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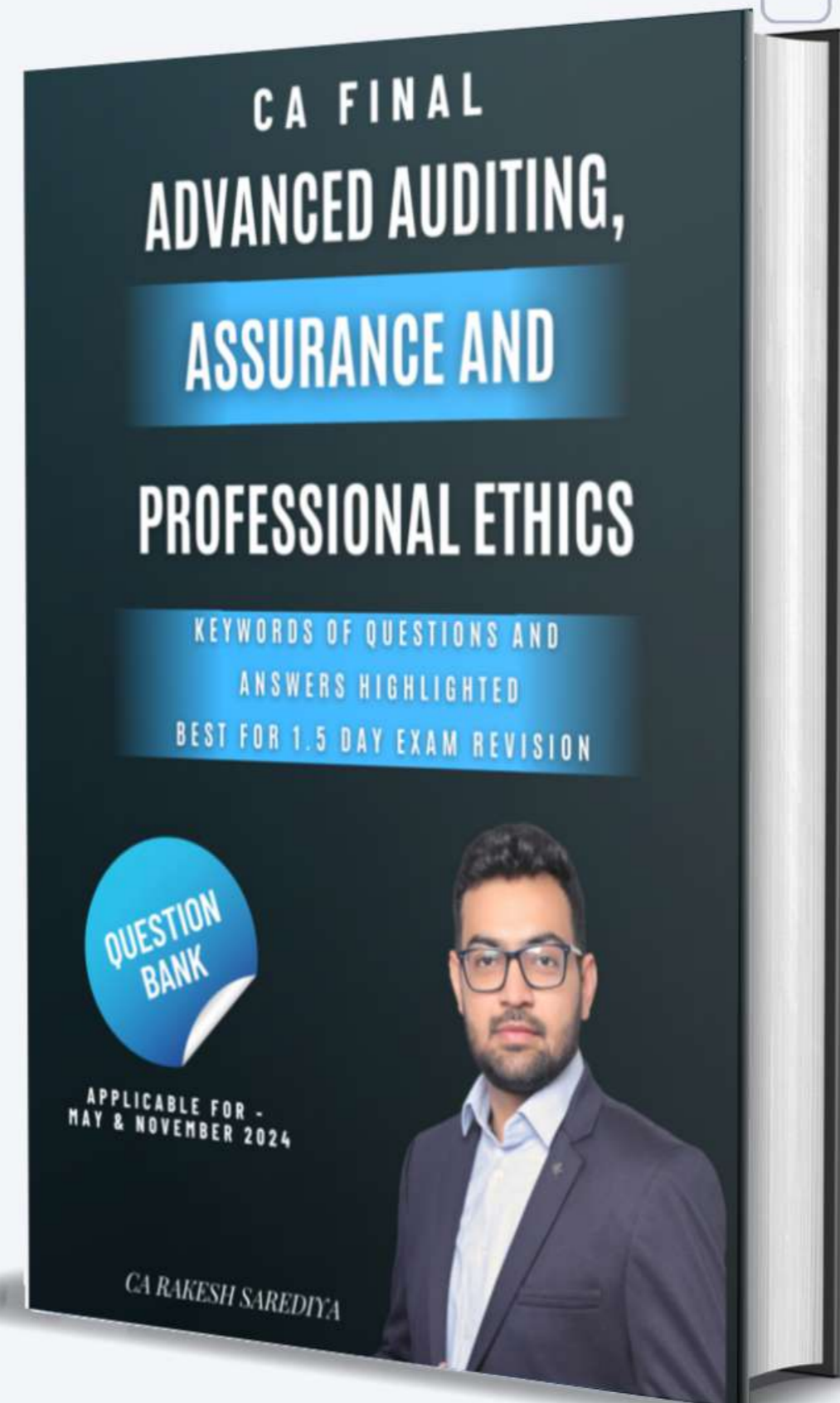


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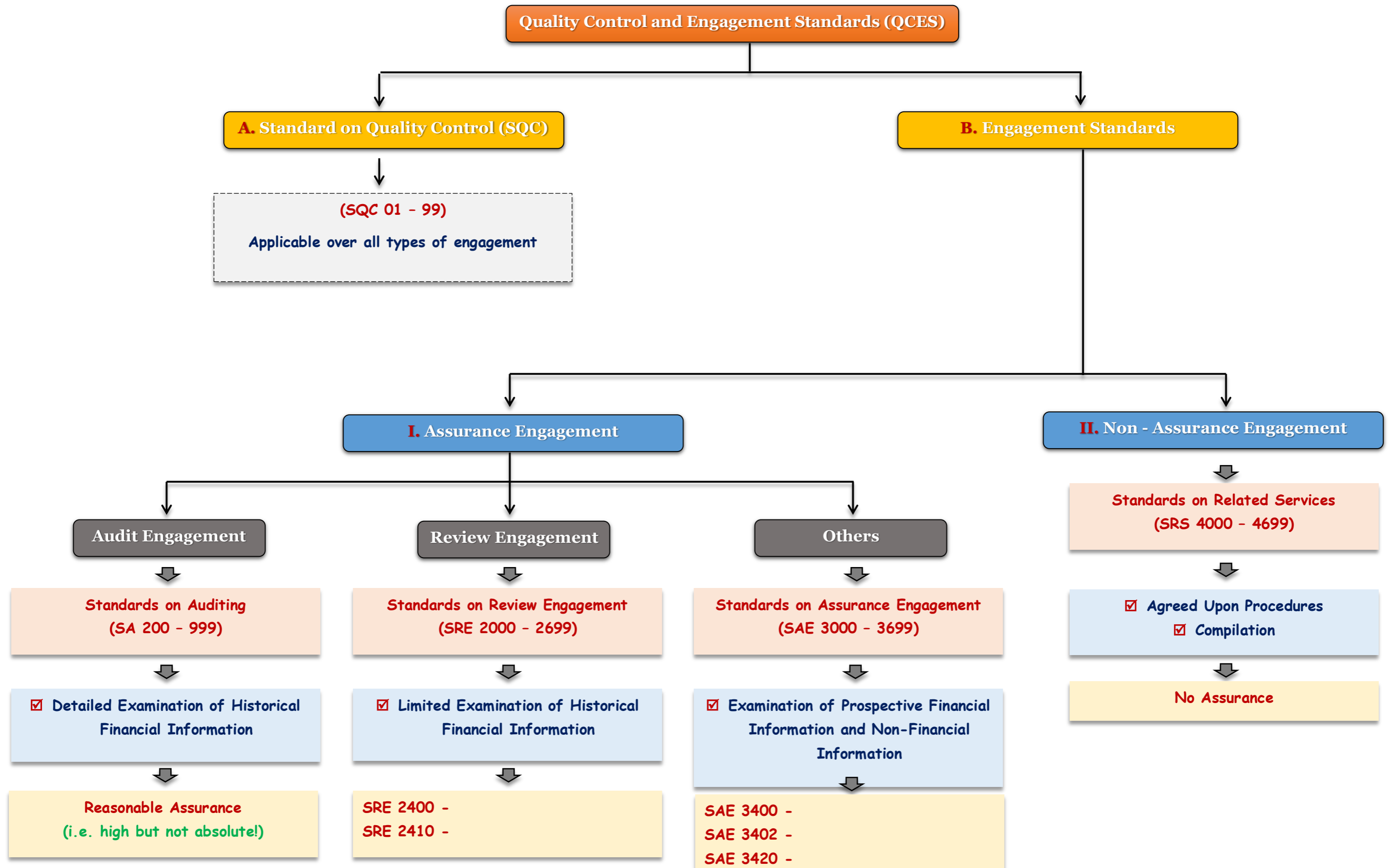
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Classification of Quality Control and Engagement Standards (QCES)



Overview

Quality Control and Engagement Standards (QCES)

S.No.	Std. No.	Std. Title
1.	SQC 1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagement
2.	SA 200	Overall Objectives of Independent Auditor and Conduct of an Audit as per SA
3.	SA 210	Agreeing the Terms of Audit Engagements
4.	SA 220	Quality Control for an Audit of FS
5.	SA 230	Audit Documentation
6.	SA 240	The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements
7.	SA 250	Consideration of Laws and Regulations in an Audit of Financial Statements
8.	SA 260	Communication with TCWG
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10.	SA 299	Joint Audit of FS
11.	SA 300	Planning an Audit of Financial Statements
12.	SA 315	Identifying and Assessing Risks of MM through Understanding the Entity and its Environment
13.	SA 320	Materiality in Planning & Performing an Audit
14.	SA 330	The Auditor's Responses to Assessed Risks
15.	SA 402	Audit Considerations Relating to an Entity Using a Service Organization
16.	SA 450	Evaluation of Misstatements Identified during the Audits

S.No.	Std. No.	Std. Title
17.	SA 500	Audit Evidence
18.	SA 501	Audit Evidence - Specific Considerations for Selected Items
19.	SA 505	External Confirmations
20.	SA 510	Initial Audit Engagements-Opening Balances
21.	SA 520	Analytical Procedures
22.	SA 530	Audit Sampling
23.	SA 540	Auditing Accounting Estimates, Including Fair Value AE, and Related Disclosures
24.	SA 550	Related Parties
25.	SA 560	Subsequent Events
26.	SA 570	Going Concern
27.	SA 580	Written Representations
28.	SA 600	Using the Work of Another Auditor
29.	SA 610	Using the Work of Internal Auditors
30.	SA 620	Using the Work of an Auditor's Expert
31.	SA 700	Forming an Opinion and Reporting on FS
32.	SA 701	Communicating Key Audit Matters in the Independent Auditor's Report
33.	SA 705	Modifications to Opinion in the Independent Auditor's Report
34.	SA 706	Emphasis of Matter Paragraphs & Other Matter Paragraphs in Independent Auditor's Report

S.No.	Std. No.	Std. Title
35.	SA 710	Comparative Information - Corresponding Figures and Comparative FS
36.	SA 720	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements
37.	SA 800	Special Considerations- Audits of FS Prepared as per Special Purpose Framework
38.	SA 805	Special Considerations- Audits of Single Purpose Financial Statements and Specific Elements, Accounts or Items of a FS
39.	SA 810	Engagements to Report on Summary FS
40.	SRE 2400	Engagements to Review Historical FS
41.	SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity
42.	SAE 3400	The Examination of Prospective Financial Information
43.	SAE 3402	Assurance Reports on Controls At a Service Organisation
44.	SAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information included in a Prospectus
45.	SRS 4400	Engagements to Perform Agreed Upon Procedures Regarding Financial Information
46.	SRS 4410	Compilations Engagements

SQC 1 – QC for firms that performs audits and review of historical financial info, and other assurance and related service engagements

SQC 1 requires that firm should **establish a system of QC** designed to provide it with **reasonable assurance** that firm and its personnel.

- o **comply** with professional standards and regulatory and legal requirements (PLR) and
- o that **reports issued** by firm or engagement partners are appropriate.

This QC std. applies to all firms irrespective of their constitution.

Elements of System of Quality Control

Firm's system of QC should include policies and procedures addressing each of following elements: -

- (a) Leadership responsibilities for quality within firm
- (b) Ethical requirements
- (c) Acceptance & continuance of client relationships and specific engagements
- (d) Human resources
- (e) Engagement performance
- (f) Monitoring

Leadership Responsibilities for Quality within Firm

SQC 1 requires firms to **establish policies & procedures** designed to **promote an internal culture**.

Firm's CEO or managing partners to assume ultimate responsibility for firm's system of QC.

Audit quality is paramount in all engagements. It is **non-negotiable**.

In this regard, it should be ensured that: - **(Q- Considerations one should exercise to uphold Firm?)**

Q 2

1. **Firm assigns its management responsibilities** so that commercial considerations don't override quality of work performed.
2. **Firm's policies and procedures** with regard to its personnel are designed to demonstrate firm's overriding commitment to quality &
3. Firm devotes **sufficient resources** for **development, documentation and support of its QC policies and procedures**.
4. A firm **before accepting** an engagement should **acquire vital info** about client. Such an info. help firm to decide about **integrity** of Client, promoters and KMP, competence to perform engagement and compliance with ethical requirements.

Ethical Requirements

Firm should establish policies & procedures designed to provide it with reasonable assurance that firm and its personnel **comply with relevant ethical requirements**.

Fundamental principles include integrity, objectivity, professional competence & due care, confidentiality & professional behaviour.

Observance of "Independence" in all engagements is the founding requirement.

Firm should establish policies and procedures designed to provide it with reasonable assurance that firm, its personnel and (including experts) **maintain independence** where required by the Code.

Such policies and procedures should enable the firm to: -

- (a) **Communicate** its independence requirements to its personnel.
- (b) Identify and evaluate circumstances and relationships that **create threats to independence**, and to take appropriate action to eliminate those threats.

At least **annually**, firm should **obtain written confirmation of compliance** with its policies and procedures **on independence** from all firm personnel required to be independent.

SQC 1 lays special emphasis on familiarity threat. Using the **same senior personnel** on assurance engagements over a prolonged period may impair the quality of performance of the engagement.

Therefore, firm should establish criteria for determining the need for safeguards to address this threat.

In determining appropriate criteria, **firm considers such matters as-**

- a) **nature** of engagement, including extent to which it involves a matter of public interest and
- b) **length** of service of senior personnel on engagement

Ex of safeguards include rotating the senior personnel or requiring an engagement quality control review

Note: For Listed entities audits, **engagement partner should be rotated after a pre- defined period, normally not more than 7 years (except in cases where audit of listed entities is conducted by a sole practitioner)**. (Rotation once in 7 years)

There is a process for **mandatory peer review** of such firms.

Q 18

Acceptance and Continuance of Client Relationships and Specific Engagements

A firm before accepting engagement should acquire vital info about the client. Such info should help firm to decide about: -

- **Integrity** of Client, promoters and key managerial personnel.
- **Competence** (including capabilities, time and resources) to perform engagement.
- **Compliance** with ethical requirements.

With regard to the integrity of a client, matters that the firm considers include, for example -

Q 4/6

1. **Nature of client's operations**, including its business practices.
2. **Identity & business reputation** of client's principal owners, key Mgt., related parties and TCWG.
3. **Reasons** for proposed appointment of firm and non-reappointment of previous firm.
4. **Info concerning attitude** of client's principal owners, key mgt. and TCWG towards such matters as aggressive interpretation of AS and IC environment.
5. Whether client is aggressively concerned with maintaining the **firm's fees as low as possible**.
6. Indications of an **inappropriate limitation** in scope of work.
7. Indications that client might be involved in money laundering or other criminal activities.

In considering whether the firm has the capabilities, competence, time and resource to undertake an engagement, following matters have to be taken into consideration: -

- o Firm personnel have **knowledge** of relevant industries or subject matters;
- o Firm personnel have **experience** with relevant regulatory or reporting requirements,
- o Firm has **sufficient personnel** with the necessary capabilities and competence;
- o **Experts** are available, if needed;
- o Firm would be able to **complete** the engagement within the **reporting deadline**.
- o Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable.

Q. Considerations of reviewers - SQC 1

Q 7

- 1) Work has been performed as per professional standards and regulatory and legal requirements;
- 2) Significant matters have been raised for further consideration;
- 3) Appropriate consultations have taken place and resulting conclusions have been documented and implemented;
- 4) There is a need to revise the NTE of work performed;
- 5) Work performed supports conclusions reached & is appropriately documented;
- 6) Evidence obtained is sufficient and appropriate; and
- 7) Objectives of engagement procedures have been achieved.

Where the firm obtains info. that would have caused it to decline an engagement if that info. had been obtainable earlier, policies and procedures on continuance of engagement and client relationship should include **consideration** of:

- (a) **Professional & legal responsibilities** that apply, including whether there is a requirement for firm to report to persons who made appointment or, to regulatory authorities; and
- (b) **Possibility of withdrawing** from engagement or from both engagement and client relationship.

Q 8

Policies & procedures on withdrawal from an engagement or from both engagement and client relationship address issues that include:

- **Discussing** with client's mgt. and TCWG **regarding appropriate action** that the firm might take.
- If firm determines that **it's appropriate to withdraw**, discussing with client's mgt. & TCWG withdrawal from engagement and reasons for withdrawal.
- **Considering** whether there is a **professional, regulatory or legal requirement** for firm to report withdrawal + reasons for withdrawal, to regulatory authorities.
- **Documenting** significant issues, consultations, conclusions and basis for conclusions.

Human Resources

Firm should establish policies and procedures designed to provide it with **reasonable assurance** that it has **sufficient personnel** to perform its engagements as per PLR and to enable firm or engagement partners to **issue reports** that are appropriate.

Firm should establish policies and procedures requiring that:

- (a) **Identity and role** of engagement partner are **communicated** to key members of client's mgt. & TCWG;
- (b) Engagement partner has **appropriate capabilities, competence, authority and time** to perform role; and
- (c) **Responsibilities** of engagement partner are clearly defined communicated to that partner.

Engagement Performance

Consultation in difficult or contentious matters:

- Consultation should take place in **difficult or contentious matters** pertaining to an engagement.
- It includes **discussion**, with individuals within or outside firm who have specialized expertise, to resolve difficult or contentious matter
- **Consultation procedures** require consultation with those having appropriate knowledge, seniority and experience within firm (or outside the firm) on significant technical, ethical and other matters.
- A firm needing to **consult externally**, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by other firms.

Engagement quality control review (EQCR):

Significant judgments made in an engagement should be **reviewed by an EQC reviewer** for taking an objective view before the report is issued.

Review **doesn't reduce responsibilities** of the engagement partner.

EQCR is **mandatory** for all audits of FS of listed entities.

Q 10

An EQCR for audits of FS of listed entities includes considering following:-

1. Engagement team's evaluation of the firm's **independence** in relation to specific engagement.
2. **Significant risks identified** during engagement and **responses** to those risks.
3. **Judgments** made particularly w.r.t. materiality & significant risks
4. Whether **appropriate consultation** has taken place on matters involving differences of opinion or other difficult or contentious matters, and conclusions arising from those consultations.
5. **Matters to be communicated** to mgt. & TCWG and other parties such as regulatory bodies.
6. **Appropriateness of report** to be issued.
7. Whether **working papers selected** for review reflect work performed in relation to significant judgments and support conclusions reached.

EQC reviewer - is a partner, other person in the firm (who should be member of ICAI), suitably qualified external person (partner or experienced employee from another firm) or a team made up of such individuals.

Objectivity Maintenance:

- Maintain objectivity of EQC reviewer.
- Participation in engagement or decision for team should be avoided

Replacement Protocols:

- Firm policies should outline procedures for replacing EQC reviewer if objectivity is compromised.
- Another individual within firm or a suitably qualified external person may be appointed in such cases.

Differences of Opinion:

There might be difference of opinion within engagement team, with those consulted and between engagement partner and EQC reviewer.

Report should only be issued **after resolution** of such differences.

In case, **recommendations** of EQC reviewer **are not accepted** by engagement partner and **matter is not resolved**, matter should be resolved by following established procedures of firm like by consulting with another practitioner or firm, or a professional or regulatory body.

Engagement documentation:

Firm should establish policies & procedures to complete **assembly of final engagement files** on timely basis after report has been finalized. Engagement files should be completed **in not more than 60 days after date of auditor's report** in case of **audit engagements** and in **other cases** within the limits appropriate to engagements.

Where **2 or more different reports** are issued in respect of the same subject matter information of an entity, time limits for the assembly of final engagement files should be **considered for each report as if it were for a separate engagement**.

Care should be taken that policies and procedures on documentation of EQCR should require documentation that: -

- Procedures required by the firm's policies on EQCR have been performed.
- EQCR has been completed before the report is issued and
- Reviewer is not aware of any unresolved matters that would cause the reviewer to believe that significant judgments the engagement team made and the conclusions they reached were not appropriate.

Ownership: Engagement documentation is the **property of the firm**. Firm can, at its discretion, share portions or extracts with clients.

Retention Period: For **audit engagements**, the retention period is typically **not less than 7 years** from the auditor's report date or, if later, the group auditor's report date.

Monitoring

QC of engagements has to be monitored taking into account **following factors:**

- Deciding whether **QC system of firm** has been appropriately **designed and effectively implemented**.
- Examining whether **new developments** in PLR have been reflected in the quality control policies.
- Conducting monitoring** by entrusting responsibility of monitoring process to a partner or other persons with sufficient and appropriate experience and authority.
- Dealing with **complaints and allegations against firm** or any employees of it of non-compliance with PLR.
- Taking action when **deficiencies** in the design or operation of the firm's QC policies and procedures, or non-compliance with firm's system of QC are identified.
- Taking appropriate **remedial actions** against the personnel who did not conform to QC policies.

Policies required for dealing with such complaints and allegations

Q 15

- Firm should **establish policies and procedures** designed to provide it with reasonable assurance that it deals appropriately with:
 - Complaints & allegations** that the work performed by firm fails to comply with PLR; and
 - Allegations of non-compliance** with the firm's system of QC.
- Complaints and allegations may **originate** from within or outside the firm.
- Firm establishes **clearly defined channels** for firm personnel to raise any concerns enabling them to come forward **without fear of reprisals**.
- Firm **investigates** such complaints and allegations as per **established policies and procedures**. Investigation is supervised by a partner with sufficient and appropriate experience and authority within the firm but who is **not otherwise involved in engagement**, and includes involving legal counsel as necessary.
- Where the **results of investigations indicate deficiencies** in design or operation of firm's QC policies and procedures, or non-compliance with firm's system of quality control - **takes appropriate action**.

SA-220 – Quality control for an audit of FS

Engagement partner of a team is responsible for quality control procedures of a particular audit engagement as per SA-220.

Hence, SA 220 is premised on the basis that firm is subject to SQC 1

As per SA-220, objective of auditor is to implement quality control procedure the engagement level that provides the auditor with reasonable assurance that:

- Audit **complies** with professional standards and regulatory and legal requirements and;
- Auditor's report issued is **appropriate** in the circumstances.

SA 220 is modelled on lines of SQC 1. It describes the responsibilities of engagement partner in relation to following matters:

- Leadership responsibilities for quality on audits.
- Relevant ethical requirements.
- Acceptance and continuance of client relationships and **audit engagements**.
- Assignment of **engagement teams**.
- Engagement performance.
- Monitoring.

Leadership Responsibilities for Quality on Audits

Leadership responsibility of an engagement partner is to take responsibility for overall quality on each audit engagement.

In taking responsibility for the overall quality on each audit engagement, emphasis:

- Importance to audit quality of: -
 - Performing work that **complies** with professional standards and regulatory and legal requirements;
 - Complying** with firm's quality control policies & procedures as applicable.
 - Engagement team's **ability to raise concerns** without fear of reprisals.
 - Issuing auditor's reports** that are appropriate.
- Fact that quality is essential in performing audit engagements.

Relevant Ethical Requirements

Responsibilities of an engagement partner in relation to ethical requirements are -

- o **Identifying a threat to independence.**
- o **Reporting** by engagement partner to the relevant persons to **determine appropriate action.**

Acceptance and Continuance of Client Relationships and Audit Engagements

SAME AS SQC 1

Assignment of Engagement Teams

Have **appropriate competence and capabilities** to perform the engagement in accordance with PLR.

Engagement Performance

Engagement partner has the **responsibility for direction, supervision & performance of audit engagement** in accordance with PLR.

He is responsible for **review of audit documentation** before issue of **audit report** is his responsibility.

It has to be ensured that **SAAE** has been obtained to support the conclusions reached and for issuance of auditor's report.

He is also responsible for **ensuring undertaking appropriate consultation** on difficult or contentious matters by engagement team.

Engagement Quality Control Review

Q 17

For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has **determined that an EQCR is required**, the engagement partner shall:

- (a) Determine that an **EQC reviewer has been appointed**
- (b) Discuss **significant matters** arising during the audit engagement, including those identified during the EQCR, with the EQC reviewer
- (c) **Not date the auditor's report until the completion of EQCR.**

EQCR shall perform an **objective evaluation of significant judgments** made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:

- (a) Discussion of **significant matters** with the engagement partner
- (b) **Review** of the FS and the proposed auditor's report.
- (c) **Review of selected audit documentation** relating to the significant judgments the engagement team made and the conclusions it reached and
- (d) **Evaluation of the conclusions reached** in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate

For audits of FS of listed entities, **EQC reviewer, on performing an EQCR**, shall also consider the following:

SAME AS SQC 1

Q 19

Differences of Opinion - follow the firm's policies and procedures for dealing with and resolving differences of opinion.

Monitoring

Documentation

Engagement partner should document: -

- a) **Issues identified** w.r.t compliance with relevant ethical requirements and how they were resolved.
- b) **Conclusions** on compliance with independence requirements.
- c) **Conclusions** reached regarding the acceptance and continuance of client relationships and audit engagements.
- d) Nature & scope of, and conclusions resulting from, **consultations undertaken.**

Besides, **EQC reviewer shall document**, for the audit engagement reviewed, that:

- a) **Procedures** required by the firm's policies on EQCR have been **performed.**
- b) EQCR has been **completed on or before the date of auditor's report.**
- c) Reviewer is not aware of any **unresolved matters** that would cause reviewer to believe that significant judgments the engagement team made and the conclusions they reached were **not appropriate.**

SQC 1 vs. SA 220- Key Differences

S.N	SQC 1	SA 220
1	It applies to entire firm and fixes the responsibility of firm to be assumed by CEO or managing partners	It applies to a particular audit engagement and engagement partner takes responsibility of the same.
2	It is applicable to <u>audits, reviews of historical financial Information, and other assurance and related services engagements.</u>	It is applicable to audit engagements only.
3	It relates to setting up of a QC system consisting of policies and procedures for firm as a whole.	It deals with <u>responsibilities of engagement teams to implement QC procedures</u> that are applicable to audit engagements
4	It pertains to establishing a system of quality control designed to provide firm with a reasonable assurance that a firm and its personnel comply with PLR so that reports issued by firm or engagement partners are appropriate.	It is premised on the basis that firm is subject to SQC 1. Therefore, SQC 1 is a sine qua non for applicability of SA 220. It is within overall context of a firm's system of quality control, engagement teams implement quality control procedures applicable to audit engagements.

Mechanism for Review of QC

Peer Review Board

Peer review Board is **constituted by Council of ICAI**.

Main objective of Peer review Board is to **ensure** that, in carrying out assurance assignments:

- Technical, professional and ethical standards including regulatory requirements are complied with by members of ICAI
- **Proper systems are in place including documentation** which demonstrate quality of assurance services provided by members

Peer review means an examination and review of the systems and procedures to determine whether the same have been put in place by the Practice Unit for ensuring the quality of assurance services as envisaged by the technical, professional and ethical Standards or any other regulatory requirements.

Once a Practice Unit is subjected to Peer review, its **assurance engagement records** pertaining to the Peer review period are subject to examination and review by the Peer Reviewer.

On completion of this exercise, a "**peer review certificate**" is issued in case of **unqualified report** issued by Peer Reviewer.

In case of a **qualified report**, it is **informed to the Practice Unit that same cannot be issued along with the reasons** therefor as well as inform about the due date for conducting a follow-on review as may be decided by the Board.

Quality Review Board

Quality review Board **has been set up by CG**. It consists of members **nominated by CG and Council of ICAI**.

Functions of QRB are:-

- (a) To make **recommendations** to the Council regarding quality of services provided by the members of Institute;
- (b) To **review** quality of services provided by members of Institute including audit services and
- (c) To **guide members** of Institute to improve quality of services and adherence to the various statutory and other regulatory requirements;

Statutory auditors in respect of the companies are identified for their audit quality review based upon risk-based approach. The review is carried out by technical reviewers who are empanelled by QRB on engagement basis from across the country.

National Financial Reporting Authority (NFRA)

NFRA has been constituted in terms of **Sec 132(1) of Co. Act, 2013**

Duties -

- Monitor and enforce compliance with AS and SA.
- Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in quality of service

Power to -

- Monitor & Enforce compliance with AS and SA and oversee quality of service under **section 132(2)** or
- Undertake investigation under section 132(4) of auditors of certain class of companies

Such companies include listed companies, insurance companies, banking companies and other companies as provided for in **rule 3 of NFRA Rules, 2018**

QRB VS NFRA -

- **Overseeing quality of audit services of listed companies falls under the purview of NFRA**
- **QRB can review quality of audit services** provided by the members of Institute only in respect of entities other than those specified under Rule 3 of NFRA Rules, 2018 and those referred to QRB by NFRA under relevant rules.

Q.21 During the audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The **engagement files were also reviewed by the (EQCR) Engagement Quality Control Reviewer except the independence assessment documentation**. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220. **(SM)**

Answer

As per SA 220, **Engagement Partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement**. In doing so, Engagement Partner shall:

Obtain relevant info. from firm and network firms, to identify and evaluate circumstances and relationships that create threats to independence;

Evaluate info. on identified breaches, of firm's independence policies and procedures to determine whether they create a threat to independence for audit engagement; and

Take appropriate action to eliminate such threats or reduce them to an acceptable level by **applying safeguards**, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by L/R. Engagement partner shall promptly report to firm any inability to resolve matter for appropriate action.

Engagement Partner shall take responsibility for reviews being performed in accordance with firm's review policies and procedures.

As per SA 220, "Quality Control for Audit of Financial Statements", for audits of financial statements of listed entities, Engagement Quality Control Reviewer (EQCR), on performing an engagement quality control review, **shall also consider engagement team's evaluation of firm's independence in relation to audit engagement**.

In the given case, Engagement Partner is **not right**. The independence assessment documentation should also be given to Engagement Quality Control Reviewer for his review.

SA 200 Overall Objectives of The Independent Auditor & Conduct Of Audit In Accordance With SA's

Overall Objectives of the Auditor

Obtain **reasonable assurance** about whether the F.S. as a whole are free from MM, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the F.S. are prepared, in all material respects, in accordance with an applicable FRF.

Professional skepticism

- An **attitude** that includes a **questioning mind**,
- being **alert** to conditions which may indicate
- possible misstatement due to error or fraud, and
- a **critical assessment** of audit evidence.

Professional skepticism includes being alert to, for ex-

- AE that contradicts other AE obtained.
- Info. that brings into question reliability of documents & responses.
- Conditions that may indicate possible fraud.

Maintaining professional skepticism reduce risks of:

- Overlooking unusual circumstances.
- Over generalising when drawing conclusions from audit observations.
- Using inappropriate assumptions

Professional Judgment

Application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions.

Sufficient Appropriate Audit Evidence

To obtain reasonable assurance, auditor shall obtain SAAE to reduce audit risk to an acceptably low level.

Reasonable assurance - In the context of an audit of FS a high, but not absolute, level of assurance.

Audit evidence.

- Sufficiency- is **measure** of **quantity** of audit evidence.
- Appropriateness - **measure** of **quality** of audit evidence.

Audit risk

Risk that auditor **expresses an inappropriate audit opinion** when FS are materially misstated.

Audit Risk = Risk of Material Misstatement X Detection Risk

Risk of MM = Inherent risk X Control risk

Inherent Limitations for an audit

Q 36

Nature of financial reporting:

Preparation of F.S. **involves judgment by Mgt.** in applying the requirements of the applicable FRF to the facts and circumstances of entity. For ex- **Accounting estimates**.

Nature of audit procedures:

1. Mgt. & others **don't provide complete info.** intentionally/unintentionally.
2. **Audit procedures** used to gather audit evidence may be **ineffective against fraud detection**.
3. Audit is **not an official investigation** into alleged wrongdoings.

Timeliness of Financial Reporting and the Balance between Benefit and Cost

User expectation that auditor will form an opinion on the F.S. within a reasonable period of time and at **a reasonable cost**.

Other Matters that Affect the Limitations of an Audit:

Q 37

In case of certain assertions or subject matters, potential effects of limitations on auditor's ability to detect MMs are particularly significant.

Such assertions or subject matters include:

- 1) **Fraud**, particularly fraud involving senior Mgt. or collusion.
- 2) Existence and completeness of **related party relationships and transactions**.
- 3) Occurrence of **(NOCLAR)** non-compliance with laws and regulations.
- 4) Future events or conditions that may cause an entity to cease to continue as a **going concern**.

Complying with relevant Requirements

- Auditor shall comply **with each requirement** of an SA **Unless**:
 - **Entire SA is not relevant.**
 - **Requirement is not relevant** because it is conditional & condition does not exist.
- In exceptional circumstances, auditor may judge it **necessary to depart** from a relevant requirement in an SA. In such case he shall **perform alternative audit procedures** to achieve the aim of that requirement

SA 210 Agreeing the Terms of Audit Engagements

Objective of Auditor

Accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:

- Establishing whether **pre-conditions** for audit are present; and
- Confirming that there is a **common understanding** b/w auditor and Mgt. & TCWG.

Preconditions for an Audit

Q 38

In order to establish whether preconditions for an audit are present, auditor shall:

- Determine whether **FRF** to be applied in the preparation of FS is **acceptable**; and
- Obtain the **agreement of Mgt.** that it acknowledges and understands its responsibility:
 - For **preparation of FS** in accordance with the applicable FRF, including where relevant their fair presentation;
 - **For such IC** as Mgt. determines is necessary to enable the preparation of FS that are free from MM, whether due to fraud or error; and
 - To **provide auditor with:**

Access to all info. that is relevant to the preparation of the FS such as records, documentation & other matters;

Additional info. that the auditor may request from Mgt. and

Unrestricted access to persons within the entity from whom auditor determines it necessary to obtain audit evidence.

Agreement on Audit Engagement Terms

Q 39

- Auditor shall agree terms of audit engagement with Mgt. or TCWG, as appropriate.
- Agreed terms of audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: **(Content of EL)**
 - Objective and scope** of audit of F.S.;
 - Responsibilities of auditor**;
 - Responsibilities of Mgt.**;
 - Identification of applicable FRF** for preparation of F.S.; and
 - Reference** to expected form & content of any reports to be issued by auditor.

If L/R prescribes in sufficient detail terms of audit engagement referred above, auditor **need not record** them in a written agreement.

Other Factors Affecting Audit Engagement Acceptance

If preconditions for an audit **are not present**, auditor shall discuss matter with Mgt. Unless required by L/R to do so, auditor **shall not accept** proposed audit engagement:

- If auditor has determined that **FRF** to be applied is **unacceptable**; or
- If **agreement of Mgt.'s responsibility** has **not been obtained**

Recurring Audits

Q 40

- In recurring audits- assess whether **circumstances require revision** in terms & whether there is **need to remind entity** of existing terms.
- May decide not to send a new audit EL or other written agreement each period.

However, following factors may make it **appropriate to revise terms** of the audit engagement or to **remind** the entity of existing terms:

- Any **indication** that **entity misunderstands objective & scope** of audit.
- Any **revised or special terms** of audit engagement.
- A **recent change of senior Mgt.**
- A **significant change in ownership.**
- A **significant change in nature or size of entity's business.**
- A **change in legal or regulatory requirements.**
- A **change in the FRF** adopted in the preparation of F.S.
- A **change in other reporting requirements.**

Acceptance of Change in Terms of Audit Engagement

- Auditor shall **not agree** to a change in the terms where there is no reasonable justification for doing so.
- If, **prior to completing** audit engagement, auditor is **requested to change** audit engagement to an engagement that **conveys a lower level of assurance**, he shall determine whether there is reasonable justification for doing so.
- If terms of audit engagement are changed, **auditor and Mgt. shall agree** on and **record new terms** of engagement in an EL or other suitable form of written agreement.
- If auditor is **unable to agree to a change** terms & is **not permitted** by Mgt. to continue the original audit engagement, he shall:
 - Withdraw** from audit engagement where possible under applicable L/R; and
 - Determine** whether there is **any obligation to report circumstances** to other parties, such as TCWG, owners or regulators.

FRF Prescribed by Law or Regulation—Other Matters Affecting Acceptance

If auditor has determined that **FRF prescribed** by L/R would be **unacceptable** but for fact that it is prescribed by L/R, he shall accept the audit engagement only if following conditions are present:

- Mgt. agrees** to provide **additional disclosures** in FS required to avoid the FS being misleading; and
- It is **recognised in the terms** of audit engagement that:
 - Auditor's report on FS will incorporate an **Emphasis of Matter paragraph**, drawing users attention to the additional disclosures, in accordance with SA 706; and
 - Unless auditor is required by L/R** to express auditor's opinion on the FS by using the phrases "present fairly, in all material respects", or "give a true and fair view" in accordance with the applicable FRF, **auditor's opinion on the FS will not include such phrases.**

If above conditions are not present and auditor is required by L/R to undertake the audit engagement, he shall:

- Evaluate effect of the misleading nature** of FS on the auditor's report; and
- Include appropriate reference** to this matter in the terms of the audit engagement.

Determining the Acceptability of the FRF

Factors that are relevant to the auditor's determination of the acceptability of the FRF to be applied in the preparation of the FS include:

- Nature of the entity
- Purpose of the FS
- Nature of the FS and
- Whether law or regulation prescribes the applicable FRF

Audits of Components

When auditor of a parent entity is also the auditor of a component, factors that may influence decision whether to **send a separate audit engagement letter** to the component include the following:

- **Who appoints** component auditor;
- Whether a **separate auditor's report** is to be issued on component;
- **Legal requirements** in relation to audit appointments;
- **Degree of ownership by parent**; and
- **Degree of independence** of component Mgt. from the parent entity.

SA 230 Audit Documentation

Record of audit procedures performed + relevant **AE obtained** + **conclusions reached**

Purposes/Importance of Audit Documentation

- 1) Assisting engagement team to **plan & perform audit**.
- 2) Enabling engagement team to **be accountable for its work**.
- 3) Enabling conduct of **quality control reviews & inspections** as per **SQC 1**.
- 4) Enabling conduct of **external inspections** as per applicable legal, regulatory or other requirements.
- 5) Retaining a **record of matters** of continuing significance to future audits.

Form, Content and Extent of Audit Documentation

Auditor shall prepare AD that is sufficient to enable an auditor, having no previous connection with the audit, **to understand**:

- a) **NTE** of audit procedures performed
- b) **Results** of the audit procedures performed, and **AE obtained**; and
- c) **Significant matters** arising during audit, **conclusions** reached, and significant professional **judgments** made in reaching those conclusions.

In **documenting NTE** of audit procedures performed, shall **record**:

- a) Identifying characteristics of **specific items or matters tested**;
- b) **Who performed** audit work and **date** such work was completed; and
- c) **Who reviewed** audit work performed and **date** and **extent** of such review.

Factors effecting form, content & extent of audit documentation

Q 41

- 1) **Size & complexity** of entity.
- 2) **Nature** of **audit procedures** to be performed.
- 3) Identified risks of MM.
- 4) **Significance** of AE obtained.
- 5) **Nature and extent** of **exceptions identified**.
- 6) **Audit methodology** and **tools** used.
- 7) Timely **preparation of AD**.

Documentation of Departure from Relevant Requirement

If, in exceptional circumstances, auditor judges it necessary to depart from a relevant requirement in a SA, he shall **document**

- a) **how alternative audit procedures performed**, and
- b) **reasons for departure**.

Matters Arising after the Date of the Auditor's Report

If, in exceptional circumstances, auditor performs **new or additional audit procedures** or **draws new conclusions** after date of auditor's report, he shall document:

- a) **Circumstances encountered**;
- b) **New or additional audit procedures performed**, AE obtained, and conclusions reached, and their effect on auditor's report; and
- c) **When and by whom** resulting changes to audit documentation **were made & reviewed**.

Assembly of the Final Audit File

SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files i.e. **not more than 60 days after the date of auditor's report**.

After assembly of final audit file, its **retention period** i.e. **no shorter than 7 years** from the date of the auditor's report.

If auditor finds it **necessary to modify AD** or **add new AD** after assembly of the final audit file has been completed, he shall document:

- a) **Specific reasons** for making them; and
- b) **When and by whom** they were **made** and **reviewed**.

Q. You are team leader of 10 members for audit of Multinational Co. All team members are concerned about audit documentation in order to provide evidence that audit complies with SAs. Hence, **team members wish to document every matter concerned**. In your opinion it is **neither necessary nor practicable for auditor to document every matter** considered or professional judgement made in audit. Further you feel that it is unnecessary for auditor to document separately compliance with matters for which compliance is demonstrated by documents included within audit file. Illustrate by giving examples with reference to relevant SA.

Answer:

Q 42

SA 230, "Audit Documentation", provides **evidence that audit complies with SAs**. However, it is **neither necessary nor practicable** for auditor to **document every matter** considered, or professional judgment made, in audit. For example,

- 1) **Existence of adequately documented audit plan** demonstrates that auditor has planned audit.
- 2) **Existence of signed engagement letter** in audit file demonstrates that auditor has agreed terms of audit engagement with Mgt. or TCWG.
- 3) **Auditor's report containing qualified opinion** demonstrates that auditor has complied with requirement to express qualified opinion.
- 4) In relation to **requirements that apply generally throughout audit**, there may be a **number of ways** in which compliance with them may be demonstrated within audit file:
 - For ex: there may be **no single way in which auditor's professional skepticism is documented**. But **audit documentation may nevertheless provide evidence of auditor's exercise of professional skepticism** in accordance with SAs. Such evidence may include specific procedures performed to corroborate Mgt.'s responses to auditor's inquiries.
 - Similarly, that **engagement partner has taken responsibility for direction, supervision & performance of audit** in compliance with SAs may be evidenced in a no. of ways within audit documentation. This may include **documentation of engagement partner's timely involvement** in aspects of audit, such as participation in team discussion required by **SA 315**.

SA 240 "The Auditor's Responsibilities Relating To Fraud In An Audit Of FS"

Objectives

- To identify and assess the ROMM in FS due to fraud;
- To obtain SAAE about the assessed ROMM to fraud
- To respond appropriately to identified or suspected fraud

Two types of intentional misstatements: -

- Misstatements resulting from **fraudulent financial reporting**
- Misstatements resulting from **misappropriation of assets**

Q 1

How Fraudulent Financial Reporting may be caused by identities?

- Fraudulent financial reporting involves **intentional misstatements including omissions of amounts or disclosures** in FS to deceive FS users.
- It can be caused by the efforts of Mgt. to **manage earnings in order to deceive FS users.**

Fraudulent financial reporting may be accomplished by the following:

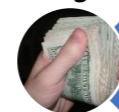
- **Manipulation, falsification, or alteration** of accounting records or supporting documentation from which the FS are prepared.
- **Misrepresentation in or intentional omission from**, the FS of events, transactions or other significant info.
- **Intentional misapplication** of accounting principles.

Fraud can be committed by Mgt. overriding controls using such techniques as: -

- **Altering records and terms** related to significant and unusual transactions.
- Engaging in **complex transactions** that are structured to misrepresent financial position.
- **Concealing, or not disclosing, facts** that could affect the amounts recorded in FS.
- **Recording fictitious journal entries**, to manipulate operating results or achieve other objectives.
- **Inappropriately adjusting assumptions** and **changing judgments** used to estimate account balances.
- Omitting, advancing or delaying recognition in the FS of events and transactions.

How misappropriation of assets may be accomplished by entities?

Misappropriation of assets involves **theft of an entity's assets**. Misappropriation of assets can be accomplished in a variety of ways including:



Embezzling receipts.



Stealing physical assets or intellectual property.



Causing an entity to pay for goods and services not received.



Using an entity's assets for personal use.

Responsibilities of the Auditor

Q 2/3/4/5/6

- Auditor is responsible for **obtaining reasonable assurance** that FS taken as whole are free from MM, whether caused by fraud/error.
- Owing to **inherent limitations of an audit**, there is an **unavoidable risk that some MM of the FS may not be detected**, even though the audit is properly planned & performed in accordance with SAs.
- Risk of not detecting a MM resulting from fraud is higher than the risk of not detecting one resulting from error.
- This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, or intentional misrepresentations being made to the auditor.
- Such attempts at concealment may be even more difficult to detect when accompanied by **collusion**.
- Furthermore, risk of auditor not detecting a **MM resulting from Mgt. fraud is greater than for employee fraud**, because Mgt. is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures.
- When **obtaining reasonable assurance**, auditor is responsible for maintaining professional skepticism throughout the audit.

Primary responsibility of Mgt./TCWG

Primary responsibility for the prevention & detection of fraud rests with both TCWG and Mgt.

Responses to the assessed ROMM due to fraud at FS level

In determining overall responses to address assessed ROMM due to fraud at FS level, auditor shall: -

- **Assign and supervise personnel** and auditor's assessment of the **ROMM due to fraud for the engagement**;
- Evaluate whether selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of **fraudulent financial reporting** and
- Incorporate an element of unpredictability in the selection of the NTE of audit procedures.

Audit procedures responsive to assessed ROMM due to fraud at the assertion level

- Auditor shall **design and perform further audit procedures** whose NTE are responsive to assessed ROMM due to fraud at assertion level.
- In doing so, he may **change NTE of audit procedures** to obtain AE that is more reliable and relevant or to obtain additional corroborative info.
- **For Ex:** if he identifies that Mgt. is under pressure to meet earnings expectations, there may be a related risk that Mgt. is **inflating sales** by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery. Here, he may **design EC** not only to confirm outstanding amounts, but also to **confirm the details of the sales agreements**, including date, any rights of return and delivery terms. Also, **supplement** such EC with **inquiries** of non-financial personnel in entity regarding any changes in sales agreements and delivery terms.

Audit procedures responsive to risks related to Mgt. override of controls

Auditor shall design & perform audit procedures to:

- Test appropriateness of journal entries** recorded in the general ledger and other adjustments made.
- Review accounting estimates for biases** and **evaluate whether the circumstances producing the bias**, if any, represent a ROMM due to fraud.
- For significant transactions that are **outside the normal course of business** for the entity or appear to be **unusual**, he shall evaluate whether the **business rationale of transactions suggests** that they may have been entered into to engage in **fraudulent financial reporting** or to **conceal MOA**.

What are fraud risk factors?

[A] Risk factors relating to misstatements arising from fraudulent financial reporting

Q

Incentives/Pressures

Financial stability or profitability is threatened by economic, industry, or entity operating conditions, such as (or as indicated by):

- High degree of competition
- Rapid changes such as changes in technology.
- Significant declines in customer demand.
- Recurring negative cash flows from operations

Excessive pressure exists for mgt. to meet the requirements or expectations of third parties due to the following:

- 1) Profitability or trend level expectations of institutional investors, significant creditors, or other external parties.
- 2) Need to obtain additional debt or equity financing to stay competitive.
- 3) Marginal ability to meet exchange listing requirements or debt repayment or other debt covenant requirements.
- 4) Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as business combinations or contract awards.

Information available indicates that the personal financial situation of Mgt. or TCWG is threatened by entity's financial performance arising from following: -

- Significant financial interests in the entity.
- Significant portions of their compensation (ex- bonuses) being contingent upon achieving aggressive targets for operating results, financial position, or cash flow.
- Personal guarantees of debts of the entity.
- Excessive pressure on Mgt. or operating personnel to meet financial targets.

Opportunities:

The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following: -

- 1) Significant related-party transactions not in the ordinary course of business.
- 2) A strong financial presence or ability to dominate a certain industry sector that allows the entity to dictate terms or conditions to suppliers or customers that may result in inappropriate or non-arm's-length transactions.
- 3) Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties.

- 4) Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist.
- 5) Use of business intermediaries for which there appears to be no clear business justification.
- 6) Significant bank accounts /subsidiary / branch operations in tax-haven jurisdictions for which there appears to be no clear business justification.

Attitudes/Rationalizations

- Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior Mgt., or TCWG.
- Excessive interest by Mgt. in maintaining or increasing the entity's stock price or earnings trend.
- Mgt. failing to remedy known significant deficiencies in internal control on a timely basis.
- An interest by Mgt. in employing inappropriate means to minimize reported earnings for tax-motivated reasons.
- Low morale among senior Mgt.
- Dispute between shareholders in a closely held entity.
- Relationship between Mgt. and the current or predecessor auditor is strained, as exhibited by the following: -

Frequent disputes with the current or predecessor auditor on accounting, auditing, or reporting matters.

Unreasonable demands on the auditor, such as unrealistic time constraints regarding the completion of the audit or the issuance of the auditor's report.

Restrictions on the auditor that inappropriately limit access to people or information.

Domineering Mgt. behaviour in dealing with the auditor.

[B] Risk factors relating to misstatements arising from misappropriation of assets

Q9

Incentives/Pressures

- Personal financial obligations may create pressure on Mgt. or employees with access to cash or other assets susceptible to theft to misappropriate those assets.
- Adverse relationships between the entity and employees with access to cash or other as susceptible to theft may motivate those employees to misappropriate those assets.
- For ex, adverse relationships may be created by the following: -
 - Known or anticipated future employee layoffs
 - Recent or anticipated changes to employee compensation
 - Promotions, compensation, or other rewards inconsistent with expectations

Opportunities

For Ex: opportunities to misappropriate assets increase when there are the following: -

- 1) Large amounts of cash on hand
- 2) Inventory items that are small in size/of high value/ high demand.
- 3) Easily convertible assets, such as bearer bonds, diamonds, or computer chips.
- 4) Fixed assets which are small in size, marketable, or lacking observable identification of ownership.

Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets.

For Ex: misappropriation of assets may occur because of following:

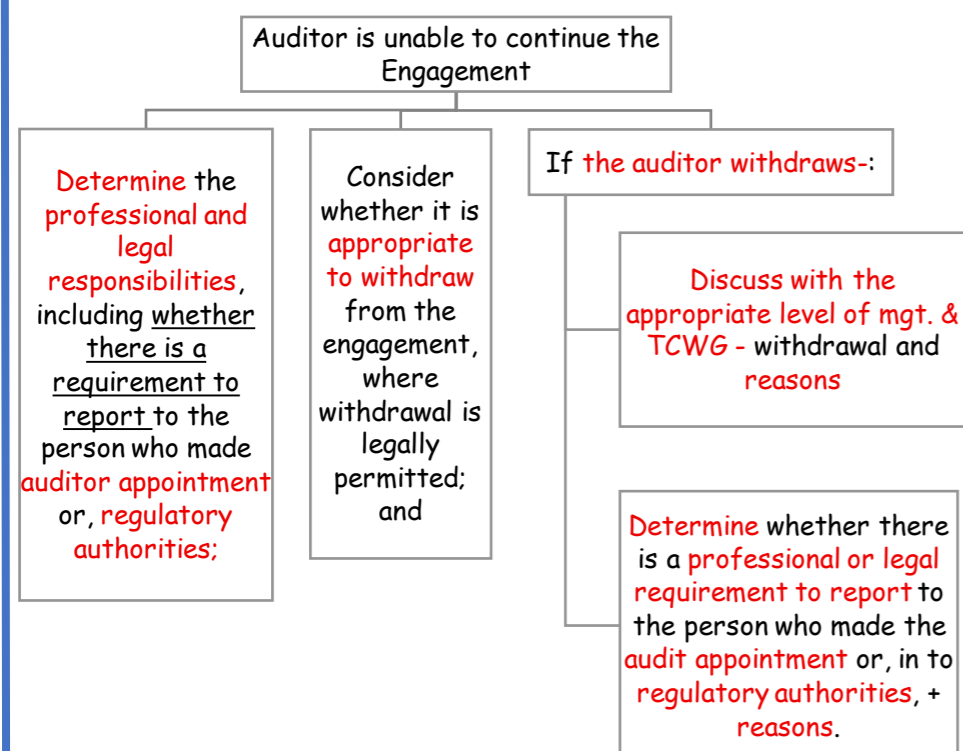
- 1) Inadequate segregation of duties or independent checks.
- 2) Inadequate oversight of senior Mgt. expenditures, such as travel & other reimbursements.
- 3) Inadequate Mgt. oversight of employees responsible for assets.
- 4) Inadequate record keeping with respect to assets.
- 5) Lack of complete and timely reconciliations of assets.
- 6) Lack of mandatory vacations for employees performing key control functions.

Attitudes/Rationalizations

1. Disregard for the need for monitoring or reducing risks related to misappropriations of assets.
2. Disregard for internal control over misappropriation of assets.
3. Behaviour indicating displeasure or dissatisfaction with the entity.
4. Changes in behaviour or lifestyle that may indicate assets have been misappropriated.
5. Tolerance of petty theft.

Circumstances in which auditor is unable to continue the engagement

Q 10



Mgt. Representations

- 1) They **acknowledge** their responsibility for **design, implementation and maintenance of internal control**;
- 2) They have **disclosed** to the auditor the **results of Mgt.'s assessment of the risk**;
- 3) They have **disclosed** to the auditor their **knowledge of fraud or suspected fraud affecting the entity**; and
- 4) They have **disclosed** to auditor **their knowledge of fraud, or suspected fraud**, affecting the **entity's FS**.

Note: Auditor shall report fraud as per section 143(12) of companies act ,2013 and clause (xi) of para 3 of CARO 2020.

Evaluation of Audit Evidence

- Auditor shall evaluate whether **analytical procedures that are performed** as to whether the **FS** as a whole are **consistent** with **auditor's understanding** of entity.
- When he **identifies a misstatement**, he shall **evaluate** whether such a misstatement **is indicative of fraud**.
- **If there is such an indication**, he shall **evaluate** the **implications of the misstatement** in relation to other aspects of the audit, particularly the **reliability of Mgt. representations**.
- If auditor **identifies a misstatement**, and has reason to believe that it is or may be the result of fraud and that Mgt. (in particular, senior Mgt.) is involved: **re- evaluate assessment of ROMM** due to fraud and **its resulting impact on NTE** of audit procedures to respond to the assessed risks.
- Consider whether circumstances or conditions **indicate possible collusion** involving employees, Mgt. or 3rd parties.

SA 250 "Consideration of laws and regulations in audit of FS"

Not applicable: To other assurance engagements in which auditor is specifically engaged to test and report separately on compliance with specific L/R.

Responsibility of Mgt. for Compliance with L&R

Q 12

To ensure that entity's operations are conducted in accordance with the provisions of L&R.

Examples of the types of policies and procedures an entity may implement to assist in prevention and detection of NOCLAR :-

- 1) **Monitoring** legal requirements and **ensuring that** operating procedures are designed to meet these requirements.
- 2) **Instituting & operating** appropriate systems of **IC**.
- 3) Developing, publicising and following a **code of conduct**.
- 4) **Ensuring employees** are properly trained and understand the **COC**.
- 5) **Engaging legal advisors** to assist in monitoring legal requirements.
- 6) **Maintaining a register** of significant laws and regulations.

Audit Procedures when Non-Compliance is Identified or Suspected

Q 13

He shall obtain:

- a) An **understanding** of the nature of the act and circumstances in which it has occurred &
- b) **Further info.** to evaluate **possible effect** on the FS.
 - If auditor **suspects** there may be non-compliance, he shall **discuss** the matter with Mgt. and TCWG.
 - If Mgt. or TCWG **don't provide sufficient information** that supports that the entity is in compliance with laws and regulations and, in his **judgment**, effect of the suspected non-compliance **may be material** to FS, consider the need to **obtain legal advice**.
 - If **sufficient information** about suspected non-compliance **can't be obtained**, he shall **evaluate the effect of the lack of SAAE** on auditor's opinion.
 - Also, evaluate the **implications of non-compliance** in relation to other aspects of the audit.

Responsibility of Auditor

Q 14

- Auditor is **not responsible** for preventing NOCLAR and **can't be expected to detect NOCLAR**.
- Responsible for **obtaining reasonable assurance** that FS, taken as a whole, are free from MM, whether caused by fraud or error.
- Owing to **inherent limitations of an audit**, there is an **unavoidable risk** that some MM in the FS may not be detected.

Potential effects of **inherent limitations** on auditor's ability to detect MM are greater for such reasons as the following: -

Q 15

- 1) There are many laws and regulations, relating to **operating aspects** that **don't affect the FS** and are not captured by entity's IS.
- 2) Non-compliance may involve **conduct designed to conceal** it, such as **collusion, forgery, intentional misrepresentations** being made to auditor.
- 3) Whether an **act constitutes non-compliance** is ultimately a **matter** for legal determination by a **court** of law.

Q 16

SA 250 distinguishes auditor's responsibilities in relation to compliance with 2 different categories of laws and regulations as follows: -

Provisions of those L&R recognised to have a direct effect on the determination of material amounts and disclosures in FS such as tax and labour laws and	Other L&R that don't have a direct effect on the determination of the amounts and disclosures in the FS, but <ul style="list-style-type: none"> • compliance with which may be fundamental to the operating aspects of the business, • to an entity's ability to continue its business, or • to avoid material penalties. (ex, compliance with regulatory solvency requirements, or compliance with environmental regulations). Non-compliance with such L&R may, have a material effect on FS.
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Responsibilities

Auditor's responsibility is to obtain SAAE about compliance with the provisions of those L&R.	Auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those L&R that may have a material effect on the FS.
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Auditor's consideration of compliance with laws and regulations

Q 17

As part of obtaining an understanding of entity and its environment, he shall obtain a **general understanding** of: -

- a) **Legal and regulatory framework** applicable to the entity & industry or sector in which the entity operates; and
- b) **How the entity is complying** with that framework.

Q 17

Auditor shall perform the following audit procedures to help **identify instances of NOCLAR** that may have a material effect on the FS:

- a) **Inquiring** of Mgt. and TCWG, whether entity is in compliance with such L&R; and
- b) **Inspecting correspondence** with the relevant licensing or regulatory authorities

Indications of NOCLAR:

Q 18

- 1) **Investigations** by regulatory Organisations & govt. departments or payment of fines or penalties.
- 2) **Payments** for **unspecified services or loans** to consultants, related parties, employees or government employees.
- 3) **Sales commissions or agent's fees** that **appear excessive** in relation to those ordinarily paid.
- 4) Purchasing at **prices significantly above or below** market price.
- 5) Unusual payments towards **legal and retainership fees**.
- 6) Unusual transactions with **companies registered in tax havens**.
- 7) Payments for goods/services made **other than to the country** from **which the goods or services originated**.
- 8) **Adverse media comment**.

Q 19

Reporting of Identified or Suspected Non-Compliance

(A) Reporting Non-Compliance to TCWG

- Auditor shall **communicate with TCWG involving matter about NOCLAR** that come to his attention during the course of the audit, other than when the matters are clearly inconsequential.
- Non-compliance is **believed to be intentional and material** -he shall **communicate the matter to TCWG** as soon as practicable.
- If the auditor suspects that **Mgt. or TCWG are involved** in non-compliance - communicate the matter to the **next higher level of authority** at the entity **such as an audit committee or supervisory board**.

Where **no higher authority exists**, - he shall consider the need to **obtain legal advice**.

(B) Reporting non-compliance in the auditor's report on the FS

- If auditor concludes that **non-compliance has a material effect on FS**, and has not been adequately reflected in FS, he shall **express a qualified or adverse opinion**. (SA 705)
- If auditor is **precluded by Mgt. or TCWG** from obtaining SAAE to evaluate whether non-compliance that may be material to the FS has, or is likely to have, occurred, he shall **express a qualified opinion or disclaim an opinion** on FS on the **basis of a limitation on the scope**.(SA 705)
- If auditor is **unable to determine whether non-compliance has occurred** because of limitations imposed by the circumstances rather than by Mgt. or TCWG, he shall evaluate the **effect on the auditor's opinion** (SA 705).

(C) Reporting non-compliance to regulatory and enforcement authorities

Determine whether auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.

SA 260 "Communication with TCWG"

Matters to be Communicated by the Auditor

Q 21

A] Auditor's responsibilities in relation to the FS audit

- a) Responsible for forming and expressing an opinion on FS and
- b) Audit of FS doesn't relieve Mgt. or TCWG of their responsibilities.

B] Planned scope and timing of the audit

Communication regarding the planned scope and timing of the audit may:

- a) Assist TCWG to understand better the consequences of the auditor's work, to discuss issues of risk and the concept of materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures and
- b) Assist the auditor to understand better the entity and its environment.

[c] Significant findings from the audit

- (i) Auditor's views about significant qualitative aspects of entity's accounting practices, including accounting policies, accounting estimates and FS disclosures.
- (ii) Significant difficulties encountered during the audit;

Q 22

Significant difficulties encountered during the audit may include such matters as: - (Q)

Significant delays by Mgt., unavailability of entity personnel, or an unwillingness by Mgt. to provide info. necessary for the auditor.

An unreasonably brief time within which to complete the audit.

