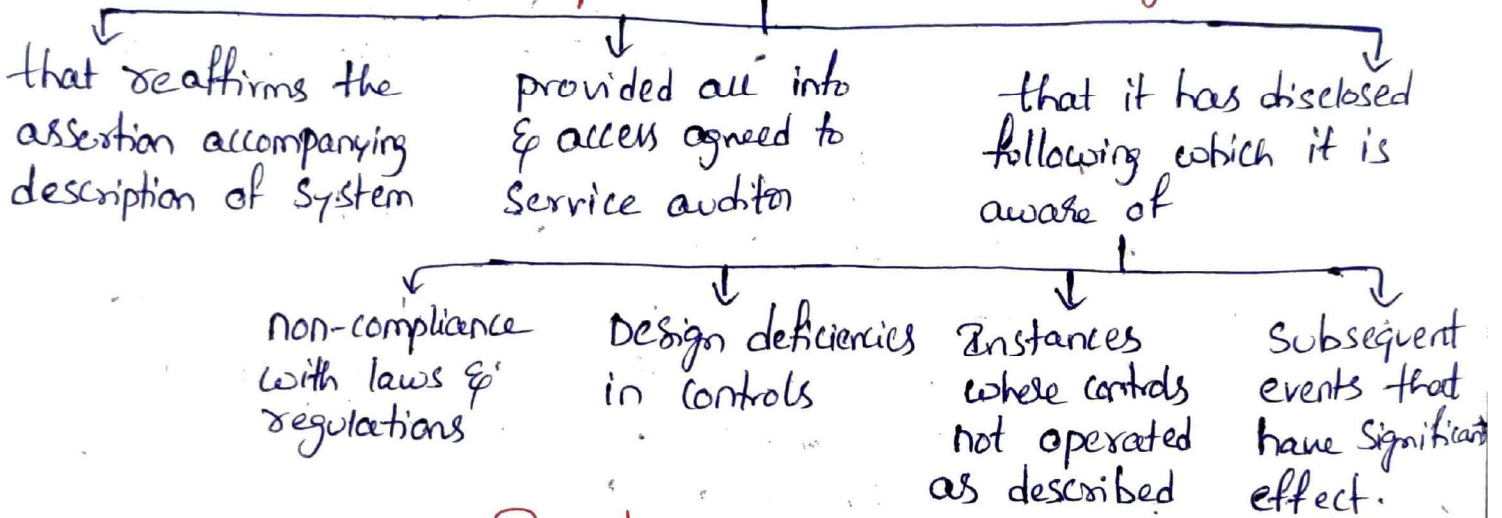
↓
To report on above matters.

Description of System: Document prepared by Service organization containing design & implementation of controls at Service organization

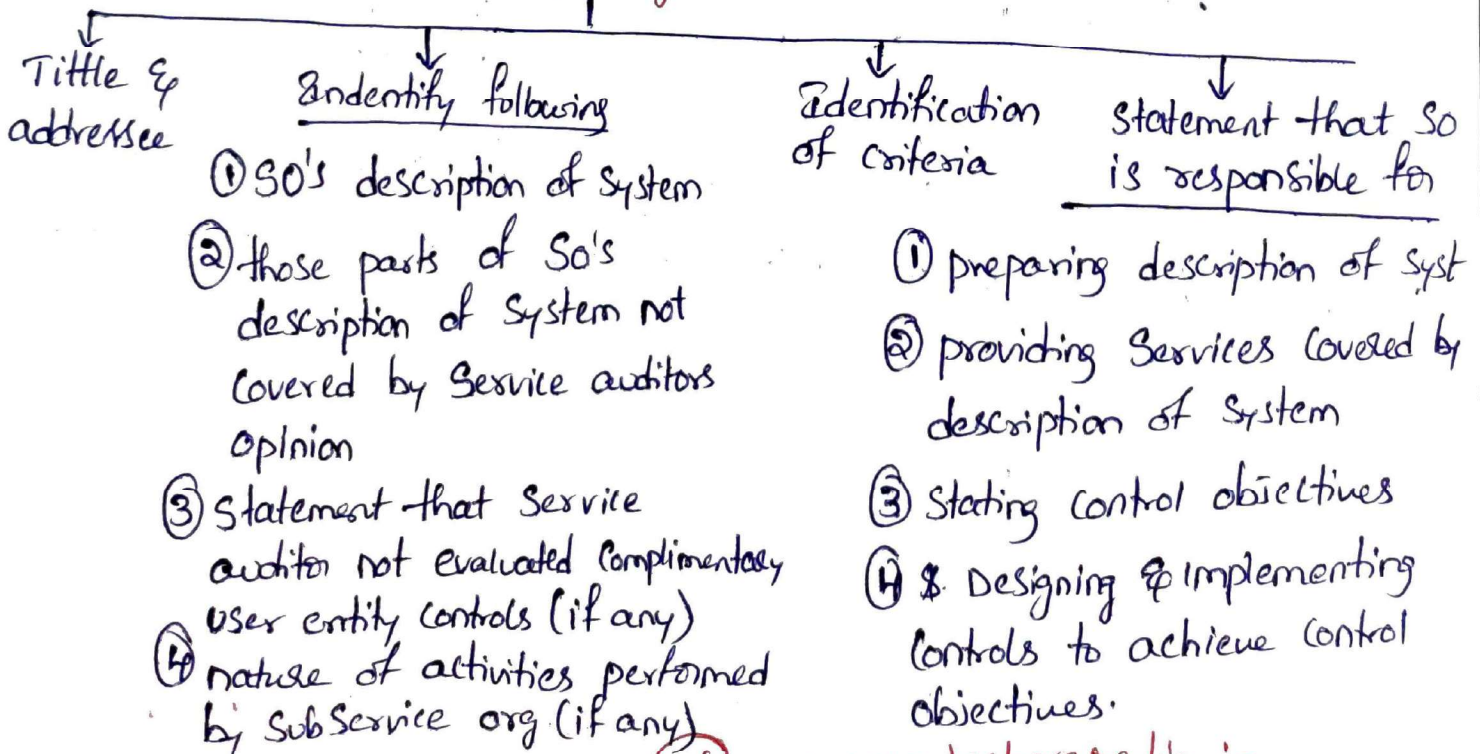
How to proceed with Such engagement



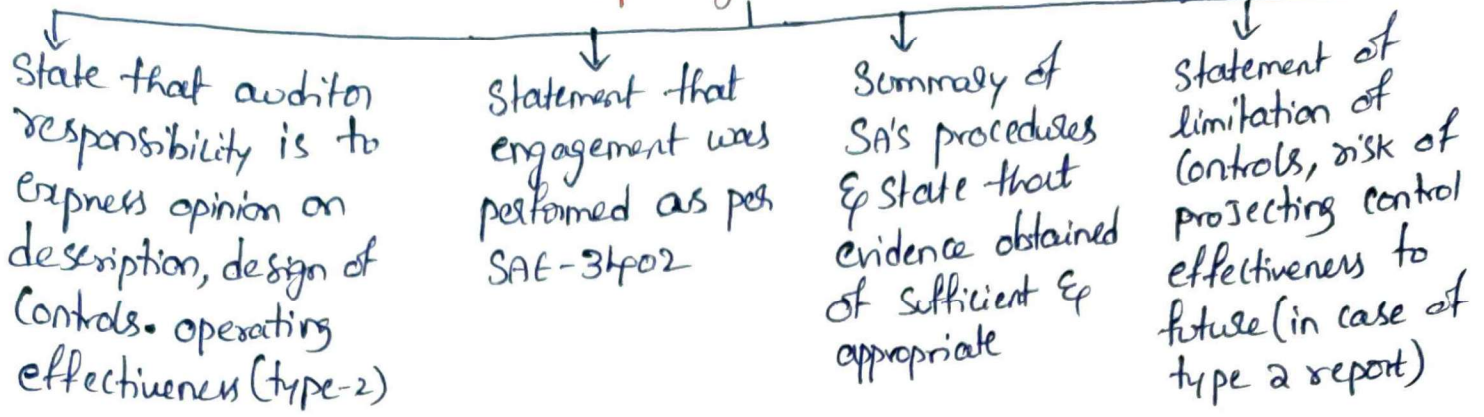
written representations from Service organization



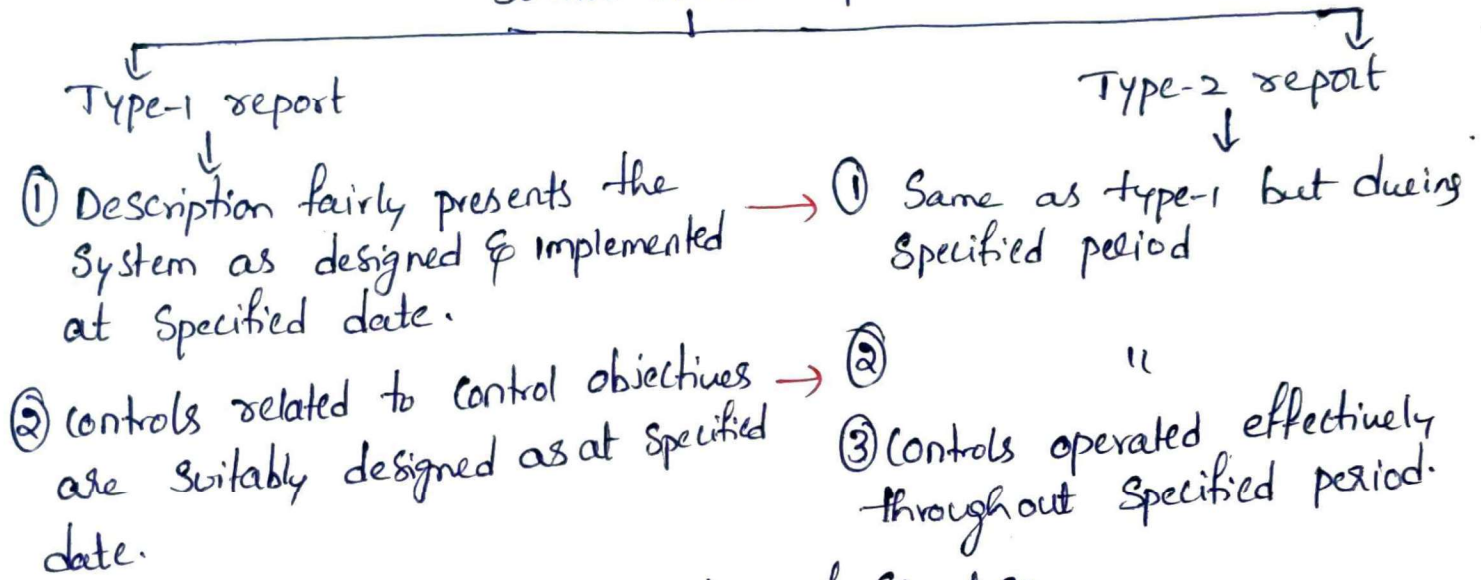
Reporting



Reporting (continued)

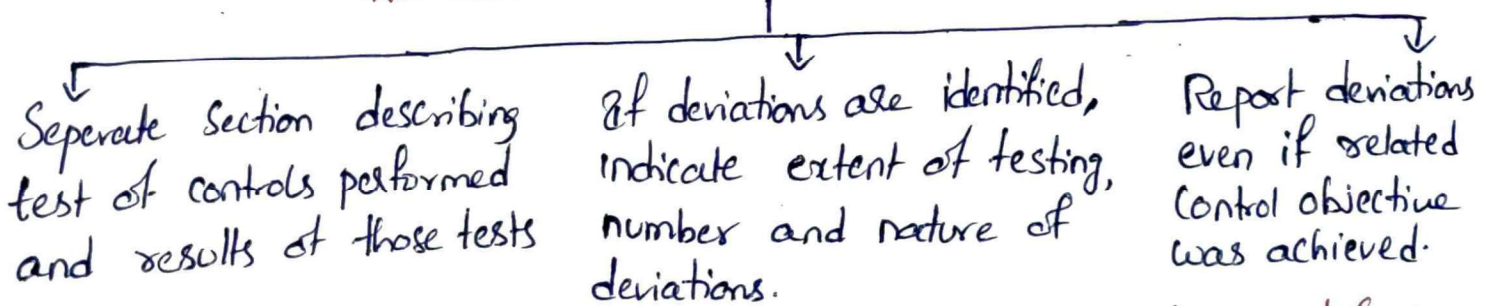


Service auditor's opinion

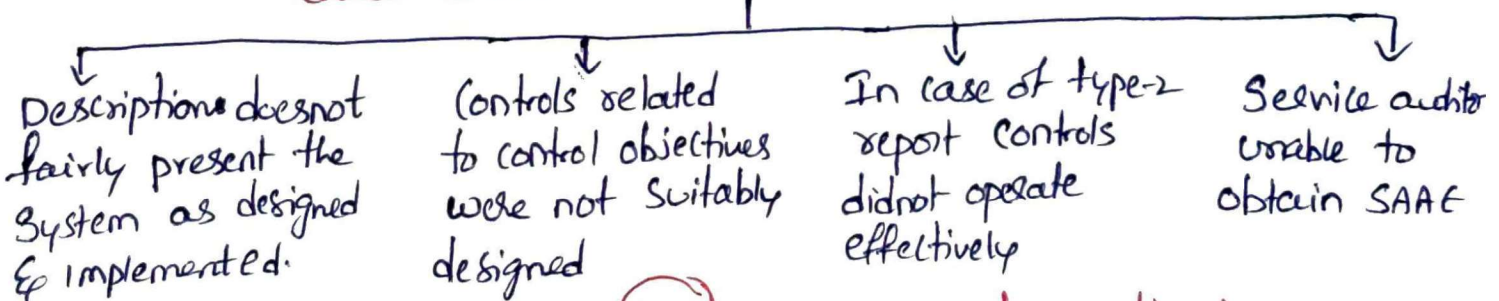


Date, Signature & place of Signature

Additional matters require reporting in type-2 report



Cases where service auditor's opinion will be modified



SAE-3420 - Assurance engagement to report on compilation of proforma financial information included in prospectus

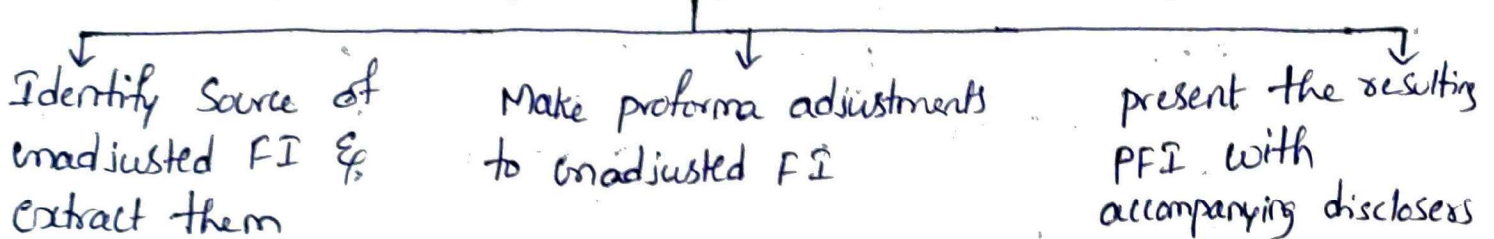
What is proforma financial information (PFI)

FI Shown together with adjustments to illustrate impact of event (or) transaction on unadjusted FI. It doesn't reflect entity's actual financial position

Objective of SAE-3420

Obtain reasonable assurance on whether PFI is compiled on basis of applicable criteria & report accordingly

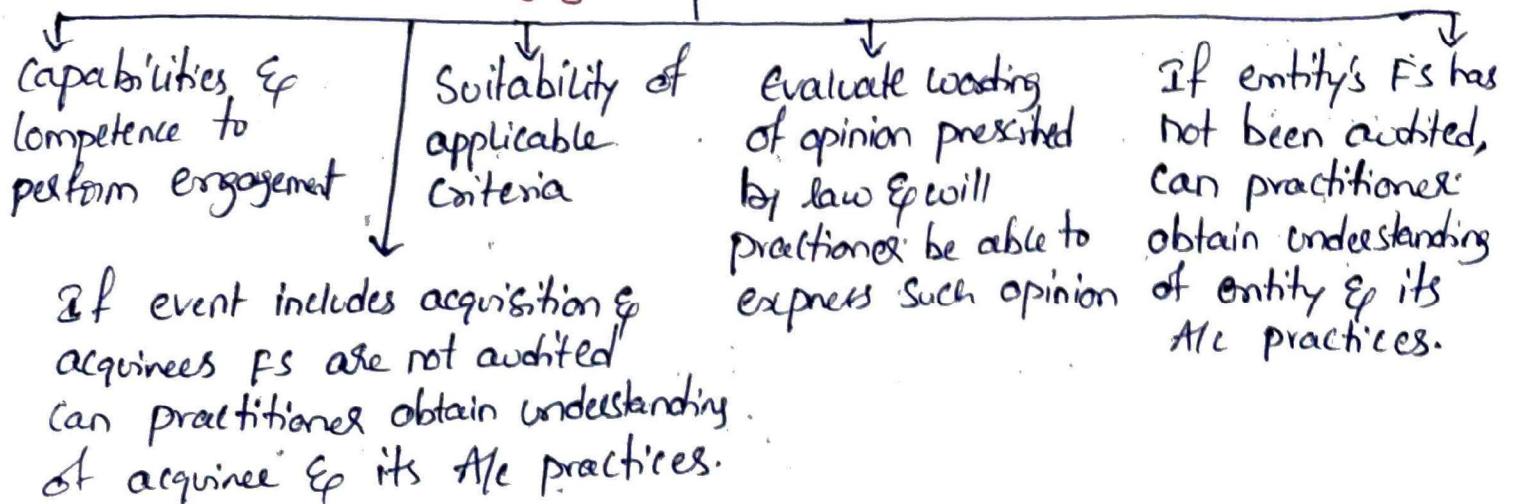
Steps in compilation of PFI



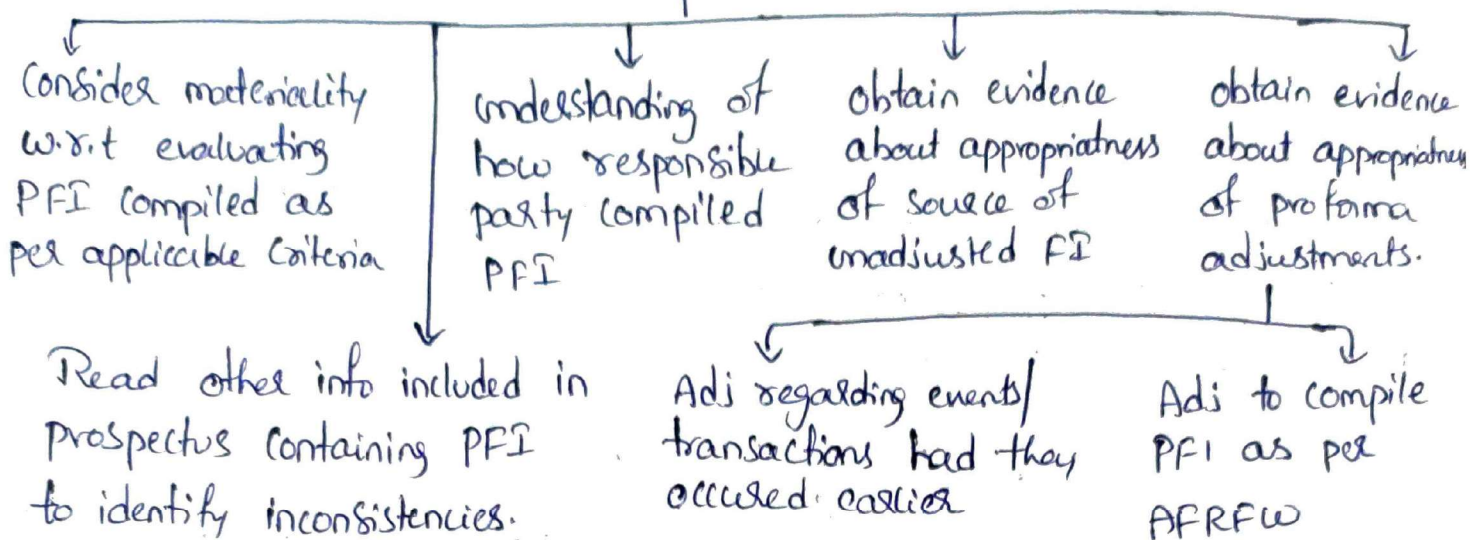
Responsible party → Responsible for preparing PFI

Practitioner's responsibility → Report on whether PFI is compiled on basis of applicable criteria

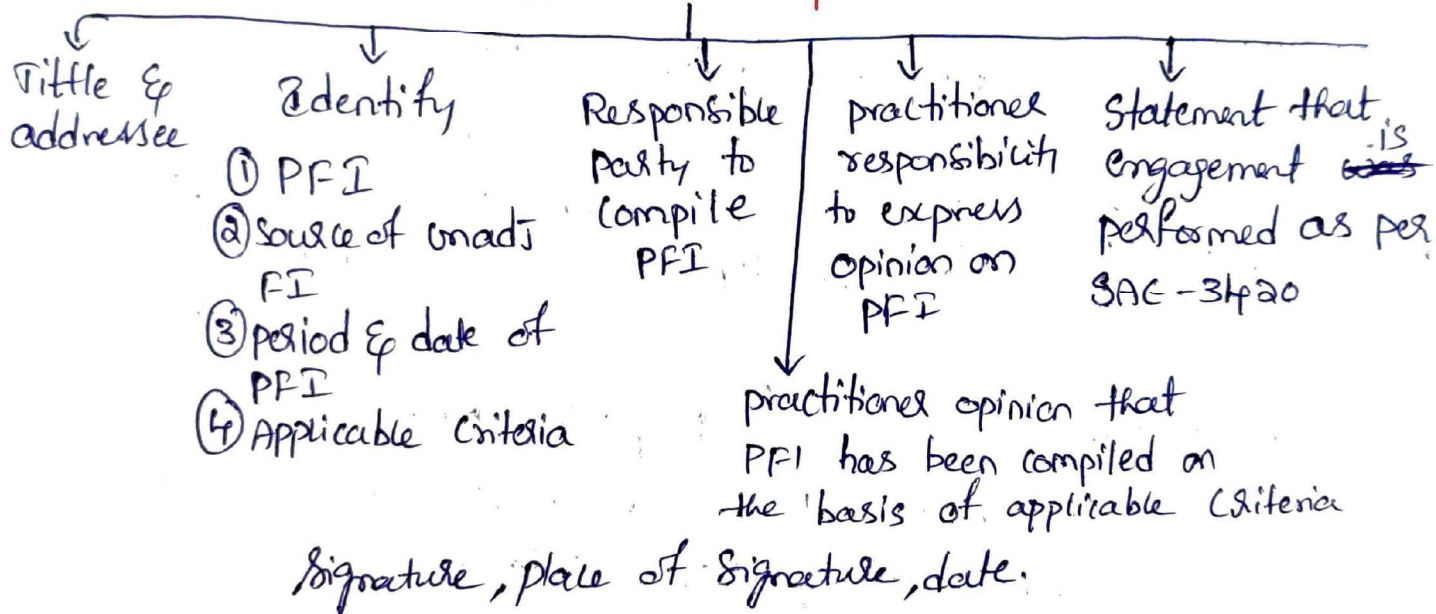
Engagement Acceptance



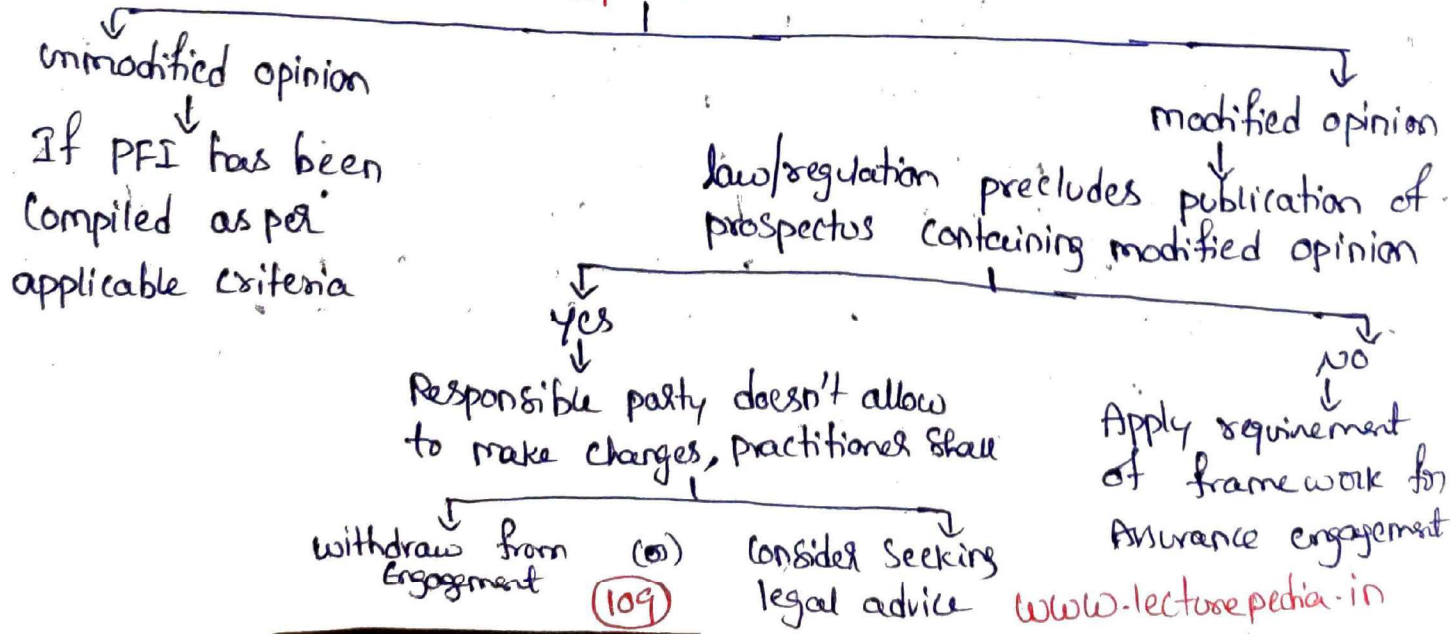
Planning & performing the engagement



Assurance Report



Opinion

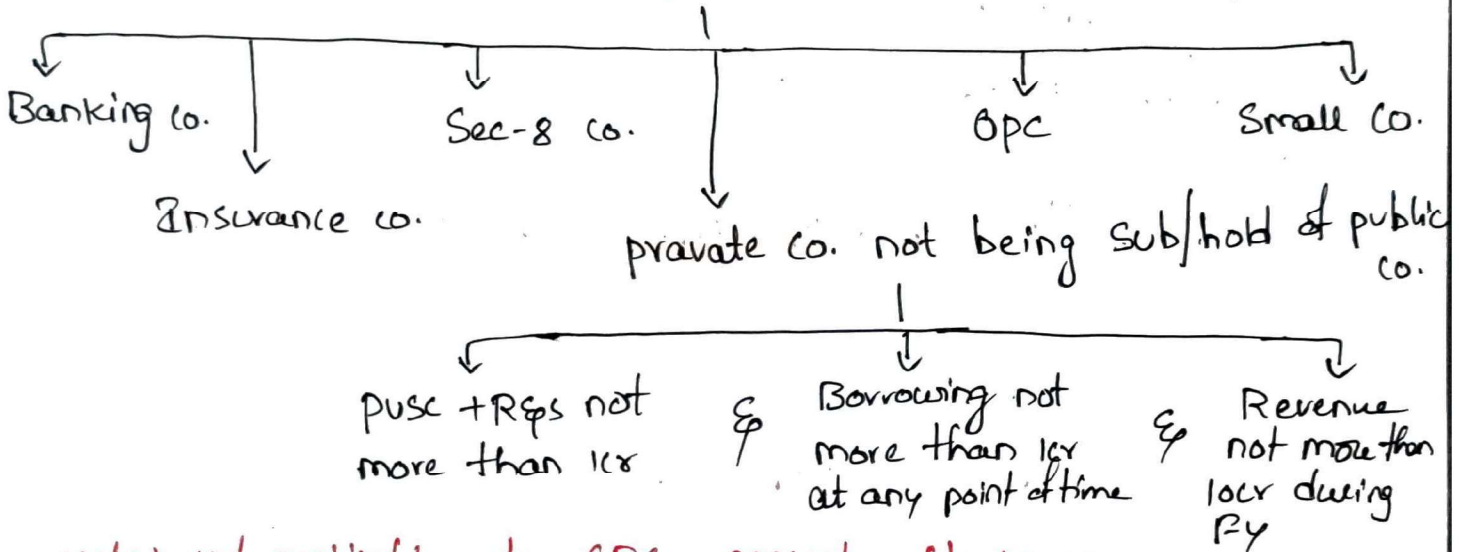


→ Additional reporting requirement as per Sec-143(11) of Companies Act, 2013.

→ Given as Annexure to Audit report.

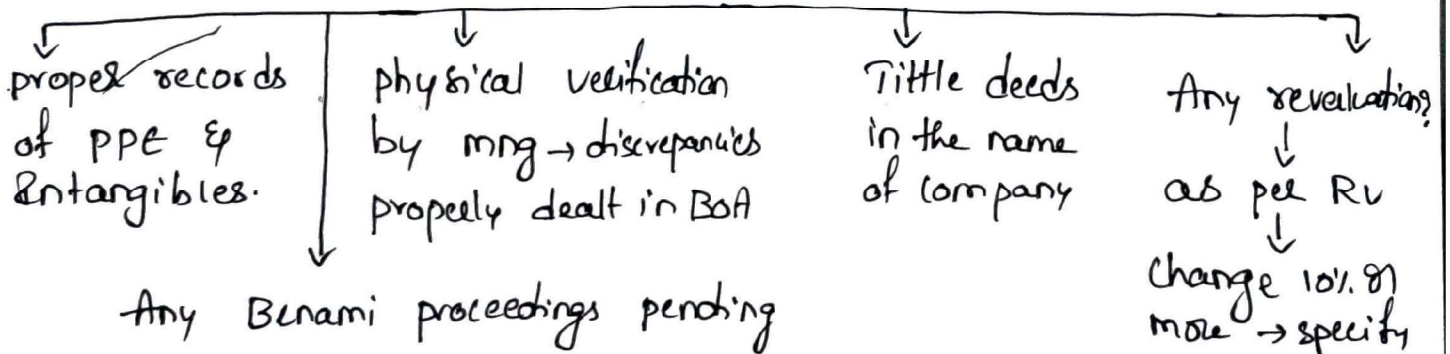
Applicability of CARO

Every company including foreign company except following

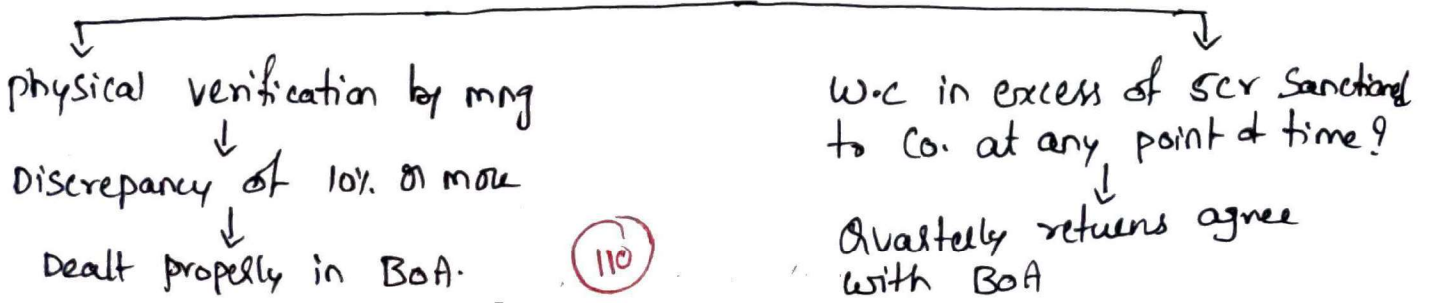


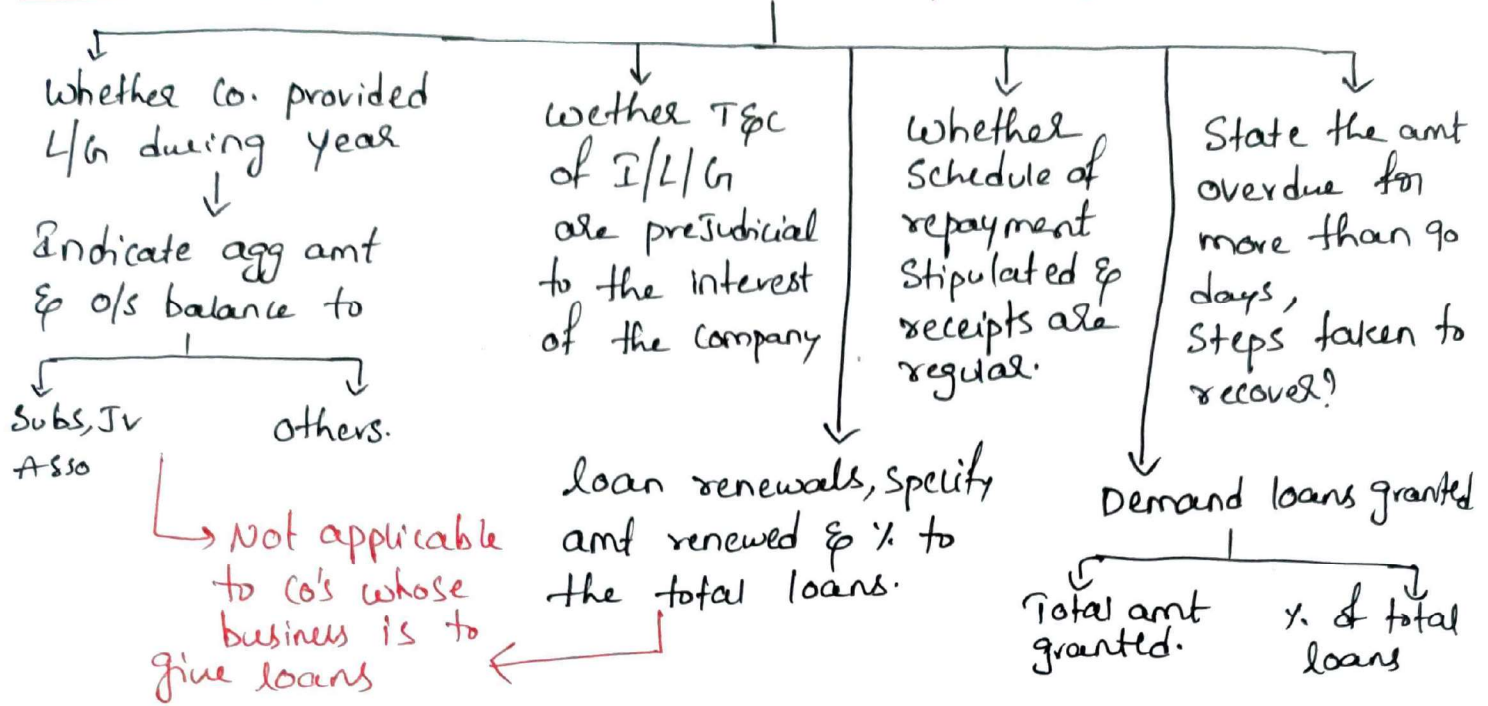
Note: Not applicable to CFS except clause-21

Clause-1 - PPE



Clause-2 - Inventory

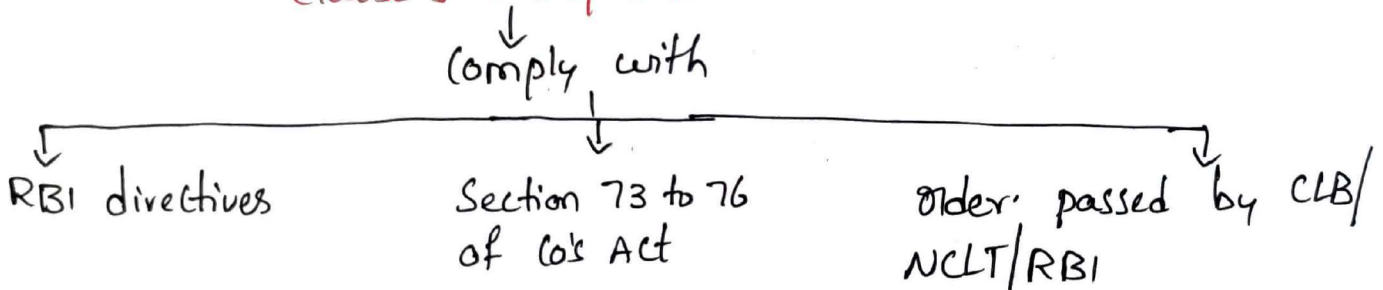




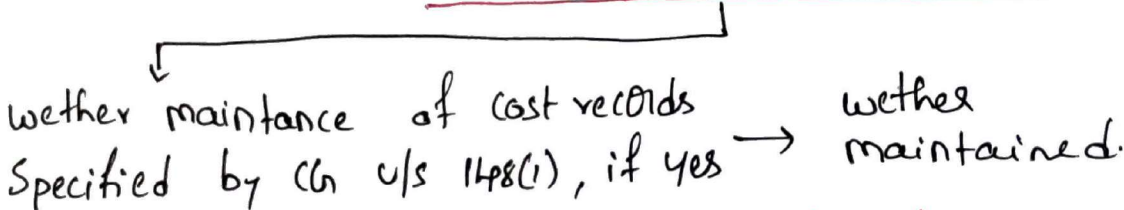
Clause-4 → Compliance with Sec-185 & 186.

In respect of L/I/G whether 185 & 186 have been complied if not provide the details.

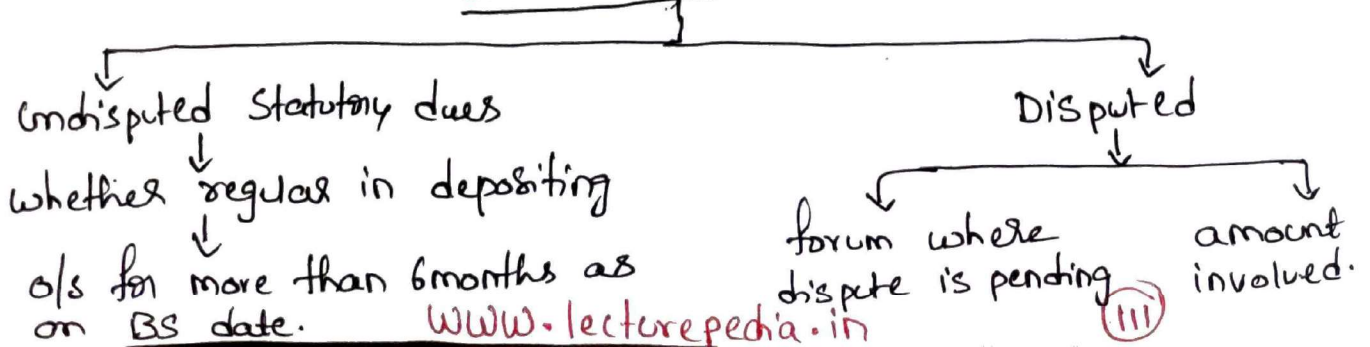
Clause-5 → Deposits.



Clause-6 → Cost records



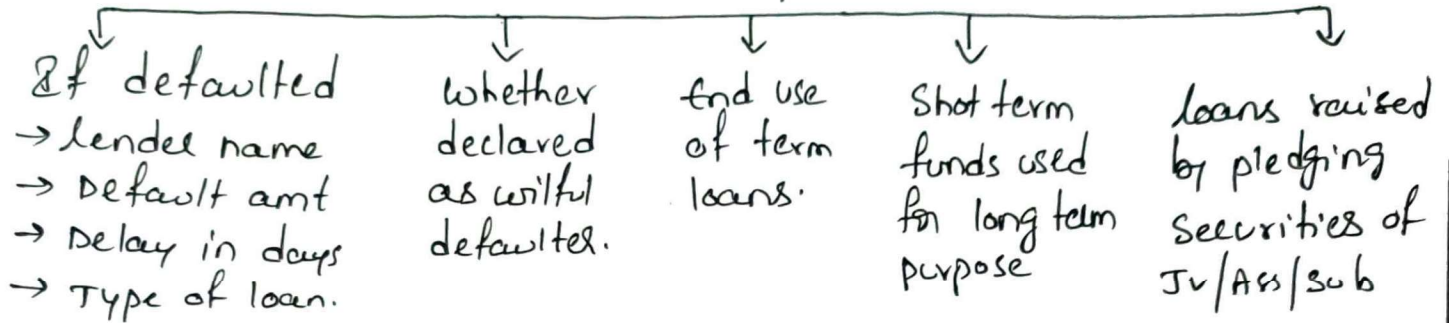
Clause-7 → Statutory dues



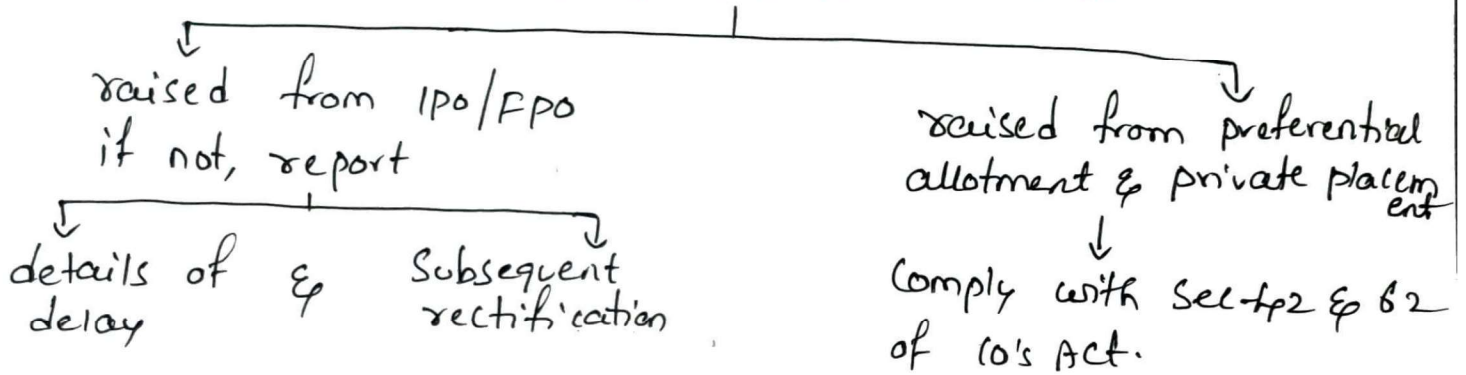
Clause-8 - Undisclosed income.

Whether any unrecorded income is surrendered under IT Act → whether properly recorded in BoA.

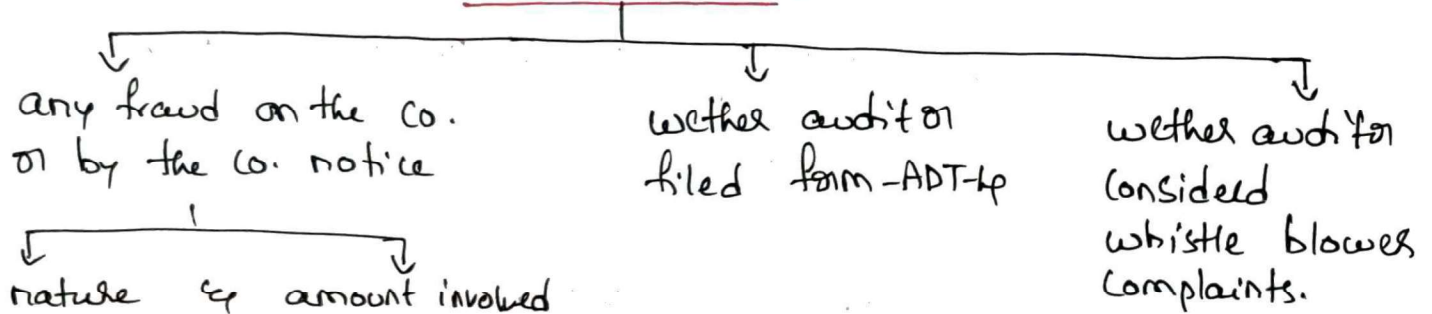
Clause-9 → Default in repayment of loans.



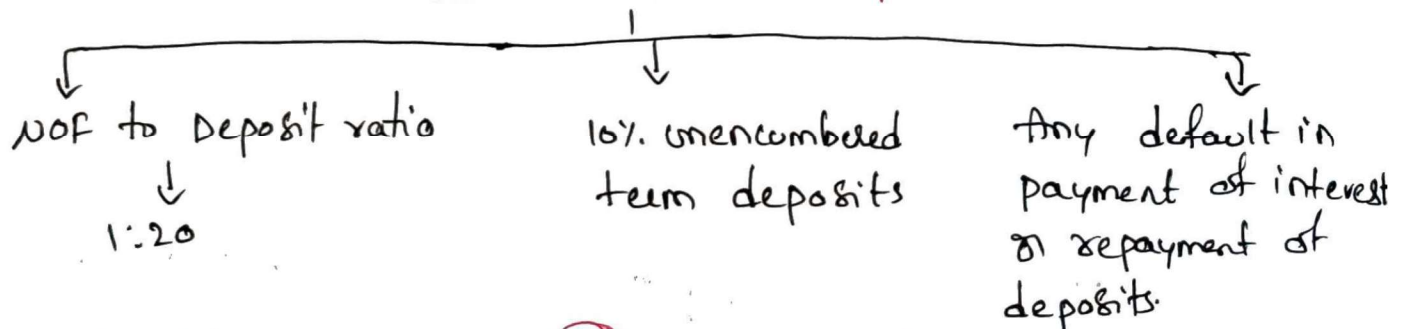
Clause-10 - End use of funds



Clause-11 - Fraud



Clause-12 - Nidhi Company



Clause-13 - Related party transactions.

↓
Compliance with Sec-177 & 188 of Companies Act.

Clause-14 - Internal Audit

↓
Whether commensurate with size & nature of business

↓
Whether internal audit reports considered by Stat auditor.

Clause-15 - Non-cash transactions

↓
Compliance with Sec-192 of Companies Act.

Clause-16 - NBFC

↓
Registration u/s 45-IA of RBI Act required?

↓
if yes whether obtained

↓
NBFC business conducted without CoR

↓
If Co. is CIC whether it fulfills criteria

↓
if group has more than 1 CIC indicate no. of CIC's

Clause-17 - Cash losses.

↓
Whether Co. incurred cash loss → if yes amount of cash loss

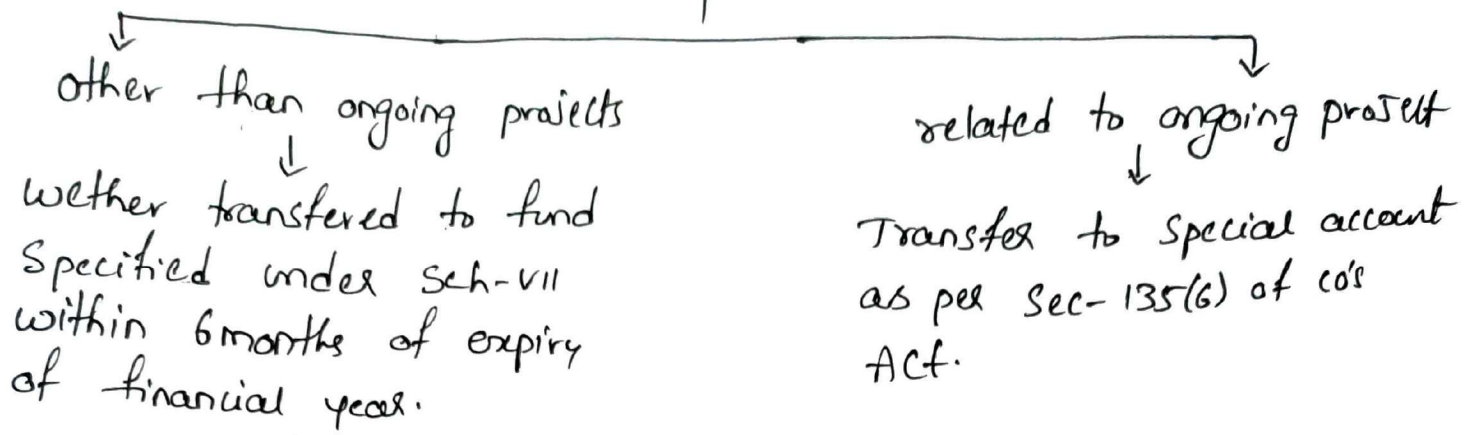
Clause-18 - Resignation of previous auditor

↓
Consideration of issues, objections of outgoing auditor by incoming auditor.

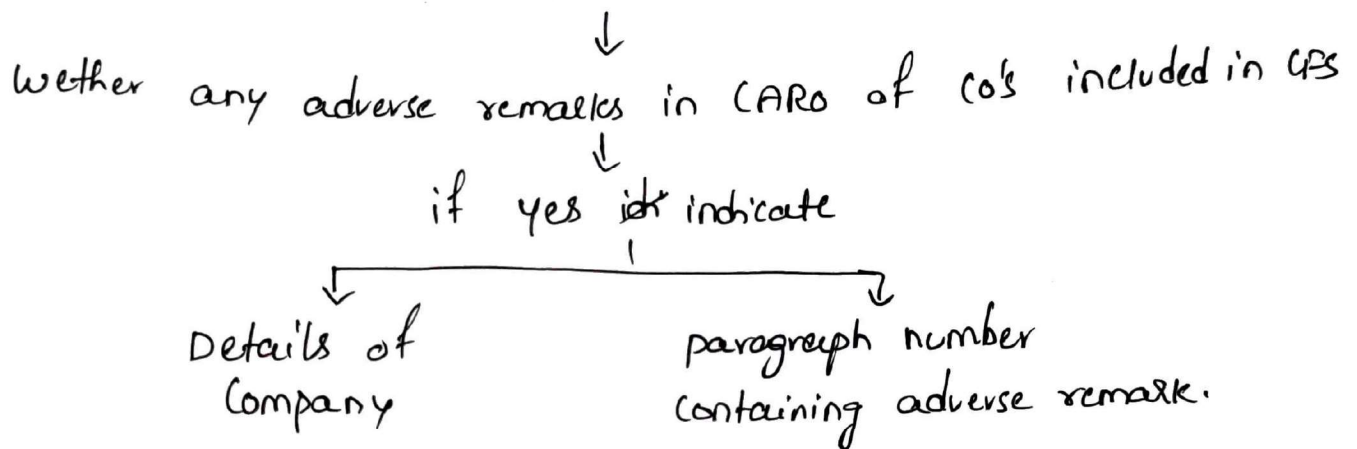
Clause-19 → Going concern

↓
In the opinion of auditor, no material uncertainty regarding liabilities falling due in 1 year from date of BS

Clause-20 - Unspent CSR



Clause-21 - Adverse remarks in CARO of group co's



Audit of consolidated financial statements.

Sec-129(3) :- If Company has one or more subsidiaries, associates & Joint ventures [components] it shall in addition to SFS prepare CFS

129(4) :- Provisions applicable to SFS shall mutatis mutandis applies to CFS.

Non-applicability of CFS (all conditions to be satisfied) (as per Co's Act)

- It is a wholly owned (or) partially owned subsidiary & none of its members objected to company not presenting CFS
- Its securities are not listed (or) not in process of listing whether in (or) outside India.
- ultimate or any intermediate holding company files CFS.

Non-applicability of CFS (AS & Ind AS)

- AS-21
 - ① Temporary control
 - ② Severe long term fund transfer restrictions.
- Ind AS-110
 - Investment entity measuring subsidiaries at FVTPL.

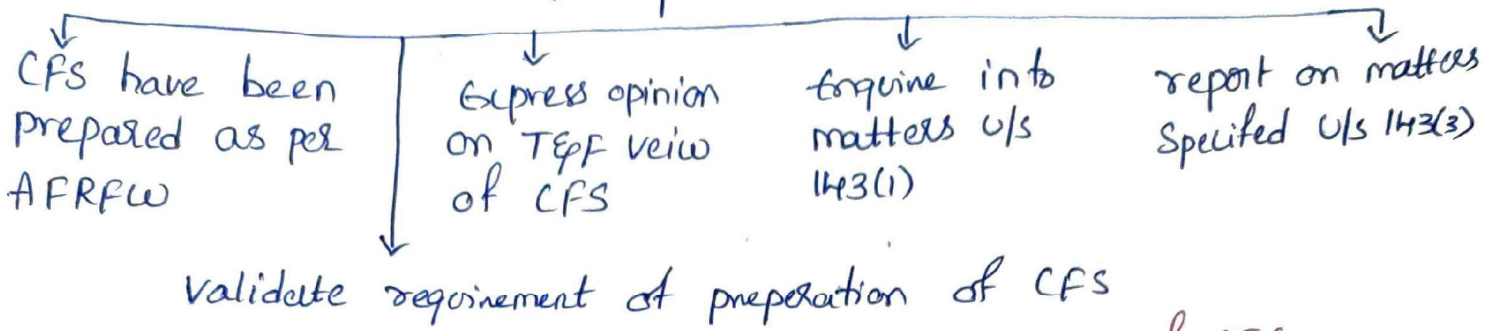
Investment entity

- provides investment management services to investors by obtaining funds.
- Business purpose is to invest funds for capital appreciation or inv income or both.
- measures its investments on fair value basis

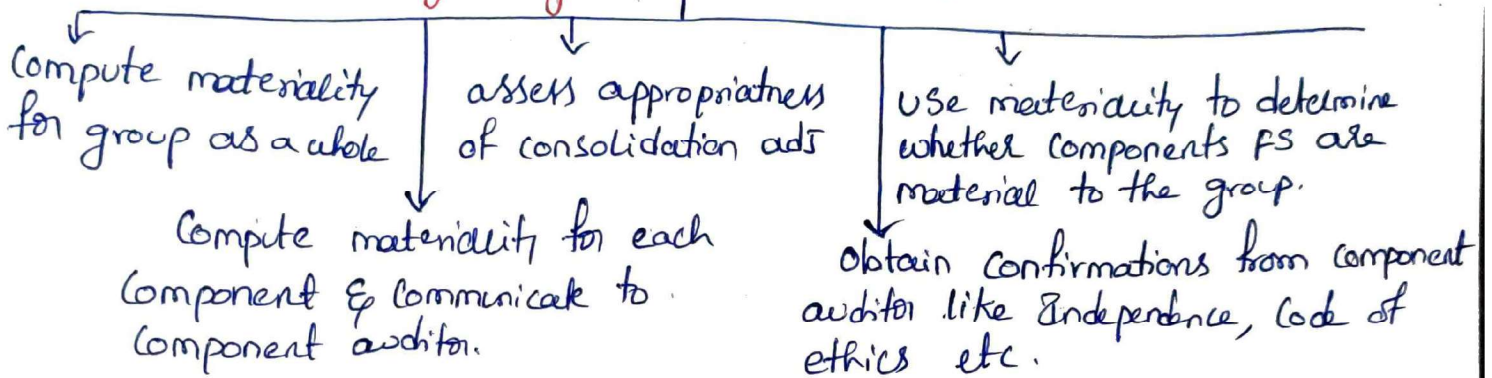
Parents responsibility for CFS.

- Identify components
 - Make appropriate consolidation adjustments
- Identify reportable segments for reporting
- Identify RP transactions
 - Harmonization of A/c policies & A/c framework
- obtain accurate & complete financial info from components.
 - GAAP conversion.

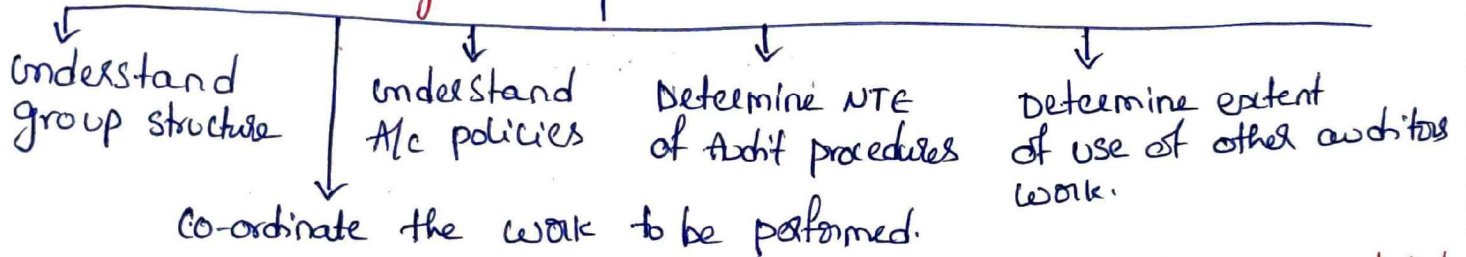
Auditors responsibility for CFS



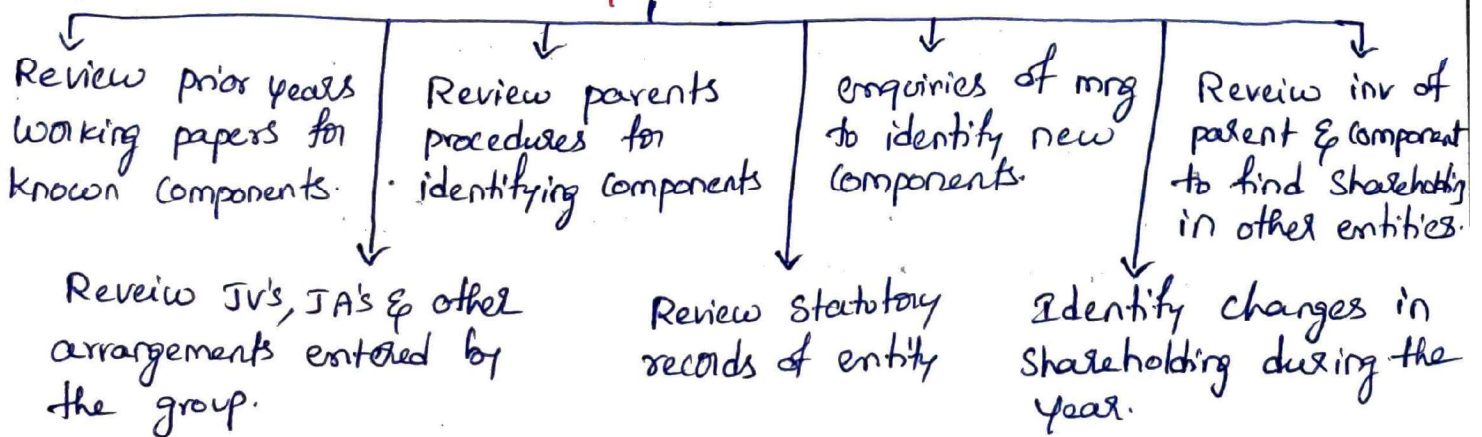
Considerations regarding materiality during audit of CFS



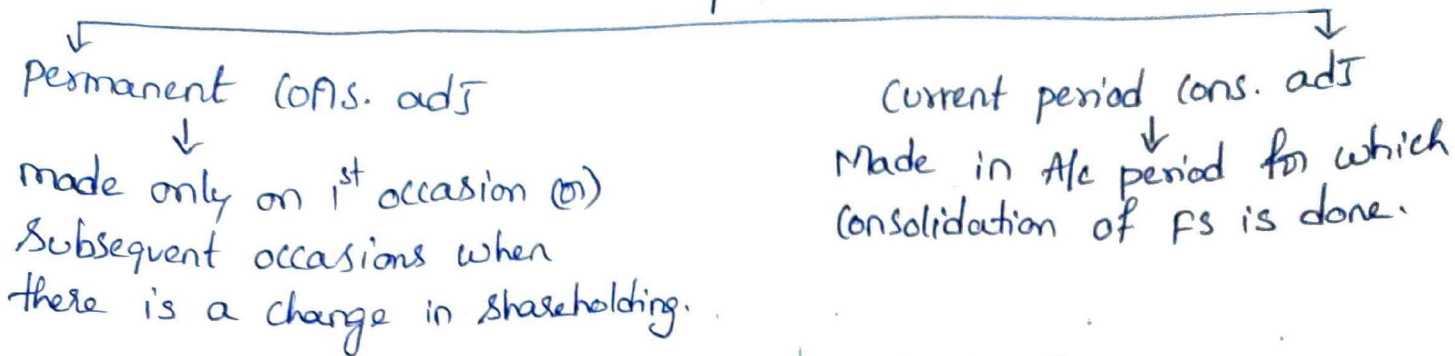
Planning the Audit of CFS.



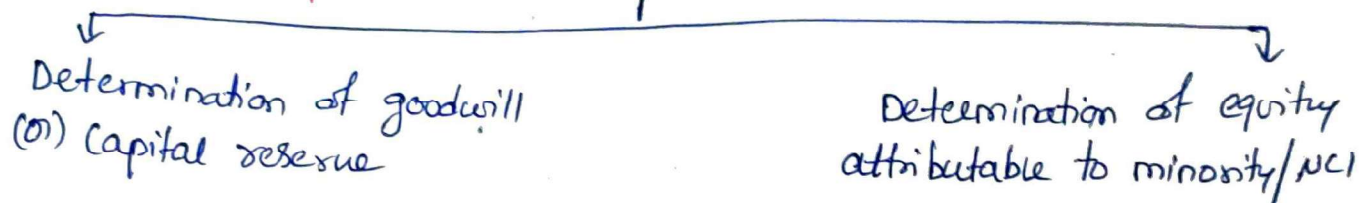
procedures to assess completeness of components to be consolidated.



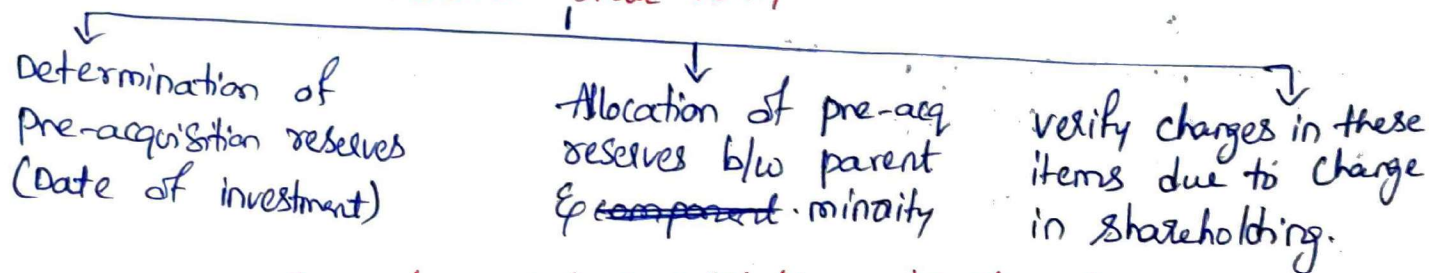
Consolidation adjustments.



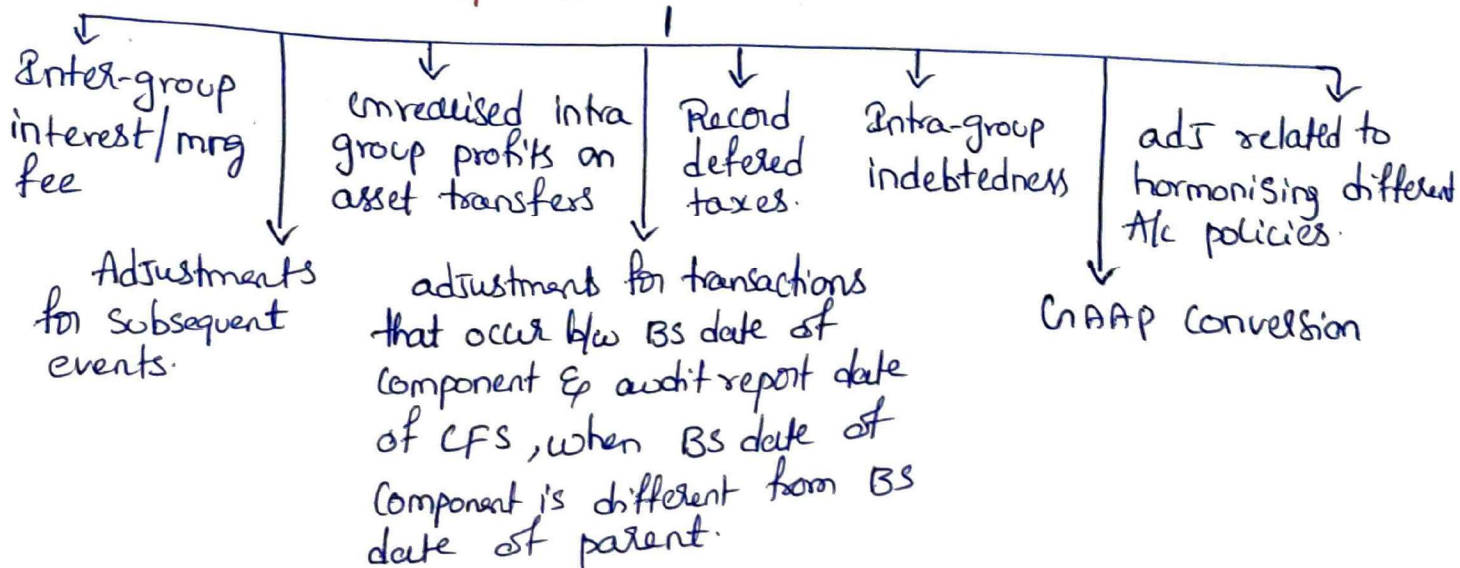
Permanent Consolidation adjustments.



Auditor shall verify.



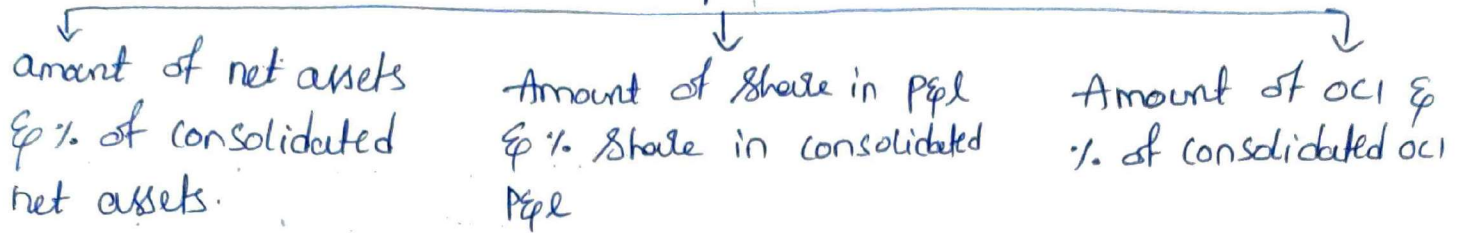
Current period Consolidation adjustments.



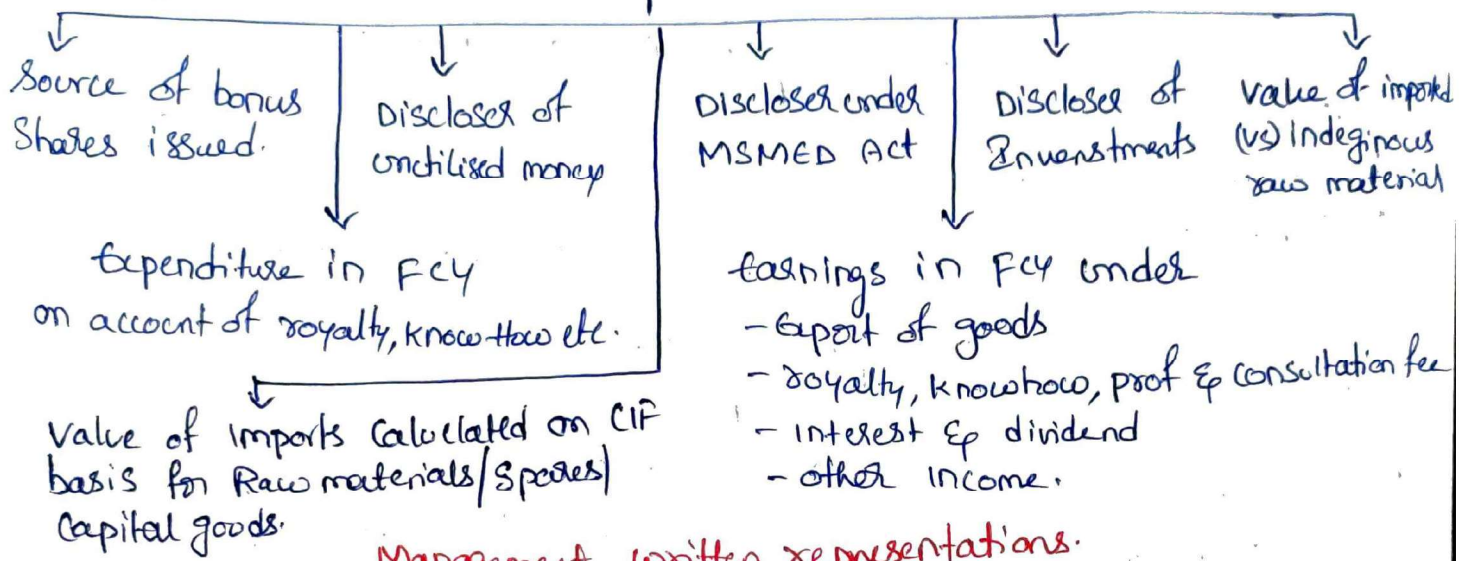
→ Determination of movement in equity attributable to minority interest (or) NCI since date of acquisition

→ Adjustment of deferred tax on account of elimination of profit (or) loss from intragroup transactions.

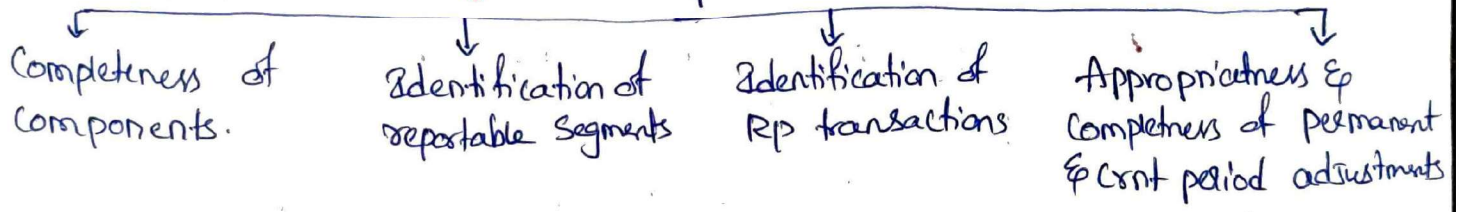
Information to be disclosed in CFS (parent & component - separately)



Examples of disclosures need not be made in CFS.



Management written representations.



Reporting.

- ① Parent's Auditor is also Component auditor.
- whether CFS are as per relevant accounting standards.
 - In case of deviation consider SA-705
 - Issue Audit report on CFS

- ① T&F of C. Balance sheet
- ② T&F of C.P&L
- ③ T&F of C. cash flow stmt

- ② Parent Auditor is not Component Auditor.

- Consider SA-600
 - Indicate position of FS audited by other auditor
- ① Asset wise
 - ② Revenue wise
 - ③ Cash flow wise.

- Such reference by parent auditor should not be considered as qualified opinion.

- Different Accounting framework.

- Parent's management shall convert components FS to ~~local~~ framework followed by parent.
- **Audit conversion adjustments**
- Alternatively component itself can prepare FS on basis of parent's A/c framework.

- Local component auditor issue audit report on above FS, which will be used by parent auditor.

- Different Auditing framework

- Components FS shall be audited under Indian GAAS

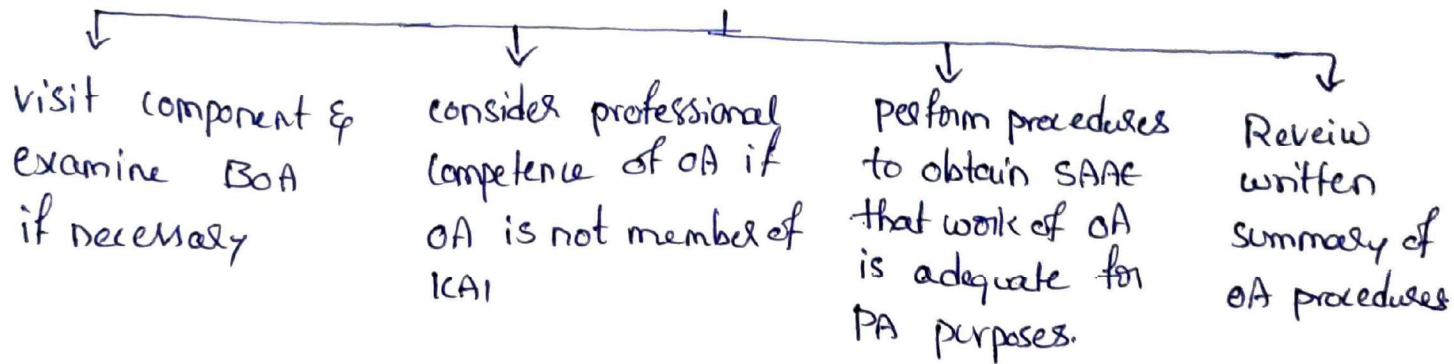
- Components not audited.

- Auditor of CFS shall consider impact on opinion.

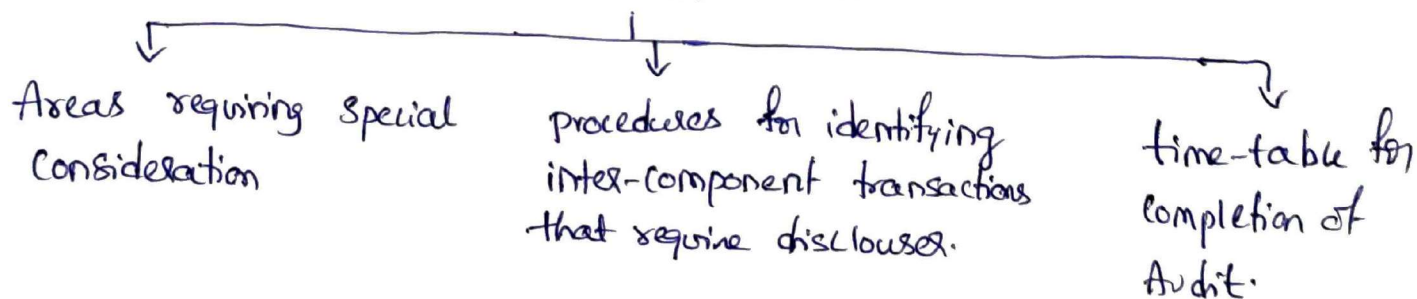
SA-600 - Using the work of Another Auditor.

Principal Auditor ÷ Auditor responsible for reporting on FS as whole when one or more **Components** audited by other auditor
↓
Division, branch, subsidiary, JV, associate etc.

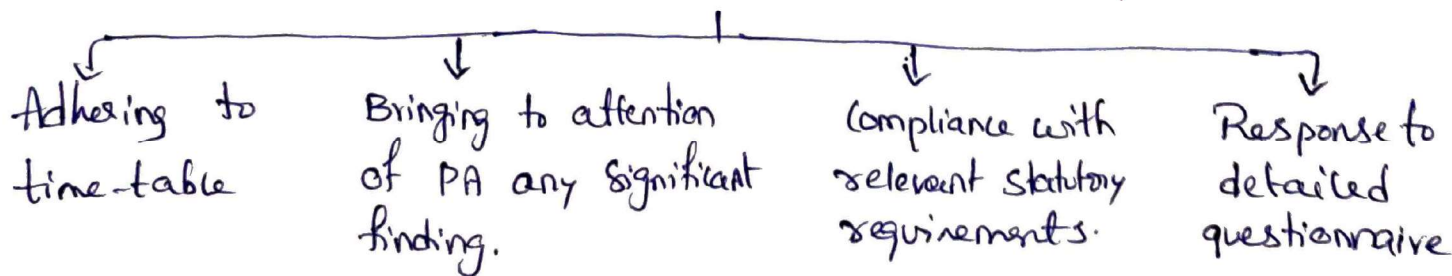
Principal auditor procedures w.r.t other auditors work



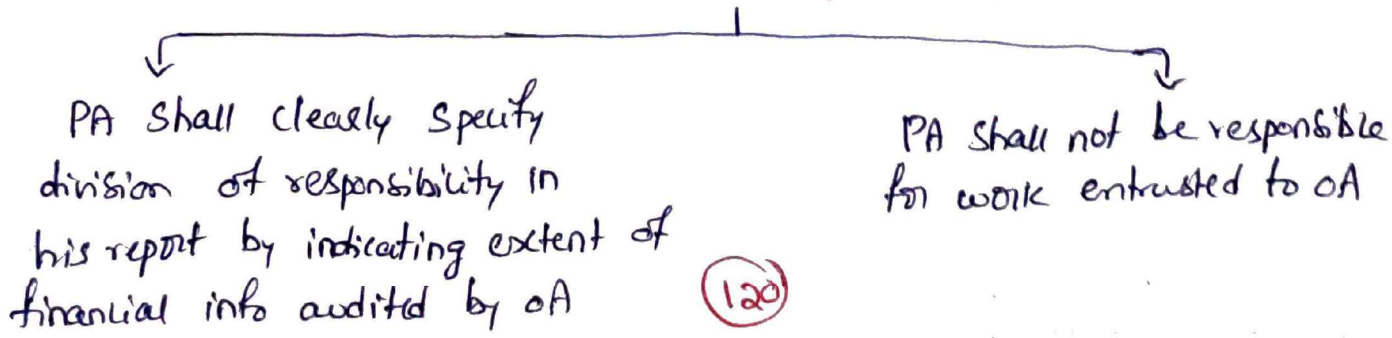
PA Communication to OA.



OA should co-ordinate with PA by



Division of responsibility.



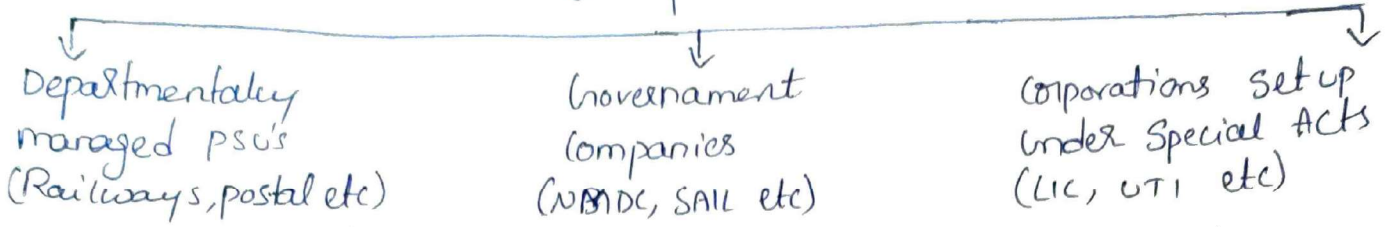
58 121
Right on working papers of OA.



PA doesnot have ~~right on~~ access to working papers of OA,
but has right to seek clarifications & visit branch.

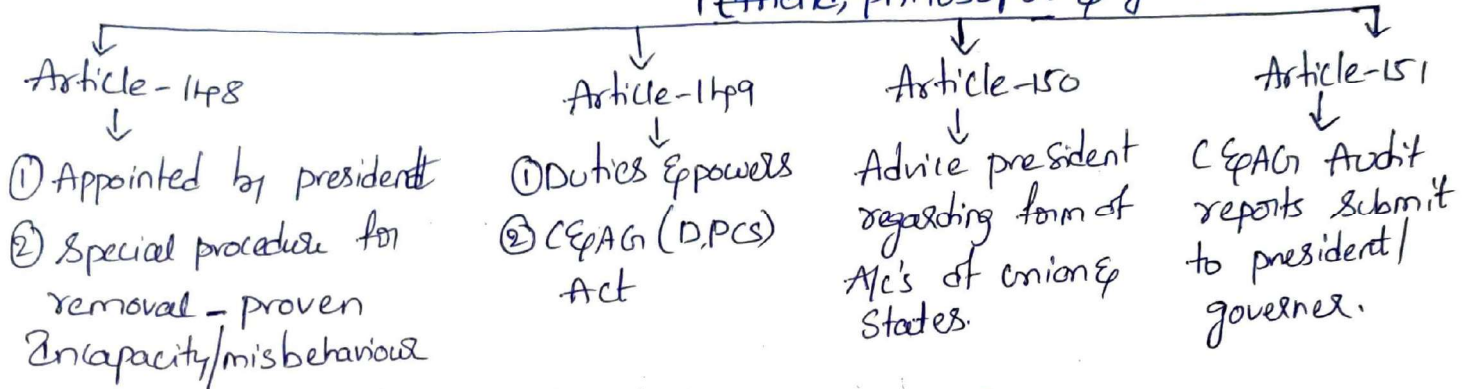
Audit of public sector undertakings.

Categories of PSU's

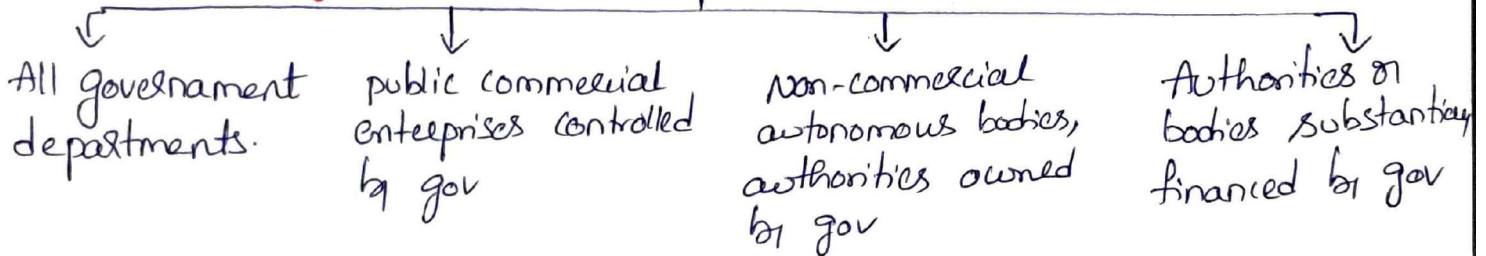


→ Audit of PSU's is done by C&AG

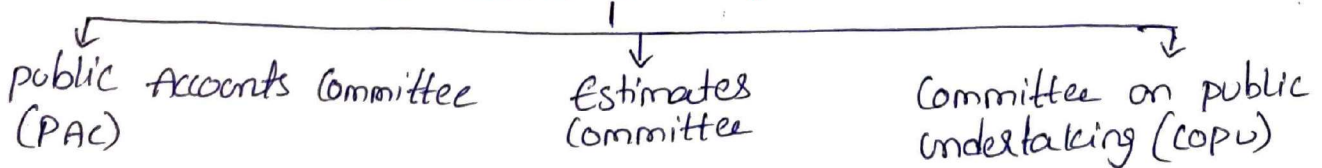
Indian Constitution - ~~Role~~ of C&AG (Friend, philosopher & guide to committees)



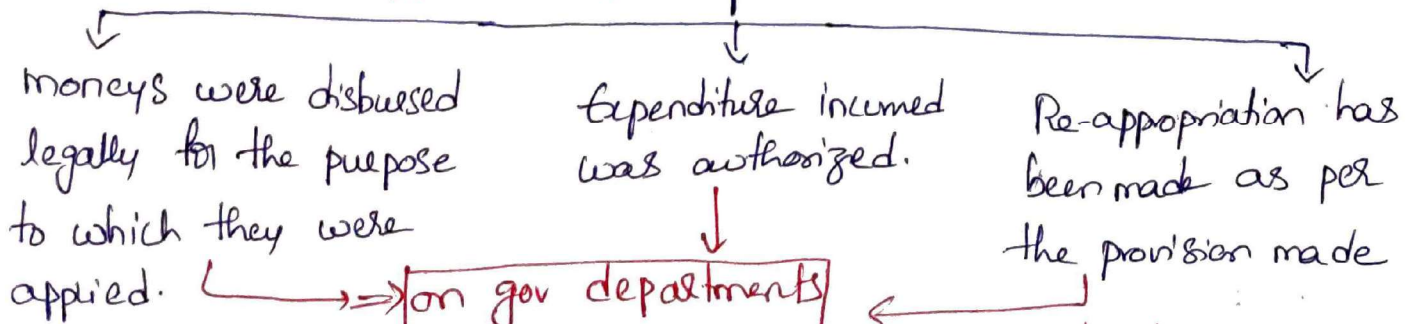
Organisations subject to audit by C&AG.



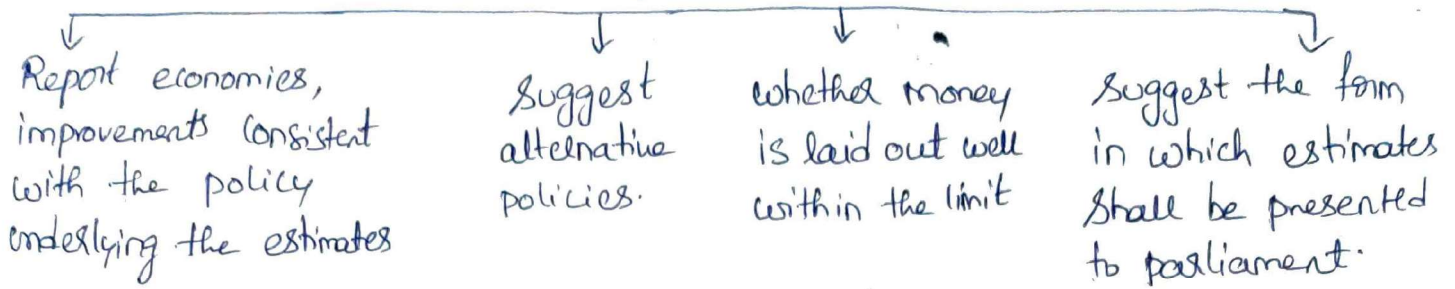
Committees associated with PSU audits



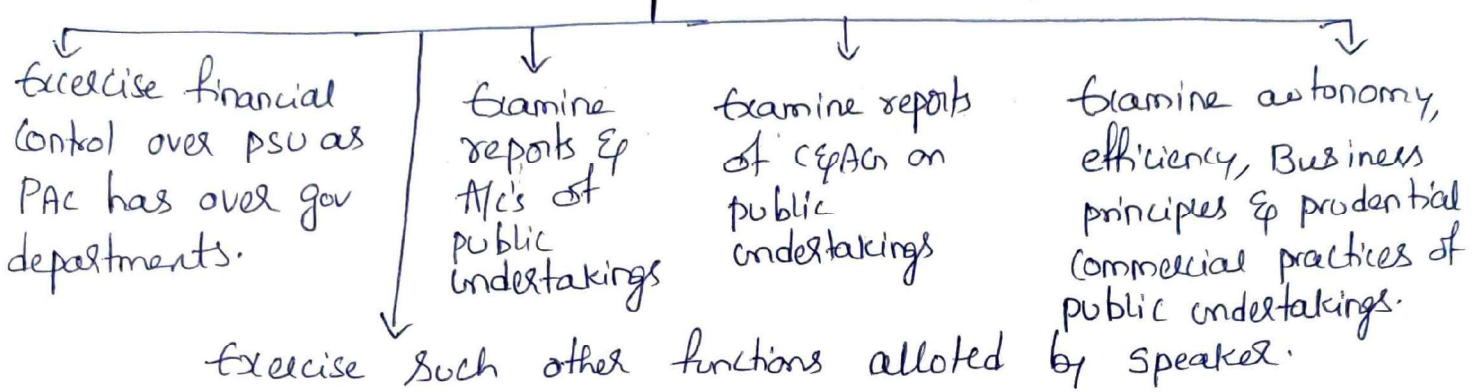
Duties of public Accounts Committee



Duties of Estimates Committee.

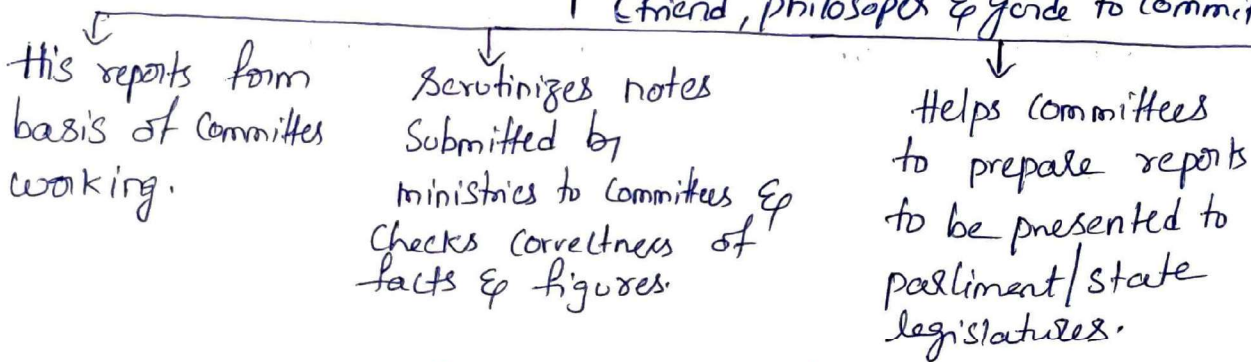


Duties of Committee on public undertakings (COPU)

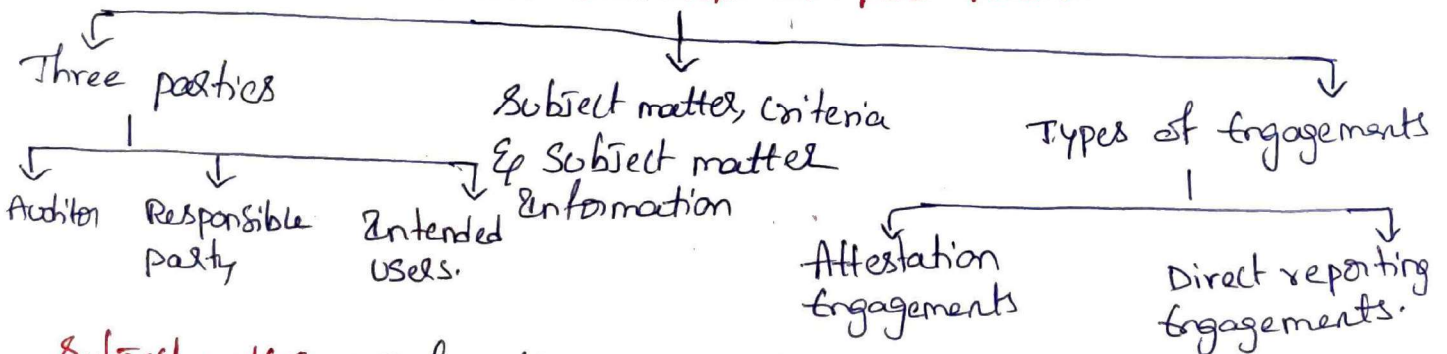


Role of C&AG

(Friend, philosopher & guide to committees)



Basic elements of PSU audits.



Subject matter → Information evaluated against certain criteria.

Criteria → Benchmarks used to evaluate subject matter.

Subject matter information → outcome of evaluating subject matter against the criteria.

Principles of PSU Audit

General principles

- ① Ethics & Independence
- ② professional Judgement, due care & Skepticism
- ③ Quality control
- ④ Audit team management & Skill
- ⑤ Audit risk
- ⑥ Materiality
- ⑦ Documentation
- ⑧ Communication.

Principles related to Audit process

- ① planning the Audit
- ② Conducting the Audit
- ③ Reporting & follow up.

Powers of C&AG

Appointment of Statutory auditor.

Supplementary Audit

C&AG within 60 days of Audit report may order for Supplementary audit.

Test Audit

C&AG if considers necessary may order for test audit.
Sec-19A of C&AG(DP,CS) Act shall apply.

Types of PSU Audits

Financial Audit

Compliance Audit

performance Audit

propriety Audit

Comprehensive Audit.

Financial Audit

To Express audit opinion on financial statements

Enhance degree of confidence of intended users in financial stmts.

Compliance Audit → focuses on regulatory compliance & propriety requirements

Compliance audit is done either

with Audit of financial statements

Separately as individual compliance audit

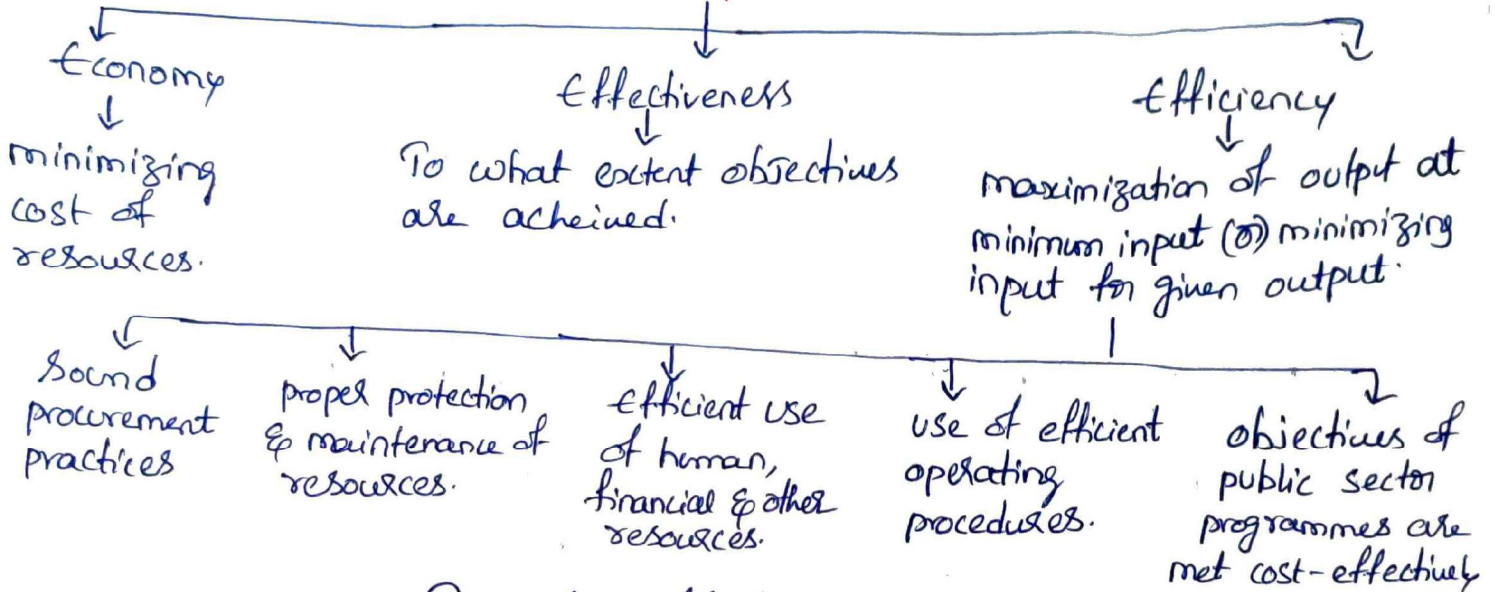
In combination with performance Audit.

IAS 100

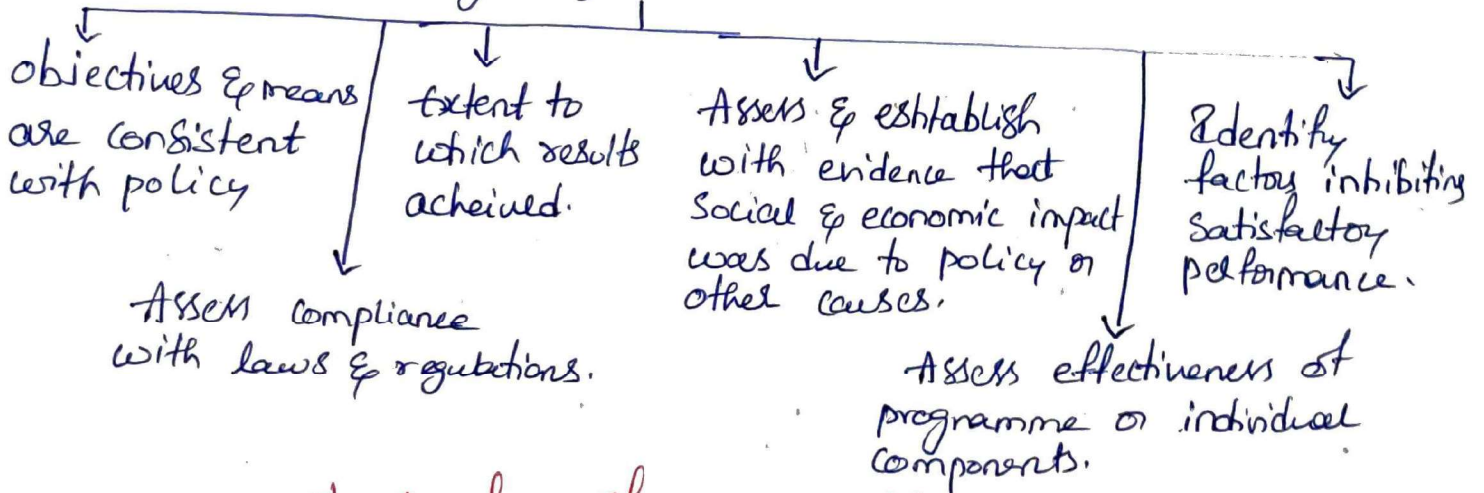
Performance Audit.