Extensive unexpected effort required to obtain SAAE.

Unavailability of expected info.

Restrictions imposed on the auditor by Mgt..

Mgt.'s unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

- (iii) Unless all of TCWG are involved in managing the entity: -
 - Significant matters arising during the audit that were discussed, or subject to correspondence, with Mgt.:
 - WR auditor is requesting
- (iv) Circumstances that affect the form and content of auditor's report, if any and
- (v) Any other significant matters arising during the audit that are relevant to the oversight of the financial reporting process.

Significant matters that were discussed, or subject to correspondence with Mgt. may include such matters as: -

- Significant events or transactions that occurred during the year.
- Business conditions affecting entity, and business plans and strategies that may affect the ROMM.
- Concerns about Mgt.'s consultations with other accountants on accounting or auditing matters.
- Discussions or correspondence in connection with initial or recurring appointment of auditor regarding accounting practices, application of SA or fees.
- Significant matters on which there was disagreement with Mgt.

Circumstances in which auditor is required or consider it necessary to include additional info. in auditor's report in as per SAs, and for which communication with TCWG is required, include when: -

- Auditor expects to modify the opinion in the report (As per SA 705)
- A material uncertainty related to going concern is reported in accordance with SA 570.
- Key audit matters are communicated in accordance with SA 701.
- Auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with SA 706 or is required to do so by other SAs.
- There is an uncorrected MM of other information in accordance with SA 720.

Q 23

Communication of Auditor's Independence in Case of Listed Entities

- (a) A statement that engagement team and others in the firm, network firms have complied with relevant ethical requirements regarding independence; and
- (b)

<p>All relationships & other matters between firm, network firms, and entity that may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by FS for audit and non-audit services.</p>	<p>Related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.</p>
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Factors affecting mode of communication

- 1) Whether matter has been satisfactorily resolved
- 2) Whether mgt. has previously communicated
- 3) Whether discussion of matter will be included in auditors report (Eg- KAM)
- 4) Legal requirements
- 5) In case of an audit of special purpose FS, whether auditor also audit entity's general purpose FS.

Q 24

Q. Why it is important to communicate key audit matters to TCWG

SA 260 requires auditor to communicate with TCWG on a timely basis.

Appropriate timing for communications about KAM will vary with the circumstances of the engagement.

However, he may communicate preliminary views about key audit matters when discussing planned scope and timing of the audit.

Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit matters at the time FS are being finalized for issuance.

Communication with TCWG enables them to be made aware of key audit matters that auditor intends to communicate in report, and provides them with an opportunity to obtain further clarification where necessary.

He may consider it useful to provide TCWG with a draft of the auditor's report to facilitate this discussion.

Communication with TCWG recognizes their important role in overseeing the financial reporting process, and provides the opportunity for TCWG to understand the basis for auditor's decisions.

Enables TCWG to consider whether new or enhanced disclosures may be useful in light of the fact that these matters will be communicated in the auditor's report.

SA 299 "Joint Audit of FS"

What is joint audit of FS?

A joint audit is an audit of FS of an entity by **2 or more** auditors.

Such auditors, known as joint auditors, conduct the audit jointly and report on the FS entity.

However, it **doesn't deal with the relationship** between a principal auditor who is appointed to report on FS of an entity and another auditor who is appointed to report on FS of one or more component (divisions, branches, subsidiary, joint venture, associates, other entity) included in FS of entity.

Audit planning, Risk Assessment and Allocation of Work

Prior to the commencement of the audit, joint auditors shall discuss and develop a **joint audit plan**. In developing the joint audit plan, joint auditors shall: -

- Identify division of audit areas and common audit areas** that define the scope of the work of each joint auditor.
By mutual discussion, **divide** the audit work among themselves. Division of work would usually be in terms of audit of identifiable units or specified areas.
In some cases, **due to the nature of the business** such a division of work may not be possible. Then, **division of work may be with reference to items of assets or liabilities or income or expenditure**. Certain areas of work, owing to their importance or owing to the nature of the work involved, would **not be divided** and would be covered by **all the joint auditors**.
- Ascertain **reporting objectives** of the engagement to plan timing of the audit and nature of the communications required.
- Consider and communicate** among all joint auditors **factors** that are significant in directing the engagement team's efforts
- Consider the results of preliminary engagement activities** and, whether knowledge gained on other or similar engagements performed earlier is relevant.
- Ascertain **NTE of resources** necessary to perform the engagement.

Responsibility and Co-ordination among Joint Auditors

Q 25/26/27

In respect of audit work divided among the joint auditors-

- Each joint auditor shall be **responsible** only for **work allocated** to such joint auditor.
- In cases where **specific divisions, zones or units are allocated** to different joint auditors, it is the **separate and specific responsibility** of each joint auditor to **obtain information and explanations** from the Mgt. and to evaluate them.
- Joint auditors shall have **proper coordination and rationality** wherever required.

Where, course of the audit, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention joint auditor shall communicate the same to all the other joint auditors.

It shall be the responsibility of each joint auditor to determine **NTE of audit procedures** to be applied in relation to the areas of work allocated to said joint auditor. It is the **individual responsibility** of each joint auditor to **study and evaluate the prevailing system of internal control and assessment of risk** relating to the areas of work allocated to said joint auditor.

As regards **decisions** taken by all the joint auditors under audit planning in respect of common audit areas concerning NTE of audit procedures to be performed by each of the joint auditors, **all the joint auditors are responsible only in respect of the appropriateness of the decisions**, proper execution of these audit procedures is the individual responsibility of the joint auditor concerned.

Q 28

All joint auditors shall be jointly and severally responsible for: -

- audit work which is **not divided** among the joint auditors and is carried out by all joint auditors
- decisions taken by all the joint auditors** under audit planning in respect of **common audit areas** concerning NTE of audit procedures to be performed by each of them.
- matters which are **brought to the notice** of the joint auditors by any one of them and on which there is an **agreement** among the joint auditors
- examining that **FS comply** with **requirements of the relevant statutes**
- ensuring that **audit report complies** with the requirements of the relevant statutes, applicable SA and other relevant pronouncements issued by ICAI.
- presentation and disclosure** of FS as required by the applicable FRF.

Audit Conclusion and Reporting

Q 28/29/30

- Joint auditors are required to **issue common audit report**.
- In case of **disagreement** with regard to the opinion or any matters to be covered by the audit report, they shall **express their opinion in a separate audit report**.
- A joint auditor is **not bound by the views of the majority** of the joint auditors and shall express opinion formed by the said joint auditor in **separate audit report in case of disagreement**.
- In such case, **audit report(s)** issued by the joint auditor(s) shall **make a reference to the separate audit report(s)** issued by the other joint auditor(s).
- Further, **separate audit report** shall also make **reference** to the audit report issued by other joint auditors. Such reference shall be made under the heading **"Other Matter Paragraph" as per SA 706**.

Each Joint Auditor is entitled to assume that: -

Other joint auditors have carried out their part of the audit work and the work has actually been performed in accordance with SA. It is **not necessary** for a joint auditor to **review** the work performed by other joint auditors or **perform any tests** in order to ascertain whether the work has actually been performed. Other joint auditors **have brought to said joint auditor's notice** any departure from applicable FRF or significant observations that are relevant to their responsibilities noticed in the course of the audit.

Where FS of a division/branch are audited by one of the joint auditors,

other joint auditors are entitled to proceed on the basis that such FS comply with

- all the legal and regulatory requirements and
- present a true and fair view of the state of affairs and of the results of operations of division/branch concerned.

SA 402 "Audit considerations relating to an entity using service organisation"

SA 402 deals with **user auditor's responsibility** to obtain SAAE when a user entity uses services of one or more service organisations.

Service organisation: Third-party organisation that provides services to user entities.

User entity is an entity that uses a SO and whose FS are being audited.

Service auditor is an auditor who, at request of SO, provides an assurance report on controls of a SO.

User auditor is an auditor who audits & reports on FS of a user entity.

Q – Factors to be considered by Auditor related to financial reporting of SO

Q 31

When services provided by a SO are relevant to audit of a user entity's FS?

SO's services are part of a user entity's information system, including related business processes, relevant to financial reporting if these services affect any of the following: -

Classes of transactions in user entity's operations that are significant to the user entity's FS.

Procedures, within both information technology (IT) and manual systems, by which user entity's transactions are initiated, recorded, processed, transferred to the general ledger and reported in the FS.

Related accounting records, either in electronic or manual form, supporting info. and specific accounts in user entity's FS that are used to initiate, record, process and report the transactions.

How user entity's information system captures events and conditions, other than transactions, that are significant to FS.

Financial reporting process used to prepare the user entity's FS, including significant accounting estimates and disclosures and

Controls surrounding journal entries, including non-standard journal entries.

Types of reports

Type 1 report (as at specified date)

- 1) A **description**, of SO system, control objectives and related controls and
- 2) A **report** by the service auditor conveying **reasonable assurance** that includes:
 - (a) service auditor's opinion on description of SO system, control objectives and related controls and **suitability of design of controls**.

Type 2 report (specified period)

- 1) A **description**, of SO system, control objectives & related controls
- 2) A **report** by service auditor conveying **reasonable assurance** that includes:
 - (a) Service auditor's opinion on the **description** of SO system, control objectives and related controls, **suitability of design of controls**, and
 - (b) A description of service auditor's **tests of controls** and results thereof.

Q 32

Obtaining an Understanding of the Services provided by SO

- (a) **Nature of services** provided by SO and significance of those services to user entity, including the effect thereof on user entity's IC.
- (b) **Nature and materiality** of **transactions processed** or accounts or financial reporting processes affected by SO.
- (c) **Degree of interaction** between activities of SO and those of user entity. (It refers to extent to which user entity is able to implement controls over processing performed by SO)
- (d) **Nature of relationship** between user entity and SO, including relevant contractual terms for activities undertaken by SO.

Unable to obtain a sufficient understanding

If user auditor is **unable to obtain a sufficient understanding** from user entity, user auditor shall obtain understanding from following procedures:

- a) Obtaining a **Type 1 or Type 2 report**, if available
- b) **Contacting SO**, through the user entity, to obtain specific info.
- c) **Visiting SO** and **performing procedures** that will provide the necessary info. about relevant controls at SO or
- d) Using **another auditor** to perform procedures that will provide

Using Type 1 or Type 2 Report

In determining SAAE provided by a Type 1 or Type 2 report, user auditor shall be satisfied as to: -

- (a) Service auditor's **professional competence** (except where service auditor is a member of ICAI) and independence from SO; and
- (b) **Adequacy of the standards** under which Type 1 or Type 2 report was issued.

If **user auditor plans to use a Type 1 or Type 2 report as audit evidence** to support user auditor's understanding about design and implementation of controls at SO, **user auditor shall**:

- (a) **Evaluate** whether **description and design of controls at SO** is at a date or for a period that is **appropriate** for user auditor's purposes;
- (b) **Evaluate sufficiency and appropriateness** of evidence provided by report for understanding of user entity's IC; and
- (c) **Determine** whether **complementary user** entity controls identified by SO are relevant to user entity and, if so, obtain an understanding of whether user entity has designed and implemented such controls.

Complementary user entity controls refer to controls that SO assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives.

Reporting by user auditor

Q 33

User auditor shall **modify opinion** in accordance with SA 705 if user auditor is **unable to obtain SAAE** regarding the services provided by SO.

User auditor shall **not refer** to work of a service auditor in user auditor's report containing an **unmodified opinion** unless required by L/R to do so.

If **such reference is required by L/R**, user auditor's report shall **indicate** that **reference does not diminish** user auditor's responsibility for audit opinion.

If **reference to work of a service auditor is relevant to an understanding of a modification** to user auditor's opinion, user auditor's report shall indicate that such reference **doesn't diminish** user auditor's responsibility for that opinion.

Tests of Controls

User auditor shall obtain audit evidence about the operating effectiveness of those controls from following procedures: -

- (a) Obtaining a **Type 2 report**, if available;
- (b) **Performing appropriate tests** of controls at SO; or
- (c) Using **another auditor** to perform tests of controls at SO on behalf of user auditor.

Q 34

Using a Type 2 report as audit evidence that controls at SO are operating effectively

User auditor shall determine whether service auditor's report provides SAAE about effectiveness of the controls by:

- (a) Evaluating whether **description, design and operating effectiveness** of controls at SO is at a date or for a period that is appropriate for the user auditor's purposes ;
- (b) Determining whether **complementary user entity controls** identified by SO are relevant to the user entity and, if so, obtaining an understanding of whether user entity has **designed and implemented** such controls and, if so, **testing** their operating effectiveness;
- (c) Evaluating **adequacy** of time period covered by the tests of controls; and
- (d) Evaluating whether **tests of controls performed** by service auditor and results thereof, are relevant to assertions in the user entity's FS and provide SAAE to support the user auditor's risk assessment.

Controls at a Sub Service Organisation

Q 35

- User entity may use a SO that in turn uses a SSO to provide some of the services provided to a user entity that are part of the user entity's IS relevant to financial reporting.
- SSO may be a separate entity from SO or may be related to SO.
- A user auditor may need to **consider controls at the SSO**.
- Where **one or more SSO are used**, **interaction** between the activities of user entity and those of SO and will include the interaction between the user entity, SO and SSOs.
- **Degree of this interaction**, as well as **nature and materiality** of transactions processed by SO and SSOs are the most important factors for user auditor to consider in determining the significance of SO and SSO's controls to the user entity's controls.
- Further, user auditor shall determine whether a **sufficient understanding of nature & significance** of services provided by SO and their effect on user entity's IC relevant to audit has been obtained to provide a basis for the identification and assessment of ROMM.
- If user auditor is **unable to obtain a sufficient** understanding from the user entity, user auditor shall obtain that understanding by application of following **two methods of presenting description of IC** i.e. (i) Type 1 report; or (ii) Type 2 report.
- If a SO uses SSO, **service auditor's report may either include (Inclusive method) or exclude (Carve out) SSO relevant control objectives and related controls in SO description of its system**.
- 2 methods of reporting are known as **inclusive method** and **carve-out method**.
- If the **Type 1 or Type 2 report excludes control** at a SSO and **services provided** by SSO are relevant to audit of user entity's FS, **user auditor is required to apply the requirements of the SA 402 in respect of SSO**.

SA 300 Planning an Audit of FS

Benefits/Advantages of Planning in an Audit of FS

Q 1

- 1) **Attention to Important areas**
- 2) **Timely resolution** of Potential Problems
- 3) **Proper Org. & Mgt.** of Audit Engagement.
- 4) **Proper Selection of Engagement Team**
- 5) **Direction and Supervision** of Engagement Team
- 6) **Easy Coordination** in work done by auditors of components & experts

Nature and Extent of Planning

Q 3

So far as the nature of planning is concerned, it would vary according to-

1. **Size & Complexity of Auditee** - If size & complexity of org. of which audit is to be conducted is **large**, then much **more planning activities** would be required.
2. **Past Experience & Expertise** - key engagement team **members' previous experience & expertise** also contributes towards variation in planning activities.
3. **Change in Circumstances** - Another factor contributing towards variation in planning activities is change in circumstances.

Documenting Audit Plan

Q 5

The auditor shall document-

1. **Overall audit strategy;**
2. **Audit plan;** and
3. Any **significant changes made** during the audit engagement to the overall audit strategy or audit plan, and reasons for such changes

Documentation of these matters assists auditor as under: -

- ☞ **Record of Key Decisions**
- ☞ **Record of NTE of RAP**
- ☞ **Record of reasons for change in audit strategy and plan**

Relationship b/w Overall Audit Strategy & Audit Plan

Q 7

- ❑ Audit strategy is prepared **before** audit plan.
- ❑ Audit plan is **more detailed** than the overall audit strategy.
- ❑ Audit strategy and audit plan **are inter-related** because change in one would result into change in the other.
- ❑ Audit strategy provides **guidelines** for developing audit plan. It establishes scope and conduct of audit procedures and thereby, works as basis for developing a detailed audit plan.
- ❑ **Detailed audit plan** would include the NTE of audit procedures to obtain SAAE.

Factors while establishing Overall Audit Strategy

Q 9

- 1) **Determination of Characteristics of Audit:** Identify characteristics of the engagement that defines its scope.
- 2) **Reporting Objectives:** Ascertain reporting objectives of engagement to plan timing of audit and nature of the communications required.
- 3) **Team's Efforts:** Consider factors that are significant in directing the engagement team's efforts.
- 4) **Considering result of preliminary engagement activities:** Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner **for the entity is relevant.**
- 5) **NTE of Resources:** Ascertain NTE of resources necessary to perform the engagement.

Benefits of Overall Audit Strategy

Q 9

- 1) **Employment of Qualitative Resources:** Resources to deploy for **specific audit areas**, such as - use of experienced team members for high risk areas or involvement of experts on complex matters.
- 2) **Allocation of Quantity of Resources:** allocation to **specific audit areas**, such as - no. of team members assigned to observe inventory count at material locations
- 3) **Timing of Deployment of Resources:** such as whether at an interim audit stage or at or close to key cut-off dates.
- 4) **Management of Resources:** How such resources shall be managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held.

Contents of an Audit Plan (SA 300)

Q 11

Auditor should develop an audit plan that shall include description of -

1. NTE of planned RAP, as determined under **SA 315**
2. NTE of planned further audit procedures at the assertion level, as determined under **SA 330**
3. **Other planned audit procedures** that are required to be carried out so that engagement complies with SAs.

Changes to Planning Decisions

Auditor may need to modify the overall audit strategy and audit plan due to below mentioned factors-

- **result of unexpected events,** ○ **changes in conditions, or**
- **AE obtained from the results of audit procedures.**

Further, auditor would also have to **modify the NTE** of further audit procedures, based on the revised consideration of assessed risks.

Considerations in Establishing Overall Audit Strategy

Some of factors that auditor may consider:

(A) Characteristics of Engagement

- FRF.
- Industry-specific reporting requirements such as reports mandated by industry regulators.
- Expected audit coverage, including no & locations of components to be included.
- Extent to which components are audited by other auditors.
- Expected use of audit evidence obtained in previous audits.
- Effect of information technology on audit procedures.

(B) Reporting Objectives, Timing of Audit, & Nature of Communications

- Entity's timetable for reporting.
- Discussion with Mgt. regarding type & timing of reports to be issued.
- Discussion with mgt. regarding communications on status of audit work.
- Communication with auditors of components regarding types & timing of reports to be issued.
- Nature & timing of communications among engagement team members.

(C) Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

- Determination of materiality (SA 320).
- Preliminary identification of areas where there may be a higher ROMM.
- Results of previous audits including identified deficiencies and action taken to address them.
- Significant business developments affecting entity.
- Significant changes in FRF, such as changes in accounting standards.

(D) NTE of Resources

- Election of engagement team and assignment of audit work to team members.
- Engagement budgeting.

Audit Programme

Prepared to allocate work to team members which may include the list of audit procedures & instructions to be followed.

Formulating an Audit Programme

Important matters which need to be considered in this regard are -

- Nature of business in which the organisation is engaged:** considering technical, financial and accounting set-up of co.
- Overall plan:** If in drawing audit programme, any divergence from the overall plan becomes necessary, first **overall plan should be modified** after due consideration and thereafter, only that specific matter may be taken in the audit programme.
- System of IC and accounting procedures:** study and evaluation of IC helps auditor to **establish reliance** he can place on the ICs in **determining the NTE** of his SP.
- Size of org. and structure of its Mgt.:** An increase in the size of the org. enhances complexity of examination of its accounting records.
- Info. as regards org. of business:** obtain info - client's history, business, purpose and nature of engagement.
- Accounting and management policies:** Accounting and mgt. policies followed in **past** and whether these have been **employed consistently**.

Few circumstances where in the audit program would have to be suitably altered

Q 13

- If the audit procedures were designed for a certain volume of turnover and **subsequently the volume have substantially increased**. Also, significant changes in accounting organisation, procedures and personnel subsequent to the audit procedures.
- IC procedures were not as effective as assumed** at the time the audit programme was framed.
- Extraordinary increase** in amount of book debts or that in the value of stocks as compared to that in PY.
- Suspicion** has aroused during the course of audit or information has been received that assets have been misappropriated.

Audit Execution

Q 15

Key phases in the audit execution stage are

- Execution Planning
- Risk and Control Evaluation
- Testing
- Reporting

SA 450 Evaluation of Misstatement Identified During Audit**Misstatement**

Difference between	
Amounts, Classification, Presentation, or Disclosure of a reported financial statement item and	Amount, Classification, Presentation, or Disclosure that is required for the item to be in accordance with applicable FRF

Sources of Misstatement

Q 16

- An **inaccuracy** in gathering or processing data from which FS are prepared;
- An **omission** of an amount or disclosure;
- An **incorrect accounting estimate** arising from overlooking, or clear misinterpretation of, facts; and
- Judgments of management** concerning accounting estimate that auditor considers **unreasonable** or selection and application of accounting policies that the auditor considers **inappropriate**.

Communication and Correction of Misstatements

- **Communicate on a timely basis** all misstatements to appropriate level of management, unless prohibited by L/R.
- Auditor shall request management to **correct** those misstatements.
- If management refuses to correct some or all of the misstatements, obtain an understanding of **management's reasons** for not making the corrections.
 - If management corrects:** perform additional procedure to determine whether misstatements remain.
 - If management refuses :**
 - ✓ Reason for refusal
 - ✓ Reassess materiality
 - ✓ If material - communicate to TCWG including effect of misstatement & request for correction
 - ✓ If not corrected: Obtain WR from Mgt./TCWG w.r.t their believing that effect of uncorrected misstatements is immaterial.

Impact of Uncorrected Misstatements identified during audit & Auditor's responses to them

Q 17

[Evaluating effect of Uncorrected Misstatements]

- Auditor shall determine whether uncorrected misstatements are **material** (individually or aggregate)
- Auditor shall consider -
 - **Size & Nature of misstatement** for class of transaction, account balance and disclosures & FS
 - **Effect of uncorrected misstatement** related to prior periods on class of transaction, account balance and disclosures & FS.
- Auditor shall communicate with TCWG Uncorrected misstatement & their effect. (refer communication)
- Reassess materiality determined in SA 320
- As per Mgt., if effects of uncorrected misstatements are immaterial, auditor shall request WR from Mgt. & TCWG.
- If Mgt. refuses to adjust financial information & auditor **not able to conclude whether aggregate of uncorrected misstatement is not material**, **express qualified or adverse opinion**

3 Types of Misstatements -

- Factual misstatements** - misstatements about which there is **no doubt**.
- Judgmental misstatements** - differences arising from the **judgments** of management concerning accounting estimates that the auditor *considers unreasonable, or selection or application of accounting policies* that the auditor *considers inappropriate*.
- Projected misstatements** - auditor's **best estimate of misstatements in populations, involving projection of misstatements identified in audit samples** to the entire populations from which the samples were drawn.

Documentation:

Audit documentation shall include:

- Amt. below which misstatements would be regarded as **clearly trivial**;
- **All misstatements accumulated during audit** and whether they have been corrected; and
- **Auditor's conclusion** as to **whether uncorrected misstatements are material**, individually or in aggregate, and the basis for that conclusion.

SA 520 "Analytical Procedures"

Analytical Procedures" means

- **evaluation of financial information**
- through **analysis of relationships** among both financial & non-financial data

Substantive Analytical Procedures (SAP)

Q 18

Q. Consideration kept while performing SAP

When designing & performing SAP, either alone or in combination with tests of details, as substantive procedures as per SA 330, auditor shall:

- Determine **suitability** of particular SAP for given assertions, taking account of assessed ROMM & tests of details.;
- Evaluate **reliability** of data from which auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, & nature & relevance of info. available, & controls over preparation;
- Develop **expectation** of recorded amounts or ratios & evaluate whether expectation is sufficiently precise to identify misstatement.
- Determine **amount of any difference of recorded amt.** from **expected values** that is acceptable without further investigation.

Suitability of Particular AP for Given Assertions

- SAP are **more applicable to large volumes of transactions** that tend to be predictable over time.
- In some cases, **unsophisticated predictive model** may be effective as AP.
- Different types of analytical procedures** provide different levels of assurance.
- Determination of **suitability of SAP is influenced by -**
 - ❖ nature of assertion &
 - ❖ auditor's assessment of ROMM
- Particular SAP may be considered suitable** when tests of details are performed on same assertion.

Following factors affects the Reliability of Data

Q 19

- ❑ Source of info. available
- ❑ Comparability of info. available
- ❑ Nature & relevance of info. available
- ❑ Controls over preparation of info

Investigating Results of AP

Q 20

If auditor identifies **fluctuations or relationships that are inconsistent** with other relevant information or that **differ from expected values by significant amt.**, he shall investigate such differences by:

- Inquiring of Mgt. & obtaining appropriate AE relevant to Mgt. responses.**
- Performing other AP as necessary:** Need to perform other AP may arise when,
 - Mgt. is unable to provide explanation, or
 - explanation, together with AE obtained w.r.t Mgt. response, is not considered adequate.

Techniques for AP

- Trends - comparison of current data with prior period.
- Ratios
- Reasonableness of amounts - Doesn't rely on prior period.
Ex- loan x interest rate
- Structural modelling - linear regression
To predict current account balances from financial/non-financial data of prior accounting periods.

SA 540-Auditing accounting estimates, including fair value accounting estimates and related disclosures

Auditor's responsibilities regarding accounting estimates, including fair value accounting estimates + related disclosures in an audit of FS.

Examples of situations where Accounting Estimates, other than fair value a/c estimates, may be required include:

- 1) Allowance for doubtful accounts.
- 2) Inventory obsolescence.
- 3) Warranty obligations.
- 4) Depreciation method or asset useful life.
- 5) Outcome of long term contracts.
- 6) Financial Obligations / Costs arising from litigation settlements & judgments.

Examples of situations where Fair Value A/c Estimates may be required include:

- 1) Complex financial inst. which are not traded in active and open market
- 2) Share-based payments.
- 3) Property or equipment held for disposal.
- 4) Certain assets or liabilities acquired in a business combination, including goodwill & intangible assets.
- 5) Transactions involving exchange of assets or liabilities b/w independent parties without monetary consideration.

Nature Of Accounting Estimates

Q 22

Accounting estimates involve relatively low estimation uncertainty & may give rise to lower ROMM

- 1) A/E arising in entities that engage in business activities that are not complex.
- 2) A/E that are frequently made & updated because they relate to routine transactions
- 3) A/E derived from data that is readily available, such as published interest rate data.
- 4) Fair value A/E estimates where method of measurement prescribed by applicable FRF is simple & applied easily to asset or liability.
- 5) Fair value A/E estimates where model used to measure A/E estimate is well-known or generally accepted.

Q 23

Accounting estimates with relatively high estimation uncertainty, particularly where they are based on significant assumptions, For Ex:

- 1) Fair value A/E for derivative financial instruments not publicly traded.
- 2) Fair value A/E for which a highly specialised entity-developed model is used.

- 3) A/E that are highly dependent upon judgment, for example, judgments about the outcome of pending litigation
- 4) A/E that are not calculated using recognised measurement techniques.
- 5) A/E where auditor's review of similar accounting estimates made in the prior period FS indicate substantial difference between the original AE and the actual outcome.

Risk assessment procedures & related activities for A/E

Q- how do you minimize the risk of material misstatements

Q 24

Identification & assessment of ROMM (SA 315) for A/E

- a) Requirements of applicable FRF relevant to A/E, including related disclosures.
- b) How Mgt. identifies those transactions, events & conditions that may give rise to need for A/E to be recognised or disclosed in F.S. In obtaining understanding, make inquiries of Mgt. about changes in circumstances that may give rise to new, or need to revise existing, A/E.
- c) How Mgt. makes A/E, & understanding of data on which they are based including:
 - Method used in making A/E;
 - Relevant controls;
 - Whether Mgt. has used an expert;
 - Assumptions underlying A/E;
 - Whether there has been a change from prior period in methods for making A/E, and if so, why; and
 - Whether and, if so, how Mgt. has assessed effect of estimation uncertainty.

Obtaining an Understanding of How Mgt. Identifies Need for Accounting Estimates:

Q 25

Inquiries of Mgt. about changes in circumstances may include, For

Ex: Inquiries about whether:

- 1) Entity has engaged in new types of transactions that may give rise to a/c estimates.
- 2) Terms of transactions that gave rise to A/E that have changed.
- 3) A/c policies relating to A/E have changed, as a result of changes to requirements of FRF.
- 4) Regulatory or other changes outside control of Mgt. have occurred.
- 5) New conditions or events have occurred.

Estimation Uncertainty: A/c estimates that give rise to significant risks

Q 26

Auditor shall evaluate following:

- (a) How Mgt. has considered alternative assumptions or outcomes & why it has rejected them.
- (b) Whether significant assumptions used by Mgt. are reasonable.
- (c) Where relevant to reasonableness of assumptions used, or appropriate application of FRF, Mgt.'s intent to carry out specific courses of action & its ability to do so.
- (d) If Mgt. has not adequately addressed effects of estimation uncertainty on A/E that give rise to significant risks, he shall develop a range to evaluate the reasonableness of A/E.

Review of outcome of accounting estimates of prior period F.S.

Q 27

- Auditor shall review outcome of A/c estimates included in prior period F.S., or their subsequent re-estimation for purpose of current period.
- Outcome of A/E will often differ from A/E recognised in prior period F.S.
- By performing RAP to identify & understand reasons for such differences, obtain:
 - 1) Info. regarding effectiveness of Mgt.'s prior period estimation process.
 - 2) Audit evidence that is relevant to re-estimation, in current period, of prior period A/E.
 - 3) Audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in F.S.
- It may assist auditor in current period in identifying conditions that increases susceptibility of A/E to possible Mgt. bias.
- Auditor's professional skepticism assists in identifying such conditions and in determining NTE of FAP.
- However, Review is not intended to call into question judgments made in prior periods that were based on info. available at that time.

Matters that the auditor may consider in obtaining an understanding of the assumptions underlying the accounting estimates include, for example:

- 1) Nature of assumptions.
- 2) How Mgt. assesses whether assumptions are relevant and complete.
- 3) How Mgt. determines that assumptions used are internally consistent.
- 4) Whether assumptions relate to matters within control of Mgt.

Audit Reporting & Disclosure:**Disclosures Related to Accounting Estimates**

Auditor shall **obtain SAAE** about whether disclosures in F.S. related to A/E are as per requirements of applicable FRF.

For A/E that give rise to significant risks, he shall also **evaluate adequacy of disclosure of their estimation uncertainty** in F.S. in context of applicable FRF.

- a) **Presentation of F.S.** as per applicable FRF includes adequate disclosure of material matters. These disclosures include,
- **Assumptions** used.
 - **Method of estimation** used.
 - **Basis** for selection of the estimation.
 - **Any changes in method** of estimation from prior period & its subsequent effect.
 - **Sources & implication** of estimation uncertainty.
- b) In relation to A/E **having significant risk**, even where disclosures are as per applicable FRF, he may conclude that disclosure of is inadequate in light of circumstances & facts involved.

Written Representations:

Q 28

- 1) **About appropriateness of measurement processes**, including related assumptions & models, used by Mgt. in determining A/E.
- 2) That **assumptions appropriately reflect** Mgt.'s intent & ability to carry out specific courses of action on behalf of entity.
- 3) That **disclosure related to A/E** are complete & appropriate.
- 4) That **no subsequent event requires adjustment to A/E & disclosures.**

For those A/E not recognised or disclosed in FS, W/R include representations about:

- Appropriateness of the basis used by Mgt. for determining that the **recognition or disclosure criteria of applicable FRF have not been met.**
- Appropriateness of the basis used by Mgt. to overcome the presumption relating to the use of fair value, for those A/E not measured or disclosed at fair value.

SA 600 - Using Work of another Auditor

Principal Auditor

Auditor with responsibility for reporting on financial information (i.e. F.S) of entity when that financial information includes financial information of one or more components audited by another auditor.

Not Reduce Responsibility

- When auditor delegates work to assistants or uses work performed by other auditors & experts, he will continue to be responsible for forming & expressing his opinion.
- However, he will be entitled to rely on work performed by others, provided he exercises adequate skill & care and is not aware of any reason to believe that he should not have so relied.

Not applicable

SA 600 does not deal with

- (a) joint auditors nor
- (b) Predecessor auditor.

Q 29

Factors before accepting his work as Principal auditor

Auditor would consider following factors before accepting his work as Principal auditor:

- Materiality of portion of the financial information which PA audits
- PA's degree of knowledge regarding business of components
- ROMM in financial information of components audited by other auditor(s); and
- Performance of additional procedures as set out in this SA regarding components audited by other auditor(s).

Division of responsibility

Q 30

- PA would not be responsible in respect of work carried out by OA, except in circumstances which should have aroused his suspicion about reliability of work performed by other auditors.
- When PA has to base his opinion on financial information of entity as a whole relying upon statements & reports of OA, his report should state clearly division of responsibility for financial information of entity by indicating extent to which financial information of components audited by OA have been included in FI of entity.
- If PA notices any material discrepancies, same has to be brought to knowledge of OA & should be incorporated in Audit Report.

Principal auditor's procedure

- Right of PA to visit component & examine books of accounts of component.
- PA to consider professional competence of other auditor.
- Procedures to be performed by PA when using work of other auditor. Q 31
 - advise other auditor regarding use of his (other auditor) work & report and make sufficient arrangements for co-ordination at planning stage of audit.
PA would inform other auditor of matters such as:
 - areas requiring special consideration,
 - procedures for identification of inter-component transactions and
 - time-table for completion of audit
 - advise other auditor of significant accounting, auditing & reporting requirements and obtain representation as to compliance with them.
 - PA might discuss with other auditor audit procedures applied or review a written summary of the other auditor's procedures & findings.
 - PA should consider the significant findings of the other auditor.
 - PA to document in his working papers - Components whose financial information audited by other auditors. Also document procedures performed & conclusions reached.

Reporting consideration

- PA to express a qualified opinion or disclaimer of opinion in case of a limitation on scope of audit. When PA concludes that
 - work of OA can't be used &
 - PA has not been able to perform sufficient additional procedures regarding financial information of component audited by OA.
- If other auditor issues a Modified Report.

PA should consider whether subject of modification is of such nature & significance, that it requires a modification of PA's report.

Coordination between auditors

Sufficient liaison between PA & OA.	OA should co-ordinate with PA	PA should advise OA of any matters having an important bearing on OA's work	PA may require OA to answer a detailed questionnaire	OA should respond to such questionnaire on a timely basis.
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Role of Principal Auditor:

Q 32

- To issue written communication(s) as PA to OA.
- Advise OA of any matters that come to his attention that may have important bearing on OA's work.
- PA may require OA to answer a detailed questionnaire regarding matters on which PA requires info. for discharging his duties.

Role of Other Auditor (OA):

- Co-ordinate with PA.
- Ensure compliance with relevant statutory requirements.
- Respond to questionnaire sent by PA on a timely basis.

SA 610- Using the work of Internal Auditors

Scope

- using work of internal audit function (IAF) and
- using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.

This SA doesn't apply if the entity doesn't have IAF.

Auditor responsibility will not reduce. Remain sole responsible for expressing opinion.

Internal Audit Function: A function of an entity designed to evaluate and improve the effectiveness of the entity's governance, risk mgt. and internal control processes.

Direct Assistance: Use of IA to perform audit procedures under the direction, supervision and review of the external auditor.

Objectives & scope of internal audit functions:

Activities Relating to Governance

- Ethics and values, performance management and accountability,
- Communicating risk and control info.

Activities Relating to Risk Management

- Identifying and evaluating significant risk.
- Detection of fraud.

Activities Relating to Internal Control

- Evaluation of internal control
- Examination of financial and operating information
- Review of operating activities.
- Review of compliance with laws and regulations.

Work of IAF that can be used by external auditor

- Testing of operating effectiveness of controls.
- Substantive procedures involving limited judgment.
- Observations of inventory counts.
- Tracing transactions through the information system relevant to financial reporting.
- Testing of compliance with regulatory requirements.

Evaluating whether work of IAF can Be Used For the purposes of audit

Q 33

- External auditor shall determine whether work of IAF **can be used** for purposes of the audit by evaluating the following:
 - Extent** to which internal audit function's **organizational status & relevant policies & procedures support the objectivity of IA;**
 - level of competence** of IAF; and
 - Whether IAF **applies a systematic and disciplined approach**, including QC.
- External auditor shall **not use the work** of IAF if external auditor determines that:
 - The function's organizational status and relevant policies and procedures **do not adequately support** the objectivity of internal auditors;
 - The function **lacks sufficient competence**; or
 - The function **does not apply a systematic and disciplined approach**, including quality control.

Determining nature & extent of work of IAF that can be used

- External auditor shall **consider nature & scope** of work performed by IAF.
- EA shall **make all significant judgments** and, to prevent undue use of the work of IAF.
 - More judgment** is involved in:
 - Planning & performing relevant audit procedures; and
 - Evaluating A/E gathered;
 - Higher assessed ROMM** at the assertion level;
 - Less the internal audit function's organizational status** and relevant policies and procedures adequately **support the objectivity** of internal auditors; and
 - Lower level of competence** of IAF.
- Extent of involvement of external auditor:** whether **using work of IAF to the extent planned** would still result in external auditor being sufficiently involved in the audit.
- External auditor in communicating with TCWG shall **share an overview of the planned scope and timing of the audit** (SA 260), communicate **how external auditor has planned to use the work of IAF**.

Using the work of IAF

- Discussion regarding planned use of its work and Coordination with the Internal Audit Function**
- EA shall **read the reports of IAF** relating to the work of the function that external auditor plans to use.
- EA **perform sufficient audit procedures to determine adequacy of IAF**, including evaluating whether:
 - Work of IAF** had been properly planned, performed, supervised, reviewed and documented;
 - SAAE had been obtained** to draw reasonable conclusions; and
 - Conclusions reached are appropriate**.
- Nature and extent of the external auditor's audit procedures shall be responsive to the external auditor's evaluation of:**
 - Amount of judgment** involved;
 - Assessed ROMM**;
 - Extent to which IAF supports the objectivity of the internal auditors**; and
 - level of competence** of the function.

External auditor shall not use an IA to provide direct assistance if:

- There are **significant threats to the objectivity** of internal auditor; or
- Internal auditor **lacks sufficient competence** to perform the proposed work.

Significant Judgements

Q 34

- Assessing **ROMM**
- Evaluating **sufficiency of test performed**.
- Evaluating appropriateness of Mgt. use of **Going concern assumption**.
- Evaluating significant **accounting estimate**.
- Evaluating **adequacy of disclosure** in FS & other matter affecting auditor's report.

Determining whether IA can be used to provide direct assistance for the purposes of audit

- a) External auditor prohibited by L/R from obtaining direct assistance from IA.
- b) Using internal auditors to provide direct assistance is not prohibited
 - (i) Evaluation of **existence & significance** of **threats to objectivity** and **level of competence** of internal auditors.
 - (ii) Evaluation of **existence and significance of threats shall include inquiry of internal auditors.**

Inquiry of the internal auditors regarding interests and relationships that may create a threat to their objectivity.

In evaluating the existence and significance of threats to the objectivity of an internal auditor, the following factors may be relevant:

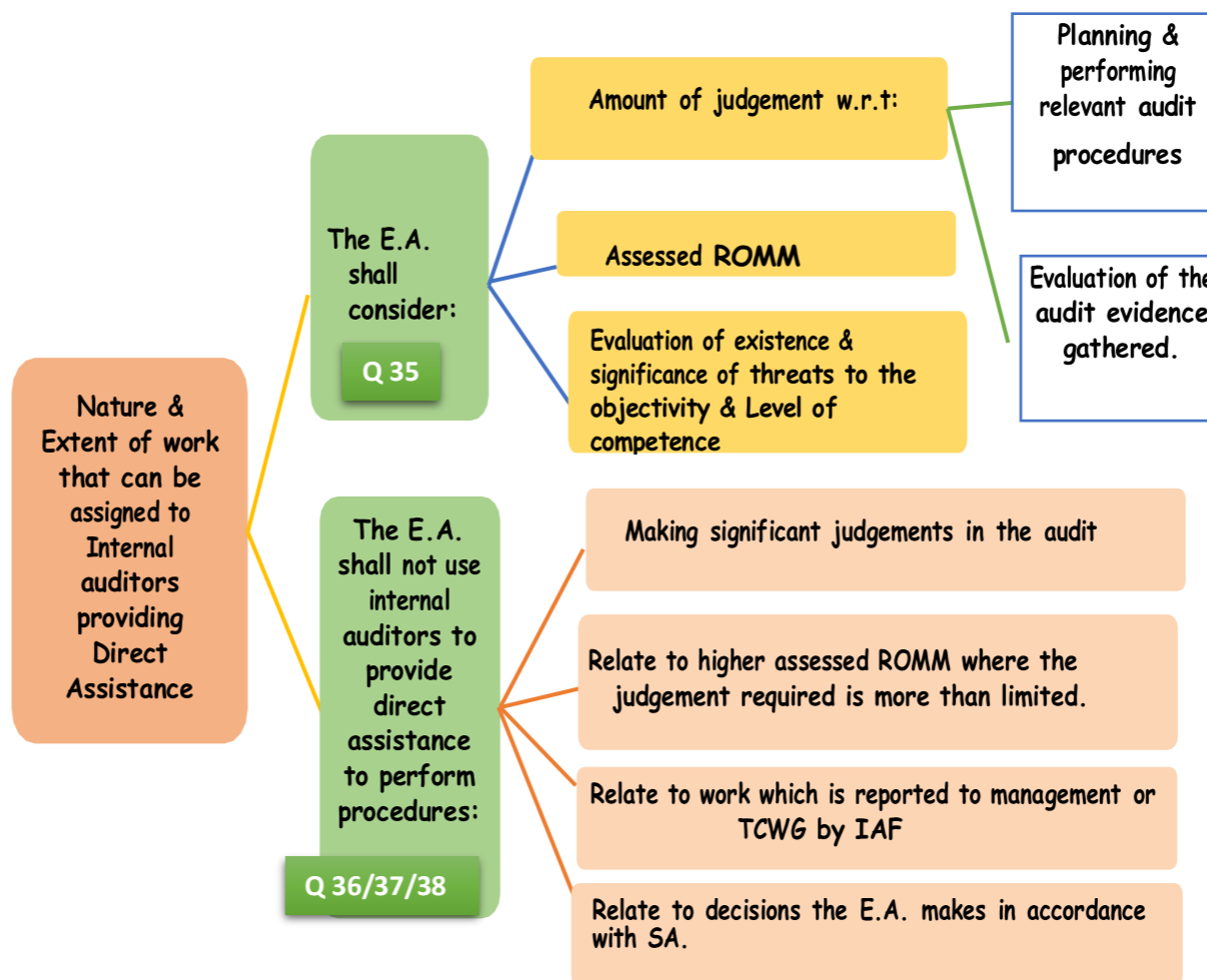
- ❑ Extent to which the internal audit function's organizational status and relevant policies and procedures **support the objectivity** of the internal auditors.
- ❑ **Family and personal relationships** with an individual working in, or responsible for, to which the work relates.
- ❑ **Association with the division or department** in the entity to which the work relates.
- ❑ **Significant financial interests** in the entity other than remuneration.

Q 36

Q. External auditor shall include in the audit documentation:

- (1) **Evaluation of existence & significance of threats to the objectivity** of the internal auditors, and **level of competence** of the internal auditors used to provide direct assistance;
- (2) **Basis for the decision regarding the nature and extent** of the work performed by the internal auditors;
- (3) **Who reviewed** the work performed and the **date and extent** of that review;
- (4) **Written agreements obtained from an authorized representative** of the entity and the **internal auditors**; and
- (5) **Working papers prepared by the internal auditors** who provided direct assistance.

Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance:



SA 620-Using Work of an Auditor's Expert

SA 620 deals with auditor's responsibilities regarding use of work in a field of expertise other than accounting or auditing when that work is used to assist auditor in obtaining SAAE.

Auditor's Expert –

An auditor's expert may be either an **auditor's internal expert** (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an **auditor's external expert**.

Management's Expert – An individual/organisation possessing expertise in a field other than accounting or auditing, whose work in that field is **used by entity** to assist entity in preparing F.S.

Expertise in a field other than accounting or auditing may include expertise in relation to Auditors Expert: Q 41

Q- Types of report/opinion Auditor can obtain from auditor's expert.

- 1) Valuation of complex financial instruments, L&B, P&M, IA etc.
- 2) Actuarial calculation of liabilities
- 3) Estimation of oil & gas reserves.
- 4) Interpretation of contracts, laws & regulations
- 5) Analysis of complex or unusual tax compliance issues.

Areas where Auditor's Expert can assist Auditor:

- 1) Obtaining an understanding of entity & its environment, including IC. (SA 315)
- 2) Identifying & assessing ROMM. (SA315)
- 3) Determining & implementing overall responses to assessed risks at F.S. level. (SA 330)
- 4) Designing & performing FAP to respond to assessed risks at assertion level, comprising TOC or substantive procedures. (SA 330)
- 5) Evaluating sufficiency & appropriateness of AE obtained in forming an opinion on F.S. (SA 500)

Evaluating Adequacy of Auditor's Expert's Work

Auditor shall evaluate adequacy of auditor's expert's work for auditor's purposes, including:

A. Relevance & reasonableness of that expert's findings or conclusions, & their consistency with other audit evidence;

Findings & Conclusions of Auditor's Expert

Specific procedures to evaluate adequacy of auditor's expert's work for auditor's purposes may include:

- a. **Inquiries** of auditor's expert.
- b. **Reviewing** auditor's expert's working papers & reports.
- c. **Corroborative procedures**, such as:
 - (i) Observing auditor's expert's work;
 - (ii) Examining published data;
 - (iii) Confirming relevant matters with third parties;
 - (iv) Performing detailed analytical procedures to see whether Principles of materiality aspects considered; and
 - (v) Re-performing calculations.
- d. **Discussion with another expert** with relevant expertise when, for example, the findings or conclusions of auditor's expert are not consistent with other audit evidence.
- e. **Discussing auditor's expert's report with management.**

B. If that expert's work involves use of significant assumptions & methods, relevance & reasonableness of those assumptions & methods;

Factors relevant to auditor's evaluation of those assumptions & methods include whether they are:

- 1) **Generally accepted** within auditor's expert's field;
- 2) **Consistent** with requirements of applicable FRF;
- 3) **Dependent** on use of specialised models; and
- 4) **Consistent** with those of management, and if not, the reason, and effects of the differences.

C. If that expert's work involves use of source data that is significant to that expert's work, relevance, completeness, & accuracy of that source data.

Procedures used to test use of Source Data:

- (a) **Verifying origin of data**, including obtaining an understanding of, & testing IC over data.
- (b) **Reviewing data** for completeness & internal consistency.

Evaluating Adequacy of Auditor's Expert's Work Q 42

If auditor determines that work of auditor's expert is **not adequate** for auditor's purposes, auditor shall:

- (a) **Agree** with expert **on nature & extent** of further work to be performed by that expert; or
- (b) **Perform further audit procedures** appropriate to circumstances.

If auditor concludes that work of auditor's expert is **not adequate** for auditor's purposes & auditor **can't resolve matter** through additional audit procedures, **express a modified opinion** as per SA 705 because auditor has **not obtained** SAAE.

Competence, Capabilities & Objectivity of Auditor's

Competence, capabilities & objectivity of an auditor's expert are factors **that significantly affect whether work of auditor's expert will be adequate for auditor's purposes.** (Q)

Competence relates to **nature & level of expertise** of auditor's expert.

Capability relates to **ability** of auditor's expert **to exercise that competence**

Objectivity relates to possible **effects** that **bias, conflict of interest, or influence** of others **may have on professional or business judgment** of auditor's expert

Sources for obtaining Info. regarding Competence, Capabilities & Objectivity of an Auditor's Expert

- **Personal experience** with previous work of that expert.
- **Discussions with that expert.**
- **Discussions with other auditors or others** who are familiar with that expert's work.
- **Knowledge of that expert's qualifications, membership of a professional body** or industry association, license to practice, or other forms of external recognition.
- **Published papers or books written** by that expert.
- **Auditor's firm's quality control policies & procedures**

Agreement With Auditor's Expert

Q 44

Auditor shall agree, in writing when appropriate, on following matters with auditor's expert:

- Nature, scope & objectives of expert's work;
- Respective roles & responsibilities;
- NTE of communication b/w auditor & that expert and
- Confidentiality requirements.

Following factors suggest need for more a detailed agreement or for Written Agreement:

- Auditor's expert will have access to sensitive or confidential entity information.
- Respective roles or responsibilities of auditor & auditor's expert are different from those normally expected.
- Multi-jurisdictional legal or regulatory requirements apply.
- Matter to which auditor's expert's work relates is highly complex.
- Auditor has not previously used work performed by that expert.
- Greater the extent of auditor's expert's work, & its significance in context of audit.

Reference to auditor's expert in auditor's report

Q 45

- Auditor shall not refer to work of auditor's expert in auditor's report containing an unmodified opinion unless required by L/R to do so. If such reference is required by L/R he shall indicate in auditor's report that reference doesn't reduce auditor's responsibility for audit opinion.
- If auditor makes reference to work of an auditor's expert in auditor's report because such reference is relevant to an understanding of a modification to auditor's opinion, auditor shall indicate in auditor's report that such reference does not reduce auditor's responsibility for that opinion.

When management has used a management's expert

When Mgt. has used a management's expert, auditor's decision on whether to use an auditor's expert may also be influenced by such factors as:

- Whether ME is employed by entity, or is a party engaged by it.
- Extent to which Mgt. can exercise control over the work of ME.
- ME competence and capabilities.
- Whether management's expert is subject to technical performance standards or other professional or industry requirements.
- Any controls over management's expert's work within entity.

Evaluation of significance of threats to objectivity & need for safeguards

Evaluating the objectivity of an auditor's external expert:

- Inquire of entity about any known interests or relationships that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards; & evaluate whether safeguards are adequate to reduce threats to an acceptable level.

Interests & relationships that may be relevant to discuss with auditor's expert include:

- Financial interests.
- Business & personal relationships.
- Provision of other services by expert

Nature, timing & extent of audit procedures

In determining NTE of those procedures, auditor shall consider:

- Nature of matter;
- ROMM in matter;
- Significance of that expert's work;
- Auditor's knowledge of & experience with previous work performed by that expert; and
- Whether that expert is subject to auditor's firm's quality control policies & procedures.

Following factors may suggest need for different or more extensive procedures than would otherwise be the case:

- Work of auditor's expert relates to a significant matter that involves subjective & complex judgments.
- Auditor has not previously used work of auditor's expert, & has no prior knowledge of that expert's competence, capabilities & objectivity.
- Auditor's expert is performing procedures that are integral to audit.
- External expert is not subject to firm's quality control policies & procedures.

Considerations when deciding whether to use an Auditors expert

- Whether Mgt. has used a Mgt.'s expert in preparing F.S.
- Nature & significance of matter.
- ROMM in the matter.
- availability of alternative sources of audit evidence.

Audit Risk Components

Q 1

Audit Risk = Risk of Material Misstatement X Detection Risk

ROMM- is anticipated risk that a MM may exist in FS before start of the audit.

It has 2 components inherent risk and control risk.

ROMM = Inherent risk X Control risk

Inherent Risk:

Susceptibility of an assertion to a misstatement that could be material, individually or when aggregated with other misstatements, assuming that **there are no related controls**.

Inherent risk is addressed **at both the FS level and at the assertion level**.

Ex- Technological developments that might make a particular product obsolete.
Accounting estimates that are subject to significant measurement uncertainty;

Detection risk: Risk that a **MM remained undetected** even if all audit procedures applied.

Note- Combined level of Inherent Risk and Control Risk is inversely related with Detection Risk, and Audit Materiality is also inversely related with Audit Risk.

Control Risk:

Risk that **entity's IC system will not prevent, or detect and correct** on a timely basis, a misstatement that could be material, individually or when aggregated with other misstatements.

Types of Assertions

SA 315, categorises **types of assertions used by auditor**

Assertions about Classes of Transactions and Events

Occurrence	Transactions and events recorded have <u>occurred and pertain to entity</u> .
Completeness	All transactions that should have been recorded have been <u>recorded</u> .
Accuracy	Amt. & other data related to recorded transactions & events <u>have been recorded appropriately</u> .
Cut-off	Transactions & events have been recorded in <u>correct accounting period</u> .
Classification	Transactions & events recorded in <u>proper accounts</u> .

Assertions about Account Balances at the Period End

Existence	Assets, liabilities, and equity interests <u>exist</u> .
Rights and Obligations	Entity holds or controls <u>rights to assets</u> , and liabilities are <u>obligations</u> of entity.
Completeness	All assets, liabilities, and equity interests that should have been recorded <u>are recorded</u> .
Valuation and Allocation	Assets, liabilities, and equity interests are included in FS at appropriate amounts, and any resulting adjustments are <u>appropriately recorded</u> .

SA Assertions about Presentation and Disclosure

Occurrence/Rights and Obligations	Disclosed events, transactions, & other matters <u>have occurred and pertain to entity</u> .
Completeness	All disclosures that should have been included in the FS <u>have been included</u> .
Classification and Understandability	Financial information is <u>appropriately presented</u> and described, and disclosures are <u>clearly expressed</u> .
Accuracy and Valuation	Financial and other information are disclosed <u>fairly</u> and at appropriate amounts.

Possible potential misstatements – Indicators

Completeness	
Transactions not identified	Source documents not prepared
Rejected source documents not represented.	Source documents not captured
Existence	
Fictitious or unauthorised transactions entered on source documents	
Source documents overstated	
Transactions duplicated on source documents	
Capture of source documents duplicated.	
Invalid source documents captured on subsidiary ledgers.	
Recording	
Source documents captured inaccurately.	Processing of transactions is inaccurate.
Inaccurate adjustments made in subsidiary ledgers.	
Cut -off Procedures	
Transactions that occur in period are recorded in another period.	

Risk Based Audit Approach

Risk-based audit (RBA) is an approach to audit that analyzes audit risks, sets materiality thresholds and develops audit programmes.

Audit Risk Analysis

- Auditor should **perform an analysis of audit risks that impact on auditee before undertaking specific audit procedures**.
- Risk assessment is a **subjective process**.
- It is part of **professional judgment** of auditor.
- It is **risk that auditor may unknowingly fail to appropriately modify his opinion on FS that are materially misstated**.

General Steps in the Conduct of Risk Based Audit

Q 3

RBA process is presented in 3 distinct phases:

Risk assessment.	Risk response	Reporting
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Risk Assessment

Risk assessment phase of audit involves the following steps:

- 1) Performing **client acceptance or continuance procedures**;
- 2) **Planning** the overall engagement;
- 3) **Performing** RAP to understand business and identify IR & CR.
- 4) **Assessing ROMM** in FS;
- 5) **Communicating** any material weaknesses in design and implementation of IC to Mgt. and TCWG;

Risk response

Design and perform further audit procedures that respond to **assessed ROMM** and will provide evidence necessary to support audit opinion.

Reporting

Issuing an audit report based on audit findings.

Steps for Risk Identification

Q 4

- 1) **Assess significance** of assessed risk, **impact** of its occurrence & also **revise materiality** accordingly for specific account balance.
- 2) Determine **likelihood** for assessed risk to occur and **its impact** on auditing procedures.
- 3) **Document assertions** that are effected.
- 4) Consider **impact of the risk** on each of assertions.
- 5) (completeness, existence, accuracy, validity, valuation and presentation) **relevant** to account balance, class of transactions, or disclosure.
- 6) **Identify degree of significant risks** that would require separate attention and response by auditor.

Internal Control system

Q 5

SA 315 defines system of IC as the

process designed, implemented and maintained by TCWG, Mgt. and other personnel to provide reasonable assurance about achievement of an entity's objectives with regard to

reliability of financial reporting, effectiveness & efficiency of operations, safeguarding of assets, & compliance with L&R.

Objectives of Internal Control System

Transactions are executed through general or specific Mgt. authorization.

All transactions are **promptly recorded** in an appropriate manner to permit preparation of financial information and to maintain accountability of assets.

Assets and records are **safeguarded** from unauthorized access, use or disposition.

Assets are **verified at reasonable intervals** and appropriate action is taken with regard to the **discrepancies**.

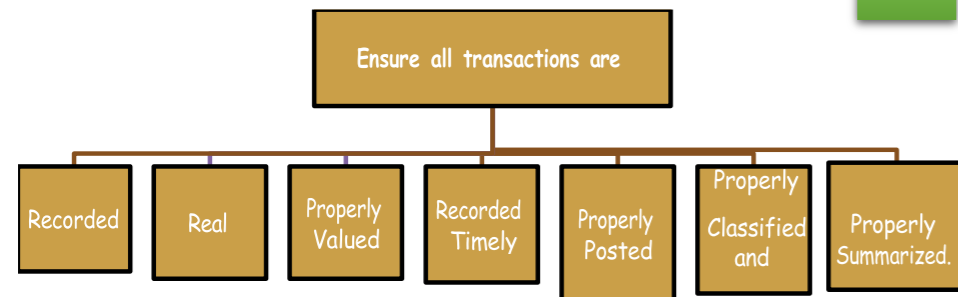
Inherent limitations of IC

Q 5

- 1) Mgt. consideration that **cost of an IC doesn't exceed** expected benefits to be derived.
- 2) **Potential for human error**, such as, due to carelessness, distraction, mistakes of judgement.
- 3) **Possibility of circumvention of IC** through collusion with employees or with parties outside entity.
- 4) **Possibility** that a person responsible for exercising an IC could **abuse** that responsibility.
- 5) **Manipulations by Mgt.** w.r.t transactions or estimates and judgements.

Basic accounting control objectives which are sought to be achieved by any accounting control system are:

Q 6



Components of Internal Control

Q 7

Control environment	Entity's RAP	Control activities	Information system and communication	Monitoring of Controls
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Structure of Internal Control

In order to achieve objectives of internal controls, it is necessary to **establish adequate control policies and procedures.** Most of these policies and procedures cover:

- 1) **Segregation of duties** - Following functions are segregated -
 - (a) authorization of transactions;
 - (b) execution of transactions;
 - (c) physical custody of related assets; and
 - (d) maintenance of records and documents
- 2) **Authorization of Transaction** - Delegation of authority to different levels and to particular persons are required to establish by Mgt. for controlling execution of transaction in accordance with prescribed conditions.

3) **Adequacy of Records and Documents** - Accounting controls should ensure that -

- (i) Transactions are executed in accordance with Mgt. 's general or specific authorization.
- (ii) Transactions & other events are promptly recorded at correct amounts.
- (iii) Transactions should be classified in appropriate accounts and in the appropriate period to which it relates.
- (iv) Recording of transaction should facilitate maintaining accountability for assets.

4) **Accountability and Safeguarding of Assets** - Accountability of assets commences from acquisitions of assets its use and final disposal. Safeguarding of assets requires appropriate maintenance of records, their periodic reconciliation with related assets.

5) **Independent Checks** - Independent verification of control systems, involves periodic or regular review by independent persons to ascertain whether control procedures are operating effectively or not.

Control Environment

Q 8

Control environment encompasses **following elements:**

- (a) **Communication & enforcement of integrity and ethical values:** How they are communicated, and how they are reinforced in practice.
- (b) **Commitment to competence:** Competence is **knowledge and skills** necessary to accomplish tasks that define individual's job.
- (c) **Participation by TCWG**
- (d) **Mgt. 's philosophy and operating style:** Mgt. 's philosophy and operating style encompass a broad range of characteristics.
- (e) **Organisational structure:** considering **key areas of authority** and **responsibility** and **appropriate lines of reporting.**
- (f) **Assignment of authority and responsibility**
- (g) **Human resource policies and practices**

Entity's Risk Assessment Process

Q 9

Risks can arise or change due to circumstances such as the following:

- 1) **Changes in operating environment.** Changes in regulatory or operating environment can result in changes in competitive pressures and significantly different risks.
- 2) **New personnel:** New personnel may have a different focus on or understanding of IC.
- 3) **New or revamped information systems:** Significant and rapid changes in IS can change risk relating to IC.

- 4) **Rapid growth:** Significant and rapid expansion of operations can strain controls and increase the risk of a breakdown in controls.
- 5) **New technology:** Incorporating new technologies into production processes or IS may change the risk associated with IC.
- 6) **New business models, products, or activities:** Entering into business areas or transactions with which an entity has little experience may introduce new risks associated with IC.
- 7) **Corporate restructurings:** Restructurings may be accompanied by staff reductions and changes in supervision and segregation of duties that may change the risk associated with IC.
- 8) **Expanded foreign operations:**
- 9) **New accounting pronouncements**

Control Activities

Q 10

Control activities that may be relevant to an audit may be **categorised as policies and procedures** that pertain to the following:

- (a) **Performance reviews:** These control activities include
 - **reviews and analyses** of **actual performance vs budgets,** forecasts, and prior period performance;
 - **comparing** internal data with external sources of info. and
 - **review** of functional or activity performance.
- (b) **Information processing:**

2 broad groupings of IS control activities are:

 - **Application controls** - apply to the **processing of individual applications.**
 - **General IT-controls-** are policies & procedures that **relate** to many applications & **support** the effective functioning of application controls.
- (c) **Physical controls:** Controls that encompass:
 - **Physical security of assets,** including adequate safeguards
 - **Periodic counting and comparison** with amounts shown on control records
- (d) **Segregation of duties:** **Assigning different people the responsibilities** of authorising transactions, recording transactions, and maintaining custody of assets.

Information System, Including Related Business Processes, Relevant to Financial Reporting, & Communication

IS relevant to financial reporting objectives, which includes the financial reporting system, **encompasses methods and records that:**

Identify and **record** all valid transactions.

Describe on a timely basis the transactions in sufficient detail to permit proper classification of transactions for financial reporting.

Measure the value of transactions in a manner that permits recording their proper monetary value in the FS.

Determine time period in which transactions occurred to permit recording of transactions in proper accounting period.

Present properly transactions and related disclosures in the FS.

Monitoring of Controls

1. Internal audit
2. Internal Check System - organization of overall system of book-keeping and arrangement of staff duties in such a way that **no one person can carry** through transaction & record every aspect thereof.

Objectives of internal check system:

- 1) To **detect** error and frauds with ease.
- 2) To **avoid and minimize** possibility of commission of errors and fraud by any staff.
- 3) To **increase the efficiency of the staff.**
- 4) To **prevent and avoid** misappropriation of cash and falsification of accounts.

Effectiveness of an efficient system of IC depends on following considerations-

- 1) Clarity of Responsibility
- 2) Division of Work
- 3) Standardization - by creating suitable policies.
- 4) Appraisal - Periodic review

General condition pertaining to the internal check system

- 1) **No single person** should have **complete control** over any important aspect of the business operation. Every employee's action should come under the review of another person.
- 2) **Staff duties should be rotated** from time to time so that members do not perform the same function for a considerable length of time.
- 3) Every member of staff should be encouraged to **go on leave at least once a year.**

- 4) Persons having **physical custody** of assets must **not** be permitted to have **access to books of accounts.**
- 5) **Mechanical devices** should be used, where ever practicable to prevent loss or misappropriation of cash.
- 6) **Budgetary control** should be **exercised** and **wide deviations observed** should be **reconciled.**

Internal Control Assessment and Evaluation

Q 15

Following are some of the key components to assess & evaluate the controls environment:

Standard Operating Procedures (SOPs): A well defined set of SOPs helps define role, responsibilities, process & controls.

- 1) **Enterprise Risk Mgt:** Org. which has **robust process** to identify & mitigate risks across enterprise & its **periodical review** will assist in early identification of gaps & taking effective control measures.
- 2) **Segregation of Job Responsibilities:** **No 2 commercial activities** should be conducted **by same person.**
- 3) **Job Rotation in Sensitive Areas:** lead to **possible misuse in sensitive areas.**
- 4) **Delegation of Financial Powers Document:** A **clearly defined document on delegation of powers** allows controls to be clearly operated without being dependent on individuals.
- 5) **Information Technology based Controls:** **Embed controls** through system instead of being human dependent.

Techniques of evaluation of Internal control

Questionnaire

- **Set of questions framed** in an organised manner, about **each functional area**, which has as purpose the evaluation of effectiveness of control and detection of its weakness if any.
- Intended to be **filled by co. executives** who are in charge of the various areas.
- For this purpose, often **one general question** is broken down into a **no. of questions** and **sub-questions** to enable executive to provide a just **'Yes', 'No' or 'Not applicable'** form of reply.
- If the answer to this is **'Yes'**, it fits with the plan of good IC. But if it is **'No'** it **indicates weakness** in the system.
- For the **1st year** of engagements, **issue of questionnaire is necessary.**
- For **subsequent years**, instead of issuing a questionnaire again, may request client to confirm whether any change in nature and scope of business has taken place,
- However, it would be a good practice in the case of continuing engagements to issue a questionnaire irrespective of any change, say, **every 3rd year.**

In the use of standardized IC questionnaire, certain basic assumptions about elements of good control are taken into account. These are -

- 1) Org.'s are such that permit an **extensive division of duties and responsibilities.**
- 2) Employees concerned with **accounting function are not assigned any custodial function.**
- 3) **No single person** is thrust with responsibility of completing a transaction all by himself.
- 4) There should always be **evidence to identify person** who has done work.
- 5) Work performed by each one is expected to **come under review of another** in the usual course of routine.
- 6) There is **proper documentation** and recording of transactions.

Check List

- **Series of instructions or questions on IC** which the auditor must follow or answer.
- If it is in the form of a question, the answer generally **'Yes', 'No' or 'Not Applicable'** is entered opposite the question.
- A check list is more in the nature of a reminder to auditor about matters to be checked for testing the IC system.

Flow chart

- Flow charting technique can also be resorted to for **evaluation of IC system.**
- It is a **graphic presentation of IC** in the org. and is normally drawn up to show the controls in each section or sub-section.
- It gives a **bird's eye view of the system** and is drawn up as a result of the auditor's review thereof.

A properly drawn up flow chart can provide a neat visual picture of the whole activities of the section or department involving flow of documents and activities.

More specifically, it can show-

- (i) **at what point a document is raised** internally or received from external sources;
- (ii) **no. of copies** in which a document is raised or received;
- (iii) **intermediate stages set sequentially** through which the document and the activity pass;
- (iv) **distribution of the documents** to various sections, department or operations;
- (v) **checking authorisation and matching;**
- (vi) **filing of documents;** and
- (vii) **final disposal.**

International Internal Control Frameworks

Q 18

Internal Control - Integrated Framework issued by Committee of the Sponsoring Organisations of the Treadway Commission (COSO Framework)

Framework includes **more than 17 basic principles** representing the fundamental concepts **associated with its 5 components**:

Control environment, risk assessment, control activities, information and communication, and monitoring.

Framework lists 3 categories of objectives as below:

- **Operations Objectives** - related to **effectiveness and efficiency** of entity's operations.
- **Reporting Objectives** - related to **internal and external financial and non-financial reporting to stakeholders** or other terms as established by regulators, standard setters, or entity's policies.
- **Compliance objectives** -"relating to entity's **compliance with applicable laws and regulations.**"

Guidance on Assessing Control published by Canadian Institute of Chartered Accountants (CoCo)

CoCo (Criteria of control) was introduced with **objective of improving organizational performance and decision-making with better controls, risk Mgt. and corporate governance.**

Framework **includes 20 criteria** for effective control in **4 areas** of an organization.

Purpose	Commitment	Capability	Monitoring and Learning
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Framework emphasizes that control **involves entire organization** but **begins on an individual level**, with the employee.

Control Objectives for Information and Related Technology (COBIT)

- Created by **ISACA** (Information Systems Audit and Control Association) for **IT governance and Mgt.**
- COBIT has **34 high-level processes** that cover 210 control objectives categorized in 4 domains: planning and organization, acquisition and implementation, delivery and support, and monitoring and evaluation.
- **Supportive tool** for managers and allows **bridging crucial gap between technical issues, business risks and control requirements.**
- **Ensures quality, control and reliability of IS** in org., which is also most imp. aspect of every modern business.
- **Guides an org. on how to use IT resources.**

Internal Control: Guidance for Directors on Combined Code, published by the Institute of Chartered Accountants in England & Wales (known as the Turnbull Report)

Provide guidance to **assist listed companies to implement requirements in Code relating to IC.**

key principles of the Code are :

- Board should **maintain a sound system of IC** to safeguard shareholders' investment and company's assets.
- Directors should, **at least annually**, conduct a **review of effectiveness of the group's system of IC** and should report to shareholders. **Review should cover all controls, including financial, operational and compliance controls and risk Mgt..**
- Companies which **don't have an internal audit function** should from time to time review the need for one.

Section 404 of Sarbanes-Oxley Act

(Sarbanes-Oxley Act Section 404) of United States of America **mandates that all publicly-traded companies must establish IC and procedures for financial reporting and must document, test and maintain those controls and procedures to ensure their effectiveness.**

Purpose of SOX is to **reduce the possibilities of corporate fraud.**

The SEC rules and PCAOB standard require that:

- Mgt. perform a **formal assessment** of its controls over financial reporting including tests that confirm the design and operating effectiveness of controls.
- Mgt. include in its annual report an assessment of ICFR.
- External auditors provide **2 opinions** as part of a single integrated audit of company:
 - **An independent opinion on effectiveness of system of ICFR.**
 - **Traditional opinion on the FS.**

Control System over Selling and Collection of Tickets (Q)

Refer QB

Q 21

Internal Control Questionnaire	Check list
Large no. of Detailed Questions	Contains questions relating to the main control objectives.
Answered by Co. Executives	Answered by Auditor/ Auditor's staff.
No indicates weakness. (significance of weakness not revealed)	Specific statement is required when weakness is material.

SA 265 – Communicating deficiencies in IC to TCWG & Mgt.

Requirements

- If auditor has identified one or more deficiencies in IC, he shall determine, whether, individually or in combination, they **constitute significant deficiencies**.
- **Communicate** in writing significant deficiencies in IC identified during audit to TCWG on a timely basis.

Also communicate to Mgt. at an appropriate level of responsibility on a timely basis

- In writing, significant deficiencies** in IC that auditor has communicated or intends to communicate to TCWG, unless it would be inappropriate to communicate directly to Mgt.; and
- Other deficiencies** in IC identified during audit that have not been communicated to Mgt. by other parties and that, in auditor's professional judgment, are of sufficient importance to merit Mgt.'s attention.

Auditor shall include in the **written communication** of significant deficiencies in IC:

- 1) A **description** of deficiencies and an explanation of their potential effects; and
- 2) **Sufficient information** to enable TCWG and Mgt. to understand context of communication. In particular, auditor shall explain that:
 - (i) **Purpose of audit** was for the auditor to express an opinion on FS;
 - (ii) Audit included **consideration of IC relevant to preparation of FS.**; and
 - (iii) **Matters being reported are limited to those deficiencies** that auditor has identified during audit.

When to communicate

Listed Entities	Before date of approval of FS
Other Entities	Before assembly of audit file (60 days from the date of audit report)

Significant Deficiencies in IC

Q 23

Examples of matters that auditor may consider in determining whether a deficiency or combination of deficiencies in IC constitutes a significant deficiency include:

- 1) **likelihood of deficiencies** leading to MM in FS in future.
- 2) **Susceptibility to loss or fraud** of the related asset or liability.
- 3) **Subjectivity and complexity** of determining estimated amounts, such as fair value accounting estimates.
- 4) **FS amounts exposed** to the deficiencies.
- 5) **Volume of activity** that has occurred or could occur in A/c balance or class of transactions exposed to deficiency or deficiencies
- 6) **Importance of controls** to financial reporting process; for ex:
 - General monitoring controls (such as oversight of Mgt.).
 - Controls over the prevention and detection of fraud.
 - Controls over selection & application of significant accounting policies.
 - Controls over significant transactions with related parties.
 - Controls over significant transactions outside the entity's normal course of business.
 - Controls over the period-end financial reporting process.
- 7) **Cause and frequency of exceptions** detected as a result of the deficiencies in the controls.
- 8) **Interaction** of deficiency with other deficiencies in IC.

Q 24

Indicators of significant deficiencies in IC include, for Ex

- 1) **Evidence** of ineffective aspects of **control environment**, such as:
 - **Indications** that significant transactions in which Mgt. is financially interested are **not being appropriately scrutinised** by TCWG.
 - **Identification of Mgt. fraud**, whether or not material, that was **not prevented by entity's IC**.
 - **Mgt.'s failure** to implement appropriate remedial action on significant deficiencies **previously communicated**.
- 2) **Absence** of a risk assessment process within entity where such a process would ordinarily be expected to have been established.
- 3) Evidence of an **ineffective entity risk assessment process**.
- 4) Evidence of an **ineffective response** to identified significant risks (e.g., absence of controls over such a risk).
- 5) Evidence of **Mgt.'s inability** to oversee the preparation of the FS.
- 6) **Misstatements detected** were not prevented, or detected and corrected, by **entity's IC**.
- 7) Disclosure of a MM due to error or fraud as prior period items in the current year's Statement of P&L.

Factors that auditor may consider in determining an appropriate level of detail for communication include, for Ex:

- 1) **Nature of entity.**
For instance, communication required for a public interest entity may be different from that for a non-public interest entity.
- 2) **Size and complexity** of the entity.
For instance, the communication required for a complex entity may be different from that for an entity operating a simple business.
- 3) **Nature of significant deficiencies** that auditor has identified.
- 4) **Entity's governance composition.**
For instance, more detail may be needed if TCWG include members who don't have significant experience in the entity's industry or in the affected areas.
- 5) **Legal or regulatory requirements** regarding communication of specific types of deficiency in IC.

Reporting to client on IC weakness

Q 25

Communicate such material weaknesses to the Mgt. or audit committee, on a timely basis preferably, in writing through a letter of weakness or Mgt. letter.

Important points with regard to such a letter are as follows:

- 1) Letter lists down the **area of weaknesses in the system** and offers suggestions for improvement.
- 2) **Indicate** that it **discusses only weaknesses** which have come to the attention of the auditor as a result of his audit and that his examination has **not been designed to determine the adequacy of IC for Mgt.**
- 3) letter serves as a **valuable reference** document for Mgt. for the purpose of revising the system and insisting on its strict implementation.
- 4) Serve to **minimize legal liability** in the event of a major defalcation or other loss resulting from a weakness in IC.

The practice of issue of letter of weaknesses has a great merit in relieving auditor from liability in case serious frauds or losses have occurred, which probably would not have taken place had the client taken due note of the auditor's points in the letter of weakness.

SA 315 Identifying and Assessing ROMM Through Understanding the Entity and its Environment

Objective

to **identify and assess ROMM**, whether due to fraud or error, at FS and assertion levels, **through understanding** entity and its environment, including the entity's IC, thereby providing a basis for designing and implementing responses to the assessed ROMM.

Definitions

Assertions - Representations by **Mgt.**, explicit or otherwise, **that are embodied in the FS**, as used by auditor to consider different types of potential misstatements that may occur.

Risk Assessment Procedures and Related Activities

Auditor shall perform **RAP** to provide a basis for the identification and assessment of ROMM at FS and assertion levels.

RAP shall include:

- Inquiries** of Mgt., of appropriate individuals and of others within entity who may have info. that is likely to assist in identifying ROMM.
- Analytical procedures.**
- Observation & inspection.**

Understanding of the Entity and its Environment, Including the Entity's IC (Knowledge of business)

Auditor shall obtain an understanding:

- Relevant industry, regulatory, and other external factors** including applicable **FRF**.
- Nature of entity**, including:
 - its operations;
 - its ownership and governance structures;
 - the types of investments that entity is making and plans to make, including investments in special-purpose entities; and
 - the way that entity is structured and how it is financed;
- Entity's selection and application of accounting policies**, including reasons for changes thereto.
- Entity's objectives and strategies**, and those **related business risks** that may result in ROMM.
- Measurement and review** of entity's financial performance.

Auditor shall obtain an understanding of whether the entity has a process for:

- Identifying **business risks** relevant to financial reporting objectives;
- Estimating **significance of risks**;
- Assessing **likelihood** of their occurrence; and
- Deciding about **actions to address those risks**

IS, including the related business processes

Auditor shall obtain an understanding of **info. system**, including **related business processes**, relevant to financial reporting, including following areas:

- Classes of transactions** in entity's operations that are significant to the FS;
- Procedures**, within both information technology (**IT**) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to general ledger and reported in FS;
- Related accounting records**, supporting info. and specific accounts in FS that are used to initiate, record, process and report transactions; and how info. is **trfd** to the general ledger.
- How information system captures events and conditions**, other than transactions, that are **significant** to the FS;
- Financial reporting process** used to prepare entity's FS, including significant accounting estimates and disclosures;
- Controls surrounding journal entries**, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

Significant Risks

Q 26

In exercising judgment as to which risks are significant risks, auditor shall consider at least following:

- Whether **risk is a risk of fraud**;
- Whether **risk is related to** recent significant economic, accounting, or other developments like changes in regulatory environment, etc., and, therefore, requires specific attention;
- Complexity of transactions**;
- Whether risk involves **significant transactions with related parties**;
- Degree of subjectivity** in measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
- Whether risk involves **significant transactions** that are **outside normal course of business**, or that otherwise appear to be unusual.

Process of Assessing Risk of MM

Q 27

Q- Consideration of auditor assessing ROMM

- Identify risks** throughout process of obtaining an understanding of entity and its environment, including relevant controls that relate to risks,;
- Assess identified risks**, and **evaluate whether they relate more pervasively to FS** as a whole and potentially affect many assertions;
- Relate identified risks to what can go wrong** at assertion level, taking account of relevant controls that auditor intends to test; and
- Consider likelihood of misstatement**, including the possibility of multiple misstatements,.

IT benefits an IC by enabling an entity to:

- Enhance** timeliness, availability, and accuracy of info.
- Enhance** ability to monitor the performance of the entity's activities and its policies and procedures;
- Facilitate additional analysis of info.**
- Reduce risk that controls will be circumvented**

IT specific risks to an entity's IC, including, for ex-

- Possibility of **IT personnel gaining access privileges beyond** those necessary to perform their assigned duties thereby breaking down SOD.
- Unauthorized changes to **data** in **master files**.
- Unauthorized changes to **systems or programs**.
- Failure to make necessary changes** to systems or programs.
- Inappropriate manual intervention**.
- Potential loss of data** or **inability to access data** as required.

Sources of obtaining client info:

- Clients **annual report** to shareholders;
- Minutes** of shareholders/board of directors;
- Internal financial Mgt. reports** of current & previous year;
- Previous year **audit working papers**;
- Discussion with client**;

SA 330 The Auditor's Responses to Assessed Risks

SA 330 deals with auditor's responsibility to **design and implement responses** to the ROMM identified and assessed by the auditor in accordance with SA 315.

Audit Procedures Responsive to the Assessed ROMM at the Assertion Level

Q 27

Auditor shall design and perform further audit procedures whose NTE are based on and are responsive to assessed ROMM at assertion level.

In designing the further audit procedures to be performed, auditor shall:

- a) Consider **reasons for the assessment** given to the ROMM at the assertion level for each class of transactions, account balance, and disclosure, including:
 - (i) **likelihood of MM** due to the particular characteristics of the relevant class of transactions, account balance, or disclosure (i.e., the inherent risk); and
 - (ii) Whether the **risk assessment takes into account the relevant controls** (i.e., the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); and
- b) Obtain **more persuasive audit evidence** the higher the auditor's assessment of risk.

Test of controls

Auditor shall design and perform tests of controls to obtain SAAE as to operating effectiveness of relevant controls when:

- a) Auditor's assessment of risks of MM at the assertion level **includes an expectation that the controls are operating effectively**. (i.e., auditor intends to rely on the operating effectiveness of controls in determining NTE of SP); or
- b) **SP alone cannot provide SAAE** at assertion level.

Using audit evidence obtained during an interim period

When auditor obtains audit evidence about operating effectiveness of controls during an interim period, auditor shall:

- a) **Obtain audit evidence** about significant changes to those controls subsequent to the interim period; and
- b) Determine **additional audit evidence** to be obtained for the remaining period.

Definitions

Substantive procedure - An audit procedure **designed to detect MMs** at the assertion level.

- a) **Substantive procedures** comprise:
 - (i) **Tests of details** (of classes of transactions, account balances, and disclosures), and
 - (ii) **Substantive analytical procedures**.
- b) **Test of controls** - An audit procedure designed to **evaluate the operating effectiveness** of controls in preventing, or detecting and correcting, MM at assertion level.

Relevant factors in determining what additional audit evidence to obtain about controls that were operating during the period remaining after an interim period, include:

- 1) **Significance of assessed risks of MM** at the assertion level.
- 2) **Specific controls** that were tested during the interim period, and significant changes to them since they were tested, including changes in the information system, processes, and personnel.
- 3) **Degree** to which audit evidence about operating effectiveness of those controls was obtained.
- 4) **length of remaining period**.
- 5) **Extent to which the auditor intends to reduce** further SP based on the reliance of controls.
- 6) **Control environment**.

Extent of tests of controls

When more persuasive audit evidence is needed regarding effectiveness of a control, it may be appropriate to increase the extent of testing of the control.

Matters the auditor may consider in determining the extent of tests of controls include the following:

- 1) **Frequency of performance of control** by entity during the period.
- 2) **length of time** during audit period that auditor is relying on operating effectiveness of control.
- 3) **Expected rate of deviation** from a control.
- 4) **Relevance and reliability of audit evidence** to be obtained regarding operating effectiveness of control at assertion level.
- 5) **Extent to which audit evidence is obtained** from tests of other controls related to the assertion.

Using audit evidence obtained in previous audits

In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits **auditor shall consider:**

- (a) **Effectiveness of other elements of IC**, including control environment, entity's monitoring of controls, and entity's RAP;
- (b) **Risks arising from the characteristics of control**, including whether it is manual or automated;
- (c) **Effectiveness of general IT-controls**;
- (d) **Effectiveness of the control and its application by the entity**, including nature and extent of deviations in the application of the control noted in previous audits;
- (e) Whether **lack of a change in a particular control** poses a risk due to changing circumstances; and
- (f) **ROMM and extent of reliance on the control**.

If auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, auditor shall establish the **continuing relevance** of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit.

Obtain this evidence by performing **inquiry** combined with **observation or inspection, to confirm** the understanding of those specific controls, and:

- (a) If **there have been changes** that affect the continuing relevance of audit evidence from previous audit, auditor shall **test controls in current audit**.
- (b) If **there have not been such changes**, he shall **test the controls at least once in every third audit**, and shall test **some controls each audit** to avoid possibility of testing all controls on which auditor intends to rely in a single audit period with no testing of controls in subsequent two audit periods.

Factors that warrant retesting of a control

Q 32

- 1) **A deficient control environment**.
- 2) **Deficient monitoring of controls**.
- 3) **Personnel changes** that significantly affect the application of the control.
- 4) **Changing circumstances** that indicate the need for changes in the control.
- 5) **Deficient general IT-controls**.
- 6) **A significant manual element** to the relevant controls.

SA 320 Materiality in Planning and Performing an Audit

Performance Materiality

- Amount or amounts set by auditor at **less than materiality for FS as a whole** to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for FS as a whole.
- If applicable, performance materiality also refers to amount or amounts set by auditor at less than materiality level or levels for **particular classes of transactions, account balances or disclosures.**

Determining Materiality & Performance Materiality when Planning the Audit

- ⊗ When establishing overall audit strategy, auditor shall **determine materiality for FS as a whole.**
If, **there is one or more particular classes of transactions, account balances or disclosures** for which **misstatements of lesser amounts than materiality for the FS as a whole** could reasonably be expected to **influence economic decisions** of users taken on basis of FS, auditor shall also determine materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.
- ⊗ **Determine performance materiality** for purposes of assessing ROMM and determining NTE of further audit procedures.

Revision of Materiality

Q 28

- Auditor shall revise materiality for FS as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) **in event of becoming aware of info.** during audit that would have caused auditor to have determined a different amount (or amounts) initially.
- If auditor **concludes that a lower materiality** for the FS as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that **initially determined** is appropriate, he shall determine **whether it is necessary to revise performance materiality,** and **whether NTE of further audit procedures remain appropriate.**

Use of Benchmarks in Determining Materiality for the FS as a Whole

Determining materiality involves the exercise of professional judgment.

A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the FS as a whole.

Q 29

Factors that may affect the identification of an appropriate benchmark include the following:

- 1) **Elements** of the FS (for ex, assets, liabilities, equity, revenue, expenses);
- 2) Whether there are items on which **attention of users of the particular entity's FS tends to be focused** ;
- 3) **Nature of entity**, where the entity is at in its life cycle, and industry and economic environment in which the entity operates;
- 4) Entity's **ownership structure** and the **way it is financed**
- 5) **Relative volatility of benchmark.**

SA 500 Audit Evidence

Audit Evidence

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

Mgt.'s expert - An individual/org. possessing expertise in a field other than accounting or auditing, whose work in that field is used by entity to assist entity in preparing FS.

Methods of obtaining Audit Evidence

- Observation:** - consists of looking at a process or procedure being performed by others,
- Inspection:** - involves examining records or documents, whether internal or external, in paper form, electronic form, or a physical examination of an asset.
- Inquiry:** - seek info. of knowledgeable persons within entity or outside entity.
- Recalculation:** - checking mathematical accuracy of documents or records.
- Reperformance:** - auditor's independent execution of procedures or controls that were originally performed as part of entity's IC.
- Analytical Procedures:** - consist of evaluations of financial info. made by a study of plausible relationships among both financial and non-financial data.
- External Confirmation:** - AE obtained by auditor as a direct written response from a 3rd party.
- Written Representation:** - to confirm certain matters or to support other evidence.

Sufficiency And Appropriateness of AE

Sufficiency	Measure of quantity
Appropriateness	Measure of Quality

- Higher the quality, the less quantity may be required.

Factors Determining Reliability of Audit Evidence

- Reliability of AE increased when obtained from independent sources outside entity.
- Reliability of AE generated internally increased when related controls are effective.
- AE obtained directly by auditor is more reliable than obtained indirectly.
- AE in documentary form more reliable than obtained orally.
- AE provided by original documents more reliable than provided by photocopies or documents filmed/digitised or transformed into electronic form.

Auditor's Consideration before Use/Reliability of Info. Produced by a Mgt.'s Expert

a) Evaluate competence, capabilities & objectivity of that expert:

Obtain info. regarding CCO of Mgt.'s expert from following sources: -

Personal experience with previous work of expert.	Discussions with expert.
Discussions with others who are familiar with expert's work	Published papers /books written by expert.
Knowledge of expert's qualifications, membership of professional body/industry association, license to practice.	Auditor's expert, who assists him in obtaining SAAE

b) Obtain understanding of work of Expert: -

- Whether expert's field has areas of speciality within it that are relevant to audit.
- Whether any professional or other standards, & regulatory or legal requirements apply.
- What assumptions & methods are used by Mgt. expert, & whether they are generally accepted & appropriate for financial reporting purposes.
- Nature of internal & external data or info. Mgt. expert uses.

c) Evaluate appropriateness of expert's work as audit evidence for relevant assertion: -

Considerations when evaluating appropriateness of Mgt. expert's work:

- Relevance & reasonableness of expert's findings or conclusions, their consistency with other AE, & whether they have been appropriately reflected in FS;
- If expert's work involves use of significant assumptions & methods,
- Relevance & reasonableness of those assumptions & methods; &
- If expert's work involves significant use of source data, relevance, completeness, & accuracy of source data.

Matters affecting NTE of Audit Procedures while using info. produced by Mgt. Expert

- Nature & complexity of matter to which Mgt. expert relates.
- ROMM in the matter.
- Nature, scope & objectives of Mgt. expert's work.
- Whether Mgt. expert is employed by entity, or is a party engaged by it to provide relevant services.
- Extent to which Mgt. can exercise control or influence over work of Mgt. expert.
- Auditor's previous experience of work of that expert.

Q. Importance of Inquiry as one of the methods of collecting Audit Evidence.

Inquiry: As per SA 500 Audit Evidence:

- Inquiry consists of seeking info. of knowledgeable persons, financial and non-financial, within the entity or outside the entity. Inquiry is used throughout audit, Inquiries may range from formal written inquiries to informal oral inquiries.
- Responses to inquiries may provide auditor with info. not previously possessed or with corroborative audit evidence. Alternatively, responses might provide info. that differs significantly from other info. that auditor has obtained, for ex, information regarding possibility of mgt. override of controls. In some cases, responses to inquiries provide a basis to modify or perform additional audit procedures.
- Although corroboration of evidence obtained through inquiry is often of particular importance, in case of inquiries about Mgt. intent, info. available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated Intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant info. to corroborate evidence obtained through inquiry.
- In some matters, auditor may consider it necessary to obtain WR from mgt. & TCWG to confirm responses to oral inquiries.

SA 501 Audit Evidence – Specific considerations for selected items

Objective

To obtain SAAE regarding:

Existence & condition of Inventory Completeness of litigation & claims involving the entity

Presentation & disclosure of segment info. in accordance with the applicable FRF

PART A: - Inventory

Existence & Condition of Inventory

Q 6

When inventory is material to FS, obtain SAAE regarding existence & condition of inventory by:

1) Attendance at physical inventory counting, unless impracticable

- ❑ Evaluate Mgt. instructions & procedures for recording & controlling results of entity's physical inventory counting;
- ❑ Observe performance of Mgt. count procedures;
- ❑ Inspect inventory;
- ❑ Perform test counts; &

2) Performing audit procedures over entity's final inventory records to determine whether they accurately reflect actual inventory count results.

Attendance at physical inventory counting involves:

- ☺ Inspecting inventory to ascertain its existence & evaluate its condition & perform test counts.
- ☺ Observing compliance with management's instructions and performance of procedures for recording & controlling results of physical inventory count; and
- ☺ Obtaining audit evidence as to reliability of management's count procedures.

Physical Inventory Counting at a date other than date of FS

Q 7

- ❑ For practical reasons, may be conducted.
- ❑ This may be done irrespective of whether Mgt. determines inventory quantities by an annual physical inventory counting or maintains a perpetual inventory system.
- ❑ In either case, effectiveness of design, implementation & maintenance of controls over changes in inventory determines whether conduct of physical inventory counting at a date, or dates, other than date of FS is appropriate for audit purposes.
- ❑ Auditor shall perform audit procedures to obtain AE about whether changes in inventory b/w count date & date of FS are properly recorded.

Matters for auditor's consideration when designing audit procedures to obtain AE about whether changes in inventory amounts between count date, or dates, & final inventory records are properly recorded include:

- a) Whether perpetual inventory records are properly adjusted.
- b) Reliability of entity's perpetual inventory records.
- c) Reasons for significant differences b/w info. obtained during physical count & perpetual inventory records.

If auditor unable to Attend Physical Inventory Counting due to Unforeseen Circumstances

- ❑ He shall make or observe some physical counts on an alternative date.
- ❑ Perform alternative audit procedures to assess whether changes in inventory b/w date of physical count & period end date are correctly recorded.
- ❑ Verify procedure adopted, treatment given for discrepancies noticed during physical count.
- ❑ Ensure that appropriate cut off procedures were followed by Mgt.
- ❑ Get Mgt. written representation on
- ❑ Completeness of info. provided regarding inventory, &
- ❑ Assurance w.r.t adherence to laid down procedures for physical inventory count.

Attendance at Physical Inventory Counting becomes impractical

Q 9

- ❑ Due to factors such as nature & location of inventory, ex: location may pose threats to safety of auditor
- ❑ As per SA 200, matter of difficulty, time, or cost involved is not in itself a valid basis for auditor to omit audit procedure or satisfied with AE that is less than persuasive.
- ❑ He shall perform alternative audit procedures to obtain SAAE regarding existence & condition of inventory.
- ❑ If not possible to do so- modify opinion as per SA 705.

When inventory under the custody and control of a 3rd party is material to FS

Q 10

He shall obtain SAAE regarding existence & condition of that inventory by performing one or both of following:

- a) Request confirmation from the 3rd party as to the quantities & condition of inventory.
- b) Perform inspection or other audit procedures appropriate in the circumstances.

Where info. is obtained that raises doubt about integrity and objectivity of the 3rd party. Auditor may consider it appropriate to perform other audit procedures:

- ❑ Attending, or arranging for another auditor to attend, 3rd party's physical counting of inventory, if practicable.
- ❑ Obtaining another auditor's report on adequacy of 3rd party's IC for ensuring that inventory is properly counted & safeguarded.
- ❑ Inspecting documentation regarding inventory held by 3rd parties, for ex, warehouse receipts.
- ❑ Requesting confirmation from other parties when inventory has been pledged as collateral.

PART 2: - Litigations & Claims

Completeness litigation & claims

Q 12(4)

Auditor shall design & perform **audit procedures** in order to identify litigation & claims involving entity which may give rise to a ROMM, including:

- Inquiry of Mgt.** & others within entity, including inhouse legal counsel;
- Reviewing minutes** of meetings of TCWG & **Correspondence** b/w entity & its external legal counsel; &
- Reviewing legal expense accounts.**

Communicate with Entity's External Legal Counsel

- If auditor assesses a ROMM regarding litigation or claims exist, or when audit procedures performed indicate that other material litigation or claims exist, he shall **seek direct communication with entity's external legal counsel.**
- Same can be done by **Letter of "General Inquiry" Or "Specific Enquiry"** (Prepared by Mgt. & Sent by Auditor)
- If Law/Legal council's professional body deny or prohibit to communicate directly with auditor he shall **perform Alternate audit Procedure.**
- If Mgt. Or Legal Counsel **refuse to communicate** with external legal counsel & Auditor **not able to obtain SAAE** using Alternate Audit Procedure he shall **modify Opinion as per SA 705.**

Letter of General Enquiry:

In some cases, auditor may seek **direct communication with entity's external legal counsel** through a letter of:

- **any litigation and claims** that counsel is aware of, and
- an **assessment of outcome** of litigation and claims, and
- an **estimate** of the **financial implications**, including costs involved

Letter Of Specific Inquiry:

If it is considered **unlikely** that entity's external legal counsel will **respond appropriately** to a letter of general inquiry.

Ex-. if his professional body prohibits response to such letter & have significant Risk.

Auditor may seek direct communication through a letter of specific inquiry. For this purpose, a **letter of specific inquiry includes:**

- A **list** of litigation and claims
- Where available, **Mgt. assessment of outcome** of each of identified litigation and claims and **its estimate of financial implications**, including costs
- A **request** that entity's external legal counsel **confirm reasonableness of Mgt. assessments** and **provide auditor with further info.** if list is considered by entity's external legal counsel to be incorrect.
- Auditor may **seek meeting** with external legal counsel if matter is:
 - Matter is a significant risk**
 - Matter is **complex.**
 - Disagreement** between Mgt & external legal counsel.

Written Representations

Auditor shall request Mgt. & TCWG to provide WR that all litigation and claims whose effects should be considered when preparing FS have been

- **disclosed** to the auditor and
- **appropriately accounted for & disclosed** as per applicable FRF.

PART-3 Segment Info: Presentation & Disclosure

Audit Procedure:

Obtain **SAAE** w.r.t presentation & disclosure of segment info. as per FRF:

- Obtaining an **understanding of methods used** by Mgt. in determining segment info. **Further,**
 - Evaluating whether such methods are likely to result in disclosure as per applicable FRF
 - Testing application of such methods.**
- Performing analytical procedures or other audit procedures.**

Examples of matters that may be relevant when obtaining an **understanding of methods used by Mgt.** in determining segment info. & disclosure as per applicable FRF include: Q 14

- Sales, transfers & charges** b/w segments, & elimination of intersegment amounts
- Allocation of **assets & costs** among segments
- Comparisons of budgets & other expected results**, for Ex: operating profits as a % of sales
- Consistency** with prior periods, & adequacy of disclosures w.r.t inconsistencies

SA 505 - External Confirmations

AE obtained as a **direct written response** to the auditor from a 3rd party (the confirming party), in paper form, or by electronic or other medium.

Situations where EC may be used

Debtor balances	Creditor balances
Bank loans	Bank Balance & other info. from bankers
Stock held by 3 rd parties	Property title deeds held by third parties
Investments purchased but delivery not taken	Terms of agreement/transactions with 3 rd parties

External Confirmation Procedures

- 1) **Determining info.** to be confirmed or requested;
- 2) **Selecting** appropriate **confirming party**;
- 3) **Designing confirmation requests**, including determining that requests are properly addressed.
- 4) **Sending requests**, including follow-up requests.

Factors to be considered by auditor when designing confirmation requests

Q 15

- 1) **Assertions being addressed.**
- 2) Specific identified **ROMM**, including fraud risks.
- 3) **Layout & presentation** of confirmation request.
- 4) **Prior experience** on audit or similar engagements.
- 5) **Method of communication** (ex: in paper form/by electronic or other medium)
- 6) **Mgt. authorisation** to confirming parties to respond to auditor.
- 7) **Ability of intended confirming party** to confirm or provide requested info. (ex: individual invoice amount v/s total balance).

Types Of External Confirmation

Positive confirmation request (PCR)

Q 1

Confirming party respond directly to auditor indicating whether **confirming party agrees or disagrees with info.** in request, or providing requested info.

- ❑ PCR asks confirming party to **reply in all cases**, either by indicating agreement with given info, or providing info..
- ❑ Response to PCR is expected to provide **reliable AE**.
- ❑ **Risk** - party may **reply without verifying** that info. is correct.
- ❑ Auditor may **reduce this risk** by using PCR that **do not state amt (or other info)** on confirmation request, and ask confirming party to fill amount or furnish other info.
- ❑ Use of this type of "blank" confirmation request may result in **lower response rates** because additional effort is required by confirming parties

Negative confirmation request (NCR)

A request that the confirming party respond directly to auditor **only if confirming party disagrees** with the info. provided in request.

NCR provide less persuasive AE than PCR.

Q 17

Accordingly, auditor **shall not use NCR** as **sole substantive audit procedure** to address assessed ROMM at assertion level unless **all of following are present**:

- a) Auditor has **assessed ROMM as low** & has **obtained SAAE** regarding operating effectiveness of controls relevant to assertion;
- b) **Population** of items comprises a large no. of small, homogeneous, account balances, transactions or conditions;
- c) **Very low exception rate** is expected; and
- d) Auditor **is not aware of circumstances or conditions** that would cause recipients of NCR to disregard such requests.

Failure to receive response to NCR

Q 18

- ❑ Failure to receive response to NCR **does not explicitly indicate receipt by intended confirming party** of confirmation request or verification of accuracy of info. contained in request.
- ❑ Failure of confirming party to respond to NCR **provides significantly less persuasive AE** than does a response to PCR.
- ❑ Confirming parties also **may be more likely to respond indicating their disagreement** with a confirmation request **when the info.** in the request **is not in their favour, and less likely to respond otherwise.**

Non-Responses: Alternative Audit Procedures

Examples of alternative audit procedures auditor may perform:

- ❑ **For accounts receivable balances** - examining specific subsequent cash receipts, shipping documentation, & sales near period-end.
- ❑ **For accounts payable balances** - examining subsequent cash disbursements or correspondence from 3rd parties, & other records, such as goods received notes.

Mgt.'s refusal to allow auditor to send a confirmation request

Q 19

Auditor shall:

- a) **Inquire** as to Mgt.'s reasons for the refusal, and **seek AE** as to their validity and reasonableness;
- b) **Evaluate implications of Mgt.'s refusal** on auditor's assessment of relevant risks of MM, including risk of fraud, and on NTE of other audit procedures; and
- c) Perform **alternative audit procedures** to obtain relevant and reliable AE.

If **Mgt. refusal** is **unreasonable, or he is unable to obtain relevant & reliable AE** from alternative audit procedures, he shall:

- ❑ communicate with TCWG as per **SA 260** &
- ❑ determine implications for audit & auditor's opinion as per **SA 705**

Factors assist auditor in determining whether EC procedures are to be performed as Substantive audit procedure include

Q 20

- 1) **Confirming party's knowledge of subject matter** - responses may be more reliable if provided by person at confirming party who has requisite knowledge about info. being confirmed.
- 2) **Ability or willingness of intended confirming party to respond** - for ex: confirming party:
 - a) May not accept responsibility for responding to confirmation request;
 - b) May consider responding too costly or time consuming;
 - c) May have concerns about potential legal liability resulting from responding;
 - d) May account for transactions in different currencies; or
 - e) May operate in environment where responding to confirmation requests is not significant aspect of day-to-day operations.
- 3) **Objectivity of intended confirming party** - if confirming party is related party of entity, responses to confirmation requests may be less reliable.

SA 510 Initial Audit Engagements -Opening Balances

Initial audit engagement - An engagement in which either:

FS for prior period were not audited; or

FS for prior period were audited by a predecessor auditor

Objective Q 21

To obtain SAAE about whether:

- (i) Closing balances of preceding period have been **correctly brought forward** to current period;
- (ii) opening balances **do not contain any misstatement** that materially affect the current period's FS; and
- (iii) **appropriate accounting policies reflected** in opening balances have been **consistently applied** in current period's FS, or **changes** are properly accounted for & adequately presented and disclosed.

Audit Procedures: Opening balances

Auditor shall read most recent FS & predecessor auditor's report thereon for info. relevant to opening balances, including disclosures.

Obtaining SAAE Q 22/

Auditor shall obtain SAAE about whether opening balances contain MM affect current period's FS by:

- a) Determining whether **prior period's closing balances have been correctly b/f** to current period or, **any adjustments** have been disclosed as prior period items in current year's P&L;
- b) Determining whether opening balances **reflect application of appropriate accounting policies**; &
- c) Performing one or more of following:
 - ❑ Where **prior year FS were audited**, perusing copies of audited FS including other relevant doc's relating to prior period FS;
 - ❑ **Evaluating whether audit procedures performed in current period provide evidence** relevant to opening balances; or
 - ❑ Performing **specific audit procedures** to obtain evidence regarding opening balances.

If auditor obtains AE that opening balances contain misstatements that could materially affect current period's FS - **perform additional audit procedures** as are appropriate in circumstances to **determine effect on current period's FS**.

If auditor **concludes** that such misstatements exist in current period's FS, - communicate misstatements with appropriate level of Mgt. & TCWG as per **450**.

Performing specific audit procedures to obtain evidence regarding opening balances Q 24

For Current Assets & Liabilities Q 23

Some AE about opening balances may be obtained as part of current period's audit procedures.

In case of **inventories**, audit procedures on closing inventory balance provide little AE regarding inventory on hand at beginning of period.

Therefore, additional audit procedures may be necessary:

- ❑ **Observing a current physical inventory count** and **reconciling** it to the opening inventory quantities.
- ❑ **Performing audit procedures on valuation of opening inventory items**.
- ❑ **Performing audit procedures on gross profit and cut-off**.

For NCA & NCL

❑ such as PPE, investments & long-term debt, some AE may be **obtained by examining accounting records & other info.** underlying opening balances.

- ❑ In certain cases, to obtain some audit evidence regarding opening balances **through confirmation with 3rd parties**.

Consistency of Accounting Policies

Auditor shall obtain SAAE about

- ❑ whether **accounting policies** reflected in **opening balances consistently applied** in current period's FS, &
- ❑ whether **changes in accounting policies** have been accounted for & adequately presented & disclosed as per FRF.

Nature and extent of Audit Procedures

Nature & extent of audit procedures necessary to obtain SAAE w.r.t opening balances **depend on such matters as**:

- ❑ **Accounting policies** followed by entity.
- ❑ **Nature of a/c balances, classes of transactions & disclosures & ROMM** in current period's FS.
- ❑ **Significance** of opening balances relative to current period's FS.
- ❑ Whether **prior period's FS were audited** &, if so, whether predecessor auditor's opinion was modified.

If prior period's FS were audited by predecessor auditor Q 24

- ❑ Current auditor may be able to obtain SAAE regarding opening balances **by perusing copies of audited FS**.
- ❑ Ordinarily, **current auditor can place reliance on closing balances contained in FS for preceding period, except** when during performance of audit procedures for current period possibility of misstatements in opening balances is indicated.

Audit Conclusions and Reporting Q 22

Opening Balances

If auditor is **unable to obtain SAAE**, he shall express **Qualified opinion or Disclaimer of opinion**, as appropriate, as per SA 705

If auditor **concludes** that **opening balances contain MM** affects current period's FS, & effect of misstatement is not properly accounted for or not adequately presented or disclosed, auditor shall express **Qualified opinion or Adverse opinion**, as per SA 705.

Modification to the Opinion in Predecessor Auditor's Report

If predecessor auditor's opinion w.r.t prior period's FS included a modification to auditor's opinion that remains relevant & material to current period's FS, auditor **shall modify** auditor's opinion on current period's FS as per SA 705 & SA 710.

SA 530 “Audit Sampling”

Application of audit procedures to **less than 100% of items within a population** such that all sampling units have a chance of selection.

Statistical & Non-statistical sampling

Q 25

Statistical Sampling

Approach to sampling that has following characteristics:

- (i) **Random selection** of sample items; &
- (ii) Use of **probability theory** to evaluate sample results, including measurement of sampling risk.

This method is **more scientific** as it involves use of laws of probability. This method has reasonably **wide application** where population consists of large no. of similar items.

Non-Statistical Sampling

- (i) Sampling approach that **doesn't** have characteristics of random selection & use of probability theory is considered as non-statistical sampling.
- (ii) In this method, **sample size & its composition are determined on basis of personal experience & knowledge of auditor**.

Sampling Risk & Non-sampling risk

Q 26/27

Sampling Risk

Risk that auditor's conclusion based on sample may be **different from conclusion** if entire population were subjected to same audit procedure.

Sampling risk can lead to **2 types of erroneous conclusions**:

- (i) In case of TOC, that **controls are more effective than they actually are**, or
In case of a TOD, that a **MM doesn't exist when in fact it does**. Auditor is concerned with this type of erroneous conclusion because it **affects audit effectiveness** & is more likely to lead to inappropriate audit opinion.
- (ii) In case of TOC, that **controls are less effective than they actually are**, or
In case of TOD, that **MM exists when in fact it does not**. This type of erroneous conclusion **affects audit efficiency** as it would usually lead to additional work to establish that initial conclusions were incorrect.

Non-sampling risk

Risk that auditor reaches an **erroneous conclusion** for any reason not related to sampling risk.

Tolerable Misstatement

Monetary amount set by auditor is not exceeded by actual misstatement in population.

Tolerable Rate of deviation

Rate of deviation set by auditor is not exceeded by actual rate of deviation in population.

Sample Design, Size and Selection of Items for Testing

- (i) When **designing audit sample**, consider purpose of audit procedure & characteristics of population.
- (ii) **Determine sample size** sufficient to reduce sampling risk to acceptably low level.
- (iii) **Select items for sample** in such a way that each sampling unit in population has a chance of selection.

Performing Audit Procedures

- (i) Auditor shall perform audit procedures on each item selected.
- (ii) **If audit procedure is not applicable to selected item** - perform procedure on a **replacement item**.
- (iii) **If auditor is unable to apply designed audit procedures**, or suitable alternative procedures, to a selected item, he shall **treat that item as a deviation from prescribed control**, in case of TOC, or misstatement, in case of TOD.

Nature & Cause of Deviations & Misstatements

- Auditor shall **investigate nature & cause** of any deviations or misstatements & **evaluate their possible effect**.
- When auditor considers misstatement or deviation discovered in sample to be **anomaly - obtain high degree of certainty that such misstatement or deviation is not representative of population**.
- Auditor shall obtain this degree of certainty by performing additional audit procedures to obtain SAAE that misstatement or deviation doesn't affect remainder of population.

Evaluating Results of Audit Sampling

Q 28

Auditor shall evaluate

- a) **Results of sample &**
- b) Whether use of audit sampling provided **reasonable basis for conclusions** about population that has been tested.

If audit sampling has **not provided a reasonable basis** for conclusions about population auditor may:

- **Request Mgt.** to investigate misstatements & to make necessary adjustments; or
- **Tailor NTE of FAP** to best achieve required assurance.

Projecting Misstatements

- Auditor **project misstatements for population to obtain a broad view of scale of misstatement** but this projection may not be sufficient to determine amount to be recorded.
- When **misstatement has been established as anomaly**, it excluded when projecting misstatements to population.
- However, **effect of any such misstatement, if uncorrected**, still needs to be considered in addition to projection of non-anomalous misstatements.
- For TOD, **project misstatements** found in sample to population
- For TOC, **no explicit projection of deviations is necessary** since sample deviation rate is also projected deviation rate for population as a whole.

Methods of Sample Selection

Q 29

Random Selection

This method is applied through random number generators or random number tables.

2 types of Random Sampling:

a) Simple Random Sampling:

- ❑ This method ensures that all items within a population stand an **equal chance of selection** by use of random number tables or random number generators.
- ❑ Sampling units could be physical items, such as sales invoices or monetary units.
- ❑ **Considered appropriate** when population to be sampled consists of reasonably **similar units & false within reasonable range**.
- ❑ Suitable for **homogeneous population** having a similar range

b) Stratified Sampling:

- ❑ **Dividing population into sub-populations**, each of which is group of sampling units which have similar characteristics (often monetary value).
- ❑ Every **such group** so divided is called a **strata**.
- ❑ **Each stratum** is treated as if it were a separate population & proportionate items are selected from each of stratum.
- ❑ Groups into which whole population is divided is determined by auditor on **basis of his judgment**. e.g.

Entire expense vouchers divided into:	Auditor then decide to check
Vouchers above ₹ 1,00,000	100% testing
Vouchers b/w ₹ 25,000 and ₹ 1,00,000	50% testing
Vouchers below ₹ 25,000	25% testing

Reasoning behind stratified sampling is that for a **highly diversified population**, weights should be allocated to reflect these differences.

Systematic Selection/Interval sampling

- ❑ No. of sampling units in population is divided by sample size to give a **sampling interval**,
- ❑ Ex: 50, and having determined a starting point within the first 50, **50th sampling unit thereafter is selected**.
- ❑ Although **starting point** may be determined haphazardly, sample is more likely to be truly random if it is determined by use of a computerised random number generator or random number tables.

Monetary Unit Sampling

Type of **value-weighted selection** in which sample size, selection & evaluation results in a conclusion in **monetary amounts**.

Haphazard Selection

- ❑ Samples are selected **without following structured technique**.
- ❑ Although no structured technique is used, **avoid any conscious bias or predictability** & thus attempt to ensure that all items in population have a chance of selection.
- ❑ **Not appropriate** when using statistical sampling.

Block Selection

- ❑ It involves **selection of a block(s) of contiguous items** from within population.
- ❑ Block selection **can't ordinarily be used in audit sampling** because most populations are structured such that items in a sequence can be expected to have similar characteristics .

Factors affecting Sample Size

In case of tests of controls

Increase in extent to which auditor's risk assessment takes into account relevant controls	Increases
Increase in tolerable rate of deviation	Decreases
Increase in expected rate of deviation of population to be tested	Increases
Increase in auditor's desired level of assurance that tolerable rate of deviation is not exceeded by actual rate of deviation in population	Increases

In case of tests of details

Increase in auditor's assessment of ROMM	Increase
Increase in use of other substantive procedures directed at same assertion	Decrease
Increase in auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in population	Increase
Increase in tolerable misstatement	Decrease
Increase in amount of misstatement auditor expects to find in population	Increase
Stratification of population when appropriate	Decrease

Uses of Stratification

Q 30

- A. **Audit efficiency may be improved** if auditor stratifies a population by dividing it into discrete sub-populations which have an identifying characteristic. **Objective** of stratification is to **reduce variability of items** within each stratum and therefore allow sample size to be reduced without increasing sampling risk.
- B. **When performing tests of details, population is often stratified by monetary value**. This allows **greater audit effort** to be directed to larger value items, as these items may contain the **greatest potential misstatement in terms of overstatement**. Similarly, a population may be stratified according to a particular characteristic that indicates a higher risk of misstatement, for example, when testing the allowance for doubtful accounts in valuation of accounts receivable, balances may be stratified by age.
- C. **The results of audit procedures applied to a sample of items within a stratum can only be projected to the items that make up that stratum**. To draw a conclusion on entire population, consider ROMM in relation to whatever other strata make up entire population.
- D. If a class of transactions or a/c balance has been divided into strata, **misstatement is projected for each stratum separately**. Projected misstatements for each stratum are then combined when considering the possible effect of misstatements on the total class of transactions or account balance.

SA 550 Related Parties

A party that is either:

- (i) RP as defined in FRF; or
- (ii) Where FRF establishes minimal or no related party requirements:
 - a) Person or other entity that has **control or significant influence, over reporting entity**;
 - b) Another entity over which reporting entity has **control or significant influence**; or
 - c) Another entity that is **under common control** with reporting entity through having:
 - Common controlling ownership;
 - Owners who are close family members; or
 - Common key Mgt.

However, entities that are **under common control by state** (i.e., a national, regional or local government) are **not considered related** unless they engage in significant transactions or share resources to significant extent with one another.

Related Party Disclosures: As per Ind AS 24

Q 31

"Related Party Disclosures", reporting entity is exempt from disclosure in relation to RPT & o/s balances, including commitments, with:

- (i) Govt. that has control or joint control of, or significant influence over reporting entity; and
- (ii) Another entity that is RP because same govt. has control or joint control of, or significant influence over, both reporting entity & other entity.

If reporting entity applies above exemption, shall disclose following about transactions & related o/s balances referred to:

- (i) Name of government & nature of its relationship with reporting entity (i.e. control, joint control or significant influence);
- (ii) **Following info. in sufficient detail** to enable users to understand effect of RPT on its F.S.:
 - **Nature & amount** of each individually significant transaction: and
 - for **other transactions** that are collectively, but not individually, significant, **a qualitative or quantitative indication of their extent.**

Understanding Entity's Related Party Relationships & Transactions

Auditor shall inquire of Mgt. regarding:

- a) **Identity of entity's RP**, including changes from prior period;
- b) **Nature of relationships** between entity & these related parties; and
- c) Whether entity entered into any transactions with these RP during period and, if so, **type & purpose of transactions.**

Auditor shall **inquire of Mgt. & others** within entity, & perform other RAP, to obtain understanding of controls that Mgt. has established to:

- a) **Identify, account for, & disclose** RP relationships & transactions
- b) Authorise & approve significant transactions & arrangements with RP; and
- c) Authorise & approve significant transactions & arrangements outside normal course of business

Discussion among Engagement Team

Q 32

Matters addressed in discussion among engagement team include:

- 1) **Nature & extent** of entity's relationships & transactions with RP.
- 2) **An Emphasis on importance** of maintaining professional skepticism throughout audit regarding potential for MM associated with RPR & RPT.
- 3) **Circumstances or conditions** of entity that indicate existence of RPR or RPT that Mgt. has not identified or disclosed to auditor
- 4) **Records or documents** that indicate existence of RPR or RPT.
- 5) **Importance** that Mgt. and TCWG attach to identification, appropriate accounting for, and disclosure of RPR & RPT and related risk of Mgt. override of relevant controls.

Records or Documents That Auditor May Inspect

Q 33

Auditor shall inspect following for indications of **existence of RP relationships or transactions** that Mgt. has not previously identified or disclosed to auditor:

- a) **Bank, legal & 3rd party confirmations** obtained.
- b) **Minutes** of meetings of shareholders & of TCWG; and
- c) **Such other records** or documents necessary.

During audit, auditor may **inspect records or documents** that may provide info. about RPR & RPT, for Ex:

- ❑ Entity ITR.
- ❑ **Info. supplied** by entity to **regulatory authorities.**
- ❑ **Shareholder registers** to identify entity's principal shareholders.
- ❑ Statements of **conflicts of interest** from Mgt. & TCWG.
- ❑ **Records of entity's investments** & those of its pension plans.
- ❑ **Contracts & agreements** with key Mgt. or TCWG.
- ❑ **Significant contracts & agreements** not in entity's ordinary course of business.
- ❑ **Life insurance policies** acquired by entity.
- ❑ **Internal auditors' reports.**

If auditor identifies significant transactions outside entity's normal course of business when performing audit procedures, inquire Mgt. about:

- a) **Nature of these transactions**; and
- b) **Whether related parties could be involved.**

Identification of Previously Unidentified or Undisclosed RP or Significant RPT

If auditor identifies RP or significant RPT that Mgt. has not previously identified or disclosed to auditor, then he shall:

- a) **Promptly communicate** relevant info. to other members of team;
- b) Where **FRF establishes RP requirements**:

Request Mgt. to identify all transactions with newly identified RP for further evaluation; and

Inquire as to why entity's controls failed to enable identification or disclosure of RPR or RPT;

- c) Perform **Substantive procedure** relating to such newly identified RP or significant RPT;
- d) **Reconsider risk** that other RP or significant RPT may exist that Mgt. has not previously identified or disclosed to auditor, & **perform additional audit procedures** as necessary; and
- e) If **non-disclosure** by Mgt. appears intentional, evaluate implications for audit.

Examples of arrangements that may indicate existence of RPR 's or RPT that Mgt. has not previously identified or disclosed to auditor include:

- ❑ Participation in **unincorporated partnerships** with other parties.
- ❑ Agreements for **provision of services** to certain parties under T&C that are o/s entity's normal course of business.
- ❑ **Guarantees and guarantor relationships**

Disclosure under AS 18

- ❑ **Name** of transacting related party;
- ❑ A **description** of relationship between parties;
- ❑ A **description** of nature of transactions;
- ❑ **Volume** of transactions
- ❑ Any **other elements** of RPT's which is necessary for an understanding of FS;

Identified Significant RPT o/s Entity's Normal Course of Business

Q 34

Q- Transactions appears to be biased?

For identified significant RPT outside entity's normal course of business, auditor shall:

- a) **Inspect underlying contracts or agreements & evaluate whether:**
- (i) **Business rationale** of transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;
 - (ii) **Terms of transactions** are consistent with Mgt. explanations; and
 - (iii) **Transactions** have been appropriately accounted for & disclosed as per FRF; and
- b) Obtain AE that **transactions** have been appropriately authorised & approved

Q 36

Examples of transactions o/s entity's normal course of business may include:

- ❑ **Complex equity transactions**, such as corporate restructurings or acquisitions.
- ❑ Transactions with **offshore entities** in jurisdictions with weak corporate laws.
- ❑ **Sales transactions** with unusually large discounts or returns.
- ❑ Transactions with **circular arrangements**, for ex, sales with a commitment to repurchase.
- ❑ Transactions under **contracts whose terms are changed** before expiry.
- ❑ **Leasing of premises or rendering of Mgt. services** by entity to another party if no consideration is exchanged.

SA 560 Subsequent Events

Subsequent events – Events occurring between date of F.S. & date of auditor's report, & **facts that become known** to auditor **after date of auditor's report**.

Types Of Events

- Those that provide evidence of conditions that **existed at date of F.S (Require Adjustment)**; &
- Those that provide evidence of conditions that **arose after date of F.S (Only disclosure)**.

Events Occurring Between the Date of FS and Date of Auditor's Report

Audit procedure in case of Subsequent Events

Q4

Auditor shall perform audit procedures designed to obtain SAAE that all subsequent that require adjustment or disclosure in F.S. **have been identified**.

Auditor shall take into account auditor's risk assessment in determining nature & extent of such audit procedures, which shall include following:

- Obtaining understanding** of procedures Mgt. has established to ensure that subsequent events are identified.
- Inquiring of Mgt. & TCWG** as to whether any subsequent events have occurred.
- Reading minutes** of meetings of owners, Mgt. & TCWG, that have been held after date of F.S. & inquiring about matters discussed at any such meetings for which minutes are not yet available.
- Reading entity's **latest subsequent interim F.S.**

If auditor identifies events that require adjustment of, or disclosure in, F.S. - determine whether each such event is appropriately reflected in those FS.

Written Representations

Obtain WR, that all events occurring subsequent to date of F.S. & for which FRF requires adjustment or disclosure **have been adjusted or disclosed**.

Q5

Auditor inquire specific inquiries about the following matters:

- Whether **new commitments, borrowings or guarantees** have been entered into.
- Whether any **increases in capital or issuance of debt instruments**.
- Whether **sales/acquisitions of assets** have occurred or are planned.
- Whether any events have occurred that are relevant to **recoverability of assets**.
- Whether any **assets** have been **appropriated by govt.** or destroyed, for ex, by fire or flood.
- Whether there have been any developments regarding **contingencies**.
- Whether any **unusual accounting adjustments** have been made.