Involves Independent assessment of performance of government organization, program, activity or function.

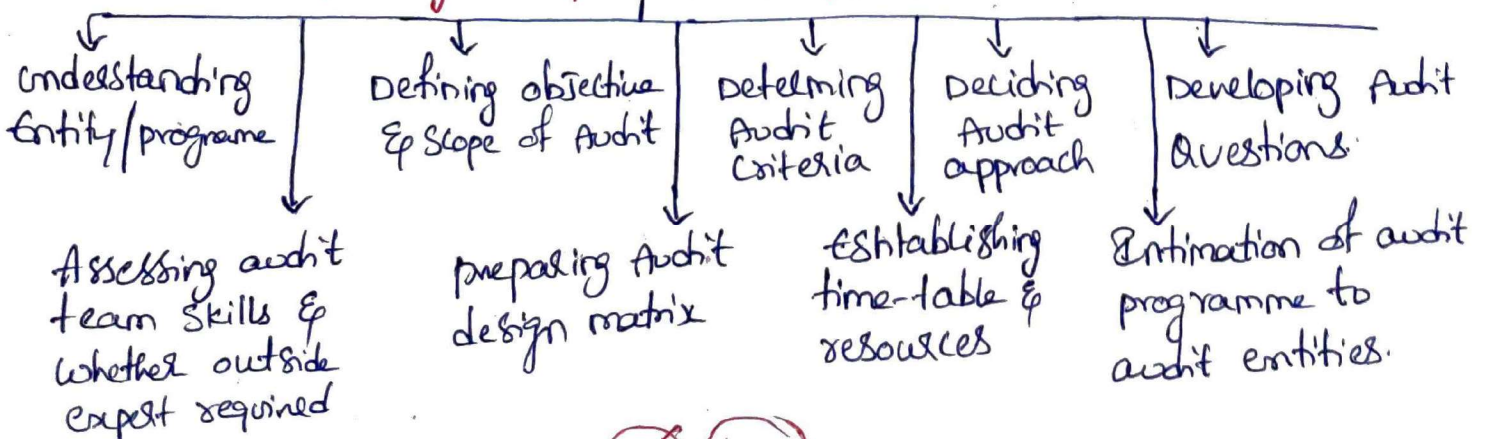
Issues addressed in performance Audit. (Objectives)



Regarding effectiveness



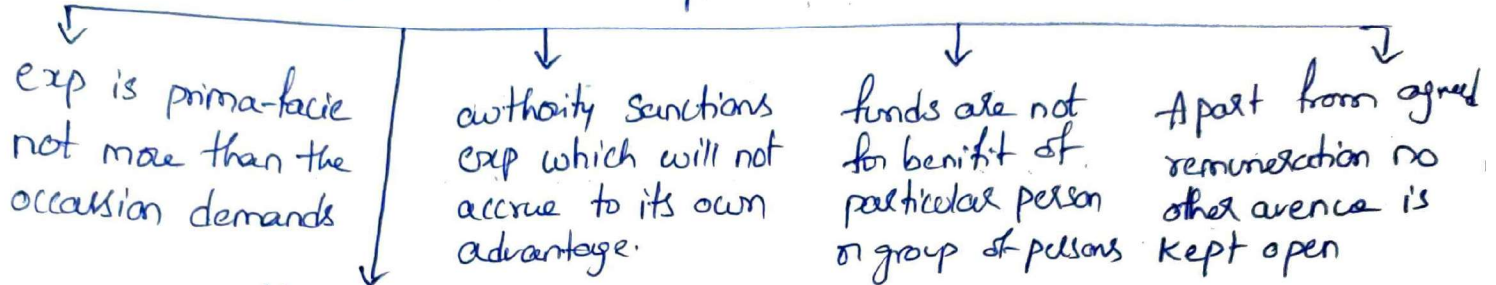
Planning for performance Audit.



Propriety Audit

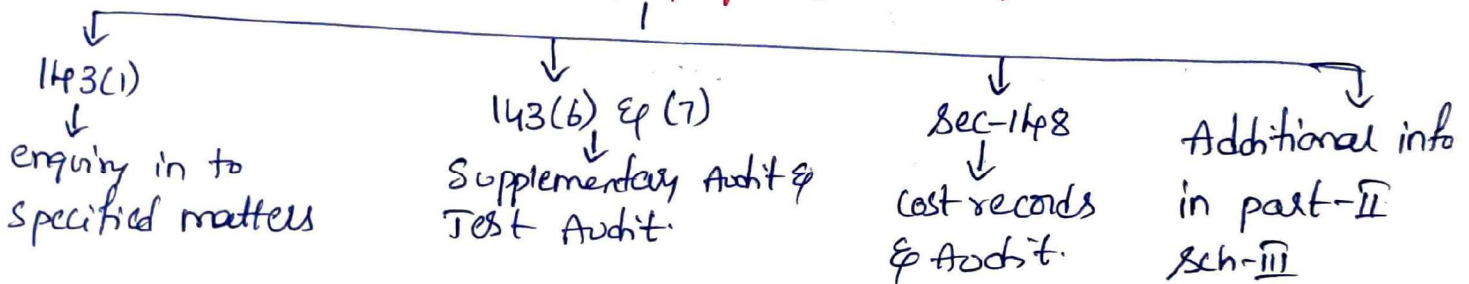
Stands for verification of transactions on the test of public interest, commonly accepted customs & standards of conduct.

general principles of propriety.



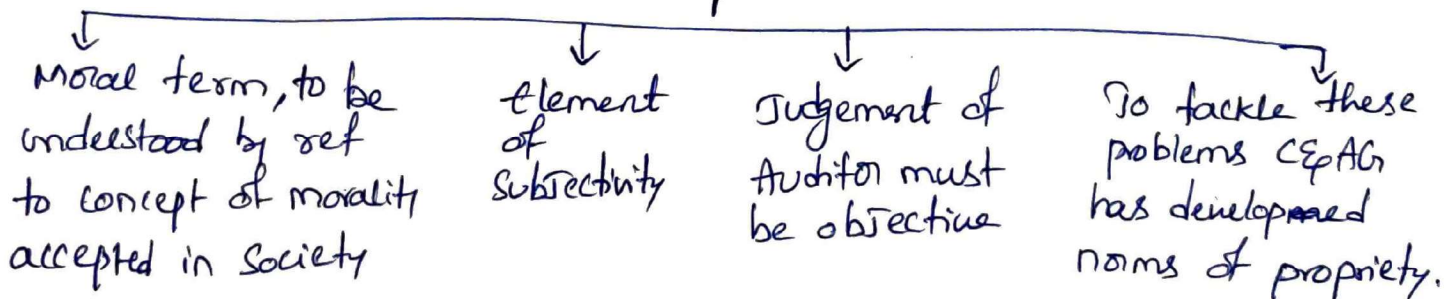
Every official would exercise same vigilance in respect of expenditure as a person of ordinary prudence would exercise.

Provisions related to propriety in Companies Act, 2013



propriety elements under CARO, 2020 → clause - 3, 4, 8, 9, 10, 11, 13, 15, 18

problems associated with propriety Audit.



Comprehensive Audit.

↓
efficiency-com-performance Audit. locates area of weakness and extravagance for managements information.

Issues examined in comprehensive Audit.

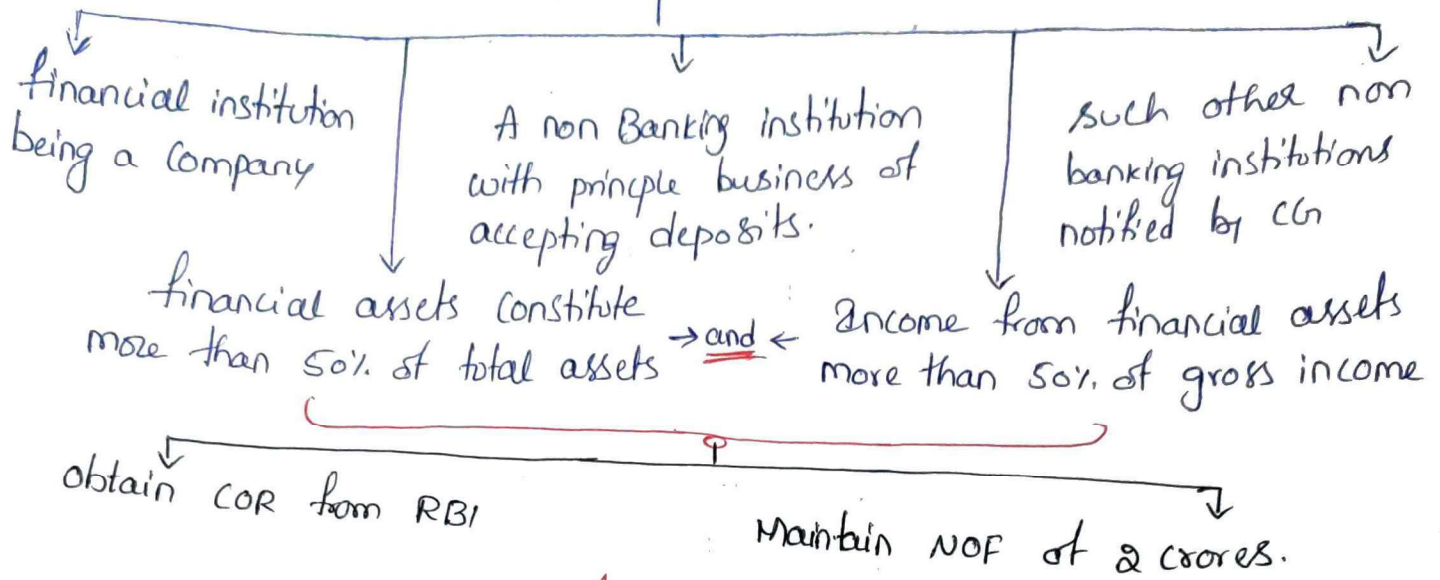
- ① Comparison of overall capital cost with approved planned costs
- ② Have planned production or operational outputs been achieved.
- ③ Has the planned rate of return been achieved.
- ④ Sound project formulations & execution systems
- ⑤ adequacy of cost control measures
- ⑥ adequacy of purchase policies
- ⑦ adequate system of repairs & maintenance.
- ⑧ Are procedures economical & effective
- ⑨ Any poor or insufficient project planning.

127

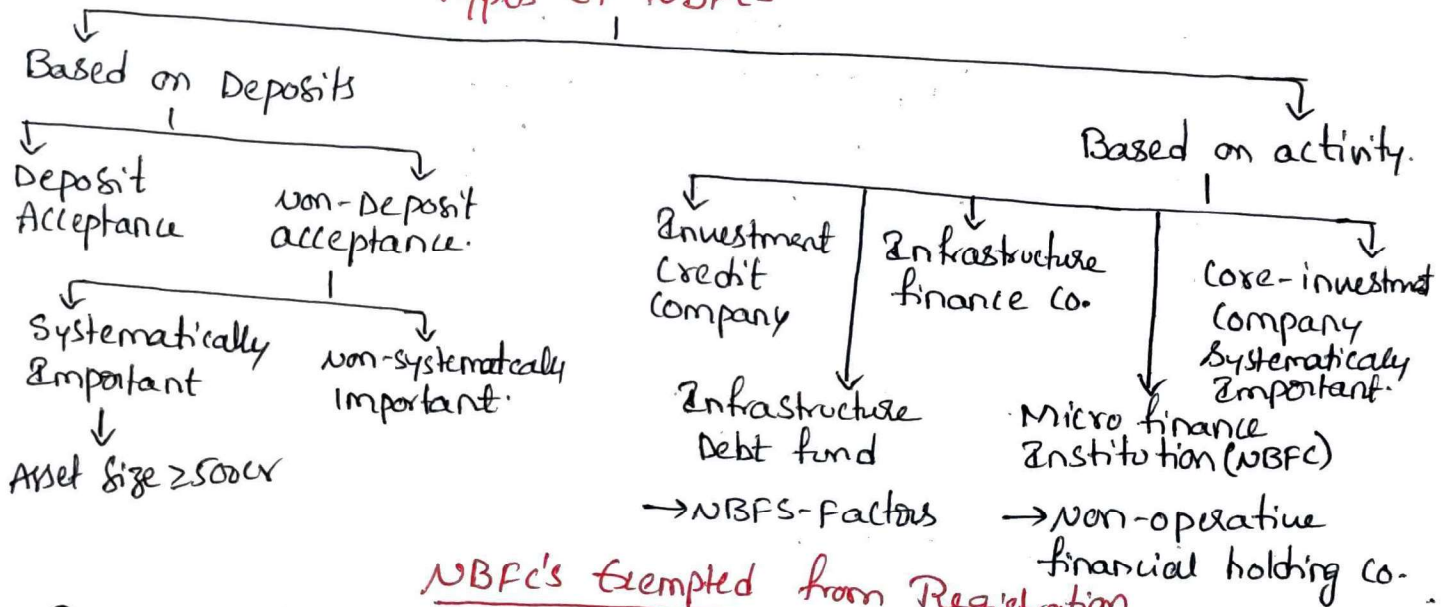
~~126~~

Audit of Non-Banking Financial Companies.

NBFC - Definition.



Types of NBFC's

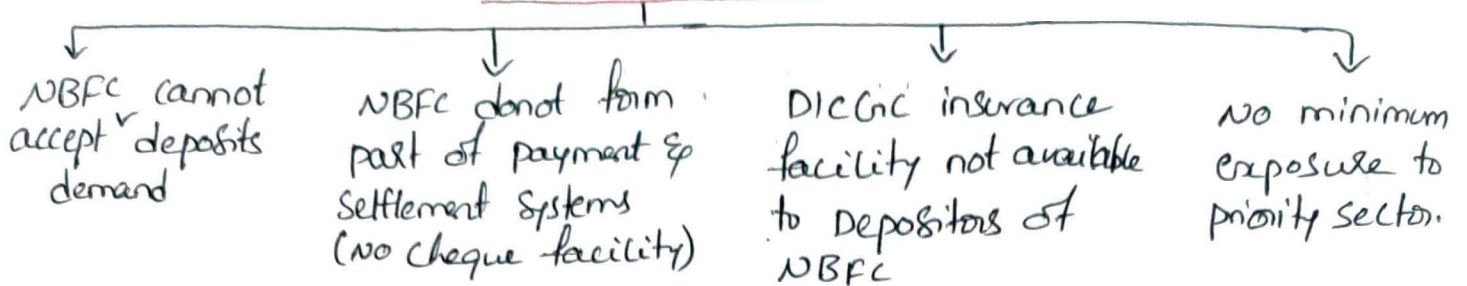


NBFC's Exempted from Registration

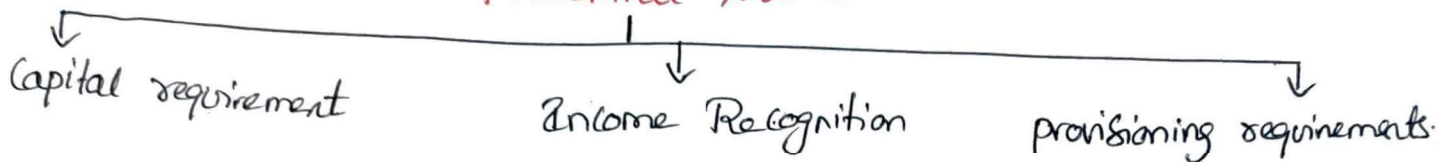
- ① Housing finance institutions. (National Housing Board)
- ② Merchant Banking co's (SEBI)
- ③ Stock exchanges. (SEBI)
- ④ Stock-broking co's (SEBI)
- ⑤ venture capital funds (SEBI)
- ⑥ Nidhi co's (MCA)
- ⑦ Insurance co's (IRDA)
- ⑧ Chit co's (Chit fund Act)
- ⑨ Micro finance co's
- ⑩ Securitization & reconstruction co's
- ⑪ Mortgage guarantee co's
- ⑫ Non systematically important CIC
- ⑬ Alternate investment fund.

⑩ 128

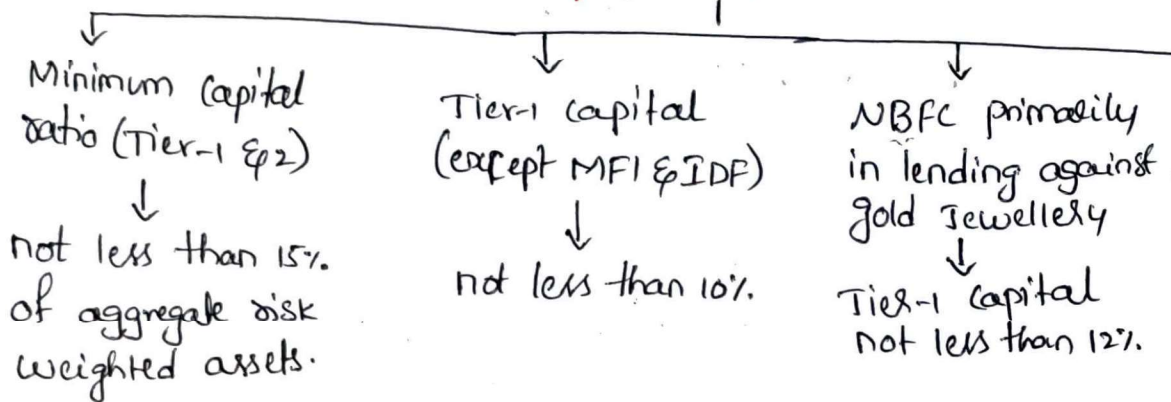
Banks vs NBFC



Prudential norms



Capital Requirement.



Risk weights

Asset

- ① Cash & Bank (incl FD) with Bank
- ② Approved Securities
- ③ loans & adv given secured against deposits
- ④ loans to staff.
- ⑤ TDS & Adv tax paid
- ⑥ interest due on gov securities
- ⑦ fund based claims on CR
- ⑧ loan/OD/investment in Sr Securities
- ⑨ CR guaranteed claims.

percentage weight

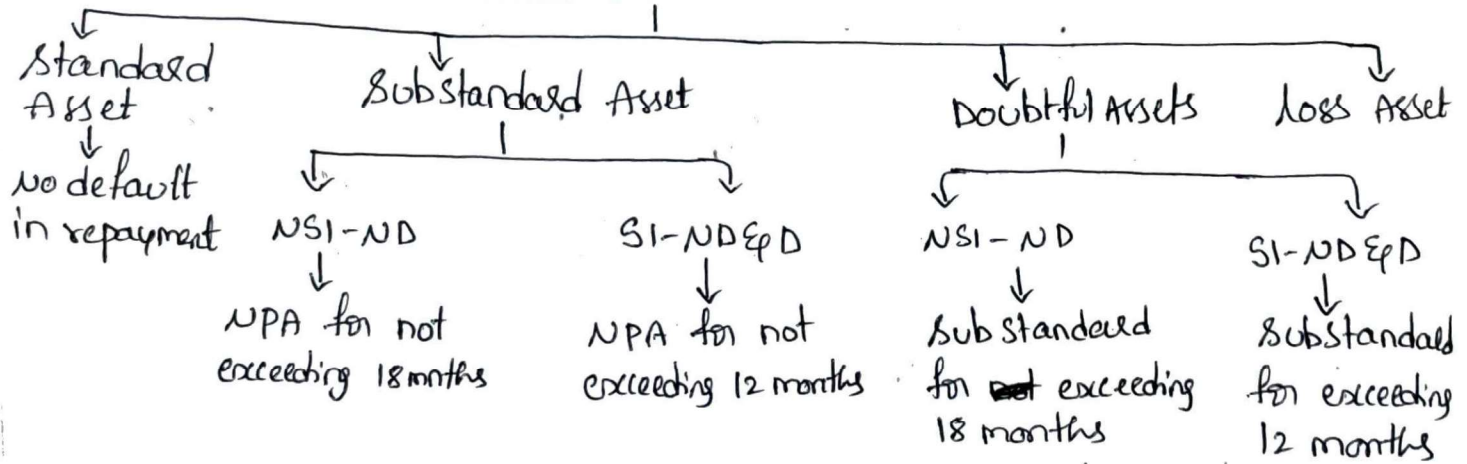
0

- (10) FD/bonds of public financial institution
 - (11) Current Assets
 - (12) Fixed Assets
 - (13) SGR guaranteed claims, in default for more than 90 days
- } → 100
- (14) Bonds of public sector banks
 - (15) SGR guaranteed claims not in default/default for less than 90 days
- } → 20.

Income Recognition.

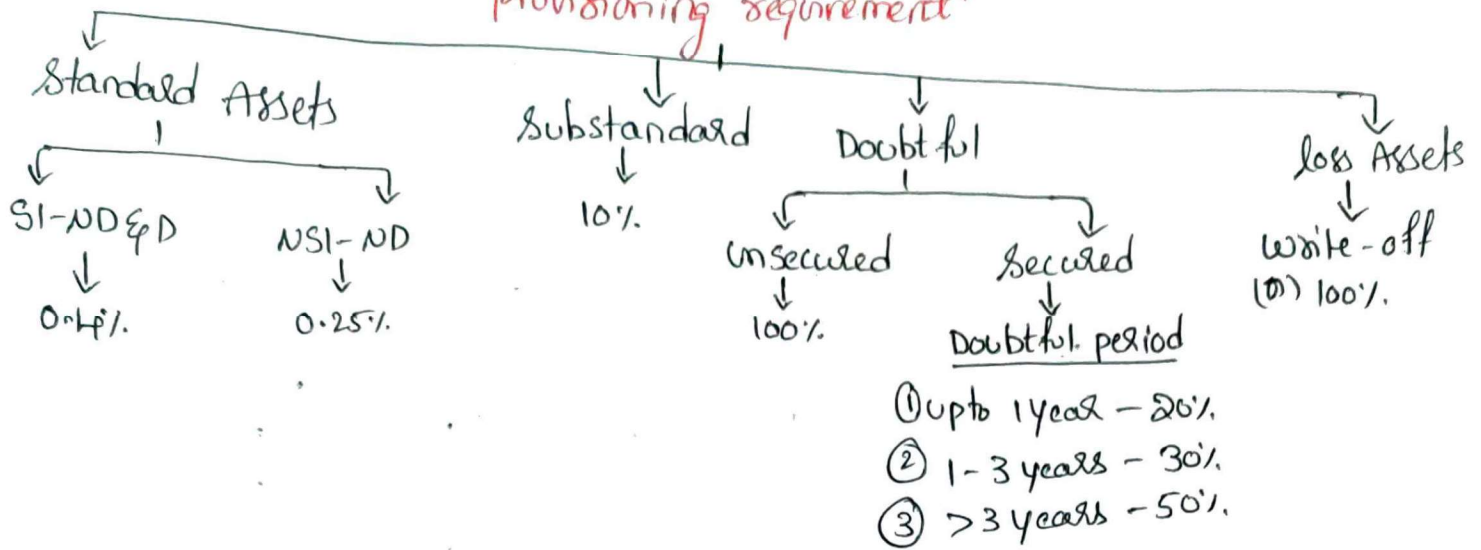
Recognise income on NPA's only when it is actually realised.
 Previously recognised unrealised income shall be reversed.

Asset Classification.

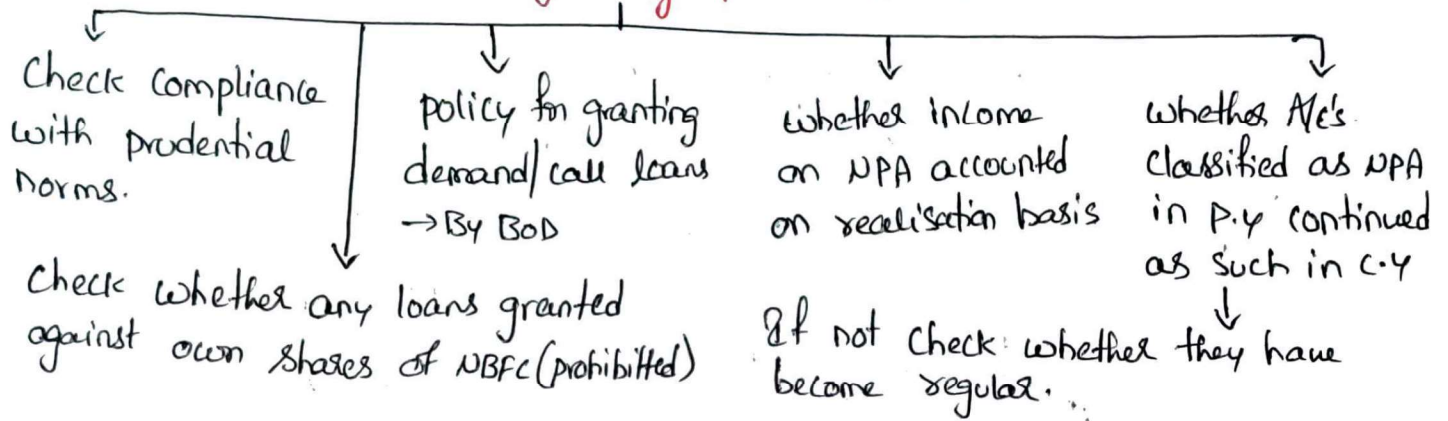


NPA → ~~Principal~~ Interest overdue for period of 3/6 months or more
 → lease rental & hire purchase installment overdue for 12 months or more.

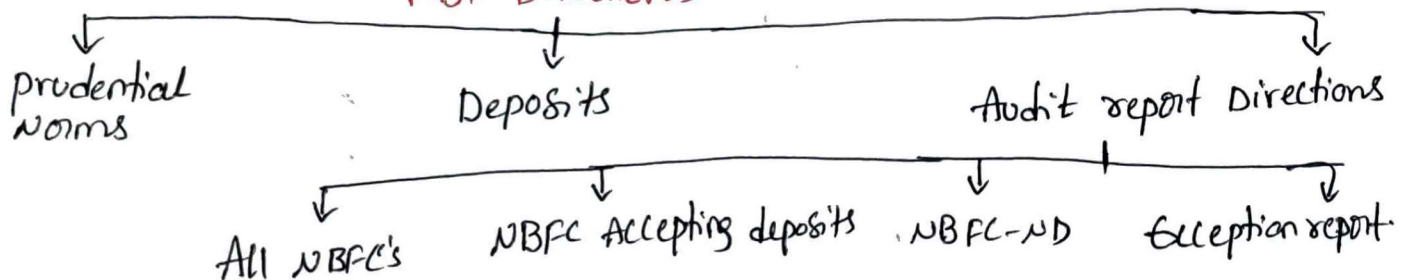
Provisioning requirement.



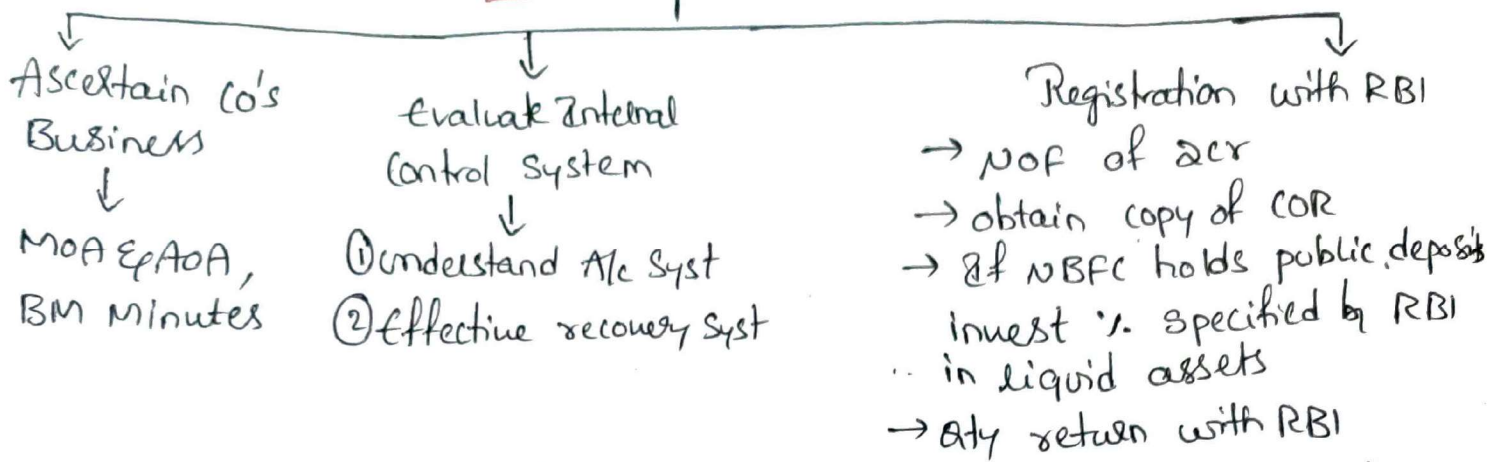
Audit procedures regarding prudential norms.



RBI Directions



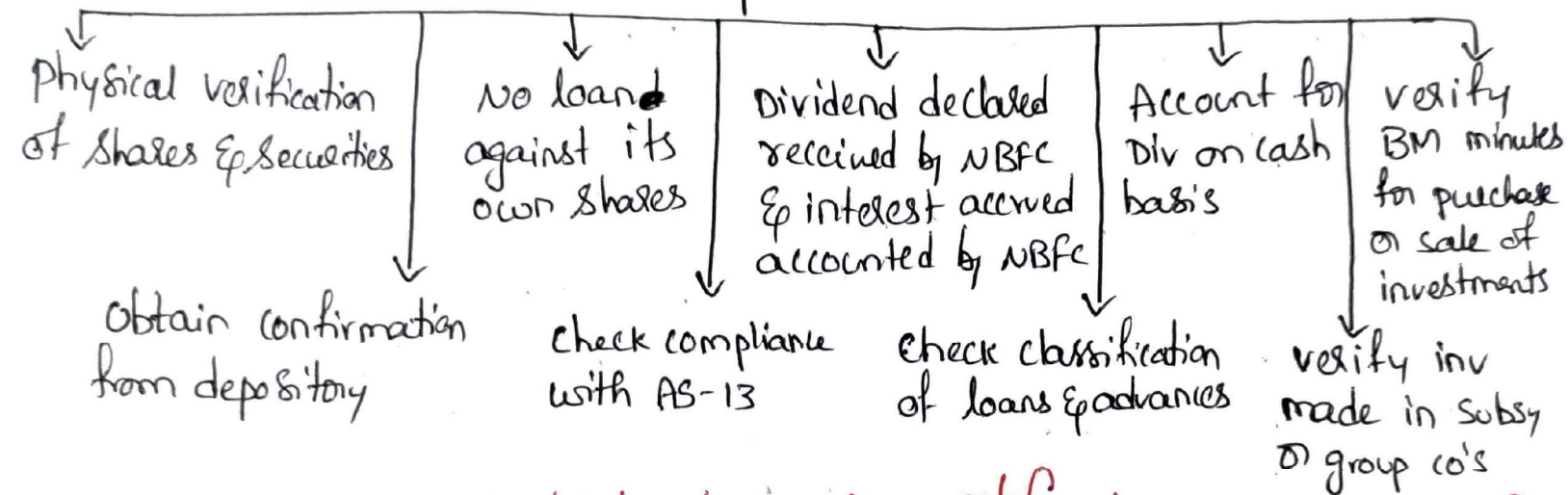
Audit procedures



NBFC Acceptance of public deposit Directions (NBFC Acceptance of public deposits (Reserve Bank) Directions, 2016.

- ① Check appropriate classification of NBFC
- ② Ceiling on quantum of public deposits is linked to Credit rating
 - obtain copy of Cr. rating & check public deposits
 - If down/upgraded then increase/decrease deposits
 - If downgraded below minimum grade, then regularise existing deposits (No fresh dep, no renewal, Report to RBI in 15 days)
- ③ Test check interest calculations.
- ④ Acceptance/renewal of deposits by NBFC only after written application from depositor.
- ⑤ verify deposit register with supporting receipts.
- ⑥ Check whether liquid investments are in safe custody of Comm. Bank
- ⑦ Check whether returns are filed in timely manner
- ⑧ BR passed → RBI not accepting/holding public deposits

Audit Checklist - NBFC - Investment Credit Company.



Auditor's duty to report (Audit report directions)

All NBFC's

- ① COR obtained
- ② whether entitled to hold COR as per principal business criteria
- ③ Meeting NOF criteria?

A certificate from auditor regarding above within 1 month of BIs finalisation but not later than 30/12

NBFC accepting public deposits.

- ① whether public deposits are within the limit
- ② excess PD → Regularised?
- ③ whether accepting PD without min credit rating
- ④ whether CAR (cap adequacy ratio) correctly determined & complied with minimum CRAR requirement?
- ⑤ default in paying int/principal.
- ⑥ Return on deposits furnished to RBI within stipulated period. → NBS-1

NBFC ↓ not accepting public deposits.

- ① BOD-BR for non-acceptance of PD
- ② accepted any PD during the year.
- ③ Complied with prudential norms
- ④ In respects of NBFC-SI-ND
 - CAR disclosed in Return (NBS-7) is correctly arrived & Complied with minimum CRAR
 - Annual statement of capital funds, risk assets filed within stipulated period.
- ⑤ ~~Write~~ whether NBFC correctly classified as NBFC-MFI

Exception Report.

In the opinion of the auditor company has not complied

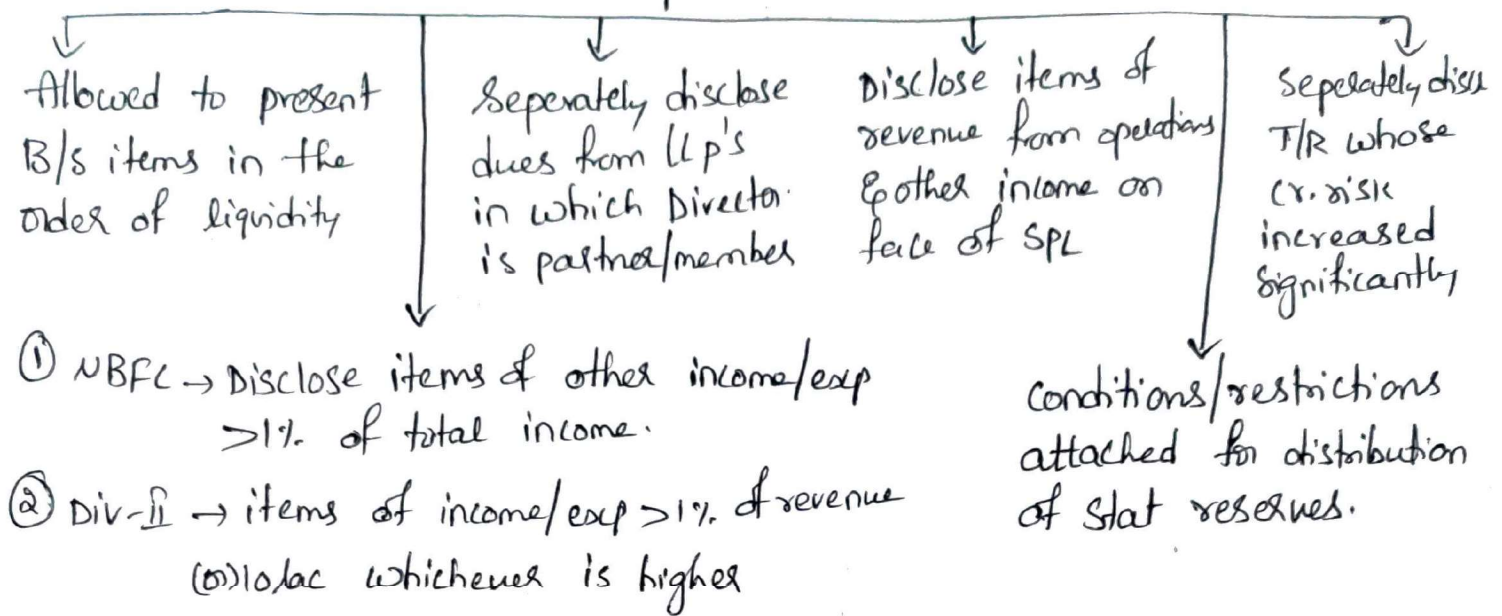
Chapter-III B of
RBI Act.

NBFC Acceptance of
public deposits (Reserve
Bank) Directions 2016

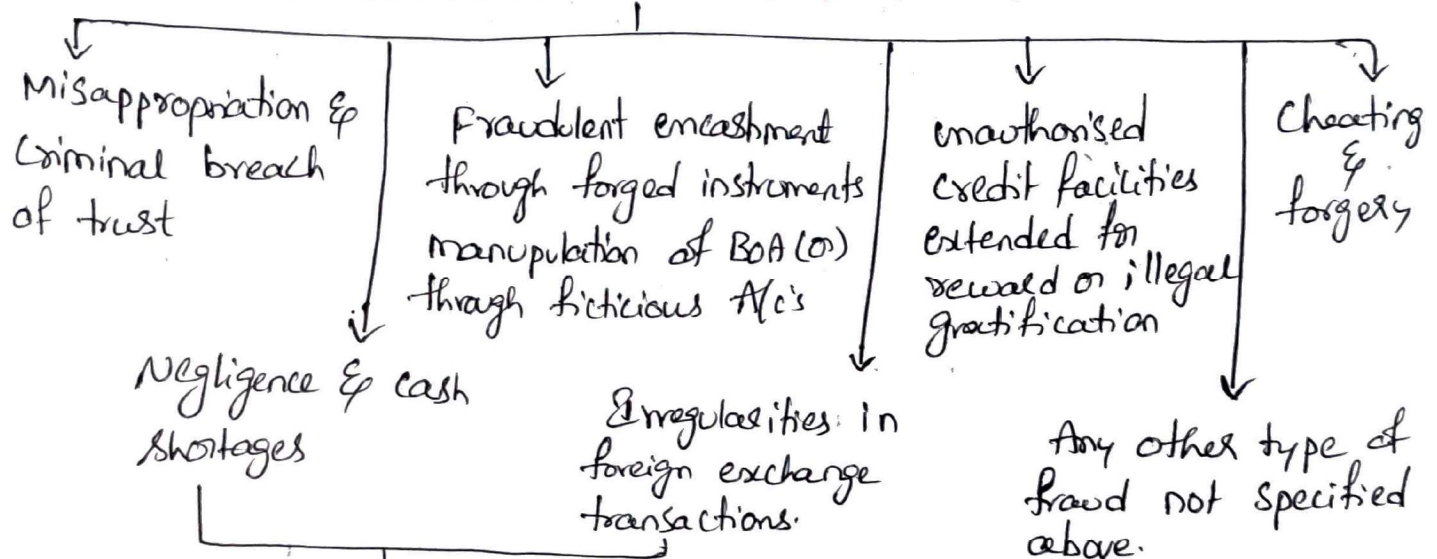
NBFC - NSI-ND (Reserve
Bank) Directions 2016 and
NBFC - SI-ND & Deposit
taking Co. (Reserve bank)
Directions, 2016

Report such unfavourable (or) qualified statements to concerned regional office of department of non-banking supervision - RBI

Difference b/w Div-II & Div-III of Sch-III

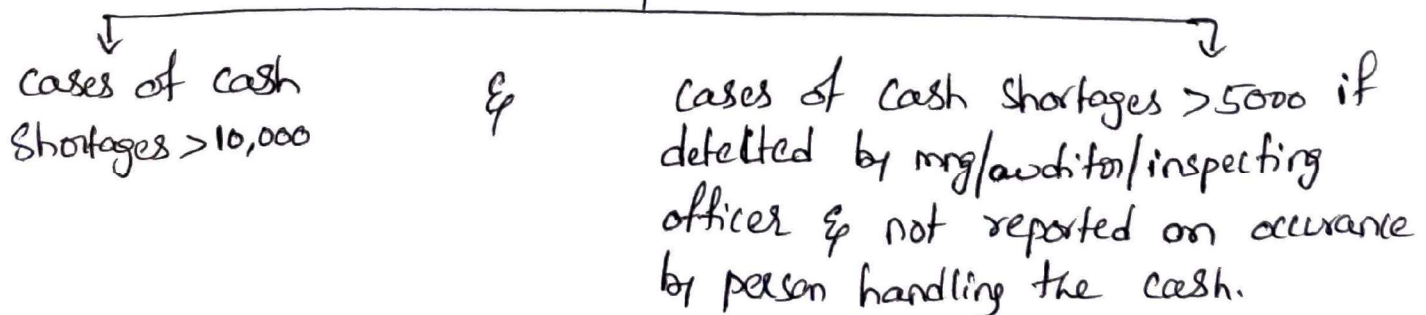


Classification of frauds by NBFC



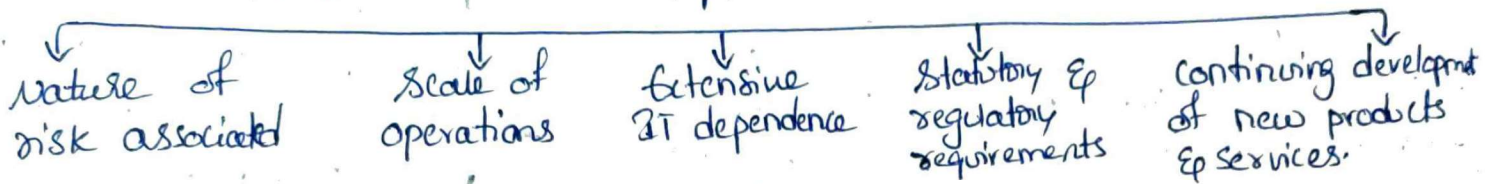
To be reported only if intention to cheat/defraud is suspected/proved.

However irrespective of intention following are reported as fraud.

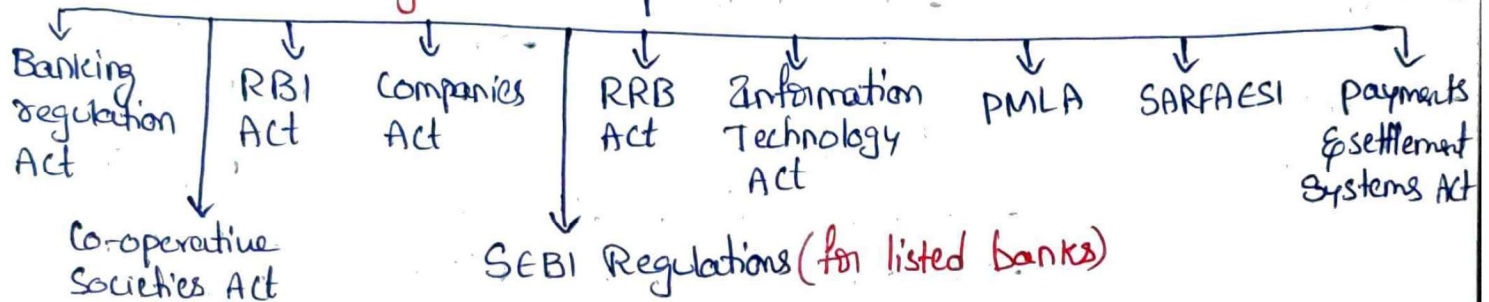


Audit of Banks.

Need for special audit considerations in case of Banks.

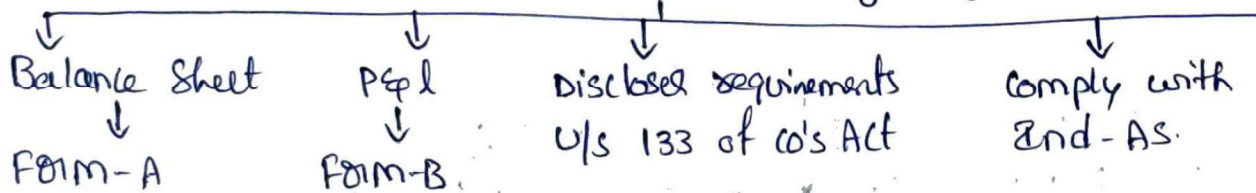


legal framework for Banks.

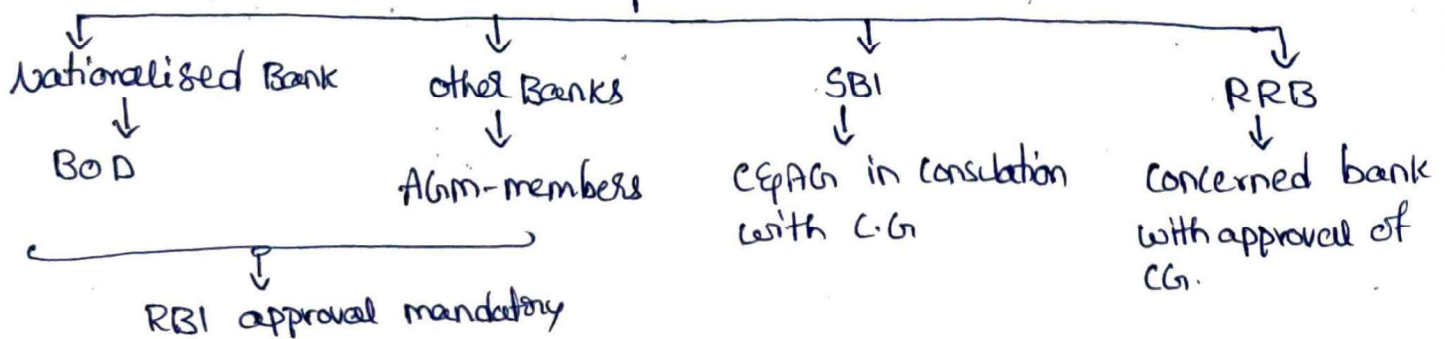


Financial Statements.

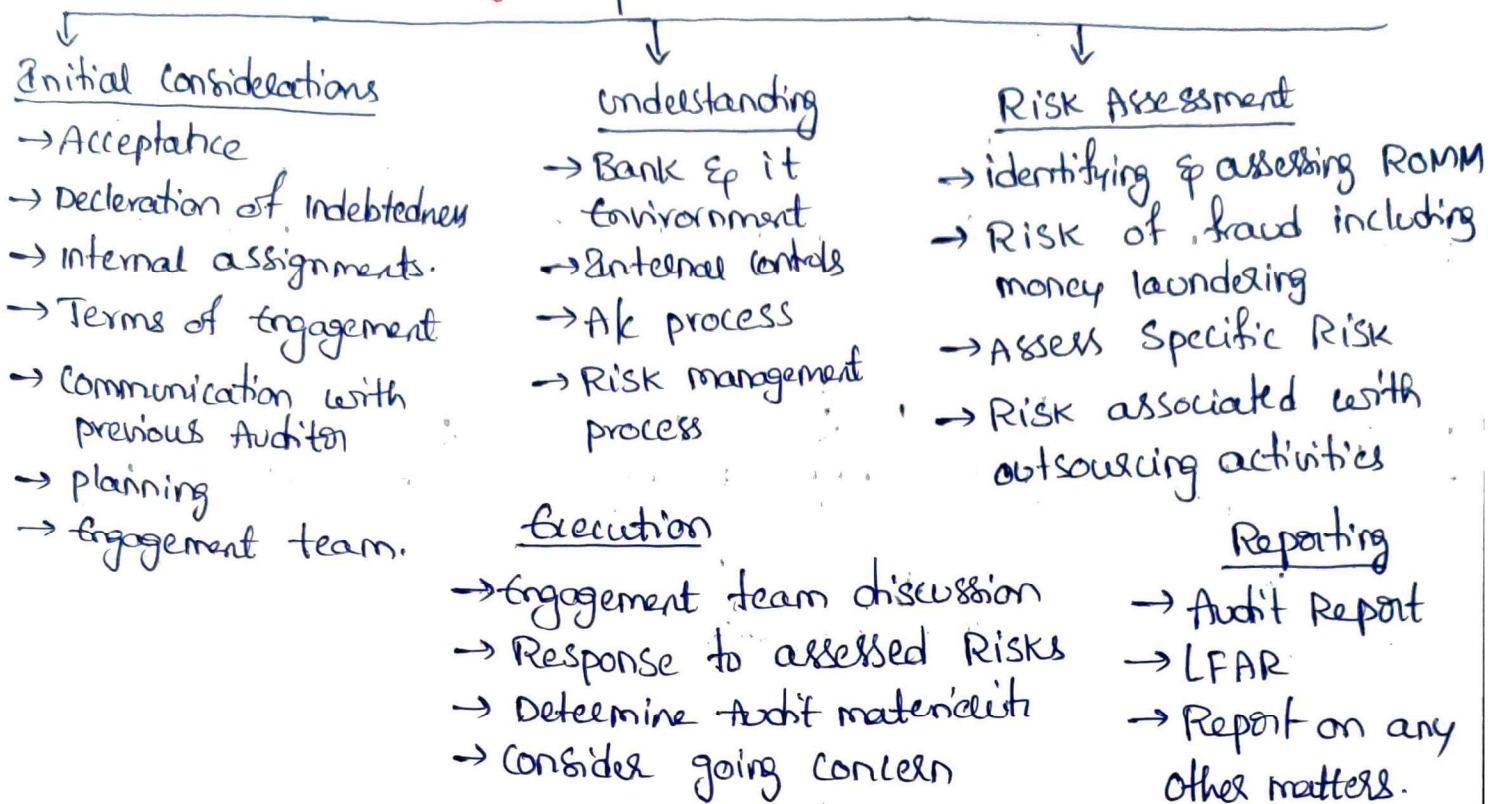
Schedule-III of Banking Regulation Act



Appointment of Auditor.

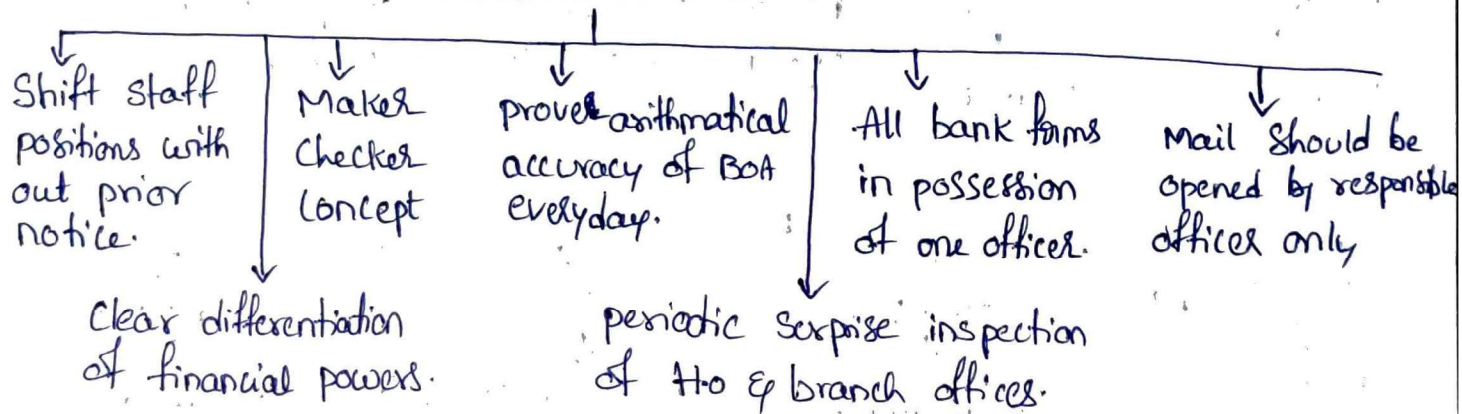


Stages of Bank Audit

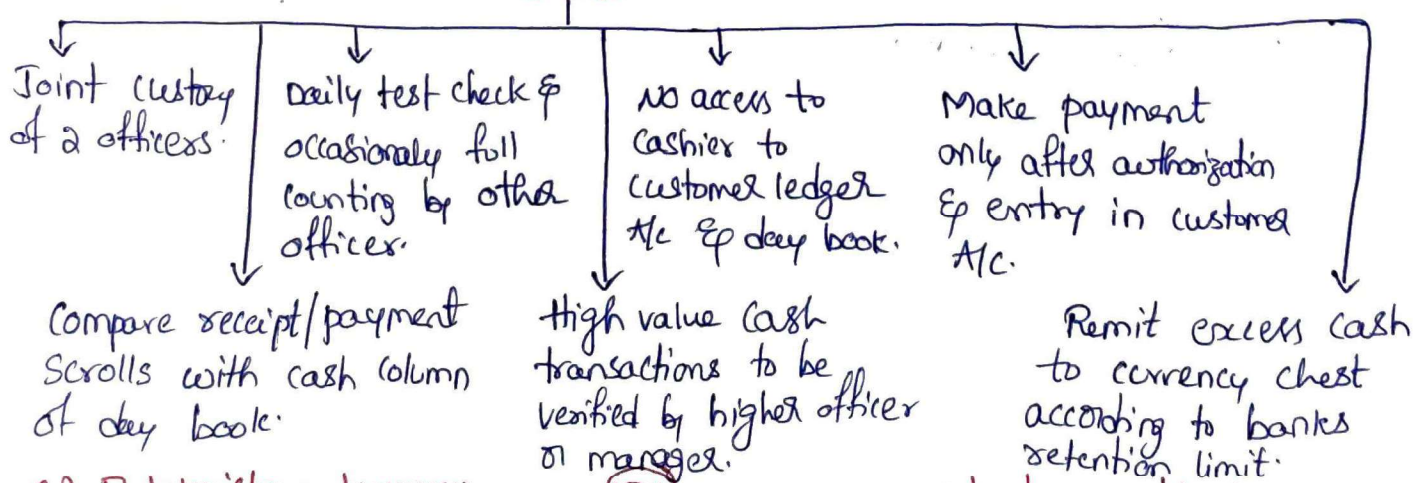


Internal controls in certain selected areas.

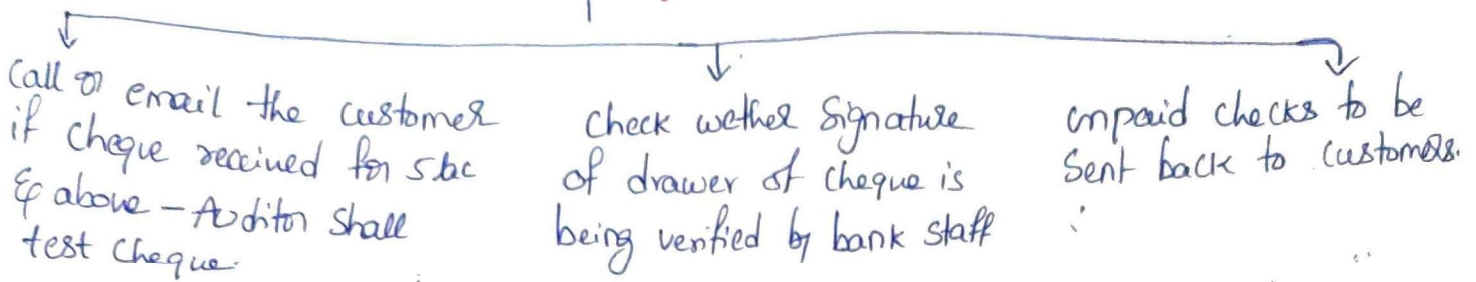
General Controls:



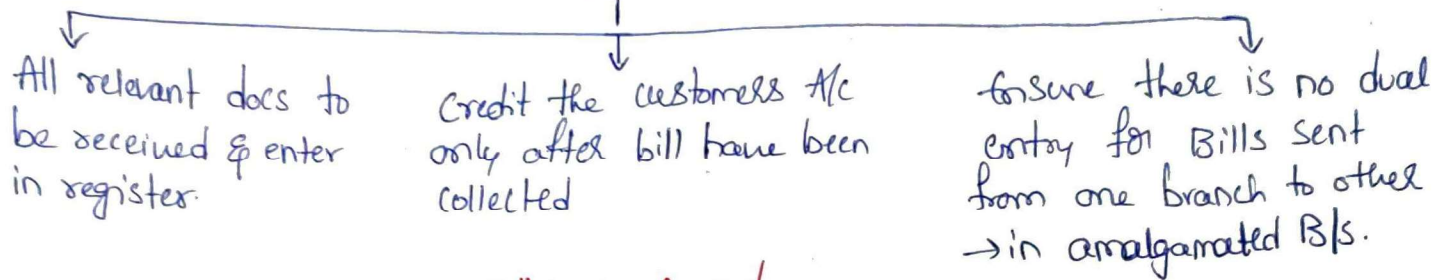
Cash:



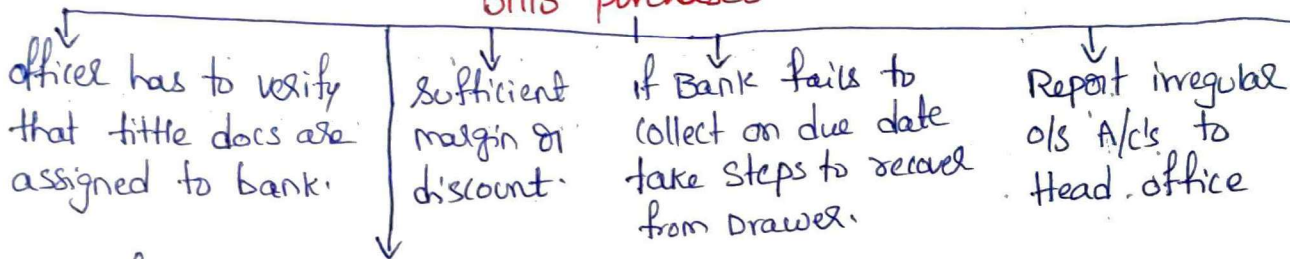
cheque clearings. (CTS)



Bills for collection.

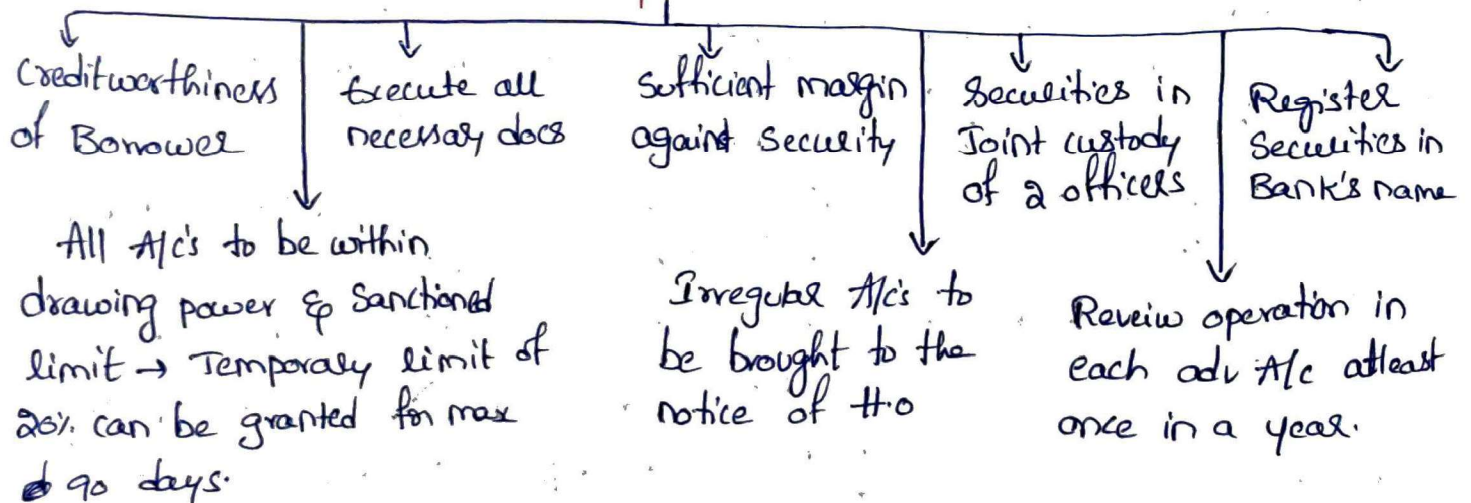


Bills purchased.

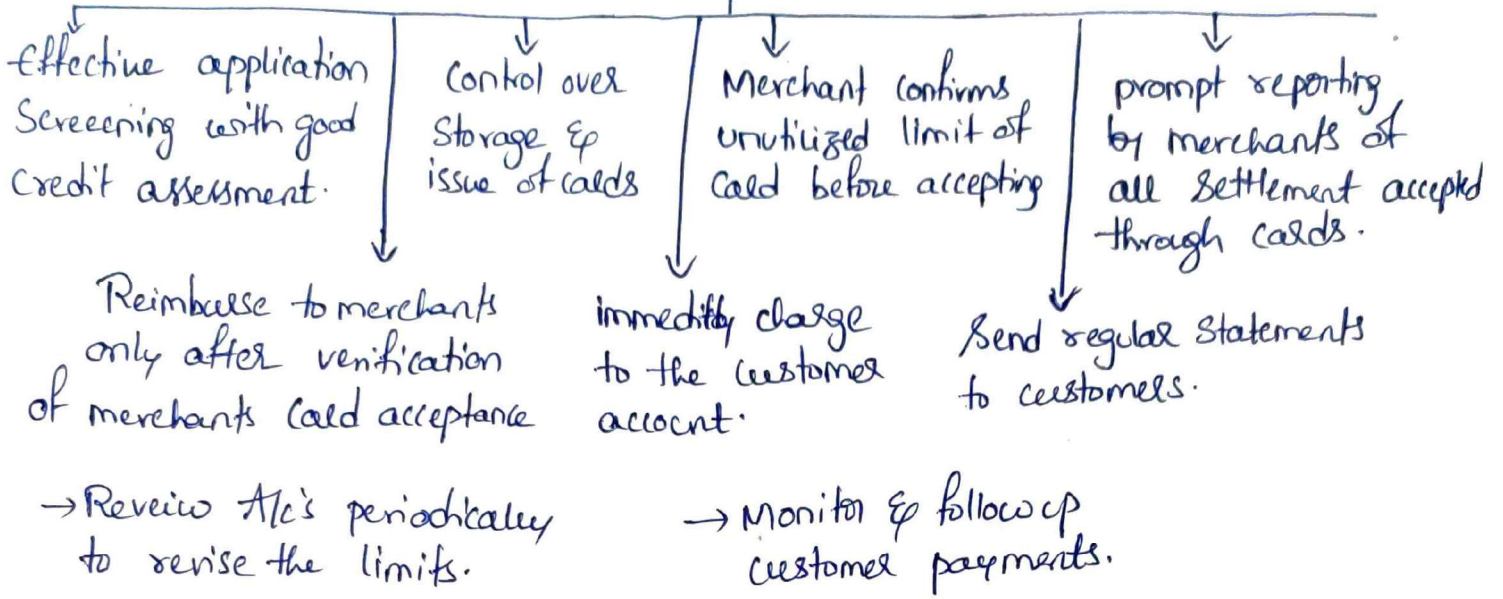


for Bills o/s at close of the year properly apportion the discount b/w 2 years.

loans & Advances.



credit card operations

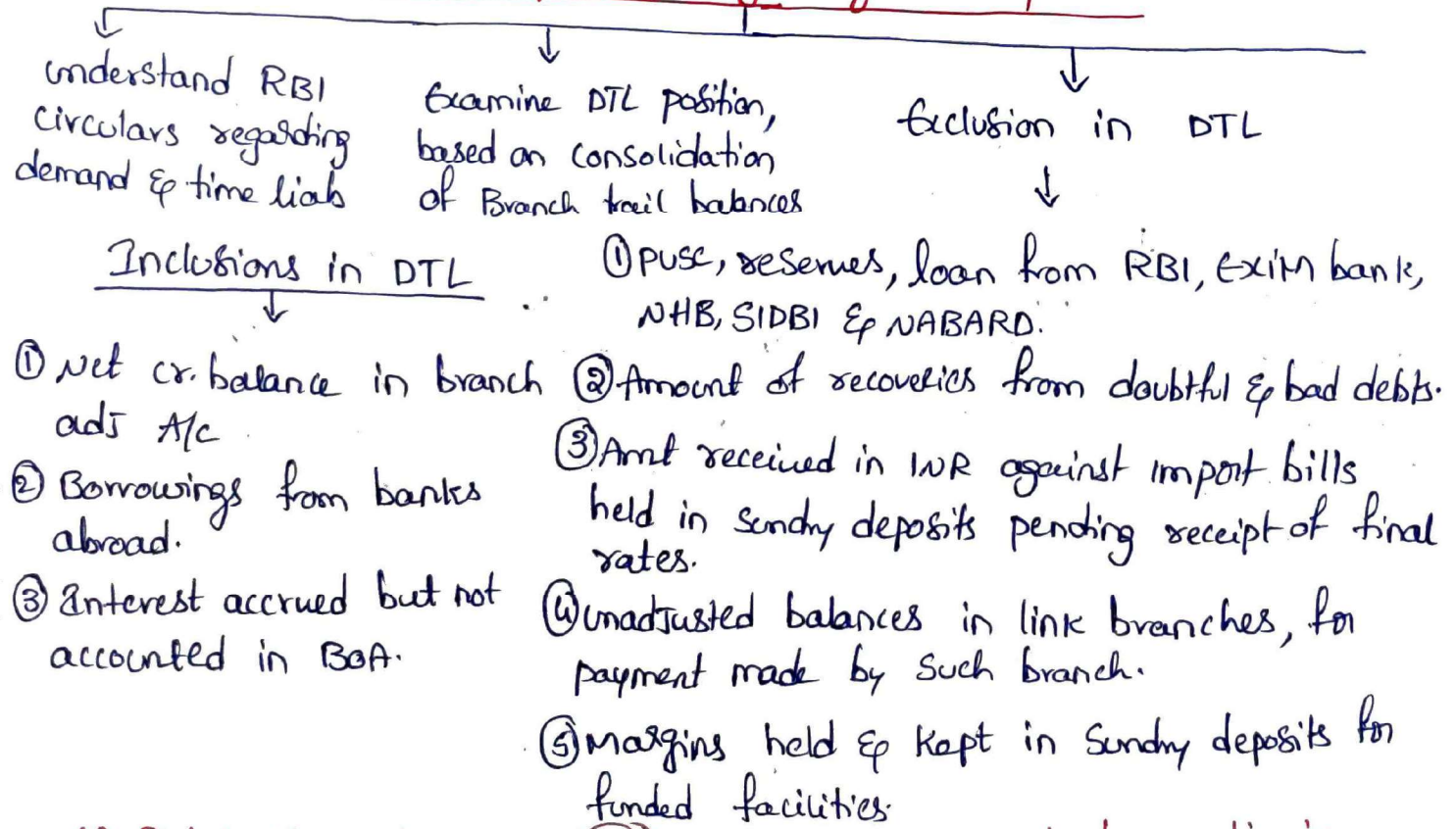


← 4.5%
CRR
&
SLR
→ 18%

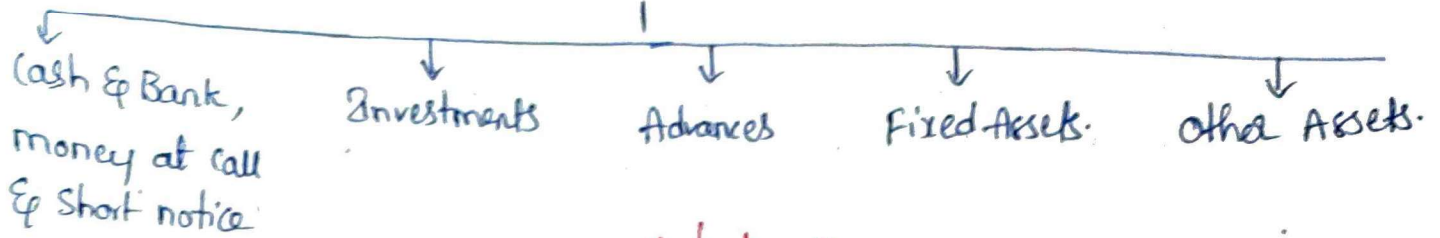
Certain % of deposits is maintained with RBI in the form of ~~cash~~ deposit (or) in cash.

↳ certain % of deposits is maintained in the form of liquid assets (gold, cash, gov approved securities)
 (Note: verify SLR requirement at 12 odd dates of fiscal year not being Friday)

Audit approach regarding CRR & SLR



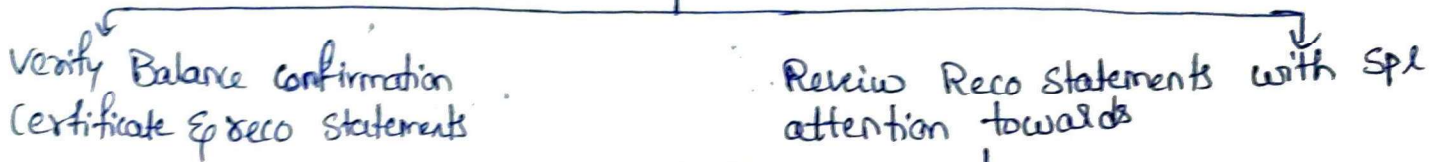
Verification of Assets.



Cash balance.



Balance with RBI

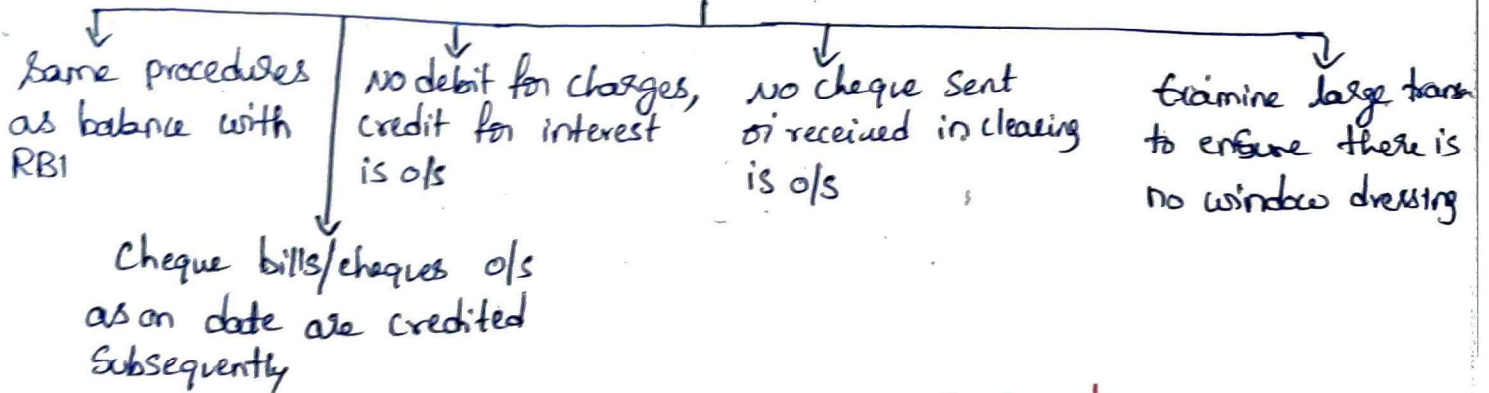


Cash transactions remaining unresponded.

Revenue items requiring adjustments.

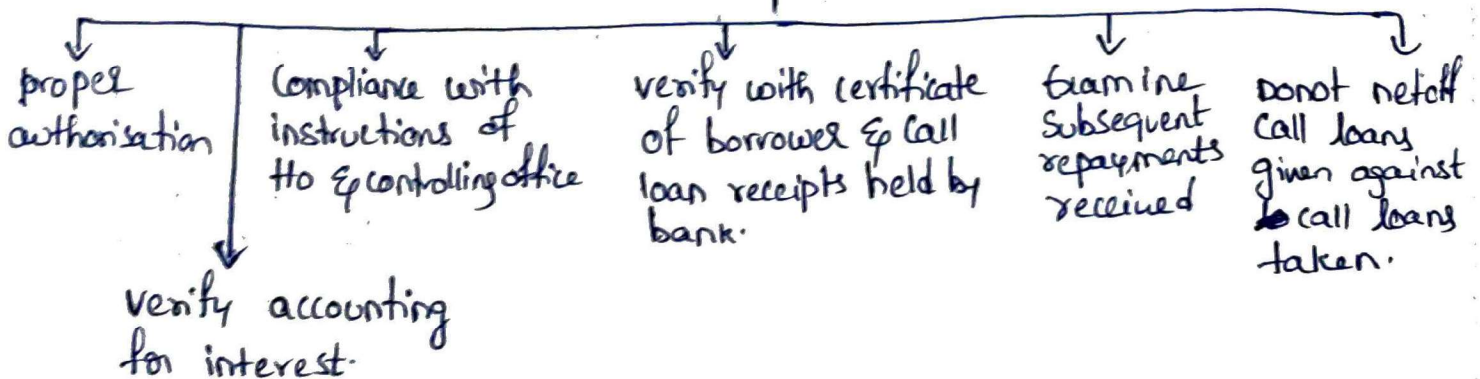
Other credit & debit entries remaining unresponded for more than 15 days.

Balance with other Banks.



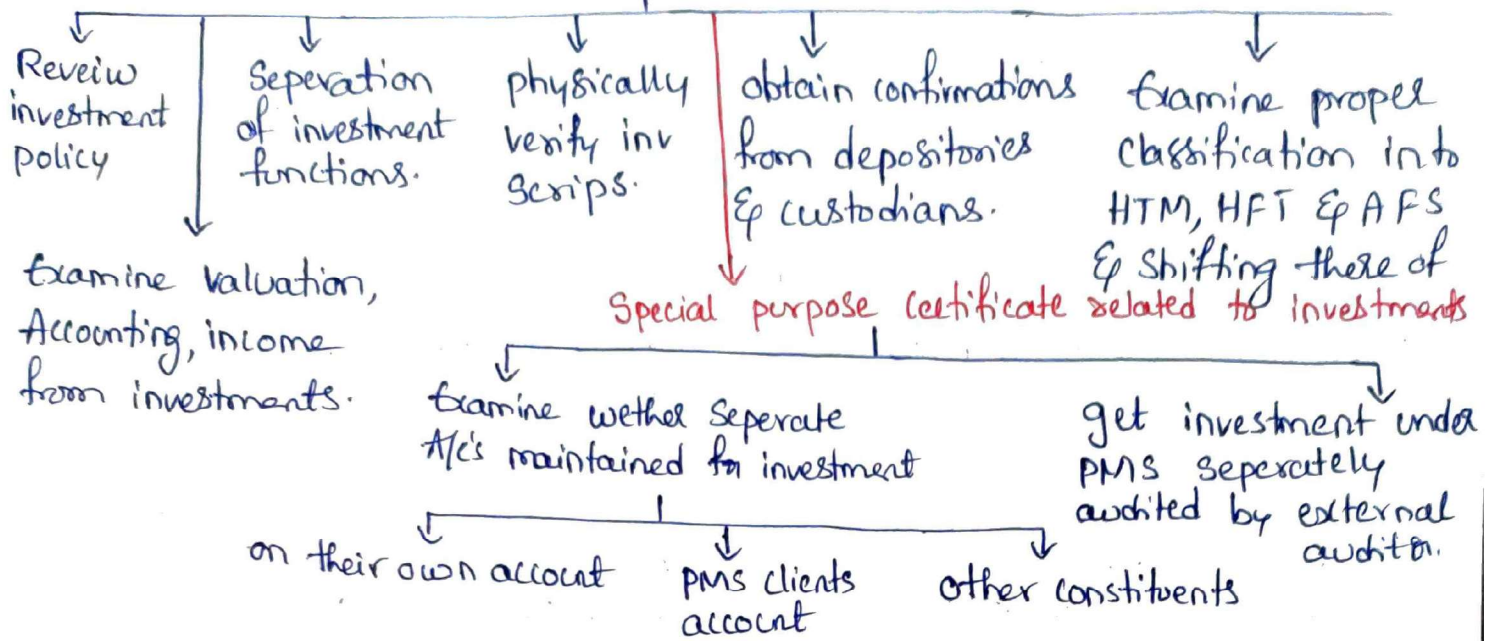
Cheque bills/cheques o/s as on date are credited subsequently

Money at call & short notice.

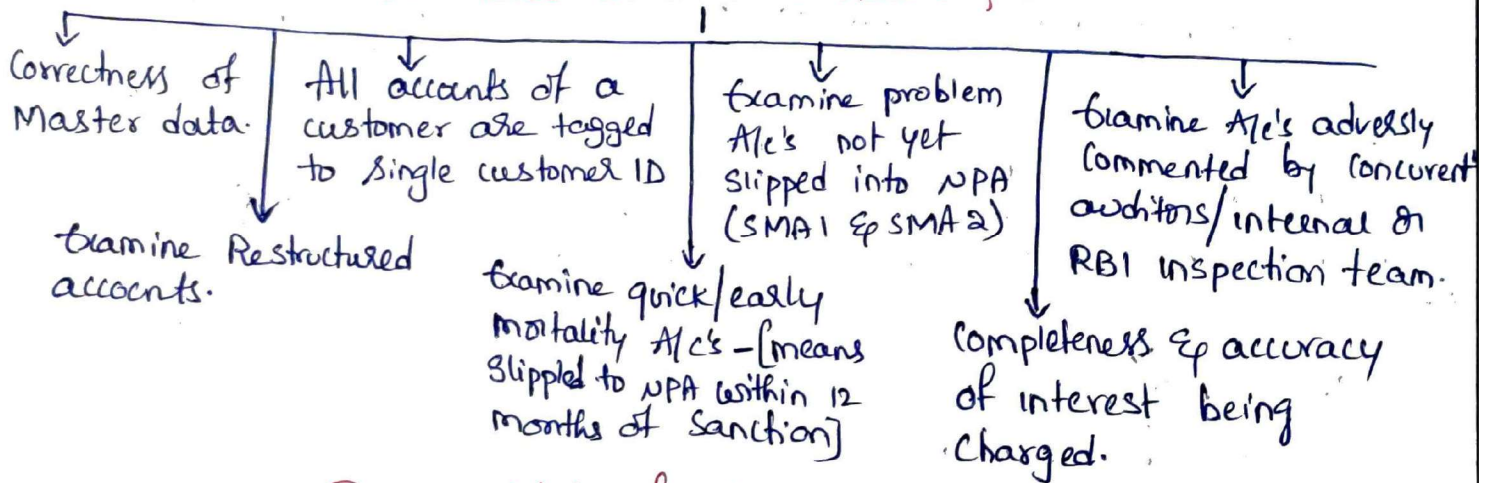


verify accounting for interest.

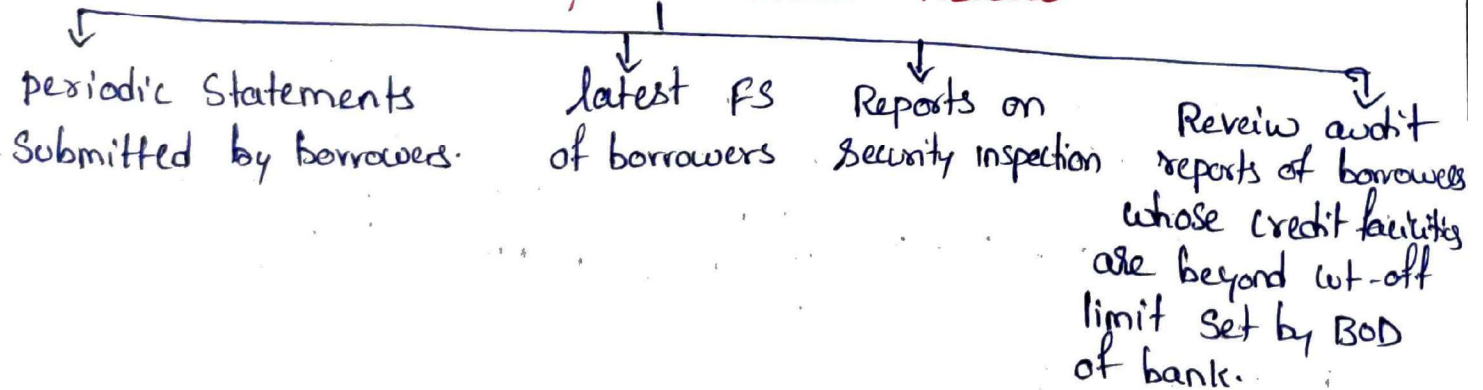
Audit procedures for investments



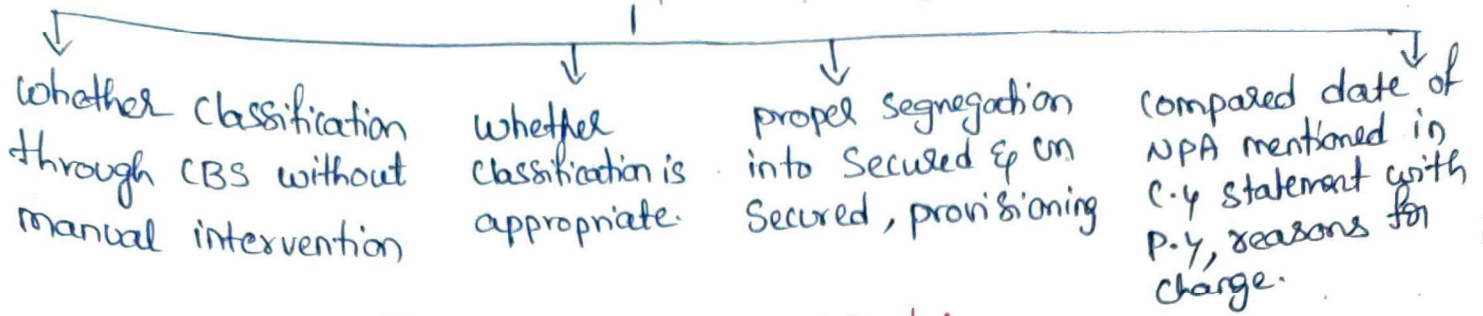
Advances - Substantive Audit procedures.



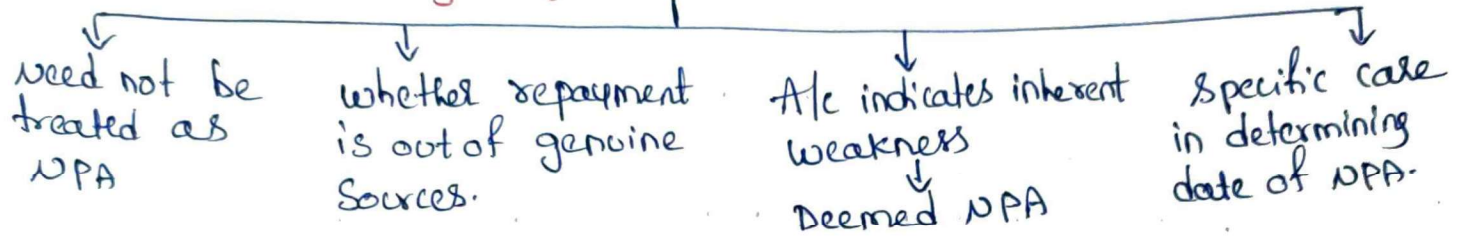
Recoverability of Advances - Review



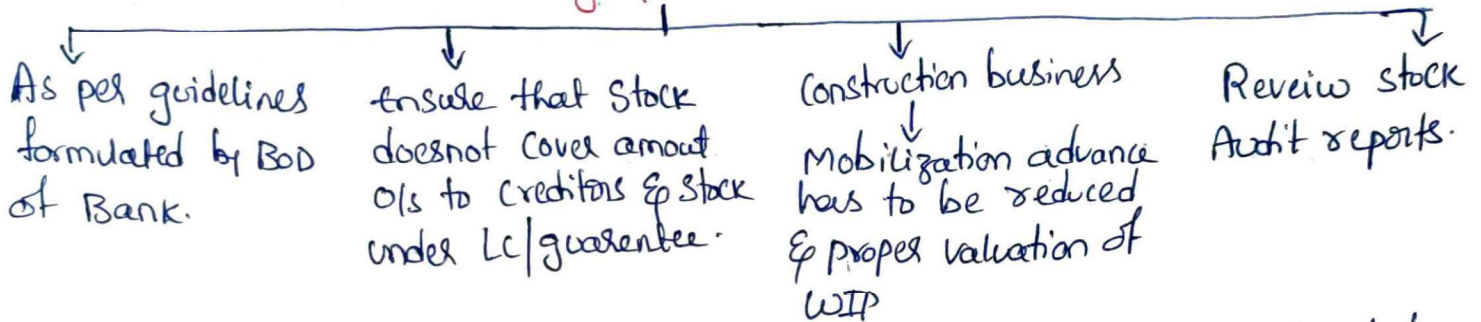
Classification & provisioning.



Regularization near B/s date.



Drawing power calculation.

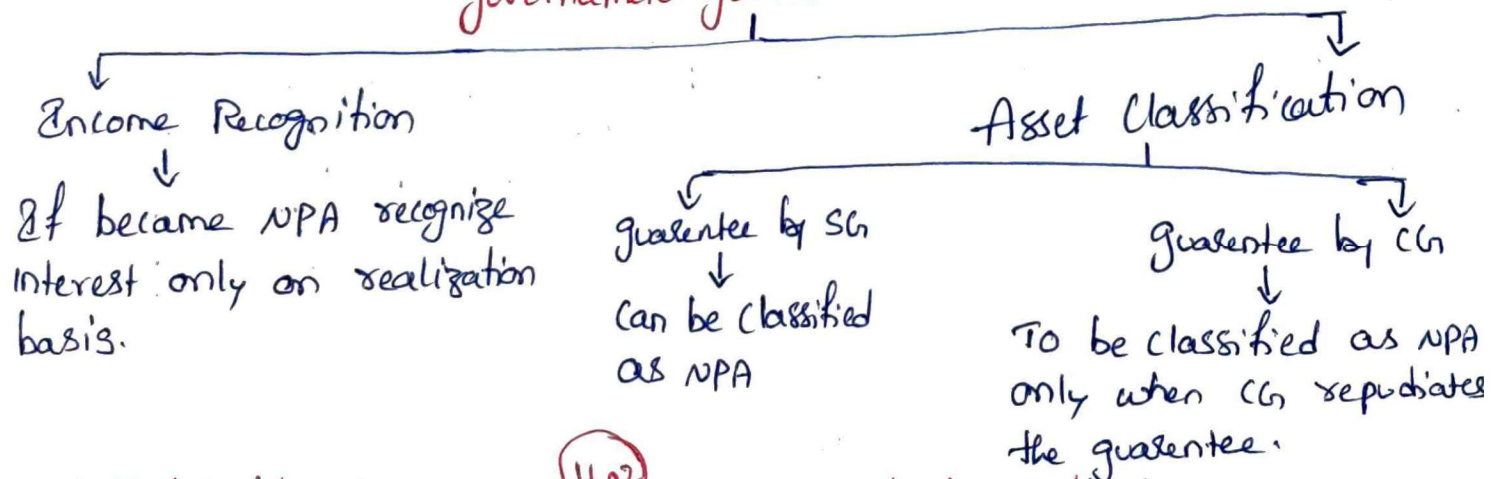


Note: ① Stock statements for calculation of drawing power should not be older than 3 months. (considered irregular if older than 3 months)

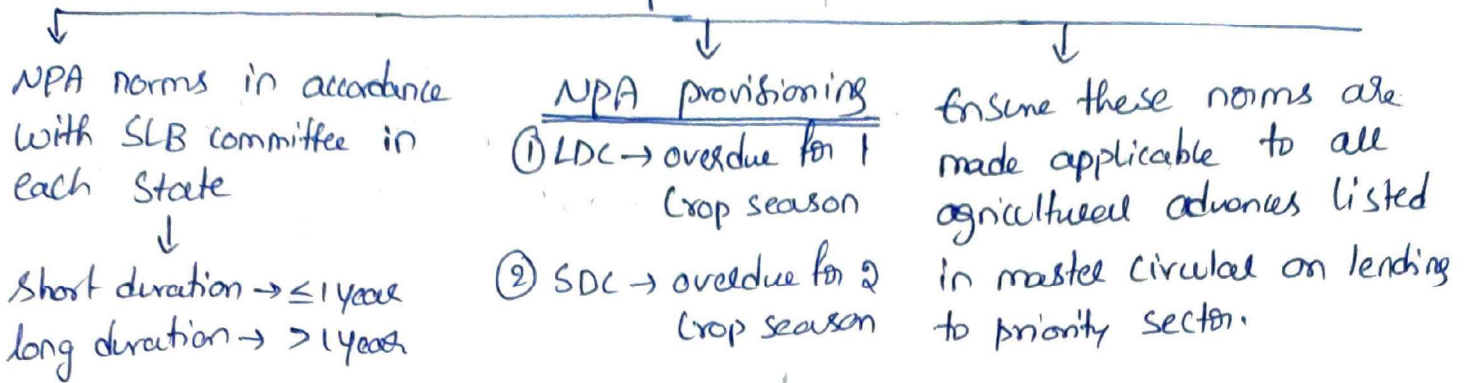
② Limits not reviewed within 180 days from due date/date of ad hoc sanction — Consider account as NPA.

③ Classification to be borrower wise & not facility wise.

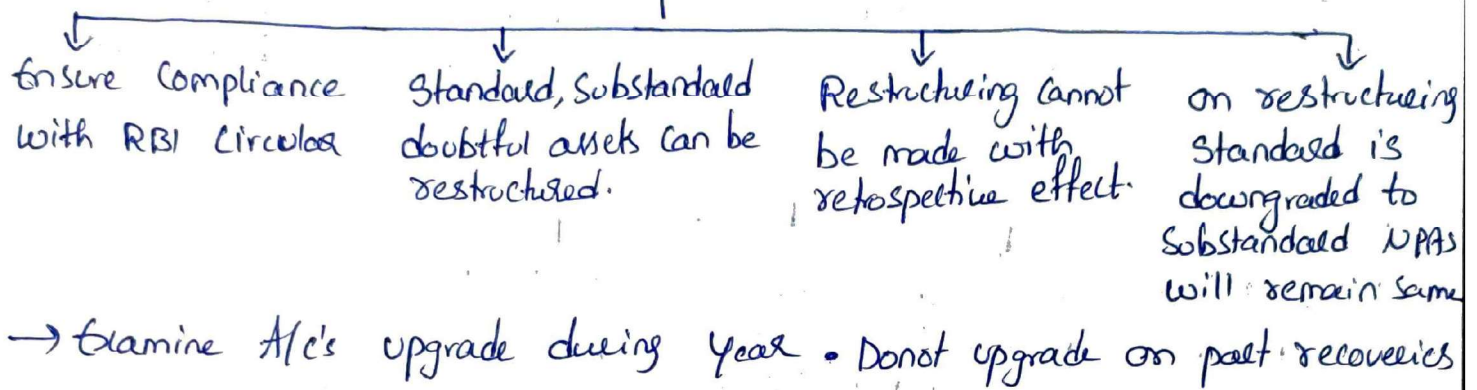
government guaranteed Advances.



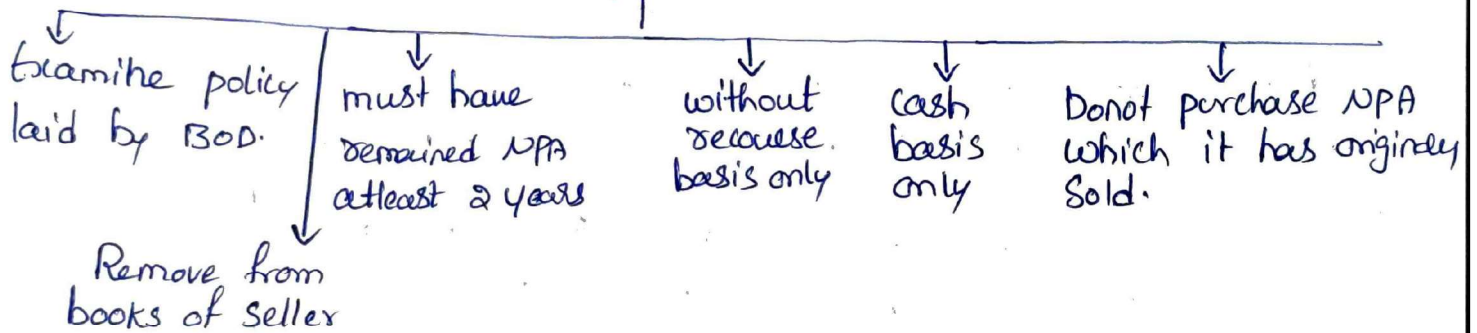
Agricultural advances



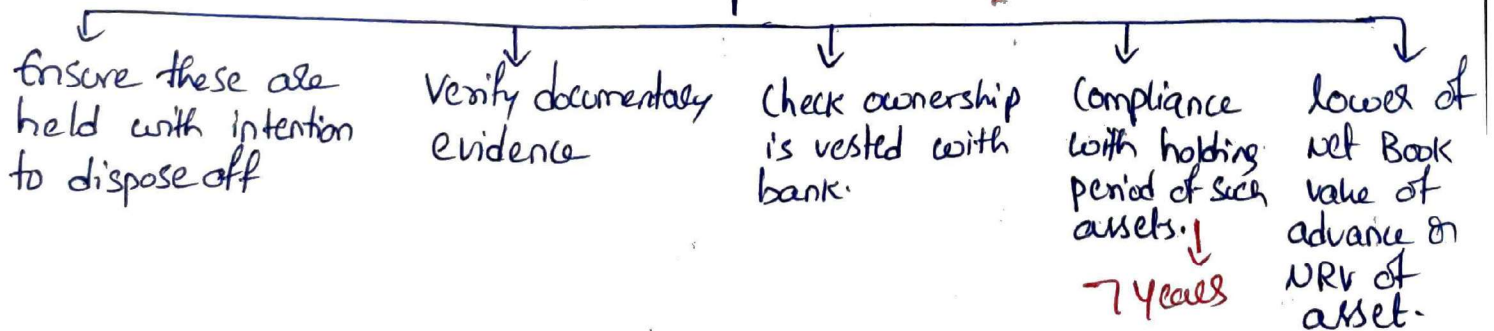
Restructured Advances



Sale (or) purchase of NPA



Non-Banking Assets acquired in Satisfaction of claims



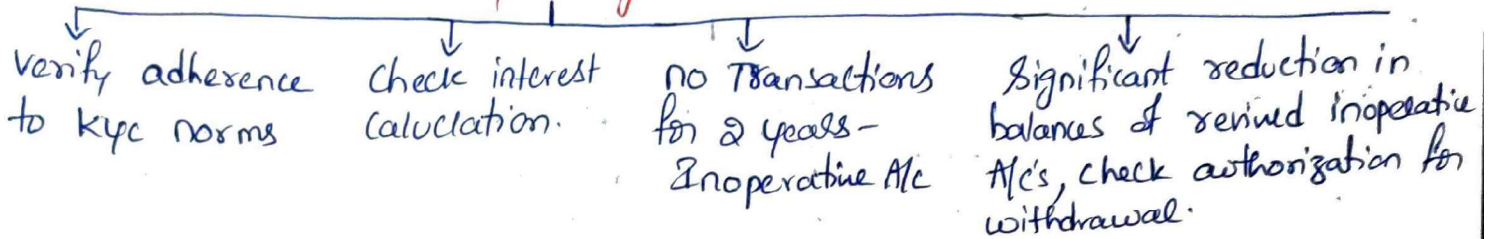
Capital Risk Adequacy Ratio (CRAR)

$$\text{CRAR} = \frac{\text{Eligible total capital funds}}{\text{Risk weighted Assets \& off-B/s items}} \times 100.$$

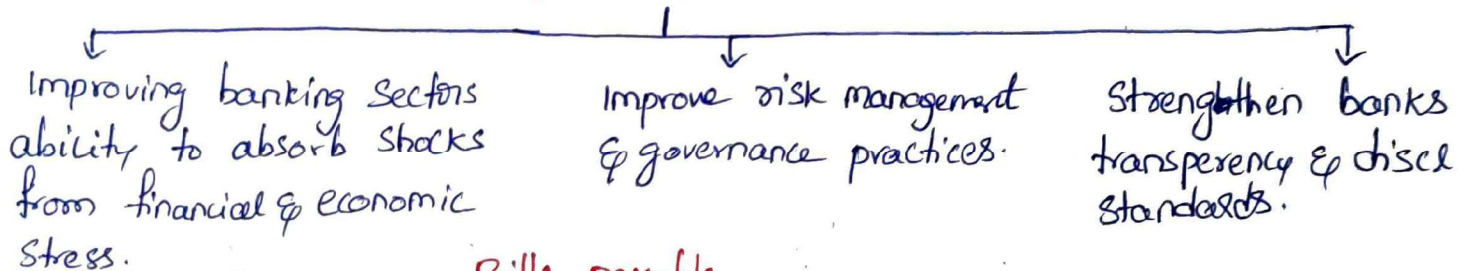
Minimum CRAR \rightarrow 9%

Stress testing \rightarrow Test to understand whether bank has enough capital to survive adverse economic conditions.