Facts Which Become Known to Auditor After Date of Auditor's Report but Before Date F.S. are Issued

Q6

Auditor has **no obligation** to perform any audit procedures regarding F.S. after date of auditor's report.

However, **if fact becomes known to auditor that**, had it been known to auditor at date of auditor's report, may have caused auditor to **amend auditor's report**, he shall:

- Discuss** matter with Mgt. & TCWG.
- Determine **whether F.S. need amendment** and, if so,
- Inquire** how Mgt. intends to address matter in F.S.

If Mgt. **amends F.S.**, Auditor shall:

- Carry out audit procedures necessary** on amendment.
- Extend audit procedures** to date of new auditor's report; &
- Provide new auditor's report on amended F.S. not be dated earlier** than date of approval of amended F.S.

However, when **Mgt. doesn't amend the FS**, then:

<p>If auditor's report has not yet been provided to entity :- Modify opinion as required by SA 705; or</p>	<ul style="list-style-type: none"> - If auditor's report has already been provided to entity:- Notify Mgt. & TCWG not to issue F.S. to 3rd parties before necessary amendments have been made. - If FS are <u>issued without amendments</u>, - take appropriate action, to seek to prevent reliance on auditor's report.
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Facts Which Become Known to Auditor After FS have been Issued

Q7

After F.S. have been issued, he has **no obligation** to perform any audit procedures regarding such F.S.

However, when, after F.S. have been issued, fact becomes known to auditor that, had it been known to auditor at date of auditor's report, **may have caused auditor to amend auditor's report**, he shall:

- Discuss** matter with Mgt. & TCWG.
- Determine** whether F.S. need amendment &, if so,
- Inquire** how Mgt. intends to address matter in F.S.

If the Mgt. **amends F.S.**, Auditor shall:

- Carry out audit procedures necessary**.
- Extend audit procedures** to date of new auditor's report, & date new auditor's report no earlier than date of approval of amended F.S.
- Provide **new auditor's report on amended F.S.**
- Review steps taken by Mgt.** to ensure that anyone in receipt of previously issued F.S. together with auditor's report thereon is informed of the situation.
- When L/R or FRF doesn't prohibit, amend auditor's report, or provide new auditor's report.

Auditor shall include in new or amended auditor's report an **EOM para or OM para** referring to a note to F.S. that discusses reason for amendment of previously issued F.S. & to earlier report provided by auditor.

If **Mgt. doesn't take necessary steps** to ensure that anyone in receipt of previously issued F.S. is informed of situation & doesn't amend F.S. where auditor believes they need to be amended- notify Mgt. & TCWG, that auditor will seek to prevent future reliance on auditor's report.

Despite such notification, Mgt. or TCWG **do not take these necessary steps**, auditor shall take **appropriate action** (i.e. legal) to seek to **prevent reliance on auditor's report**.

SA 570 Going Concern

Scope

This SA deals with

- auditor's responsibilities in audit of FS relating to GC &
- implications for auditor's report.

SA 701 deals with auditor's responsibility to communicate KAM in auditor's report.

Q8

when SA 701 applies, matters relating to GC may be determined to be KAM, & explains that material uncertainty related to events or conditions that may cast significant doubt on entity's ability to continue as GC is, by its nature, a KAM.

GC Basis of Accounting

- Under GC basis of accounting, FS are prepared on assumption that entity is a GC & will continue its operations for foreseeable future.
- When use of GC basis of accounting is appropriate, assets & liabilities are recorded on basis that entity will be able to realize its assets & discharge its liabilities in normal course of business.

Responsibilities/Objectives of Auditor

- To obtain SAAE & conclude on, appropriateness of Mgt.'s use of GC basis of accounting in preparation of F.S., &
- To conclude, based on AE obtained, whether material uncertainty exists about entity's ability to continue as GC.
- As described in SA 200, potential effects of inherent limitations on auditor's ability to detect MM are greater for future events or conditions that may cause an entity to cease to continue as GC. Auditor can't predict such future events or conditions.
- Absence of any reference to MU about entity's ability to continue as GC in auditor's report can't be viewed as guarantee as to entity's ability to continue as GC.

Evaluating Mgt.'s Assessment

- Auditor shall evaluate Mgt.'s assessment of entity's ability to continue as GC.
- Auditor shall cover same period as that used by Mgt. to make its assessment as required by applicable FRF, or by law or regulation if it specifies a longer period.
- If Mgt.'s assessment covers less than 12 months from date of FS as defined in SA 560, shall request Mgt. to extend its assessment period to at least 12 months from that date.
- Consider whether Mgt.'s assessment includes all relevant info. of which auditor is aware as a result of audit.

Examples of events or conditions that may cast significant doubt on entity's ability to continue as a GC

Q9

Financial

- Net liability or net current liability position.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective FS.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.

Operating

- Mgt. intentions to liquidate entity or to cease operations.
- Loss of key Mgt. without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of highly successful competitor.

Other

- Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements.
- Pending legal or regulatory proceedings against entity that may, result in claims that entity is unlikely to be able to satisfy.
- Changes in L/R or govt. policy expected to adversely affect entity.
- Uninsured or underinsured catastrophes when they occur.

Additional Audit Procedures When Events or Conditions are Identified

Q10

- Where Mgt. has not yet performed an assessment of entity's ability to continue as a GC, requesting Mgt. to make its assessment.
- Evaluating Mgt.'s plans, whether outcome of these plans is likely to improve situation & whether Mgt.'s plans are feasible.
- Where entity has prepared cash flow forecast & analysis of forecast is significant factor in evaluation of Mgt.'s plans for future actions:

Evaluating reliability of data generated to prepare forecast;	Determining whether there is adequate support for assumptions forecast.
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- Considering whether any additional facts or info. have become available since date on which Mgt. made its assessment.
- Requesting WR from Mgt. & TCWG, regarding their plans for future actions & feasibility of these plans.

Additional Audit Procedures :

Q19

- Analyzing & discussing cash flow, profit & other relevant forecasts with Mgt.
- Analyzing & discussing entity's latest available interim FS.
- Reading terms of debentures & loan agreements & determining whether any have been breached.
- Reading minutes of meetings of shareholders, TCWG & relevant committees for reference to financing difficulties.
- Inquiring of entity's legal counsel regarding existence of litigation & claims and reasonableness of Mgt.'s assessments of their outcome & estimate of their financial implications.
- Evaluating entity's plans to deal with unfilled customer orders.
- Confirming existence, terms & adequacy of borrowing facilities.
- Obtaining & reviewing reports of regulatory actions.
- Determining adequacy of support for any planned disposals of assets.

Auditor Conclusions

- Auditor shall evaluate whether SAAE has been obtained & shall conclude on appropriateness of Mgt.'s use of GC basis of accounting in preparation of FS.
- Based on AE obtained, he shall conclude whether, a MU exists related to events or conditions that, may cast significant doubt on entity's ability to continue as a GC.
- MU exists when magnitude of its potential impact & likelihood of occurrence is such that appropriate disclosure of nature & implications of uncertainty is necessary for:

In case of fair presentation FRF	In case of compliance framework
Fair presentation of FS	FS not to be misleading

Adequacy of Disclosures

Q12

When Events or Conditions Have Been Identified & Material Uncertainty Exists

If auditor concludes that Mgt.'s use of GC basis of accounting is appropriate but MU exists, determine whether FS:

- a) **Adequately disclose** principal events or conditions that may cast significant doubt on entity's ability to continue as GC & **Mgt.'s plans** to deal with these events or conditions; &
- b) **Disclose clearly** that there is MU related to events or conditions that may cast significant doubt on entity's ability to continue as GC & therefore, that it may be **unable to realize** its assets & discharge its liabilities in normal course of business.

When Events or Conditions Have Been Identified but No Material Uncertainty Exists

Auditor shall evaluate whether **FS provide adequate disclosures** about these events or conditions.

Implications for Auditor's Report

Q12/13/14/15

Use of GC Basis of Accounting is Inappropriate - Auditor shall express **adverse opinion**.

Use of GC Basis of Accounting is Appropriate but MU Exists**Adequate Disclosure of Material Uncertainty is Made in F.S.**

Auditor shall **express unmodified opinion** & auditor's report shall include **separate section** under heading "**Material Uncertainty Related to GC**" to:

- (a) Draw attention to note in FS that discloses matters; &
- (b) **State** that these events or conditions indicate that a MU exists that may cast significant doubt on entity's ability to continue as GC & that auditor's opinion is not modified in respect of that matter.

Adequate Disclosure of MU is Not Made in F.S.

Auditor shall:

- a) Express **qualified / adverse opinion**, as appropriate, (SA 705); &
- b) **In Basis for Qualified (Adverse) Opinion section** of auditor's report, state that MU exists that may cast significant doubt on entity's ability to continue as a GC & that **FS do not adequately disclose this matter**.

Mgt. Unwilling to Make or Extend Its Assessment - when requested to do so by auditor, he shall **consider implications for auditor's report**.

SA 580 Written Representation

- ❑ WR by Mgt. provided to auditor to **confirm certain matters** or to **support other AE**.
- ❑ WR in this context **don't include** FS, assertions therein, or supporting books & records.

Objectives

- a) To obtain WR from Mgt. & TCWG that they believe that they have fulfilled their responsibility for preparation of FS & for completeness of info. provided to auditor;
- b) To support other audit evidence relevant to FS or specific assertions in FS
- c) To respond appropriately to WR provided by Mgt. & TCWG, or if Mgt. or, TCWG **do not provide** WR requested by auditor.

Date of and Period(s) Covered by WR

Q20/21

Date

- ❑ Date of WR shall be **as near as practicable to, but not after, date of auditor's report on F.S.**
- ❑ Because WR are necessary AE, **auditor's opinion cannot be expressed, & auditor's report can't be dated, before date of WR.**
- ❑ In some case it may be appropriate for auditor to **obtain a WR about a specific assertion in FS** during course of audit. Where this is the case, it may be necessary to **request updated WR**

Period

- ❑ WR shall be for **all F.S. & period(s) referred to in auditor's report.**
- ❑ **WR are for all periods referred to in auditor's report because Mgt. needs to reaffirm** that WR it **previously made** W.r.t prior periods remain appropriate.
- ❑ Auditor & Mgt. **may agree to a form of WR** that updates WR relating to prior periods by addressing whether there are any changes to such WR and, if so, what they are.
- ❑ **Situations may arise where current Mgt. were not present during all periods referred to in auditor's report.** Such persons may assert that they are not in a position to provide some or all of WRs because they were not in place during period.
- ❑ This fact, however, **doesn't diminish** such persons responsibilities for FS as a whole. Accordingly, requirement for auditor to request from them WRs that cover whole of relevant period(s) still applies.

Doubt as to Reliability of WR

Q

- ❑ If auditor has **concerns** about competence, integrity, ethical values or diligence of Mgt., he shall **determine effect** that such concerns may have on reliability of representations & audit evidence..
- ❑ If **WRs are inconsistent with other AE**, he shall perform audit procedures to attempt to resolve the matter.
- ❑ If **matter remains unresolved**, he shall **reconsider assessment of competence, integrity, ethical values or diligence of Mgt.**, & shall determine effect that this may have on reliability of representations (oral or written) & audit evidence in general.
- ❑ If auditor concludes that WRs are **not reliable**, he shall **take appropriate actions**, including determining possible effect on opinion in auditor's report as per SA 705 i.e. **disclaim an opinion.**

Requested WR Not Provided

Q

If Mgt. **doesn't provide** one or more of requested WRs, auditor shall:

- ❑ **Discuss** matter with Mgt.
- ❑ **Re-evaluate** integrity of Mgt. & **evaluate effect** that this may have on reliability of representations & **AE** in general; and
- ❑ **Take appropriate actions**, including determining possible effect on opinion in auditor's report as per **SA 705** i.e. **disclaim an opinion.**

Q22- An auditor of Sagar Ltd. was **not able to get confirmation** about existence and value of certain machineries.

However, Mgt. gave him a certificate to prove existence & value of machinery as appearing in books of account.

Auditor **accepted same without any further procedure** and signed audit report. Is he right in his approach?

Validity of Written Representation:

Physical verification of fixed assets is primary responsibility of Mgt..

Auditor, however, is required to examine verification programme adopted by Mgt.

He must satisfy himself about existence, ownership & valuation of fixed assets.

In case of Sagar Ltd., auditor has not been able to verify existence and value of some machinery despite verification procedure followed in routine audit. He accepted the certificate given to him by Mgt. **without making any further enquiry.** As per SA 580 "WR", when representation relate to matters which are material to financial information, then auditor **should seek corroborative audit evidence from other sources inside or outside entity.** He should evaluate whether such representations are reasonable & consistent with other evidences and should consider whether individuals making such representations can be expected to be well informed on the matter.

"Written Representations" cannot be a substitute for other audit evidence that auditor could reasonably expect to be available. If auditor is unable to obtain SAAE that he believes would be available regarding a matter which has or may have a material effect on financial information, this will constitute a limitation on scope of his examination even if he has obtained a representation from Mgt. on matter. Therefore, approach adopted by auditor is not right.

SA 700 Forming an opinion and reporting on FS

Objective: As per SA 700 objectives of auditor are:

- To form opinion on F.S. based on evaluation of conclusions drawn from AE obtained; &
- To express clearly that opinion through a written report

SA 700 applies to **audit of complete set of general-purpose FS** & is written in that context

General purpose framework	Special purpose framework
Designed to meet <u>common financial info. needs of wide range of users.</u>	Designed to meet <u>financial info. needs of specific users.</u>

Note - Above framework may be a **fair presentation framework or a compliance framework.**

Fair presentation framework

Is used to refer to a FRF that requires compliance with the requirements of the framework and:

- Acknowledges explicitly or implicitly** that, to achieve fair presentation of FS, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- Acknowledges explicitly** that it may be necessary for **management to depart** from a requirement of the framework to achieve fair presentation of the FS.

Such departures are expected to be necessary only in extremely rare circumstances.

Compliance framework

It is used to refer to FRF that requires compliance with requirements of framework, **but does not contain the acknowledgements given in (1) or (2) above.**

Specific Evaluation by Auditor

Q1

- FS **adequately disclose** significant accounting policies selected and applied;
- Accounting policies selected** and applied are **consistent with applicable FRF** and are **appropriate**;
- Accounting estimates** made by management are reasonable;
- Info. presented in FS** is relevant, reliable, comparable, and understandable;
- FS provide adequate disclosures** to enable intended users to understand the effect of material transactions and events on the info. conveyed in FS; and
- Terminology** used in FS, including title of each FS, is **appropriate**.

Basic Elements of Auditor's Report

As per SA 700 "Forming an opinion and reporting on FS", auditor's report shall be in writing & shall include following basic elements.

- Title:** title that clearly indicates that it is a report of an independent auditor.
- Addressee:** Addressed as required by circumstances of engagement.
Ex: - Report could be addressed to **Members of Co.** in case of **general purpose** (statutory) F.S. & to **BOD** in case of **special purpose F.S.**
- Auditor's Opinion:** **First section** of auditor's report shall include **auditor's opinion**, & shall have heading "**Opinion.**"
Opinion section of auditor's report shall also:
 - Identify entity** whose F.S. have been audited;
 - State that F.S.** have been audited;
 - Identify title** of each statement comprising F.S.;
 - Refer to notes**, including summary of significant accounting policies
 - Specify date of, or period covered by, each F.S. comprising F.S.
- Basis for Opinion:** Auditor's report shall include a section, directly following Opinion section, with heading "Basis for Opinion", that:
 - States that audit was **conducted as per SA**;
 - Refers** to section of auditor's report that **describes auditor's responsibilities** under SAs;
 - Includes a statement** that **auditor is independent of entity** in accordance with relevant ethical requirements.
 - Statement shall refer** to **Code of Ethics** issued by ICAI
 - States whether auditor believes that **AE** auditor has obtained is **sufficient & appropriate** to provide a basis for auditor's opinion.
- Going Concern:** SA 570
Note: Where use of Going Concern Basis is **appropriate** then **no special paragraph** is required in Auditors Report mentioning the fact.
- Key Audit Matters (KAM):** For audits of complete sets of **general purpose FS of listed entities**, communicate KAM in auditor's report as per SA 701. When an auditor is otherwise required by law or regulation or decides to communicate KAM in auditor's report, auditor shall do so as per SA 701.
- Other Information:** SA 720.
- Responsibilities for F.S:** Auditor's report shall include a section with heading "Responsibilities of Mgt. for F.S."
- Auditor's Responsibilities for Audit of F.S:**

10. Location of description of auditor's responsibilities for audit of F.S

- Within **body** of auditor's report;
- Within **appendix** to auditor's report or
- By a **specific reference** within auditor's report to location of such a description on a website of an appropriate authority, where law, regulation or auditing standards expressly permit auditor to do so.

11. Other Reporting Responsibilities:

- Clearly differentiate** other reporting responsibilities from reporting that is required by SAs.
- Heading "Report on Audit of F.S." > "Report on Other Legal and Regulatory Requirements"

12. Signature of the Auditor:

- Signed by **auditor (i.e. engagement partner)** in his personal name.
- Firm - **signed in personal name** of auditor & **in name of audit firm**.
- Membership no.**
- Registration no. of firm**

Under Section 145 read with Section 141(2) of the Companies Act, 2013, only person appointed as auditor of co. or, where a firm is so appointed, only partner in firm who is a CA, may sign auditor's report or sign or authenticate any other document of Co. required by law to be signed or authenticated by auditor.

Clause (12) of Part I of the First Schedule to CA Act, 1949

13. Place of Signature: specific location, ordinarily city where audit report is signed.

14. Date of Auditor's Report: dated no earlier than date on which auditor has obtained SAAE

Auditor's Report for Audits Conducted as per both SA Issued by ICAI and ISAs or SA of Any Other Jurisdiction:

Q4

Auditor may be required to conduct an audit in accordance with, in addition to SA issued by ICAI, ISAs or SA of any other jurisdiction.

If this is the case, auditor's report **may refer** to SA in addition to ISAs or SA of such other jurisdiction, but auditor **shall do so only if**:

- (a) There is **no conflict** b/w requirements in ISAs or such auditing standards of other jurisdiction & those in SAs that would lead auditor
 - (i) **to form a different opinion**, or
 - (ii) **not to include an EOM Para or OM Para** that, in particular circumstances, is required by SAs; and
- (b) Auditor's report includes, at a **minimum, each of elements set out** in Auditor's Report Prescribed by L/R when auditor uses layout/ wording specified by SA. Auditor's report shall thereby identify such SA.

When auditor's report refers to both, ISAs or auditing standards of a specific jurisdiction & SA issued by ICAI, auditor's report shall **clearly identify same** including jurisdiction of origin of other auditing standards.

Supplementary Information Presented with F.S.

Q5/6

If supplementary info. presented with audited F.S that is **not required** by applicable FRF is -

- (a) Auditor shall evaluate whether supplementary info. is **integral part of F.S.** When it is an **integral part** of F.S., supplementary info. **shall be covered by auditor's opinion.**
- (b) **Not considered integral part of audited F.S.**, evaluate whether such supplementary info. is presented in a way that **sufficiently & clearly differentiates** it from audited F.S.

If this is **not the case**, then auditor shall ask **Mgt. to change how unaudited supplementary info. is presented**. If Mgt. **refuses** to do so, **identify unaudited supplementary info. & explain in auditor's report that such supplementary info. has not been audited.**

SA 701 Communicating KAM in the independent auditor's report

KAM are those matters that, in auditor's professional judgment, were of **most significance in audit of F.S. of current period**.
KAM are selected from matters communicated with TCWG.

Examples of KAM:

- Assessment of Impairment,
- Provision for losses and contingencies,
- Valuation of financial instruments,
- Matters relating to Revenue recognition,
- Taxation matters (multiple tax jurisdictions, deferred tax assets).

Objective

- To **enhance communicative value** of auditor's report by providing greater transparency about audit.
- To **assist user in understanding** those matters that, were of most **significance** in audit of F.S. of current period.

Applicability

SA applies to audits of complete sets of general purpose F.S. of listed entities.
However, **SA 705 prohibits** auditor from communicating KAM when auditor **disclaims opinion** on F.S, unless such reporting is required by L/R.

Scope

Communicating KAM in auditor's report is **not**:

- 1) Substitute for **disclosures in F.S.** that applicable FRF.
- 2) Substitute for auditor expressing **modified opinion** (SA 705);
- 3) Substitute for reporting as per **SA 570** when material uncertainty exists relating to events or conditions that may cast significant doubt on entity's **ability to continue as going concern; or**
- 4) A **separate opinion** on individual matters.

Descriptions of Individual KAM

Description of each KAM in KAM section of auditor's report shall **include a reference to related disclosure(s)**, if any, in F.S. & **shall address**:

- Why matter** was considered to be one of most significance in audit & therefore determined to be a KAM; &
- How matter** was addressed in audit.

Circumstances in Which a Matter Determined to Be KAM is Not Communicated in AR

Q9

- Law or regulation **precludes public disclosure** about matter; or
- If, Auditor determines that matter should **not be communicated** in AR because **adverse consequences of doing so** would reasonably be **expected to outweigh public interest benefits of such communication**. This shall not apply if entity has publicly disclosed information about matter.

Determining KAM-Factors

Q10/11

In making this determination, auditor shall take into account following:

- Areas of higher assessed ROMM**, or **significant risks identified** in accordance with SA 315
- Significant auditor judgments** relating to areas in F.S that involved **significant Mgt. judgment**, including A/E that have been identified as having high estimation uncertainty.
- Effect on audit of **significant events** or transactions that occurred during period.

Communicating KAM

Q9

Introductory language in this section of report shall **state that**:

- KAM are **those matters** that, in auditor's professional judgment, were of most significance in audit of F.S. [of current period]; &
- These matters were addressed in context of audit of F.S. as a whole, & auditor **doesn't provide a separate opinion on these matters**.

Placement of KAM in AR

Q12 (c)

- **After Basis for Opinion paragraph** and **before Management's Responsibility paragraph**.
- In case, 'Material uncertainty relating to GC' section is required as per SA570, then **KAM section is placed after that section**.

Further, regarding placement of KAM section, SA 706,

When a KAM section is presented in auditor's report, an EOMP may **be presented either directly before or after Key Audit Matters section**, based on auditor's judgment as to significance of info. included in EOMP.

Auditor may also add further context to the heading "Emphasis of Matter", such as "Emphasis of Matter - Subsequent Event", to differentiate EOMP from the individual matters described in KAM's section.

Matter other than disclosed in FS

Q 11

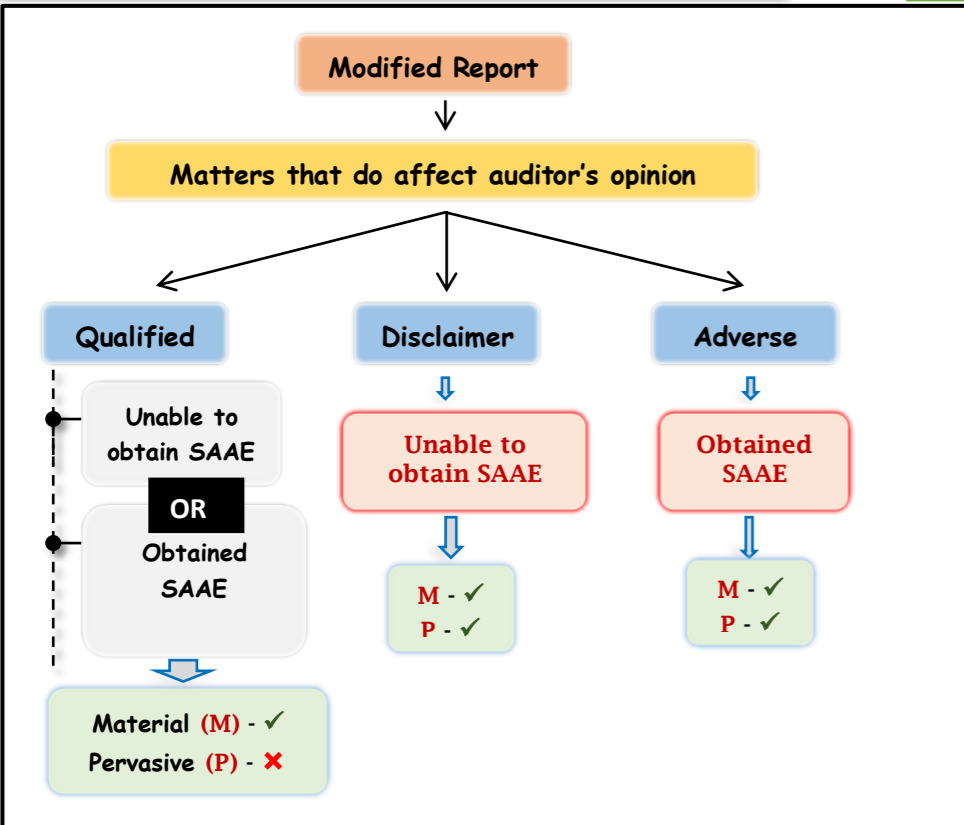
When communicating KAM the fact that there are **no disclosures in the financial statements** related to a matter determined to be a KAM **doesn't relieve the auditor** from the requirement to communicate it.

An auditor may determine a key audit matter related to the audit for which relevant disclosure requirements do not exist in the applicable FRF.

For ex- implementation of a new IT system during the period may be an area of significant auditor attention, in particular, if such a change had a significant effect on the auditor's overall audit strategy or related to significant risk .

SA 705 Modification to the opinion in the independent auditor's report

Q



Pervasive: Pervasive is a term used in the context of misstatements, to describe the effects on the FS of misstatements or the possible effects on FS of misstatements.

- Pervasive effects on the FS are those that in the auditor's judgment:
- Are not confined to specific elements, accounts or items of FS;
 - If so confined, represent/could represent a substantial proportion of FS; or
 - In relation to disclosures, are fundamental to users' understanding of FS.

Type of Modification

Q

- Qualified Opinion:** Auditor shall express a qualified opinion when:
- Auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the FS; or
 - Auditor is unable to obtain SAAE on which to base the opinion, but auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be material but not pervasive.
- Adverse Opinion:** Auditor shall express an adverse opinion when the auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the FS.

Disclaimer of Opinion: When auditor is unable to obtain SAAE on which to base the opinion, and concludes that the possible effects on the FS of undetected misstatements, if any, could be both material and pervasive.

Special consideration needed for expressing Qualified Opinion

Q

State that, in auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:

- When reporting in accordance with fair presentation framework, the accompanying FS present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable FRF]; or
- When reporting in accordance with a compliance framework, the accompanying FS have been prepared, in all material respects, in accordance with [the applicable FRF].

When the modification arises from an inability to obtain SAAE, he shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion.

Unless required by L/R, when auditor disclaims an opinion on FS, auditor's report shall not include a Key Audit Matters section in accordance with SA 701.

Special consideration needed for expressing Adverse Opinion

Q

When auditor expresses an adverse opinion, auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:

- When reporting in accordance with a fair presentation framework, the accompanying FS don't present fairly (or give a true and fair view of) [...] in accordance with [the applicable FRF]; or
- When reporting in accordance with a compliance framework, the accompanying FS have not been prepared, in all material respects, in accordance with [the applicable FRF].

Special consideration needed for expressing Disclaimer of Opinion

Q

When auditor disclaims an opinion due to an inability to obtain SAAE, auditor shall:

- State that auditor doesn't express an opinion on accompanying FS;
- State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, auditor has not been able to obtain SAAE to provide a basis for an audit opinion on the FS; and

Amend the statement required in SA 700, which indicates that the FS have been audited, to state that auditor was engaged to audit the FS.

Consequence of an Inability to Obtain SAAE Due to a Management-Imposed Limitation after Auditor Has Accepted the Engagement

Q

He considers likely to result in the need to express a qualified opinion or to disclaim an opinion - request that management remove the limitation.

If management refuses to remove limitation - Communicate matter to TCWG and determine whether it is possible to perform alternative procedures to obtain SAAE.

If auditor is unable to obtain SAAE, he shall determine the implications as follows:

- If auditor concludes that possible effects on the FS of undetected misstatements, could be material but not pervasive, he shall qualify the opinion; or
- If auditor concludes that the possible effects on the FS of undetected misstatements, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, he shall:
 - Withdraw from audit, where practicable and possible under applicable L/R; or
 - If withdrawal from audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the FS.

Where Auditors' withdrawal is not permitted:

Listing agreement and SEBI of India's directive on the resignation of auditor doesn't permit withdrawing from the engagement without issuing the audit / review report.

Situation	Then Auditor shall before such resignation
If auditor resigns within 45 days from the end of a quarter of a FY	Issue the limited review/ audit report for such quarter.
If auditor resigns after 45 days from the end of a quarter of a FY	Issue the limited review/ audit report for such quarter as well as the next quarter.
If auditor has signed the limited review/ audit report for the first 3 quarters of a FY	Issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such FY.

ICAI announcement on the Resignation of Auditor: ICAI has made an announcement that auditor of an unlisted company shall not mention "professional pre-occupation" as a reason for the resignation.

He shall mention the reasons clearly for the resignation in the resignation letter issued to Company.

SA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in Independent Auditor's Report

Emphasis of Matter paragraph

Q 34

A paragraph included in auditor's report that refers to a matter **appropriately presented or disclosed in FS** that, in auditor's judgment, is of such **importance that it is fundamental to users understanding** of the FS.

Ex: Circumstances where auditor may consider it necessary to include an EOMP are:

- ❑ An **uncertainty relating to the future outcome** of exceptional litigation or regulatory action.
- ❑ A **significant subsequent event** that occurs between the date of FS and date of the auditor's report.
- ❑ **Early application** (where permitted) of a **new accounting standard** that has a material effect on the FS.
- ❑ A **major catastrophe** that has had, or continues to have, a **significant effect** on the entity's financial position.

When to give EOMP in Auditor's Report?

Q 33

If auditor considers it necessary to draw users' attention to a matter presented or disclosed in FS that, in his judgment, is of such importance that it is fundamental to users' understanding of FS, he shall include an EOMP provided:

- (a) Auditor would **not be required to modify the opinion** in accordance with SA 705 as a **result of the matter**; and
- (b) When **SA 701 applies**, matter **has not been determined to be a key audit matter** to be communicated in the auditor's report.

Ex- These circumstances may include:

Q 34

- When a **FRF** prescribed by L/R would be **unacceptable** but for the fact that it is prescribed by L/R.
- To alert users that FS are prepared in accordance with a **special purpose framework**.
- When facts become known to auditor after date of auditor's report and auditor provides a new or amended auditor's report (i.e., **subsequent events**).

When auditor includes EOMP in audit report, he shall

- (a) **Include the paragraph** within a **separate section** of the auditor's report with an **appropriate heading** that includes term "Emphasis of Matter";
- (b) Include in the paragraph a **clear reference to the matter being emphasized** and to **where relevant disclosures that fully describe the matter can be found in the FS**. The paragraph shall refer only to information presented or disclosed in FS; and
- (c) Indicate that **auditor's opinion is not modified** in respect of the matter emphasized.

Other Matter paragraph

A paragraph included in auditor's report that refers to matters **other than those presented or disclosed in FS** that, in auditor's judgment, is **relevant to users' understanding of the audit**, auditor's responsibilities or auditor's report.

Ex- Branch is audited by another auditor

When to issue OMP in Auditor's Report?

If auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the FS that, in auditor's judgment, is relevant to users' **understanding of audit, auditor's responsibilities or auditor's report**, auditor shall include an Other Matter paragraph in the auditor's report, **provided**:

- (A) This is **not prohibited** by L/R; and
- (B) When **SA 701** applies, the matter **has not been determined** to be a key audit matter to be communicated in the auditor's report.

When auditor includes an OMP in auditor's report, he shall include the paragraph within a separate section with heading "Other Matter," or other appropriate heading.

SA 710 Comparative Information - Corresponding Figures and Comparative FS

Comparative information

Amounts and disclosures included in the FS in accordance with the applicable FRF. It includes:

- 1) Corresponding Figures
- 2) Comparative FS

Corresponding figures

Comparative info. where amounts and other disclosures for the **prior period** are included as an **integral part of the current period FS**, & are intended to be read only in relation to the amounts & other disclosures relating to current period figures.

Comparative FS

Comparative info. where amounts and other disclosures for the **prior period** are included for comparison with the FS of the current period but, if audited, are referred to in the auditor's opinion

Audit Procedures for Comparative Information

Q 36

Q- Auditor's responsibilities for Corresponding figures

For determining that FS contains **appropriately classified comparative information**, auditor should:

- Ensure that **comparative info. agrees** with the amount and other disclosure presented in the prior period.
- **Accounting policies applied are consistent** with those applied in current period.
- **If there have been any changes in the application of accounting policies** than they are properly disclosed and presented.

If auditor becomes aware of any **possible misstatement** in the comparative info., then:

- **Perform necessary audit procedures** to obtain SAAE.
- **If auditor had audited prior period's FS** than he should follow the relevant requirements of SA 560.

As per **SA 580**, auditor should also request WR. He should also obtain a specific WR regarding any prior period item that is disclosed in current year's FS.

Audit Reporting

(A) Corresponding figures

When corresponding figures are presented, **auditor's opinion shall not refer to corresponding figures** except in following circumstances:

- If auditor's report of previous period **contains other than an unqualified opinion**.
- If auditor is of the opinion, and he has sufficient evidence in this regard, **that a MM exists in FS of prior period**, which was not addressed earlier.

If prior period FS are not audited, than he should obtain SAAE that the opening balance does not contain any MM

(B) With Reference to Comparative FS

- Auditor's opinion shall refer to each period for which the FS are presented.
- When reporting on **current period's audit**, if auditor's opinion **on such prior period FS differs from the opinion previously issued on such FS**, he shall **disclose the substantive reason for the different opinion in OMP** in his report.
- If auditor concludes that a **MM is present in the previously audited figures of FS**, he should:
 - report it to the appropriate level of the management and
 - request that the predecessor auditor be informed.

If then **prior years statements are amended with new report by predecessor auditor**, then auditor shall **report only on current period**.

(C) Reporting treatment common to both (for corresponding figures and comparative information)

1. If the **FS of the prior period were audited by a predecessor auditor**, auditor (is permitted by L/R to refer to the predecessor audit report - on case of corresponding figures and decides to do so) shall state in his audit report:
 - That FS of prior period were audited by predecessor auditor;
 - **Type of the opinion expressed** by predecessor auditor;
 - **Date of that audit report**.
2. If **prior period FS were not audited** than he shall **report same in other matter paragraph** in audit report that corresponding /comparative figures are unaudited. However, disclosure does not relieve him from his responsibility of obtaining SAAE that opening balances do not contain misstatements that materially affect the current period's FS.

Q Auditor's responsibility in cases where audit report for an earlier year is qualified

Q 37

As per SA 710, when the auditor's report on the prior period, as previously issued, included a **qualified opinion, a disclaimer of opinion, or an adverse opinion** and the matter which gave rise to the **modified opinion is resolved and properly accounted for or disclosed** in FS in accordance with applicable FRF, **auditor's opinion on the current period need not refer to the previous modification**.

If auditor's report on the prior period, included a **qualified opinion** and the matter which gave rise to the **modification is unresolved**, he shall **modify auditor's opinion on current period's FS**.

In the **Basis for Modification paragraph** in auditor's report, he shall either:

- **Refer to both current period's figures and the corresponding figures in the description of the matter when the effects or possible effects of the matter on the current period's figures are material; or**
- **In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.**

SA 720 The auditor's responsibilities relating to other information

Deals with auditor's responsibilities relating to other info., whether financial or non-financial, included in entity's annual report.

This SA doesn't apply to:

- Preliminary announcements of financial information or
- Securities offering documents, including prospectuses

Other information:

Financial or non-financial information (other than FS and auditor's report thereon) included in an entity's annual report.

Objectives

- To consider whether there is a **material inconsistency** between other info. & FS.
- To consider whether there is a **material inconsistency** between other info. & auditor's knowledge obtained in audit;
- To **respond appropriately** to such material inconsistencies.

Examples of amounts and other items that may be included in other info.

Q 38

Amounts

- Items in a summary of key financial results**, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- Financial measures or ratios**, such as gross margin, return on average capital employed, current ratio, interest coverage ratio and debt ratio.
- Liquidity and capital resource info.**, such as cash, cash equivalents and marketable securities; dividends;
- Capital expenditures** by segment or division.
- Amounts involved in guarantees, contractual obligations**, legal or environmental claims, and other contingencies.
- Selected operating data**, such as income from continuing operations by major operating area, or sales by geographical segment or product line.

Other Items

- Explanations of **critical accounting estimates** and related assumptions.
- Identification of **related parties** and descriptions of transactions with them.
- General descriptions of the business environment and outlook.**
- Overview of strategy.**
- Descriptions of **guarantees, indemnifications, contractual obligations**, litigation or environmental liability cases, and other contingencies.
- Descriptions of **changes in legal or regulatory requirements**, such as new tax or environmental regulations, that have materially impacted the entity's operations or fiscal position.
- Descriptions of **trends in market prices** of key commodities or raw materials.

Responding When the Auditor Concludes That a MM of the Other Info. Exists

Q 39/40

If auditor concludes that a MM of other information exists,

Auditor shall request Mgt. to correct the other info. If Mgt.:

- Agrees** to make correction, he shall determine that correction has been made; or
- Refuses** to make correction, he shall **communicate matter with TCWG** and request that correction be made.

If auditor concludes that a MM exists in other information Obtained prior to date of auditor's report, and other info. is not corrected after communicating with TCWG, auditor shall

- Considering implications for auditor's report** and communicating with TCWG about **how auditor plans to address the MM** in auditor's report.
- Withdrawing** from engagement, where withdrawal is possible.

If auditor concludes that a MM exists in other information Obtained after date of auditor's report, he shall:

- If other info. is corrected** - perform procedures necessary in the circumstances; or
- If other info. is not corrected after communicating with TCWG** - take **appropriate action** considering auditor's legal rights & obligations, to seek to have the uncorrected MM appropriately brought to attention of users for whom auditor's report is prepared.

[A] Reporting Under CARO 2020

Applicability of CARO, 2020: Q1

CARO, 2020 shall apply to every company including foreign company except:

- (i) Banking company;
- (ii) Insurance company;
- (iii) Section 8 company;
- (iv) OPC and a Small Company and
- (v) Private limited company, not being a subsidiary or holding of a public company, having

Paid up share capital and Reserves & Surplus	Total borrowings from any Bank or FI	Total revenue (including revenue from disclosed operations)
≤1 crore	≤1 crore	≤10 crore
As on Balance Sheet date	At any point of time during the FY	As per FS

Notes :

1. For calculation

Paid up capital and Reserves & surplus	Borrowings	Revenue
(- Share application)	(- interest accrued but not due)	(-Advance Received)
(-call in advance)	(-loan from individual)	(-Excise /GST)
(- call in arrears)	(+ Interest accrued as well as due)	
(- P&L Debit Balance)		
(+ P&L Credit balance)		
(+ ESOP Reserve)		
(+Amount originally paid up on forfeited shares)		

2. CARO 2020- Not applicable to CFS except Para3(xxi).

3. Small company- Other than public company

Paid-up Share Capital	Does not exceed Rs. 4 Crores
Turnover (Previous F.Y)	Does not exceed Rs. 40 Crores

(It should not be holding or subsidiary of any company)

PARA 3: Matters to be included in Auditor's Report:

Para 3(i): Property, Plant and Equipment Q4

(a) Adequacy of Records:

- Whether company is maintaining proper records showing full particulars, including quantitative details & situation of PPE.
- Whether company is maintaining proper records showing full particulars of Intangible assets.

(b) Physical verification:

- Whether these PPE have been physically verified by management at reasonable intervals;
- Whether any material discrepancies were noticed on such verification & if so, Whether the same have been properly dealt with in Books of Account.

Note: Reasonable interval: depends upon circumstance of each case i.e., location, value of asset. Annual verification may be reasonable but it may be impracticable to carry verification in some cases. Even in such cases, verification programme should be such that all assets are verified at least once in every 3 years.

(c) Title Deeds: Q 15

- Whether title deeds of all immovable properties (Other than properties where the company is lessee & lease agreements are duly executed in favour of lessee) disclosed in F.S. are held in name of company.
- If not, provide details thereof in below mentioned format.

Description of property	Gross Carrying value	Held in name of	whether promoter, director or their relative or employee	Period held	Reason for not being held in name of co.*

*also indicate if in dispute.

(d) Revaluation of Property, Plant & Equipment: Q 5

- Whether company has revalued its PPE (including Right of Use assets) or intangible assets or both during the year &, if so, Whether revaluation is based on valuation by a Registered Valuer;
- Specify Amt. of change, if change is 10% or more in aggregate of net carrying value of each class of PPE or intangible assets.

(e) Benami Property: Q

- Whether any proceedings have been initiated or are pending against company for holding any benami property under Benami Transactions (Prohibition) Act, 1988 & rules made thereunder
- Whether company has appropriately disclosed details in its F.S.

Para 3(ii): Inventories - Q6

a) Physical verification

- Whether physical verification of inventory has been conducted at reasonable intervals by Mgt. & whether coverage & procedure of such verification by Mgt. is appropriate;
- Whether any discrepancies of 10% or more in aggregate for each class of inventory were noticed & if so, whether they have been properly dealt with in books of account;

b) Working capital limit Q 5/7

- Whether during any point of time, company has been sanctioned working capital limits in excess of ₹ 5 crore, in aggregate, from banks or F.I. on basis of security of current assets;
- Whether the quarterly returns or statements filed by company with such banks or F.I. are in agreement with books of account of Company, if not, give details.

Para 3(iii): Investments, Guarantee / Security, Loans or Advances

Whether during the year, company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, LLPs or any other parties, if so,

- (a) Whether during the year, company has provided loans or advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate-
 - (i) aggregate amount during the year, and balance outstanding at B/S date w.r.t. such loans or advances and guarantees or security provided to subsidiaries, joint ventures and associates;
 - (ii) aggregate amount during the year, and balance outstanding at B/S date w.r.t. such loans or advances and guarantees or security to parties other than subsidiaries, JVs & associates;
- (b) Whether investments made, guarantees provided, security given and T&C of grant of all loans & advances in nature of loans & guarantees provided are not prejudicial to company's interest;
- (c) In respect of loans & advances in nature of loans, whether schedule of repayment of principal and payment of interest has been stipulated and whether repayments or receipts are regular;
- (d) If the amount is overdue, state total amount overdue for > 90 days, and whether reasonable steps have been taken by the company for recovery of the principal & interest;

(e) Whether any loan or advance in the nature of loan granted which **has fallen due** during the year, has **been renewed or extended or fresh loans granted to settle the overdues of existing loans**, if so, Specify

- aggregate amount of such dues renewed or extended or settled by fresh loans and
- the % of aggregate to total loans or advances in nature of loans granted during the year

[not applicable to Co whose principal business is to give loans];

(f) whether company has granted any loans or advances in nature of loans either **repayable on demand or without specifying terms of repayment**, if so, specify:

- aggregate amount,
- % thereof to total loans granted,
- aggregate amount of loans granted to Promoters and RPs.

Para 3(iv): Compliance of provisions of Sec. 185 & 186

In respect of loans, investments, guarantees, and security whether provisions of **Sections 185 and 186 have been complied with**. If not, provide details thereof.

Para 3(v): Public Deposits -

In respect of deposits accepted by the company, **whether directives issued by RBI & provisions of secs. 73 to 76 or any other relevant provisions of Companies Act & rules framed thereunder, have been complied with**. If not, the nature of such contraventions be stated.

If an **order has been passed by CLB or NCLT or RBI or any Court or any other Tribunal**, whether same has been **complied with or not?**

Para 3(vi): Cost Records -

Whether **maintenance of cost records has been specified by CG u/s 148(1) & whether such accounts & records have been made & maintained**

Para 3(vii): Statutory Dues -

Q 7

(a) Whether co. is **regular in depositing undisputed statutory dues** including GST, PF, ESI, I-tax (advance tax), sales-tax, service tax, duty of customs, duty of excise, VAT, cess & any other statutory dues to appropriate authorities and **if not, the extent of the arrears of o/s statutory dues as at the last day of FY for a period of more than 6 months from date they became payable, shall be indicated**.

(b) Where statutory dues referred above have **not been deposited on account of any dispute**, then the **amounts involved** and the **forum where dispute is pending** shall be mentioned.

(A mere representation to concerned Department shall not be treated as a dispute).

Para 3(viii): Unrecorded Income -

Q 8/16

Whether any transactions **not recorded in books of account** have been **surrendered or disclosed as income** during the year **in tax assessments** under the Income-tax Act, 1961,

If so, whether the **previously unrecorded income** has been properly recorded in the books of account during the year.

Para 3(ix): Repayment of Dues -

Q 9 - 13

(a) Whether company has **defaulted in repayment of loans** or other borrowings or in payment of interest thereon to any lender, if yes, period and amount of **default to be reported as below:**

Nature of borrowing, including debt securities	Name of lender*	Amount not paid on due date	Whether Principal or interest	No. of delays or unpaid	Remarks, if any

*lender wise details to be provided in case of defaults to banks, FI and Government.

(b) Whether company is a **declared wilful defaulter** by any bank or FI or other lender;

(c) Whether term loans **were applied for the purpose** for which the loans were obtained; **if not, the amount of loan so diverted and the purpose** for which it is used may be reported;

(d) Whether **funds raised on short term basis** have been **utilised for long term purposes**, if yes, the **nature and amount to be indicated**; in the books of account during the year;

(e) whether company has **taken any funds from any entity or person** on account of or **to meet the obligations** of its subsidiaries, associates or JVs, if so, details thereof with **nature of such transactions & amount** in each case;

(f) Whether company has **raised loans** during the year on the **pledge of securities held in its subsidiaries, JVs or associate companies**, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised.

Note- submitting restructuring/re- scheduling application does not mean that default has occurred.

Para 3(X): Application of Money raised by public issue and preferential allotment –

(a) Application of Money raised by public issue:

Whether moneys raised by way of IPO or FPO (including debt instruments) during the year were **applied for purposes for which those are raised, if not, details together with delays or default & subsequent rectification**, if any, as may be applicable, be reported.

(b) Preferential allotment:

Whether company has **made any preferential allotment or private placement** of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, **whether requirements of Sec. 42 & Sec. 62 of Co. Act, 2013 have been complied with & funds raised have been used for purposes for which the funds were raised, if not**, provide details in respect of **amount involved & nature of non-compliance**;

Para 3(xi): Fraud -

Q 14

(a) Whether **any fraud by the company or any fraud on the Company** has been **noticed or reported** during the year; If yes, the **nature and the amount** involved is to be indicated.

(b) Whether any **report u/s 143(12)** of Companies Act has been **filed by auditors** in **Form ADT-4** as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the C.G.

(c) Whether auditor has **considered whistle-blower complaints**, if any, received during the year by the company.

Para 3(xii): Nidhi Companies –

(a) Whether the Nidhi Company has complied with the **Net Owned Fund to Deposits** in the ratio of 1: 20 to meet out the liability.

(b) Whether Nidhi Company is **maintaining 10% unencumbered term deposits** as specified in the Nidhi Rules, 2014 to meet out liability.

(c) Whether there has been **any default in payment of interest on deposits or repayment thereof for any period** and if so, the details thereof.

Para 3(xiii): Transactions with related Parties –

Q 14

Whether all **transactions with RPs** are in compliance with **Section. 177 and 188** of Companies Act, 2013 where **applicable and details have been disclosed in the F.S.** etc. as required by **applicable AS**.

Para 3(xiv): Internal Audit System –

(a) Whether Co. **has an internal audit system** commensurate with size & nature of its business;

(b) Whether the **reports of the Internal Auditors** for the period under audit were **considered by the statutory auditor**.

Para 3(xv): Non cash transactions with directors - Q 14/15

Whether company has entered into any non-cash transactions with directors or persons connected with him & if so, whether provisions of Sec. 192 of Companies Act, 2013 have been complied with.

Para 3(xvi): Registration. with RBI –

- Whether company is required to be registered u/s 45IA of RBI Act, 1934 & if so, whether the registration has been obtained.
- Whether company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (COR) from the RBI as per the RBI Act, 1934.
- Whether company is a Core Investment Company (CIC) as defined in regulations made by the RBI, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria.
- Whether the Group has more than one CIC as part of the Group, if yes, indicate No. of CICs which are part of the Group.

Para 3(xvii): Cash Losses –

Q 1

Whether company has incurred cash losses in the FY and in the immediately preceding FY, if so, state the amount of cash losses.

Para 3(xviii): Resignation of statutory auditors –

Whether there has been any resignation of statutory auditors during the year, if so, whether the auditor has taken into consideration issues, objections or concerns raised by the outgoing auditors.

Para 3(xix): Existence of Material uncertainty-company ability to meet its liabilities –

On the basis of financial ratios, ageing & expected dates of realisation of financial assets & payment of financial liabilities, other information accompanying the F.S., the auditor's knowledge of the BoD and mgt plans, whether auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of B/S as and when they fall due within a period of one year from the balance sheet date.

Para 3(xx): Transfer of unspent CSR amount –

- Whether, in respect of other than ongoing projects, company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of 6 months of expiry of FY in compliance with 2nd proviso to Sec. 135(5) of the said Act.
- Whether any amount remaining unspent u/s 135(5) of Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with provision of Sec. 135(6).

Para 3(xxi): Qualifications or adverse remarks in CARO Reports of group companies –

Q 17

Whether there have been any qualifications or adverse remarks by respective auditors in CARO reports of Co. included in CFS, if yes, indicate Details of companies & Para no. of CARO report containing qualifications or adverse remarks.

Para 4: Reasons to be stated for Unfavourable or Qualified remarks

- Where, in auditor's report, answer to any of questions referred to in Para 3 is unfavourable or qualified - auditor's report shall also state the basis for such unfavourable or qualified answer.
- Where auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with reasons as to why it is not possible to give opinion.

[B] Duties of Auditor – Company Audit**Sec 143 (1): Duty of Auditor to Inquire on certain matters**

Q 18/19

- Whether the terms on which secured loans and secured advances have been made are prejudicial to the interests of the company or its members.
- Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company.
- Whether investment of companies, other than a banking or an investment company, in the form of shares, debentures and other securities have been sold at a price lower than the cost.
- Whether loans and advances made by the company have been shown as deposits. Again, considering the propriety element, rationalizing the proper disclosure of loans and advance given by company is made.
- Whether personal expenses have been charged to revenue.
- In case it is stated in the books and papers of the company that shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash actually received, whether the position in books of account and balance sheet so stated is correct, regular and not misleading.

Sec 145: Duty to Sign Audit Report

Person appointed as auditor of company shall sign auditor's report or sign or certify any other document of company, as per provisions of sec 141 (2).

Any Qualifications, observations or comments on financial transactions or matters, which have any adverse effect on functioning of Co. mentioned in auditors' report shall be read before company in GM & shall be open to inspection by any member of company.

Duty to Comply with Accounting Standard

Sec 143(9) of Co. Act, 2013 Auditors must adhere to AS.

Section 143(10) empowers CG to prescribe AS based on recommendations from ICAI & NFRA.

Until officially notified, any auditing standards specified by the ICAI are considered applicable.

Sec 143(3): Duty to Audit Report

Auditor's report shall also state-

- (a) Whether he has sought & **obtained all info.** & explanations which to the best of his knowledge & belief were necessary for purpose of his audit & if not, details thereof & effect of such information on F.S;
- (b) Whether, in his opinion, proper **Books of account** as required by law have been kept by Co. & proper returns have been received from branches not visited by him;
- (c) Whether report on the accounts of any **Branch** office of co. audited under Sec 143(8) by a person other than company's auditors has been sent to him under proviso to that sub-section & manner in which he has dealt with it in preparing his report;
- (d) whether the company's **B/S & P&L** A/c dealt with in the report are in agreement with the books of account and returns;
- (e) whether, in his opinion, FS **Comply** with AS's;
- (f) Observations/**Comments** of auditors **on financial transactions** or matters which have any adverse effect on the functioning of the co.;
- (g) whether any **Director** is disqualified from being appointed as a director under Sec 164(2);
- (h) any qualification, reservation or adverse remark relating to **maintenance of accounts** & other matters connected therewith;
- (i) whether company has **adequate internal Financial controls** with reference to F.S. in place & operating effectiveness of such controls;

Note:

Clause (i) Sec143(3) shall not apply to Private company: -

- (i) which is a **OPC or small company**; or
- (ii) which has **Turnover** less than Rs **50 Cr** as per latest audited F.S. & which has aggregate **Borrowings** from banks or financial institutions or anybody corporate at **any point of time** during F.Y. less than Rs **25 Cr.**

(j) **Such other matters** as may be prescribed. **Rule 11** of Co. (Audit & Auditors) Rules, 2014 prescribes other matters to be included in auditor's report. Auditor's report shall also include their views & comments on the following matters, namely:-

1. whether company has disclosed the impact, if any, of **pending litigations** on its financial position in its FS;
2. whether Co. has **made provision**, as required under any law or accounting standards, for **material foreseeable losses**, if any, on **long term contracts** including derivative contracts;
3. whether there has been any **delay in transferring** amounts, required to be transferred, to **Investor Education and Protection Fund** by the company.
- 4.

(4)

- (i) Whether **Mgt. has represented** that, **no funds have been advanced/loaned/invested by Co.** to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with **understanding**, that Intermediary shall, whether, **lend or invest in other persons or entities** identified by or on behalf of Co. ("Ultimate Beneficiaries") or provide **any guarantee, security** on behalf of the Ultimate Beneficiaries;
- (ii) Whether **Mgt. has represented**, that **no funds have been received by Co.** from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with understanding, that Co. shall lend or invest in other persons or entities identified by or on behalf of Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or like on behalf of Ultimate Beneficiaries; &
- (iii) **Based on such audit procedures** that auditor has considered reasonable & appropriate in circumstances, **nothing has come to their notice** that has caused them to believe that representations under sub-clause (i) and (ii) contain any MM.

5. Whether **dividend declared or paid** during the year by Co. is in compliance with section 123 of Co. Act, 2013.

6. Whether Co. has **used such accounting software** for maintaining its BOA which has a **feature of recording audit trail** (edit log) facility & same has been operated throughout the year for all transactions recorded in software & audit trail **feature has not been tampered with** & audit trail has been **preserved by Co. as per statutory requirements** for record retention.]

Audit Trail means, a step-by-step sequential record which provides evidence of documented history of financial transactions to its source. Auditor can trace every step of, financial data of a particular transaction right from general ledger to its source document with help of the audit trail.

197(16) of Co Act, 2013 that requires as under:

"Auditor of Co. shall, in his report,

- **make a statement as to whether remuneration paid by co. to its directors is in accordance with provisions of this section,**
- **whether remuneration paid to any director is in excess of limit laid down under this section** & give such other details as may be prescribed".

Reporting requirement : For auditors of public Co. needs to be cover in auditor's report under the Section "**Report on Other Legal & Regulatory Requirements**".

Duty to report on frauds

[A] Reporting to the Central Government -

As per Sec 143(12) of Co. Act, 2013, if auditor of Co. in the course of performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in Co. by its officers or employees, auditor shall report the matter to **CG** within such time & in such manner as may be prescribed.

In this regard, Rule 13 of Co. (Audit & Auditors) Rules, 2014 has been prescribed. Sub-rule (1) of Rule 13 states that if auditor of a Co., in the course of performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ` **1 crore or above**, is being or has been committed against Co. by its officers or employees, auditor shall report matter to **CG**.

Manner of reporting the matter to **CG** is as follows:

- (a) Auditor shall **report the matter** to Board or Audit Committee, immediately but **not later than 2 days** of his knowledge of fraud, seeking their **reply or observations within 45 days**;
- (b) on receipt of such reply or observations, auditor shall **forward his report & reply or observations** of Board or Audit Committee along with his comments (on such reply or observations of Board or Audit Committee) to **CG within 15 days** from the date of receipt of such reply or observations;
- (c) in case auditor **fails to get any reply** or observations from Board or Audit Committee within stipulated period of 45 days, he shall forward his report to **CG** along with a note containing details of his report that was earlier forwarded to Board or Audit Committee for which he has not received any reply or observations;
- (d) report shall be **sent to Secretary, Ministry of Corporate Affairs** in a sealed cover by Registered Post with Acknowledgement Due or by Speed Post followed by an e-mail in confirmation of the same;
- (e) report shall be on letter-head of auditor containing postal address, e-mail address & contact telephone number or mobile number & be signed by auditor with his seal & shall indicate his Membership Number; and
- (f) Report shall be in form of statement as specified in **Form ADT-4**.

[B] Reporting to the Audit Committee or Board -

Section 143(12) of the Companies Act, 2013 further prescribes that in case of a fraud involving lesser than the specified amount [i.e. less than ` 1 crore], the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed.

In this regard, sub-rule (3) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that in case of a fraud involving lesser than the amount specified in sub-rule (1) [i.e. less than ` 1 crore], the auditor shall report the matter to Audit Committee constituted under section 177 or to the Board immediately but not later than 2 days of his knowledge of the fraud and he shall report the matter specifying the following:

(a) Nature of Fraud with description;	(b) Approximate amt involved; and	(c) Parties involved.
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[C] Disclosure in the Board's Report:

Section 143(12) of the Companies Act, 2013 furthermore prescribes that the companies, whose auditors have reported frauds under this sub-section (12) to the audit committee or the Board, but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed.

In this regard, sub-rule (4) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that the company is required to disclose in the Board's Report the following details of each of the fraud reported to the Audit Committee or the Board under sub-rule (3) during the year:

(a) Nature of Fraud with description;	(b) Approximate Amount involved;
(c) Parties involved, if remedial action not taken; and	(d) Remedial actions taken.

NOTES ON ACCOUNTS v/s QUALIFICATIONS

Mgt. explain their view point & assessment on all matters involving difference of opinion b/w them & auditors by way of **notes in F.S.**,

for better understanding of facts of matters by users of F.S. Such **notes** represents management's stand on matter while auditor records his disagreement on the matters by way of **qualifications** in the auditor's report.

Client & auditor are two separate independent parties, client Mgt. may insist upon auditor for not modifying his audit opinion considering Mgt. has disclosed full facts & assessment of matter through notes on F.S.

However, auditor needs to exercise his professional judgement & assess if disclosure alone would suffice or in case, he also needs to modify his audit report by either inserting a qualification or EOM. {it is clarified that EOM is not a substitute for modification of opinion}.

EOM is to be made in respect of something which is appropriately presented & for which auditor has obtained SAAE.

Once auditor concludes that modification of his report in relation to specific matter under question, is warranted, he may choose to refer to specific note given by Mgt. & thereafter, continue explaining more facts & his assessment on matter including quantification & impact on various F.S. captions, to the extent possible.

Auditor must express nature of qualification, in a clear & unambiguous manner. Where Auditor answers any of statutory affirmations in negative or with a qualification, his report shall state the reasons for such answer. All qualifications should be contained in the Auditor's Report.

AUDIT REPORT v/s CERTIFICATE

Certificate	Audit report
Certificate is a written confirmation of accuracy of facts stated therein and does not involve any estimate or opinion term 'certificate' is, therefore, used where auditor verifies accuracy of facts	Term 'report' is used where an expression of opinion is involved. A report, on other hand, is a formal statement usually made after enquiry, examination or review of specified matters under report & includes the reporting auditor's opinion thereon.
An auditor may thus, certify the circulation figures of a newspaper or the value of imports or exports of a company.	Reporting auditor gives a report, he is responsible for ensuring that report is based on factual data, that his opinion is in due accordance with facts, & that it is arrived at by the application of due care & skill.
An auditor's certificate represents that he has verified certain figures and is in a position to vouch safe their accuracy as per his examination of documents and books of account.	'Report' involves expression of opinion which may differ from one professional to another., There is no question of exactitude in case of a report since info. contained therein is based on estimates & involves judgement element
Under Co. Act, 2013, No. of situations are there where an auditor is required to issue a certificate, like under Se 66 of Co. Act, 2013, an auditor is required to file a certificate in tribunal where company is proposing for reduction of capital.	However, report under Sec 143 of Co. Act, 2013, is an opinion-based report & is not a certificate .