Current & Saving A/c's

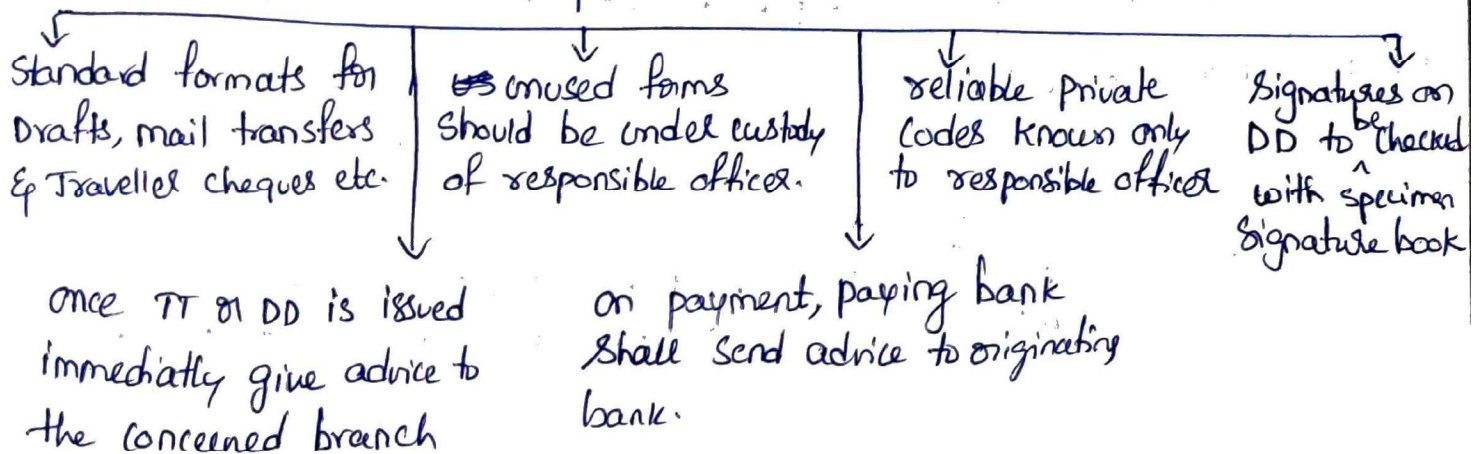


Basel III framework aims at

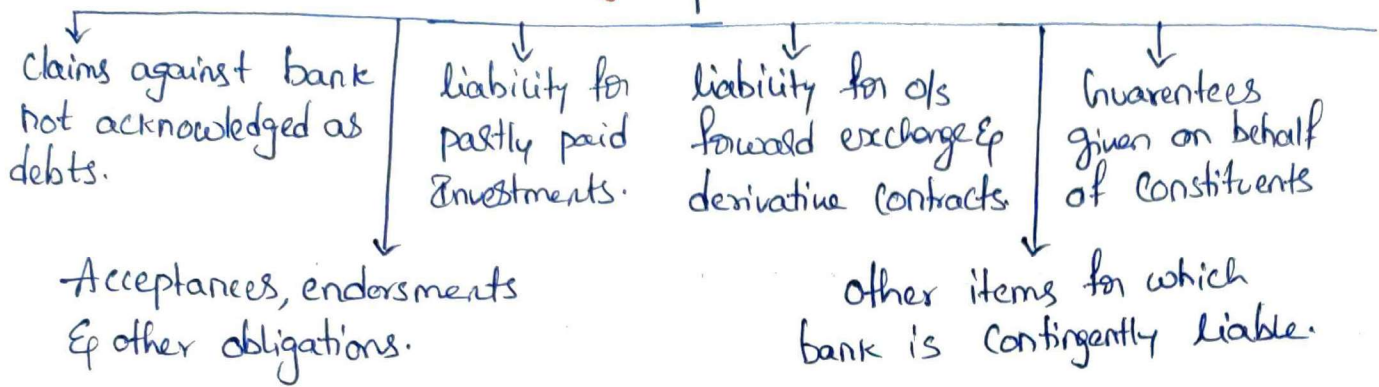


Bills payable

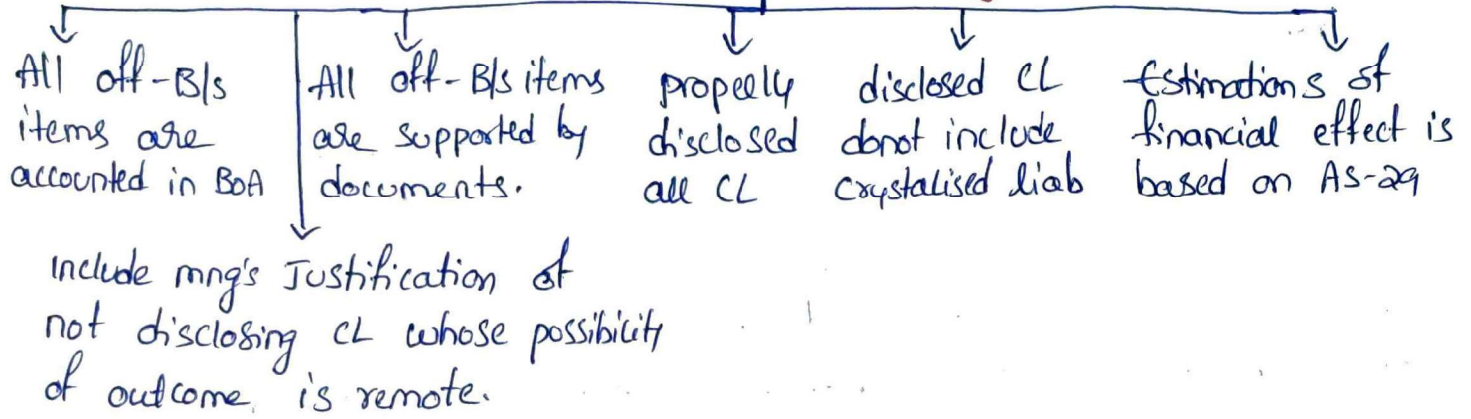
Evaluate internal controls over Bills payable, such as:



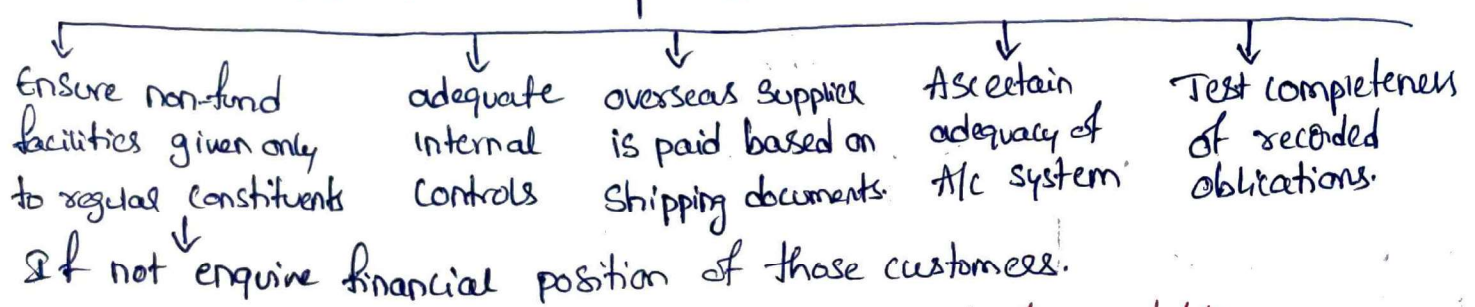
Contingent liabilities.



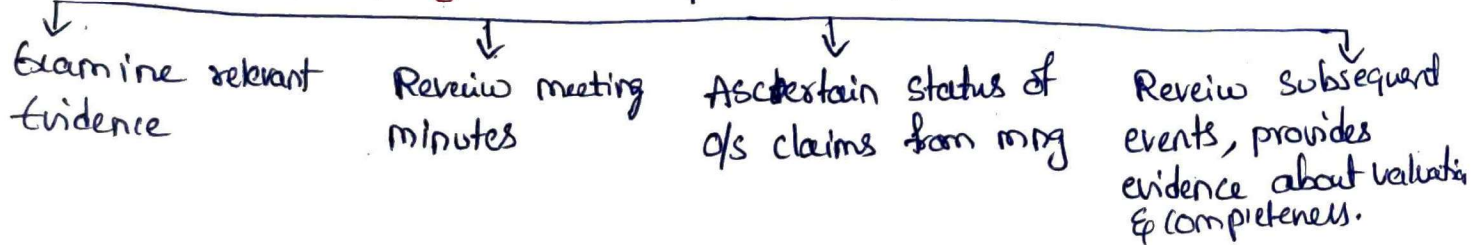
Management representation regarding Contingent liability



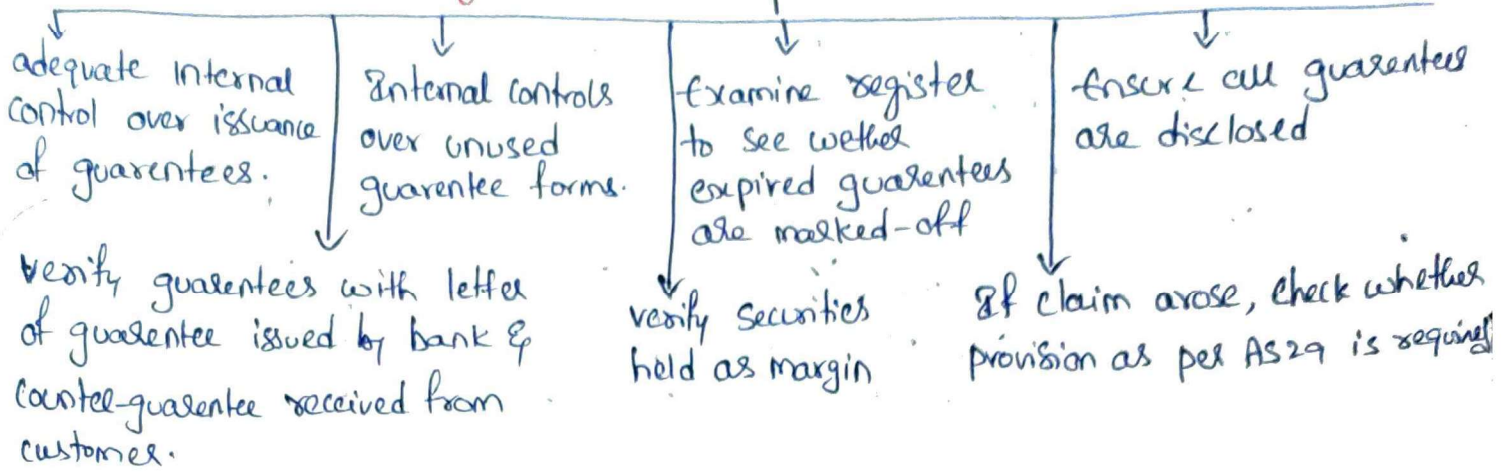
Audit procedures - contingent liabilities.



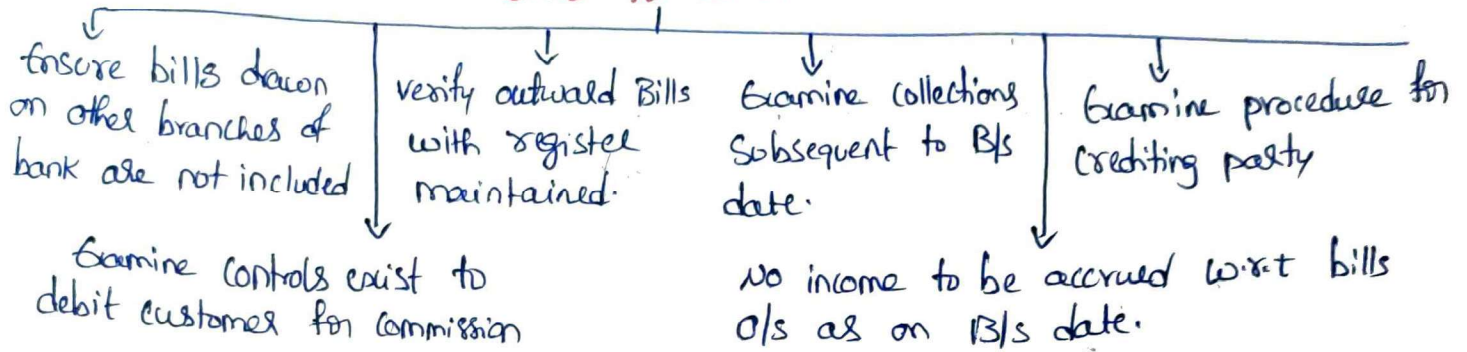
Claims against bank not acknowledged as debts.



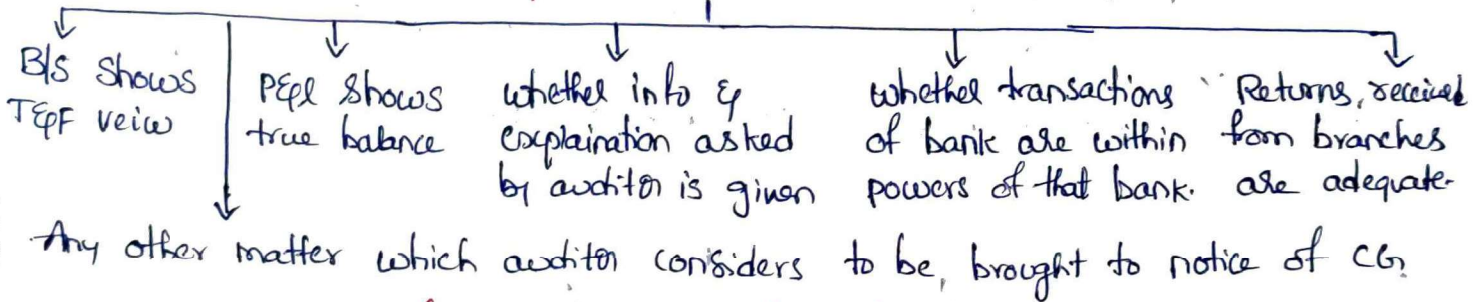
guarantees given on behalf of constituents.



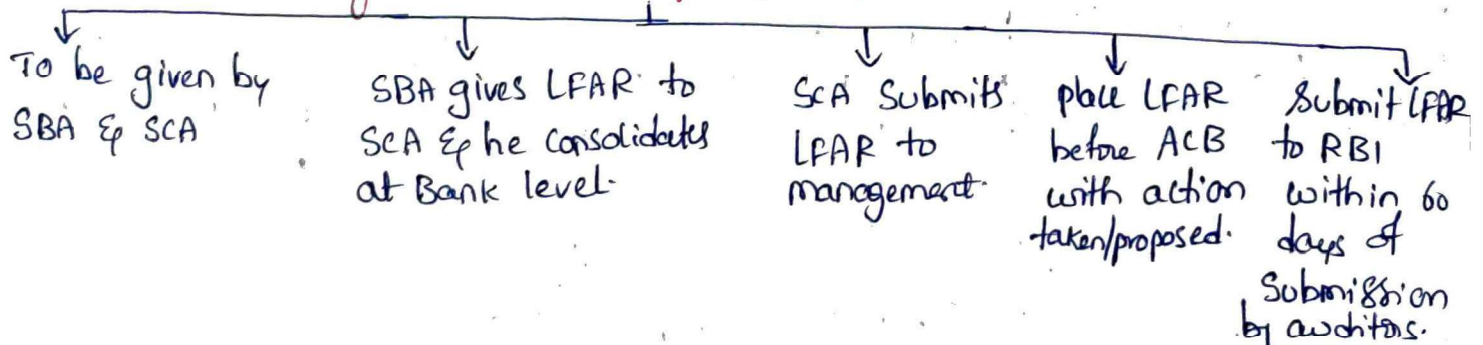
Bills for collection.



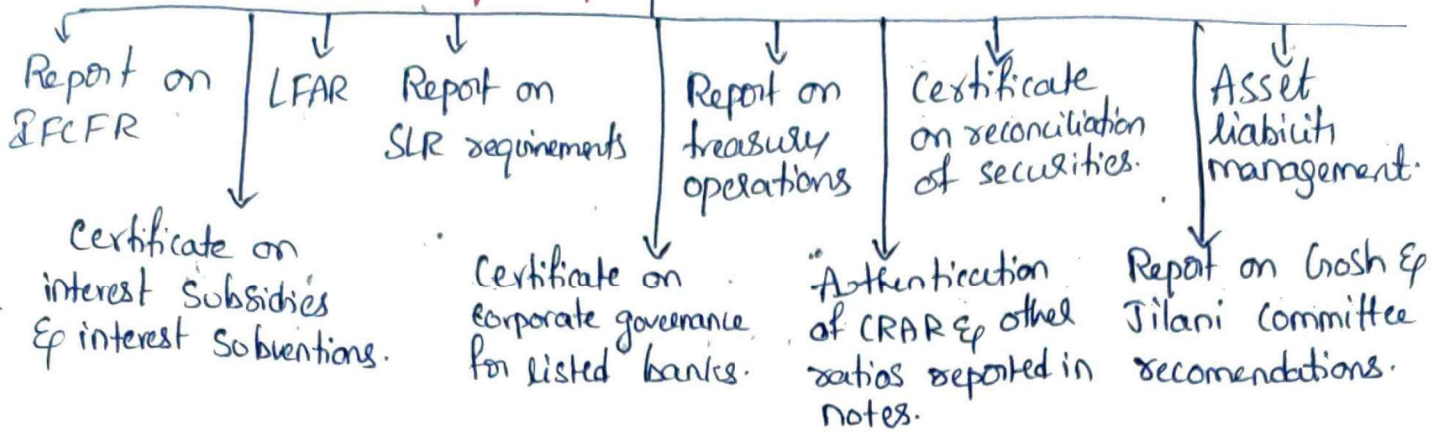
Audit report of bank shall contain whether.



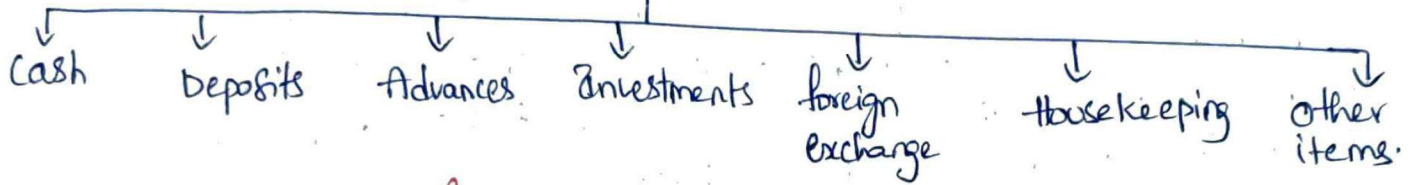
Long form Audit Report (LFAR)



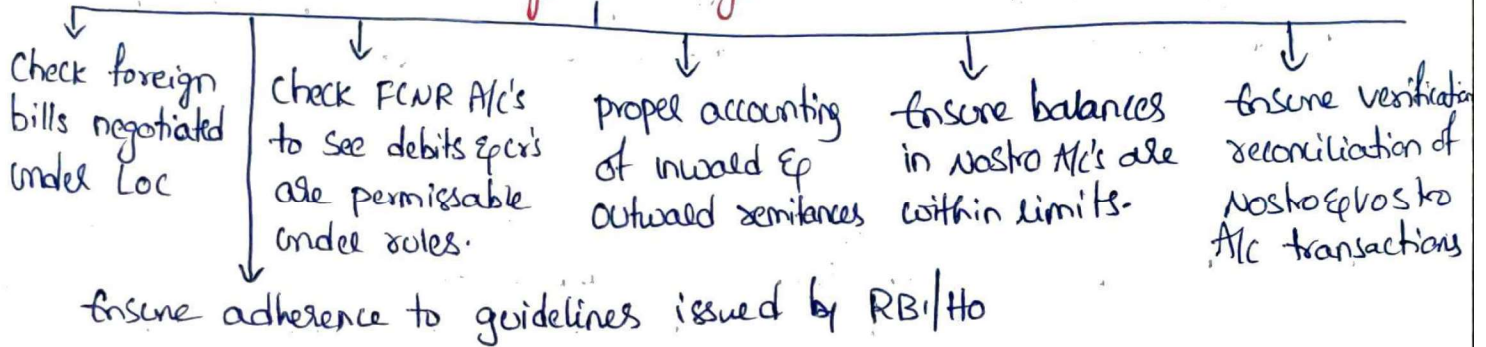
Reports & certificates.



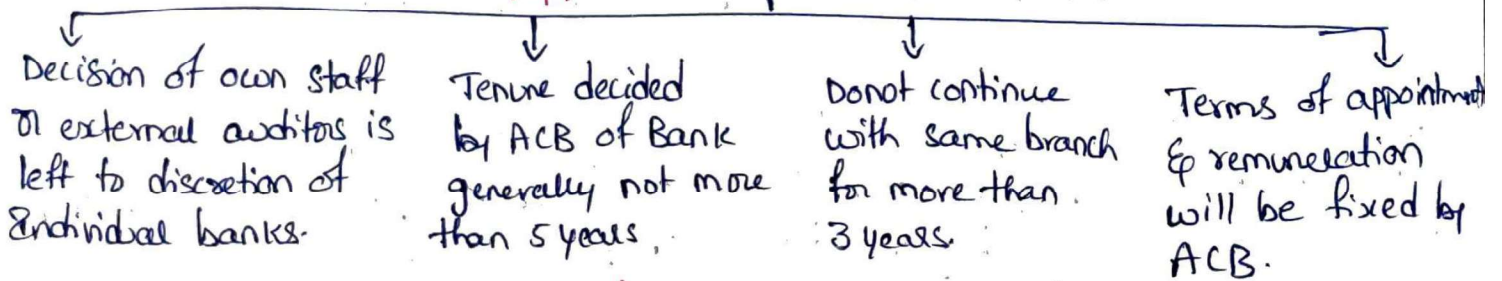
Scope of concurrent Audit.



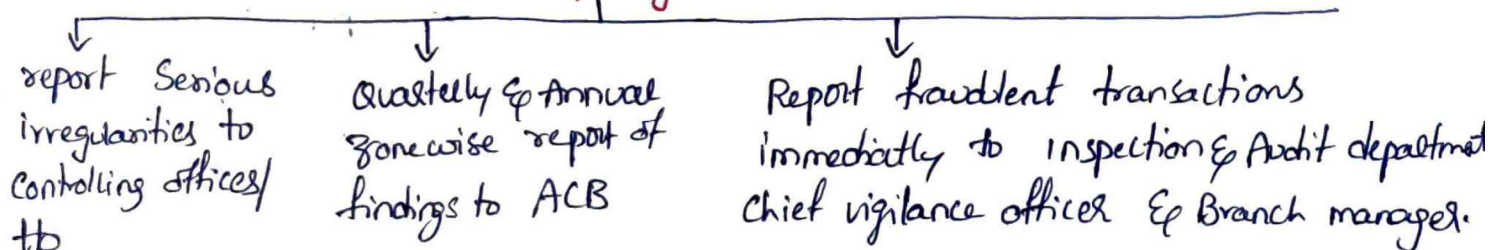
foreign exchange



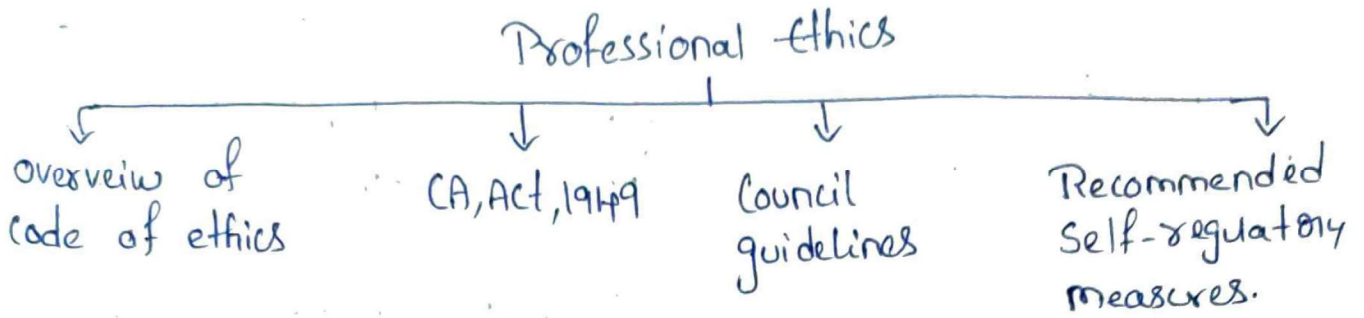
Appointment of concurrent Auditors.



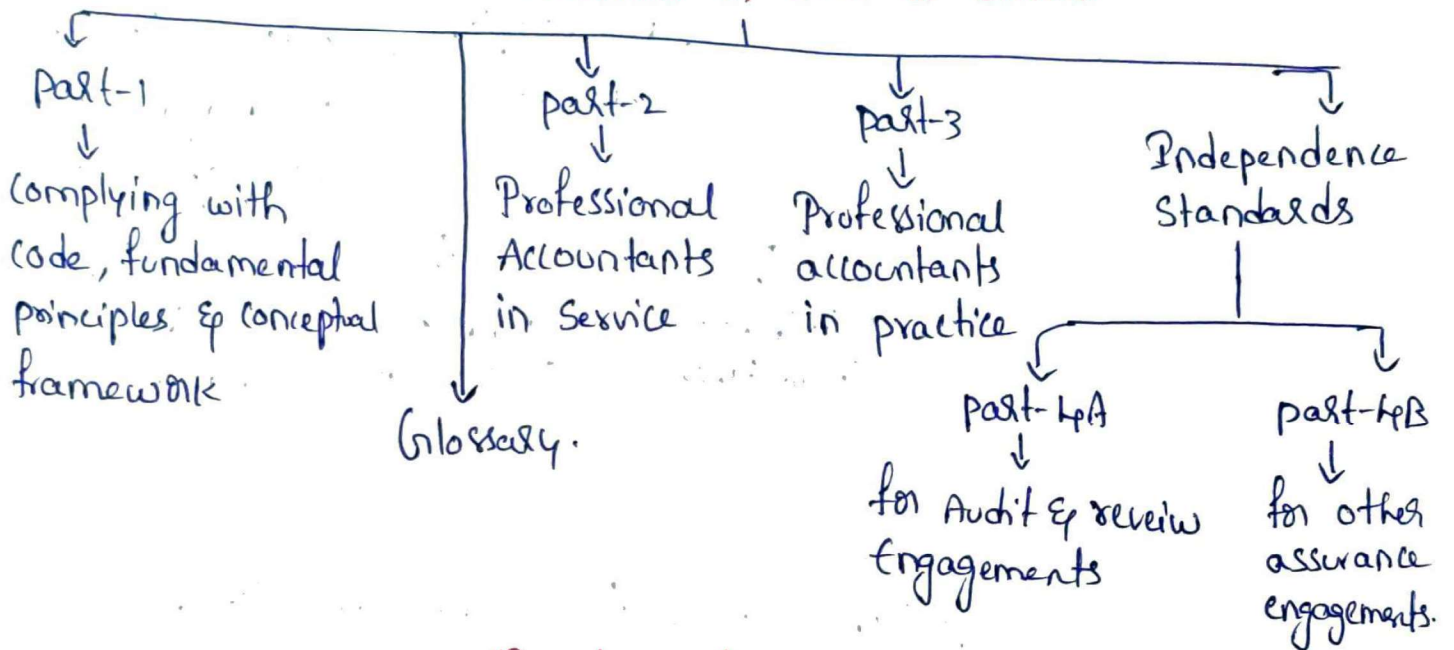
Reporting.



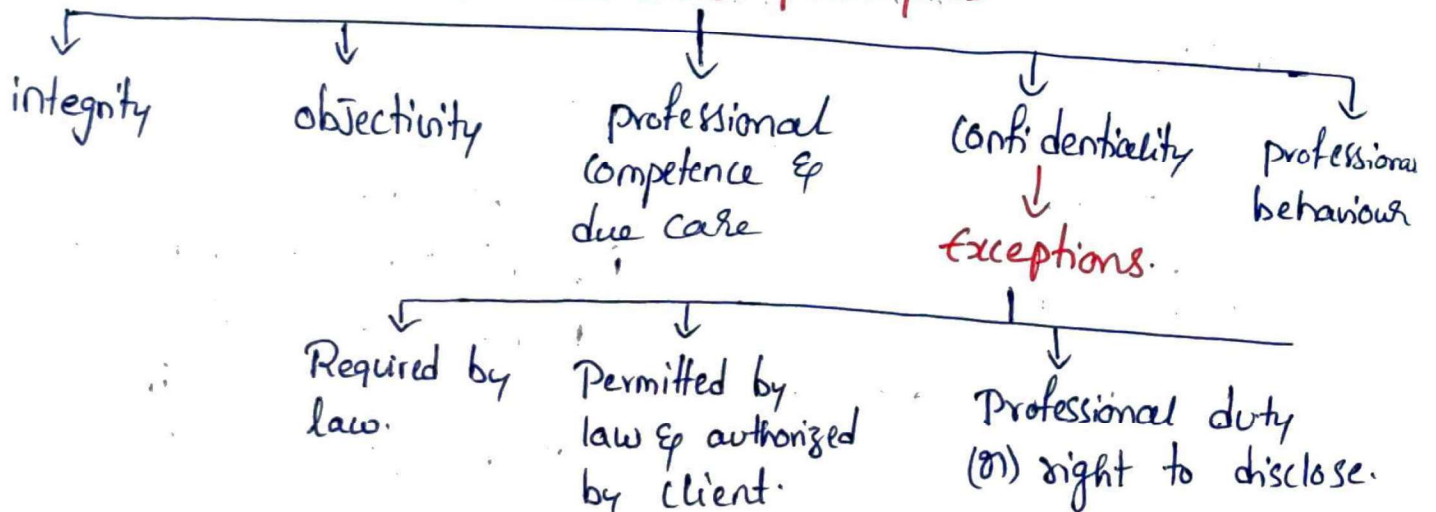
Professional ethics



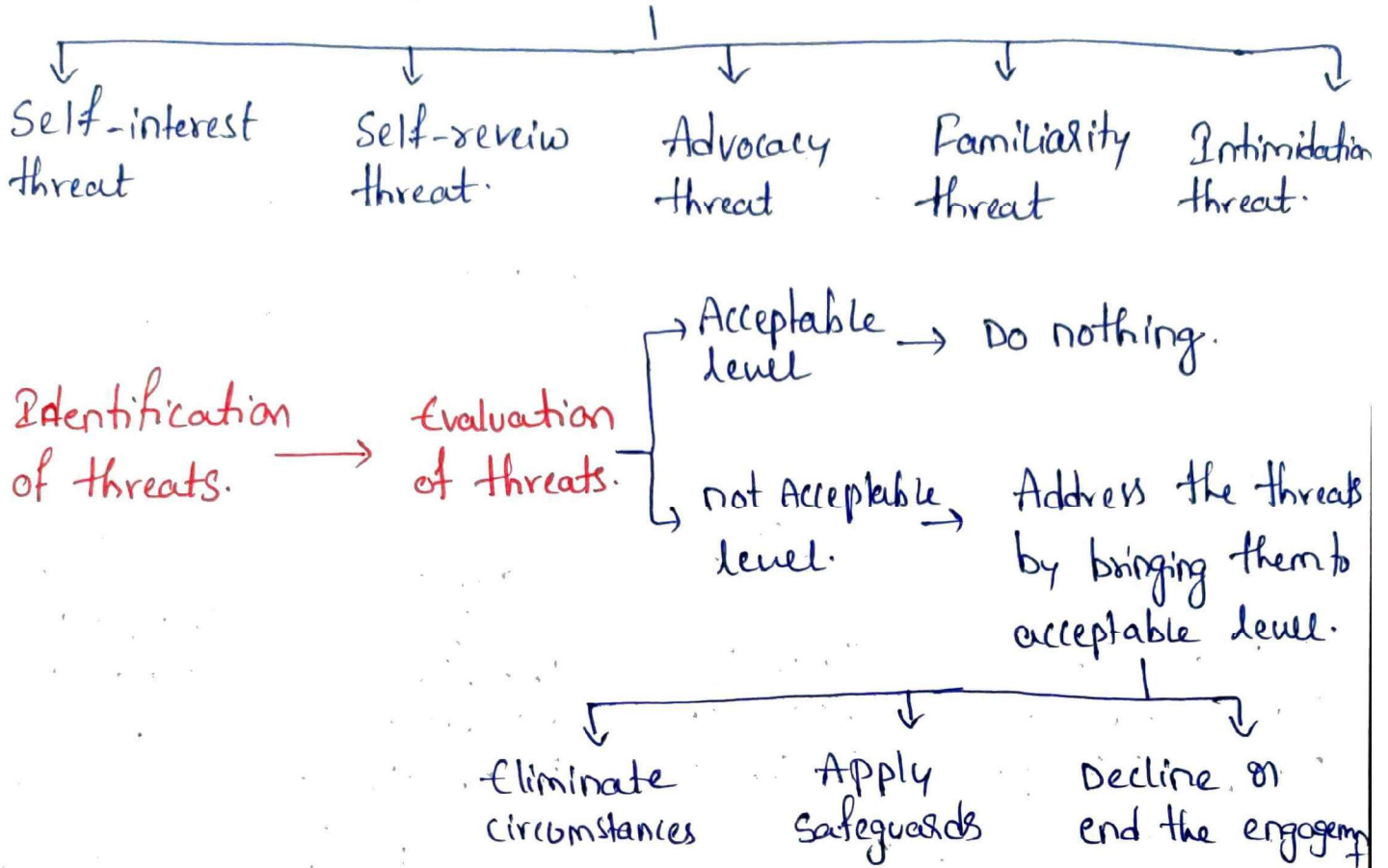
overview of code of ethics.



Fundamental principles



threats to compliance with fundamental principles



Responding to NOCLAR

→ AS of now applicable only to audits of listed entities & members who are employees of listed entities.

SA-250 (vs) NOCLAR

SA-250

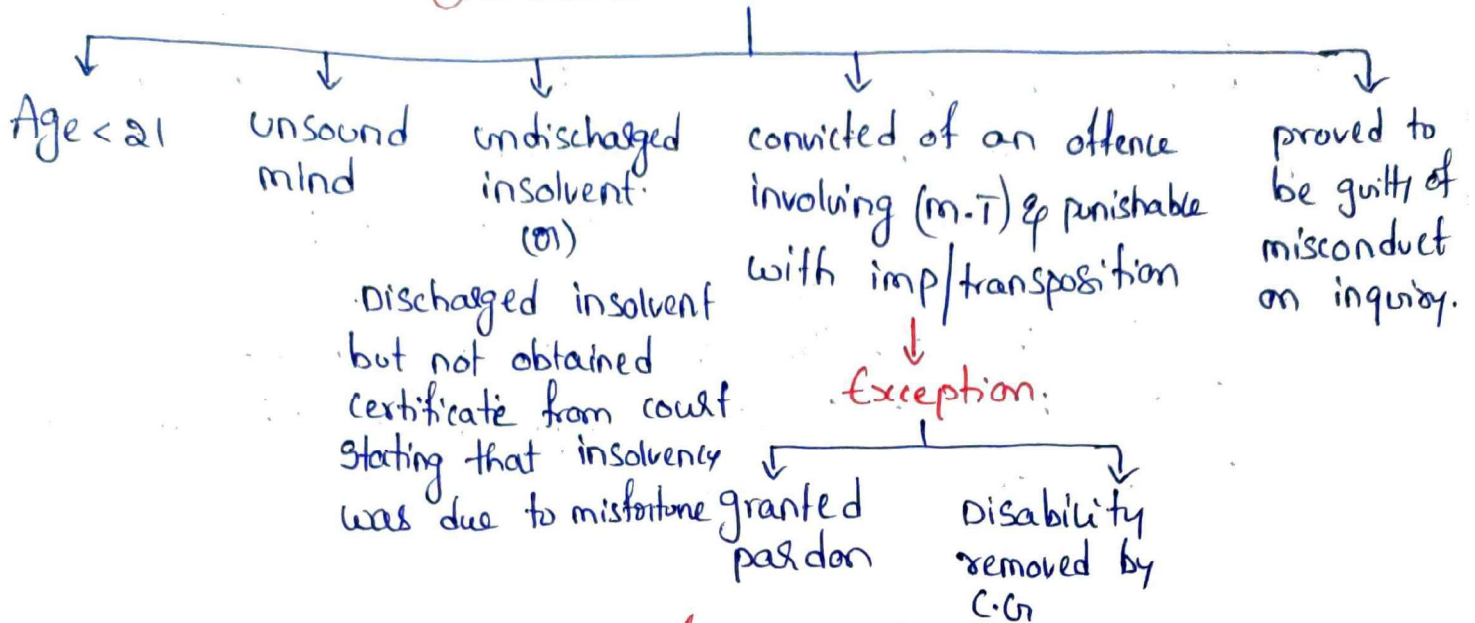
- ① only to Audits
- ② no stakeholders defined
- ③ no concept of imminent breach

NOCLAR

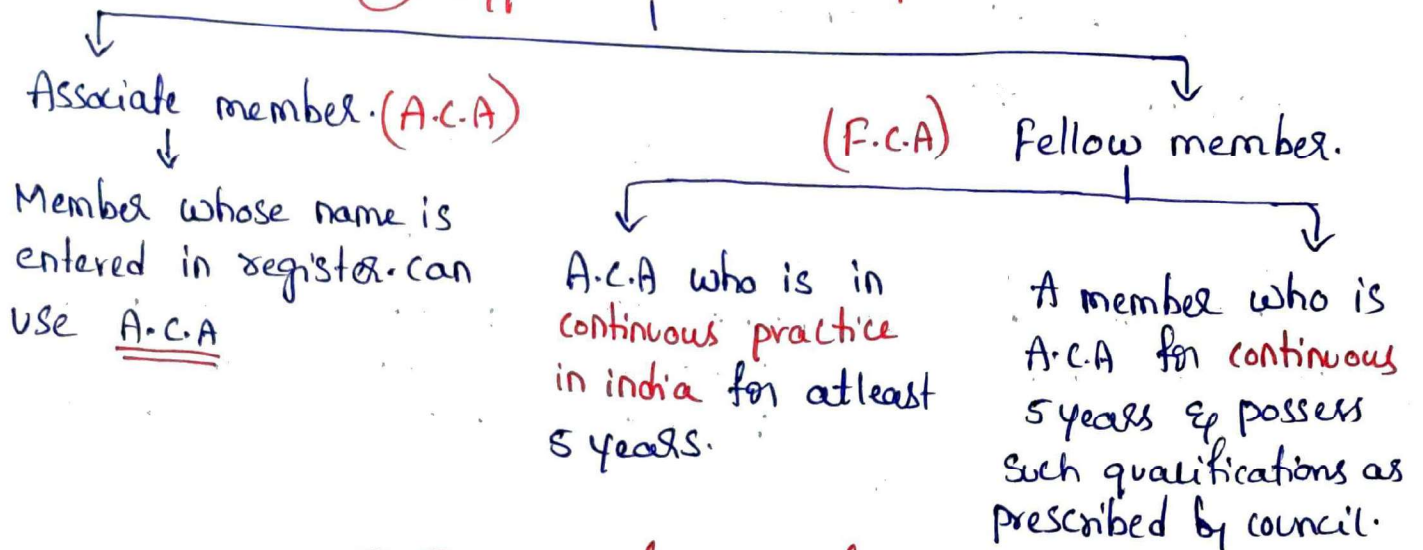
- ① Audits, other assurance eng, members in service.
- ② Stakeholders are investors, creditors, yeas & public.
- ③ concept of imminent breach.

Membership of institute.

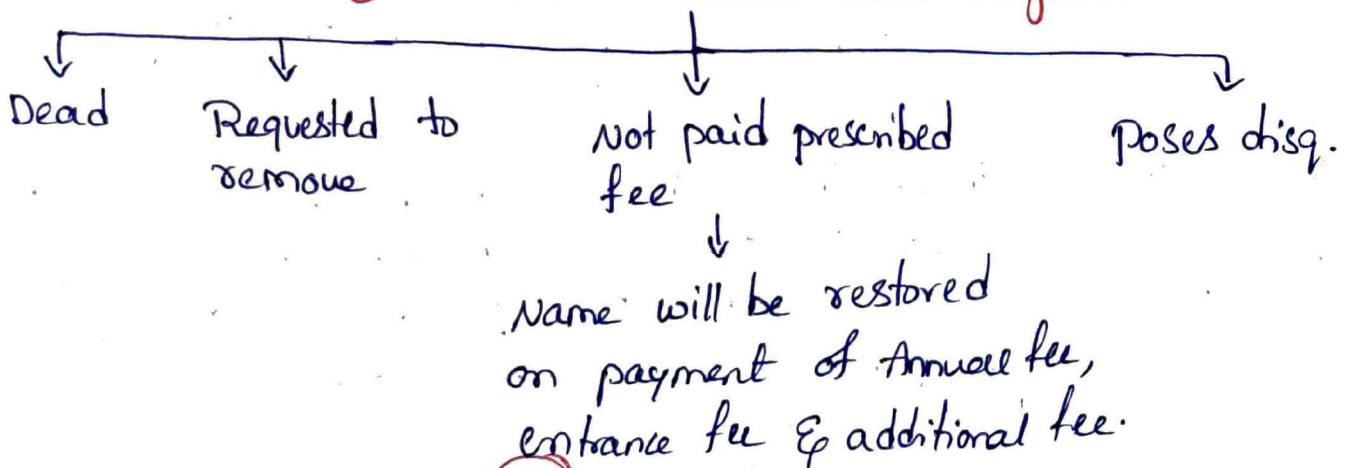
① Disabilities to be a member.



② Types of memberships



③ Removal of name from Register.



Penalty for falsely claiming to be member.

not being a member represents as member

Being a member not having COP represents as member in practice.

on first conviction fine which may extend to 1000
& on subsequent conviction imprisonment upto 6 months
or fine upto 5000 or both.

Certificate of practice.

→ NO practice with out COP

→ Annual fee.

Cancellation of COP

Name removed from members register.

found that COP was issued on false/incorrect info.

member ceased to practice.

not paid annual fee for COP by 30/9

on payment will be restored from date of cancellation.

Member-Deemed to be in practice.

engages in practice of accounting.

involves in auditing, verification of f.s, etc & holds himself to public as an accountant.

Renders services/ assistance on A/c procedures, recording presentation etc.

Such other services prescribed by council.

Note: A CA who is salaried employee of CA firm shall be deemed to be in practice for limited purpose of training Articled Assistants.

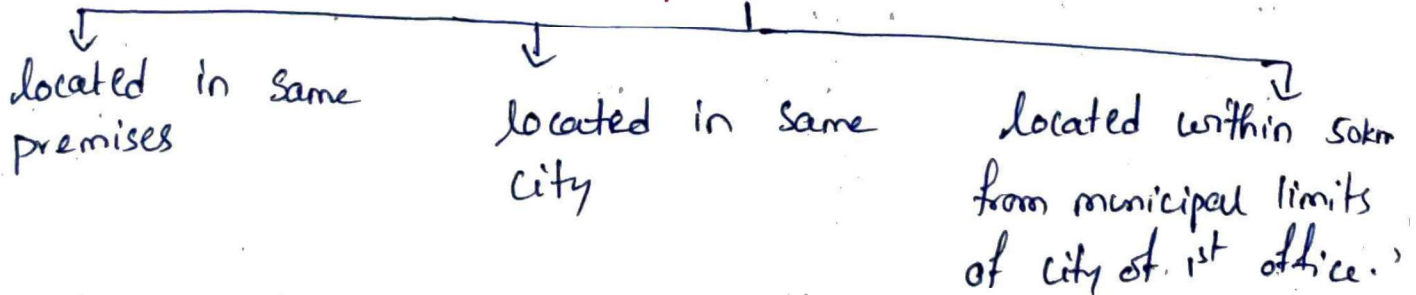
Companies not to engage in practice.

- Company includes LLP having a company as partner.
- Contravent = Dir/manager/secretary/other officer of Co. liable to fine upto 1000 ₹ on subsequent conviction upto 5000.

Maintenance of Branch offices.

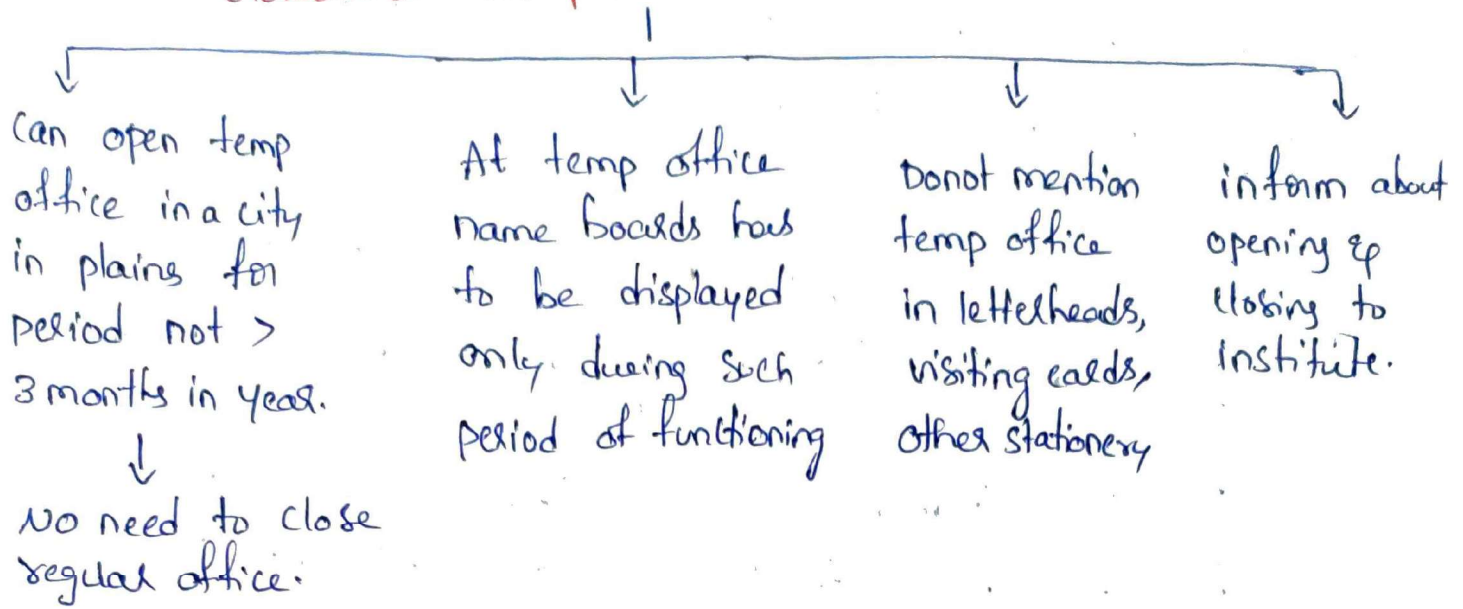
- Separate member should be in charge of each branch.
- Such CA must be partner of firm (or) paid assistant (in whole time employment).
- Such incharge must be actively associated with such office [Resides not less than 182 days (or) attends not less than 182 days]

Exemption for 2nd office.



- Member can place name board at his residence but not firm name.

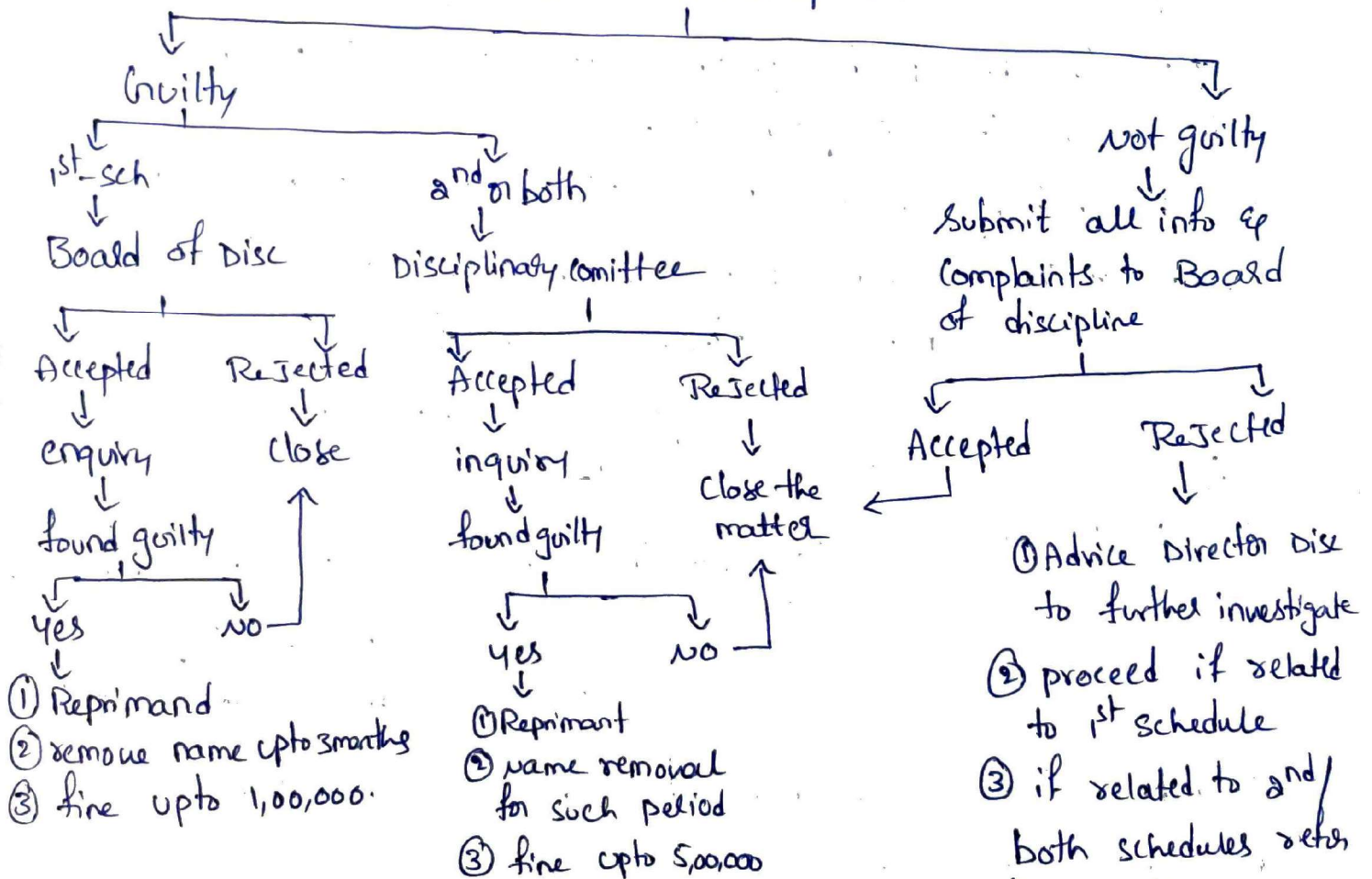
Guidelines for practice in hill areas.



Disciplinary procedure.

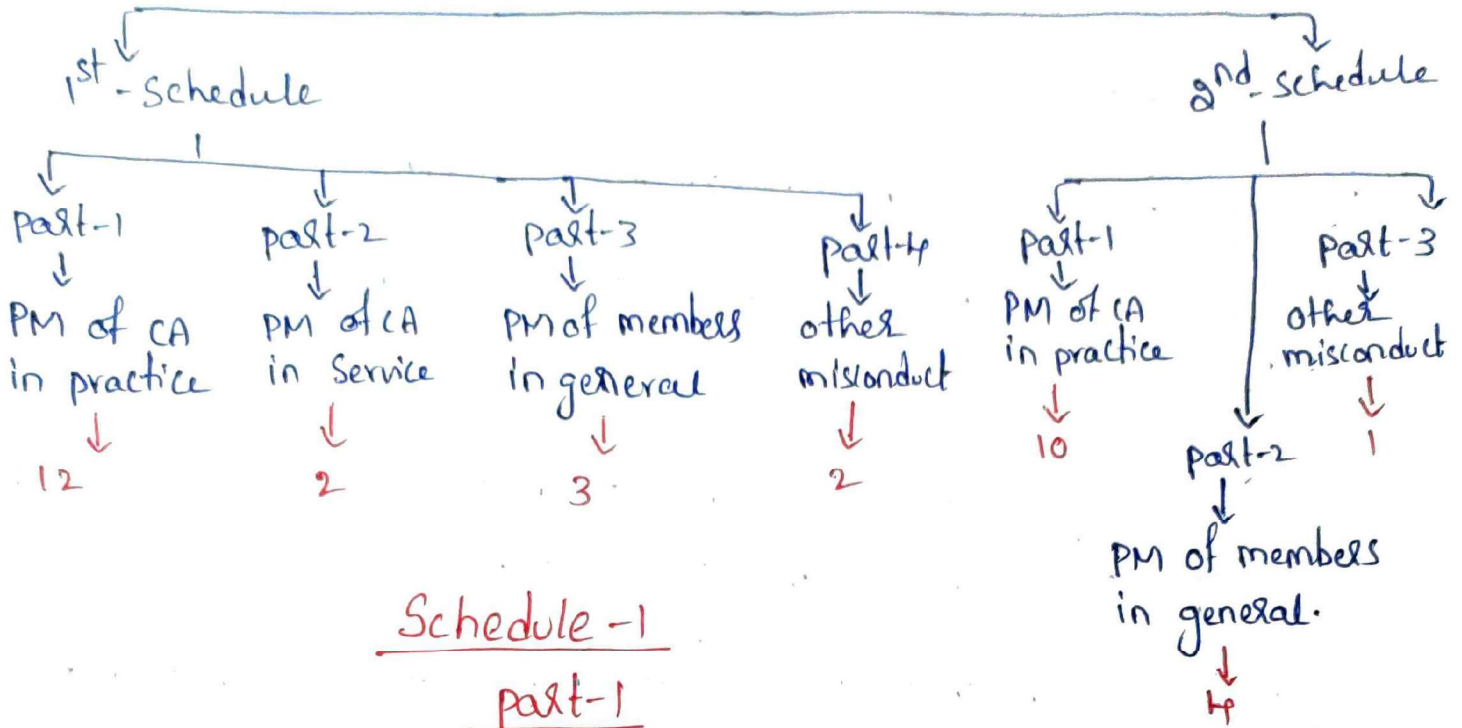
Receipt of Complaint by Disciplinary Directorate

↓
Prima facie opinion



note: Appeal within 90 days. (153)

Schedules



Schedule -1

part-1

A CA in practice is deemed to be guilty of PM if he

Clause-1 ÷ Allows any person to practice in his name as CA unless such other person is also a CA in practice & is in partnership with or employed by him.

Clause-2 ÷ Pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of institute or a partner or a retired partner or the legal representative of deceased partner, or a member of any other professional body or with such other person having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

Other professional bodies include

- ICSI
- ICWAI
- Bar Council
- I I Architects
- I I Actuaries.

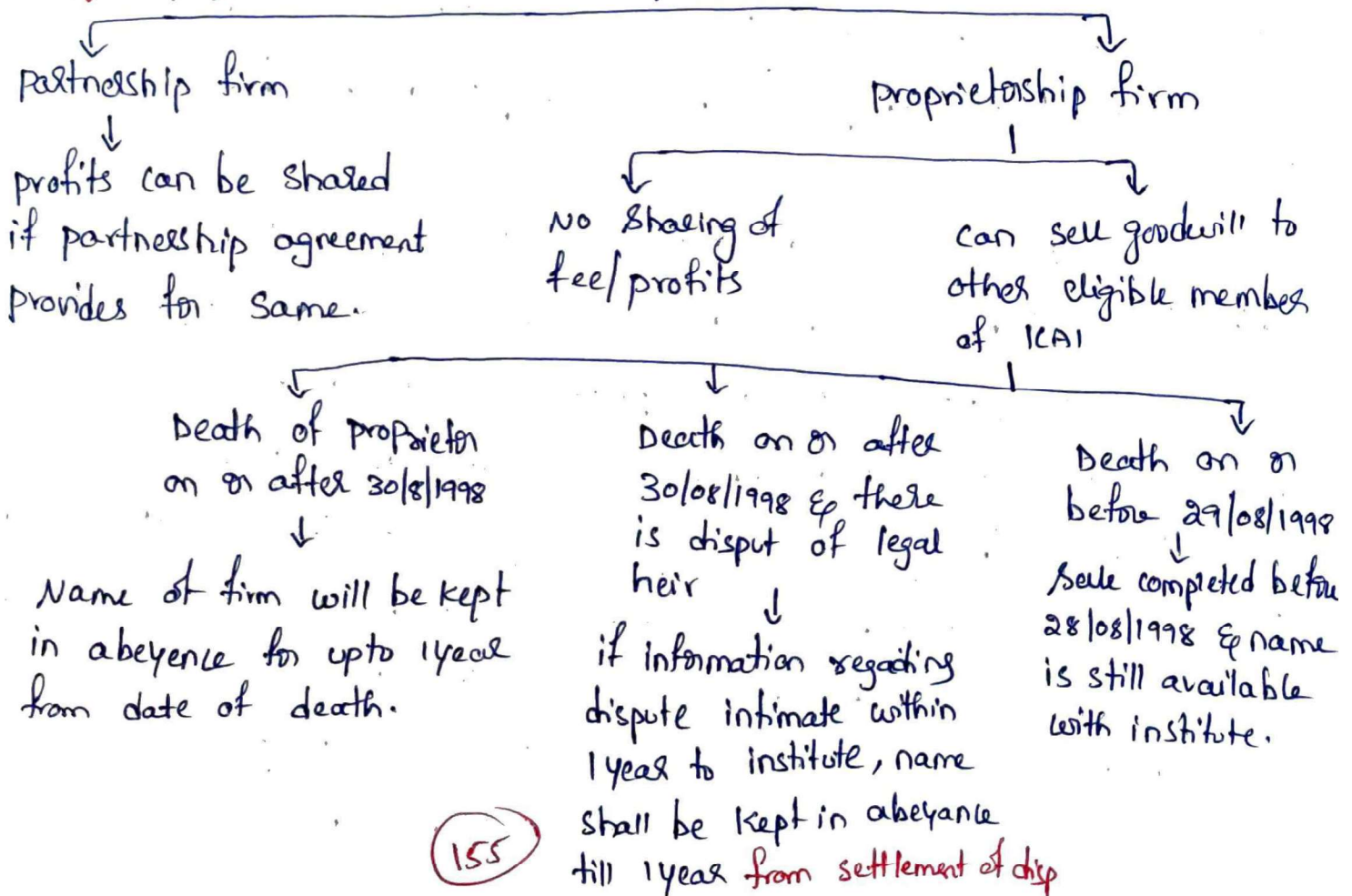
Persons having such qualifications include

- CS
- CMA
- Actuary
- Bachelor in LATE
- MBA

Note: ① Percentage of fee can be paid to gov to meet admn exp (eg: State co-operative societies Audit).

② Check substance over form (nomenclature is not imp)

Profit sharing with legal heir of deceased partner/member (goodwill).



Clause-3 ÷ Accepts or agrees to accept any part of profits of professional work of person who is not a member of institute.

provided that nothing herein contained shall be construed as prohibiting a member from entering into profit sharing or other similar arrangements, including receiving any share commission or brokerage in the fees, with a member of such professional body or other person having qualifications as referred to in item (2) of this part.

Note: Referral fee from other member can be accepted.

Clause-4 ÷ Enters into partnership, in or outside india, with any person other than CA in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (i) of sub section (1) of section 14 or whose qualifications are recognized by CG or Council for the purpose of permitting such partnerships.

Other professionals include.

→ CS → CMA → Advocate → Engineer
→ Architect → Actuary.

Clause-5 - Secures either through the services of a person who is not an employee of such CA or who is not his partner or by means which are not open to a CA, any professional business.

provided that nothing herein contained shall be construed as prohibiting any agreement permitted in terms of item (2), (3) and 4 of this part.

Clause-6 - Solicits clients or professional work either directly (or) indirectly by circular, advertisement, personal communication or interview or by any other means.

provided that nothing herein contained shall be construed as preventing or prohibiting -

- (i) Any CA from applying or requesting for or inviting or securing professional work from another CA in practice.
- (ii) A member from responding to tenders or enquiries issued by various users of professional services or organizations from time to time and securing professional work as a consequence.

Notes:

- ① Do not respond to tenders for works which are exclusively reserved for CA's [Exception: minimum fee prescribed or open to persons other than CA's]

Further Prohibitions

- 1) Advertisement and note in the press (Exceptions :- Request another CA, Changes in Firm, adv in newsletter of Institute)
- 2) Application for empanelment for allotment of audit and other professional work (roving enquiries prohibited)
- 3) Publication of Books, Articles or Presentation (Mentioning professional attainments is prohibited, but can mention name of firm)
- 4) Issue of Greeting Cards or Invitations (Exceptions:- Marriage, religious ceremonies & Office inaugural only to clients, relatives and friends of the members concerned)
- 5) Advertisement for Silver, Golden, Platinum or Centenary celebrations (Exception :- may be published in newspaper or newsletter)
- 6) Sponsoring Activities (Exception :- Conducted by POU of ICAI with prior approval of CPE directorate, in members CSR activities can use CA prefix but cannot use firm name and CA logo)
- 7) Advertisement of Teaching/Coaching activities by members (Hoardings, Posters, banners prohibited)
- 8) Sharing Firm Profile with prospective Client (Exception specific query of client)
- 9) Television or Movie Credits (Permitted but should not be different from others)
- 10) Acceptance of original professional work by a member emanating from the client introduced to him by another member

Council guidelines for Advertisements

- **Write up:-** Allowed provided the information must be true & No exaggerated claims allowed, font size not exceeding 14

- **Website of CA Firms:-**
 - Allowed,
 - Must run on pull model,
 - Disclosure of client names and fee charged is allowed if required by regulator
 - Can display passport size photo
 - Website link can be provided in social networking sites

- **Online 3rd party platforms:-**
 - Only consultancy services allowed
 - Contact address should not be provided on website

- **Publication in telephone/other directories**
 - Appear only under categories CA
 - Member/firm should belong to same town
 - Follow alphabetical order

- **Listing on Application based service provider Aggregators :-** Not allowed

- **Exemption:-** Can advertise name & address of firm for recruiting staff for own office or on clients behalf. (Should not use the term well known firm)

Clause-7:- Advertises his professional attainments or services, or uses any designation or expressions other than the Chartered Accountant on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a University established by law in India or recognized by the Central Government or a title indicating membership of the Institute of Chartered Accountants or of any other institution that has been recognized by the Central Government or may be recognized by the Council.

Provided that a member in practice may advertise through a write up, setting out the service provided by him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council.

Other designations:- Cannot be used on professional documents (Exception:- "Insolvency Professional" or "Registered Valuer", Membership of foreign institutes of Accountancy)

Date of setting up practice:- cannot be mentioned

Practice as advocate:- Allowed (Cannot use designations CA & Advocate simultaneously)

Practice as Company Secretary/Cost Management Accountant:- Allowed

Writing Articles or Letters to the Press:- Can use CA

Size of Sign Board:- it is a matter in which the members should exercise their own discretion

Public Announcements with details of Directors:- take necessary steps to ensure that such prospectus or public announcements or public communications do not advertise his professional attainments

Clause-8:- Accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

- Applicable for all types of audits (except special audits)
- not applicable for book keeping, certification, & other cases where outgoing auditor is not a CA
- There should be proof of communication
- Deemed communication (Premises locked/No address found)

Note:-

- 1) Non payment of undisputed fee - Donot accept audit (Exception - Sick Unit)
- 2) Tight time schedule- Conditional Acceptance

Clause-9:- Accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 139 and 140 of the Companies Act, 2013 in respect of such appointment have been duly complied with;

Clause-10:- Charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent

upon the findings, or results of such employment, except as permitted under any regulations made under this Act.

Exceptions:-

- 1) Liquidator/Receiver
- 2) Auditor of Co-operative societies
- 3) Valuer
- 4) Fund raising services
- 5) Debt recovery services
- 6) Cost optimisation services
- 7) Such other audits/services as decided by council

Clause-11:- Engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage.

Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a company (Not being managing director or a whole time director) unless he or any of his partners is interested in such company as an auditor.

General Resolution

Permission granted generally - Members of the Institute in practice be generally permitted to engage in the following categories of occupations, for which no specific permission from the Council would be necessary in individual cases:

- (1) Employment under Chartered Accountants in practice or firms of such chartered accountants.
- (2) Private tutorship.
- (3) Authorship of books and articles.
- (4) Holding of Life Insurance Agency License for the limited purpose of getting renewal commission.
- (5) Attending classes and appearing for any examination.
- (6) Holding of public elective offices such as M.P., M.L.A. and M.L.C.
- (7) Honorary office leadership of charitable-educational or other non-commercial organisations.
- (8) Acting as Notary Public, Justice of the Peace, Special Executive Magistrate and the like.
- (9) Part-time tutorship under the coaching organisation of the Institute.
- (10) Valuation of papers, acting as paper-setter, head-examiner or a moderator, for any examination.
- (11) Editorship of professional journals.
- (12) Acting as Surveyor and Loss Assessor under the Insurance Act, 1938 provided they are otherwise eligible.
- (13) Acting as recovery consultant in the banking sector
- (14) Owning agricultural land and carrying out agricultural activity (w.e.f. August 9th, 2008).

Specific Resolution - Members of the Institute in practice may engage in the following categories of business or occupations, after obtaining the specific and prior approval of the Council in each case:

- (1) Full-time or part-time employment in business concerns provided that the member and/or his relatives do not hold "substantial interest" in such concerns.
- (2) Full-time or part-time employment in non-business concern.
- (3) Office of managing director or a whole-time director of a body corporate within the meaning of the Companies Act, 1956 (now Companies Act, 2013) provided that the member and/or any of his relatives do not hold substantial interest in such concern.
- (4) Interest in family business concerns (including such interest devolving on the members as a result of inheritance / succession / partition of the family business) or concerns in which interest has been acquired as a result of relationships and in the management of which no active part is taken.
- (5) Interest in an educational institution.
- (6) Part-time or full-time lectureship for courses other than those relating to the Institute's examinations conducted under the auspices of the Institute or the Regional councils or their branches.
- (7) Part-time or full-time tutorship under any educational institution other than the coaching organization of the Institute.
- (8) Editorship of journals other than professional journals.
- (9) Any other business or occupation for which the Executive Committee considers that permission may be granted.

Wether CA in practice can be a director of company?

Ans:- Yes can be director simplicitor (not being MD/WTD & not receives any remuneration)

Wether CA in practice can be a Promoter/Promoter director of company?

Ans:-Can be promoter & Director simplicitor

Clause-12:- Allows a person not being a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

The power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated.

PART II - Professional misconduct in relation to members of the Institute in service

Clause-1:- pays or allows or agrees to pay directly or indirectly to any person any share in the emoluments of the employment undertaken by him.

Clause (2):- accepts or agrees to accept any part of fees, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

PART III - Professional misconduct in relation to members of the Institute generally

Clause (1):- not being a fellow of the Institute, acts as a fellow of the Institute.

Clause (2):- does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority.

Clause (3):- while inviting professional work from another chartered accountant or while responding to tenders or enquiries or while advertising through a write up, or anything as provided for in items (6) and (7) of Part I of this Schedule, gives information knowing it to be false.

PART IV- Other misconduct in relation to members of the Institute generally

Clause (1):- is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term not exceeding six months.

Clause (2):- in the opinion of the Council, brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work.

SECOND SCHEDULE

Part I - Professional Misconduct in relation to Chartered Accountants in Practice

Clause (1):- Discloses Information acquired in the course of his professional engagement to any person other than his client so engaging him without the consent of his client or otherwise than as required by any law for the time being in force.

Note:- Information of client is different from working papers (Auditor need not provide working papers)

Clause (2):- Certifies or submits in his name or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice. (Clause-7 :- Gross negligence & Clause-8 :- Not obtained SAAE)

Clause (3):- Permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in manner which may lead to the belief that he vouches for the accuracy of the forecast.

Note:- indicate clearly in his report the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts.

Clause (4):- Expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

- Financial statements cover both reports and certificates issued
- Members not to write Books of Account for auditee clients
- Statutory auditor not to be the Internal Auditor simultaneously
- Internal auditor not to be the Tax auditor simultaneously
- Internal Auditor not to be the GST Auditor simultaneously

Clause (5):- fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is

concerned with that financial statement in a professional capacity.

Clause (6):- Fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity.

Clause (7):- does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

Clause (8):- Fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion.

Clause (9):- Fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

Clause (10):- fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

PART II - Professional misconduct in relation to members of the Institute generally

Clause (1):- contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the Council.

Clause (2):- being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment except as and when required by any law for the time being in force or except as permitted by the employer.

Clause (3):- Includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline. Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

Clause (4):- Defalcates or embezzles money received in his professional capacity

Part III - Other misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding six months.

Council guidelines

- 1) Maintanance of books of accounts:- Proper books of accounts including Cash book & Ledger
- 2) Tax Audit assignments:- Max 60 for each CA in Practice & in case of firm 60 per partner including those accepted in individual capacity
- 3) Statutory Audit of companies:- 30 audit assignments whether in respect of private Companies or other Companies, with the exception of one person Companies and dormant companies

Note:- not accept the appointment as statutory auditor of Public Sector Undertaking(s)/ Government Company(ies)/Listed Company(ies) and other Public Company(ies) having turnover of 50 crores or more in a year where he accepts any other work(s) or assignment(s) or service(s) in regard to the same Undertaking(s)/ Company(ies) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same Undertaking/company.(audit under any other statute;certification

work required to be done by the statutory auditors; and any representation before an authority are exception)

- 4) Appointment of an auditor when he is indebted to a concern
- 5) Guidelines for Corporate Form of Practice :- members in practice is allowed to hold the office of Managing Director, Whole- time Director or Manager of a body corporate within the meaning of the Companies Act provided that the body corporate is engaged exclusively in rendering Management Consultancy and Other Services permitted by the Council
Note:- it may be clarified that no audit practice can be done in Corporate Form

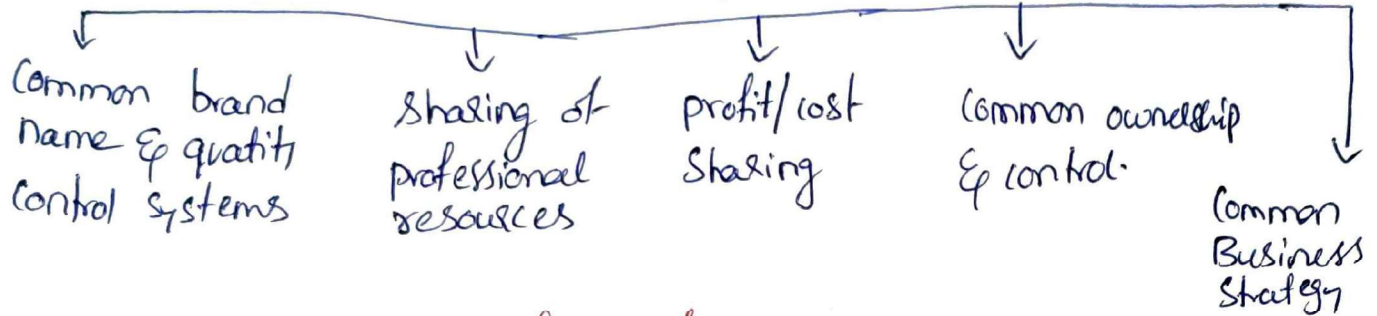
RECOMMENDED SELF-REGULATORY MEASURES

- 1) Branch Audits:- The branch audits of a company should not be conducted by its statutory auditors consisting of ten or more members, but should be conducted by the local firms of auditors consisting of less than ten members
- 2) Joint Audit:- In the case of large companies, the practice of associating a practicing firm with less than five members as Joint auditors should be encouraged. Where a client desires to appoint such a firm as joint auditor, the senior firm should not object to the same
- 3) Ratio Between Qualified and Unqualified Staff:- at least one member for every five non-qualified members of the staff, excluding articled and audit assistants, typists, peons and other persons not engaged directly in such professional work.

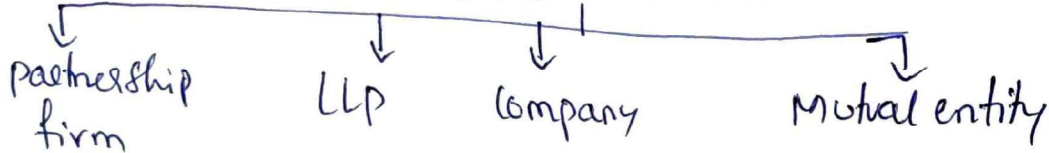
Guidelines for networking.

→ Two or more firms join together to form a network.

Characteristics of network.



forms of network



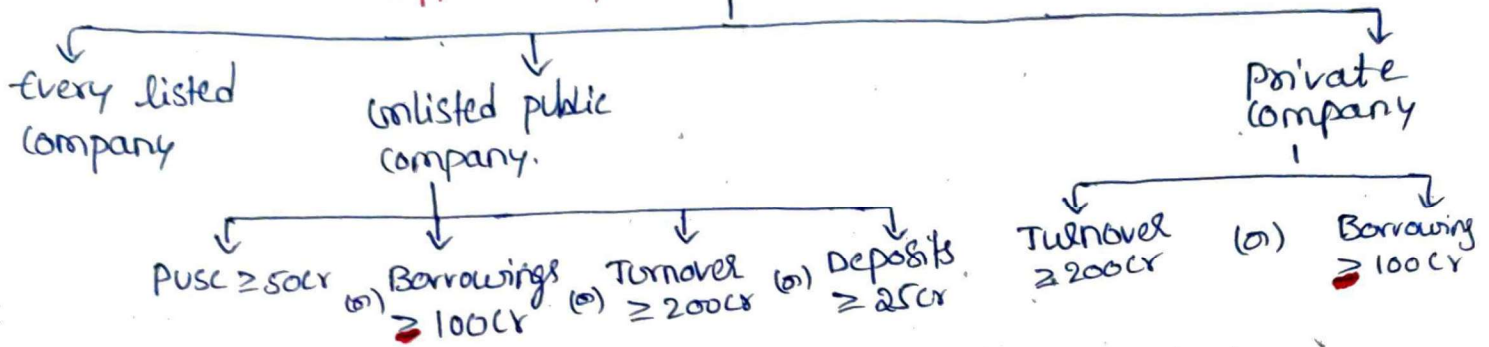
note!

- ① one firm can join only one network
- ② firms having common partners shall join only one network.
- ③ network name should be distinguish from firm name & approved by institute. use the word & affiliates
- ④ institute within 30 days approve or reject name.
- ⑤ After name approval network shall register with institute by applying in form-B within 3 months.
- ⑥ change in constitution has to be intimated in Form-C. within 30 days.

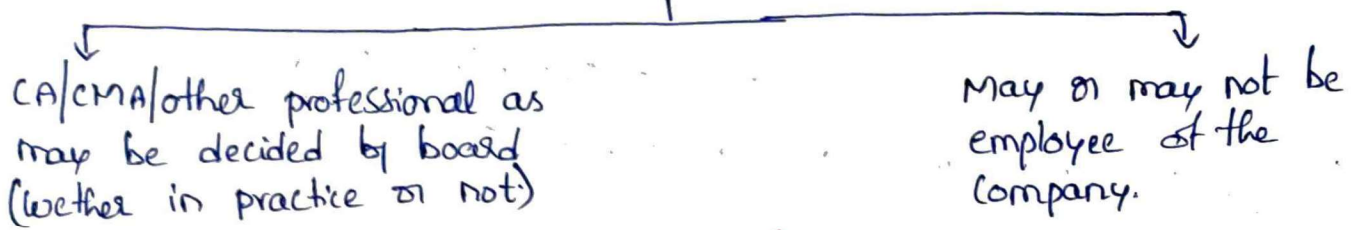
Internal Audit

Definition → Internal audit provides independent assurance on effectiveness of internal controls & risk management process to enhance governance & achieve organisational objectives.

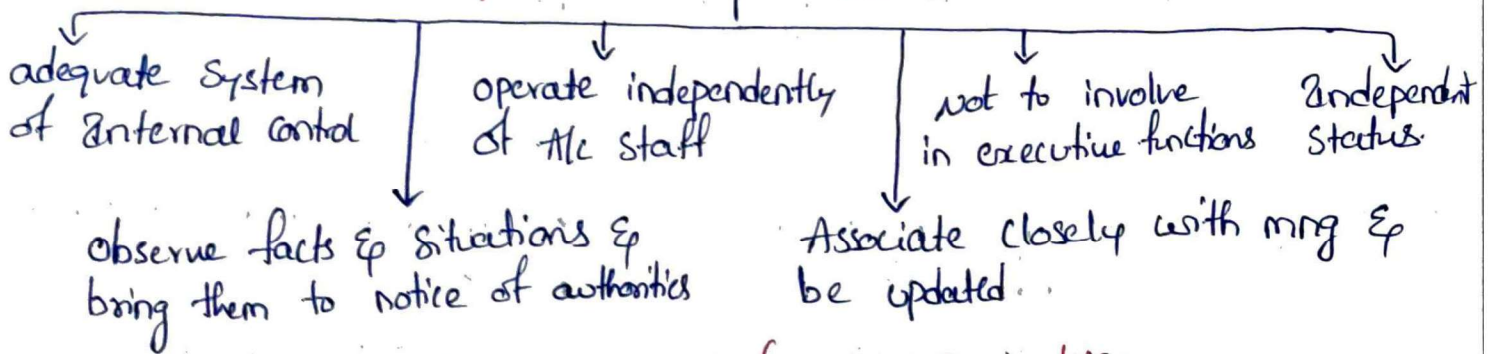
Applicability of internal audit - Sec-138 of Co's Act.



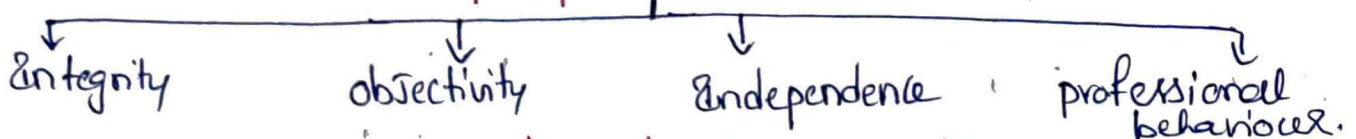
who can be internal auditor.



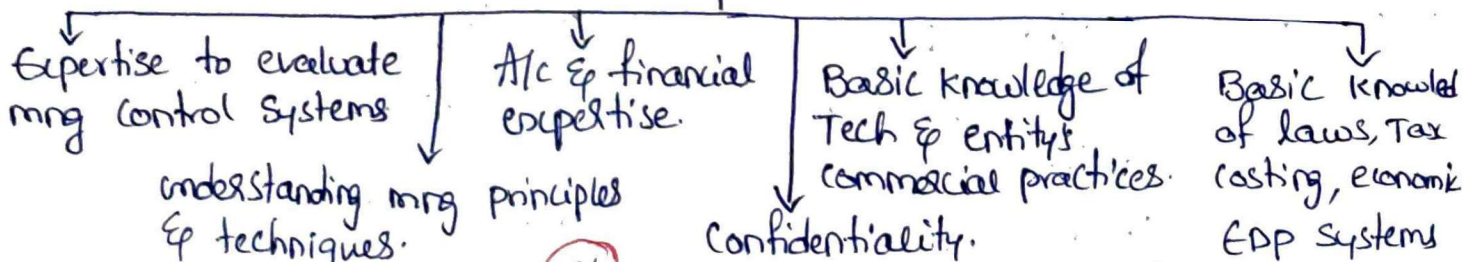
Responsibilities of internal auditor.



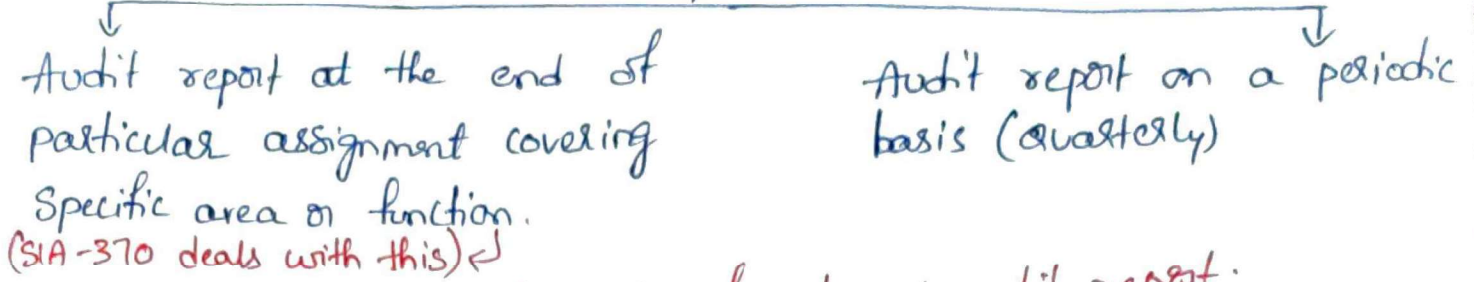
Basic principles of internal auditor.



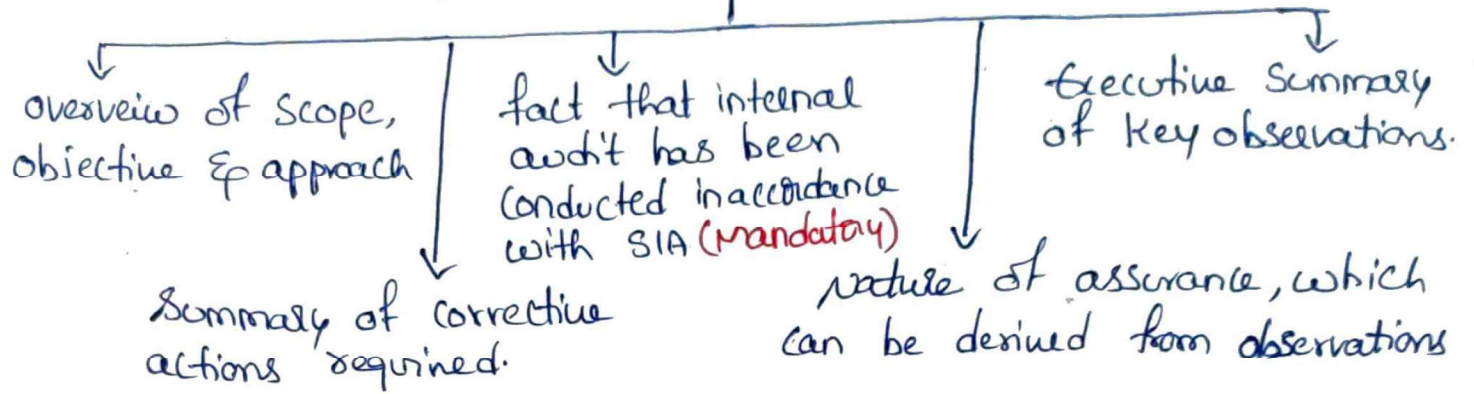
Qualities of internal auditor.



Reporting of internal audit results - SIA-370.



Key elements of internal audit report.



Content & format of report → matter of professional judgement SIA does not mandate any particular format [SIA-380 - Issuing Assurance reports]

Follow up → Monitoring & reporting prior audit issues.

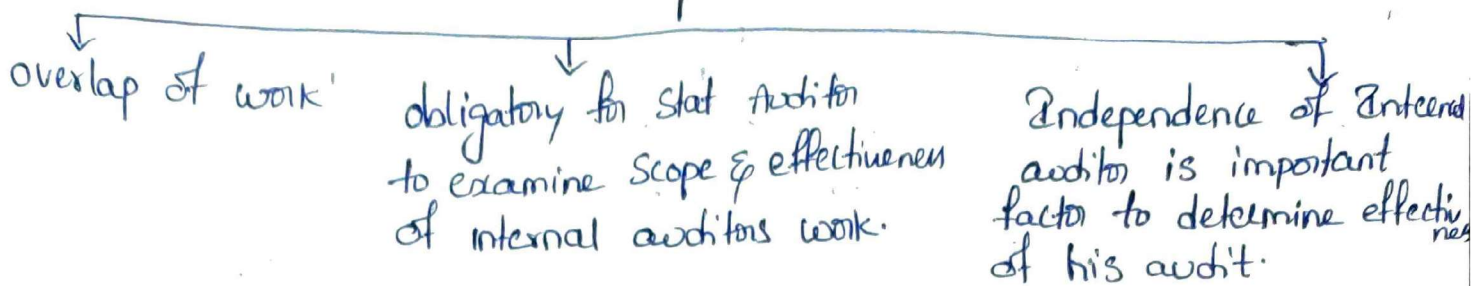
Internal Auditor (vs) External Auditor.

Internal Audit

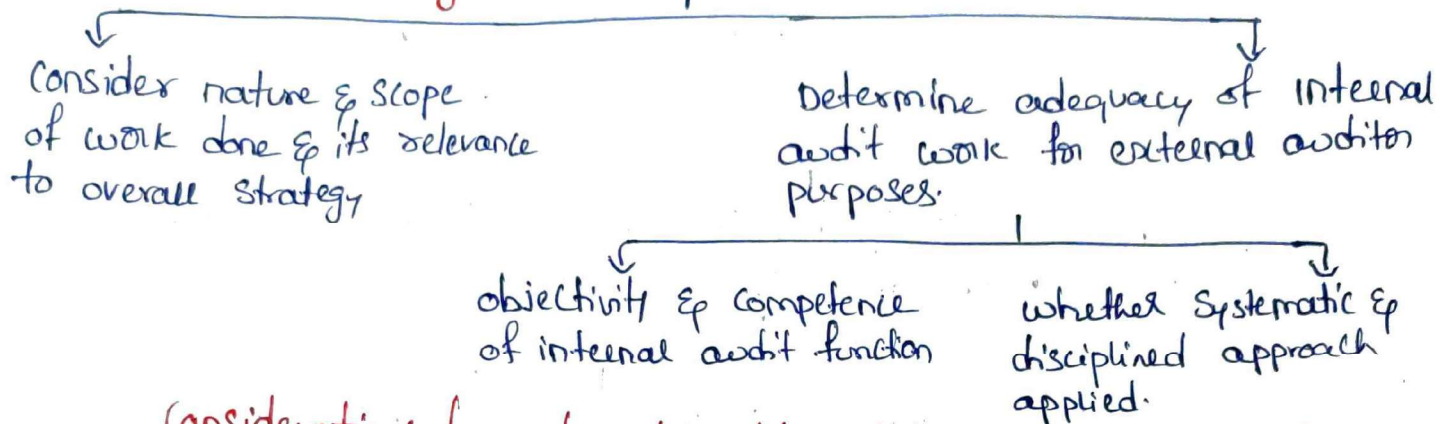
External Audit

- | | Internal Audit | External Audit |
|-------------------|---|---|
| ① Meaning | ongoing audit performed within entity | performed by independent body not part of organization. |
| ② Examines | operational efficiency of organization | Accuracy & validity of FS. |
| ③ Appointment | By management | By Members. |
| ④ users of report | Management | Stakeholders. |
| ⑤ period | Continuous process | once in a year. |
| ⑥ opinion on | effectiveness of operational activities | True & fairness of FS. |
| ⑦ status | can be employee of co. | mandatorily not employee of Co. |

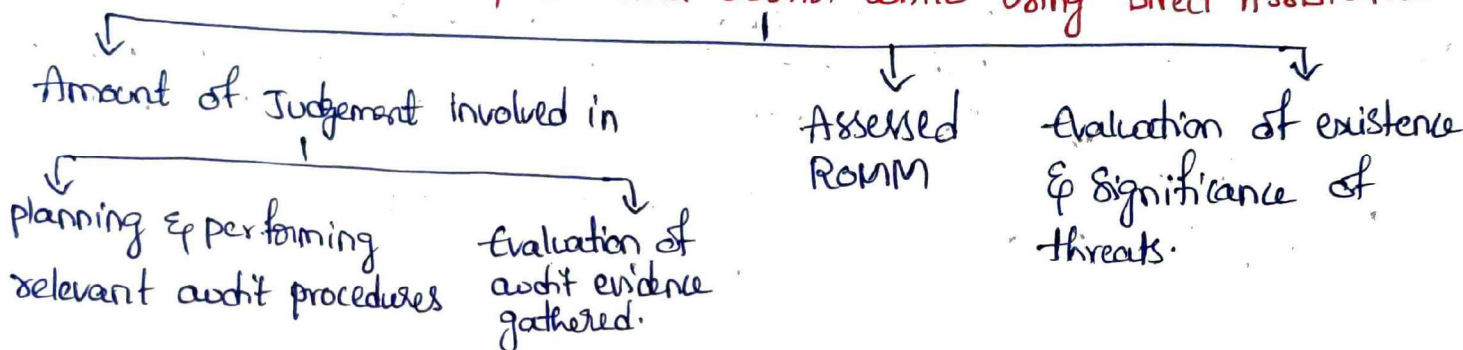
Relation b/w internal and external auditor



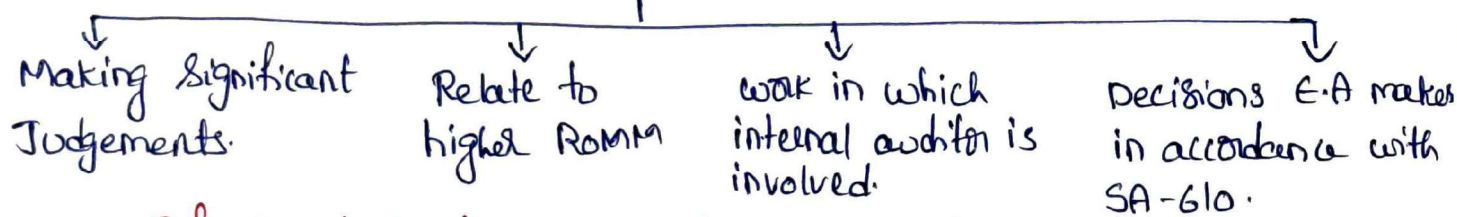
using the work of internal auditor



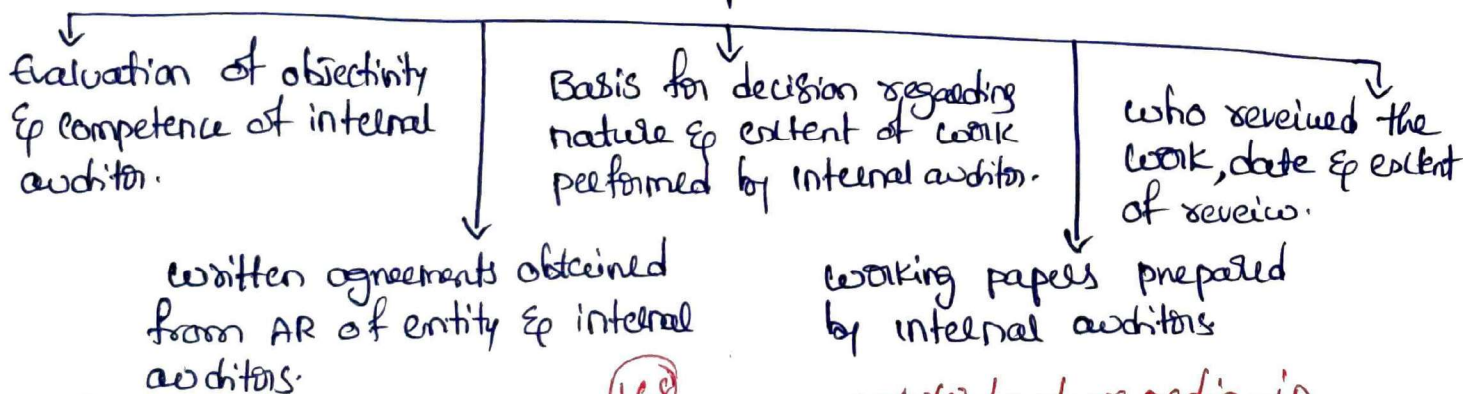
Considerations by external auditor while using Direct Assistance.



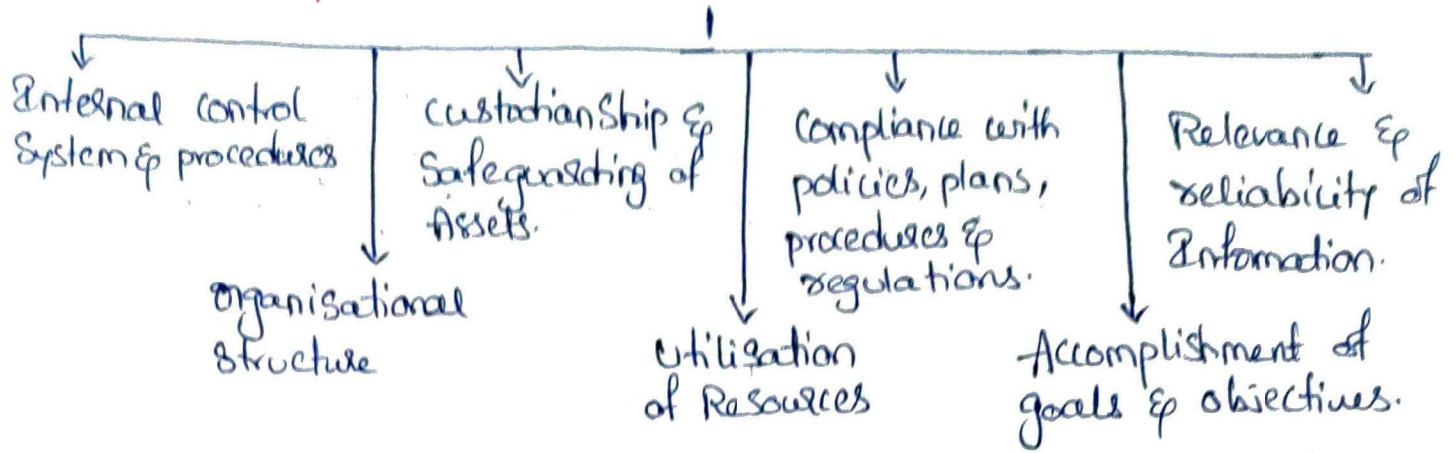
Direct assistance shall not be used in



If Direct Assistance is used - Documentation shall include.

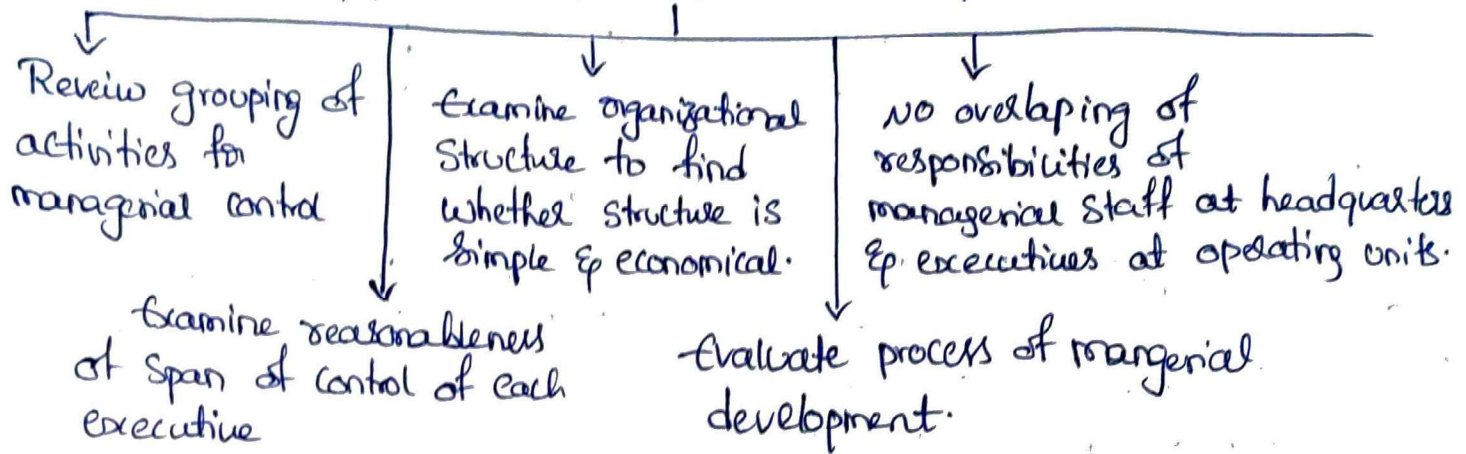


Scope of internal auditors work include review of



Review of organisation structure.

Conduct appraisal of organisation structure to ascertain whether it is in harmony with objectives of enterprise.



SA-610 - Using the work of internal auditor. (SA)

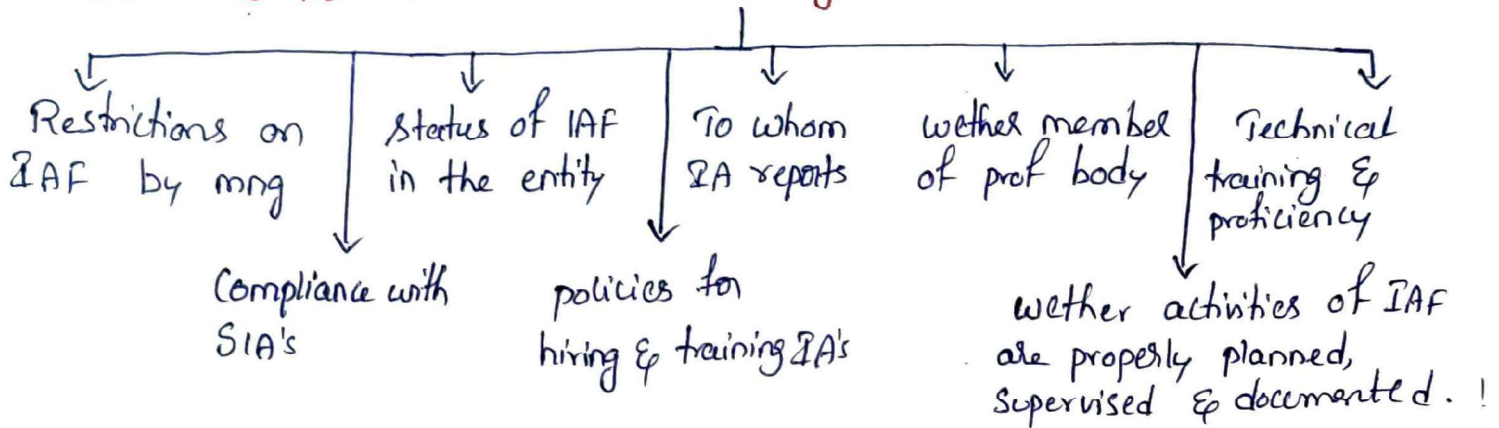
Scope of SA

External auditor using the work of internal auditor to

To obtain SAAE

To provide direct assistance under direction, supervision & review of EA

Factors to be considered in determining whether to use work of IA



Responsibility of external auditor:

External auditor is solely responsible for audit opinion expressed even if work of internal auditor is used.