SA 800 dealing with audit of FS prepared in accordance with special purpose framework

What is Special Purpose framework?

A FRF designed to meet the:

Common financial information needs of a wide range of users is known as "General purpose framework"	Financial information needs of specific users is known as "Special purpose framework"
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FRF may be a fair presentation framework or a compliance framework.

Examples of Special purpose frameworks are: -

Q1

- Financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.
- Cash basis of accounting & cash flow info. that an entity may be requested to prepare for creditors.
- Financial reporting provisions established by a regulator to meet the requirements of that regulator.

Considerations When Accepting Such Engagement

Q

- Applicable FRF provide **financial reporting standards established by organisation** that is authorised or recognised those standards will be **presumed acceptable** if org. follows an established and transparent process.
- **Some L/R may prescribe FRF** to be used in preparation of special purpose FS for a certain type of entity.
- Applicable FRF may provide financial reporting provisions of a contract or sources other than those described above.

In that case, **acceptability of FRF** is determined by considering **whether framework exhibits attributes normally exhibited by acceptable FRFs**.

Considerations When Planning and Performing Such Audit

Q3

- To obtain an understanding of the entity's selection and application of accounting policies. Auditor shall obtain an understanding of any significant interpretations of contract that mgt. made in the preparation of those FS.
- Compliance of all SAs relevant to audit, auditor may depart from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement. (SA 200)
- Application of some of requirements of the SAs in an audit of special purpose financial statements may **require special consideration** by auditor. For ex, in SA 320, judgments about matters are based on common financial info. needs of users as a group. In special purpose FS those judgments are based financial info. needs of intended users.
- In special purpose FS, **mgt. may agree with intended users on a threshold below which misstatements identified during audit will not be corrected or otherwise adjusted**. Existence of such a threshold **does not relieve** auditor from requirement to determine materiality (SA 320).
- Communication with TCWG in accordance with SAs is based on **relationship between TCWG and FS subject to audit, whether TCWG are responsible for overseeing the preparation of those FS**. In case of special purpose FS, TCWG may not have such a responsibility. (SA260)
- SA 315 requires auditor to **obtain an understanding of entity selection & application of accounting policies**. If FS are prepared as per provisions of contract, auditor shall **obtain understanding of significant interpretations of contract that mgt. made while preparing FS**. **Interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in info presented in FS**.

Description of Applicable FRF

In case of FS prepared as per provisions of a **contract**, auditor shall evaluate whether the FS adequately describe any significant interpretations of contract.

SA 700 deals with form and content of the auditor's report. In the case of an auditor's report on special purpose FS: -

- Auditor's report shall also **describe purpose** for which the FS are prepared and, **intended users**, or **refer to a note** in special purpose FS that contain that info.; and
- If **mgt. has a choice of FRFs** in preparation of such FS, **explanation of management's responsibility** shall **make reference to its responsibility for determining that applicable FRF is acceptable**.

- When **KAM's are communicated in report** on Special Purpose FS, **SA 701 applies in its entirety**.
- Reports containing SPFS** - Purpose is to provide info. to owners (or similar stakeholders) - **are considered to be annual reports as per SA 720**.

"Similar stakeholders" includes specific users whose financial info. needs are met by design of SPF used to prepare SPFS. **When auditor determines that entity plans to issue such a report, requirements of SA 720 applies**.

- Auditor may refer, in OM para in report on Special purpose FS, to auditor's report on complete set of GPFS or to matter reported therein as per SA 706.

For ex, auditor may consider it appropriate to refer in auditor's report on SPFS to a MU Related to GC section included in auditor's report on the complete set of GPFS.

Alerting Readers that the FS Are Prepared in Accordance with a Special Purpose Framework

Special purpose FS may be used for purposes other than those for which they were intended. For ex- a regulator may require certain entities to place the special purpose FS on public record.

Auditor alerts users by including **EOMP** that FS are prepared as per SPF and may not be suitable for another purpose.

Restriction on Distribution or Use

Q4

- Auditor may consider it **appropriate to indicate** that auditor's report is intended solely for specific users.
- This may be achieved by restricting the distribution or use of the auditor's report.
- **Paragraph alerting readers may be expanded to include these other matters, and the heading modified accordingly**.

Q2 OF QB. CA Lalita is auditor of a company. She is also offered professional work of audit of financial statements prepared specifically for meeting requirements of a loan agreement for the same period. She chooses to accept work and has made up her mind to disclose this fact in "Other matter Paragraph" "**Emphasis of Matter Paragraph**" in audit report to be issued by her for this specific engagement. Is her approach proper? (SM)

In the given situation, the approach of CA Lalita is proper. There is no bar upon accepting such an engagement even though she is the auditor of the company. Besides, she has intended to disclose this fact in "Other Matter Paragraph" "**Emphasis of Matter Paragraph**" of the audit report to be issued by her for such specific engagement.

SA 805 - Special considerations audits of single FS and specific elements, accounts or items of FS

- A single FS is to be **distinguished from a complete set of FS**. For ex., a cash flow statement is a single financial statement.
- "Element of a FS" or "element" means an **"element, account or item of a FS."** For ex- trade receivables or cash & bank balances

Examples of Specific Elements, Accounts or Items of a FS are:	Accounts receivable, allowance for doubtful accounts receivable, inventory.
	Schedule of externally managed assets and income of a private pension plan.
	Schedule of net tangible assets,
	Schedule of disbursements in relation to a lease property.

- A single FS or a specific element of a FS **includes related notes** comprising a summary of significant accounting policies & other explanatory info.
- SA 800 & 805 don't override requirements of other SA's.
- SA 805 doesn't apply to component auditor's report on financial info. of component at request of principal auditor for audit of CFS.

Considerations When Accepting Such Engagement

Application of Sa's

(I) General:

- SA 200 requires auditor to **comply with all SAs relevant** to audit. This applies **irrespective of whether auditor is also engaged to audit entity's complete set of FS**.
- If auditor is **not engaged to audit entity's complete set of FS**, determine whether audit of a single FS or of a specific element of those FS in accordance with SAs is practicable.

(II) Ethical Requirement:

- SA 200 requires auditor to comply with -
 - a) Relevant ethical requirements, including independence, and
 - b) All SAs relevant to audit.
- Auditor to **comply with each requirement of an SA unless, entire SA is not relevant or requirement is not relevant** because it is conditional & condition doesn't exist,

- Auditor may **depart** from a relevant requirement in an SA by **performing alternative audit procedures** to achieve aim of requirement.

(III) Challenges:

Q6

- Compliance with requirements of SAs **may not be practicable when auditor is not** also engaged to audit complete set of FS.
- In such cases, auditor **doesn't have same understanding** of entity & its environment, including its IC, as an auditor who also audits complete set of FS.
- Auditor **doesn't have audit evidence about general quality of accounting records or other accounting info.** that would be acquired in an audit of complete set of FS.
- In audit of a specific element of a FS, **certain SAs require audit work that may be disproportionate to element being audited.**

(IV) May not be practicable:

- If audit of a single FS or of a specific element of a FS as per SAs may not be practicable, he may **discuss with mgt. whether another type of engagement might be more practicable.**

Acceptability of the FRF

- SA 210 requires auditor to determine **acceptability of FRF** applied in preparation of FS.
- Whether **application of FRF will result in a presentation that provides adequate disclosures to enable intended users to understand info. conveyed.**
- A single FS or a specific element of a FS may be prepared as per **applicable FRF that is based on a FRF established** by an authorised or recognised standards setting organisation.
If this is the case, **determination of acceptability of applicable framework** involve considering whether that framework includes all requirements of framework that are relevant to presentation of a single FS or of a specific element of a FS that provides adequate disclosures.

Considerations When planning & performing Audit

- Auditor shall adapt **all SAs** relevant to the audit as necessary.
- When auditing a single FS or a specific element of a FS in conjunction with audit of entity's complete set of FS, auditor may be able to use **audit evidence** obtained as part of audit of entity's complete set of FS in the audit of FS or element. SAs require to obtain SAAE on which to base opinion on FS or on element.
- Individual FS that comprise a complete set of FS, and many of elements of those FS, including related notes, are **interrelated**. **Auditor may not be able to consider FS or element in isolation.** So, he may need to perform procedures in relation to **interrelated** items to meet the objective of audit.
- **Materiality** determined for a single FS or for a specific element of a FS may be **lower** than materiality determined for complete set of FS; this will affect **NTE of the audit procedures**.
- **Even when only a specific element of a FS is subject of the audit, SAs such as SA 240, SA 550 and SA 570 are, in principle, relevant.** This is because element could be misstated as a result of **fraud, effect of related party transactions**, or **incorrect application of the GC basis of accounting**.
- SA 260 requires auditor to determine appropriate person(s) within entity's whom to communicate. **Person(s) responsible for oversight of preparation of single FS or element may not be same as TCWG responsible for oversight of preparation of complete set of FS.**

Forming an Opinion & Reporting Considerations

When forming opinion, auditor shall apply SA 700 & SA 800, adapted as necessary in circumstances of engagement.

Going Concern: Description in auditor's report of auditor's responsibilities may also need to be adapted as necessary depending on how SA 570 applies in circumstances of engagement.

Other Information: Reports containing single FS or specific element of a FS - purpose of which is to provide owners (or similar stakeholders) with info. on matters presented in single FS or the specific element of a FS - are considered to be annual reports for purposes of SA 720. When entity plans to issue such a report, requirements of SA 720 apply.

Signature of the Auditor: Signed by auditor (i.e. engagement partner) in his personal name. Where firm is auditor - signed in the personal name of auditor & in the name of audit firm. Also mention membership no. + registration no. of firm, wherever applicable, as allotted by ICAI.

Implications of certain matters included in auditor's report on complete set of FS

Auditor to consider implications of certain matters included in auditor's report on complete set of FS for audit of SFS or specific element of a FS and for auditor's report thereon.

Factors that may be relevant in considering those implications include:

- **Nature of matter(s) being described** in auditor's report on complete set of FS and **extent to which it relates** to what is included in single FS or a specific element of a FS.
- **Pervasiveness of matter(s) described** in auditor's report on complete set of FS.
- **Nature and extent of differences between applicable FRF's.**
- **Extent of difference between period(s) covered** by complete set of FS compared to period(s) or dates of single FS or element of a FS.
- **Time elapsed** since date of auditor's report on complete set of FS.

Even when certain matters included in auditor's report on complete set of FS **don't have implications** for audit of single FS or specific element of a FS, auditor **may refer to matter(s) in an Other Matter paragraph** in an auditor's report on single FS or on specific element of a FS as per SA 706.

Considering Implications of Certain Matters Included in Auditor's Report on Entity's Complete Set of FS for Audit of Single FS or Specific Element of a FS and for Auditor's Report Thereon:

If auditor's report on an entity's complete set of FS includes:

- A modified opinion (SA 705);
- An EOMP or an OMP (SA 706);
- A MU related to GC section (SA 570); or
- A statement that describes an uncorrected MM of other info. (SA 720).

Separate Opinion

If auditor undertakes an engagement of SA 805 in **conjunction** with an engagement to audit entity's complete set of FS, shall **express a separate opinion for each engagement.**

Differentiation

An audited single or an audited specific element of a FS may be **published together** with entity's audited complete set of FS.

If **presentation** of a single FS or of specific element of a FS **doesn't differentiate it sufficiently** from complete set of FS, auditor shall ask mgt. to rectify situation.

Auditor shall **also differentiate opinion** on single FS or on specific element of a FS from opinion on complete set of FS.

Not to issue auditor's report until satisfied with differentiation.

Adverse Opinion or Disclaimer on Complete Set of FS

If it is necessary to **express an adverse opinion or disclaim an opinion on entity's complete set of FS as a whole.**

SA 705 **doesn't permit** auditor to include in same auditor's report an **unmodified opinion on a single FS or on specific element** that forms part of those FS.

Because such an unmodified opinion would **contradict** adverse opinion or disclaimer of opinion on entity's complete set of FS whole.

Separate audit of Specific Element in context of Adverse Opinion

If auditor express an adverse opinion or disclaimer of opinion on entity's complete set of FS as a whole but, **in audit of a specific element**, auditor **considers it appropriate to express an unmodified opinion on that element**, auditor shall only do so if:

- Auditor is **not prohibited by L/R** from doing so;
- That opinion is expressed in an auditor's report that is **not published together with auditor's report** containing adverse opinion or disclaimer of opinion; and
- Specific element **doesn't constitute a major portion** of entity's complete set of FS.

Auditor shall **not express an unmodified opinion** on a **single FS of complete set of FS** if auditor has expressed an adverse opinion or disclaimed an opinion on complete set of FS as a whole

This is the case even if auditor's report on single FS is not **published together with auditor's report containing adverse opinion or disclaimer of opinion.**

This is because a single FS is deemed to **constitute a major portion** of those FS.

Note: In report on an entity's complete set of FS, expression of a **disclaimer of opinion regarding results of operations & cash flows, and an unmodified opinion regarding state of affairs is permitted** since disclaimer of opinion is being issued in respect of the results of operations and cash flows only and **not in respect of FS as a whole.**

SA 810 – Engagements to report on summary financial statements

SA 810 deals with auditor's responsibilities when undertaking an engagement to report on summary FS derived from FS audited in accordance with SAs **by that same auditor.**

What do Summary FS Reflect?

Summary FS reflect historical financial info. that is derived from FS, but **that contains less detail** than FS while still **providing a structured representation consistent with FS** of entity.

Before accepting an engagement to report on summary FS, auditor shall:

(A) Determine whether **applied criteria** are acceptable

- Applied criteria - **criteria applied by mgt.** in preparation of summary FS.
- **Mgt. is responsible for determination of info. that needs to be reflected in summary FS** so that they are **consistent**, in all material respects, with or **represent a fair summary** of audited FS.
- **Risk increases when established criteria** for preparation of summary FS **don't exist.**

Factors affecting the **auditor's determination of the acceptability of the applied criteria:**

Q8

- **Nature** of entity
- **Purpose** of summary FS
- Info. **needs** of **intended users** of summary FS and
- Whether **applied criteria will result in summary FS that are not misleading.**

Points to be noted:

- Where **established criteria don't exist**, criteria may be developed by mgt., for ex, based on practice in a particular industry.
- If **applied criteria are unacceptable** or is **unable to obtain agreement of mgt.**, auditor **shall not accept** engagement unless required by L/R to do so.

(B) Obtain agreement

Obtain **agreement of management** that it acknowledges & understands its responsibility:

1. For **preparation of summary FS** in accordance with **applied criteria.**
2. To make **audited FS available** to the intended users of summary FS **without undue difficulty**

3. To include auditor's report on summary FS **in any document that contains summary FS** and that indicates that auditor has reported on them

(C) Agree with management on the form of opinion to be expressed on the summary FS

Nature of Procedures to be performed by Auditor

Auditor shall perform following procedures, as the basis for auditor's opinion on summary FS: Q 9

- (a) Evaluate whether summary FS are prepared in **accordance with applied criteria.**
- (b) Evaluate whether summary FS adequately **disclose applied criteria.**
- (c) Evaluate whether summary FS **adequately disclose** their summarised nature and identify audited FS.
- (d) When summary FS are **not accompanied by audited FS**, evaluate whether they describe clearly:
 - **From whom or where** audited FS are available; or
 - L/R that specifies that audited FS **need not be made available to intended users** of summary FS.
- (e) Evaluate whether **audited FS are available to intended users** of summary FS without undue difficulty.
- (f) Evaluate, in view of **purpose of summary FS**, whether summary FS contain info. necessary, and are at an appropriate level of aggregation, so as not to be **misleading**.
- (g) **Compare summary FS with related info.** in audited FS to determine whether summary FS **agree with or can be re-calculated** from related info. in audited FS.

Form of Opinion

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- When **unmodified opinion** on summary FS is appropriate, auditor's opinion shall, use one of the following phrases:
 - (a) **Summary FS are consistent**, in all material respects, with **audited FS**, in accordance with applied criteria or
 - (b) Summary FS are a **fair summary** of audited FS, in accordance with applied criteria.
- If **L/R prescribes wording of opinion** that are **different from described above**, auditor shall:
 - (a) **Apply procedures** discussed earlier & any further procedures necessary to enable auditor to express prescribed opinion &;
 - (b) Evaluate whether **users of summary FS** might **misunderstand auditor's opinion** and, if so, **whether additional explanation** in report can mitigate possible misunderstanding.

If **additional explanation can't mitigate possible misunderstanding**, he shall **not accept** engagement.

Modifications to the Opinion, EOMP or OMP in Auditor's Report on Audited FS

Q 10/11/12

When auditor's report on **audited FS** **contains a qualified opinion, an EOMP, or an OMP, or MU related to GC or KAM or statement of uncorrected MM of other info.** but auditor is satisfied that **summary FS are consistent**, in all material respects, with or **are a fair summary of audited FS**, in accordance with applied criteria, auditor's report on summary FS shall, also contain followings:

- (a) **State** auditor's report on audited FS **contains** a qualified opinion, an EOMP, or an OMP or, or MU related to GC or KAM or statement of uncorrected MM of other info.; and
- (b) Describe:
 - **Basis for qualified opinion** on audited FS, and that qualified opinion; or EOMP or OMP or MU related to GC or KAM or statement of uncorrected MM of other info. in auditor's report on audited FS; &
 - **Effect** thereof on summary FS or docs containing summary FS, if any.

When auditor's report on audited FS **contains an adverse opinion or a disclaimer of opinion**, auditor's report on summary FS shall, additionally: -

- (a) **State** that auditor's report on audited FS **contains** an adverse opinion or disclaimer of opinion;
- (b) **Describe basis** for that adverse opinion or disclaimer of opinion; &
- (c) **State** that, as a result of the adverse opinion or disclaimer of opinion, **it is inappropriate to express an opinion on summary FS.**

Modified Opinion on the Summary FS

If summary FS are **not consistent**, in all material respects, with or are **not a fair summary** of audited FS, in accordance with **applied criteria**, and mgt. **doesn't agree to make necessary changes**, auditor shall **express an adverse opinion** on summary FS.

Auditor's Report on Summary FS

Elements of the Auditor's Report: -

- (a) A **title** clearly indicating it as the report of an independent auditor.
- (b) An **addressee**: If addressee of the summary FS is **not the same as the addressee of auditor's report** on audited FS, evaluate appropriateness of using a different addressee.
- (c) **Identification of summary FS including title of each statement**
- (d) **Identification of audited FS**
- (e) A statement that **summary FS doesn't contain all the disclosures**
- (f) A **description** that mgt. is responsible for preparation of summary FS in accordance with applied criteria.
- (g) A **statement** that auditor is responsible for expressing an opinion on summary FS.
- (h) A clear expression of an opinion.
- (i) Auditor's **signature** along with firm registration number.
- (j) **Date** of auditor's report
- (k) **Place** of signature

Timing of Work and Events Subsequent to the Date of Auditor's Report on the Audited FS Q13

Report on summary FS may be dated later than date of auditor's report on audited FS :- Then, report on summary FS shall state that **summary FS and audited FS don't reflect effects of events that occurred subsequent to date of auditor's report on audited FS.**

Auditor may become aware of facts that existed at date of auditor's report on audited FS but of which auditor previously was unaware:- Then **not to issue auditor's report on summary FS** until consideration of such facts in relation to audited FS in accordance with SA 560 has been completed.

When auditor reports on the summary FS **after the completion of the audit of FS**, he is **not required to obtain additional audit evidence** on the audited FS, or report on the **effects of events that occurred subsequent to the date of the auditor's report** on the audited FS since the summary FS are derived from the audited FS.

Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting

Auditor's report on audited FS alerts readers that audited FS are prepared in accordance with a special purpose framework, **include a similar restriction or alert in the auditor's report on summary FS.**

Comparatives

If audited FS contain comparatives, but summary FS don't, Auditor shall determine:

- ❑ Whether **such omission is reasonable.**
- ❑ **Effect of an unreasonable omission** on the auditor's report on summary FS.

If summary FS contain comparatives that were reported on by **another auditor**, auditor's report on summary FS shall also **contain the matters that SA 710 requires auditor to include** in auditor's report on audited FS.

Unaudited Supplementary Info. Presented with Summary FS

- ❑ Evaluate whether **any unaudited supplementary info. presented with summary FS is clearly differentiated** from the summary FS.
- ❑ If presentation of unaudited supplementary info. **is not clearly differentiated** from the summary FS, **ask mgt. to change presentation** of unaudited supplementary info.
- ❑ If **mgt. refuses to do so**, auditor shall **explain** in auditor's report on summary FS that **such info. is not covered by that report.**

Other Info. in Documents Containing Summary FS

- ❑ Auditor shall **read other info. included in a document containing summary FS & related auditor's reports** to **consider** whether there is a **material inconsistency** between other info. & summary FS.
- ❑ If auditor **identifies a material inconsistency**, he shall determine whether summary FS or the other info. **needs to be revised.**
- ❑ If, auditor **becomes aware** that other info. **needs to be revised**, he shall **discuss the matter with mgt.**
- ❑ If **Mgt. refuses to revise info.** as necessary, auditor shall take **appropriate action, including considering implications for report on Summary FS.**

Auditor Association Q

If **entity plans to state** that auditor has reported on summary FS in a document containing summary FS, but **doesn't plan to include related auditor's report**, auditor shall **request mgt. to include** auditor's report in document.

If management doesn't do so, auditor shall **determine and carry out other appropriate actions** designed to prevent mgt. from inappropriately associating auditor with summary FS in that document

Auditor **maybe** engaged to report on FS of an entity, while not engaged to report on summary FS.

In this case, **entity plans to make a statement** in a document **that refers to auditor and fact that summary FS are derived from FS audited by auditor**, auditor shall be satisfied that:

- (A) **Reference to auditor is made in the context of auditor's report on the audited FS; and**
- (B) **Statement doesn't give the impression that auditor has reported on the summary FS.**

If (a) or (b) are not met, auditor shall **request mgt. to change statement** to meet them, or **not to refer to the auditor** in document.

If mgt. **doesn't change the statement** -

- ✓ **Delete** reference to auditor, or
- ✓ **Include** an auditor's report on summary FS in document containing summary FS,
- ✓ **Advise** mgt. that auditor disagrees with reference, and
- ✓ shall **determine** and carry out other appropriate actions designed to prevent mgt. from inappropriately referring to the auditor

Standards on Related Services

SRS 4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information
SRS 4410	Compilation Engagements

Engagements that don't meet definition of assurance engagements include **Q1**

Preparation of **tax returns** where no conclusion conveying assurance is expressed.

Consulting (or advisory) engagements such as management & tax consulting.

Engagements covered by SRS, such as agreed-upon procedures engagements and compilations of FI or other info.

What are Agreed upon Procedures?

Auditor is engaged to issue a **report of factual findings**, based on **specified procedures performed on specified subject matter of specified elements**, accounts or items of a FS.

For Ex- An engagement to perform agreed-upon procedures may require auditor to perform certain procedures concerning individual items of financial data, say, A/c's payable, A/c's receivable, purchases from Related parties, or a FS, say, a Balance Sheet or even a complete set of FS.

However, a person performing related services **need not necessarily be auditor of entity's FS**.

SRS 4400: Engagements to Perform Agreed-Upon Procedures Regarding Financial Information

Audit Vs. Agreed-upon Procedures **Q1**

- A key difference between an audit & agreed-upon procedures relates to **assurance**.
- An audit **expresses an opinion & provides assurance** to users. However, in an agreed-procedures engagement, only a **report of factual findings** of agreed-upon procedures is provided.
- **No assurance is given to users**. Instead, users draw their own **conclusions** based on factual findings stated in the report.

For Ex- an agreed upon procedures engagement to evaluate **validity of accounts payable** may state the following:

1. **Comparing** of names of major Suppliers & Amounts outstanding as on a date to the related names and amounts in trial balance.
2. **Obtaining** suppliers statements or confirmations from suppliers to confirm balances outstanding on a date.
3. **Comparison** of such statements or confirmations to amounts in trial balance.

General Principles of an Agreed-upon Procedures Engagement

Integrity	Objectivity	Confidentiality
Professional competence & Due care	Professional conduct & Technical standards	

Independence is not a requirement for agreed-upon procedures engagement. However, terms or objective of engagement may require auditor to comply with independence requirements.

Where the **auditor is not independent**, a **statement to that effect** should be made in the report of factual findings.

Defining Terms of Engagement **Q**

Matters to be agreed include following: -

1. **Nature of engagement** including **fact** that procedures performed **will not constitute an audit or a review and no assurance will be expressed**.
2. **Nature, timing & extent (NTE)** of specific procedures to be applied.
3. **Identification of FI** to which the agreed-upon procedures will be applied.
4. Stated **purpose** for engagement.
5. **Limitations on distribution of report of factual findings**. When such limitation would be in conflict with legal requirements, if any, auditor would not accept engagement.

Matters that would be included in EL.

- 1) List of procedures to be performed as agreed-upon procedure.
- 2) Statement that distribution of report would be restricted to specified parties.

Procedures

Inquiry and Analysis	Re-computation	Observation
Inspection	Obtaining confirmations	Comparison & other clerical accuracy checks

Reporting **Q3/4**

1. **Title**
2. **Addressee** (ordinarily, the appointing authority)
3. **Identification** of specific financial or non-financial information
4. **Identification** of purpose for which agreed upon procedures were performed
5. **Listing** of **specific procedures performed**
6. **Description** of auditor's factual findings
7. **Statement** that procedures performed were those Agreed upon procedure.
8. **Statement** that engagement was performed in Accordance with the SRS applicable.
9. **Statement** that procedures performed **don't constitute either an Audit or a review** and, no assurance is expressed
10. **Statement** that **report is restricted** to those parties that have agreed to procedures to be performed
11. **Date** of Report
12. **Place of signature** and
13. Auditor's **Signature**

SRS 4410 Compilation Engagements

- SRS 4410 deals with **practitioner's** responsibilities when engaged to **assist** Mgt. with **preparation & presentation of historical FI without obtaining any assurance** on that info., and to report on engagement in accordance with this SRS.
- CE **for non-FI can be performed under this Standard after necessary adaptation.**
- SQC 1 is applicable to all Engagement Standards.

Financial info. that is subject of a compilation engagement may be required for various purposes including: **Q 5**

- To comply with **mandatory periodic financial reporting** requirements **OR**
- For purpose unrelated to mandatory financial reporting for e.g.
 - For mgt. or TCWG, prepared for **Particular purposes** (such as preparation of FI for internal use).
 - For periodic financial reporting **undertaken for External parties** under a contract or other form of agreement.
 - For **Transactional Purpose** (Like Merger or Acquisitions)

Scope of Compilation Engagements

- Scope varies based on engagement circumstances.
- Primary focus is assisting mgt. in preparing & presenting entity FI in accordance with FRF

Mgt. retains responsibility for FI on the basis on which it is prepared and presented

Responsibilities include applying judgment, selecting accounting policies, and making reasonable accounting estimates.

Different FRF can be used to prepare and present FI

FRF adopted will depend on nature of entity and intended use of info.

Ethical Requirements

Independence requirements don't apply to CE. However, L/R may specify requirements/disclosure rules pertaining to independence.

Engagement Acceptance and Continuance

(P) shall not accept engagement unless (P) has agreed terms of engagement with Mgt. including: -

- Intended use and distribution of FI, & any restrictions.**
- Identification of applicable FRF**
- Objective & scope of CE**
- Expected form and content of P's report.**

5) **Responsibilities of (P).**

6) **Responsibilities of Mgt.** for: - **Q7**

- Preparation & presentation of FI as per FRF**
- Design, implementation & maintenance of **IC** as necessary.
- Accuracy & completeness** of records, documents, explanations and other info.
- Judgments** needed in preparation & presentation of FI.

Documentation (requirement while performing CE) **Q8**

- Significant matters** arising during CE and how those matters were addressed by (P).
- Record of how CFI reconciles** with underlying records, documents, explanations and other info., and
- Copy of final version** of the CFI & P's report.

Performing Engagement **Q9**

- (P) shall obtain an **understanding** of following matters to be able to perform CE: -
 - Entity's business and operations, including accounting system & accounting records and
 - Applicable FRF, including its application.
 - (P) shall **compile FI** using records, documents, explanations & other info., including significant judgments.
 - (P) shall **discuss with Mgt., or TCWG, significant judgments**, for which (P) has provided assistance.
 - Prior to completion** of CE (P) shall **read CFI** in light of P's understanding of entity's business & operations, & of applicable FRF.
 - If records, documents, explanations or other info., including significant judgments, provided by Mgt. are incomplete, inaccurate or otherwise unsatisfactory, (P) shall **bring that to attention of Mgt.** and request additional or corrected info.
 - If (P) is **unable to complete engagement** as Mgt. failed to provide records, documents, explanations or other info., including significant judgments, (P) shall **withdraw** from engagement and **inform Mgt. and TCWG** of reasons for withdrawing.
 - If (P) **becomes aware** during the course of engagement that: -
 - CFI (compiled financial information) **doesn't adequately refer to or describe** applicable FRF.
 - Amendments** to CFI are required for FI not to be materially **misstated**; or
 - CFI is otherwise **misleading**,
- (P) shall propose **appropriate amendments** to Mgt.

- If mgt. **declines/doesn't permit** to make proposed amendments to the CFI, (P) shall **withdraw** from engagement & inform Mgt. and TCWG of reasons for withdrawing.
- If **withdrawal from engagement is not possible**, determine professional & legal responsibilities applicable.
- (P) shall **obtain an acknowledgement** from Mgt. or TCWG, that they have **taken responsibility for final version of CFI.**

Practitioner's Report

(a) **Report title**

(b) **Addressee(s),**

(c) **Statement that (P) has compiled the FI based on info. provided by Mgt.**

(d) **Description of responsibilities of mgt, or TCWG.**

(e) **Identification of applicable FRF and, if a special purpose FRF is used, a description or reference of that special purpose FRF.**

(f) **Identification of FI**

(g) **Description of P's responsibilities**

(h) **Explanations that: -**

- | | |
|---|--|
| 1. (P) is not required to verify accuracy or completeness of info. provided by mgt and | 2. (P) doesn't express an audit opinion or a review conclusion. |
|---|--|

(i) If FI is prepared using a **special purpose FRF** an explanatory paragraph that: -

- | | |
|--|---|
| 1. Describes purpose for which FI is prepared & | 2. Draws attention of readers of report to the fact that the FI is prepared as per SPF & info. may not be suitable for other purposes |
|--|---|

(j) **Date of report**

(k) **P's signature and**

(l) **Place of signature.**

SRE 2400 Engagements to review historical FS

Audit Vs. Review

Audit	Review
Reasonable assurance engagement providing reasonable level of assurance.	Limited assurance engagement providing a lower level of assurance than reasonable assurance engagement.
Performs elaborate and extensive procedures including tests of controls & substantive procedures.	Performs fewer procedures focusing on inquiry & analytical procedures.
Draws reasonable conclusions on the basis of sufficient and appropriate audit evidence.	Draws limited conclusions on the basis of sufficient appropriate evidence.
Provides an assurance opinion. language of assurance opinion is positively worded.	Provides an assurance conclusion. language of assurance conclusion is negatively worded.

- ❑ SRE 2400 deals with (P)'s responsibilities when engaged to perform a review of historical FS, when (P) is not the auditor of entity's FS.
- ❑ Q- FS may be prepared using general or special purpose framework. FS prepared as per SPF can also be reviewed by a professional accountant in practice. (SRE 2400).

Preconditions for Accepting a Review Engagement

- (a) Determine whether FRF in preparation of FS is acceptable. In case of special purpose FS, obtaining an understanding of purpose for which the FS are prepared and of intended users;
- (b) Obtain agreement of Mgt. that it acknowledges and understands its responsibilities:
- (i) For preparation of the FS as per applicable FRF.
 - (ii) For such IC as Mgt. determines is necessary to enable preparation of FS that are free from MM and
 - (iii) To provide (P) with: -
- | | | |
|---|--|---|
| A. Access to all info. relevant to preparation of FS. | B. Additional info. that (P) may request and | C. Unrestricted access to persons within entity from whom necessary to obtain evidence. |
|---|--|---|

Factors affecting Acceptance & Continuance of Client Relationships & Review Engagements:

(P) shall not accept a review engagement if:

(a) (P) is not satisfied:

1) That there is a rational purpose for engagement. For ex- • There is a limitation on scope of work or • Association of (P)'s name with FS in an inappropriate manner.	2) Review engagement would be appropriate in the circumstances Accepting a review engagement would not be appropriate - consider recommending another type of engagement.
---	--

- (b) Relevant ethical requirements, including independence, will not be satisfied.
- (c) Doubt Mgt.'s integrity such that it is likely to affect proper performance of review
- (d) (P)'s preliminary understanding indicates that info. needed to perform review is likely to be unavailable or unreliable.
- (e) Mgt. or TCWG impose a limitation on scope of work & that limitation will result in disclaiming a conclusion.

Designing and Performing Procedures

(a) Inquiry:

Inquiry includes seeking info. from mgt. and other persons within entity

Inquiries may include matters such as those relating to

Existence of any actual, suspected or alleged fraud,	Identification of related parties,
Basis for mgt.'s assessment of entity's ability to continue as a GC	Events occurring between the date of FS and (P)'s report,
Events or conditions that appear to cast doubt on the entity's ability to continue as a going concern,	Material commitments, contractual obligations or contingencies

(b) Analytical procedures:

Q3

Why "Inquiry" & "Analytical procedures" are important in Review?

- Evidence obtained through inquiry principal source of evidence about mgt. intent.
- Application of professional scepticism in evaluating responses provided by mgt. is important to evaluate whether there are any matters that FS may be materially misstated.
- Inquiry assists in obtaining understanding of entity and its environment, to identify areas where MM arise in FS.

Performing AP assists (P) in:

Q4

Obtaining understanding of entity and its environment, to identify areas where material misstatements are likely to arise.	Identifying inconsistencies or variances from expected trends, values or norms in FS.
Providing corroborative evidence in relation to other inquiries or AP already performed.	Serving as additional procedures when (P) becomes aware of matters that FS may be materially misstated.

Various methods used to perform AP - performing simple comparisons to performing complex analysis using statistical techniques.

Procedures to Address Specific Circumstances

Related Parties

- (P) shall remain alert for arrangements or info. that may indicate existence of related party relationships /transactions that mgt. has not previously identified or disclosed to (P).
- If (P) identifies significant transactions outside entity's normal course of business, inquire. about nature of those transactions, possible involvement of RP and business rationale of those transactions.

Fraud and non-compliance with laws or regulations

- When fraud or NOCLAR or suspected fraud or NOCLAR, has occurred - (P) shall communicate to senior mgt. or TCWG and request mgt.'s assessment of effects on FS.
- (P) has to consider effect of mgt.'s assessment of effects of fraud or NOCLAR on FS and on his report..

Going concern:

Q5

(P) becomes aware of events or conditions that may cast significant doubt about entity's ability to continue as a GC, (P) shall:

- (a) Inquire of mgt. about plans for future actions and about the feasibility of those plans, and whether mgt. believes that outcome of plans will improve the situation.
- (b) Evaluate results of those inquiries, to consider whether mgt.'s responses provide a sufficient basis to: -

Continue to present FS on GC basis_or	Conclude whether FS are materially misstated, or misleading
---------------------------------------	---

- (c) Consider mgt.'s responses in light of all relevant info.

Use of work performed by others:

If (P) uses work performed by another (P) or an expert (P) shall be satisfied that the work performed is adequate for (P)'s purposes.

Additional procedures when (P) becomes aware that FS may be materially misstated:

Q2

Design and perform additional procedure to enable (P):

- | | |
|--|---|
| (a) Conclude that matter(s) is not likely to cause FS as a whole to be materially misstated or (no) | (b) Determine that matter(s) causes the FS as a whole to be materially misstated. (Yes) |
|--|---|

Evaluation of results of the additional procedures may enable (P) to get to (a) or (b) above.

If not, (P) is required to: -

1. **Continue** performing additional procedures until (P) reaches either (a) or (b) above or
2. If (P) is **not able** to either (a) or (b) **then a scope limitation exists and (P) is not able to form an unmodified conclusion on FS.**

Additional procedures:

- | | |
|---|--|
| Additional inquiry or AP , ex, <u>being performed in greater detail or being focused on affected items</u> | Other types of procedures , ex, <u>substantive TOD or EC.</u> |
|---|--|

Additional procedure in case of subsequent events:

- If (P) becomes aware of events occurring **between date of FS & date of (P)'s report** that require adjustment/ disclosure in FS - **request mgt. to correct** those misstatements.
- (P) has **no obligation** to perform any procedures **after date of (P)'s report.**
- However, if, **after date of (P)'s report but before date of FS are issued**, a fact becomes known to (P) that, had it been known to (P) at date of (P)'s report, may have caused **(P) to amend report**, (P) shall:
 1. **Discuss matter with mgt. or TCWG.**
 2. **Determine whether FS need amendment** and
 3. **If so, inquire how mgt. intends to address matter in FS.**
- If mgt. **doesn't amend FS** and (P)'s report has already been provided - **notify mgt. and TCWG not to issue the FS to 3rd parties before necessary amendments have been made.**
- If FS are **issued without necessary amendments**, take **appropriate action to prevent reliance** report.

Written Representations

Q

(a) Mgt. has fulfilled its responsibility for preparation of FS as per applicable FRF and

(b) All transactions have been recorded and are reflected in the FS.

Also request mgt.'s WR that mgt. has disclosed to (P): -

1) Any frauds or suspected frauds known to mgt.;	2) Known actual or possible NOCLAR ;
3) Identity of related parties and all related party relationships and transactions of which mgt. is aware;	4) Subsequent events requiring adjustment or disclosure;
5) All info. relevant to use of going concern assumption;	6) Material commitments, contractual obligations or contingencies

If mgt. does not provide WR, (P) shall:-

- (a) **Discuss matter** with mgt. and TCWG;
- (b) **Re-evaluate integrity** of mgt., and evaluate **effect on reliability of representations** and
- (c) Take **appropriate actions & determining possible effect on conclusion.**

(P) shall **disclaim a conclusion on FS, or withdraw from engagement** if possible.: -

- (a) There is **doubt about integrity of mgt.** such that WR's are not reliable or
- (b) Mgt. **does not provide the required representations.**

Agreeing to the Terms of Engagement

- Agree to terms with the mgt. or TCWG, prior to performing the engagement.
- Agreed terms shall be recorded in an engagement letter/ other suitable form of written agreement.
- On recurring review engagements, (P) shall evaluate whether circumstances, whether terms to be revised and whether there is a need to remind mgt. or TCWG, of the existing terms.
- Not agree to a change in the terms where there is no reasonable justification for doing so.
- If, prior to completing review engagement, (P) is requested to change the engagement to an engagement for which no assurance is obtained, (P) shall determine whether there is reasonable justification for doing so.
- If terms are changed during the course of the engagement, (P) and mgt. or TCWG, as appropriate, shall agree on and record new terms of engagement.

(P)'s Report Elements

- (a) A title
- (b) **Addressee(s)**,
- (c) **An introductory paragraph that:**
 - Identifies FS reviewed, including identification of title of each of statements and date & period covered by FS.
 - Refers to summary of significant accounting policies and other explanatory info. and
 - States FS have been reviewed
- (d) **A description of responsibility of mgt.** for preparation of FS:
 - Their preparation in accordance with applicable FRF
 - Such IC necessary to enable preparation of FS that are free from MM.
- (e) **If the FS are special purpose FS:**
 - A description of purpose for which the FS are prepared and intended users, or reference to a note in the special purpose FS that contains that info.; and
 - If mgt. has a choice of FRFs in preparation of such FS, mgt.'s responsibility for determining that applicable FRF is acceptable in the circumstances
- (f) **A description of (P)'s responsibility to express a conclusion on FS**
- (g) **A description of a review of FS and its limitations, and following statements:**
 - A review engagement under this SRE is a limited assurance engagement.
 - (P) performs procedures, primarily consisting of making inquiries and applying AP, and evaluates evidence obtained and
 - Procedures performed in a review are substantially less than those performed in an audit conducted in accordance with (SAs), and, (P) does not express an audit opinion on FS.
- (h) **A paragraph under heading "Conclusion" that contains:**
 - (P)'s conclusion on FS as a whole as appropriate and
 - A reference to applicable FRF used to prepare FS.
- (i) **When (P)'s conclusion on the FS is modified:**
 - A paragraph under appropriate heading that contains (P)'s modified conclusion as appropriate and
 - A paragraph, that provides a description of matter(s) giving rise to modification
- (j) **A reference to (P)'s obligation to comply with relevant ethical requirements**
- (k) **The date of the (P)'s report: no earlier than date on which (P) has obtained SAE, including being satisfied that: -**
 - All statements that comprise FS under applicable FRF have been prepared and
 - Those with authority have asserted that they have taken responsibility for those FS.
- (l) **(P)'s signature and**
- (m) **place of signature.**

Q6

Reporting

(P) determines that the FS are materially misstated (P) shall express:

- | | |
|---|--|
| (a) A qualified conclusion - when (P) concludes that effects of matter(s) giving rise to the modification are material, but not pervasive to FS; or | (b) An adverse conclusion - when the effects of matter(s) giving rise to the modification are both material and pervasive to FS. |
|---|--|

When (P) expresses a **qualified conclusion because of MM**, use one of the following phrases, as appropriate: -

- (a) *"Based on our review, except for the effects of the matter(s) described in the Basis Qualified Conclusion paragraph, nothing has come to our attention that causes us believe that the FS do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable FRF," (for FS prepared using a fair presentation framework) or*
- (b) *"Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us believe that the FS are not prepared, in all material respects accordance with the applicable FRF (FS prepared using a compliance framework).*

When (P) expresses a qualified conclusion **due to inability to obtain SAAE**, use one of the following phrase:

- (a) *"Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the FS do not give a true and fair view (or do not present fairly, in all material respects) in accordance with the applicable FRF," (for FS prepared using a **Fair presentation framework**); or*
- (b) *"Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the FS are not prepared, in all material respects, in accordance with the applicable FRF," (for FS prepared using a **compliance framework**).*

When the (P) expresses an **adverse conclusion** use one of the following phrases, as appropriate:

- (a) *"Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the **FS do not give a true and fair view (or do not present fairly,** in all material respects), in accordance with the applicable FRF," (for FS prepared using a FRF); or*
- (b) *"Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the **FS are not prepared, in all material respects,** in accordance with the applicable FRF," (for FS prepared using a compliance framework).*

In **basis for conclusion paragraph**, in relation to MM that give rise to either a **qualified conclusion or an adverse conclusion**, (P) shall:

- (a) **Describe and quantify** the financial effects of misstatement if MM relates to specific amounts in the FS.
- (b) **Explain how disclosures are misstated** if MM relates to narrative disclosures; or
- (c) **Describe nature of omitted** info. if MM relates to non- disclosure of info. required to be disclosed. Unless prohibited by L/R, (P) shall include the omitted disclosures where practicable to do so.

Narrative accounting disclosures are an integral part of the corporate financial reporting package. They are deemed to provide a view of the company "through the eyes mgt.". The narratives represent mgt.'s construal of corporate events are largely discretionary.

Inability to obtain sufficient and appropriate evidence

If (P) is unable to form a conclusion on the FS due to the inability to obtain SAE, the (P) shall:

- (a) Express a **qualified conclusion** if (P) concludes that the possible effects on the FS of undetected misstatements, if any, could be **material but not pervasive** or
- (b) **Disclaim a conclusion** if (P) concludes that the possible effects on the FS of undetected misstatements, if any, could be **both material and pervasive**.

The (P) shall **withdraw from the engagement if the following conditions are present:**

- (a) Due to a limitation on the scope of the review imposed by mgt. , (P) is **unable to obtain SAE** to form a conclusion on the FS;
- b) **Possible effects** on FS of undetected misstatements are **material and pervasive** and
- c) **Withdrawal is possible** under applicable law or regulation.

When **disclaiming a conclusion** on the FS the shall state in the conclusion paragraph that:

- (a) **Due to the significance of the matter(s) described in the Basis for Disclaimer** of Conclusion paragraph, (P) is unable to obtain SAE to form a conclusion on the FS; and
- (b) Accordingly, the (P) does not express a conclusion on the FS.

EOMP & OMP in P's Report

Emphasis on matter paragraph	Other matter paragraph
<ul style="list-style-type: none"> P may consider it necessary to draw users' attention to a matter presented or disclosed in FS that, in the P's judgment, is of such importance that it is fundamental to users' understanding of the FS. P shall include an EOMP, provided P has obtained SAE to conclude that matter is not likely to be materially misstated. Include an EOMP immediately after paragraph that contains the P's conclusion under heading "Emphasis of Matter". 	<p>If P considers it necessary to communicate a matter other than those that are presented or disclosed in FS that, in the P's judgment, is relevant to users' understanding of the review, the P's responsibilities or the P's report and this is not prohibited by law or regulation.</p>

Documentation

(P) shall **document having no previous connection with engagement, to understand:**

- (a) **NTE of procedures** performed to comply with this SRE and applicable L/R requirements
- (b) **Results obtained** from procedures, and (P)'s **conclusions formed** on the basis of those results and
- (c) **Significant matters arising** during the engagement, (P)'s **conclusions reached** thereon, and **significant professional judgments made** in reaching those conclusions.

While documenting **NTE of procedures performed as required this SRE**, (P) shall **record:**

- (a) **Who performed** work and date such work was completed and
- (b) **Who reviewed** work performed.

(P) shall also document **discussions with Mgt., TCWG** , and others as relevant to performance of the review of **significant matters arising during the engagement**.

If (P) identified info, that is inconsistent with (P)'s findings regarding significant matters affecting FS, (P) shall document how **inconsistency was addressed**.

SRE 2410 Review of Interim Financial Info. Performed by Independent Auditor of entity

Interim Financial Information

IFI is FI that is prepared and presented in accordance with an applicable FRF and comprises either a complete or a condensed set of FS for a period that is **shorter than the entity's financial year**.

For ex, IFI may relate to financial FS of a **quarter** of financial year.

Understanding the Entity and its Environment

Q7

Procedures for understanding of entity and its environment, including its IC, include following:

- 1) **Reading most recent annual and comparable prior period IFI.**
- 2) **Inquiring** of Mgt. about any **significant changes in IC** & effect of any such changes.
- 3) **Inquiring** of Mgt. about **effect of changes in entity's business activities.**
- 4) **Inquiring** of Mgt. about **results of Mgt.'s assessment of risk** that IFI may be materially misstated as a result of fraud.
- 5) **Considering results** of any **internal audit** performed and subsequent actions taken by Mgt.
- 6) **Considering results** of any **audit procedures** performed.
- 7) **Considering materiality** with reference to applicable FRF.

Q

Inquiries, Analytical and other Review procedures

Auditor performs following procedures:

- 1) **Reading minutes of meetings** of shareholders, TCWG, and other committees to identify matters that may affect IFI, and **inquiring** about matters dealt with at meetings for which **minutes are not available.**
- 2) **Reading IFI**, and **considering whether anything has come to auditor's attention** that causes to believe that IFI is not prepared in accordance with applicable FRF.
- 3) **Considering effect of matters giving rise to a modification** at the time of the previous audit or reviews.
- 4) **Communicating**, with **other auditors** who are performing a review of IFI of reporting entity's significant components.

5) **Inquiring of members of Mgt. responsible for financial and accounting matters, and about the following:**

- (a) Whether IFI has been **prepared and presented** in accordance with applicable FRF.
- (b) Whether IFI **contains** any known uncorrected misstatements.
- (c) Whether there have been any **changes in accounting principles** or in **methods.**
- (d) Whether any **new transactions** have necessitated application of a new accounting principle.
- (e) Whether **related party transactions** have been appropriately accounted for and disclosed in IFI.
- (f) Significant changes in **commitments and contractual obligations.**
- (g) Significant changes in **contingent liabilities** including litigation or claims.

Going Concern Assessment

- Inquire if **Mgt. has changed its assessment** of entity's ability to continue as a GC.

- If events or conditions **cast doubt** on entity's ability to continue, auditor:

- **Inquires** about **Mgt.'s plans, their feasibility,** and whether outcome will improve situation.
- Considers **adequacy of disclosure** in the IFI.

- Doubtful events **may have existed at date** of annual FS or may be identified during review procedures.

- **In such cases,** auditor inquires about :

- **Mgt.'s plans for future actions,** like liquidating assets, borrowing money, restructuring debt etc.
- **Feasibility of Mgt.'s plans** and will it improve situation.

Communication

Q

- When, a matter comes to auditor's attention that causes to believe that it is necessary to make a **material adjustment** to IFI - **communicate this matter** as soon as practicable to **appropriate level of Mgt.**
- When Mgt. **doesn't respond** - **inform TCWG.**
- Whether to communicate orally or in writing is affected by factors such as the **nature, sensitivity and significance of matter** to be communicated and the **timing of such communications.** If info. is **communicated orally-** documents the communication.
- When **TCWG don't respond** appropriately within reasonable period, consider:

Whether to **modify** report or
Possibility of **withdrawing** from engagement and
Possibility of **resigning** from appointment to audit annual FS.

Evaluation of Misstatements

- Auditor should **evaluate**, whether **uncorrected misstatements** are **material** to the IFI.
- Misstatements including inadequate disclosures are evaluated to determine whether a **material adjustment is required** to be made to IFI for it to be prepared, in all material respects, in accordance with applicable FRF.
- Auditor **exercises professional judgment** in evaluating materiality of any misstatements.

Mgt. representations

- (a) It **acknowledges** its **responsibility** for design & implementation of IC.
- (b) IFI is **prepared & presented** in accordance with applicable **FRF.**
- (c) It has **disclosed** to auditor **all significant facts** relating to any frauds or suspected frauds known to Mgt.
- (d) It has **disclosed** to auditor **results of its assessment of risks.**
- (e) It has **disclosed** to auditor all **known actual or possible NOCLAR**
- (f) It has **disclosed** to auditor **all subsequent events.**

Auditor's Responsibility for Accompanying Info.

- **Read other info.** that accompanies IFI to consider whether **any such info. is materially inconsistent** with IFI.
- If auditor identifies a **material inconsistency**, considers whether IFI or other info. **needs to be amended.**
- Amendment is necessary in

IFI and Mgt. Refuses to make such amendment	auditor considers implications for review report.
Other Info. & Mgt. Refuses to make such amendment	Auditor considers including in review report <ul style="list-style-type: none"> • an additional paragraph describing material inconsistency, • or taking other actions, such as <u>withholding the issuance of review report or withdrawing from the engagement.</u>

Departure from Applicable FRF

Q

- If auditor believe that IFI is or may be materially affected by a **departure** from applicable FRF, & Mgt. **doesn't correct** IFI, - **modifies review report**.
- Modification **describes nature of departure** and states **effects** on IFI.
- If info. that auditor **believes is necessary for adequate disclosure** is **not included** in IFI, **modifies review report** and, **includes necessary info.** in review report. Modification to review report is accomplished **by adding an explanatory paragraph** to review report and **qualifying conclusion**.
- When effect of departure is **so material and pervasive** that auditor **concludes a qualified conclusion is not adequate** to disclose misleading or incomplete nature of IFI, **expresses an adverse conclusion**.

Limitation on Scope by Mgt.

Q

- Auditor **doesn't accept** an engagement if circumstances indicates that **he would be unable to complete** review because there will be a LOS imposed by Mgt.
- If, **after accepting engagement**, Mgt. imposes LOS - auditor **requests removal** of that limitation.
- If Mgt. **refuses** to do so, **communicates** to appropriate level of **Mgt. and TCWG** - reason why review can't be completed.
- **Disclaims** a conclusion, and provides in review report reason why the review cannot be completed.

Going Concern and Significant Uncertainties

Q9/10

- If a material uncertainty relating to an event or condition may cast significant doubt on entity's ability to continue as a **GC**, and adequate disclosure is made in IFI - **auditor modifies review report by adding an EOMP**
- Auditor may have modified a prior audit or review report by adding an **EOMP** to highlight a MU relating to an event or condition that may cast significant doubt on entity's ability to continue as a **GC**.
- If MU still exists & adequate disclosure is made in IFI, **modifies review report on current IFI by adding a paragraph to highlight continued MU**.
- If MU that casts significant doubt about entity's ability to continue as a **GC** is **not adequately disclosed** in IFI, should **express a qualified or adverse conclusion**.

Other Considerations

Inclusion of Review Report:

Terms of engagement include **Mgt.'s agreement** that where any document containing IFI indicates that such info. has been reviewed by auditor, **review report will also be included in document**.

If not included, considers seeking legal advice to assist in determining appropriate course of action.

Issuance of modified report

If auditor has **issued a modified review report** and **Mgt. issues IFI without including modified review report** in document containing IFI, **considers seeking legal advice** to assist in determining appropriate course of action, & possibility of resigning.

Condensed set of FS

IFI consisting of a **condensed set of FS doesn't necessarily include all info.** that would be included in a complete set of FS, but may rather present an **explanation of events and changes that are significant to an understanding** of changes in state of affairs and performance of entity since the annual reporting date.

This is because it is **presumed that the users of the IFI will have access to the latest audited FS**, such as is the case with listed entities.

In other circumstances, the auditor discusses with Mgt. the **need for such IFI to include a statement that it is to be read in conjunction with the latest audited FS.**

In the absence of such a statement, considers whether, **without a reference to the latest audited FS**, the IFI is **misleading in the circumstances, and the implications for the review report.**

Auditor's Report

- (a) Title.
- (b) Addressee.
- (c) **Identification of IFI and date and period** covered by IFI.
- (d) **Statement that Mgt. is responsible** for preparation & fair presentation of IFI in accordance with the applicable FRF.
- (f) A statement that **auditor is responsible** for expressing a conclusion on IFI.
- (g) A statement that **review was conducted in accordance with SRE 2410**.
- (h) A statement that a **review is substantially less in scope** than an audit and **no audit opinion is expressed**.
- (i) **A conclusion as to whether anything has come to auditor's attention** that causes to believe that IFI does not give a true and fair view, or doesn't present fairly, in all material respects, in accordance with applicable FRF.
- (k) **Date** of report.
- (l) **Place of Signature**.
- (m) Auditor's **signature and membership no** assigned by the (ICAI).

Standards on Assurance Engagements

- ❖ An assurance engagement may relate to **examination of subject matters other than examination of FS** prepared on basis of historical financial Info.
- ❖ Examination may relate to **PFI or to providing assurance regarding non-financial matters** like design and operation of IC in an entity.
- ❖ Level of assurance provided by these SAE is **moderate**.

SAE 3400 : The Examination of PFI

What is PFI? Q1

"PFI is Financial Info. based on:

- **Assumptions** about **events that may occur in future & Possible actions** by an entity.

It is **highly subjective** in nature. PFI can be in the form of:

- Forecast, Projection, or a combination of both (ex a 1-year, forecast plus a 5-year, projection.)

What is Forecast? Q1

PFI prepared on the basis of:

- **Assumptions** as to **future events which Mgt. expects to take place & Actions** Mgt. expects to take.

(**Best-estimate assumptions**- An assumption that **reflects anticipated experience** with no provision for risk of adverse deviation.)

What is Projection? Q1

PFI prepared on the basis of:

- **Hypothetical assumptions** about future events & Mgt. actions which are not necessarily expected to take place, such as when some entities are in a **start-up phase**; or
- **Mixture** of best-estimate & hypothetical assumptions (imagined or suggested)

Notes

1. Auditor need not to be statutory auditor of entity.
2. SAE 3400 doesn't apply to examination of PFI expressed in General/Narrative terms.
3. Opinion as to whether results shown in PFI will be achieved can't be expressed.

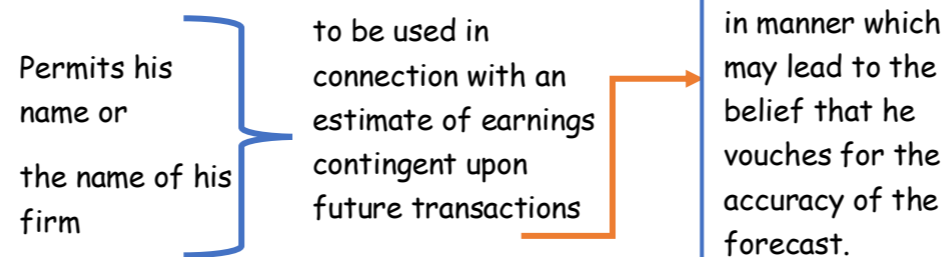
Responsibility of Preparation & Presentation of PFI

Mgt. is responsible for preparation & presentation of PFI including :

- **Identification & disclosure of PFI;**
- **Explaining basis of forecast;**
- **Underlying assumptions.**

Can Professional Accountants be associated with PFI? Q2

Clause 3 of **Second Schedule to CA Act, 1949** states that a CAIP shall be deemed to be guilty of Professional Misconduct, if he



CA:

- can be involved in **preparing profit or financial forecasts & reviewing them.**
- discloses in their report **info. sources, basis of forecasts, & major assumptions** used in creating forecasts.
- should **not vouch for accuracy** of these forecasts.

Above clause **doesn't** preclude a CA from associating his name with prospective FS.

Precautions to be taken by Auditor Before Accepting such an Engagement Q3

Before accepting an engagement to examine PFI, auditor would consider,

Intended use of Info.	Whether Info. will be for general or limited distribution
Period covered by the Info.	Elements to be included in Info.;
Nature of assumptions , that is, whether they are <u>best-estimates or hypothetical</u> assumptions;	

Duties of Member who is Examining the PFI Q4

Auditor should obtain SAE as to whether:

- a) Mgt.'s **best-estimate assumptions** on which PFI is based **are not unreasonable** &, in case of **hypothetical assumptions**, such assumptions are **consistent** with purpose of Info.;
- b) PFI is **properly prepared** on the basis of assumptions;
- c) PFI is **prepared on a consistent basis** with historical FS, using appropriate accounting principles. and
- d) PFI is properly **presented & all material assumptions** are **adequately disclosed**.

Examination Procedure Q5

When determining NTE of examination procedures, the following matters should be considered such as:

- Mgt.'s competence** regarding Preparation of PFI
- Extent** to which PFI is affected by **Mgt.'s judgment**
- Sources of info.** considered by Mgt. for the purpose, adequacy, reliability of data, including data derived from 3rd parties, to support the assumptions
- Knowledge** obtained during any **previous engagements**
- Engagement team's experience** with business & industry in which entity operates & with reporting on PFI
- Likelihood of MM**
- Stability** of entity's business

Presentation and Disclosure Q6

It needs to be considered whether: -

- a) Presentation of PFI is **informative & not misleading**
- b) **Accounting Policies** are clearly disclosed in notes to PFI;
- c) If there is any **Change in Accounting Policy**, whether **reason** for change & **effect** of such change on PFI has been adequately disclosed.
- d) **Assumptions** are adequately disclosed in notes to PFI.
- e) Whether **Assumptions** represent Mgt.'s best estimates or are hypothetical
- f) **Date** as of which PFI was prepared is disclosed. Mgt. needs to confirm that Assumptions are appropriate as of this date, even though underlying info. may have been accumulated over a period of time
- g) **Basis of establishing points in a range** is clearly indicated & **Range is not selected in a biased or misleading manner** when results in PFI are expressed in terms of a range.

Reporting

Q

- When **presentation & disclosure** of PFI is **not adequate**, a **Qualified or Adverse opinion** in report on PFI - should be expressed or **withdrawal** from engagement should be made.
- When **one or more Significant Assumptions don't provide a Reasonable basis** for PFI prepared on basis of best-estimate assumptions or that one or more significant assumptions don't provide a reasonable basis for PFI given the hypothetical assumptions, an **Adverse opinion** + reasons in report on PFI should be expressed, or **withdrawal** from engagement should be made.
- When examination is affected by conditions that **preclude application of one or more procedures**, either **Withdrawal** from engagement or **Disclaimer** of opinion & describing scope limitation in Report.

Report on Examination of PFI

(a) Title
(b) Addressee
(c) Identification of PFI
(d) Reference to SA applicable to Examination of PFI
(e) Statement that Mgt. is responsible for PFI including underlying assumptions
(f) Reference to purpose &/or restricted distribution of PFI
(g) Statement that Examination Procedures included examination, on a test basis, of evidence supporting assumptions, amounts & other disclosures in forecast or projection
(h) Statement of Negative Assurance as to whether assumptions provide a reasonable basis for PFI
(i) Opinion as to whether PFI is properly prepared on the basis of assumptions & is presented in accordance with relevant FRF
(j) Appropriate caveats
(k) Date of report
(l) Place of signature &
(m) Signature.