Direct Assistance

Use of internal auditors to perform audit procedures under the direction supervision & review of external auditor.

prior to using DA, EA shall obtain

written agreement from AR of entity that IA's will be allowed to follow EA's instructions & entity will not intervene.

written agreement from IA's that they will keep confidential of specific matters as instructed.

Areas in which EA ~~can~~ cannot use direct assistance.

involve making
significant judgement



Eg:

- ① Assessing ROMM
- ② Evaluating sufficiency of tests performed.
- ③ Evaluating appropriateness of GC Assumption.
- ④ Evaluating adequacy of disc in FS
- ⑤ Evaluating significant AL estimates.

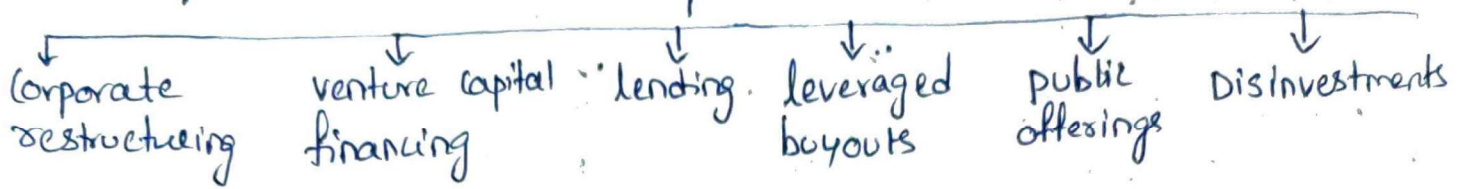
Relate to
higher ROMM

Relate to work
with which IA's
have been involved

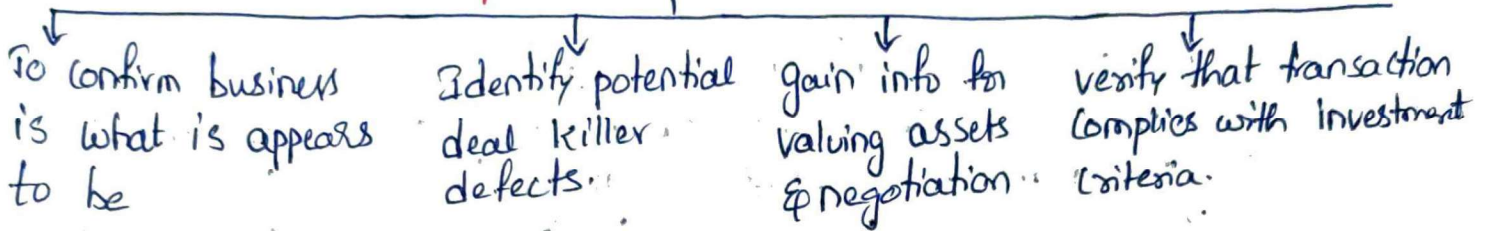
Relate to
decision EA
makes in accordance
with this SA
regarding IA
function & use of its
work of Direct assistance

Due Diligence

Examination of potential investment to confirm all material facts of prospective business opportunity. can be performed in following cases

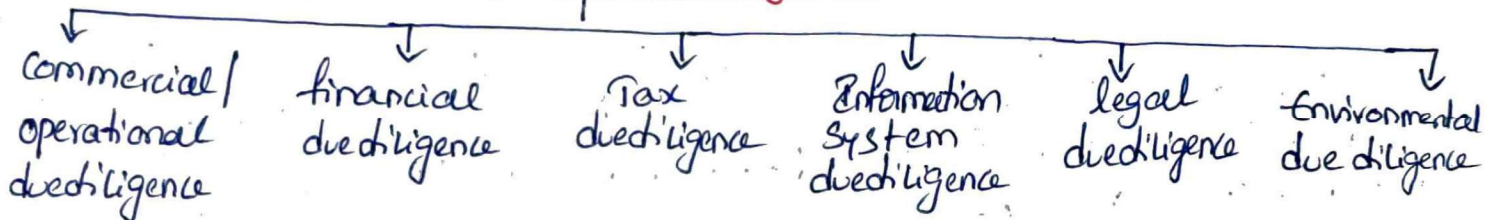


Importance of due diligence.

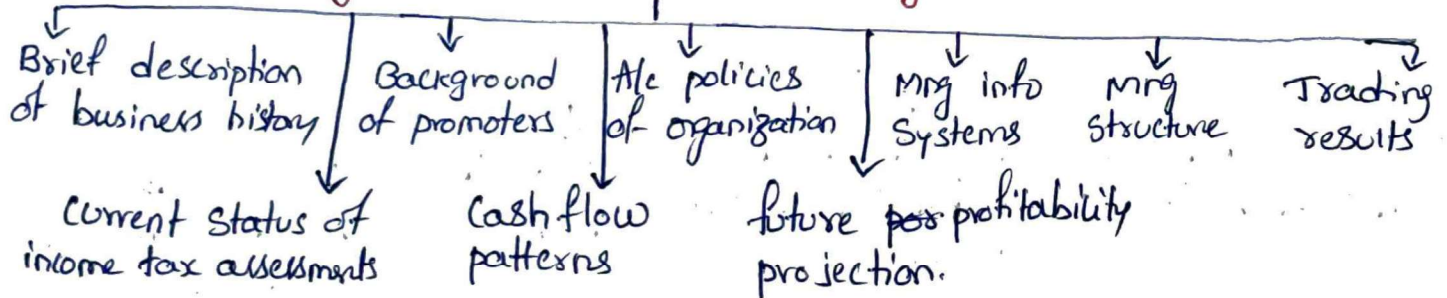


note: Due diligence is different from Audit.

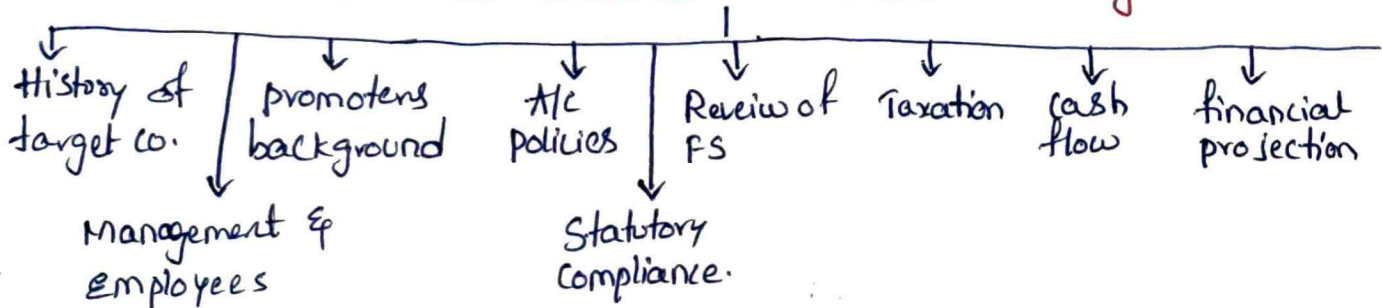
Classification of due diligence.



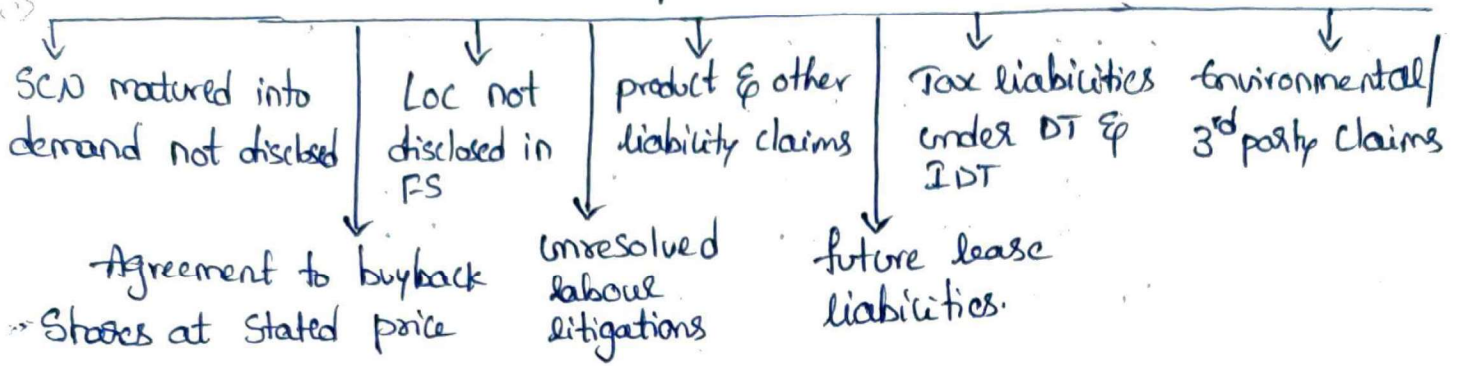
general objectives of due diligence.



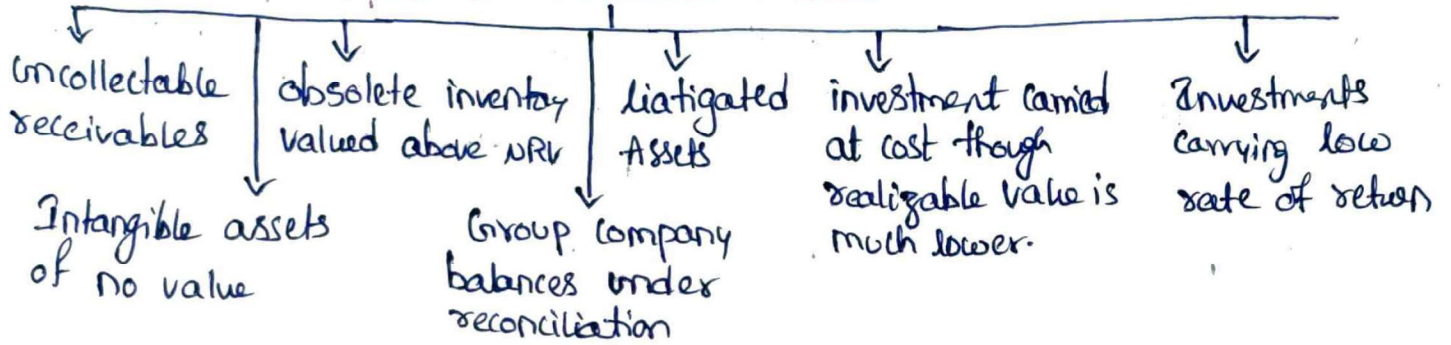
Matters to be considered in financial due diligence.



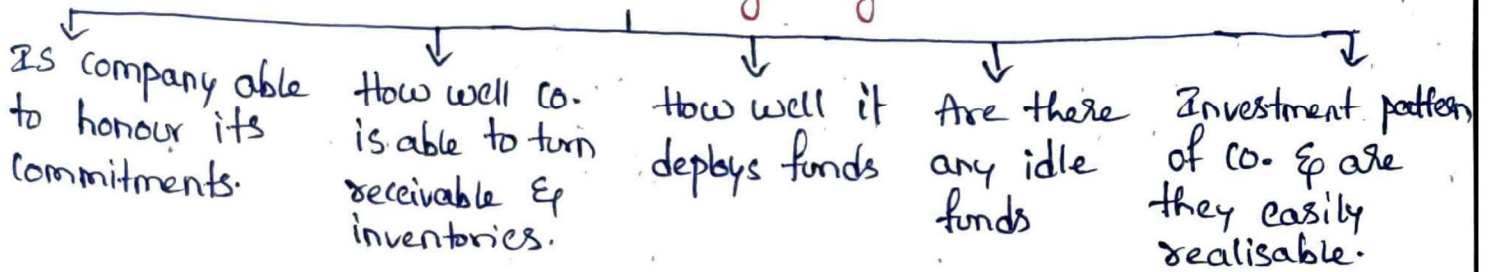
Examples of hidden liabilities.



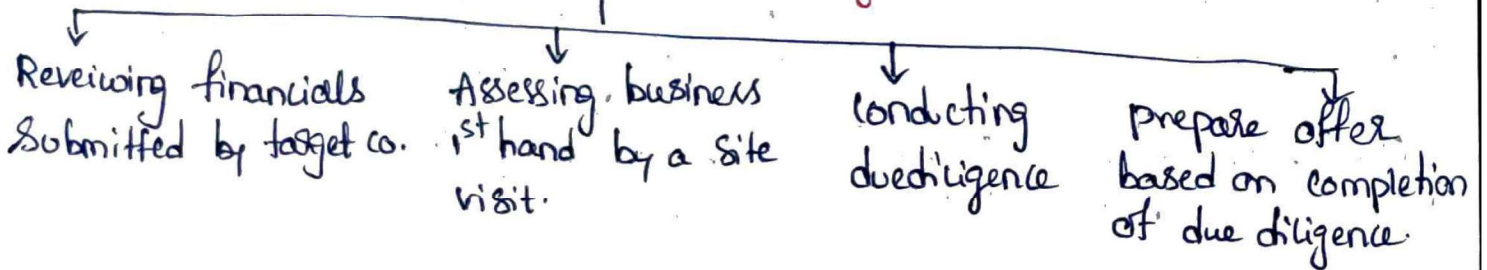
Examples of overvalued Assets.



Matters to be checked regarding cashflow



work approach to due diligence.



How to conduct due diligence.

① pre-due diligence period

- ① Discuss to understand transaction
- ② Scope of work & methodology
- ③ Co-ordination of project team

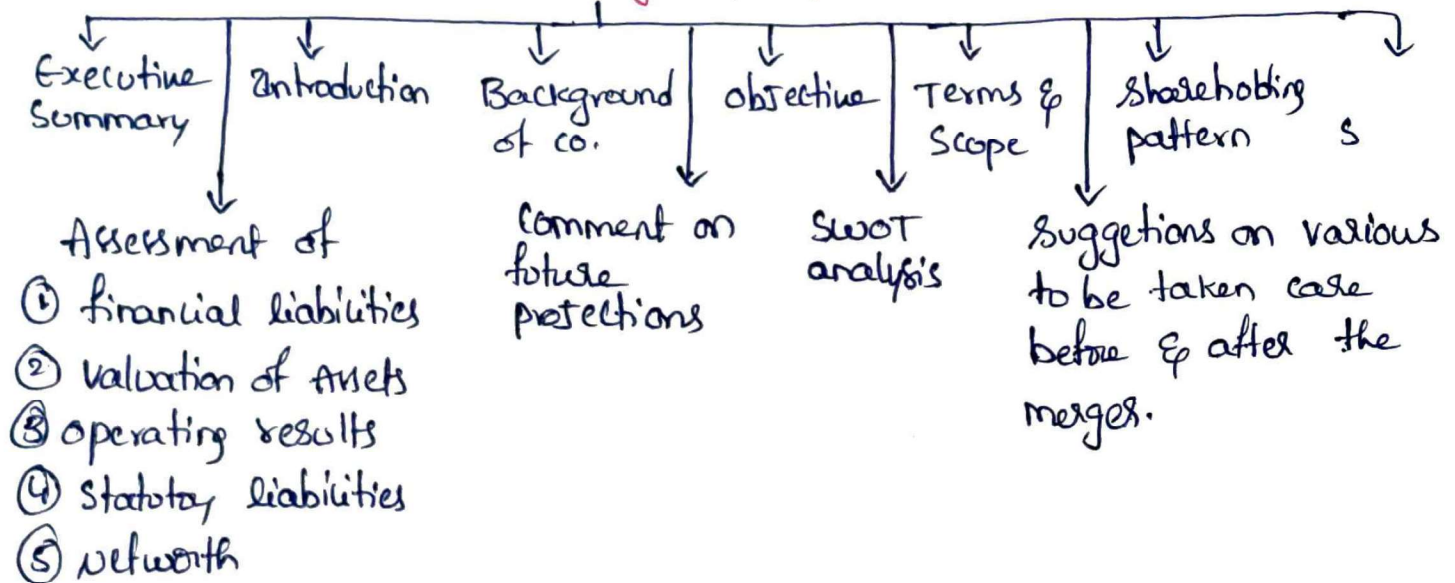
③ Closing & post closing

- Review of closing document prepared by target.
- PPA assistance
- Involvement in price ads procedures.

② Due-diligence process

- ① Working off-site & on-site.
- ② Q&A with mng
- ③ Report drafting
- ④ Support for preparing negotiation terms
- ⑤ Regular updates with client

Content of Due diligence report. (illustrative only)



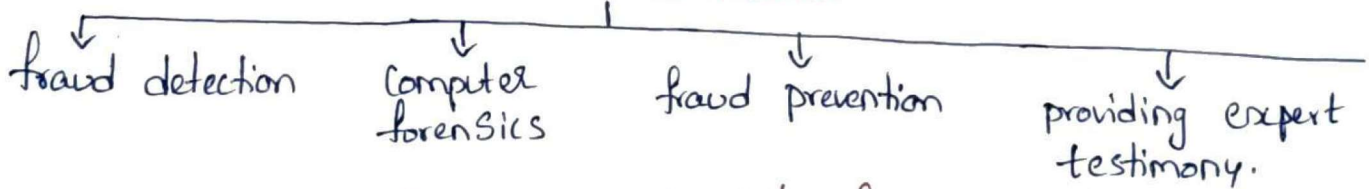
Forensic Audit

↓
Examination of financial records & transactions to uncover evidence of fraud or other criminal activity.

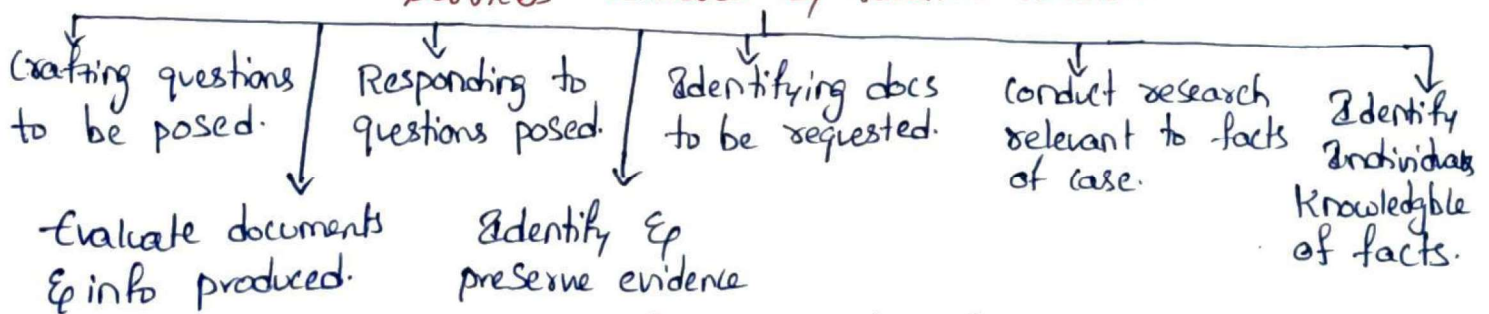
Other audits vs forensic audit:

① objective	Express opinion as to True & fair presentation	whether fraud has taken place.
② Techniques	Substantive & compliance	Investigative, Substantive or in-depth checking.
③ period	particular A/c period	no such limitations.
④ Stock, Estimations provisions etc	Relies on mgng representation	Independent verification.
⑤ off-B/s items	vouch arithmetic accuracy & compliance with procedures	Regulatory & propriety is examined.
⑥ Adverse findings	qualified opinion	Determination of fraud impact & people involved.

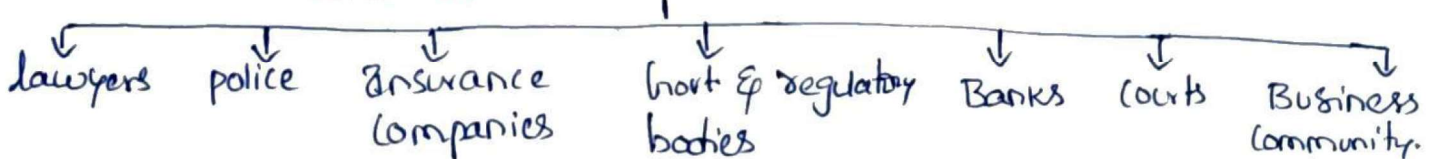
Forensic Auditor is involved in



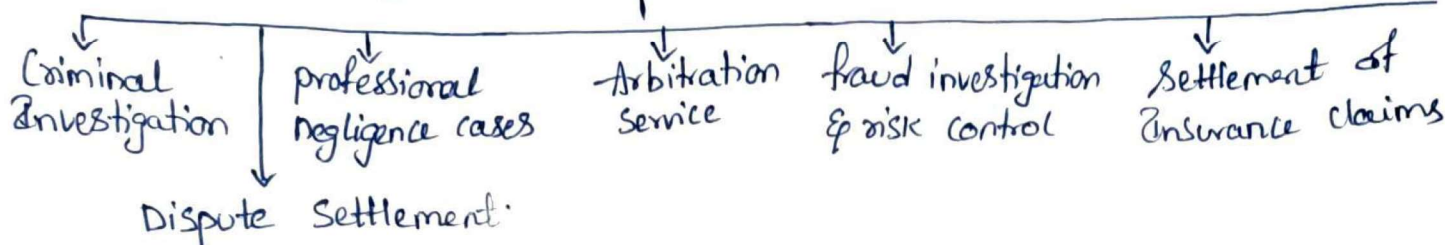
Services rendered by forensic auditors.



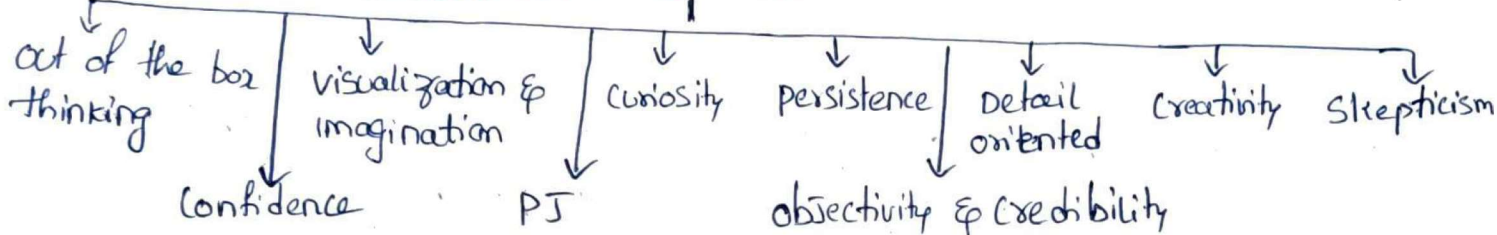
Who retains forensic auditors?



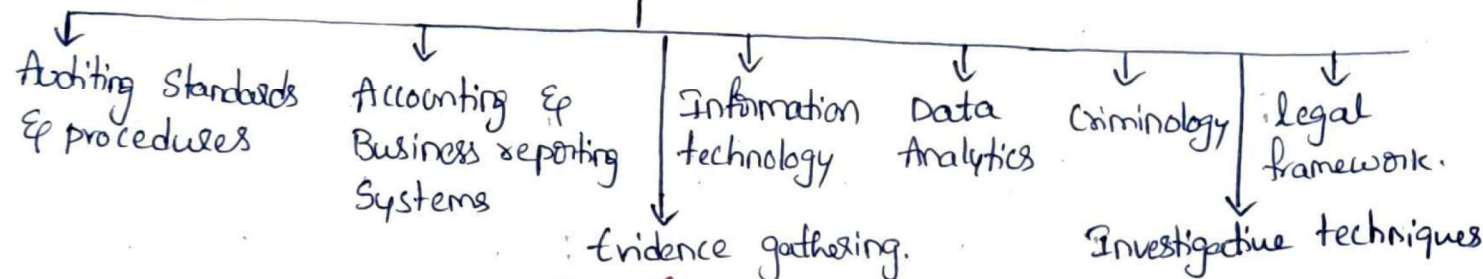
Forensic Auditors Services are useful in



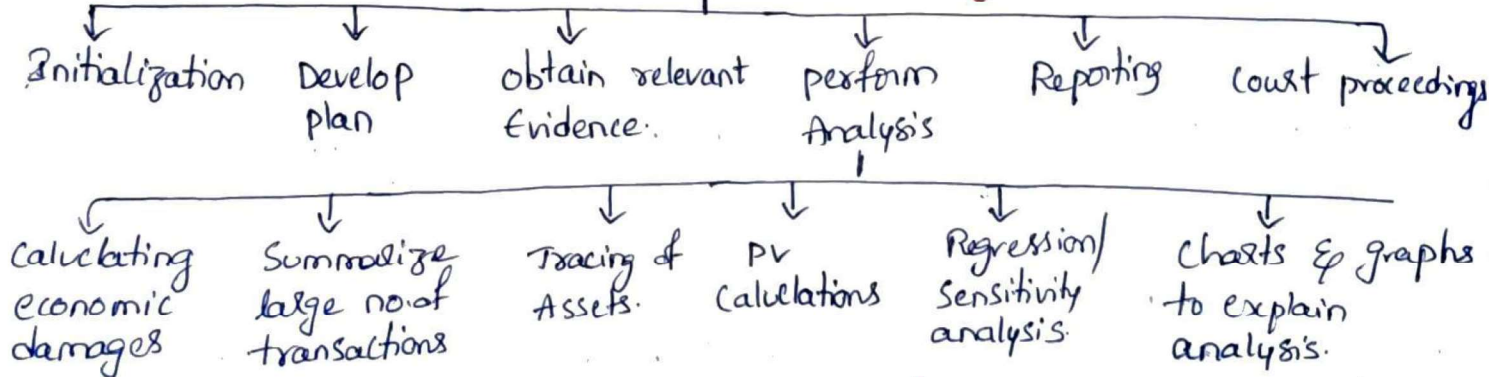
Characteristics of forensic auditor



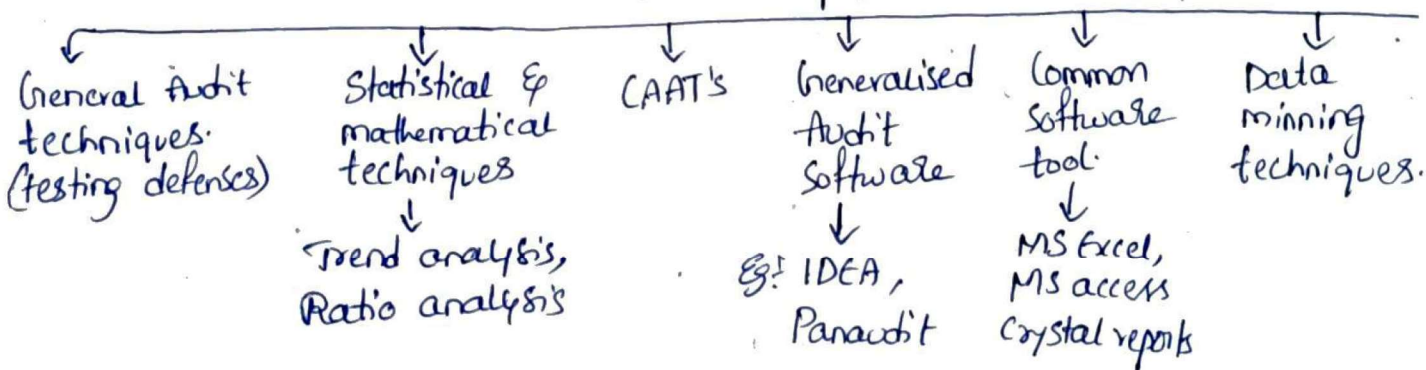
Skills of forensic auditor.



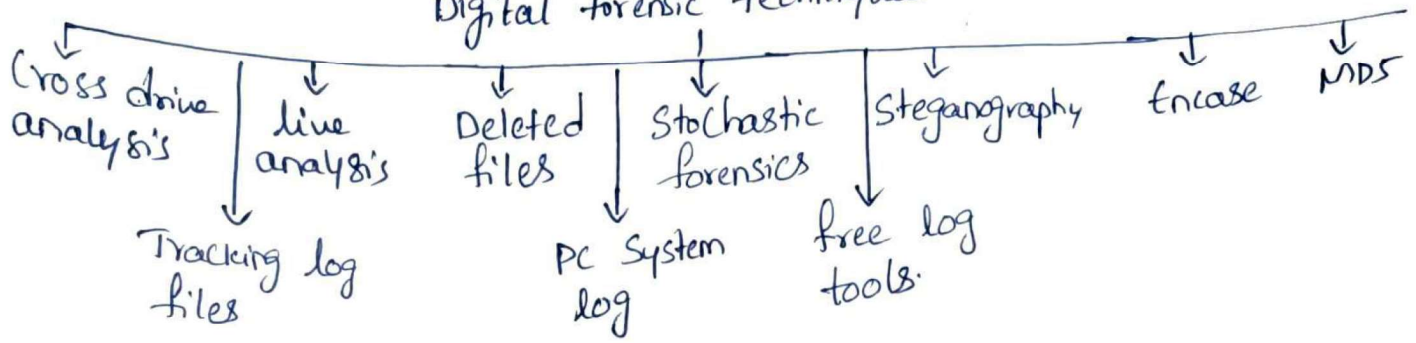
process of forensic Accounting.



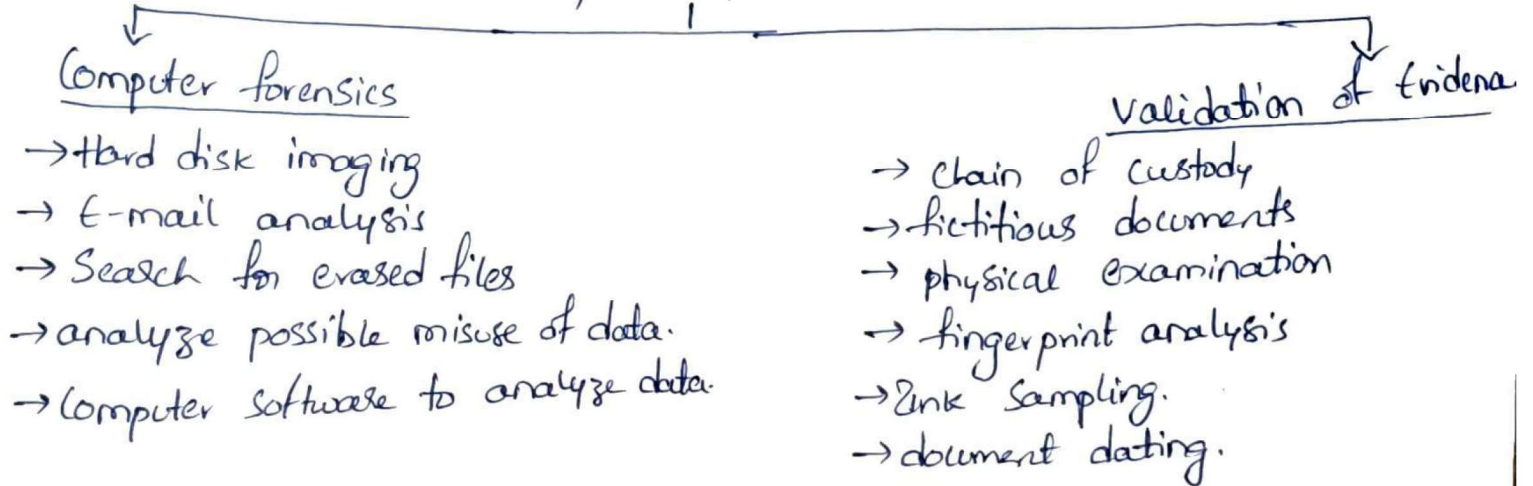
Techniques used by forensic auditor



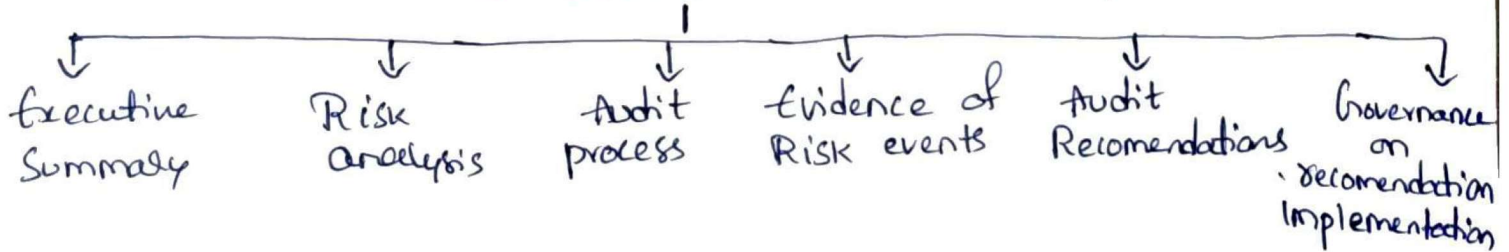
Digital forensic techniques.



laboratory analysis of evidence.



Contents of forensic audit report: (Sample)



Digital Auditing and Assurance.

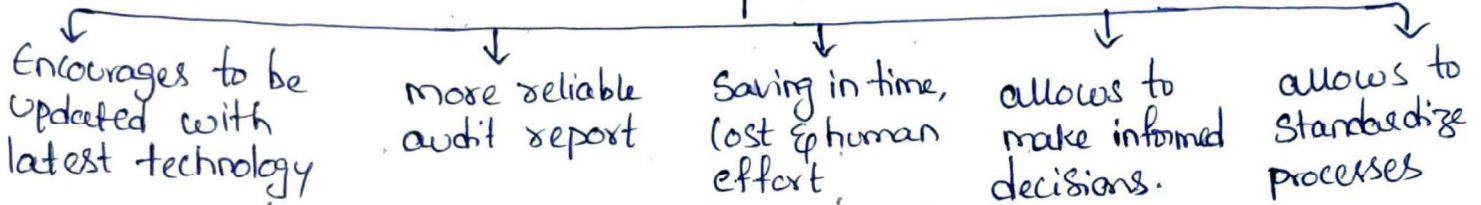
Digital Audit

Placing assurance on effectiveness of IT systems implemented in an organization

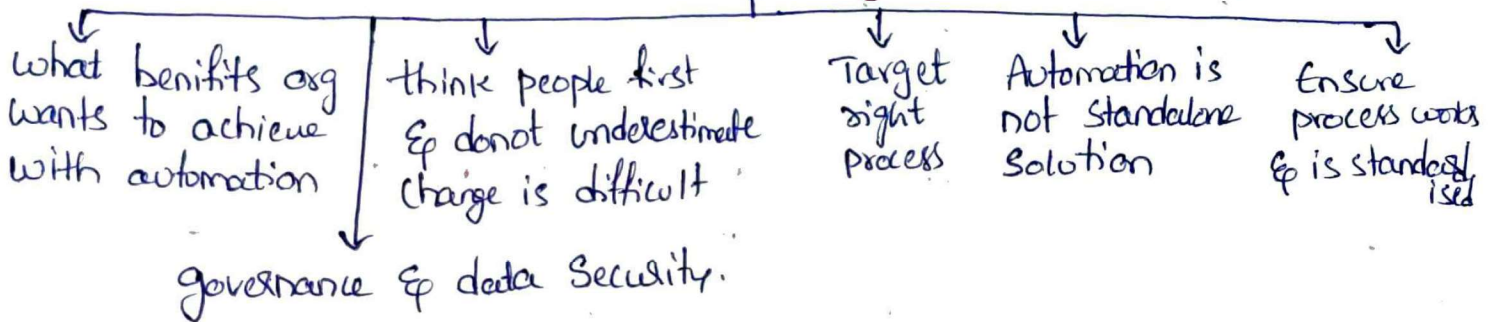
Auditing digitally

Using advancements in technology for conducting effective & efficient audit

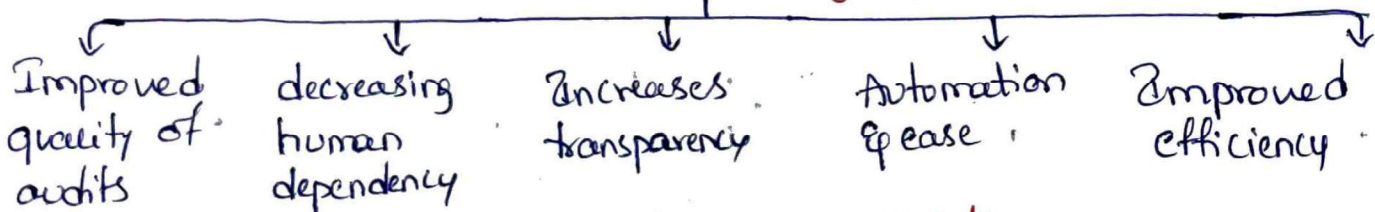
features of digital Audit



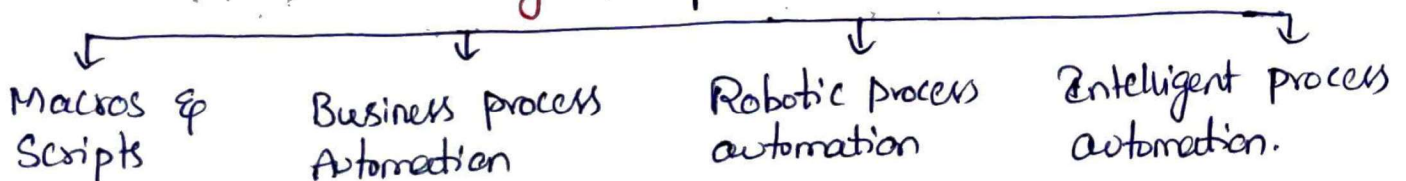
Considerations of Digital Audit



Advantages of Auditing digitally

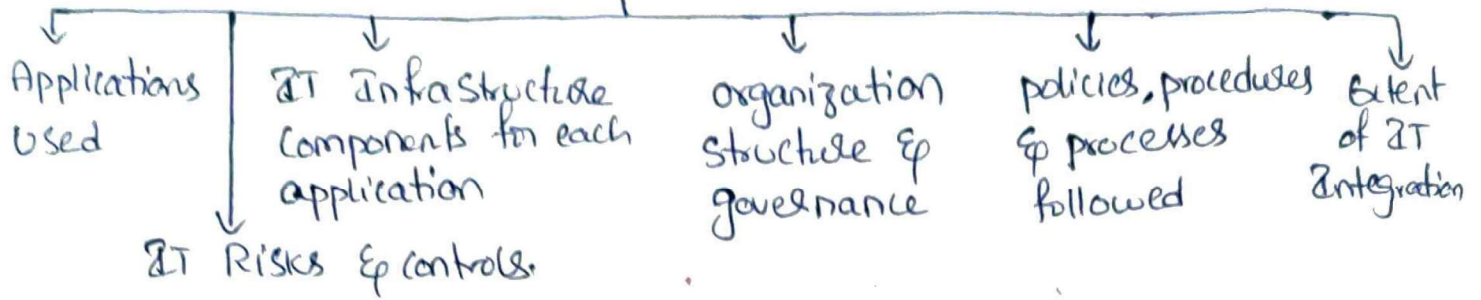


Range of automated Solutions

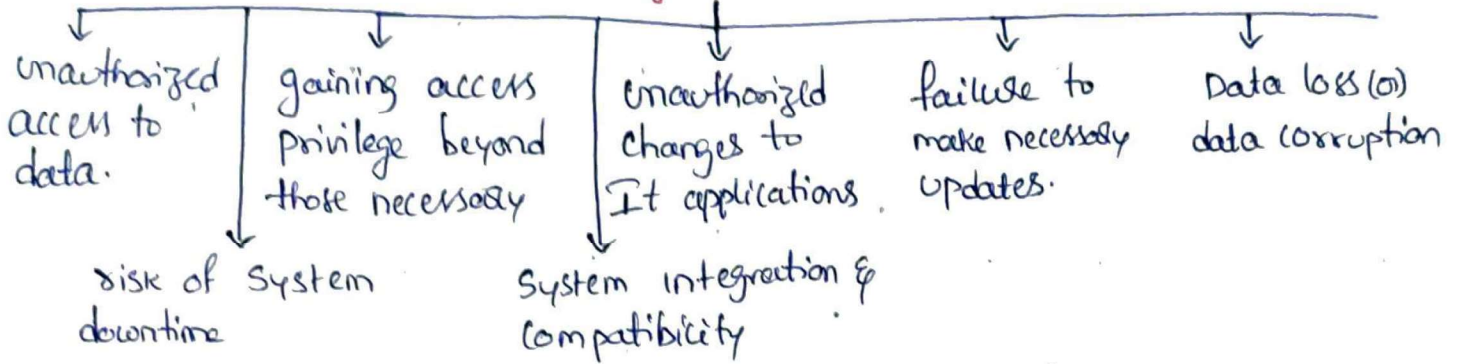


Understand IT Environment

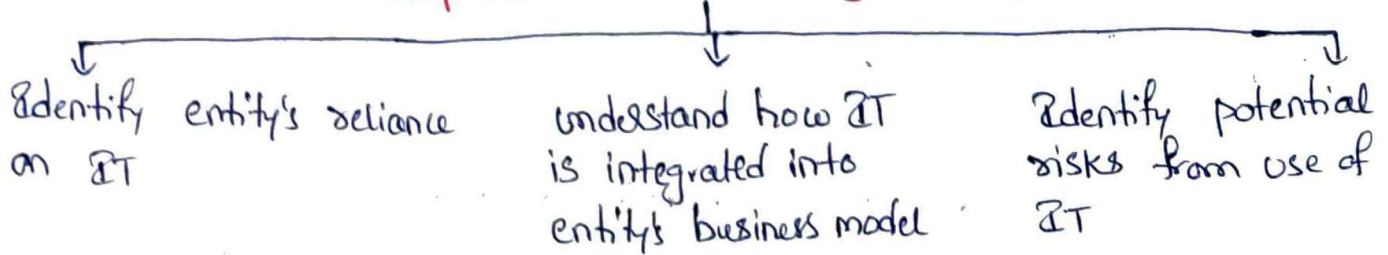
Auditors understanding of IT environment includes understanding



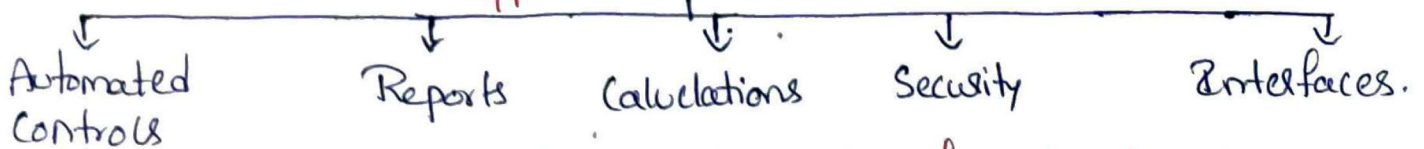
Risks arising from use of IT



Importance of identifying IT dependencies.

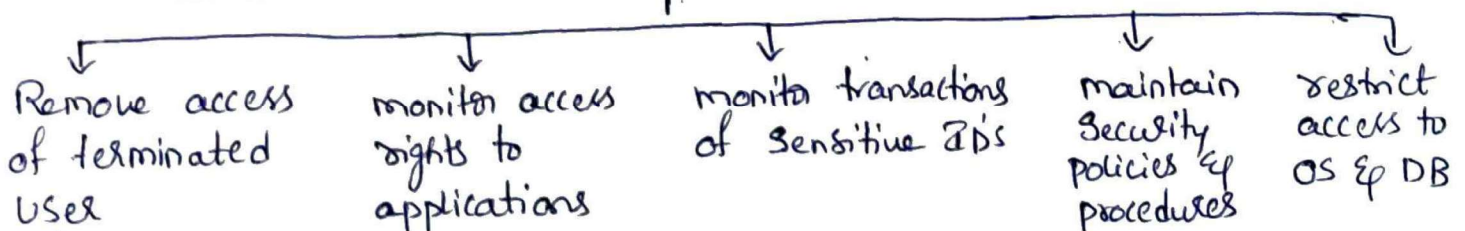


Type of IT dependencies

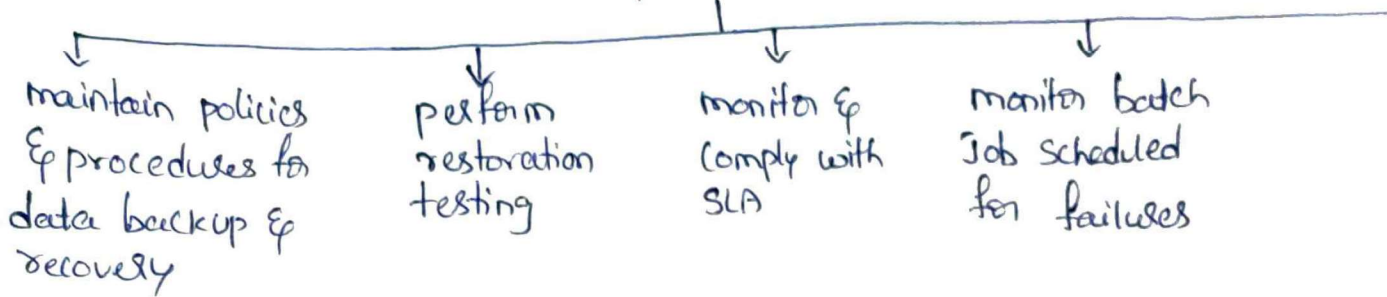


Responding to risk arising from IT dependencies

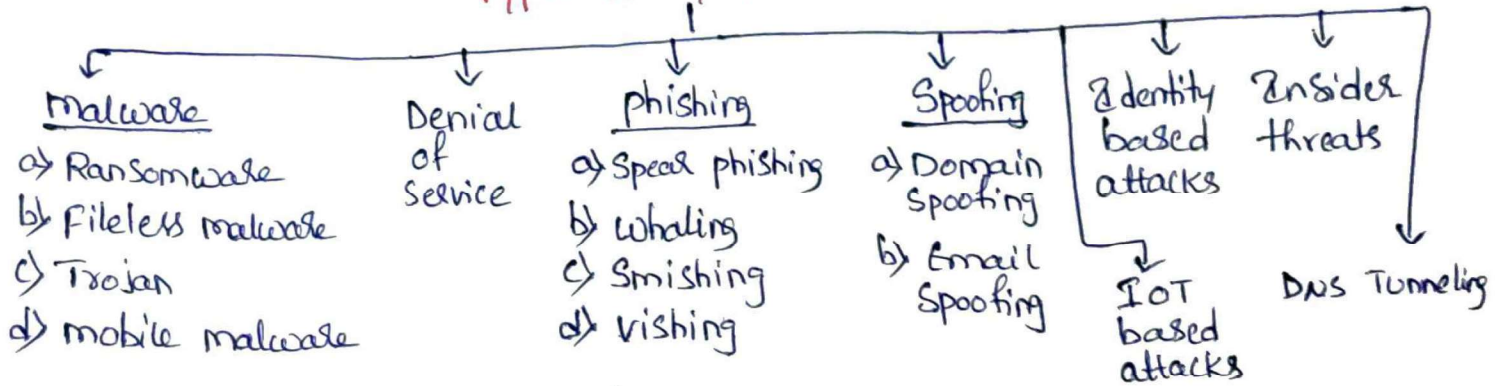
Controls for Access Security objective



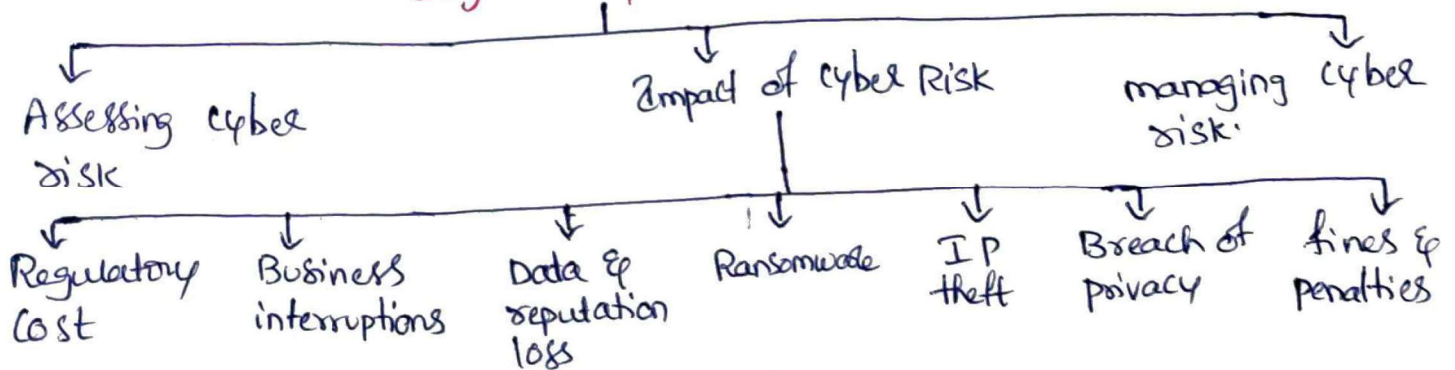
Controls for datacenter & network operations



Types of cyber attacks

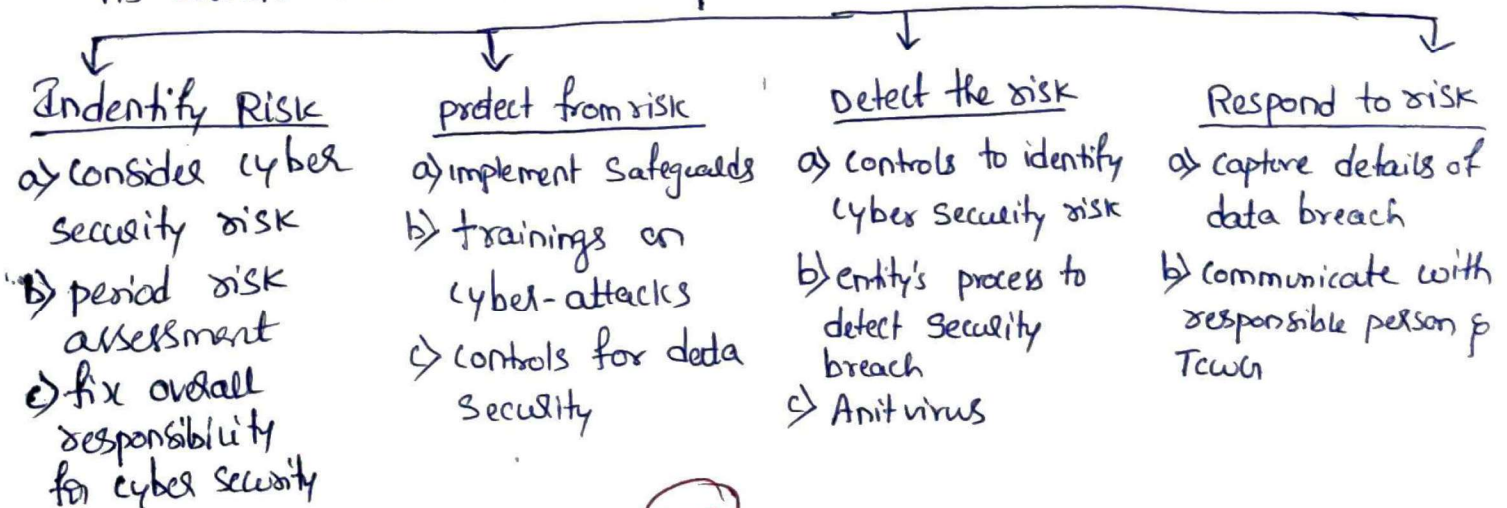


Stages of cyber Risk.