SAE 3402 Assurance Reports on Controls at a Service Organisation

Scope of SAE 3402

It **doesn't deal with** assurance engagements:

- ❖ To report only on **whether controls at a SO operated as described** or
- ❖ To report only on **Controls at a SO other than those related to a service** that is likely to be relevant to user entities IC as it relates to Financial Reporting.

Objectives of Service Auditor

- a) To obtain **reasonable assurance** about whether: MT- DDO
- (i) SO's **Description of its system** fairly presents system as **designed & implemented** throughout specified period (in case of a **Type 1 report**, as at a specified date)
 - (ii) **Controls related to control objectives** were **suitably designed** throughout specified period (in type 1 report, as at a specified date)
 - (iii) **Controls operated effectively** to provide **Reasonable Assurance** that control objectives were **achieved** throughout specified period.
- b) To report on matters in (a) above.

Type 1 Report & Type 2 Report Q

Type 1 report is a report that comprises:	Type 2 report is a report that comprises:
1) SO's Description of its system;	1) SO's Description of its system
2) Written Assertion by SO: a) Description fairly presents SO system as designed & implemented at specified date b) Controls were suitably designed as at the specified date &	2) Written Assertion by SO: a) Description fairly presents SO system as designed & implemented throughout specified period b) Controls were suitably designed throughout specified period & c) Controls operated effectively throughout specified period and
3) Service Auditor's Assurance report that conveys reasonable assurance about matters referred to in (2)	3) Service auditor's assurance report that: a) Conveys reasonable assurance about matters in (2) & b) Includes a description of Tests of Controls & results thereof.

Type 1 Report is a report on **Description & Design(DD)** of controls at a SO whereas **Type 2 Report** is a report on **Description, Design & Operating effectiveness(DDO)** of controls at SO.

How such an Engagement is Proceeded with?

- 1) **Compliance with ethical requirements:** including independence.
- 2) **Determination of Mgt. and TCWG and communication with them.**
- 3) **Acceptance and changes in terms of engagement**
- 4) **Assessing of suitability of the Criteria.**
- 5) **Determination of Materiality.**
- 6) **Obtaining an understanding of SO's system including controls**
- 7) **Obtaining evidence regarding SO's description of its system.**
- 8) **Obtaining evidence regarding the design of controls.**
- 9) **Obtaining evidence regarding OE of control.** (type 2 report).
- 10) **Understanding internal audit function.**

11) Asking for Written Representations from the SO that Q

- a) **Reaffirm** assertion accompanying description of the system
- b) It has provided service auditor with **relevant info. and access agreed** and
- c) It has **disclosed** to service auditor any of the following of which it is aware-
 - (i) **NOCLAR, fraud, or uncorrected deviations** attributable to SO that may affect one or more user entities
 - (ii) **Design deficiencies in controls**
 - (iii) Instances where **controls have not operated** as described &
 - (iv) Any **events subsequent to the period** that could have a **significant effect** on service auditor's assurance report

Reporting

Additional matters requiring reporting in Type 2 Report:

In **Type 2 Report**, report shall **include separate section after opinion**, or attachment, that describes **Tests of Controls performed & Results** of those tests.

In **describing** Tests of Controls, Service Auditor shall clearly state **which controls were tested**, identify whether items tested represent **all or a selection of items in population**, & indicate **Nature of tests**.

If **deviations have been identified**, include **Extent of testing performed that led to Identification of Deviations**, & **No. & Nature of deviations noted**.

Service auditor shall **report deviations even if** Service Auditor has concluded that related control objective was achieved.

Modified Opinions Q

If the service auditor concludes that:

- 1) SO's description **doesn't fairly present** in all material respects, system as designed & implemented
- 2) **Controls** were **not suitably designed**, in all material respects
- 3) In case of a **Type 2 Report**, controls tested, which were those necessary to provide **Reasonable Assurance** that control objectives stated in SO's description of its system were achieved, **didn't operate effectively**, in all material respects or
- 4) Service auditor is **unable to obtain SAE**, Service Auditor's opinion shall be **modified**, & Service Auditor's assurance report shall contain clear description of all reasons for modification.

Reporting - Elements

- a) **Title**
- b) **Addressee.**
- c) **Identification of:**
 - (i) SO's **description** of its system,
 - (ii) **Parts of description, not covered by service auditor's opinion.**
 - (iii) If **Description refers to need for complementary user entity controls**, a statement that Service Auditor has not evaluated suitability of Design or Operating effectiveness.
 - (iv) If services are performed by **Sub SO**, **Nature of activities performed** by Sub SO.
- d) Identification of **Criteria**, & **party.**
- e) Statement that **Report is intended only for user entities & their auditors.**
- f) Statement that **SO is responsible for:** -
 - (i) **Preparing Description of its system,**
 - (ii) **Providing services covered by SO's description;**
 - (iii) **Stating control objectives &**
 - (iv) **Designing & Implementing Controls.**
- g) Statement that Service Auditor's **responsibility is to express Opinion** on SO's DDO.
- h) Statement that engagement was performed in **accordance with SAE 3402.**
- i) **Summary of Service Auditor's procedures.**
- j) Statement of **Limitations of controls &**, in Type 2 Report, **Risk of projecting to future periods** any evaluation of OE of controls.
- k) Service Auditor's opinion, **expressed in positive form**
- l) **Date of report**
- m) **Signature**
- n) **Place of signature** -which is ordinarily the city where Report is signed.

SAE 3420: Assurance Engagements to Report on the Compilation of Pro Forma FI Included in a Prospectus

❖ Applicable when Reporting is **required by securities law, regulation, or accepted practice** in jurisdiction where prospectus is issued.

What is Pro forma FI?

- ❖ FI presented with **adjustments** illustrating the **impact of event or transaction on unadjusted FI** as if it occurred at **earlier date**.
- ❖ Used in **offer documents** to demonstrate effect of transaction on company's FS as if it occurred at earlier date.
- ❖ Includes Statement of Profit & Loss, Balance Sheet, & notes detailing significant aspects, assumptions & adjustments.
- ❖ **Doesn't represent Actual** Financial position, performance, or cash flows of entity.

Compilation of Pro forma FI

Compilation involves Responsible party Gathering, Classifying, Summarising & Presenting FI that illustrates impact of a significant event or transaction.

Steps involved in this process include:

- **Identifying source** of unadjusted FI to be used in compiling pro forma FI, & **extracting** unadjusted FI from that source
- **Making pro forma adjustments** to unadjusted FI for purpose for which pro forma FI is presented and
- **Presenting, resulting pro forma FI** with accompanying **disclosures**.

Note: 1) (P) has **no** responsibility to compile pro forma FI.

2) (P)'s sole responsibility is to report on **whether pro forma FI has been compiled**, in all material respects, by Responsible party on **basis of applicable criteria**.

Steps involved in such an Engagement

Step 1: Engagement Acceptance: -

- a) Determine that (P) has **Capabilities & Competence** to perform engagement.
- b) Determine that **applicable criteria are suitable** & that it is **unlikely that PF FI will be misleading/**
- c) Evaluate the **wording of opinion** prescribed by relevant L/R, if any, to determine that the (P) will likely **be able to express opinion so prescribed**.
- d) If **entity's historical FI has never been audited or reviewed**, consider whether (P) can obtain a **sufficient understanding of entity & its Accounting & Financial reporting practices**.

Step 1: Engagement Acceptance: -

Q 12

e) Obtain **Agreement** of Responsible party that it acknowledges & understands its responsibility for:

1. Adequately disclosing and describing applicable criteria to intended users.			
2. Compiling PF FI on the basis of applicable criteria and			
3. Providing the (P) with: -			
Access to all info. such as records, documentation & other material.	Additional info. that (P) may request	Access to those within entity & <u>entity's advisors</u> from whom (P) determines it necessary to obtain evidence.	When needed for purposes of engagement, access to appropriate individuals within the acquiree(s) in a business combination.

Step 2: -Planning & Performing the Engagement

- (P) shall **assess** whether **Applicable criteria are suitable**, as required by Framework for Assurance Engagements.
- **Consider materiality** w.r.t evaluating whether PF FI has been compiled, in all material respects, on the basis of applicable criteria.
- **Understanding of how** Responsible party has compiled PFFI & other engagement circumstances
- Determine whether **Responsible party** has appropriately **extracted** unadjusted FI from the source.
- **Obtain evidence** about **Appropriateness of Pro Forma adjustments**.
- **Obtain evidence** about appropriateness of source from which unadjusted FI has been extracted
- If there is **No audit or review report on source** from which unadjusted FI has been extracted, (P) shall **perform procedures to be satisfied** that the source is appropriate.
- **Evaluate Presentation** of PFFI.
- Read **other info. included** in Prospectus containing PFFI to identify material inconsistencies.
- In relation to unadjusted FI, **Pro Forma adjustments include:** Q 13

Adjustments that illustrate impact of a significant event or transaction as if event had occurred or transaction undertaken at an earlier date selected for purposes of illustration &	Adjustments to unadjusted FI that are necessary for Pro Forma FI to be compiled on a basis consistent with applicable FRF.
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Step 3: Written Representation

Step 4:- Opinion

Q

Unmodified Opinion

(P) shall express an unmodified opinion when (P) concludes **PF FI has been compiled** by responsible party on the **basis of applicable criteria**.

Modified Opinion

Where L/R **precludes** publication of a prospectus that **contains a modified opinion** with regard to whether PF FI has been compiled on basis of the applicable criteria and (P) concludes that **a modified opinion is appropriate**, (P) shall discuss matter with responsible party.

If Responsible party does not agree to make **necessary changes**, (P) shall: -

- **Withdraw from engagement** or
- **Consider seeking legal advice.**

Where L/R **may not preclude** publication of a prospectus that **contains a modified opinion** with regard to whether PFFI has been compiled on basis of the applicable criteria and (P) **determines that a modified opinion is appropriate in accordance with Framework for Assurance Engagements**, (P) shall apply the requirements in Framework for Assurance Engagements regarding modified opinions.

Step 5:- Preparing the Assurance Report

Basic elements of Assurance Report:

- a) Title
- b) Addressee(s),
- c) **Introductory paragraphs that identify:**
 - ☺ **Pro forma FI**
 - ☺ **Source** from which unadjusted FI has been extracted
 - ☺ **Period** covered and
 - ☺ **Reference** to applicable criteria & Source of criteria
- d) Statement that Responsible party is **responsible for compiling PFFI** on the basis of applicable criteria
- e) Description of (P)'s responsibilities
- f) Statement that engagement was performed in **accordance with SAE 3420**
- g) (P)'s **opinion** using one of the following phrases,
 - ☺ PFFI has been **compiled**, on basis of **applicable criteria** or
 - ☺ PFFI has been **properly compiled** on basis stated.
- h) (P)'s signature
- i) Date of Report &

Digital Audit

What is a Digital Audit?

- Placing assurance on the effectiveness of the IT systems implemented in an org.
- Org. reviews their technology-related controls to identify gaps and risks for continuous improvement and to ensure regulatory compliance

Key Features of Digital Audit

- Improves Quality of opinion leads to more reliable audit report
- Leads to savings in Time, Cost & Human effort. Operate autonomously 24x7, driving real-time transactions
- Allows to standardize processes & allows controls to be implemented to mitigate risk.
- Help create future for a digital strategy & paves way for adopting new technologies such as AI
- Help auditee to make informed decisions.

Advantages of Digital Audit

Q1

- Better Audit Quality**
Evaluate massive volumes of data quickly.
- Better Analytics**
Aid mgt. and auditors in seeing trends and patterns that may be challenging to spot manually.
- Lower Costs**
By automating processes that were previously done manually
- Enhanced Effectiveness & Efficiency**
Use of tools and automation techniques, standardize the processes and routine tasks can be automated
- Improved Risk Assessment**
Creating a no. of automations to assist with the audit process and streamlined testing improves the risk assessment procedure.

Consideration and Challenges of Digital Audit

Considerations that org. should keep in mind while using digital techniques & automation:

- Know what business benefits the org. wants to achieve with automation
- Think people first and don't underestimate change is difficult
- Target the right processes - this is a key for successful automation.
- Automation is not a stand-alone solution and should be part of a broader digitalization strategy.
- Automation introduces new challenges for organization. Don't forget about governance and data security in the risk framework.

Note Stages involved in Digital audit : understand - Identify - Assess

Auditing Digitally

Using advancements in technology for conducting an effective and efficient audit.

Q1

Key Features or Advantages of Auditing Digitally: MT HEART Q

- Decreasing human dependency:** Minimizes manual intervention results in reducing the risk of manual errors.
- Improved Efficiency:** What used to take weeks to learn and programme using deep experts, is now easily available to auditors after some simple training and digital upskilling.
- Automation and Ease:** Automating tasks have improved the quality of audit and reduced manual error.
- Better risk assessment:** focus on the bigger picture rather than being involved with repetitive tasks.
- Increases Transparency:** New ERPs & tools have audit trail feature available to trace transaction end to end.
- Improved Quality of Audits:** Through automation, data analytics techniques we can easily move from sample auditing to full population of transactions being reviewed or re-performed.

Considerations in Auditing Digitally

Q1

Few questions it is important to ask and answer - at all stages of tech journey:

What problems are you trying to solve?

- Continuously evaluate the emerging technologies and latest tools to see what can benefit the audit.

Which technology can help you?

- No. of tools available.
- Consider how comfortably these solutions will integrate into your current processes.

How will you upskill your people to make best use of the technology available?

- Training & development to ensure teams understand how and why they are using the technology.
- Reluctance to change is obvious, continuous training help them to get better.

Range of automated solutions

- There is a range of automation solutions, which helps to standardize the repeatable tasks and optimize the efforts

Understand IT Evt. (SA 315)

Auditor's understanding of automated envt. should include

- Organization structure & governance.
- Policies, procedures & processes followed.
- Applications that are being used by company.
- Details of IT infrastructure components for each of application
- Extent of IT integration, use of service organizations.
- IT risks and controls.

Key considerations/Areas for an Auditor to Understand IT Environment

Q2

1. Understand the flow of transaction

Focus on identifying and understanding the nature and no. of the specific IT applications that are relevant to the flows of transactions and processing of information in the IS.

2. Identification of Significant Systems

Identify IT applications and supporting IT infrastructure concurrently with the auditor's understanding of how information flows into entity's information system.

3. Identification of Manual and Automated Controls

An entity's system of internal control contains manual elements and automated elements which are relevant to auditor's identification and assessment of the ROMM

4. Identification of the technologies used

Need to understand the emerging technologies implemented and consider whether there are risks arising from their use.

Examples of emerging technologies are: AI, drone blockchain

5. Assessing the complexity of the IT environment

Not all applications of the IT environment have the same level of complexity.

Identifying the risk arising from the use of IT

Risks arising from use of IT

- Unauthorized access to data that may result in destruction of data or improper changes to data.
- Unauthorized changes to data in master files.
- Unauthorized changes to IT applications or other aspects of the IT environment.
- Inappropriate manual intervention.
- Data loss or data corruption

Types of IT dependencies

Q3

Automated Controls	Automated controls are designed into the IT environment to enforce business rules. For example, Existence checks (e.g., Duplicate customer number cannot exist),
Calculations	Calculations are accounting procedures that are performed by an IT system instead of a person. For ex, system will calculate the value of the amount invoiced by multiplying price & qty.
Reports	System generated reports are information generated by IT systems. E.g. (Vendor master report, customer ageing report)

Types of IT dependencies

Security	Security including segregation of duties (SOD) is enabled to restrict access to info. and to <u>determine the separation of roles and responsibilities.</u>
Interfaces	Interfaces are programmed logic that transfer data from one IT system to another. For example, an interface may be programmed to transfer data from a payroll sub- ledger to the general ledger.

Assessing Cyber Risks

Q4

What is Cyber Risk?

A cyber-attack is an **attempt to gain unauthorized access** to a **computing system or network** with the intent to cause damage, steal, expose, alter, disable, or destroy data.

Most common types of cyber- attacks are

Malware: Malware or malicious software is any **program or code** that is created with intent to do harm to a computer, network or server.

Type	Description
Ransomware	In a ransomware attack, an adversary encrypts a victim's data and offers to provide a decryption key in exchange for a payment.
Fileless Malware	Uses native, legitimate tools built into a system to execute a cyber-attack..
Trojan	A Trojan is malware that appears to be legitimate software disguised as native operating system programs or harmless files like free downloads..
Mobile Malware	Type of malware designed to target mobile devices. MM is delivered through malicious downloads, phishing, smishing, and the use of unsecured Wi-Fi.

Denial-of-Service (DoS) Attacks:

- A (DoS) attack is a malicious, targeted attack that **floods a network** with **false requests** in order to disrupt business operations.
- In a DoS attack, users are **unable to perform routine and necessary tasks**, such as accessing email, websites, online accounts or other resources.

DNS Tunneling: DNS Tunneling is a type of cyberattack that **leverages domain name system (DNS) queries & responses** to bypass traditional security measures and transmit data and code within the network.

Phishing: Phishing is a type of cyberattack that **uses email, SMS, phone, social media, and social engineering techniques** to **entice a victim to share sensitive info.** — such as passwords or account numbers or to download a malicious file that will install viruses on their computer or phone.

Type	Description
Spear Phishing	phishing attack that targets specific individuals or organizations typically through malicious emails. Goal steal sensitive information or infect the targets' device .
Whaling	A whaling attack is a type of social engineering attack specifically targeting senior or C-level executive employees with the purpose of stealing money or inf.
Smishing	Sending text messages purporting to be from reputable companies in order to induce individuals to reveal personal info.
Vishing	voice phishing attack, is the fraudulent use of phone calls and voice messages pretending to be from a reputable organization to convince individuals to reveal private info.

Spoofing: Spoofing is a technique through which a cybercriminal **disguise themselves as a known or trusted source.** In so doing, the adversary is able to engage with the target and **access their systems or devices** with the ultimate goal of stealing information, extorting money or installing malware or other harmful software on the device.

Type	Description
Domain Spoofing	Domain spoofing is a form of phishing where an attacker impersonates a known business or person with fake website or email domain to fool people into the trusting them.
Email Spoofing	Email spoofing is a type of cyberattack that targets the businesses by using emails with forged sender addresses..

Identity-Based Attacks: When a **valid user's credentials have been compromised** and an **adversary is pretend to be that user.** For e.g., people often use the same user ID and password across multiple accounts. Therefore, possessing the credentials for one account may be able to grant access to other, unrelated account.

Insider Threats: **When current or former employees** that **pose danger** to an organization because they have direct access to the company network, sensitive data, and intellectual property (IP), that would help carry out such an attack.

IoT-Based Attacks: An IoT attack is any cyberattack that targets an **Internet of Things (IoT) device or network.** Once compromised, the hacker can assume control of the device, steal data, or join a group of infected devices.

3 Stages of Cyber Risks

Stage 1 - Assessing the cyber risk:

No organization is completely **immune** to a cyber risk. Every organization should consider **at least the common threats** -

- **Ransomware** disabling their organization
- **Common criminals** using email phishing and hacks for fraud and theft.
- **Insiders** committing **malicious activities or accidental activities**

Stage 2 - Impact of cyber risk:

Q5

Cyber-attack can impact **one, two or more types** of risks. The impact of the attack would **vary from organization to organization** and most importantly from an **attack to attack.**

Some of the indicative areas can be -

- Regulatory costs
- Ransomware - where entire systems are encrypted
- Data loss, reputational loss and litigation
- Fines and penalties
- Breach of Privacy, if personal data of a consumer is hacked it could have a significant impact on the organization.

Stage 3 - Managing the cyber risk:

A strategic approach to cyber risk management can help an organization to:

- Gain a **holistic understanding** of the cyber risks, threats facing their organization and other financial institutions
- Assess existing IT and cybersecurity program and capabilities against the relevant **regulatory requirements**
- **Align** cybersecurity and IT transformation initiatives **with strategic objectives and critical risks**
- Understand **accepted risks & documented compensating controls**

Cyber Security Framework

Q6

Cybersecurity framework includes **how management** is identifying the risk, protecting and safeguarding its assets from the risk.

Identify the risk:

1. Conduct a **periodic risk assessment & develop a management strategy**.
2. **Asset Mgt.** (e.g., intellectual property, patents)

Protect the risk:

1. Monitors whether there has been **unauthorized access** to electronic assets.
2. Formal **training** should be conducted.
2. **Implement effective controls** for **data security**.

Detect The risk:

Entity should have **controls and procedures** that enable it to **identify cybersecurity risks and incidents** and to **assess & analyse** their **impact**.

Respond to the risk:

1. Entity should have a **response planning in place** to capture the details of nature of incident + communicated to TCWG.
2. Management should **assess** Litigation costs, Regulatory investigation costs and Remediation costs.
3. **assess** future action plans.

Recover from risk:

1. Once **impact** is **evaluated**, **recovery plan** needs to be **implemented**
2. **Necessary improvements** - like patch upgrades, better controls,

Control considerations for Cyber Risks

(I) Controls around vendor setup and modifications:

- (a) Who is responsible for **making changes** to vendor master data?
- (b) Are other **communication channels**, such as email, used to request changes to vendor master data? (If yes, consider if multi-factor authentication is enabled for email).
- (c) What **systems and technologies are used** to initiate, authorize and process requests related to changes to vendor master data?
- (d) Are **authentication protocols defined** to verify modifications to vendor master data?

(II) Controls around electronic transfer of funds:

- (a) Are **personnel responsible** for wire transfers **educated** on the relevant threats and info. related to common phishing scams associated?
- (b) Are **authentication protocols defined** to verify wire transfer requests?
- (c) What **systems and technologies** are used to facilitate the request/initiation, authorization and release of wire transfers?

(III) Controls around patch management:

- (a) Does the **entity have** a patch management program?
- (b) Does the **entity run periodic vulnerability scans** to identify missing/unapplied patches?
- (c) **How is the entity notified** of patches by external vendors (e.g., Microsoft for Windows patches)?

Remote Audit

Remote audit/virtual audit is when the **auditor uses the online or electronic means** to conduct the audit. It could be partially or completely virtual.

Considerations for remote audit

Q7

Feasibility and Planning

- o **Planning** should involve agreeing on audit timelines, meeting platform (Zoom calls) to be used for audit sessions, data exchange.
- o Ensure **feasibility** is determining what technology may be used.
- o **Execution** phases involve video/tele conferencing with auditees.
- o **Documentation** for audit evidence should be transferred through a document sharing platform.

Confidentiality, Security and Data Protection

- o **Access to document sharing platform** should be **sufficiently restricted** and **secured by encrypting the data** to ensure data security and confidentiality.
- o **Info. once reviewed** & documented by auditor, is **removed** from the platform, & stored according to applicable archiving standards
- o **Take into consideration legislation and regulations**,
- o Auditors should **not take screenshots** of auditees as audit evidence. Should be previously authorized.
- o **Use VPN (Virtual private network)**. VPN is a service which creates safe and encrypted online connection.

Risk assessment

- o **Assessment if remote audit would be sufficient** to achieve the audit objectives.

Advantages and Disadvantages of remote audit

Q8

Advantages	Disadvantages
Cost and time effective: No travel time and travel costs involved.	Due to network issues , interviews and meetings can be interrupted .
<u>Comfort and flexibility</u> to the audit team as they would be working from home environment .	Limited or no ability to visualize facility culture of the organization , and the <u>body language</u> of the auditees. Time zone issues could also affect the <u>efficiency</u> .

Auditor can get first-hand evidence directly from the IT system	Remote access to sensitive IT systems may not be allowed
Widens the selection of auditors from global network of experts.	Cultural challenges for the auditor. Audit procedures like physical verification of assets and stock taking cannot be performed.

Emerging Technologies in Audit

Data Analytic Techniques

Q9

- o Generating and preparing **meaningful information** from raw system data using processes, tools, and techniques is known as Data Analytics.
- o It involves **analysing large sets of data** to find,trends, draw conclusions and for informed decision making.
- o Enables **greater efficiencies and more accurate findings**

The data analytics methods used in an audit are known as Computer Assisted Auditing Techniques or CAATs.

Some of the popular tools used across the industry as part of CAATs are listed below:

1. **ACL - Audit Command Language (ACL) Analytics** is a **data extraction and analysis** software used for fraud detection and prevention, and risk management.

It **samples large data sets** to find irregularities or patterns in transactions that could indicate control weaknesses or fraud.

2. **Alteryx -**

- o Alteryx is used to **consolidate financial or operational data** to assess controls.
- o A fully transparent **audit trail** of every action is performed in Alteryx **in form of a workflow** which makes it easier for the user to learn as **no prior knowledge of coding or scripting** is required.
- o Can be leveraged to **automate analytics and perform Machine Learning** to search for patterns indicative of fraud or irregularities.
- o It can also be used to **automate set procedures** that are **performed periodically** like reconciliations, consolidations, marketing workflows, system integrations, continuous audits etc.

3. **Power BI -**

- o Power Bi is business intelligence (BI) platform that provides **nontechnical business users** with tools for aggregating, analyzing, visualizing and sharing data.
- o From audit perspective, such visualization tools can be used to **find the outliers in the population**.
- o It can also be used for **reporting** purpose (audit reports) in an **interactive dashboard** to the higher management.

4. CaseWare -

- CaseWare is a **data analysis** software & **provide tools** that helps in **conducting audit and assurance engagements** quickly, accurately and consistently.
- It shares **analytical insights** which help in taking **better informed decisions**.
- It helps in **streamlining processes & eliminating the routine tasks**.

Automated Tools in Audit

Q11

(1) Internet of Things

- IoT is the concept of **connecting any device** (cell phones, coffee makers, washing machines, and so on) **to the internet**.
- **Key components** of IoT are data collection, analytics, connectivity, and people and process.
- IoT **not only changes the business model**, but also affects the **strategic objectives** of the organization.
- **Risk profile** of the entity changes with exposure to new laws and regulations.

Audit Implications

- A **shift to connected devices and systems** may result in auditors not being able to rely only on manual controls. Instead, auditors may **need to scope new systems** into their audit.
- Audit firms may need to **train and upskill** auditors to evaluate the design and operating effectiveness of automated controls.

Common risks of IoT

Device hijacking, data siphoning, data breaches and device theft

(2) AI (Artificial intelligence)

- AI refers to a **system or a machine** that can think and learn.
- AI systems **utilize data analysis and algorithms** to make decisions based on predictive methods.

Ex: Self-driving cars, marketing chatbots, virtual travel booking agent, Alexa to turn off the lights.

Audit Implications

- Audits must **focus on the logical flow of processes**.
- **Ascertain whether unintended bias** has been added to the **algorithms**.
- Assess the **effectiveness of algorithms** and **whether their output** is appropriately reviewed and approved.
- Consider **whether the AI is making decisions**.

Common risks for AI

Security + Inappropriate configuration + Data Privacy

(3) Blockchain

- Blockchain is **based on a decentralized and distributed ledger** that is secured through encryption.
- Each transaction is **validated by the blockchain participants**, **creating a block of information** that is replicated and distributed to all participants.
- All **blocks are sequenced** so that any modification or deletion of a block disqualifies the information.

Ex: Bitcoin, cryptocurrency transfer application - Blockchain in money transfer, blockchain smart contracts.

Audit Implications

- Auditors should consider the **appropriate governance** and **security transactions**.
- Although blockchain's core security premise rests on cryptography, there are risk factors associated with it.
- Concerns related to, data confidentiality and privacy cannot be ignored.
- Determine whether the **data put on blockchain will expose the enterprise to liability** for noncompliance with applicable L&R.

Common risks for blockchain technology

- **Strengths** of blockchain can also be its **weaknesses**.
- **Inability to reverse transactions** and to **access data without the required keys** make system secure, but also mean that organisations need **specific protocols and management processes** to ensure that they are not locked out & have clear contingency plans.
- **Operating through network nodes** could also expose organisation to cyber-attacks and data hacks.
- Auditors should ensure that **organisation has the necessary data management processes** and **complies with regulations**.

(3.1) NFT (Non-Fungible Token)

- NFT means something is **unique** and **cannot be replaced**.
- Unlike **physical money and cryptocurrencies are fungible** (means they can be traded or exchanged for one another) NFTs are non-fungible tokens.
- NFTs contain the **digital signatures** which make them unique.
- NFTs are **digital assets**, e.g., photos, videos, artwork, etc.
- NFTs are tokens used to **represent ownership of unique items**.
- NFTs allow their creators to **tokenize things** like art, collectibles, or even real estate.
- **Secured by the blockchain** and can only have **one official owner at a time**. No one can change the record of ownership or copy/paste a new NFT into existence.

Key Features of NFT

- **Digital Asset**
- **Unique** - It cannot be forged or otherwise manipulated.
- **Exchange** - NFT exchanges take place with cryptocurrencies such as Bitcoin on specialist sites.

Challenges of NFT

- Challenges like **ownership & copyright concerns, security risks, market is not that wide, online frauds** etc.
- NFT **audit considerations** include comprehensive code review for verifying the safety of a token, valid contract, data privacy and potential cyber threat.

(4) Robotic Process Automation

- RPA is an **automation of repetitive processes** performed by users
- It is a **software technology** that **emulates human's actions** interacting with digital systems and software.
- RPA **software bots can interact with any application or system the same way people do**—except that RPA bots can operate around the clock, nonstop, much faster.

Audit Implications

- It important for auditors to **understand RPA processes**, which include data extraction, aggregation, sanitization and cleansing. Unless auditors understand these processes, they **will not be in a position to initiate an audit**.
- **To perform substantive testing**, auditors must have an **understanding of the tools used to develop and maintain RPA**.

Common Risks of RPA

Operational and execution risks -

- Robots are deployed **without proper operating model**.
- Assigning proper responsibilities, training can help you **reduce operational risk**.

Change management risks: Not following the change management implementation lifecycle, improper and incomplete testing **leads to inaccurate results**.

RPA Strategy Risk: Setting wrong expectations, improper KPIs, and unrealistic business goals creates an environment of uncertainty.

Control Considerations or Objectives of Auditing Digitally

Q13

As they address the challenge of assessing technology risk, auditors can and should focus on the following control considerations:

1. Gain a **holistic understanding of changes** in the industry and the **info. technology environment** to **evaluate management's process** for initiating, processing, and recording transactions and then **design appropriate auditing procedures**.
2. Consider **risks resulting from the implementation of new technologies** and how those risks may differ from those that arise from more traditional, legacy systems.
3. Consider whether **digital upskilling or specialists** are necessary to **determine the impact** of new technologies and to **assist** in the risk assessment and understanding of the design, implementation, and operating effectiveness of controls.

Some **examples** of technology risks where auditors should test the appropriate controls for relying on the digital systems -

- Inappropriate **manual intervention**
- Unauthorized changes to **systems or programs**
- Unauthorized or erroneous changes to **data in master files**
- Potential **loss of data** or inability to access data as required
- **Cybersecurity risks**

Key Steps for Auditors in a Changing Technology Environment

1. Maintain sufficient **professional scepticism** when reviewing management's risk assessment for new systems.
2. Understand the **direct and indirect effects of new technology**
3. Understand how **technologies impact the flow of transactions**, assess the **completeness of the in-scope ICFR systems**, and design a sufficient and **appropriate audit response**.
4. Assess the appropriateness of **management's processes** to select, develop, operate, and **maintain controls**.

Next Generation Audit

Q14

Examples of Next Generation Audit

Drone Technology:

- Using drone technology in the **remote locations for stock counts**.
- Drones have **great payload capacity** for carrying sensors and cameras, thus they can photograph and **physically examine** the count of large quantities of fixed assets and inventory.

Augmented reality:

- The technology allows users to **view the real-world environment with augmented (added) elements**, generated by digital devices.
- One famous **example** was Pokémon Go,.

Virtual reality:

VR goes a **step forward and replaces the real world entirely with a simulated environment**, created through digitally generated images, sounds, and even touch and smell. Using special equipment, such as a **custom headset**, the user can explore a simulate experiences such as flying or skydiving.

Metaverse:

The metaverse is the **emerging 3-D digital space** that uses virtual reality, augmented reality, and other advanced internet technology to allow people to have lifelike personal and business experiences online.

It represents a **convergence of digital technology** to combine and extend the reach and use of Cryptocurrency, Artificial Intelligence (AI), Augmented Reality (AR) and Virtual Reality (VR)

Some considerations for future -

- Beyond cryptocurrencies, coins, and exchanges, players in the Metaverse will need to consider how to **build digital monetary systems** and apply **economic principles** to things like digital land.
- **Governance models** will become ever more difficult to balance openness and user contribution.
- **Identity** in digital world has historically been different based on the platform utilized. (e.g., KYC)
- **Synchronicity** is the ability for aspects of the Metaverse to be multiplayer, simultaneous, and real-time.

Case scenarios to illustrate the potential application of the metaverse in the financial domain

- **Virtual Banking and Transactions:** Users can create **virtual bank accounts**, access personalized financial dashboards, and perform transactions using virtual currencies.
- **Digital Asset Management:** **virtual asset trading platform** within the metaverse, allowing users to buy, sell, and trade NFTs and other digital assets.
- **Virtual Financial Education and Training:** **create a virtual classroom environment** where participants can attend interactive financial education sessions.
- **Virtual Meetings and Conferences:** Participants from **around the world can access** the conference through their virtual avatars.
- **Data Visualization and Analytics:** virtual analytics platform **allows users to visualize complex financial data in interactive and immersive 3D environments**.

Common Risks associated

- Public safety, cybersecurity, data privacy, data protection, lack of standards and technical challenges.
- It also raises questions about taxation, jurisdiction, and customer protection.
- Regulators and auditors have to think of the controls around privacy, data security, and governance to make it more regulated.

Mandatory under Companies Act:

Q1

- Section 129(3)- where a Co. **has one or more subsidiaries**, including associate company & joint venture, it shall, in addition to its own FS **prepare a CFS of co. & of all subsidiaries**.
- Co. attach along with its FS, a **separate statement** containing the **salient features of FS of its subsidiary's** in Form AOC-1.
- Consolidation of F.S** shall be made in accordance with the provisions of **Schedule III to the Act** and applicable AS.
- Co. **which is not required to prepare CFS under AS** - shall be **sufficient** if co. **complies** with provisions of CFS provided in **Schedule III**

However, requirement related to preparation of consolidated FS shall not apply to a company if it meets the following conditions:

- It is a **wholly-owned subsidiary**, or is a **partially-owned subsidiary** of another company and **all its other members** have **been intimated in writing** and they **don't object to Co.** for not presenting CFS;
- It is a company whose **securities are not listed or are not in the process of listing** on any stock exchange.; and
- Its **ultimate or any intermediate holding co.** files consolidated FS with **Registrar** which are **in compliance** with the applicable AS.

Investment entity (IND AS 110)

Q2

An investment entity need not present CFS if it, to **measure** all of its subsidiaries at **fair value through profit or loss**. (Ind AS 110)

An investment entity is an entity that:

- | | | |
|--|---|--|
| a) Obtains funds from one or more investors for of providing investor(s) with investment management services ; | b) Commits to its investor(s) that its business purpose is to invest funds solely for <u>returns from capital appreciation, investment income, or both</u> ; & | c) measures and evaluates all of its investments on a fair value basis . |
|--|---|--|

There is no such exemption for 'temporary control', or "for operation under severe long-term funds transfer restrictions" in IND AS 110.

Accounting Standard 21

Q 1/5

AS 21 "CFS", states that a **subsidiary** should be **excluded** from consolidation when **control is intended to be temporary** because the **shares are acquired and held** with a view to its subsequent disposal in the near future. Also, subsidiary **operates under severe long-term funds transfer restrictions**.

Note: Where **shares are acquired and held** exclusively with a view to their **subsequent disposal** in near future, **control would be considered temporary** & investments in such subsidiaries should be accounted as per AS 13 "Accounting for Investments".

Responsibility of Parent

Q 8

Responsibility for preparation & presentation of CFS of mgt of the parent:

- Identifying components**, and including financial information of the components to be included in the CFS;
- Identifying reportable segments** for segmental reporting;
- Identifying related parties and related party transactions** for reporting;
- Obtaining accurate and complete financial information from components**;
- Making appropriate consolidation adjustments**;
- Harmonization** of accounting policies and accounting framework; &
- GAAP conversion**, where applicable.

Auditor's objectives in an audit of CFS / Auditors responsibility

Q 9

- To satisfy that **CFS have been prepared** in accordance with **applicable FRF**;
- To **enable himself to express an opinion on true and fair view** presented by **CFS**;
- To **enquire into matters as specified in section 143(1)** of the Companies Act, 2013; and.
- To **report on matters given in the clauses (a) to (i) of section 143(3)** of the Companies Act.
- Validate requirement of preparation of CFS**. as per applicable FRF.

Determination of materiality during audit of CFS, auditor should consider following:

Q 10

- Auditor is **required to compute materiality for group as a whole**. It should be **used to assess appropriateness of consolidation adjustments**.
- Parent auditor **use materiality** computed on the **group level** to determine whether **component's FS are material to the group** to determine whether they should **scope in additional components**, and consider using work of other auditors as applicable.
- Principal auditor also **computes materiality for each component** and **communicates to component auditor**, if he believes is required for **true and fair view** on CFS.
- Principal auditor also obtains certain **confirmations** from **component auditor** like independence, code of ethics, etc.

However, while considering observations (for instance modification and /or EOMP in accordance with SA 705/706) of component auditor in his report on standalone FS, principles of SA 600 needs to be considered.

Management representation in audit of CFS

Q 11

- Completeness of components included in CFS**;
- Identification of reportable segments for segmental reporting**;
- Identification of related parties and RPT for reporting**;
- Appropriateness & completeness of permanent and current period consolidation adjustments**, including elimination of intra-group transactions.

Planning before commencing an audit of CFS

Q 12

- Understanding** of group structure and group-wide controls including **assessment of IT system and related general and applications IT related controls** for consolidation process;
- Understanding** of accounting policies of parent & its components as well as of the consolidation process **including process of translation of FS of foreign components**;
- determining and programming NTE of audit procedures** to be **performed** based on the assessment of ROMM;
- determining extent of use of other auditor's work**; and
- coordinating work to be performed**.

Procedure for ensuring completeness of components inclusion in CFS

Q 13

- review **his working papers** for prior years for known components;
- review **parent's procedures** for identification of various components;
- make inquiries of mgt.** to identify any new components or any component which goes out of CFS;
- review investments of parent as well as its components** to determine shareholding in other entities;
- review **joint ventures and joint arrangements** as applicable;
- review **other arrangements** entered into by parent that have **not been included in the CFS** of group;
- review **statutory records** maintained by parent. Ex register maintained under section 186, 190 pf companies Act, 2013.
- Identify changes in shareholding** that might have taken place during the reporting period.

Info. given in notes to separate FS of parent and/or subsidiary need not be included in the CFS.

Q 14

- Source from which bonus shares are issued**, e.g., capitalisation of profits or reserves or from securities premium account.
- Disclosure** of all **unutilised monies out of the issue** indicating form in which such unutilised funds have been invested.
- Disclosure** required under **MSME Development Act, 2006**
- Value of imports calculated on C.I.F. basis** by Co. during F.Y. in respect of: (a) Raw materials; (b) Components & spare parts; (c) Capital goods.
- Expenditure in foreign currency** during F.Y. on account of royalty, know-how, interest, and other matters.

Permanent Consolidation Adjustments

Q 8

Those adjustments that are made only on **first occasion or subsequent occasions** in which there is a change in the shareholding.

Permanent consolidation adjustments are:

- Determination of **goodwill or capital reserve** as per applicable AS.
- Determination of **amount of equity attributable to minority/ NCI**.

Auditor should **verify that above calculations** have been made appropriately.

- Attention to **determination of pre-acquisition reserves** of components & **Date(s) of investment**.
- Pre-acquisition reserves** have been **allocated appropriately** between parent & NCI of subsidiary.
- Verify changes** taken place in these **permanent consolidation adjustments** on subsequent acquisition/ disposal of shares.

It may happen, in case of one subsidiary, **goodwill arises** & in another subsidiary, **capital reserve arises**. Then **parent may choose to net off these amounts** to disclose a single amount in consolidated balance sheet where permitted by applicable FRF.

Auditor should verify that **gross amounts of goodwill and capital reserves** arising on acquisition of subsidiaries have been **disclosed in notes** to the CFS.

Current Period Adjustments

Q 17

Current period adjustments are those adjustments that are made in the **accounting period** for which **consolidation of FS is done**.

CPA primarily relate to **elimination of intra-group transactions and account balances** including:

- intra-group interest** paid and received, or management fees, etc.;
- unrealised intra-group profits** on assets acquired/ transferred from/ to other subsidiaries;
- intra-group** indebtedness;
- record **deferred taxes** on unrealised intercompany profits elimination in accordance with **Ind AS 12**;
- adjustments related to **harmonising different accounting policies** being followed by the parent and its components;
- adjustments to FS for **recognized subsequent events or transactions** on CFS of the group.
- Foreign component, adjustments** to convert a component's audited FS prepared under **component's local GAAP to the GAAP under which CFS are prepared**;
- determination of **movement in equity attributable to minorities interest/NCI** since date of acquisition of subsidiary. Ind AS, NCI can also result in negative balance.

Note: FS of components used in **consolidation** should be drawn up to the **same reporting date** as that of parent.

If it is **not practicable** to draw up the FS of one or more components to such date and, accordingly, those FS are **drawn up to different reporting dates**, adjustments should be made for the effects of **significant transactions or other events** that occur between those dates and date of parent's FS.

Difference between reporting dates should not be more than 6 months in case of FS under AS and 3 months in case of FS under Ind AS

Q 17

Auditor should review memorandum records to verify adjustment entries made in preparation of CFS.

Apart from reviewing memorandum records, auditor should verify:

- Intra group transactions & a/c balances** have been **eliminated**;
- CFS have been prepared using **uniform accounting policies**.
- Calculation of **minorities/NCI**;
- Adjustments** relating to **deferred tax** on account of temporary differences arising out of elimination of profit and losses.
- Income and expenses of subsidiary** are included in CFS from date it gains control until date when entity ceases to control.

Reporting

Q 19

When the Parent's Auditor is also the Auditor of all its Components:

- Auditor should **ensure** that the **principles and procedures** for **preparing CFS**, as per relevant AS, are followed.
- If there are **deviations**, auditor must **address them** as per **SA 705**.
- Auditor **issues an opinion** on **whether the CFS provide a true and fair view** of the group's financial position and results.
- Where **CFS include cash flow statement** auditor should **given opinion on true and fair view of cash flow** presented by CFS.

When the Parent's Auditor is not the Auditor of all its Components

- In this case, **SA 600** regarding the **use of work by other auditors** should also be considered.
- As per **SA 706**, if auditor **make reference to work** of other auditor in his audit report, he should **clearly disclose the portion of the FS audited by other auditors**.
- Disclosure of portion** can be **done by stating aggregate amounts, % of total assets, revenues & cash flows included in CFS but not audited by parent auditor**.
- This **disclosure indicates shared responsibility** between parent and subsidiary auditors but is **not to be construed qualification** of opinion.

When Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent

- Parent's mgt. converts component's FS** to **parent's framework**.
- These **conversion adjustments** are **audited by the principal auditor** for suitability and appropriateness.
- Alternatively, **components may adopt the parent's accounting policies based on group accounting manual**, aligning them with group requirements, and **be audited** accordingly.
- Parent Auditor **shall check** if **GAM** shall comply with **GAAP** applicable to Parent

When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent

- Normally, **audits of FS, including CFS, are performed under auditing standards** generally accepted in India ("**Indian GAAS**").
- In order to **maintain consistency** of the auditing framework and to **enable the parent auditor to rely and refer to the other auditor's report**, the components' FS should also be audited under a framework that corresponds to **Indian GAAS**.

Components Not Audited

- Ideally, **all components in CFS** should be **audited or subjected to audit procedures**.
- If some components **remain unaudited**, auditor should **evaluate** the possible impact and **consider modifications to the report**, guided by **SA 705**.
- Evaluation is necessary** because the **auditor has not been able to obtain SAAE** in relation to such consolidated amounts/balances.
- In such cases, auditor should **evaluate both qualitative & quantitative factors** on possible effect of **such amounts remaining unaudited**.

Banks have certain characteristics distinguishing them from most other commercial enterprises.

- **Custody of large volumes of monetary items**, including cash & negotiable instruments, whose physical security has to be ensured.
- Engagement in transactions that are **initiated at one location, recorded at a different location and managed at yet another location.**
- **Direct Initiation and completion of transactions** by the customer **without any intervention by the bank's employees.**
- **Regulatory requirements** often **influence accounting and auditing practices** in the banking sector.

Special audit considerations arise in the audit of banks bez of:

1. **particular nature of risks** associated with transactions undertaken;
2. **scale of banking operations** and resultant significant exposures which can arise within short period of time;
3. **extensive dependence on IT to process transactions;**
4. **effect of statutory and regulatory requirements;**
5. **continuing development of new products and services and banking practices** which may **not be matched** by **concurrent development of accounting principles and auditing practices.**

Q1

Form and content of financial statement

Balance Sheet and Profit & Loss Account: Every banking company must prepare a Balance Sheet and a Profit & Loss A/c according to the forms specified in **Third Schedule** to **Banking Regulation Act, 1949.**

Form A: Balance sheet.

Form B: Profit and loss account.

Compliance with Accounting Standards:

Banking companies must **adhere** to disclosure requirements outlined in **AS** as per section 133 of the Companies Act, 2013

The implementation of **(Ind AS)** has been deferred for **scheduled commercial banks** by RBI.

Branch Audit: **Private banks** having **centralized accounting processes:** **No mandatory branch audits required.**

Audit of Accounts & Appointment of Auditor

Most banks, especially those in nationalised banks or public sector, **appoint 4 or more firms of chartered accountants to act jointly as statutory central auditors (SCAs).**

Authority Appointing Auditors: -

Auditors are appointed at the **annual general meeting** by shareholders + (RBI Approval).

Nationalised Banks: Board of Directors + (RBI Approval).

State Bank of India: **C&AG** of India, in consultation with the **CG**

Regional Rural Banks: **Concerned bank** with **approval from the CG**

Conducting Audit /Audit of bank stages

Stage I: Initial Consideration:

- **Acceptance & Continuance**
- **Declaration of Indebtedness:** RBI has advised that the banks, before appointing their statutory central/branch auditors, should **obtain a declaration of indebtedness** i.e., a written confirmation that auditor/firm/partners/family members have **not been declared as wilful defaulters by any bank/financial institution.**
- **Internal Assignments in Banks by Statutory Auditors:** RBI decided that audit firms should **not undertake statutory audit assignment while they are associated with internal assignments** in bank during same year.
- **Terms of Audit Engagements**
- **Communication with Previous Auditor**
- **Planning**
- **Establish Engagement Team**

Stage II: Understanding:

Understanding the Bank and Its Environment including Internal Control
Understand the Bank's Accounting Process

Understanding the Risk Management Process:

An effective risk management system in a bank generally requires the following:

- (i) **Monitoring activities:** **Risk management models, methodologies and assumptions used** to measure and manage risk **should be regularly assessed and updated.**
- (ii) **Identification, measurement and monitoring of risks:** **Risks** that could significantly **impact the achievement of bank's goals** should be **identified, measured and monitored** against **pre-approved limits and criteria.**
- (iii) **Oversight by TCWG:** **Approve Risk mgt. polices** and they **policies should be consistent** with **bank's business objectives and strategies, management expertise, regulatory requirements.**
- (iv) **Reliable info. systems:** that provide **adequate financial, operational and compliance info.** on a **timely and consistent basis.**
- (v) **Control activities:** **Appropriate controls - SOD, verification and approval of transactions, setting of limits.**

Stage III: Risk Assessment:

- Identifying and Assessing ROMM
- Assess Risk of Fraud including Money Laundering
- Assess Specific Risks
- Risk Associated with Outsourcing of Activities

Stage IV: Execution:

- Engagement Team Discussions
- Response to Assessed Risks.
- Establish Overall Audit Strategy
- Audit Planning Memorandum
- Determine Audit Materiality
- Consider Going Concern

Stage V: Reporting

Special Considerations in IT Environment

Bank should share detailed information with auditors like: -

1. **Overall IT policy**, structure and environment of Bank's IT system
2. **Data integrity and data security**
3. **Accounting manual and critical accounting entries**, their processes and involvement of IT systems
4. **MIS reports** being generated and their periodicity
5. **Major exception reports** & process of generation including embedded logic

Overall review of IT environment and computerized accounting system has to be taken at HO level. **Branch auditors generally don't have access to IT policy** and processes implemented by bank. Hence, **based upon guidance & info. received from SCA**, branch auditors need to ensure that **data review & analysis through CBS is carried out.**

key security control aspects that an auditor needs to address when undertaking audit in a computerised bank include:

- Ensure that **authorised, accurate & complete** data is made available for processing.
- Ensure that **in case of interruption due to power, mechanical or processing failures, system restarts without distorting completion of entries and records.**
- Verify that **SOD** is ensured while granting system access to users.
- Ensure that **system prevents unauthorised amendments** to programmes.
- Verify that **changes made** in parameters or user levels are **authenticated.**

Risk-based Internal audit

Risk assessment process includes: -

- **Identification of inherent business risks** in various activities (Business risk)
- **Assessment of effectiveness of control systems** for monitoring inherent risks of business activities of branch (Control risk)
- **Making an assessment of level and direction of various risk areas.**
- **Drawing up of risk matrix.**

1. GENERAL

- (i) **Staff and officers** of a bank should be **shifted from one position to another frequently** and without prior notice.
- (ii) **Work of one person** should always be **checked by another person**.
- (iii) **Arithmetical accuracy of books** should be proved independently every day.
- (iv) **Signature book and telegraphic code book** should be kept with **responsible officers** and **access** should be allowed only to **authorised officers**.
- (v) **Take out insurance policies** against loss due to all the risks such as fire, natural calamities, theft and employees' infidelity.
- (vi) There should be **surprise inspection** of head office and branches at periodic interval by the **internal audit department**.

2. CASH

- (i) Cash kept in the **joint custody of two responsible officers**.
- (ii) Cashier have **no access to customer's ledger A/c's & Day Book**.
- (iii) **Payments** should be made only after the **vouchers have been passed for payment** by the authorised officer.
- (iv) **High value cash receipts and payments** should be **verified by a higher officer/ branch manager**.

3. CLEARING

- (i) Under **Cheque Truncation System (CTS)** implemented by RBI, an electronic image of the cheque is transmitted to paying branch through clearing house, along with relevant info. like data on the MICR band, date of presentation, presenting bank, etc. This effectively eliminates the associated cost of movement of physical cheques, reduces time required for their collection.
- (ii) As per RBI guidelines, branch is required to either call the customer or email him for any cheque received for the amount of **5 lakh and above** in respect of inward clearings. **Auditor may verify the compliance on test check basis**.
- (iii) Auditor to **check whether signature of drawer of the cheque is being verified** by staff or not as **else there will be liability of paying bank** under all circumstances.

4. BILLS FOR COLLECTION

- (i) All documents accompanying bills should be received & entered in Register by a responsible officer. At the time of dispatch, officer should also see that all the documents are sent along with bills.
- (ii) The accounts of customers or principals should be credited only after the bills have been collected or an advice to that effect received from the bank branch or agent.
- (iii) It should be ensured that bills sent by one branch for collection to another branch of the bank, are not taken in the bills for collection twice in the amalgamated balance sheet of the bank. For this purpose, the receiving branch should reverse the entries regarding such bills at the end of the year for closing purposes.

5. BILLS PURCHASED

- (i) Officer should verify that all the **documents of title are properly assigned to the bank**.
- (ii) **Sufficient margin** to cover any decline in the value of the security etc.
- (iii) If the **bank is unable to collect a bill on the due date**, immediate **steps should be taken to recover** the amount
- (iv) All **irregular** outstanding account/s - reported to the **Head Office**.
- (v) In the case of bills purchased outstanding at the close of year discount received thereon should be properly apportioned between the two years.

6. LOANS AND ADVANCES

- (i) Bank should make advances only after satisfying itself as to the **creditworthiness of the borrowers** and after obtaining sanction from the proper authorities of bank.
- (ii) All the **necessary docs**. (e.g., agreements, letters of hypothecation, etc.) should be executed by the parties before advances are made.
- (iii) **Sufficient margin** should be kept against securities taken to cover any decline in the value thereof and to comply with Reserve Bank directives.
- (iv) All **securities** should be **received and returned** by **responsible officer**. They should be kept in **Joint custody of two such officers**.
- (v) **All accounts should be kept within both drawing power & sanctioned limit** as per prescribed norms. **Additional temporary limit** may be sanctioned, for a max. of **20%** of existing limit and **90 days** max. tenure.
- (vi) All the accounts which **exceed the sanctioned limit or drawing power** or are against unapproved securities or are otherwise **irregular** should be **brought to** the notice of Mgt. regularly.
- (vii) **Operation** (in each adv A/c) should **reviewed at least once every year**.

7. CREDIT CARD OPERATIONS

Q 3

- (i) There should be **effective screening of applications** with reasonably good credit assessments.
- (ii) There should be **strict control over storage and issue of cards**.
- (iii) There should be a **system** whereby a merchant confirms the status of **unutilised limit** of a credit-card holder from the bank **before accepting the settlement**, in case the amount to be settled exceeds a specified % of the total limit of card holder.
- (iv) **Reimbursement to merchants** should be made only after verification of the validity of merchant's acceptance of cards.
- (v) All the **reimbursement (gross of commission)** should be immediately charged to the customer's account.
- (vi) There should be a **system** to ensure that **statements are sent regularly** and promptly to the customer.
- (vii) Should be a **system** to **monitor and follow-up customers' payments**.

8. DEMAND DRAFTS

- (i) **Signatures** on a DD should be checked by an officer with Signature Book.
- (ii) All the D.Ds. **sold/ issued by a branch** should be **immediately confirmed by an advice to the paying branch**.
- (iii) If the **paying branch does not receive proper confirmation of any D.D.** from the issuing branch or does not receive credit in its account with that branch, it should take immediate steps to **ascertain the reasons**.

1. BALANCE WITH RBI:

- (i) **Verify** ledger balances with reference to bank confirmation certificates & reconciliation
- (ii) **Review** reconciliation statements and give special attention to:
 - **Cash** transactions remaining unresponded
 - **Revenue** items requiring adjustments/write-offs; and
 - Other Cr. & Dr. **entries** originated in statement provided by RBI remaining unresponded for more than 15 days.

2. MONEY AT CALL/SHORT NOTICE:

- (i) Examine whether there is **proper system** of authorisation for lending of money at call.
- (ii) **Call loans** should be verified with certificates of borrowers and call loan receipts.
- (iii) Examine whether **aggregate balances** in the relevant register tally with control accounts as per general ledger.
- (iv) Examine **subsequent repayments** received from borrowing banks to verify amounts shown under this head as at the year-end. (Call loans made by a bank can't be netted-off against call loans received.)
- (v) Verify that **interest** has been properly accrued & accounted for on year-end outstanding balances of call/ short notice money.

3. INVESTMENT:

A) Investments in special-purpose certificates:

- (i) **Account Separation:** Banks must verify if they maintain separate A/c's for investments in their own Investment Account, PMS clients' account, & on behalf of other constituents, including brokers.
- (ii) **External Audit Requirement:** In line with RBI guidelines, banks are REQUIRED to have their investments under Portfolio Management Services (PMS) audited separately by external auditors.
- (iii) **Half-Yearly Reviews:** Banks are required to conduct half-yearly reviews of their investment portfolio, specifically as of **30th September and 31st March**

B) Investments: Income Recognition Norms

- (i) **Performing Investments:** On accrual basis provided interest rates on these instruments are pre-defined.
- (ii) **Income on NPI:** on realisation basis.
- (iii) **Dividends:** Accrual basis, if the same has been declared by Corporate Body in its AGM & Shareholder's right to receive payment is established.
- (iv) **Units of MFs:** on cash basis.

Q 6

4. Advances - Area of Focus & Suggested Audit Procedures

A. Evaluation of Internal Controls over Advances

- A) Examine advances are sanctioned according to **delegated authority**.
- B) Review **operations of accounts** and look for **adverse features** like unauthorised **over drawings beyond limits**.
- C) Examine area of **credit appraisal** and verify whether laid down procedures regarding credit appraisals, preparation of proposals, obtaining satisfaction about **credit worthiness of borrowers** are being followed.
- C- Examine **compliance** with stipulated **terms of sanction** and end use of funds.
- D) Review whether **drawing power** is being calculated properly on basis of stock/book debt statements received.
- E) Examine **all necessary loan documents** have been executed after sanction but before disbursements.

B. Substantive Audit Procedures

- L) Examine all **large advances** & other advances on a **sample basis**.
- M) Verify correctness of **master data** of loan accounts. Check parameters like instalments, EMI, rate of interest, tenure of loans etc.
- N) Examine accounts identified to be problem accounts but which have **not yet slipped into NPA category**. This can be done by obtaining list of SMA1 and SMA2 borrowers from bank and same can be considered for selection of problematic accounts.
- O) Carry **out appropriate analytical procedures**.
- P) Examine list of restructured accounts to ensure that **restructure is as per RBI guidelines**. Remember **restructured account portfolio requires additional provisioning**.
- Q) Examine **quick/early mortality accounts**. Any advance slippage to **NPA within 12 months of its sanction is called as quick/early mortality case**.
- R) Examine those accounts which have been **adversely commented** upon by concurrent auditors/bank's internal inspection/**RBI inspection team**.

C. Recoverability of Advances

- (i) Review **periodic statements** submitted by borrowers indicating extent of **compliance with terms and conditions**.
- (ii) Review **latest FS** of borrowers.
- (iii) Review **reports on inspection of security**.
- (iv) Review auditor's reports in case of borrowers having credit facilities from banking **system beyond a cut-off limit** fixed by BOD of bank.

5. NPA's: Verification of Asset Classification, Income Recognition and Provision:

NPA: Int./ Principal is in arrears & **remains unpaid for > 90 days**

Audit Procedures

Q 7

Classification and Provision

- (i) Verify whether bank has a **system** of ongoing **identification & classification of advances** through CBS without manual intervention.
- (ii) Examine whether **classification made by the branch is appropriate**.
- (iii) Examine whether **secured & unsecured portions of advances** have been **segregated correctly & provisions** have been calculated properly.
- (iv) **Review and compare** date of NPA of loan accounts mentioned in C.Y. statements with that of P.Y. A **Reasons for any change** should be **ascertained**.

Accounts regularized near Balance sheet date

Q 7

- (i) Account has **been regularised before balance sheet date** by payment of overdue amount through **genuine sources**, a/c **need not be treated as NPA**.
- (ii) Assess whether repayment was out of **genuine sources** or not.
- (iii) Where a/c **indicates inherent weakness**, a/c **deemed as NPA**.
- (iv) **Classification** is made **as per the position as on date** and hence **classification of all standard accounts** be **reviewed as on balance sheet date**.
- (v) NPA should be **recognized only based on concept of Past Due/ Overdue concept**, and **not based on the Balance Sheet date**.

Drawing Power Calculation

Q12

- (i) Ensure that drawing power is calculated as per **guidelines** formulated by BOD.
- (ii) Special consideration should be given to **sundry creditors & stocks covered under LCs/guarantees** for purposes of calculating drawing power.
- (iii) Drawing power needs to be calculated carefully in case of working capital adv's to **co. engaged in construction business**.
- (iv) **Stock audit** including **audit of book debts** should be carried out by bank for all accounts having funded exposure of more than stipulated limit.

Asset classification to be borrower wise & not facility wise

Ensure that **asset classification is borrower wise and not facility wise**.

Further, if debits arising out of devolvement of LC or invoked guarantees are kept in separate account, the outstanding balance should be treated as part of borrower's principal account for purpose of application of prudential norms on asset classification, income recognition and provisioning.

Accounts with temporary deficiencies

- (i) Banks should **not classify an advance account as NPA** merely **due to existence of some deficiencies which are temporary in nature** such as
- non-availability of drawing power based on latest available stock statement,
 - balance O/S exceeding limit temporarily and
 - non-renewal of limits on due date.
- However, stock statements relied upon by banks for determining drawing power should not be older than 3 months.
- (ii) O/S in account based on drawing power calculated from **stock statements older than 3 months are considered as irregular.**

Government Guaranteed Advances

Q 12

- (i) **Income recognition**
If **govt guaranteed advance becomes NPA**, interest on such advance shouldn't be taken to income unless interest is realized.
- (ii) **Asset classification**
Credit facility backed by CG, though **overdue**, can be treated as NPA only when **CG repudiates its guarantee, when invoked**. This exception is not applicable for **State Government Guaranteed advances**, where advance is to be considered **NPA if it remains overdue for more than 90 days**
- (iii) In case bank has not invoked CG Guarantee though amount is overdue for long, reasoning for same should be taken and duly reported in LFAR.

Restructured Advances

- Restructuring is an act in which a lender **grants concessions to borrower**. It may involve **modification of terms of advances** including alteration of amount of instalments/alteration of repayment period/rate of interest/sanction of additional credit facilities etc.
- Banks may restructure accounts classified under standard, substandard or doubtful categories. **Banks cannot restructure accounts with retrospective effect**. Once bank receives an application for restructuring, it implies that the account is **intrinsically weak**. Accordingly, during the time **a/c remains pending for restructuring**, auditors need to take a view whether provision needs to be made in respect of such accounts.
- **On restructuring, a/c will be downgraded from Standard to substandard**. NPAs will remain in the same category.

Q12

Limits not reviewed

Accounts where regular/**ad hoc limits are not reviewed within 180 days** from the **due date/date of ad hoc sanction**, should be considered as **NPA**.

Agricultural Advances

Q12

- (i) Ensure **NPA norms have been applied in accordance with crop season** determined by **State Level Bankers Committee in each State**. Depending upon **duration of crops** - short term/ long term - **NPA norms would also be made applicable to agricultural term loans**. Ensure that **these norms are made applicable to all direct agri. advances** listed in Master Circular on lending to priority sector.
- (ii) In respect of agricultural loans, **other than those specified in the circular**, ensure that **identification of NPAs has been done on the same basis as non-agricultural advances**.

Sale/ Purchase of NPAs

Q 20

A. General - Examine

- **Policy** relating to procedures, valuation and delegation of powers .
- only such **NPA has been sold** which has **remained NPA** in books for **at least 2 years**.
- assets have been **sold/ purchased "without recourse"** only i.e., entire credit risk associated with the NPA should be transferred to the purchasing bank.
- subsequent to sale of NPA, bank does not assume any legal, operational or any other type of risk relating to sold NPAs.
- NPA has been **sold at cash basis** only. Under no circumstances, NPA can be sold to another bank at a contingent price. **Entire sale consideration has to be received on upfront basis**.
- **bank has not purchased an NPA** which it had **originally sold**.

B. Sale of an NPA: auditor should also ensure that

- **Removed from BOA after sale**
- If **SP < NBV** (net book value), **shortfall** should be **debited to P&L**.
- If **SP > NBV**, **excess provision shall not be reversed** but **will be utilised to meet shortfall/ loss on account** of sale of other non-performing financial assets.

C. Purchase of NPAs: auditor should also verify that

- **Provisioning requirements** as per classification status in books of purchasing bank.
- any **recovery** w.r.t NPA purchased from other banks is first adjusted against its acquisition cost & in **excess** has been recognised as profit.
- **For Capital adequacy**, banks have assigned **100% risk weights** to NPAs purchased from other banks.

6. VERIFICATION OF OTHER ASSETS

A. Inter-Office Adjustments

- (i) Examine whether **Inter-branch accounts** are normally **reconciled at central level**.
- (ii) Auditor should **report on year-end status** of **inter-branch A/c's** indicating **dates up to** accounts have been reconciled.
- (iii) Auditor should also indicate **no. & amount of o/s entries** in inter branch accounts.
- (iv) Ensure that any **discrepancies found** in inter-branch a/c's have been **properly dealt**.
- (v) **Obtain relevant info.** from branch audit reports.

B. Stationery and Stamps

- (i) Ensure that item "Stationery and Stamps" includes **only exceptional items of expenditure** on stationery like **bulk purchase of security paper** which is to be **written off over a period of time**. Such items should be **valued at cost**. **Normal expenditure on stationery** is charged to **profit & loss account**.
- (ii) Evaluate *existence, effectiveness and continuity* of **internal controls** over these items.
- (iii) **Physically verify stationery & stamps on hand as at year-end**. Any **shortage** should be **inquired**.
- (iv) Examine whether **cost of stationery and stamps** consumed during the year has been properly charged to **P/L a/c**.

C. Non-Banking Assets Acquired in Satisfaction of Claims

- 1) Ensure that heading includes those **immovable properties/tangible assets** which the bank has **acquired in satisfaction of debts due** or its other claims and **these are being held with intention of being disposed off**.
- 2) Verify such assets with **reference to the relevant documentary evidence**, e.g., order of Court.
- 3) Check that **ownership of the property is legally vested with the bank**. If there is any **dispute** examine whether **recording of the asset is appropriate or not**. In case **dispute arises** subsequently, examine whether a **provision for liability** or disclosure of a contingent liability is **appropriate** (AS29)
- 4) Ensure **compliance with Section 9** of Banking Regulation Act, on holding period of such assets. **(MAX 7 YEARS)**
- 5) Ensure that as **at date of acquisition**, assets should be recorded at **lower of** -
 - net book value of advance or
 - net realisable value of asset acquired.

CAPITAL

Capital Adequacy

'Capital Adequacy' is used to describe **adequacy of capital resources** of a bank in relation to risks associated with its operations

Capital Adequacy Measures:

- ◆ **Tier I** capital consists mainly of share capital and disclosed reserves and it is a bank's highest quality capital because it is fully available to cover losses.
- ◆ **Tier II** capital consists of certain reserves and certain types of subordinated debt. The loss absorption capacity of Tier II capital is lower than that of Tier I capital.

Tier II capital ≤ Tier I capital

Capital Risk Adequacy Ratio (CRAR)

Eligible Total Capital Funds/ Risk weighted assets & off-balance sheet items X 100 # Maintain a minimum **CRAR of 9%**

Stress Testing:

- RBI has required that **all commercial banks (excluding RRBs & LAB's)** shall put in place a Board approved '**Stress Testing framework**' to suit their individual requirements which would **integrate into their risk management systems**.
- Stress tests are designed to understand **whether a bank has enough capital to survive plausible adverse economic conditions** and to maintain **enough buffer to stay afloat** under extreme scenarios.

BASEL III framework:

- Basel III norms relate to **Capital Adequacy requirement compliance** which Bank has to achieve as contained in the BASEL III accord.
- **Basel capital adequacy norms** are meant for **protection of depositors & shareholders** by **prescriptive rules for measuring capital adequacy**.
- Basel III accord strengthens regulation, supervision and risk mgt. of banking sector.

It is **global regulatory standard** on

- **capital adequacy of banks,**
- **stress testing,**
- **market liquidity risk.**

The Basel III accord, aims at:

- improving banking sector's **ability to absorb shocks** arising from **financial and economic stress**;
- improving **risk management & governance practices**; and
- strengthening **banks transparency & disclosure standards**.

LIABILITIES

Current and saving accounts

- (i) **KYC Norms.**
- (ii) Verify **balance** on sample basis
- (iii) Check **calculations of interest** on a test check basis. No interest is paid generally on current accounts by banks.
- (iv) **Inoperative accounts** (both current and saving) are a high-risk area of frauds in banks. As per RBI guidelines, a savings/ current account should be treated as inoperative/dormant if there are **no transactions in the account for over a period of two years**. Verify on a sample basis some of inoperative accounts revived/closed during the year.

Term deposits

- (i) Examine whether **deposit receipts & cash certificates** are issued serially.
- (ii) Verify in case of **bulk deposits (Rs.2 crore and above for scheduled commercial banks presently)**, **correct rate of interest has been offered**.
- (iii) In case of **closure of term deposit**, test check required **foreclosure penalty has been deducted**.
- (iv) **Verify correctness of rate of interest on term deposits on sample basis**.

Bills Payable

Q 23

- (i) Evaluate existence, effectiveness and continuity of **ICs** over bills payable. Such controls should usually include the following:
 - **Drafts, traveller's cheques**, etc. should be made out in **standard printed forms**.
 - **Unused forms** should be kept under the **custody of a responsible officer**.
 - Bank should have a **reliable private code** known only to the **responsible officers**
 - **Signatures on a DD** should be **checked by an officer** with specimen signature book.
 - All **TTs & DDs** issued by a branch should be **immediately confirmed by advices** to the **branches** concerned.
- (ii) Examine **samples of o/s items** comprised in bills payable a/cs with relevant registers.
- (iii) Reasons for **old o/s debits** in respect of **DDs or other instruments paid without advice** should be ascertained.
- (iv) **Correspondence with other branches after the year-end** should be examined specially for **large value items o/s** on balance sheet date.

Contingent Liabilities

Q 24

Audit Approach

The auditor should obtain representation from mgt. that: -

- (i) all off-balance sheet transactions **have been accounted** in the books.
- (ii) all off balance sheet transactions are **supported by underlying documents**;
- (iii) all year end contingent liabilities **have been disclosed**;
- (iv) **estimated amounts of financial effect of contingent liabilities** are based on **best estimates in terms of AS 29**.

Presentation/Disclosure Requirement

Q 25

- (i) **Claims against the bank not acknowledged as debts**
- (ii) **Liability for partly paid investments**
- (iii) **Liability on account of outstanding forward exchange contracts & Derivative Contracts**
- (iv) **Guarantees given on behalf of constituents** (in India; o/s India)
- (v) **Acceptances, endorsements and other obligations**
- (vi) Other items for which the bank is contingently liable

Audit procedures

- (i) Ascertain whether **accounting system** of bank **provides for maintenance of adequate records** in respect of **such obligations**.
- (ii) adequate **internal controls** to ensure that **transactions giving rise to contingent liabilities are executed only by persons authorised**.
- (iii) Verify in case of **LCs** for import of goods, **payment** to overseas suppliers is **made based on shipping documents** and after ensuring that the said documents are in conformity with terms of **LCs**.
- (iv) Test **completeness** of **recorded obligations**.
- (v) Review whether **comfort letters** issued by the bank **has been considered** for disclosure of contingent liabilities.

Claims Against the Bank Not Acknowledged as Debts

- (i) Examine **relevant evidence**, e.g., **correspondence with lawyers/ others, claimants, workers/officers**.
- (ii) Review **minutes of meetings** of BOD /committees, **contracts, agreements and arrangements**, to **identify claims against bank**.
- (iii) Ascertain from mgt. **status of claims o/s at year end**.
- (iv) A **review of subsequent events** would also provide evidence about completeness & valuation of claims.
- (v) Verify **o/s derivative contracts** like options, interest rate swaps etc.

Guarantees Given on Behalf of Constituents

- (i) Ascertain **IC over issuance** of Guarantees.
- (ii) **Control over unused guarantee forms**. (kept under custody of responsible Officer)
- (iii) Examine **guarantee register** - whether **prescribed procedure of marking off expired guarantee is being followed or not**.
- (iv) Check **guarantee register** - **All o/s guarantee included are disclosed**.
- (v) In case of **Claim** arises - **AS 29**, "Provisions, Contingent Liabilities and Contingent Assets".

Auditor's Report

Auditor's Report on **Nationalised Bank & SBI (Addressed to CG)**

Unaudited Branches

Disclose details on **unaudited branches**, including quantification of advances, deposits, interest income, and interest expense.

Long Form Audit Report (LFAR): (30th June)

- **Applicable to all banks (including branches) and prepared by statutory branch auditors and central auditors.**
- LFAR submitted in the form of a **questionnaire** covering cash, balances, investments, advance, deposits, etc., to central auditors.
- **Consolidation done at the head office;**
- **LFAR submitted to mgt. by central auditors.**
- **ACB reviews LFAR, takes action on irregularities, and submits copy of LFAR and related documents to RBI within 60 days.**

Other Reporting Requirements:

Circular on Bank Frauds applies to scheduled commercial banks (excluding Regional Rural Banks).

Reports & Certificates

Reports & certificates issued by Central Statutory Auditors include:

- **Reconciliation of securities** by the bank.
- Assessment of **ICFR** adequacy and effectiveness.
- Long Form Audit Report (**LFAR**).
- Compliance report on **SLR** requirements.
- Verification of **income recognition, asset classification, and provisioning** adherence to RBI guidelines.
- Authentication of **capital adequacy ratio** and other ratios reported in the notes to accounts.
- Asset liability management (**ALM**).

Concurrent Audit

Scope of Concurrent Audit in Banks

Q 26

Cash	Deposits	Advance
Investments	Foreign Exchange	House Keeping

Coverage of Business/Branches for concurrent Audit

Scope / coverage - **discretion of head of Internal Audit** with due approval of Audit Committee of Board of Directors (**ACB**)

Areas of focus in Concurrent Audit:

Cash

- Daily cash transactions with particular reference to any abnormal/high value receipts and payments.
- Proper accounting of inward and outward cash remittances.
- Proper accounting of currency chest transactions, its prompt reporting to the RBI.
- Expenses incurred by cash payment involving sizeable amount.

Investments

- Purchase/sale of securities - Delegated power
- Purchase/ sale - Rates beneficial to bank
- Securities in books should be **physically** held by it
- Compliance with RBI/HO guidelines**

Advances

Q 27

- Ensure **sanction of advances in accordance with delegated authority.**
- Securities- properly received and registered** in name of bank.
- Proper post disbursement supervision & follow-up**
- LC issued within delegated power**
- BG issue - properly worded & recorded** in register
- Classification as per **RBI guidelines**
- Claims to **ECGC & DICGC** submitted in time.

Foreign Exchange

Q 29

- Check **foreign bills negotiated under letters of credit.**
- Check whether **inward/outward remittance** properly accounted for.
- Examine **extension and cancellation** of forward contracts for purchase & sale of foreign currency.
- Ensure that **balances in Nostro accounts** in different foreign currencies are within prescribed limit.
- Ensure adherence to **guidelines** issued by **RBI/HO** of bank about dealing room operations.
- Ensure **verification/reconciliation** of **Nostro and Vostro** account transactions/balances.

Appointment of concurrent auditor

Own staff or external auditor - discretion of bank

ACB of bank shall **decide max. tenure** of external concurrent auditor.

- Shall **not be more than 5 years** on **continuous basis for a bank.**
- Shall **not be more than 3 years** on **continuous basis for a single branch.**

Reporting Systems in case of concurrent audit

- There should be **zone-wise reporting of findings** of concurrent audit to **ACB** and **annual appraisal/report** of audit system should be placed **before ACB.**
- Before submission of report** auditor should **discuss important issues with branch manager and concerned officers.** This will enable auditor to consider opposite view point and clarify any doubts.
- Minor irregularities pointed** out by concurrent auditors are to be **rectified** in timely manner.
- Serious irregularities** should be **reported** to controlling offices/**Head Offices** for immediate action.
- Whenever fraudulent transactions are detected,** they should immediately be **reported to Inspection & Audit Department (Head Office) + Chief Vigilance Officer + Branch Managers concerned (unless branch manager is involved).**

Audit Programme to Verify advances against life insurance Policies

- Inspect **policies** and see whether they are **assigned** to bank and whether **such assignment has been registered** with the insurer.
- Examine whether **premium has been paid** and whether **policies are in force.**
- Certificate regarding surrender value** obtained from insurer should be examined.
- Check if **surrender value** is subject to payment of certain premium, **amt. of such premium has been deducted from surrender value.**

Auditor's Report

Q 30

In case of a **nationalised bank**, auditor is required to make a report to **CG** in which auditor should state the following:

- Whether **balance sheet is a full and fair balance sheet** containing all the necessary particulars and is properly drawn up so as to **exhibit a true and fair view** of affairs of bank.
- In case auditor had **called for any explanation or info., whether it has been given and whether it is satisfactory.**
- Whether or not **transactions of bank, which have come to auditor's notice, have been within the powers of that bank.**
- Whether or not **returns received from offices & branches** of bank have been **found adequate** for the purpose of audit.
- Whether **P/L a/c shows a true balance** of profit or loss for the period covered.
- Any other matter** which auditor considers should be brought to notice of **CG.**

Note:

- Auditor of a banking co. is also required to state in report the matters covered by **Section 143** of Companies Act, 2013
- **Rule 11** of Companies (Audit and Auditors) Rules, 2014 Applies. Refer the matters to be reported in Rule 11 (Discussed in ch- 7.2)
- **CARO, 2020 is not applicable to a banking company.**

CRR & SLR

1. **Cash Reserve Ratio (CRR)** is a specified minimum fraction of total deposits of customers, which banks have to hold as reserves either in cash or as deposits with RBI.
2. **Statutory Liquidity Ratio (SLR)** - Bank is required to maintain in the form of certain liquid assets such as gold, cash and government approved securities before providing credit to the customers.

The RBI requires SCA's of banks to verify compliance with SLR requirements of 12 odd dates in different months of a fiscal year not being Fridays.

Audit Approach & Procedure to check Compliance with CRR & SLR Requirements

1. Obtain an **understanding of** relevant circulars/ instructions of RBI.
2. **Request** branch auditors to send their weekly trial balance as on Friday & these are consolidated at HO. Based on this consolidation, **DTL position** is determined for **every reporting Friday**. SCA should **request branch auditors to verify correctness of** trial balances relevant to dates selected by him/her. Branch auditors should also be specifically requested to examine cash balance at the branch on the selected dates.
3. **Examine**, on a test basis, **consolidations regarding DTL position** prepared by bank with **related returns received from branches**.
4. Even though **interest** accrues daily, it is **recorded at periodic intervals**. Thus, examine whether **such interest accrued but not accounted for** in books is **included in computation of DTL**.
5. While reporting on compliance with SLR requirements, auditor should **specify the No. of unaudited branches** & state that he/she has relied on returns received from unaudited branches in forming opinion.
6. While examining the **computation of DTL**,
 - Specifically examine that items have been **excluded from liabilities** as per RBI guidelines. Some of these items are: -
 - (i) Paid up **capital**, reserve, any Cr. balance in P&L A/c of bank, amount of loan taken from RBI and amount of refinance taken from EXIM bank, NHB, SIDBI and NABARD
 - (ii) Part amounts of **recoveries** from the borrowers in respect of debts considered bad and doubtful.
 - (iii) Amounts received in **Indian currency** against import bills and held in sundry deposits pending receipts of final rates.
 - (iv) **Un-adjusted deposits/balances** lying in link branches for agency business like dividend warrants, interest warrants, refund of application money, etc., in respect of shares/debentures.

- (v) **Margins** held and kept in sundry deposits for funded facilities.
- (vi) Bills discounted by a bank with eligible FI's as approved by RBI
- (vii) Net Income tax provision.
- (viii) Amount received from DICGC towards claims held by banks pending adjustments thereof.
- (ix) Amount received from ECGC by invoking the guarantee.
- (x) Amount received from insurance companies for ad hoc settlement of claims pending judgement of court.
- (xi) Amount received from court receiver.
- (xii) Net unrealized gain/loss arising from derivatives transactions under trading portfolio.
- (xiii) Income flows received in advance such as annual fees and other charges which are not refundable.
- (xiv) Liabilities arising on account of utilisation of limit under 'Bankers' Acceptance Facility' (BAF).

- Examine that these items have been **included in liabilities**
 - (i) Net **credit balance** in branch adjustment accounts. **Credit entries in branch adjustment a/c** which are outstanding for > 5 years are to be considered at gross.
 - (ii) **Borrowings from abroad** by banks in India needs to be considered as liabilities to other' at gross level.
 - (iii) **Reconciliation of Nostro accounts** needs to be scrutinized to analyze & ascertain if any inwards remittances received / or any other debit (inward) entries **remained unaccounted**.
 - (iv) Interest accrued on deposits should be calculated on each reporting fortnight, whether or not such interest is accounted in BOA, so that bank's liability is fairly reflected in total NDTL of same fortnightly return. Cash collateral received under collateralized derivative transactions as these are in nature of 'outside liabilities'.

While examining computation of DTL, auditor may specifically examine details of exempted categories of following items:

- **Minimum Eligible Credit (EC)** and **outstanding Long-Term Bonds (LB)** to finance Infrastructure loans & affordable housing loan, as per RBI Circular.
- **Eligible amount of incremental FCNR(B) and NRE deposits of maturities of 3 years and above**. Also verify loans out of FCNR(B) deposits and inter- bank Foreign Currency (IBFC) deposits for **reporting in Form A return**.

Banks should convert their foreign exchange assets/liabilities (including borrowings) in USD, GBP, JPY and Euro into INR at RBI reference rate. For other currencies consider the New York rate for conversion into USD.

- As per RBI Circular on "Maintenance of CRR/SLR on Foreign Currency Assets/Liabilities - Reference rate for INR/USD and exchange rate of other major currencies", for conversion of foreign Currency Assets/ Liabilities reference rate from FBIL should be taken. **If reference rate is not available from FBIL, banks may continue to use New York closing rate for conversion of such currency into USD.**
7. Examine whether consolidations prepared by bank include relevant info. in respect of all branches.
 8. Examine whether balances in Branch Adjustment Accounts of foreign branches have been taken into account in arriving at net balance in Branch Adjustment Accounts.
 9. Auditor should examine the correctness of data in Form A return for CRR and Return in Form VIII for SLR purposes on sample basis.
 10. Branch info. within a region can be consolidated at regional level, with the regional auditor verifying and reporting on it. Consolidated statement must be counter-signed by regional manager. Central auditor applies same procedures to the overall bank consolidation, & SCA should describe process in their certificate.

Definition of NBFC: Q 1

- i) A FI which is a **company**;
- ii) A non-banking institution which is a **co.** & which has as its **principal business of receiving of deposits or lending**
- iii) **Such other non-banking institution as RBI may**, with previous approval of **CG** and by notification in Official Gazette, specify;"

Deemed NBFC Q 2

- **financial assets constitute more than 50%** of the total assets (netted off by intangible assets) and
- **income from financial assets constitute more than 50%** of gross income.

A co. which fulfils both the criteria shall qualify as an NBFC & would require to be registered as NBFC by RBI.

Compulsory Registration Sec 45 IA of RBI Act 1997, Q 4

No NBFC can do business of Non-Banking Financial Institution without

- Certificate of Registration (**COR**) issued by RBI
- Having net owned fund (**NOF**) of **Rs. 10 Crores** for NBFCs currently applying for Registration i.e. from 1st Oct'22.
- # For NBFC-P2P, NBFC-AA & NBFCs with no public funds /customer interface limit is **₹ 2 Cr.** For NBFC-IFC & IDFNbfc, NOF shall be **₹300 crore.**
- For Existing NBFCs, NOF requirement is **Rs 2 crores** which is to be increased to **Rs. 10 crores**. RBI has prescribed timeline to meet NOF amount of 10 crore in phased manner by 31/03/2027).
- *The following glide path is provided for the existing NBFCs, viz., NBFC-ICC, NBFC-MFI and NBFC-Factor to achieve the NOF of ₹ 10 crore:*

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	₹ 2 crore	₹ 5 crore	₹ 10 crore
NBFC-MFI	₹ 5 crore (₹ 2 crore in NE Region)	₹ 7 crore (₹ 5 crore in NE Region)	₹ 10 crore
NBFC-Factor	₹ 5 crore	₹ 7 crore	₹ 10 crore

Four Layers of NBFC- Scale Based Regulation (SBR) Q

(A) Base Layer: Base Layer shall comprise of

- (a) ND NBFCs **below asset size of ₹ 1000 crore &**
- (b) NBFCs undertaking following activities: **(Always)**
 - (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P),
 - (ii) NBFC-Account Aggregator (NBFC-AA),
 - (iii) Non-Operative Financial Holding Company (**NOFHC**) and
 - (iv) NBFCs **not availing public funds & not having any customer interface**

(B) Middle Layer: Middle Layer shall consist of:

- (a) all **deposit taking NBFCs** (NBFC-D), **irrespective of asset size,**
- (b) **Non-deposit taking NBFCs** (NBFC -ND) **with asset size of ₹ 1000 crore & above &**
- (c) NBFCs undertaking the following activities:
 - (i) **Standalone Primary Dealers (SPDs), (Always middle)**
 - (ii) **Infrastructure Debt Fund - (IDF-NBFCs), (Always middle)**
 - (iii) **Core Investment Companies (CICs), (Mid OR Upper)**
 - (iv) **Housing Finance Companies (HFCs) (Mid OR Upper)** and
 - (v) **Infrastructure Finance Companies (NBFC-IFCs). (Mid/ Upper)**

(C) Upper Layer: Q 5

shall comprise of those NBFCs which are **specifically identified by RBI** as warranting enhanced regulatory requirement based on a set of parameters & scoring methodology.
Top 10 eligible NBFCs in terms of their **asset size shall always reside in upper layer**, irrespective of any other factor.

(d) Top Layer:

Top layer will **ideally remain empty**.
RBI will add NBFC's in this layer if it is of the opinion that there is a **substantial increase in potential systematic risk from specific NBFC in the upper layer**. Such NBFC Shall move to the top from upper layer.

Categorisation of NBFC carrying out of specific activity Q 6

1. NBFC -P2P, NBFC-AA, NOFHC and NBFCs without public funds & customer interface **will always remain in BL.**
2. NBFC-D, CIC, IFC and HFC will be included in **ML or UL (not in BL)**, as case may be. SPD and IDF - NBFC will always remain in **ML.**
3. Remaining NBFCs,
 NBFC-ICC, (Investment & credit companies)
 NBFC-MFI, (Micro-Finance Institution)
 NBFC-Factors & NBFC-MGC (Mortgage Guarantee companies)
 could lie in any of layers of regulatory structure depending on parameters of scale based regulatory framework.
4. **Govt. owned NBFCs** placed in **BL/ML**, as case may be. (**Not in UL**)

Prudential Norms

Capital Requirements

- shall maintain **minimum capital ratio** consisting of **Tier I & Tier II capital** which shall **not be less than 15%** of its **aggregate risk weighted assets on-Balance sheet.**
- Tier I for every NBFC (other than for MFI) not less than 10% at any point of time. NBFCs engaged in **lending against Gold Jewellery** shall **maintain a minimum Tier I capital - 12 %.**

Income Recognition

- based on **recognised accounting principles.**
- Income shall be **recognised only when it is actually realised.**

Asset Classification & Provisioning Norms:

Standard Assets:	No default in repayment of principal or payment of interest
Sub-Standard Assets:	Except NBFC -ML & Above (i.e. BL) Asset which has been classified as NPA for a period not exceeding 18 months NBFC -ML & Above (i.e, ML OR UL) - 12 MONTHS
Doubtful	Except NBFC -ML & Above (i.e. BL): Remains a sub-standard asset for a period exceeding 18 months NBFC -ML & Above (i.e, ML OR UL) - 12 MONTHS
Loss Assets:	Asset which has been identified as loss asset by the applicable NBFC or its internal or external auditor or by the Bank during the inspection. Asset which is adversely affected by a potential threat of non-recoverability.

Provisioning

Doubtful Assets: **Unsecured 100%**
Secured Assets

Period - secured considered doubtful	% of provision
Upto 1 year	20
1-3 years	30
More than 3 years	50

Sub-standard Asset : **10%**

Std asset: Except NBFC-ML & Above: 0.25% NBFC-ML & Above: 0.4%

(Not Applicable for NBFC-UL)

Note: Provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in balance sheet.

AUDIT PROCEDURES

Q 7

1) Ascertaining the Business of the Company

- Review **MOA and AOA** of Co. - type of business that Co. is engaged into.
- Study of **business policy** of co. so as to ascertain its **principal business activities**.
- **Read minutes** of Board/Committee Meetings.

2) Evaluation of Internal Control System -

- Gain an **understanding of accounting system and related IC**.
- Ascertain whether **IC put in place** are **adequate & are being effectively followed**.
- Ascertain whether **NBFC has an effective system of periodical review of advances** in place.

3) Registration with the RBI

- Have minimum net owned funds (**NOF**).
- **Obtain a copy of COR** granted by RBI or if **COR has not been granted**, a **copy of application form** filed with RBI for registration.
- Verify **maintenance of minimum net owned funds have been duly complied**,
- **Requirement of maintenance of liquid assets on a quarterly basis**.

4) NBFC Acceptance of Public Deposit Directions (NBFC Acceptance of Public Deposits (Reserve Bank) Directions, 2016) -

Q 8

- 1) Check **NBFC has been appropriately classified**.
- 2) **Ceiling on quantum of public deposits** has been linked to its **credit rating**.
 - Obtain a **copy of credit rating assigned** and check whether **public deposits accepted are in accordance** with **level of credit rating assigned** to it.
 - In event of **upgrading/downgrading of credit rating**, NBFC will have to **increase/reduce its public deposits** as per **revised credit rating** within a specified time frame & should ensure that NBFC has **informed** about same to **RBI** in writing.
 - In event of **downgrading of credit** rating below Minimum specified investment grade, a NBFC, being investment & credit company, shall **regularise excess deposit**.
 - ✓ with immediate effect, **stop accepting fresh public deposits & renewing existing deposits**;
 - ✓ **all existing deposits shall run off to maturity**; and
 - ✓ **report the position within 15 working days**, to concerned **Regional Office of RBI** where NBFC is registered.

Provided no matured public deposit shall be renewed without express & voluntary consent of depositor.

- 3) Test check **interest calculations** to ascertain that **NBFC has not paid interest in excess**.
- 4) Also ascertain that NBFC has **not paid brokerage/ commission/ incentive/ reimbursement of expenses in excess as per specification**.
- 5) Verify NBFC has **accepted or renewed any public deposit only after a written application form depositor** in form to be supplied by company,
- 6) Verify **deposit register & test check** particulars that have been entered therein in **respect of each depositor with supporting receipts issued** to depositors.
- 7) Check whether **investments made in approved liquid assets by a NBFC** holding public deposits **have been lodged in safe custody** with a **designated scheduled commercial bank**
- 8) Whether NBFC has **filed its prescribed returns in a timely manner**.
- 9) In case of **NBFCs not accepting public deposits**, check whether a **board resolution has been passed by NBFC**

5) NBFC Prudential Norms -

Q 9

- 1) Check **compliance with prudential norms** - Income recognition, income from investments, AS, accounting for investments, asset classification, provisioning for bad & doubtful debts, CAR norms
- 2) Auditor should assess whether NBFC has **complied with prudential norms**. He should **verify that advances & other credit facilities have been properly classified & proper provision has been made** as per Directions.
- 3) Ensure that **BOD** of every NBFC granting/intending to grant demand/call loans **shall frame & implement a policy**.
- 4) In respect of NPA, check whether **unrealised income in respect of such assets has not been taken to P&L A/c on an accrual basis**. Income from NPAs should be accounted for **on realisation basis only**.
- 5) Check whether **all accounts which have been classified as NPAs in previous year also continue to be shown as such in current year also**. If not treated as NPA in current year, ascertain whether account has become regular & same can be treated as performing as per Directions.

Some important points that may be covered in audit of NBFCs, in addition to audit points that may be covered for companies in general, are given below:


Q 10

Q. NBFC - Investment and Credit Company (NBFC-ICC)


1. **Physically verify all shares & securities** held by NBFC. Where any security is **lodged with institution or bank**, certificate from bank/institution to that effect must be verified.
2. Verify whether NBFC has **not advanced any loans against security of its own shares**.
3. Verify that **Dividend income** wherever declared by Co., has **been duly received by NBFC & interest wherever due** [except in case of NPAs] has been **duly accounted** for.
 - a) **Dividend income** to be recognised on **cash basis**.
 - b) However, **NBFC - Accrual basis** same has been **declared by body corporate in its AGM**
4. Check whether **investments** have been **valued as per NBFC Prudential Norms & adequate provision for fall in market value** of securities have been made.
5. Check whether **investments in unquoted debentures/bonds** have not been treated as investments **but as term loans or other credit facilities** for purposes of income recognition & asset classification.
6. Whether **requirements of AS 13 "Accounting for Investments"** or other AS have been **duly complied**.
7. **Shares/securities** held through a **depository**, **obtain confirmation from depository** held by it on behalf of NBFC.
8. Obtain **Balance Confirmations** from concerned parties.

Frauds in NBFC (NBFCs) are classified into several categories. These categories include:


Q




1. Misappropriation & criminal breach of trust.




2. Fraudulent encashment through forged instruments, manipulation of books of account, or fictitious accounts and conversion of property.




3. Unauthorised credit facilities extended for reward or for illegal gratification.



4. Negligence and cash shortages.



5. Cheating and forgery.



6. Irregularities in foreign exchange transactions.



7. Any other type of fraud not covered by the specific categories above.

In cases of "negligence & cash shortages" and "irregularities in foreign exchange transactions," they are to be reported as frauds if intent proved/suspected.

However, cases where fraudulent intent is **not initially suspected or proven** at the time of detection will **still be treated as frauds and reported if** they meet the following criteria:

- Cash shortages exceeding ₹10,000.
- Cash shortages exceeding ₹5,000 if detected by management, auditors, or inspecting officers and not reported at the time of occurrence by those handling cash.

Difference between Banks & NBFC's

NBFC cannot accept demand deposits, **however some NBFCs can accept Term Deposits;**

NBFCs do not form part of the **payment and settlement system** and cannot issue cheques drawn on itself;

Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation (DICGC) **is not available to depositors of NBFCs**, unlike in case of banks..

No Minimum Exposure to Priority Sector required by NBFCs

Differences between Division II (Ind-AS- Other than NBFCs) & Division III (Ind-AS- NBFCs) of Schedule III

Q 11

- a) NBFCs have been allowed to present items of balance sheet **in order of their liquidity** which is not allowed to Co's required to follow Division II.
- b) NBFC is required to **separately disclose** by way of a **note** any item of 'other income' or 'other expenditure' which exceeds 1 % of total income. Division II, requires disclosure for any item of income or expenditure which exceeds 1 % of revenue from operations or 10 lakhs, whichever is higher.
- c) NBFCs are required to **separately disclose** under 'receivables', debts due from any Limited Liability Partnership (LLP) in which its director is a partner or member.
- d) NBFCs are **required to disclose items comprising 'revenue from operations' & 'other comprehensive income'** on face of Statement of P&L instead of showing those only as part of the notes.
- e) **Separate disclosure** of trade receivable which have significant increase in credit risk & credit impaired
- f) **Conditions or restrictions** for distribution attached to statutory reserves have to be separately disclose in the notes.

Ind AS Applicability:

All NBFCs are required to comply with Ind AS.

Q. Audit Procedure for reporting under CARO, 2020 w.r.t. registration u/s 45-IA of RBI Act, 1934:

Q 13

Clause (xvi) of Para 3 of CARO, 2020 requires Co. auditor to report:"

Whether Co. is **required to be registered under Section 45-IA** of RBI Act, 1934 & if so, **whether registration has been obtained"**.

Audit Procedure and Reporting

- i) Auditor should **examine transactions** of co. with relation to **activities** covered under RBI Act & **directions** related to NBFC.
- ii) **FS** should be **examined** to **ascertain** whether company's financial assets constitute more than 50% of the total assets and income from financial assets constitute more than 50% of the gross income.
- iii) Whether co. has **net owned funds** as required for registration.
- iv) Whether co. has obtained **registration** as NBFC, if not, **reasons** should be sought from mgt. & documented.
- v) Auditor should report: -
 - a. Whether **registration** is required u/s 45-IA of RBI Act, 1934.
 - b. If so, whether it has **obtained** the registration.
 - c. If registration **not obtained**, reasons thereof

Compliance with CARO 2020

As per CARO 2020, the auditor is required to report that -

- I.
 - a) Whether during the year Co. has made investments in, provided any **guarantee or security** or **granted any loans or advances** in the nature of loans, secured or unsecured, to companies, firms, LLP's or any other parties, If so,
 - b) whether **Investments made, guarantees provided, security given & terms and conditions of grant of all Loans & Advances** in nature of Loans & Guarantees provided **are not prejudicial to company's interest;**
 - c) In respect of Loans & Advances in the nature of loans, whether **Schedule of Repayment** of principal & payment of interest has been **stipulated** & whether **repayments or receipts are regular;**
 - d) If amount is overdue, state total amount **overdue for more than 90 days**, & whether **reasonable steps** have been taken by Co. for **recovery** of principal & interest;
 - f) Whether Co. has granted any loans or advances in nature of loans **either repayable on demand** or if so, specify aggregate amount, % thereof to total loans granted, aggregate amount of loans granted to Promoters, related parties; [Para 3(iii)]
- (II)
 - a) Whether **without specifying any terms or period of repayment, Company is required to be registered** u/s 45-IA of RBI Act, 1934 & if so, **whether Registration has been obtained.**
 - b) Whether Co. has conducted any **Non-Banking Financial or Housing Finance** activities without a valid **Certificate of Registration (COR)** from RBI as per RBI Act, 1934;
 - c) Whether Co. is a **Core Investment Company (CIC)** as defined in regulations made by RBI, if so, **whether it continues to fulfil the criteria of a CIC**, & in case Co. is exempted or unregistered CIC, whether it continues to fulfil such criteria;
 - d) **Whether Group has more than one CIC as part of Group**, if yes, indicate No. of CICs which are part of Group; [Paragraph 3(xvi)]

Material to be included in Auditor's report to Board of Directors/ Auditors duty to report

A) Every NBFC

- 1) Auditor shall examine whether Co. has obtained **COR** from RBI
- 2) In case of Co. **holding COR**, whether that Co. is entitled to continue to hold such COR in **terms of its Principal Business Criteria** (Financial asset/income pattern) as on March 31 of applicable year.
- 3) Whether NBFC is meeting required **NOF requirement** laid down in Master Direction.

Every NBFC shall **submit** a Certificate from its Statutory Auditor that it holding a COR under Section 45-IA of RBI Act and is eligible to hold it.

Submitted to **Regional Office of Department of Non-Banking Supervision**, within **5 working days** from the date of signing of the Auditor's report in terms of section 134 of Companies Act, 2013, but not later than December 31st of same year, in any case..

B) NBFC accepting/ holding public deposits

Apart from the matters enumerated in (A) above,

- 1) Whether **Public Deposits accepted** by Co. together with other borrowings indicated below viz.
 - a) **from public**
 - b) **from its shareholders** (if it is Public Ltd. Co.); &
 - c) **which are not excluded from definition of 'public deposit' are within Limits admissible** to Co. as prescribed.
- 2) Whether **Public Deposits** held by Co. **in excess of quantum of such deposits permissible** are regularised as per Directions;
- 3) Whether NBFC is **accepting "Public Deposit" without minimum investment grade credit rating** from an approved credit rating.
- 4) Whether **capital adequacy ratio (CAR)** as disclosed in return submitted has been correctly determined.
- 5) Whether Co. has **violated any restriction on acceptance of public deposit**
- 6) Whether Co. has **defaulted in paying to its Depositors interest &/or principal amt. of deposits** after it became due;
- 7) Whether Co. has **complied with Prudential Norms** on income recognition, AS, Asset Classification, Provisioning for bad & doubtful debts, & concentration of credit/investments as specified in Directions.
- 8) Whether Co. has furnished to RBI within stipulated period **Quarterly Return on prudential norms**.

9) Whether co. has furnished to RBI return on deposits in DNBS 01 to - Master Direction - RBI (Filing of Supervisory Returns) Directions - 2024

NBFC Not accepting public deposits:

Apart (A) above, Auditor shall include a statement on following: -

- 1) Whether **BOD has passed a resolution for** non-acceptance of any Public Deposits;
- 2) Whether **Co. has accepted any public deposits** during relevant period
- 3) Whether Co. has **complied with Prudential Norms** - i.e. Income Recognition, AS, Asset Classification & Provisioning for bad & doubtful debts as applicable to it.
- 4) In respect of NBFC - NDSI
 - a) Whether **Capital Adequacy Ratio** as disclosed in Return submitted to RBI in form NBS-7, has been correctly arrived at & is in compliance with Min. CRAR prescribed by RBI;
 - b) Whether Co. has furnished to RBI **Annual Statement of capital funds, Risk assets/exposures & Risk asset ratio** (NB5-7) within stipulated periods
- 5) Whether NBFC has been **correctly classified as NBFC Micro Finance Institutions** (MFI) as per Directions.

Obligation of Auditor to submit Exception Report to RBI

- I. Where, in case of NBFC, statement regarding any of items, **is unfavourable or qualified or has not complied with:**
 - a) Provisions of **Chapter III B of RBI Act**; or
 - b) **NBFC Acceptance of Public Deposits Directions, 2016**; or
 - c) **Master Direction RBI (NBFC - Scale Based Regulation) Directions, 2023**.

It shall be obligation of Auditor to make Report containing details of such unfavourable or qualified statements &/or about non-compliance, to concerned **Regional Office of Department of Non-Banking Supervision of RBI** under whose jurisdiction Registered office of Co. is located.

- II. Duty of Auditor under sub-paragraph (I) shall be **to report only contraventions** of provisions of **RBI Act, 1934, & Directions, Guidelines, instructions** referred to in sub-paragraph (1) & such report shall **not contain any statement w.r.t compliance of any of those provisions**.

Reasons for unfavourable/Qualified statements

Where, in Auditor's Report, statement regarding any of items is unfavourable or qualified, Auditor's Report shall also **state reasons for such unfavourable or qualified statemen.**

Where **auditor is unable to express opinion** on any items **indicate such fact together with reasons.**

Q-"Fin crazy" is a P2P online platform owned by Future Technologies Pvt Limited which is registered with RBI as NBFC.

Where does such NBFC fit into in accordance with scale-based regulations? Suggest few audit procedures for above NBFC-P2P. (SM-TYU)

Q 17

NBFC-P2P falls in **base layer** in accordance with scale-based regulations of RBI. Few audit procedures for NBFC-P2P are as under: -

- 1) Gaining an **understanding of business** conducted by NBFC-P2P. It should be **verified that co. undertakes only permissible activities applicable to such type of NBFCs** like providing online marketplace to participants for lending & borrowing. It should **not be engaged in business of lending funds on its own**.
- 2) Verifying **certificate of registration** obtained from RBI for carrying business of P2P platform.
- 3) Verifying **Board approved policy setting out eligibility criteria for participants** i.e., lenders and borrowers.
- 4) Verifying **board approved policy for pricing of services** provided by P2P platform
- 5) Verification of **adherence to lending & borrowing guidelines** prescribed.
- 6) Verifying **appropriate arrangements** have been entered into among participants & NBFC-P2P.
- 7) **Compliance with reporting requirements of RBI.**
- 8) Verifying board approved policy for **grievance redressal and complaints**

% of Risk Weights assigned to assets

Assets	Weight(%)
Cash & Bank Balances, Invst. in approved securities, fully secured loans & Advances, TDS, loan to staff, Advance Tax, Int. on Govt. securities, CG Guaranteed Claims	0
Invst. In Bonds of Public sector Banks, SG guaranteed Claims not NPA	20
Infra. Projects in existence over a year of commercial operation	50
Others	100
• Consumer credit exposure (outstanding as well as new) categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance/SHG loans	125
• Credit Card Receivables	

Capital Requirements

Tier I Capital (Except NBFC - BL)

Owned Fund	
(-) Investment in shares of Other NBFC's	
(-) Investment in shares / debentures / bonds/ outstanding loans & advances/ Hire purchase Lease Finance/ Deposit with Subsidiaries & Group Company (exceeding 10% of owned fund)	
(+) Perpetual debt instruments issued by NBFC-ND in each year (It <u>does not exceed 15 % of Tier 1 capital of such co. as on March 31 of previous accounting year.</u>)	

Note - NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 1 capital.

"Tier II capital" for NBFCs (except NBFCs-BL) is sum of

- (i) Preference shares other than those which are compulsorily convertible into equity;
- (ii) Revaluation reserves at discounted rate of 55 %;
- (iii) General provisions (including that for Standard Assets) and loss reserves to extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to extent of one and one fourth percent of risk weighted assets;
- (iv) Hybrid debt capital instruments;
- (v) Subordinated debt; and
- (vi) Perpetual debt instruments issued by a NBFC -ND which is in excess of what qualifies for Tier 1 capital;

to extent the aggregate does not exceed Tier 1 capital.

Note - NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 2 capital.

Non-Performing Assets

Category	Definition of NPA (Overdue Period)
(a) Asset	Interest overdue for more than 180 days.
(b) Term Loan	Instalment or interest overdue for more than 180 days.
(c) Demand or Call Loan	Loan overdue for more than 180 days from demand/call date or interest overdue for more than 180 days.
(d) Bill	Bill overdue for more than 180 days.
(e) Income on Receivables	Interest on debt or income on receivables (short-term loans/advances) overdue for more than 180 days.
(f) Dues on Sale of Assets/Services	Dues for sale of assets, rendered services, or reimbursement of expenses overdue for more than 180 days.
(g) Lease Rental & Hire Purchase Instalments	Overdue for more than 180 days.
(h) Loans, Advances, & Other Credit Facilities	Outstanding balance under credit facilities becomes NPA when any related credit facility meets NPA criteria above. (Made available to the same borrower) Classification for lease and hire purchase accounts depends on recovery record.

Non-Performing Asset (referred as "NPA") Glide Path:

The extant NPA classification norm stands changed to the overdue period of more than 90 days for applicable NBFCs. A glide path is provided to applicable NBFCs to adhere to the 90 days NPA norm as under-

- NPA Norms	Timeline
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

Note: The glide path will not be applicable to NBFCs which are already required to follow the 90-day NPA norm.

Exemption from RBI Registration

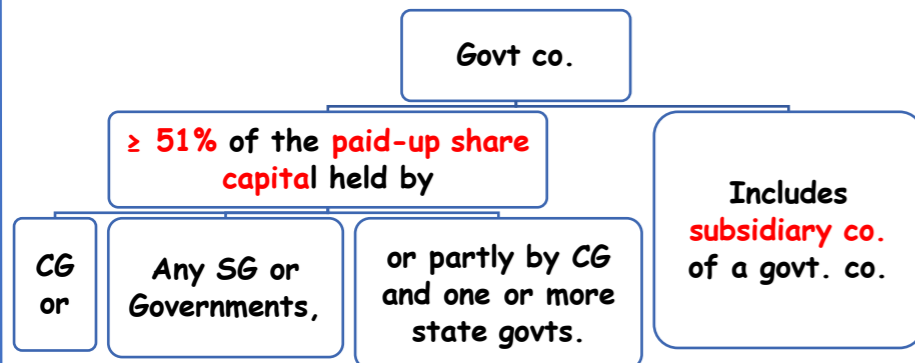
Doing financial business but regulated by other regulators

- Housing Finance Institutions (NHB)
- Merchant Banking Companies (SEBI)
- Stock Exchanges (SEBI)
- Stock-Broking/Sub-Broking Companies (SEBI)
- Venture Capital Fund Companies (SEBI)
- Nidhi Companies (MCA)
- Insurance Companies (IRDA)
- Chit Companies (Chit Funds Act)
- Micro Finance Companies
- Securitisation and Reconstruction Companies
- Mutual Benefit Companies
- Mortgage Guarantee Companies
- Core Investment Companies with asset size <100Crore & asset size ≥ 100 crore but not accessing public funds
- Alternative Investment Fund (AIF) Companies (SEBI)

PSU

PSU's in India are fundamentally **owned or controlled** by CG, or any SG or govt's, or partly by CG and one or more state govt's.

Govt. co



To check whether co. is government co. or not - **listing of co. share is irrelevant.**

Article 148 to 151 of the Constitution -(Prescribes role of C&AG)

- 148 • Appointment of C&AG by President.
- Removal of C&AG, only on ground of proven misbehaviors or incapacity.
- 149 • Perform such duties and exercise such powers may be prescribed by or under any law made by Parliament.
- The C&AG's (Duties, Powers and Conditions of Service) Act, 1971 defines these functions and powers in detail.
- 150 • On advice of C&AG, President to prescribe such form in which accounts of Union & States shall be kept.
- 151 • Audit reports of C&AG relating to accounts of the CG/SG should be submitted to President/Governor of State who shall cause them to be laid before Parliament/State Legislative Assemblies.

C&AG shall **hold office** for a term of 6 years or upto age of 65 years, whichever is earlier and can **resign at any time** through a resignation letter addressed to President.

Organisations subject to the audit of C&AG

All Union & SG departments and offices including Indian Railways and Posts & Telecommunications.	Public commercial enterprises controlled by Union and State governments, i.e. government companies and corporations.
Non-commercial autonomous bodies & authorities owned or controlled by Union or States.	Authorities and bodies substantially financed from Union or State revenues.

Specialized Committees

- Public Accounts Committee (PAC):** MT- PAR
- (i) Moneys were disbursed legally on purpose to which they were applied;
 - (ii) Expenditure incurred was authorised;
 - (iii) Re-appropriation has been made in accordance with provisions made.

- Estimates Committee**
- (i) report what economies improvements in org., efficiency or administrative reform, consistent with policy may be effected;
 - (ii) suggest alternative policies;
 - (iii) examine whether the money is well laid out within limit; and
 - (iv) suggest form in which estimates shall be presented to Parliament.

- Committee on Public Undertakings (COPU)** Q2
- (i) to examine reports & accounts of public undertakings.
 - (ii) to examine reports of C&AG on public undertakings.
 - (iii) to examine the autonomy and efficiency of public undertakings
 - (iv) to exercise such other functions vested in PAC and Estimates Committee as are not covered above and as may be allotted by Speaker from time to time.

- C&AG's Role** Q3
- He has come to be recognised as a 'friend, philosopher & guide' of Committees.
- (i) His Reports generally form basis of Committees' working, although they are not precluded from examining issues not brought out in his Reports;
 - (ii) He scrutinises notes which Ministries submit to Committees & helps Committees to check correctness of submissions to Committees & facts and figures in their draft reports;
 - (iii) Financial Committees present their Report to Parliament/ State Legislature with their observations and recommendations. The various Ministries / Department of Govt. are required to inform Committees of action taken by them on the recommendations of Committees;
 - (iv) In respect of those Audit Reports, which could not be discussed in detail by Committees, written answers are obtained from Department / Ministry concerned and are sometimes incorporated in Reports presented to Parliament / State Legislature.

Elements of PSU Audit:

- Three parties**
- Auditor: Role of auditor is fulfilled by Supreme Audit Institution (SAI), India.
 - Responsible Party: Auditable entities and TCWG of auditable entities.
 - Intended Users: for whom auditor prepares audit report.

- Subject matter, criteria and subject matter information**
- Subject matter: info., condition or activity that is measured or evaluated against criteria.
 - Criteria : Benchmarks used to evaluate subject matter.
 - Subject matter information: outcome of evaluating or measuring subject matter against the criteria.

- Types of engagement**
- Attestation engagements: In attestation engagements, responsible party measures subject matter against criteria and presents subject matter info., on which auditor then gathers SAAE for expressing a conclusion.
 - Direct reporting engagements: In direct reporting engagements, it is auditor who measures or evaluates subject matter against criteria.

Objective And Scope of Public Enterprises Audit:

- 1) Audit of PSUs not constrained to Financial & Compliance Audit: As it extends also to performance audit.
- 2) Propriety Audit: Examination of Mgt. decisions in sales, purchases, contracts, etc. to see whether these are taken in best interests.
- 3) Comprehensive Audit: Sees whether undertakings have fulfilled objectives for which they have been established, whether value-for-money spent has been obtained, whether targets have been achieved, etc. He locates the areas of weakness.
- 4) Highlighting Issues of Efficient and Economic Operations: Issues of efficient & economic operations and Mgt. of resources are highlighted.
- 5) Fiscal and Managerial Accountability: Government audit two main elements are
 - (a) Fiscal Accountability: It includes audit of provisions of funds, sanctions, compliances and propriety; and
 - (b) Managerial Accountability: It includes audit of efficiency, economy and effectiveness (efficiency-cum-performance audit).
- 6) Helping Government: By bringing out financial and operational deficiencies, inadequacies of systems, shortfalls in performance, etc. and by analysing causes of shortfall.

Audit report of the C&AG/Parts /content of Audit report presented by C&AG

Q 4

- 1) **Introduction containing a general review** of working results of Govt. companies, deemed Government companies and corporations;
- 2) **Results of comprehensive appraisals** of selected undertakings conducted by Audit Board;
- 3) **Resume of company auditors reports submitted by them** under directions issued by C&AG and that of comments on accounts of Govt. companies; and
- 4) **Significant results of audit of undertakings not taken up for appraisal** by Audit Board.

For **certain specified states**, C&AG submits a separate audit report, **while for other States/Union Territories**, there is a commercial chapter in main audit report.

State audit reports, contains **both results of audit appraisal of performance of selected Co's/corporations** as well **as important individual instances** of financial irregularities, wasteful expenditure, system deficiencies noticed by statutory auditors.

General Principles: Ethics & Independence, Documentation, Communication, Audit risk, Quality control, Materiality

Principles related to audit process:

Planning the audit	Conducting audit	Reporting & Follow up
1. Establish terms of audit. 2. Obtain understanding of entity. 3. Conduct Risk assessment . 4. Identify risks of fraud . 5. Develop an audit plan .	1. Perform planned audit procedures to obtain audit evidence. 2. Evaluate audit evidence & draw conclusions.	1. Prepare a report based on the conclusions reached. 2. Follow-up .

Types of Audit

1. Financial Audit

is conducted to **express an audit opinion on FS**; and enhance degree of confidence of intended users in FS.

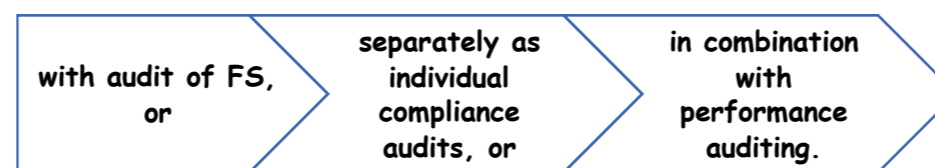
2. Compliance Audit

is assessment of whether a **given subject matter is in compliance with applicable criteria**. Assessing whether activities, financial **transactions and info.** comply with **regulatory & other rules**.

Compliance audit is concerned with:

Regularity	Adherence of subject matter to criteria coming from relevant L/R & agreements .
Propriety	Observance of general principles governing sound financial management & ethical conduct of public officials.

Perspective of compliance audit: Compliance auditing is generally conducted either:



3. Comprehensive audit:

- He conducts an **efficiency-cum-performance audit other** than field which has already been covered either by **internal audit** of individual concerns or by professional auditors.
- He locates **area of weakness**.

Issues examined in comprehensive audit are:

Q 5

- 1) Does enterprise have **research & development programmes**? What has been the **performance** in adopting new processes, technologies, improving profits and in reducing costs through technological progress?
- 2) Are the systems of **project formulation and execution** sound? Are there inadequacies?
- 3) Is there any poor or insufficient or inefficient **project planning**?
- 4) How does **overall capital cost** of the project compare with approved planned costs? Were there any substantial increases and whether there is evidence of unnecessary expenditure?
- 5) Has **planned rate of return** been achieved?
- 6) Are **purchase policies adequate**? Or have they led to piling up of inventory?
- 7) Have **planned production or operational outputs been achieved**? Has there been under- utilisation of installed capacity?
- 8) Are **cost control measures adequate** and are there inefficiencies, wastages in raw materials consumption, etc.?
- 9) If enterprise has an adequate system of **repairs and maintenance**?
- 10) Are **procedures** effective and economical?

4. Propriety Audit

Propriety audit stands for **verification of transactions** on tests of **public interest, commonly accepted customs and standards of conduct**.

Emphasis to **substance of transactions** and consideration of financial prudence, public interest and prevention of wasteful expenditure.

Principles:

Q 6

- 1) that expenditure is **not prima facie more than the occasion demands** and that every official exercises **same degree of vigilance** in respect of expenditure as a **person of ordinary prudence** would exercise **in respect of his own money**;
- 2) that authority exercises its power of sanctioning expenditure to pass an order which will **not** directly or indirectly **accrue to its own advantage**;
- 3) that funds are **not** utilised for **benefit of a particular person or group of persons** and
- 4) that, apart from agreed remuneration/reward, **no other avenue** is kept open to indirectly benefit mgt. personnel, employees & others.

Functions of Auditor in context of **Propriety Audit** are: **MT- PROP**

- 1) see that all **expenditure incurred** are **properly planned**.
- 2) see that **size & channels of expenditure** are **rightful** and expected to **give maximum results**.
- 3) appraise whether those expenditure are likely to give **optimum result**.
- 4) see that any **substitute plan of action** can bring about an **improvement on current operation** and as well as return from **capital expenditure**.
- 5) examine actions & decisions of mgt. to see that they are conducive to **public interests** & that they **meet standards of conduct**.

Propriety Audit-Problems

- 1) "propriety" is a **moral term** and can be understood by reference to concept of morality accepted by society at a given time.
- 2) In audit of financial accounts **propositions** are built up about happening of events, existence, accuracy, title, ownership, compliance with L&R etc., which are all verifiable. In propriety audit verifiable auditing propositions poses the problem.
- 3) Propriety audit has an **inherent element of subjectivity** because it is very difficult to establish standards of public interest, commonly accepted customs, standards for conduct.
- 4) **Norms of propriety applicable to governmental transactions may not ipso facto apply** to transactions of private sector.
- 5) Propriety as a moral element should be a matter of **evaluation based on objectives and prevailing circumstances**.

5. Performance Audit:

A performance audit is an objective & systematic examination of evidence for purpose of providing an **independent assessment of performance of a govt.** organization, program, activity, or function in order to provide info. to **improve public accountability and facilitate decision-making.**

Performance Audits usually address the issues of: **Q 7**

Economy	minimising cost of resources used for an activity, having regard to appropriate quantity, quality and at best price.
Efficiency	It is input-output ratio . Efficiency is achieved when output is maximised at minimum of inputs for any given quantity and quality of output. Auditing efficiency embraces aspects such as whether: 1) sound procurement practices are followed; 2) efficient operating procedures are used; 3) resources are properly protected and maintained; 4) human, financial and other resources are efficiently used; 5) optimum amount of resources are used in producing appropriate quantity and quality of goods or services.; 6) objectives of public sector programmes are met cost-effectively.
Effectiveness	It is extent to which objectives are achieved and relationship between intended impact and actual impact of an activity. In auditing effectiveness, performance audit: 1) assess whether objectives of and means provided for a new or ongoing public sector programme are proper, consistent, suitable or relevant to policy; 2) assess effectiveness of program and/or of individual program components; 3) determine extent to which a program achieves a desired level of program results; 4) identify factors inhibiting satisfactory performance or goal-fulfilment; 5) determine whether mgt. has considered alternatives for carrying out eprogram that might yield desired results more effectively or at a lower cost; 6) identify ways of making programmes work more effectively. 7) assess compliance with L&R applicable to program.

Planning for Performance Audit (Q- while planning a performance audit of Sugar Industry?)

The following steps are for planning while conducting performance audit:

A) Understanding Entity/Programme -

The auditor may use the following sources for understanding entity:







- 1) **Documents of entity:** policy files, annual reports, budget documents, accounts, minutes of meetings, internal audit reports & MIS reports etc.
- 2) **Legislative documents:** Legislation, parliamentary questions and debates, reports of PAC, COPU, EC and letters from MP.
- 3) **Policy documents:** Documents of Planning Commission, Ministry of Finance etc.
- 4) **Academic or special research:** Independent evaluations on entity, academic research and similar work done by other governments.
- 5) **Past audits:** Past financial & performance audits of entity provide a major source of info. and understanding.
- 6) **Media coverage:** Print and electronic media - their systematic documentation on regular basis.
- 7) **Special focus groups:** annual and special reports of World Bank, RBI of India, reports by special interest groups, NGOs, etc.

B) Defining the Objectives and the Scope of Audit

C) Determining Audit Criteria

Audit criteria are the standards used to determine whether a program meets or exceeds expectations.