Cyber security framework.

It includes how mng is identifying the risk, protecting & safeguarding its assets from risk.



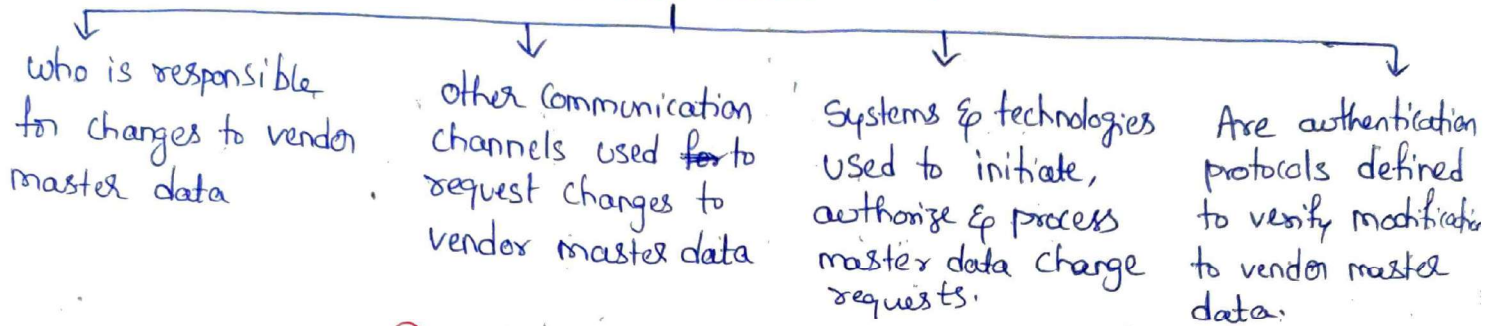
Recover from risk

a) appropriate action to recover from attack

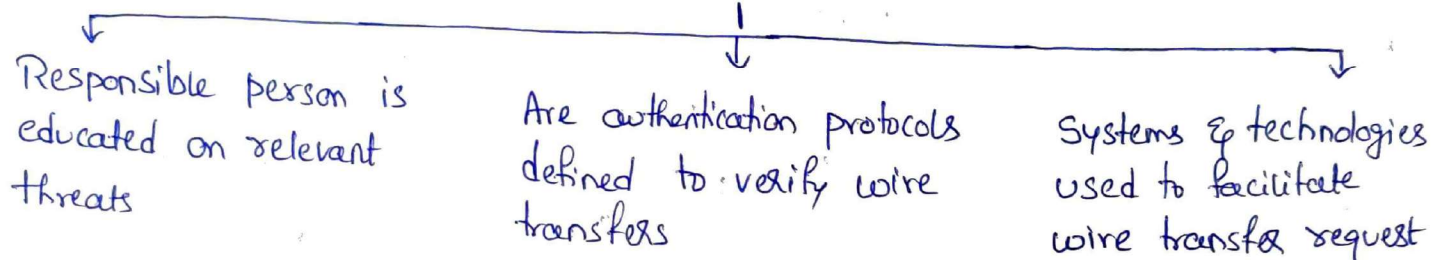
b) necessary improvements like patch upgrades, better controls etc.

Controls for cyber risks

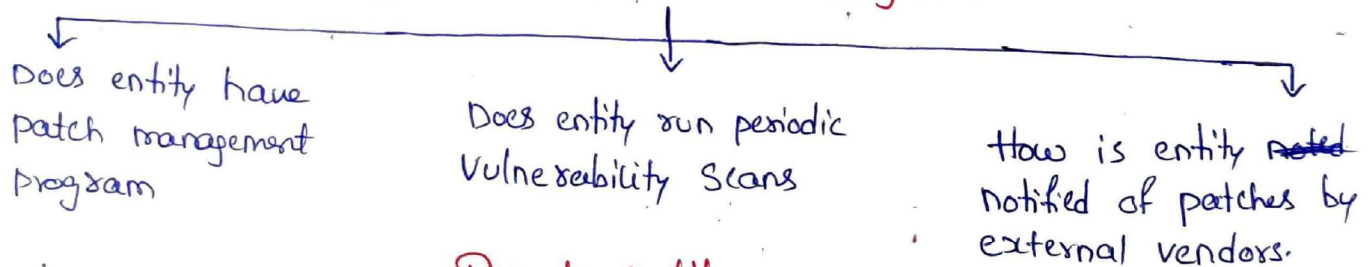
① Controls around vendor setup



② Controls around electronic fund transfer



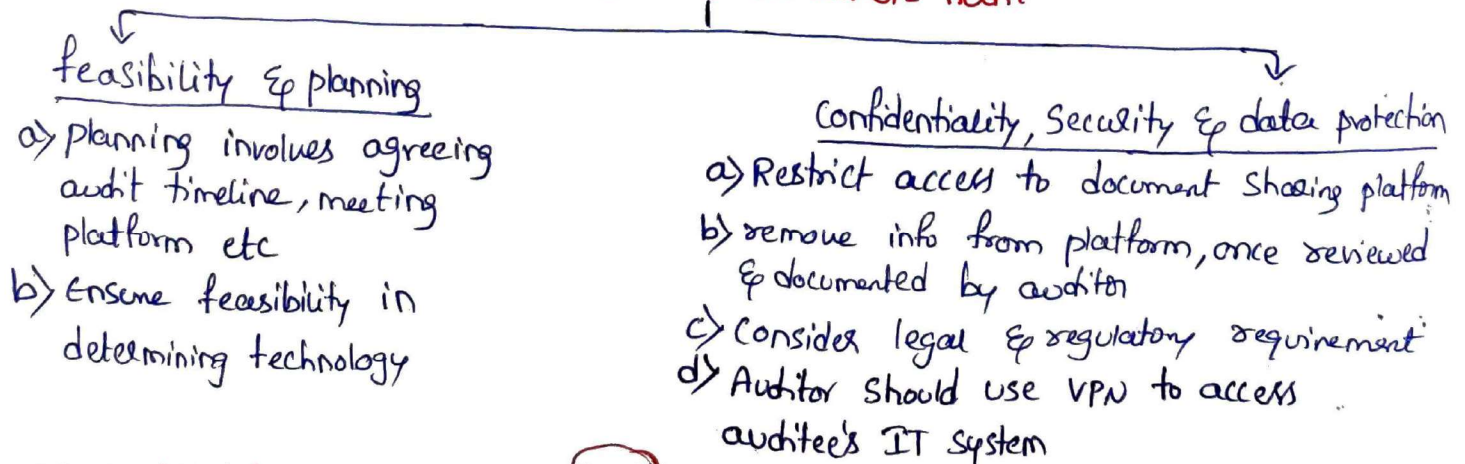
③ Controls around patch management



Remote Audit

use of online / electronic means to conduct audit.

considerations for remote audit



Remote Audit

Advantages

- ① Cost & time effective
- ② Comfort & flexibility to audit team
- ③ Auditor can get first-hand evidence directly from IT system.
- ④ widens the selection of auditors from global network of experts

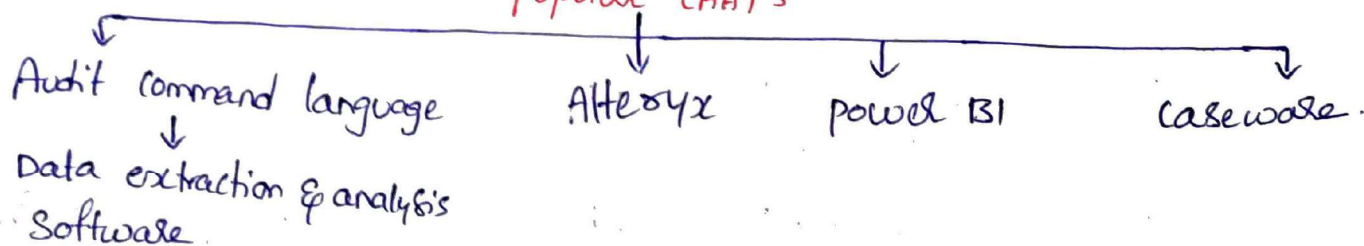
Disadvantages

- ① interruption due to network issue
- ② limited (or) no ability to visualize culture of org & body language of auditee
- ③ Remotes access to sensitive IT systems may not be allowed.
- ④ cultural challenges, lack of knowledge for local laws & regulations could impact audit.

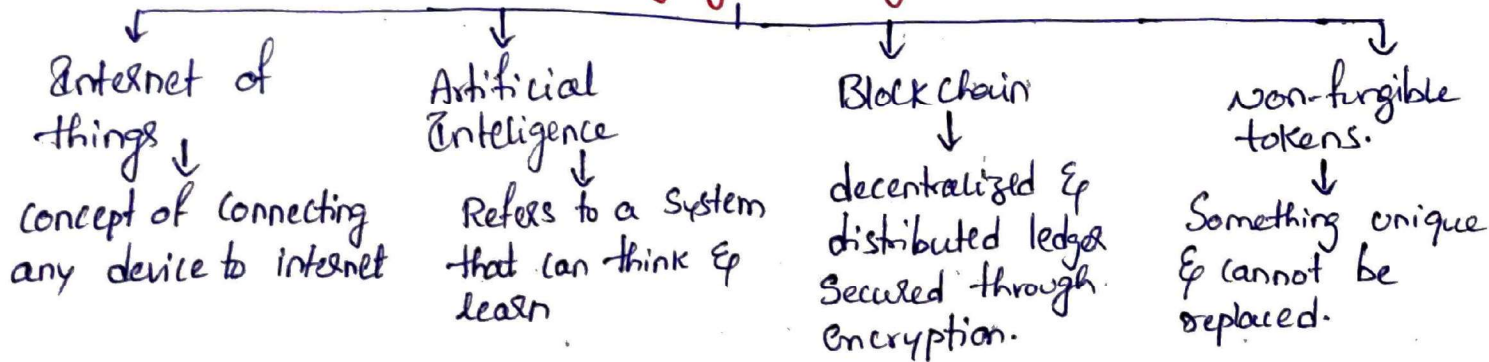
Automated tools in audit (CAAT's)

- Generating meaningful info from raw system data using tools is Data analytics
- Data analytics methods used in audit are known as Computer Assisted Audit techniques

Popular CAAT's



Emerging technologies



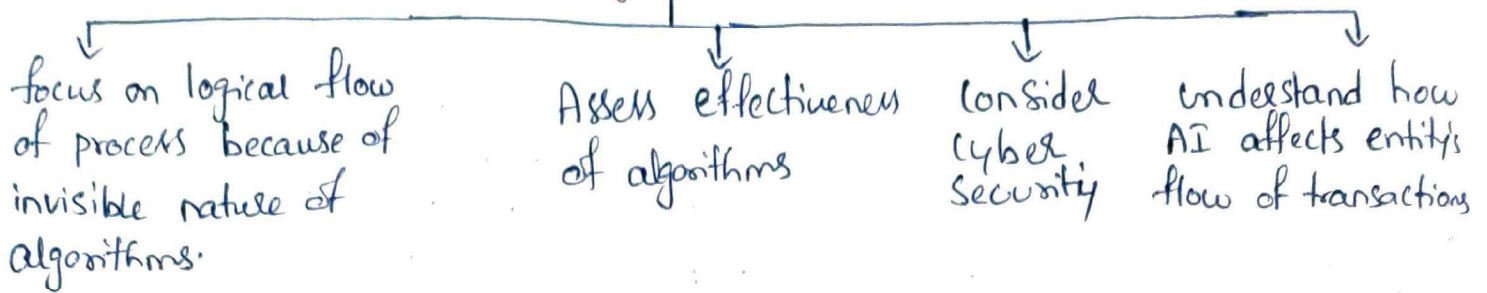
IoT Audit Implications

Auditor may not be able to rely on manual controls. he may need to scope new systems into audit.

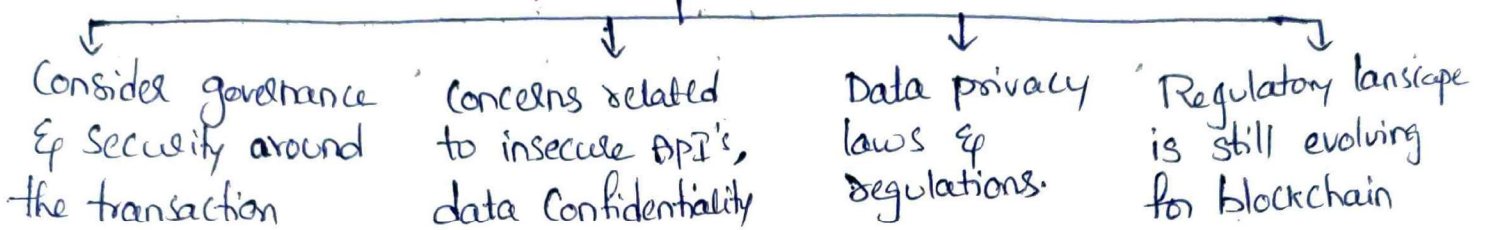
Firms may need to train & upskill auditors.

Consider new payment processing tools at retail locations.

Artificial Intelligence Audit implications.



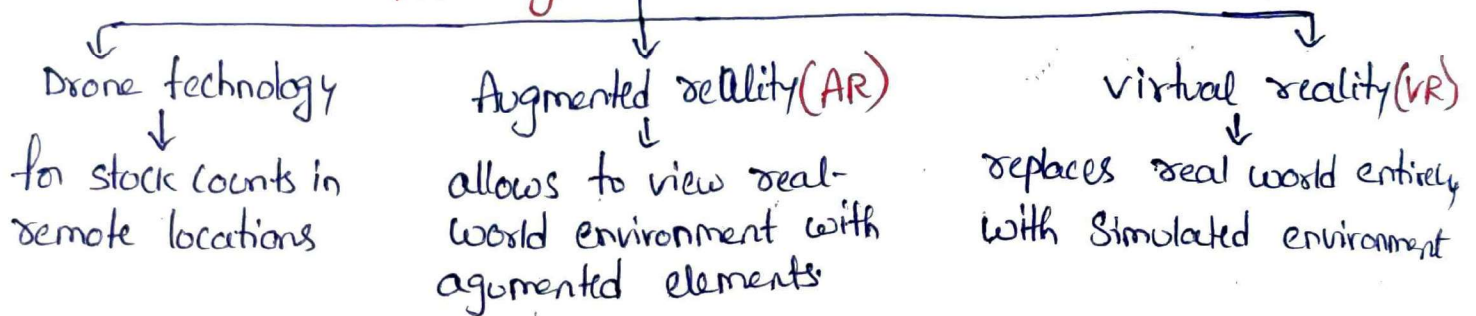
Audit implications for block chain



Robotic process automation

Automation of repetitive processes performed by users.

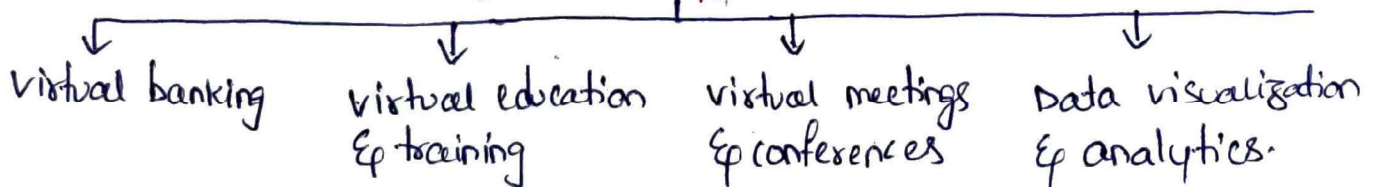
Next generation audit



Metaverse

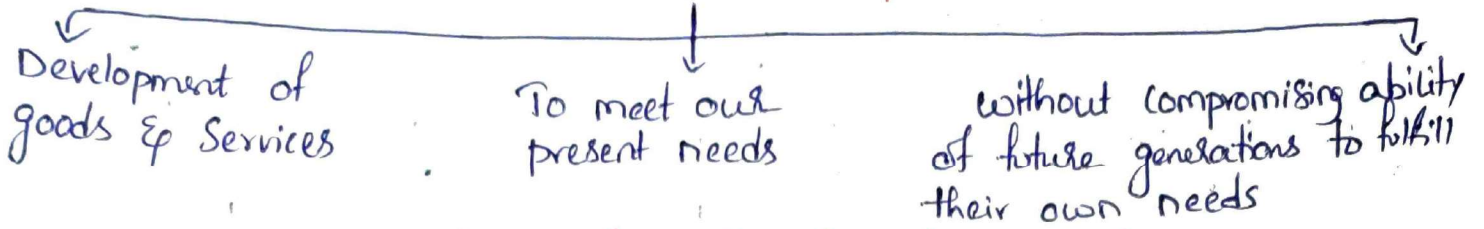
Emerging 3-D digital space that uses AR, VR, AI etc to have life like personal & business experience online.

Potential applications of Metaverse.

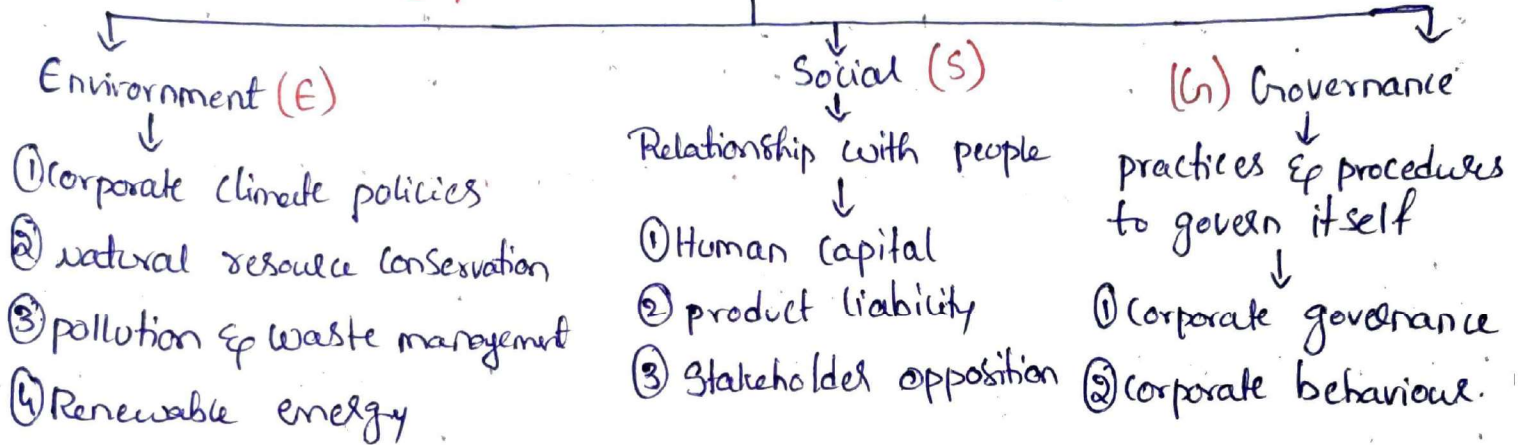


Sustainable Development Goals (SDGs) & Environment, Social and Governance (ESG) Assurance.

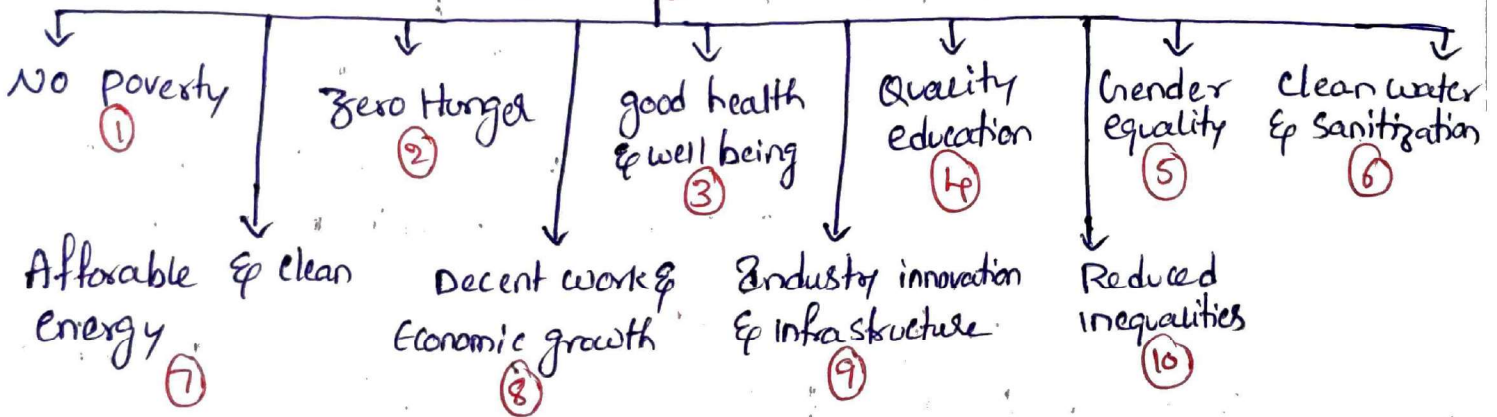
Sustainable development



3 pillars of Sustainable development.



17 Sustainable development goals adopted by united nation members

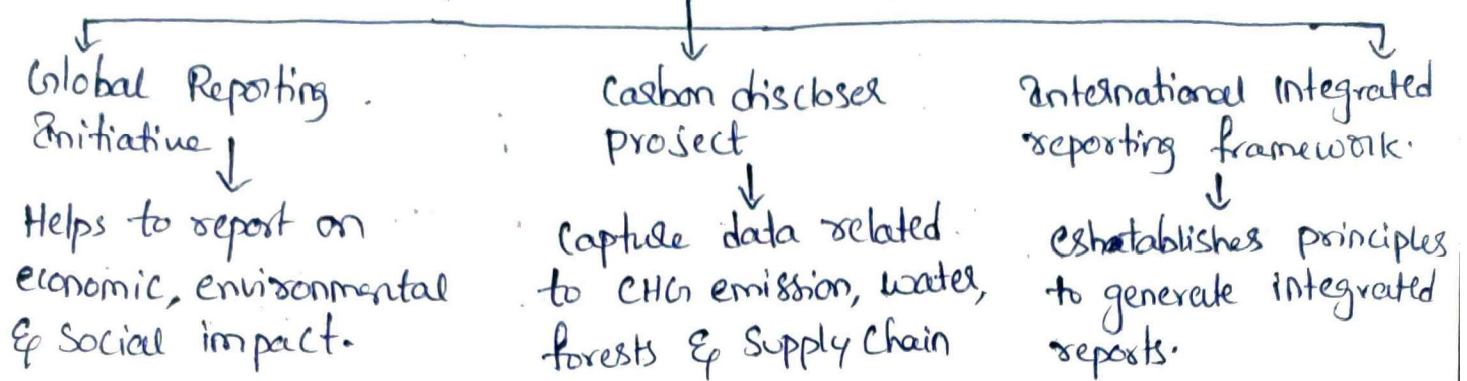


- ⑪ Sustainable cities & communities
- ⑫ Responsible consumption & production
- ⑬ climate Action
- ⑭ Life below water
- ⑮ Life on land
- ⑯ peace, Justice & strong Institutions
- ⑰ partnership for goals.

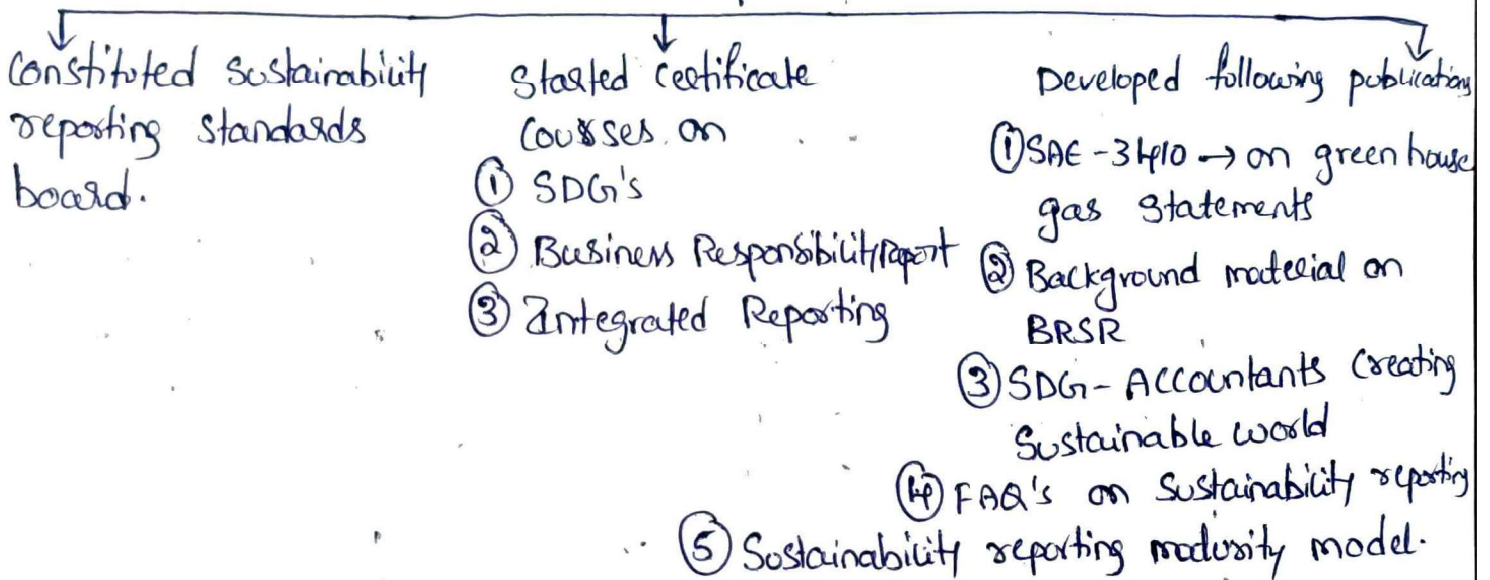
Sustainable Reporting

Involves communication of co's ESG performance.

widely used Sustainable reporting frameworks



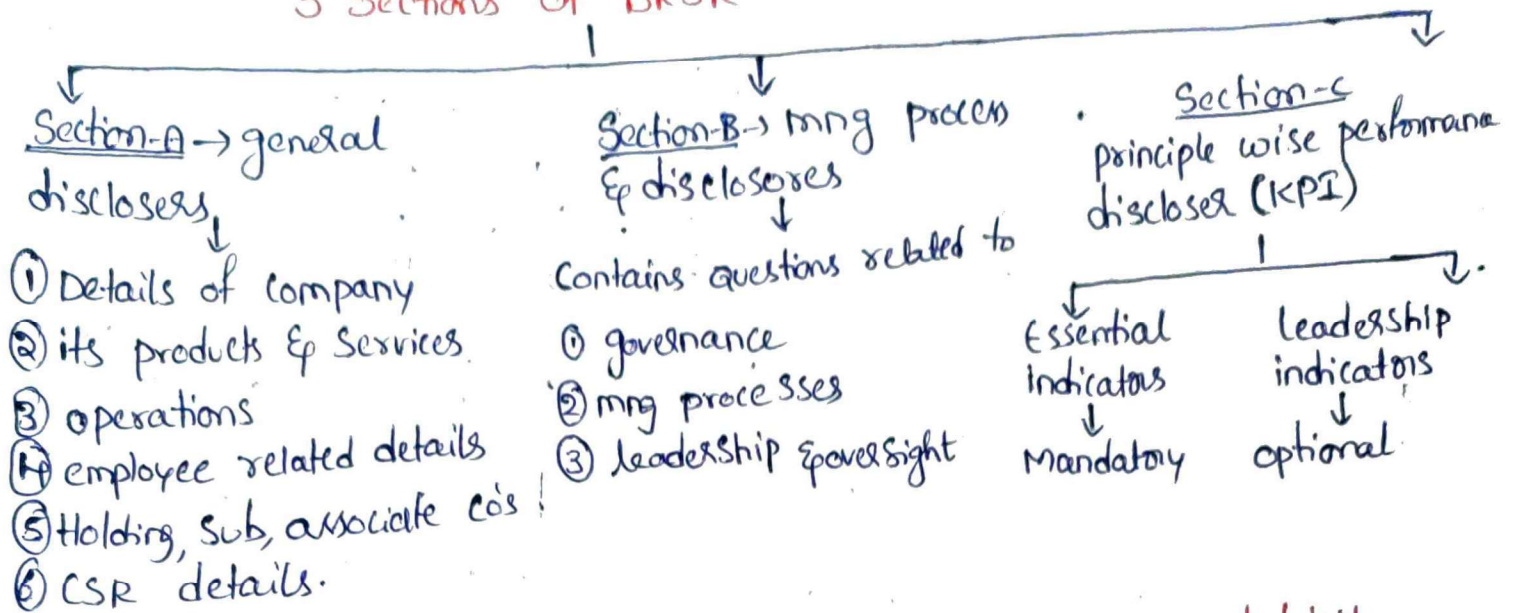
ICAI initiatives towards Sustainability reporting



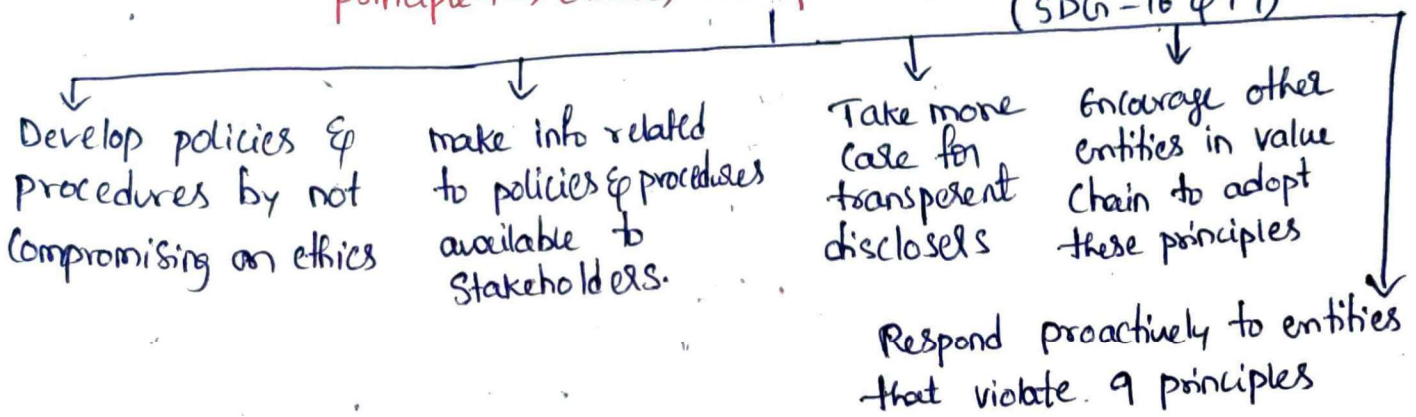
ESG Reporting in India

- SEBI Introduced Business Responsibility & Sustainability Report (BRSR)
- Mandatory for top 1000 listed entities. (from F-4-2022-23)
- This reporting is inline with ESG parameters
- BRSR discloses performance of entity on 9 principles of national guidelines on Responsible business conduct (NGRBC)

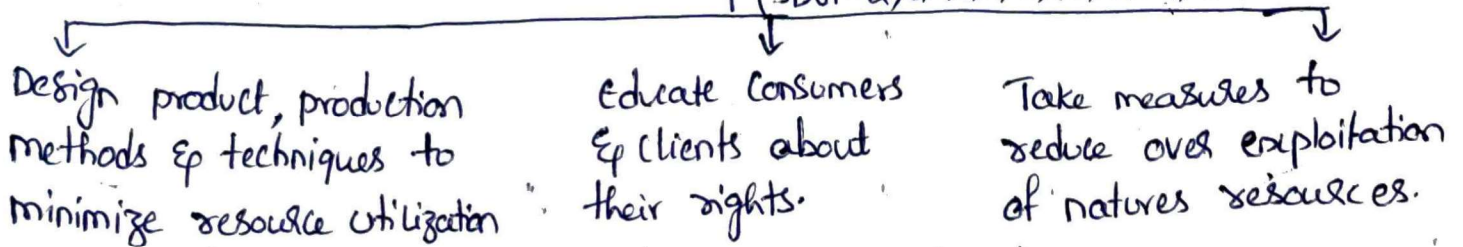
3 Sections of BRSR



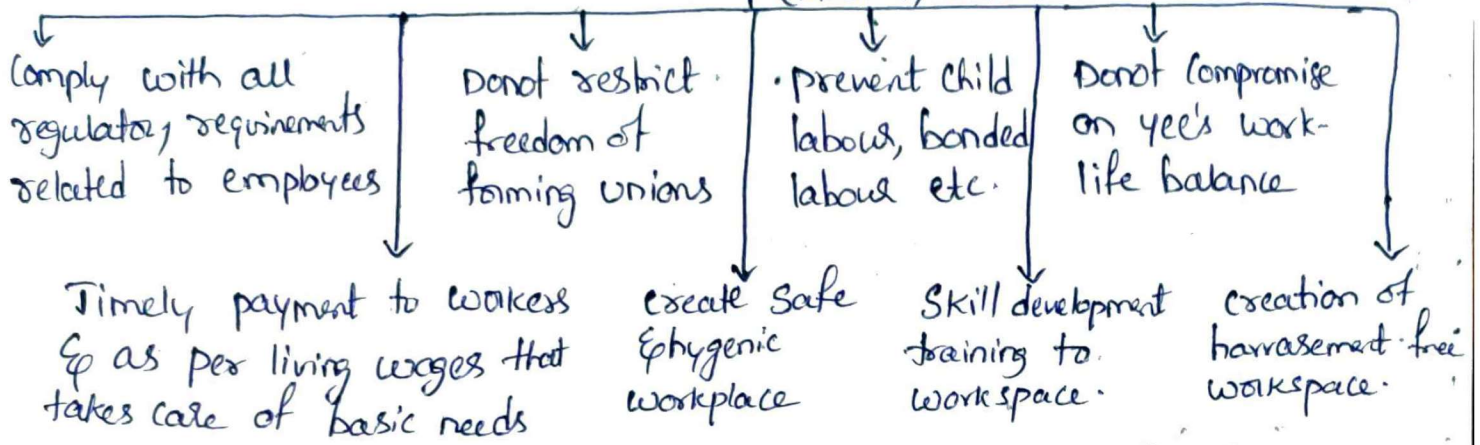
Principle-1 → Ethics, transparency and Accountability (SDG-16 & 17)



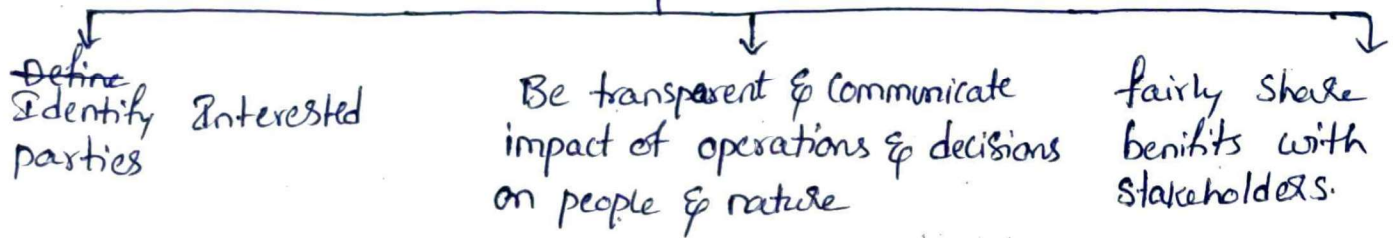
Principle-2 → provide safe & sustainable goods & services (SDG-2, 6, 7, 8, 9, 10, 12, 13, 14, 15)



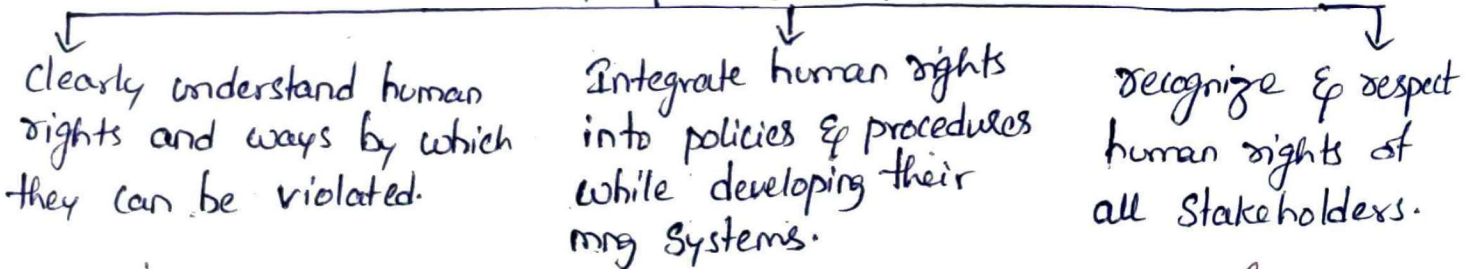
Principle-3 - promote well-being of employees including those in value chain. (SDG-1, 3, 4, 5, 8, 11, 16)



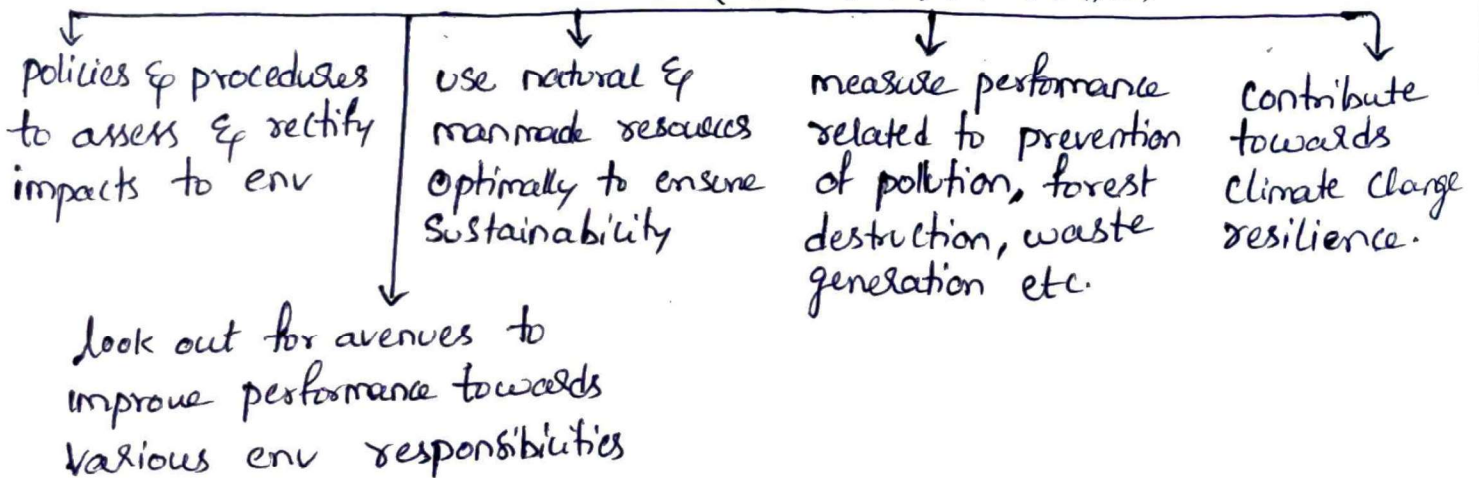
Principle-4 -> Businesses should respect Stakeholders interests & be responsive. (SDG-1, 5, 11, 16)



Principle-5 -> Respect and promote human rights. (SDG-5, 8, 16)



Principle-6 -> Make efforts for protection & restoration of environment. (SDG-2, 6, 7, 12, 13, 14, 15)



Principle-7 → when engaged in influencing public & regulatory policy do so in a manner that is responsible and transparent.
 | (SDG-2, 7, 9, 10, 11, 13, 14, 15, 17)

Core elements of BRSR will be met, when org makes contributions to policy formulation

Use collective associations for policy advocacy & formulation.

Role in policy advocacy should encourage fair competition & prevent human right abuse.

Principle-8 → promote inclusive growth & equitable development.
 | (SDG-1 to 6, 8, 11, 13 to 17)

Systems to identify & address impact of activities on social, cultural & economic aspects of people.

measure & track impact of their activities on society & env. make plans to mitigate them.

make efforts to bring creative products, technologies to help marginalized communities

Review local & regional dev priorities in CSR activities

Ensure that business induced replacement of communities doesnot happen

All forms of intellectual property should get deserved respect from organization.

Principle-9 → provide value to consumers in a responsible manner!
 | (SDG-2, 4, 12, 14, 15)

put efforts to reduce negative impact of products & services

Donot prevent freedom of choice & fair competition in conceptualizing, designing & marketing the products

Transparently disclose all adverse impacts to user, planet, society on biodiversity from their products.

maintain right to privacy of customer data.

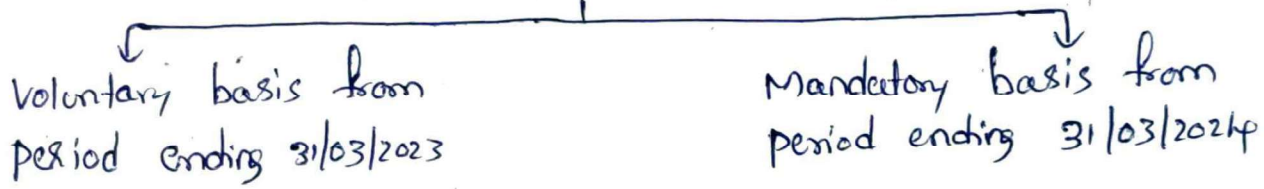
Inform customers about responsible ways of usage, reuse, recycling & disposal of their products.

while advertising donot expose misleading & confusing info about the product.

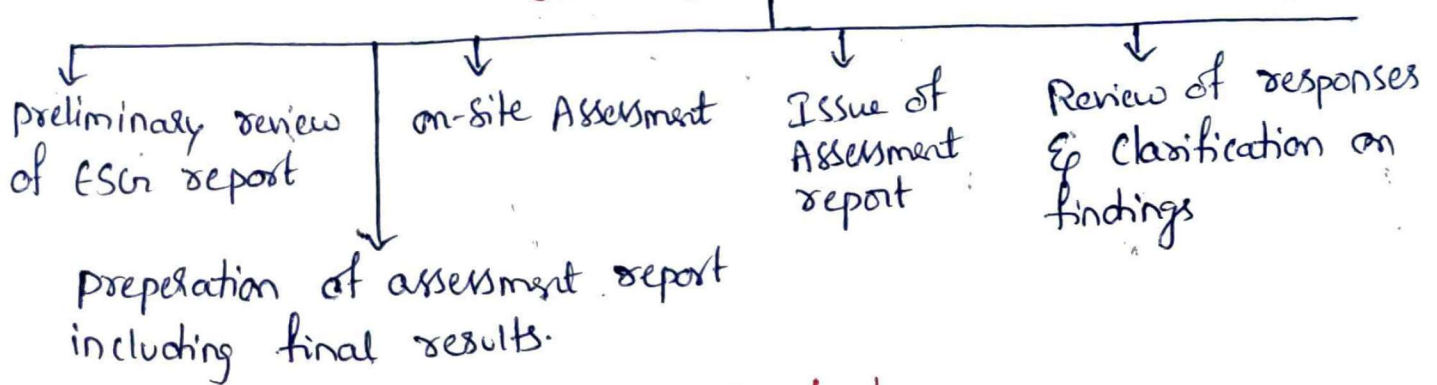
Transparent & accessible grievance redressal.

Assurance in BRSR

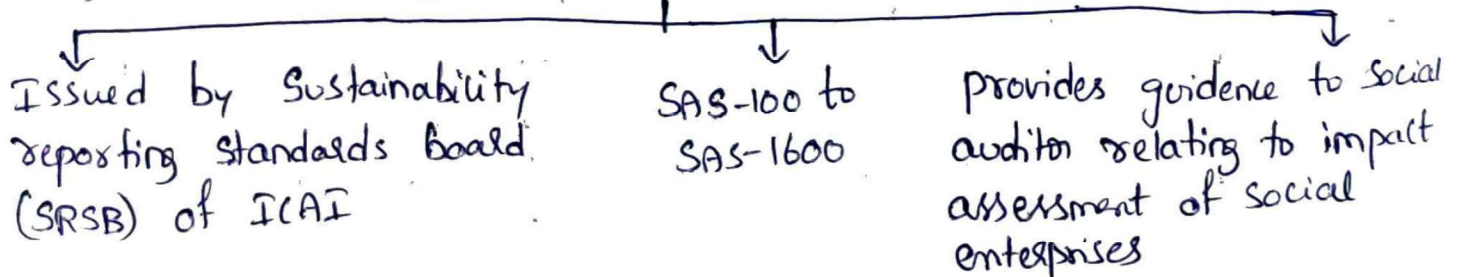
- ① BRSR is main document to stakeholders for sustainability related information, Hence assurance in this reporting is more critical
- ② ESG Audit helps to evaluate environmental & social risks for Co's products & services
- ③ ICAI issued standard on Sustainability assurance engagement
SSAE - 3000



Methodology to provide assurance on BRSR



Social Audit Standards.



6C's of Integrated Reporting.