The **audit criteria** may be sought to be obtained from the following sources: **Q 11**

-  **procedure manuals of the entity.**
-  **criteria used by the same entity or other entities in similar activities or programmes.**
-  **policies, standards, directives and guidelines.**
-  **independent expert opinion and know how.**
-  **new or established scientific knowledge and other reliable information.**
-  **general management and subject matter literature and research papers.**

D) Deciding Audit Approach

Some of methods which could be used in conducting performance audits include:

- 1) **Analysis of procedures:** Review of systems in place for planning, conducting, checking and monitoring the activity.
- 2) **Case studies:** Descriptive analysis of an entity, scheme or a programme. It involves **analysis of a particular issue** within the context of the whole area under review.
- 3) **Use of existing data:** Audit staff should **investigate the data held by entity mgt.** & by other relevant sources.
- 4) **Surveys:** Collecting info. from members of a population to assess interrelation of events & conditions.
- 5) **Analysis of results:** Auditor to carry out **actual output-input analysis** to determine efficiency of programme.
- 6) **Quantitative analysis:** Examination of available data **relating to financials like earnings, revenue, etc.**

E) Audit Questions

- F) Assessing Audit Team Skills and whether Outside Expertise
- G) Preparing Audit Design Matrix (ADM)
- H) Establishing Time Table and Resources -
- I) Intimation of Audit Programme to Audit Entities

Q Performance Audit of enforcement mechanism for administering the provision of Minimum Wages Act (a social welfare legislation)

- Auditors must possess **knowledge of the industries or labor contracts** where these provisions are applicable.
- Evaluate **standard of living before** implementation & **after** implementation of Act.
- Evaluate **evidence** available as to nature of returns prescribed.
- Evaluate **economy, efficiency & effectiveness** in welfare systems to be audited.
- Study **shortcomings in coordination** between different agencies like labor department, EPF and ESI and control systems and point out a set of relevant problems.
- Another **possible area of critical audit** may be to study actual level of compensation required in each area keeping in mind local living conditions and where minimum wages prescribed in statute.

Independent assurance on effectiveness of internal controls & risk Mgt. processes to enhance governance and achieve organisational objectives.

Objectives and scope of Internal Audit Function

Objectives and scope of Internal Audit Function	Example
Monitoring of IC;	Performing 3 way matching of PO, receipt of material and vendor invoices before vendor payment
Review of compliance with L/R.	Review of compliance with newly applicable tax regime.
Examination of financial and operating information	Internal Audit of sales records, delivery records, sales commission
Risk Mgt.	Evaluation and Mgt. of Risk Exposure for complex financial instruments transactions
Review of operating activities	Reviewing inventory Mgt. activities
Governance	Assessment of Governance Process in accomplishment of objectives

Internal Audit v/s External Audit

Basis	Internal Audit	External Audit
Meaning	Refers to an ongoing audit function performed within an org. by a separate internal auditing department.	Audit function performed by independent body which is not a part of org.
Examination	Examines Operational efficiency of org.	Examines Accuracy and Validity of FS.
Appointment	IA is appointed by Mgt..	EA is appointed by Members.
Users of Report	Mgt..	Stakeholders.
Period	Internal audit is a Continuous Process throughout year.	An External audit is done once in a year.
Opinion	On effectiveness of operational activities.	On truthfulness & fairness of FS.
Status of Auditor	IA could be an employee of the co.	EA is mandatorily not an employee of co.

Principles of Internal audit function:-

Independence , Integrity, Objectivity.

Applicability of Provisions of Internal Audit: Sec 138

As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules,2014) shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely-

- 1) Every listed company
- 2) Every unlisted public company having-

Q 1/2/3

O/s Deposits	≥ Rs. 25 crore	at any point of time during preceding F.Y. or,
Paid up share capital	≥ Rs. 50 crore	During the Preceding F.Y. or
O/s loan or borrowings from banks or Public F.I.	>Rs 100 crore	at any point of time during preceding F.Y. or,
Turnover	≥ Rs 200 crore	During the Preceding F.Y.

- 3) Every private company having

O/s loan or borrowings from banks or Public F.I.	>Rs 100 crore	at any point of time during preceding F.Y. or,
Turnover	≥ Rs 200 crore	During the Preceding F.Y.

Who can be Appointed as an Internal Auditor?

Q 4

- As per section 138, IA shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by Board to conduct an internal audit of functions and activities of Co..
- Internal auditor may or may not be an employee of co.

Internal Audit Standards Board (IASB):

- ICAI established IASB to formulate Standards on Internal Audit (SIAs), Guidance Notes, & other relevant documents.
- IASB reviews and continuously updates standards, guidance notes.

Activities to achieve its objectives

Q5

As per (SIA) 210 Managing Internal Audit Function, IAF performs a no. activities to achieve its objectives .

A few of critical activities are as follows:

- Define overall plan, scope and methodology of IAF on a periodic basis.
- Oversee and monitor various audit assignments, their proper planning, execution, reporting of findings and subsequent closure of reported observations.
- Plan, acquire, engage and review the performance, training and development of professional staff, talent and other resources.
- Identify, source, engage and manage external experts and technical solutions.
- Communicate & engage with all key stakeholders regarding progress and achievement of objectives.
- Develop and maintain a quality evaluation & improvement program.

Q6

W.r.t accounting function & financial records of organisation, Responsibilities of an Internal Auditor include: MT - IA

- to operate independently of accounting staff and must not divest with any of responsibilities placed upon him.
- At all times, IA must enjoy an independent status.
- Not to involve in the performance of executive functions in order that objective outlook does not get obscured by creation of vested interest.
- to ascertain adequacy of system of IC internal control by a continuous examination of accounting procedures, receipts and disbursements, and to provide adequate safeguards against misappropriation of assets.
- to observe facts and situations and bring them to notice of authorities; also, critically appraise various policies of Mgt. and draw its attention to any deficiencies.
- to associate closely with Mgt. & keep knowledge up to date by being informed about all important occurrences and events affecting business.

Scope of Internal Auditor's Work include review of- Q7

Organisational Structure
Internal Control System & Procedures <ul style="list-style-type: none"> Assess design & operating efficiency & effectiveness of IC. Review should consider limitation of internal control To minimize overall internal audit risk i.e., inherent risk, control risk & detection risk.
Custodianship & Safeguarding of Assets <ul style="list-style-type: none"> Existence of asset verification, SOD in place
Compliance with Policies, Plans, Procedures & Regulations <ul style="list-style-type: none"> Identify weakness and suggest remedial action
Accomplishment of Goals & Objectives <ul style="list-style-type: none"> Objective clearly stated & attainable, Expressed in quantifiable terms
Relevance & Reliability of Information
Utilisation of Resources

Review of the Organisation Structure – Q8

IA should conduct an appraisal of org. structure to ascertain whether it is in harmony with objectives of enterprise. For this purpose:

- IA should examine org. chart to find out whether structure is simple and economical & that no function enjoys an undue dominance over others.
- Review manner in which activities of enterprise are grouped for managerial control. Review whether responsibility & authority are in harmony with grouping pattern.
- See that responsibilities of managerial staff at headquarters don't overlap with those of chief executives at operating units. Examine whether there is a satisfactory balance between the authority and responsibility of important executives.
- Examine reasonableness of span of control of each executive (no. of subordinates that an executive controls). Also, examine whether there is a unity of command i.e., whether each person reports only to one superior.
- Where dual responsibilities can't be avoided, primary one should be specified & specific responsibility to each senior fixed.
- Finally, evaluate process of managerial development in enterprise.

Performing Internal Audit Engagement Q9

Typical internal audit engagement comprises of following 5 steps:

Step 1 - Obtain knowledge of Business & its Environment

- Conduct meetings with key stakeholders, BOD and KMP. personals to obtain understanding of org.'s business environment, its operations, vision, mission and top Mgt.'s expectations from audit functions.
- Obtain understanding of various business documents - SOP and FS Etc.
- Obtain understanding of regulatory landscape and various L&R applicable.

Step 2 - Perform Audit Planning

- Plan audit engagement as per Standard on Internal Audit (SIA) 310, Planning Internal Audit Assignment.
- Audit scope must be approved by Audit Committee & BOD.
- Once approved, IA must share detailed Audit Plan with KMP's and plan in advance detailed schedule of Internal Audit.
- Must conduct opening meeting with key stakeholders before start of audit engagement.
- Detailed work plan must be prepared by audit managers & approved with Head of Internal Audit / Chief Internal Auditor.

Step 3 - Gather required info.

- Obtain required info. and perform checks to ensure correctness & integrity of info. received.
- To extent possible, IA must obtain info. directly from source.
- Adequate planning should be done & advance intimation should be made for any interim info. needed .

Step 4 - Perform audit checks.

- AP should be performed as per (SIA) 6, Analytical Procedures.
- Select sample as per (SIA) 5, Sampling.
- Ensure adequate evidences must be collected and stored as per (SIA) 320, Internal Audit Evidence
- Interim reports may be issued after proper review of work performed as per (SIA) 350, Review and Supervision of Audit Assignments.
- Adequate document of internal audit work papers as per (SIA) 330, Internal Audit Documentation.

Step 5 - Reporting of Internal Audit Issues

- Prepare a draft report of Internal Audit issues comprising of
 - business process/ function reviewed,
 - audit coverage and exclusions,
 - audit period covered,
 - summary along with detailed issues + implication & recommendation.
- Review status of actions taken by Mgt. against actions agreed during previous audits and report status of such follow up in audit report.

Factors responsible for high employee attrition rate are as under: Q10

Job Stress & work life imbalance;	Unbearable behaviour of Senior Staff;
Wrong policies of Mgt.;	Safety factors;
Limited opportunities for promotion;	Low monetary benefits;
Lack of labour welfare schemes;	
Whether org. has properly qualified & experienced personnel for various levels of works?	

Qualities Of Internal Auditor

- Special expertise for evaluating Mgt. control systems, especially financial & accounting controls.
- IA must have accounting & financial expertise to be able to discharge his duties.
- Basic knowledge of technology & commercial practices of enterprise to evaluate operational performance.
- Basic knowledge of commerce, laws, taxation, cost accounting, economics, quantitative methods & EDP systems.
- An understanding of Mgt. principles & techniques & also ability to deal with people.
- IA should provide assurance to Mgt. that confidentiality of such info. would be maintained.

Internal Audit as a Mgt. function

- Mgt. is a process by which affairs of an enterprise are conducted in such a manner that its goals and objectives are attained through optimum utilisation of resources.
- Mgt. functioning is a set of 5 general functions: planning, organizing, staffing, directing and controlling.
- While 1st 5 functions of planning, organizing, staffing and leading are critical attributes to create and grow stakeholder's wealth while controlling is key to preserve stakeholder's wealth.
- "Internal audit provides independent assurance on effectiveness of IC and risk Mgt. processes to enhance governance and achieve organisational objectives".
- Internal Audit is important element of Mgt. controlling function, it helps Mgt. to set up appropriate systems & processes in place.
- IA is expected to report on identified gaps and areas of weak IC, further he is expected to identify root cause of problems & suggest mitigating steps.
- Internal Audit is seen as an imp. function that helps Mgt. to achieve organization goals.

Internal audit report (2 Stages):

Q 12/13

(SIA) 370 Reporting Results, reporting of internal audit results is undertaken in 2 stages:

- **At end of a particular audit assignment**, an "Internal Audit Report" covering a specific area, function or part of entity is prepared by IA highlighting key observations. This report is generally issued with details of the manner in which assignment was conducted & key findings from audit procedures. This report is issued to auditee+ copies with local & executive Mgt.
- **On a periodic basis**, at close of a plan period, a comprehensive report of all internal audit activities covering entity & plan period is prepared by Chief Internal Auditor (or Engagement Partner, if external service provider). Such reporting is normally done on a quarterly basis and submitted to Audit Committee.

Key elements of audit report

Q 12

1. An overview of objectives, scope & approach
2. Fact that an internal audit has been conducted as per SIA.;
3. An executive summary of key observations;
4. A summary of corrective actions required; and
5. Nature of assurance, if any, derived from observations.

Internal audit plan

Q 14

Internal audit plan should be developed in such a manner that all business processes covering both financial as well as operational activities are reviewed by IAF within a defined time cycle.

Also, ensuring that appropriate consideration is made and adequate balance is ensured to the following:

- 1) Risk underlying the business process
- 2) Value that internal audit can provide to org.
- 3) Effort involved in conducting internal audit for a particular business process
- 4) Risk Appetite of org.
- 5) Coverage of all auditable areas within defined time range

Content and Format of Internal Audit Report:

SIA doesn't mandate any particular format or list of contents.

Where some level of assurance is being provided, form and content of report shall be as per SIA 380, "Issuing Assurance Reports".

A typical internal audit report should include the following:

- Audit Scope performed
- Audit period Covered
- Executive Summary

- Summary of critical findings
- Detailed audit findings with business impact & root cause of issues
- Rating of highlighted issues (EX: High / Medium / Low)
- Audit recommendation
- Response received from responsible functional authority.

Follow-up

Q 15

As per SIA 390 Monitoring & Reporting of Prior Audit Issues, Chief IA is responsible for continuously monitoring closure of prior audit issues. Responsibility to implement action plans remains with mgt.

Responsibility of IA - "Action Taken Report (ATR) of previous audits".

If no action is taken within a reasonable time - draw Mgt.'s attention to it.

Q 15

Typical Action Taken Report may include the following:

- 1) Reference to previous audit reporting containing reported issues
- 2) Implementation Action agreed by Mgt. along with target implementation date
- 3) Status of action taken by mgt. (Implemented / Not Implemented)
- 4) Residual risk & rating for any unimplemented action
- 5) Audit findings not implemented for long period of time
- 6) Any critical audit finding that require immediate action .

Q. State imp. aspects to be considered by External auditor in evaluation of Internal Audit Function. (SM)

Q 18

Evaluation of IAF by External Auditor: External auditor's evaluation of IAF will assist in determining extent to which he can place reliance upon work of IA. Important aspects to be considered are:

- a) Organisational Status - Whether internal audit is undertaken by an outside agency or by an internal audit department within entity itself, IA Reports to the highest level of mgt. Any constraints or restrictions placed should be evaluated.
- b) Scope of Function - EA should ascertain nature & depth of coverage of assignment which internal auditor discharges for mgt.
- c) Technical Competence - EA should ascertain that internal audit work is performed by persons having adequate technical training and proficiency. Review experience and professional qualifications of persons undertaking the internal audit work.
- d) Due Professional Care - EA should ascertain whether internal audit work appears to be properly planned, supervised, reviewed and documented.

Relationship between Internal and External Auditors

Scope & Objective of Internal Audit	<ul style="list-style-type: none"> • Scope & objective of internal audit are dependent upon size & structure of entity and requirements of its Mgt. • While operating in these areas, there is a lot of overlap between the work of IA & EA.
Work done by IA	Work done by IA has an important bearing work performed by statutory auditor as evaluation done by IA in respect of IC, reliability of financial info., verification of assets, etc. is also required to be done by EA.
section 138	As per section 138 of Companies Act, 2013 AC or BOD, in consultation with IA, formulate scope, functioning, periodicity & methodology for conducting internal audit.
examine	Statutory auditor to examine scope & effectiveness of work carried out by IA.
Independence of IA	Extent of independence exhibited by IA in discharge of his duties & his status in org. are imp. for determining effectiveness of audit.
Evaluate IAF	EA should evaluate IAF for determining NTE of his compliance and substantive procedures.

Audit Trail (or Edit Log)

Q 19

- Visible trail of evidence enabling one to trace info. contained in statements or reports back to original input source.
- Chronological record of changes that have been made to the data.
- Any change to data including creating new data, updating or deleting data that must be recorded.

Records maintained as audit trail include following info.:

- When changes were made i.e., date and time
- Who made change i.e., User Id
- What data was changed i.e., data/transaction reference; success/failure

An illustrative list of internal controls which may be required to be implemented and operated are given below:

Controls to ensure that	Audit trail feature has not been disabled or deactivated
	User IDs are assigned to each individual & User IDs are not shared.
	Changes to configurations of audit trail are authorized and logs of such changes are maintained.
	access to audit trail (and backups) is disabled or restricted and access logs, are maintained.
	periodic backups of audit trails are taken and archived as per the statutory period specified.

Due diligence is a **process of investigation**, performed by investors, into the **details of a potential investment** such as an examination of operations and management and the verification of material facts.

Importance of Due Diligence

There are many reasons for carrying out due diligence including:

- To confirm that the business is **what it appears to be**;
- To identify potential **'deal killer' defects** in the target company and avoid a bad business transaction;
- To **gain information** that will be useful for valuing assets, defining representations and warranties, and/or negotiating price concessions; and
- To verify that the **transaction complies with investment or acquisition criteria**.

Classification of Due diligence:

- (i) **Commercial/Operational Due Diligence:** It is generally performed by concerned acquire enterprise involving an **evaluation from commercial, strategic and operational perspectives**. For ex- whether proposed merger would create operational synergies.
- (ii) **Financial Due Diligence:** It involves **analysis** of the **books of accounts** and other info. pertaining to financial matters of entity. It should be performed after completion of commercial due diligence.
- (iii) **Tax Due Diligence:** Accountant has to look at the **tax effect** of the **merger or acquisition**.
- (iv) **Information Systems Due Diligence:** It pertains to all **computer systems** and related matter of the entity.
- (v) **Legal Due Diligence:** This may be required where **legal aspects** of functioning of the entity are reviewed.
- (vi) **Environmental Due Diligence:** It is carried out in order to study **entity's environment**, its **flexibility** and **adaptiveness** to the acquirer entity.
- (vii) **Personnel Due Diligence:** It is carried out to ascertain that **entity's personnel policies are in line** or can be changed to **suit the requirements of the restructuring**.

Scope of Financial Due Diligence:

(a) Brief history of the target company and background of its promoter;	(b) Accounting policies;
(c) Review of financial statements;	(d) Taxation;
(e) Cash flow;	(f) Financial Projection;
(g) Management and employees;	(h) Statutory Compliance.

Review of Cash Flow:

It is important to know if Co. is able to meet its cash requirements.

It is necessary to check that:

- Is the company able to **honor its commitments** to its trade payables, to the banks, to govt. and other stakeholders?
- How well is the company able to **turn** its trade receivables and inventories?
- How **well does it deploy its funds?**
- Are there **any funds lying idle** or is the company able to reap maximum benefits out of the available funds?
- What is the **investment pattern** of the company and are they easily realisable?

How to conduct Due diligence

- Start with an **open mind**. Do not assume that anything wrong will be found and look for it. What needs to be done is to **identify trouble spots** and ask for explanations.
- Get **the best team** of people. If. When hiring such professionals, look for their experience record in the industry.
- Get **help in all areas** like finance, tax accounting, legal, marketing, technology, and any others relevant to the assignment.
- Talk to** customers, suppliers, business partners, and employees are great resources.
- Take a **risk management approach**.
- Prepare a **comprehensive report** detailing compliances & substantive risks/issues.

Work Approach to due diligence:

- Reviewing & reporting on financials** submitted by target company.
- Assessing business first hand** by a **site visit** (if applicable).
- Working through the due diligence process** with the acquisition company or investor by defining the key areas.
- Helping prepare an offer based** on completion of due diligence.

Hidden liab & Overvalued Assets

Hidden liabilities	Overvalued Assets
1. Tax liabilities under direct tax & Indirect tax	1. Obsolete, slow non-moving inventories or inventories valued above NRV; huge inventories of packing materials etc. with name of co
2. Company may have show cause notice which may have not matured into demand as contingent liability .	2. Underused or obsolete Plant and Machinery and their spares; asset values which have been impaired due to sudden fall in market value etc.
3. Long pending sales tax assessment .	3. Litigated assets and property.
4. Pending final assessment of custom duty where provisional assessment has been completed.	4. Uncollected/uncollectable receivables .
5. Co. may have given letter of comfort to banks & F.I.'s. Since these are not guarantee & may not have been shown is B/s. of target co.	5. Investments carried at cost though realizable value is much lower .
6. Future lease liab.	6. Investments carrying a very low rate of income / return .
7. Agreement to buy back shares at stated price.	7. Infructuous project expenditure/ deferred revenue expenditure etc.
8. Unresolved labour litigations .	8. Intangible assets of no value .

Content of Due diligence report:

Executive Summary	Assessment of management structure
Introduction	Assessment of financial liabilities
Background of Target Co.	Assessment of valuation of assets
Objective of due diligence	Assessment of operating results
Brief history of the company	Assessment of taxation and statutory liabilities
Share holding pattern	Assessment of net worth
Observations on the review	SWOT Analysis

Audit v/s Investigation

Basis	Investigation	Audit
Objective	Aims at establishing a fact or assessing a particular situation.	Verify whether F.S. true & fair view of state of affairs.
Scope	Governed by statute or it may be non-statutory.	Wide & determined by provisions of relevant law
Periodicity	Work is not limited by rigid time frame . It may cover several years,	Audit is carried on either quarterly, half-yearly or yearly.
Nature	Requires a detailed study & examination of facts & figures. Voluntary in nature.	Involves tests checking or sample technique It is mandatory for Co's.
Inherent Limitations	No inherent limitation owing to its nature of engagement.	Suffers from inherent limitation.
Evidence	It seeks conclusive evidence.	Audit is mainly concerned with prima- facie evidence.
Appointing Agency	Even third party can appoint Investigator	Auditor - owner/ shareholders of co. / enterprise
Reporting	Outcome is reported to person(s) on whose behalf investigation is carried out.	Outcome is reported to owners of business entity.

Steps in Investigation

- Determination of objectives** & establishment of **scope** of investigation.
- Formulation of the Investigation programme.**
- Examination and study of **various records** by reference to appropriate evidence.
- Analysis, processing & interpretation of findings.**
- Preparation of **report** and drawing up of **conclusions.**

Q9

Important issues to be kept in mind by the investigator while preparing his report

- Report to not contain anything which is **not relevant** to highlight nature of investigation or final outcome.
- Every word/expression to be used properly. To **minimize possibility of different meaning/interpretation.**
- Facts & conclusions should be properly **linked with evidence.**
- Basis & assumptions to be explicitly stated.** Should be reasonable & not in conflict with objectives of investigation.
- Report should clearly **spell out** nature & objective of assignment, its scope & limitations.

- Report should be made in **para form** with headings for paragraphs
- Opinion** of investigator in **final paragraph** of report.

Special Issues in Investigation

Q 10

(a) Whether an investigator is required to undertake a % verification approach or whether he can adopt selective verification

Safer to go by **statistically recognised sampling methods** than on "test checks" where circumstances permit selective verification.

Cash defalcation - examine all cash vouchers

(b) Whether investigator can put reliance on already audited statement of account -

Q 11

- If statements of a/c were **not audited by a qualified accountant**, **natural duty to get** figures in accounts properly **checked & verified**
- If **prepared by a professional accountant**, who knows that these were prepared for purposes of investigation, he could **accept them as correct** relying on principle of liability to third parties.

Whether investigator can put reliance on already audited statement of account - If **investigation has been launched** because of **some doubt in audited statement of account, no question of reliance arises.**

However, if investigator has been requested to establish value of a business or a share or the amount of goodwill payable by an incoming partner, **investigator would be entitled to put reliance on audited materials** made available to him unless, in course of his test verification, **he finds** audit to have been carried on very casually or unless his terms of appointment clearly require to test everything afresh"

(c) Whether an investigator necessarily requires assistance of expert

- Written general consent** of his client
- Settle question of costs for obtaining views.

(d) Investigation out of disputes and conflicting claims

- should **remain above** disputes or conflicting claims
- be alert to possibilities** of info. or documents made available to him to be prejudiced.
- Should **keep interest** of all involved parties

(e) Basis of opinion of an investor

Investigator should **refrain** from issuing **speculative opinion. Confine his opinion to established facts** and nothing more.

(f) Whether an investigator can make futuristic statements

- should **refuse** to be futuristic

(g) Whether to retain working papers or not

- Take representation letter** from appointing authority.
- To give evidence** in a court of law to support his figures; When conclusions of the accountant are challenged by parties.

Factors to be considered while studying Economic & Financial position of business:

Q 12

- Adequacy of **fixed & working capital.** Are these sufficient for growth of business?
- What will be **trend of sales & profits** in future? Establishing trend of sales, product-wise & area-wise will help in drawing a conclusion on whether trend will be maintained in future.
- Whether **profit** which business could be **expected to maintain in future** would yield adequate return on capital employed?
- Whether **business is operating at its 100 % capacity?**

Q 6

Factors while Assessing Future Maintainable Turnover

Competition - Is **demand for competitor's products** increasing? Is Co's share in total trade constant or fluctuating?

Political & economic considerations - Are **policies of govt.** likely to extend market of goods to other countries?

Trend - Whether in **Past sales** increasing consistently or fluctuating.

Marketability - Is it **possible to extend sales** to new market or they have been fully exploited?

Investigation on behalf of an Incoming Partner

Q3

- Ascertain **history of inception and growth** of firm.
- Study of **provisions of deed of partnership** - composition of partners, their capital contribution, drawing rights, etc.
- Scrutiny of **record of profitability of firm's business** over a suitable No. of years, with usual adjustments.
- Examination of **asset and liability position** to determine tangible asset backing for partner's investment, appraisal of value of intangibles. In case of **firms rendering services**, question of tangible asset backing usually is not important.
- Reasons for offer** of admission to new partner & whether **any senior partner is retiring** at same time.
- Various imp. **contractual & legal obligations** should be **ascertained** and **their nature studied.** Firm may have **standing agreement** with employees as regards salary and wages, bonus etc. **Full impact of such standing agreements** be considered.
- Study composition & quality** of key personnel employed by firm and any likelihood of their leaving organisation in near future.

Investigation in Valuation of shares of Pvt. Co.

There are 2 main methods of valuation

First Method: Net Worth

- Value per Share = Amount of net worth / No. of shares of ESC.

Second method: Yield basis

- Avg. profit earned by business during preceding 5 to 7 years is computed.
- value of business is calculated by capitalising it at a reasonable rate of interest.

Investigation on behalf of a Bank/ Financial Institution Proposing to Advance/Loan to a Company

Q 2

1. **Purpose** for which the loan is required & manner in which borrower proposes to invest
2. **Financial standing & reputation for business integrity** enjoyed by directors & officers of co.
3. **History of growth & development of co. & its performance** during **past 5 years**
4. **Schedule of repayment** of loan
5. Whether co. is authorised by **MOA or AOA to borrow money** for purpose for which the loan will be used.
6. Whether any **loan application to any other Bank or Financial Institution was made**, & if so, **reasons for rejection.**

To investigate profitability of business for judging the accuracy of schedule of repayment furnished by the borrower, investigating accountant should take under-mentioned steps:

- (a) Prepare a **condensed income statement from Statement of Profit and Loss for the previous 5 years.**
- (b) Compute under-mentioned **ratios** separately
 - 1) Current Assets to Current Liabilities
 - 2) Quick Assets to Quick Liabilities
 - 3) Equity to Long Term Loans
 - 4) Sales to Book Debts
 - 5) Return on Capital Employed
 - 6) Sales to Average Inventories held
 - 7) Sales to Fixed Assets
 - 8) Equity to Fixed Assets
- (c) Enter in a separate part of statement **break-up of annual sales product-wise to show their trend.**

Steps involved in verification of assets & liabilities included in B/S of borrower company which has been furnished to Bank

- a) **Fixed assets:**
 - a) A full description of each asset, its gross value, rate of depreciation, Revaluation.
 - b) In case any asset is encumbered, amount of the charge & its nature should be disclosed
- b) **Inventory:** value & basis of valuation
- c) **Trade Receivables, including bills receivable:** Their composition should be disclosed, whether any debts are considered bad or doubtful.
- d) **Investments:** schedule of investments - date of purchase, cost and nominal and market value
- e) **Secured & Unsecured Loans:** amounts outstanding for payments along with due dates of payment.
- f) **Provision of Taxation:** P.Y. up to which taxes have been assessed or assessment order received should be **ascertained**
- g) **Other Liabilities:** All liabilities, **actual & contingent**, are correctly disclosed
- h) **Contingent Liabilities:** Proper disclosed.

Investigation on behalf of an Individual or Firm Proposing to Buy a Business

Q 4

(A) In case of proprietary concerns or partnerships -

- (i) **Reasons for sale & effect on** turnover and profits.
- (ii) **Length of lease** under which **premises** are held, prospects of its renewal or extension.
- (iii) **Unexpired period** of any **patents.**
- (iv) **Age of present managerial staff & prospects of continuing** in service under **new proprietorship & possible liability, not already provided for-** Gratuity, Retrenchment compensation.
- (v) If **bulk of sales are made to customers whose number is small**, profitability of business would be greatly shaken on withdrawing their support. This should be investigated as it might affect future profitability.

(B) If the business belongs to a limited company

- (i) **Authorised & issued capital** of Co.
- (ii) **Uncalled liability on shares.**
- (iii) If **capital is divided into different classes** of shares - **Rights attached** to each class.
- (iv) **Particulars of dividends paid** in past & **amounts** thereof which are in **arrear** (on cumulative preference shares).
- (v) **Mortgages/ charge** created **on assets** in company's books. **Inspect Register of Charges.**
- (vi) Price at which shares are being offered.
 - a. Public co - Quoted Price
 - b. Pvt co - valuation

Investigation in connection with review of Profit/Financial Forecasts

There are many investigations which involve an **examination of future profits** like,

- 1) **Profit reports** - can be required as part of a general investigation into purchase of a business or,
- 2) **By banks & financial institutions with regard to project cash flow and profitability statements** for appraisal of loan applications submitted by intending borrowers.

All forecasts depend, on **nature of business** with its numerous and substantial uncertainties.

Therefore, such **forecasts are not capable** of verification by **accountants** in same way as FS which present results of a completed accounting period.

Normally, such **situations involve special review** as these depart from auditor's role of expressing an opinion in relation to past events.

Investigation of Frauds

Fraud at Operational Level Employees

- 1) **Cash Misappropriation:** Cash is misappropriated after accounting entries are already passed in books
- 2) **Teeming and Lading:**
- 3) **Fraudulent Disbursements:** Submission of false bills, or personal expense bills being converted into official expenses bills.
- 4) **Expense Reimbursement Schemes:** Employees may get reimbursed by third parties (such as distributors) as well as by claiming these expenses from the co.
- 5) **Payroll Fraud:** Payment to non-existent employees or in a contractual arrangement inflating of manpower resources than actually deployed.
- 6) **Commission Schemes:** salesman exaggerates sales through fictitious billings to earn higher commission or alter sales prices of products sold.
- 7) **Tampering of Cheques/Drafts/On-line payments/receipts:** Tampering of cheques, payee name being altered, or preparation of cheques without same being issued to payee,
- 8) **Off Book Frauds:** Fraud perpetrator misappropriates cash before these are recorded in books or before sale is recorded in books.

Indicators of Fraud

- (i) **Discrepancies in Accounting Records** including non-recording / partial recording / incorrect/delay recording of amt's.
- (ii) **Conflicting or missing evidence** including missing documents, altered documents,
- (iii) **Unacceptable mgt. responses** such as - denial of access to records/facilities/employees, undue time pressure to resolve complex issues etc.
- (iv) **Other indications** such as - Accounting Policies in variance with Industry Norms, Frequent changes in accounting estimates etc.

Fraud Diamond Four Elements of Fraud:

- 1. **Incentive:** I want to, or have a need to, commit fraud.
- 2. **Opportunity:** There is a weakness in the system that right person could exploit. Fraud is possible.
- 3. **Rationalization:** I have convinced myself that this fraudulent behaviour is worth risks.
- 4. **Capability:** I have necessary traits & abilities to be right person to pull it off.

Auditor's ability to detect fraud depends on such Factors

- > **Skilfulness of perpetrator**
- > **Frequency & extent of manipulation**
- > **Degree of collusion involved**
- > **Relative size of Individual amounts manipulated;** and
- > **Seniority of those individuals involved.**

Inventory Frauds

Q 7

- 1. Employees may **remove goods** from premises.
- 2. Theft of goods may be **concealed by w/o as damaged goods**, etc.
- 3. Inventory records may be **manipulated by employees** who have **committed theft** so that **book quantities tally with actual quantities** of inventories in hand.
- 4. **Inflating quantities issued for production**
- 5. **Stocks actually dispatched** but **not entered in sales/ debtor's a/c.**

Ways of Committing Fraud

Investigation Procedure

Q 5

Cash Receipt

- 1. Showing a **larger cash discount** than **actually allowed**
- 2. Adjusting a **fictitious credit** in the account of a customer.
- 3. Adjusting a **cash sale as a credit sale.**
- 4. **Writing off good debt** as bad & irrecoverable.
- 5. **Amount collected** has been **misappropriated.**
- 6. **Under-casting receipts side of Cash Book** or **over-casting payment side.**

- 1. **Cash sales** should be vouched in detail.
- 2. **Recoveries from customers and sundry parties** should be checked with the copies of receipts issued to them
- 3. **All withdrawals from bank** should be checked by reference pass book.
- 4. **Income received from different sources** should be **scrutinized**, e.g., rental registers

Inflate Cash Payment

- 1. **Making double payment of an invoice** or **paying a false invoice.**
- 2. Paying **personal expenses out of the business** by falsifying details.
- 3. **Falsely adjusting a refund** in customer a/c & withdrawing credit balance.
- 4. **Wrong totalling of wage sheets & misappropriating excess amt.**

- 1. All **evidence as regards cash payments made**, should be **scrutinized.**
- 2. All **payments by bearer cheques** should be examined.
- 3. **System of recording of wages** should be reviewed.
- 4. **Petty Cash Book** should be vouched and totaled.
- 5. All **withdrawals from bank** should be checked by reference pass book.

Ways of Committing Fraud

Investigation Procedure

Q 8

Supplier Ledger

- 1. **Adjusting fictitious or duplicate invoices as purchases** in suppliers a/c & subsequently misappropriating.
- 2. **Suppressing Credit Notes issued by suppliers** & withdrawing corresponding amounts not claimed by them.
- 3. **Withdrawing amounts unclaimed by suppliers.**
- 4. **Accepting purchase invoices at prices higher than their market prices** & collecting excess amt. paid in cash from suppliers.

- 1. **Purchase Journal** should be vouched by **Goods Inward Book and suppliers invoices.**
- 2. All **suppliers** should be **requested to furnish statements** of their accounts to see whether or not any balance is outstanding or due so as to confirm that allowances and rebates given by them have been correctly adjusted and were duly authorized.
- 3. Examine **system of IC** in relation to purchase orders issued & identify possibilities of collusion with suppliers.

Customer Ledger

- 1. By **'teeming and lading'** method, i.e., **misappropriating amount collected from a customer** and **crediting his account** by amount paid by him only when an **amount is subsequently collected from another customer**; repeating this practice with several items collected and depositing back amount so misappropriated before close of year.
- 2. **Misappropriating amount collected from a customer & adjusting on account of allowance or a rebate.**
- 3. **Crediting amt. received from a customer to a/c of another customer** & subsequently withdrawing.

- 1. Confirm that **customer a/c's have been debited in respect of goods supplied to them**, entries in Order Book should be cross-checked with those in Sales Day Book.
- 2. **Special attention** should be paid to **allowances adjusted** - goods returned or difference in price or amt's W/o as bad debts.
- 3. **Obtain confirmation of customers** in respect of **amounts standing in their accounts** including no balance in their accounts.

Procedure for Verification of Defalcation of Inventory/ Investigation Procedure

Inventory thefts usually are **possible through collusion among no. of persons**. So, entire system of receipts, storage & dispatch of all goods, etc. should be reviewed.

Determination of factors responsible for theft & establishment of guilt **would be difficult in absence of:**

- a) a **system of inventory control**, & **existence of detailed record of movement** of inventory, or
- b) **availability of sufficient data** from which such a record can be constructed.

First step in such an investigation is to **establish different items of inventory defalcated** and their quantities by **checking physically** quantities in inventory held & those shown by Inventory Book.

Defalcations of inventory, sometimes, **also are committed by mgt**, by diverting a part of production & shortages in production being adjusted by **inflating wastage** in production; similar defalcations of inventories and stores are covered up by **inflating quantities issued for production.**

For **detecting** such shortages, should **take assistance of an engineer.**

Guidance can also be taken **from past records showing extent of wastage** in production in past. Similarly, **he would be able to better judge** whether material issued for production was **excessive** and, if so to what extent.

Forensic Accounting: Application of accounting methods to the track and **collect forensic evidence**, usually **for investigation and prosecution** of criminal acts.

Red Flag: Red flags are **indicators** or warning of **any** impending danger or **inappropriate behavior**. Red flag **does not necessarily indicate** the **existence of fraud**. Red flags are classified in categories such as financial performance red flag, accounting system red flags, operational red flags.

Forensic Accounting v/s Other Audits

Q 1

Particulars	Other Audits	Forensic Accounting
Objectives	Express an opinion as to 'True & Fair' presentation	Whether fraud has actually taken place in books
Techniques	Substantive & Compliance. Sample based	Investigative, substantive or in-depth checking
Period	Normally for a particulars accounting period .	No such limitations
Verification of stock, Estimation realisable value of assets, provisions, liability etc.	Relies on mgt. certificate/Mgt Representation	Independent/verification of suspected/selected items where misappropriation is suspected
Off balance sheet items (like contracts etc.)	Used to vouch the arithmetic accuracy & compliance with procedures.	Regulatory & propriety of these transactions/contracts are examined .
Adverse findings if any	expressed negative opinion or qualified opinion with/without quantification	Legal determination of fraud impact and identification of perpetrators.

Forensic Accounting Services:

Q 2

- Financial Statement manipulations
- Fund diversions/Asset tracing
- Anti-Money laundering
- Licence Fees/Dues/Tax Evasion
- Related party transactions/valuations
- Valuations/Estimations of loss/damage
- Suspicious transactions under IBC (Insolvency and Bankruptcy Code)

Need for Forensic Audit/Forensic Accounting

Q 2

Fraud Prevention:

Either **reviewing IC's to verify** their **adequacy or providing consultation** in development & **implementation of an IC**.

Fraud Detection:

Investigating & analysing financial evidence, detecting financial frauds and tracing misappropriated funds

Providing Expert Testimony:

Assisting in legal proceedings, including testifying in court as expert witness and preparing visual aids **to support trial evidence**.

Computer Forensics:

Developing computerized applications to assist in recovery, analysis and presentation of financial evidence;

Key Elements of the Report:

Q 3

- Title, addressee & distribution list (if any)
- Scope and objectives
- Approach & broad work procedures undertaken
- An Executive Summary of results.
- Reference to use of an expert,
- Fact that assignment has been conducted as per FAIS,
- List of findings supported by key evidences
- Assumptions, limitations & disclaimers
- Conclusions drawn.

Forensic accounting and Investigation report

Forensic Accounting and Investigation Standard (FAIS) 510 deals with responsibility of Professional to issue a written report to stakeholders.

1) Written Report:

Issue a written report which conveys **results of assignment clearly & accurately**. **Findings reported** shall be based on evidence gathered.

2) Report addressee and distribution:

Addressed- **Primary Stakeholders & shared with other stakeholders**.

7) Format or Content of Report:

While **no fixed form or content** of report is mandated by this Standard, it shall include **certain key elements** to enable user to understand purpose of assignment, extent and scope, any limitations, assumptions, facts and evidence gathered & conclusions drawn.

8) Discussion of Draft report:

Where **mandate** of engagement **requires a discussion** of findings with subject party prior to finalisation, a summary of responses received from them shall be included in report.

- **Principles of Natural Justice** requires a discussion of the observations with subject party.

5) Assumptions and Limitations:

- **list any relevant assumptions made**.
- Professional may **encounter limitations** that restrict methodologies or procedures applied.
- Like **restricted access** to required records, info. or people
- Report shall **not express an opinion** or **pass any judgement on the guilt or innocence**.
- **Determination of culpability** is either a disciplinary process internal to org. under review, or a judicial process.

6) Reporting Timelines:

- Issued within **reasonable time frame**.

Process of Forensic Accounting:

Q 4

1. Initialization:

Clarify & remove all doubts as to real motive, purpose & utility of assignment. **conflict check should be carried out**.

1. Develop Plan:

Plan taking account knowledge gained by meeting with client.

2. Obtain Relevant Evidence

understand specific type of fraud that has been carried out, and how fraud has been committed. **Evidence should be sufficient to ultimately prove identity of the fraudster(s), mechanics of fraud scheme, and amt. of financial loss**.

4. Perform analysis:

- **summarizing** a large number of **transactions**;
- **performing** a regression or **sensitivity analysis**;
- **performing present value calculations** using discount rates;
- **calculating economic damages**;
- **utilizing charts and graphics to explain the analysis**.
- **utilizing a computerized application** ex- spreadsheet
- **performing a tracing of assets**;

5. Reporting:

Issuing an audit report is final step of a Forensic accounting. Accountant **will include info. detailing fraudulent activity**. Includes graphics & schedules to support and explain findings.

6. Court Proceeding:

Investigation is likely to lead to legal proceedings against suspect.

Introduction:

- **Sustainable development** means development that **meets needs of present without compromising ability of future generations** to meet their own needs.
- **SDGs** are **universal call for action** to end poverty, protect planet and improve lives and prospects for everyone everywhere. (follow - whether developed or developing countries.) (17 SDG's)

3 pillars of sustainability/ ESG reporting:**Environment (E):**

- Environmental stands for corporate climate policies, energy use, waste, pollutions, natural resource conservation, & treatment of animals.
- It includes **natural resources** that **every entity absorbs** for its **functioning** like that of coal, electricity, water and so on.
- Processing this energy into products / services which **will leave behind certain wastes** like that of carbon emissions, e-wastes and so on.

Social(S):

- Addresses **relationships** entity has and **reputation** it fosters with **people and institutions** in communities where you do business and value chain involved.
- Further includes labour relations, diversity, and inclusions.

Governance(G):

- It is **internal system** of practices, controls, and procedures entity **adopts in order to govern itself, make effective investment decisions, comply with law, and meet needs of all stakeholders.**

Sustainability reporting

Q 2

- Sustainability reporting is an org.'s practice of **reporting publicly** on its **economic, environmental, and/or social impacts**, and hence its contributions -towards goal of sustainable development.
- **Info.** that **companies provide** about **their performance to outside world** on a regular basis in a structured way.
- **Comprehensive mechanism** of measuring & disclosing sustainability data with **performance indicators & management disclosures.**

Expected Benefits of sustainability reporting

- Help stakeholders to **understand org's performance** vis a vis **sustainability and impacts.**
- Such reporting can help entities to **focus on long-term value creation,** by addressing (ESG) issues.
- Since investors are increasingly recognising that environmental and social issues provide both risks and opportunities in respect of their investments, they can use **ESG performance of companies** to make **investment decisions.**
- Investing in social and environmental issues **will not only improve own business continuity of companies** but also put them in a better position with their B2B (Business to Business) customers.

Global Trends in Sustainable reporting:

Q 3

Mandatory reporting requirements are mostly associated with public sector or government- run companies, large corporations, multi-national business conglomerates, and listed companies in stock exchanges.

Global Reporting Initiative (GRI-)

- Helps the organizations to **report on economic, environmental, and social impacts.** Report is addressed to **all the stakeholders** of the entity.
- **Most widely used framework** in the world having **93% of the world's largest 250 corporations** report on their sustainability performance through GRI.
- Used in over **100 countries** to report sustainability. This independent international organization is based in **Amsterdam, Netherlands.**

Carbon Disclosure Project (CDP)

- Captures **environmental performance data** which is related to Green House Gas emissions, water, forests, and supply chain.
- **Major details required** to be reported are **climate change, Forest, and Water security.** Report is **addressed to all the investors, buyers, and other stakeholders** of entity.

International Integrated Reporting Framework (IIRC)

- Established guiding principles & content elements in order to allow co.'s to produce integrated reports.
- This report consists of Organisational overview, Governance structure, Business model, risks and opportunities, strategy, etc.

6 Cs of Integrated Reporting – 6 capitals

Q 4

1) Financial Capital

- **Pool of funds** that is available to org. for use in production of goods or provision of services.
- **Obtained through financing,** such as debt, equity, or grants, or generated through operations or investments.

2) Manufactured Capital

- Seen as **human-created, production-oriented equipment and tools.**
- Available to org. for use in production of goods or provision of services, including buildings, equipment, infrastructure.

3) Natural Capital

- **Is an input to production** of goods or provision of services.
- An org's activities also **impact** on natural capital.
- **Includes** water/land/minerals & forests/biodiversity & ecosystem.

4) Human Capital:

People's skills & experience, their capacity, and motivations to innovate,

including their:

- **Alignment with and support of** org.'s governance framework & ethical values.
- **Ability** to understand & implement an org's strategy.
- **Loyalties & motivations** for improving processes, goods & services, including their ability to lead and to collaborate.

5) Social Capital

- **Institutions and relationships** established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being.
- Includes:
 - **Common values & behaviour.**
 - **key relationships, trust and loyalty** that an org. has developed.
 - an org's social license to operate.

6) Intellectual Capital

Key element in an org's future earning potential with a tight link between in investments, innovation, human resources, and external relationships, which can **determine organization's competitive advantage.**

Q- Identify which of the capitals of "Integrated Reporting" are being referred

[i] It has increased the number of customers using digital customer mobile app of the company from 2 lac users to 4 lac users. There is 100% increase in digital collection. It has benefitted customers of the company and resulted in use of digital methods for business operations of the company.

Ans - states that company has increased the no. of customers using digital mobile app. Besides, it has led to 100% increase in digital collection. Therefore, it involves use of technology for deriving business benefits. It has invested in innovation deriving business benefits from digitization. The capital referred to at [i] is "Intellectual Capital".

[ii] It has increased the number of beneficiaries under its flagship CSR programmes from previous 10000 to 75000. It has provided value for communities and provided sustainable livelihood to them.

Ans - Increase in number of beneficiaries under flagship CSR programmes providing value for communities and sustainable livelihood is an example of relationships established within & between each community, group of stakeholders and other networks to enhance individual and collective well-being. The capital referred to at [ii] is "Social and Relationship Capital."

Global Scenario in Various Countries

United States

- March 2022, - US Securities & Exchange Commission (SEC) proposed climate-risk disclosure requirements, of publicly traded companies.
- In their SEC filings, Co's would be required to discuss financially material, climate-related risks.
- Reporting would include:
 - Company's climate risk management processes
 - How risks identified would impact financial performance
 - How these risks are managed and mitigated
 - Any scenario analysis, transition plans, and climate goals

United Kingdom

- A key regulation for UK ESG disclosures is Co's Act of 2006, which includes requirements for annual reporting.
- These rules apply to large companies that are either listed, exceed £500 million in annual turnover, or have more than 500 employees.
- As such, Co's are required to discuss strategy, processes, and due diligence regarding matters of:
 - Environment (including co.'s impact on envt.)
 - Company's employees
 - Social matters
 - Respect for human rights

Initiatives by ICAI

- In Feb 2020, ICAI constituted Sustainability Reporting Standards Board (SRSB). Mission of the SRSB is to take appropriate measures to increase awareness & implement measures towards responsible business conduct.
- ICAI has also started a Certificate Course on (SDGs), Business Responsibility Reports (BRR), Integrated Reporting (IR).

Q 6

Business Responsibility and Sustainability report (BRSR)

Reporting under BRSR is mandatory from financial year 2022-23.

However, disclosure was voluntary in financial year 2021-22.

The reporting questionnaire is divided into 3 sections:

Section	Content Description
Section A - General Disclosures	Details about listed Co's, its products, services, operations, employee-related info., and relationships with holding, subsidiary, and associate companies.
Section B - Management Process and Disclosures	Questions related to policy & management processes, governance, leadership, and oversight.
Section C - Principle-wise Performance Disclosures	Co's are required to report upon Key performance indicators (KPIs) in alignment with the 9 principles of the NGRBC. (National Guidelines on Responsible Business Conduct). The section classifies KPIs into 2 categories that companies are required to report upon: Essential Indicators (Mandatory Disclosures): Data on training programs conducted, environmental Data on energy, emissions, water, waste management etc. Leadership Indicators (Optional Disclosures): It would include life cycle assessments, details of conflict mgt. policy, energy consumptions, supply chain mgt's etc.

Methodology to provide assurance on BRSR:

Q 7

- Preliminary review of ESG reports, parameters.
- On-site Assessment verification of ESG report.
- Issuance of Assessment Reports and Assessment statement.
- Review of Response and clarifications on the findings.
- Submission of findings of onsite assessment and document review.
- Preparation of assessment/Verification report including final results of Assessment/Recommendations.

Role of Auditor in Considering Climate-Related Risks in FS Audit

Q 9

1. Auditor's Primary objective:

- Obtain reasonable assurance about FS are free from MM caused due to fraud or error.
- Enable auditor to report on fair presentation of FS as per applicable FRF.

2. Understanding of Entity and its risks:

- Consider climate-related risks in understanding of entity.
- Relevance of climate-related risks varies across sectors: e.g., significant in banks, insurance, energy, transportation, materials, agriculture, food, and forestry.

3. Focus on Climate Change:

- Increased demand from investors and stakeholders for information on how climate-related risks were addressed in audit.
- Increasing pressure for transparency on climate matters in their reports.
- Must follow Applicable auditing standard.

4. Auditor's Report

- Communication to inform users about audit process.
- In addition to audit opinion, it provides details on auditor's responsibilities, and understanding of matters of most significance in audit and how they were addressed.
- May include an EOMP para to draw attention to disclosure that are fundamental to user understanding of FS.

5. Relevant Climate-Related Information

- Ensure the entity appropriately discloses climate-related information in FS, as per applicable FRF (e.g., Indian Accounting Standards or Accounting Standards).

6. Consistency Check & Other Info.

- Auditor's to read other info. for consistency with FS and info. outside FS publicly communicated press releases, or investor updates.
- This is requirement under ISA 720 and SA 720 (Auditor's Responsibilities Relating to Other Info.).

Nine Principles of BRSR



9 principles in BRSR are categorized into the **ESG components** of Environment, Social and Governance with 2 in Env't., 3 in social and 4 in Governance.

Even though they are separate, they are **interlinked** to each other in some way. Ex- environmental protection is closely linked to the stakeholder engagement and inclusive growth.

Principle 1 -Ethics, Transparency and Accountability:

Essence of core elements associated with principle are:

- Entities should **develop policies, procedures, and practices** for their offices, factories, and work areas, ensuring that ethics is not compromised.
- Info.** relating to policies, procedures, and practices along with performance should be **made available to stakeholders**.
- In case of **adverse effects**, more care has to be taken for **transparent disclosures**.
- Entities in value chain** should be encouraged to adopt these principles by governance structure.
- Entities should **proactively respond to outside entities** that violate 9 principles of BRSRs. This includes their suppliers, distributors, sub-contractors, or regulatory officers.

Principle 2 -Safe and Sustainable Goals and Service:

Essence of core elements associated with principle is:

- When a **product is designed** by entity, production methods and technologies have to be devised in a way as to **minimize resource usage**.
- Entities are also responsible to **educate & make aware** their consumers and clients about their rights.
- Entities should **take measures that reduce the over exploitation of nature's resources** and encourage methods for reduce, reuse and recycling of resources.

Principle 3 -Promote wellbeing of all employees including those in the value chain:

Essence of core elements associated with principle is:

- Entity should ensure **compliance with all regulatory requirements** as far as employees are concerned.
- Entities should **prevent** all kinds of child labour, bonded labour, and any other forms of involuntary labour.
- Entities should have a system in which **work-life balance** of employees is not compromised.
- Ensure **timely payment** of the worker's wages and compensation.
- Entities are responsible to **create a workplace and work environment** that is safe, hygienic, and comfortable.
- Responsibility of **Creation of a workplace** which is free of harassment and violence.

Principle 4 -Respect for stakeholders interests and responsiveness:

Essence of core elements associated with principle is:

- Entities have to be **transparent & communicate** with stakeholders about **impacts of their operations & business decisions** on people and nature.
- Systematically **determine context of their operation** and **identify their interested parties**.
- Entities should **fairly share benefits** to stakeholders or give an opportunity to benefit in an **equitable manner**.

Principle 5 -Respect and promote human rights:

Essence of core elements associated with principle are:

- Entities should have a **clear understanding of human rights** & ways by which human rights can be **violated** from perspective of Constitution of India, national laws and policies and content of International Bill of Human Rights.
- Entities **when developing their mgt. systems**, should **integrate human rights element** into their policies, procedures, and practices.
- Businesses should **recognize and respect the human rights** of all stakeholders and groups within and beyond workplace.

Principle 6 -Protection and restoration of Environment:

Core elements associated with principle are:

- Have policies, procedures & practices** in place to assess & rectify impacts to env't.
- Make use of natural and manmade resources** in an optimum manner.
- Have to measure their performance** relating to prevention of pollution, destruction of forests, waste generation, energy use, land use, etc.
- Have to contribute towards climate change resilience** in line with India's commitment to various international mechanisms such as, Paris Agreement.
- Explore comparison** of its activities with industry best practices to **reduce, reuse and recycle/ recover materials, resources**.
- look out for avenues** by which they can improve their performance towards various environmental responsibilities.

Principle 7 -Influence on Public and Regulatory Policy:

The principle further highlights that -

- Core elements of BRSR** are to **have met holistically** when org. go ahead with their contributions to policy formulation and policy advocacy.
- Collective associations** such as, trade groups and industry chambers have to be utilized.
- Role in policy advocacy** by org. should be a way that it **encourages fair competition & prevents human rights abuses**.

Principle 8 -Promote Inclusive Growth and equitable development:

Core elements are:

- Have systems in place to **identify & address impacts of their activities** on social, cultural, & economic aspects of people. This includes business created issues like, land acquisition and use and construction activities for new facilities.
- Review, measure, & track adverse impacts** of their activities on society & env't.
- Make efforts to bring up creative products, technologies, and business concerns** that help marginalized communities.
- When **designing their CSR activities** should review local and regional development priorities to help marginalized groups and communities.
- Ensure that **business induced displacement or relocation of communities** doesn't happen, and in unavoidable cases, mutually agree, participative, and informed negotiations to provide fair compensation to affected people.
- All forms of **intellectual property & traditional knowledge** should get deserved respect from org., and ensure that **benefits derived from their knowledge are shared equitably**.

Principle 9 -Provide value to the consumers in a responsible manner:

Core elements associated with principle are:

- Entities should put in their **efforts to reduce negative impacts** of their products & services on consumers, natural env't. and society.
- Entities should **transparently and accurately disclose** all kinds of **adverse impacts** to user, society, on biodiversity from their products.
- When handling customer data, **right to privacy** of customer needs to be maintained.
- When **advertising** about products, ensure that **misleading and confusing info. is not exposed** to customers.
- Make available **transparent & accessible grievance redressal and feedback management system** for their customers.
- If providing essential goods and services (e.g., Utilities), should **enable universal access**, in a **non-discriminatory and responsible manner**.

Assurance in BRSR

- SEBI has currently started with **top 1,000 listed companies**.
- But **very soon, remaining listed companies** would also need to comply with provisions of BRSR.
- Further, **BRSR is expected to be used as a single means for disclosing sustainability related information in India**. This would be the main document which stakeholders, investors would review and do industry analysis.
- ICAI has recently issued **Standard on Sustainability Assurance Engagements (SSAE) 3000- Assurance Engagements on Sustainability Info**.
- Effective date of application of **SSAE 3000** is as follows:
 - ✓ Voluntary basis for assurance reports covering periods ending on 31st March 2023.
 - ✓ Mandatory basis for assurance reports covering periods ending on or after 31st March 2024.
- ICAI has also issued **SSAE 3410, Assurance Engagements on Greenhouse Gas Statements** which deal with assurance engagements on an entity's sustainability info. including assurance of BRSR.

Our Institute's Motto

'Ya Esha Supteshu Jagrati' is adopted from Kathopanishad and it denotes 'eternal vigilance' - **awakening when the world is asleep.**

Fundamental Principles

1. Integrity

- (i) **Straightforward and honest** in all professional and business relationships
- (ii) **Not knowingly be associated** with reports, returns, communications or other info. where it:
 - Contains a **materially false** or misleading statement;
 - Contains statements or **information provided negligently**; or
 - **Omits** required info. where such omission would be misleading.

2. Objectivity

Not to **compromise professional or business judgment** because of **bias, conflict of interest or undue influence of others.**

3. Professional Competence and Due Care

- (i) Attain and maintain **professional knowledge and skill** at the level.
- (ii) **Act diligently** in accordance with applicable technical and professional standards.
- (iii) **Exercise of sound judgment** in applying professional knowledge and skill when undertaking professional activities.
- (iv) **Continuing awareness and an understanding** of relevant technical, **professional and business developments.**
- (v) **Act** in accordance with **requirements of an assignment**, carefully, thoroughly and on a timely basis.

4. Confidentiality

- (i) **Not to use/ disclose confidential information** acquired from clients (Including prospective),
- (ii) Continue to comply with principle of confidentiality **even after end of relationship** between accountant and a client or employing organization.

Circumstances where disclosure be appropriate:

- (i) Disclosure is required by law,
- (ii) Disclosure is permitted by law and is authorized by the client
- (iii) There is a professional duty or right to disclose, when not prohibited by law:
 - a. To **comply** with requirements of Peer Review or Quality Review of Institute;
 - b. To **comply** with technical and professional standards, including ethics requirements.
- (iv) To **respond** to an inquiry or investigation by a professional or regulatory body;
- (v) To **protect** the professional interests of a professional accountant in legal proceedings;

In deciding whether to disclose confidential info., professional accountants should consider the following points:

- Whether interests of any party, including 3rd parties whose **interests might be affected.**
- Whether **all relevant info. is known and substantiated.**
- **Proposed type of communication, and to whom it is addressed.**
- Whether **parties to whom the communication is addressed are appropriate recipients.**

5. Professional Behaviour

- (i) **Comply with relevant law and regulations**
- (ii) **Avoid any conduct** that might **discredit profession.**
- (iii) **A PA should not make-**
 - Exaggerated claims for services they offer, qualifications they have.
 - Unsubstantiated comparison to work of others.

Note: A PA might face a situation in which complying with one fundamental principle **conflicts with complying with one or more other fundamental principles.** In such a situation, accountant might **consider consulting**, with: Others within the firm or employing organization, TCWG, Institute, legal counsel. However, such consultation **does not relieve accountant from responsibility to exercise professional judgment** to resolve conflict.

Threats

Self Interest Threats: threat that a **financial or other interest** will inappropriately influence a PA's judgment or behaviour.

Self Review Threats: Threat that a PA will **not appropriately evaluate** the **results** of a previous **judgment** made; or an **activity performed** by accountant, or by **another individual** within accountant's firm or employing organization,

Advocacy Threats: Threat that a PA will **promote a client's or employing organization's position** to the point that accountant's objectivity is compromised.

Familiarity Threat: Threat that **due to a long or close relationship with a client**, a PA will be too sympathetic to their interests / too accepting of their work;

Intimidation threats: Threat that a PA will be deterred/stopped from **acting objectively because of actual or perceived pressures**, including attempts to exercise undue influence over the accountant.

Circumstances that might create threats when undertaking a professional service:

Self-interest Threats:

- **Direct financial interest** in a client.
- **Quoting a low fee to obtain a new engagement** and fees is so low that it might be difficult to perform professional service as per technical and professional standards for that price.
- **Close business relationship** with a client.
- **Access to confidential info.** that might be used for personal gain.

Self-review Threats

- **Issuing an assurance report on effectiveness of operation of financial systems after implementing the systems.**
- **Prepared original data used** to generate records that are subject matter of assurance engagement.

Advocacy Threats

- **Promoting interests of, or shares in, a client.**
- **Acting as an advocate on behalf of a client in litigation or disputes** with 3rd parties.
- **lobbying in favor of legislation** on behalf of a client.

Familiarity Threats

- A PA **having a close or immediate family member** who is a director or officer of the client.
- **Director/officer of client, or an employee in a position to exert significant influence** over the subject matter of engagement having recently served as engagement Partner.
- An **audit team member** having a **long association with the audit client.**

Intimidation Threats

- Being **threatened with dismissal from a client engagement** or firm because of a disagreement about a professional matter.
- **Feeling pressured to agree with the judgment** of a client **because the client has more expertise on the matter in question.**
- **Being informed that a planned promotion will not occur unless accountant agrees with an inappropriate accounting treatment.**
- **Having accepted a significant gift from a client** and being **threatened that acceptance of this gift will be made public.**

Circumstances that might create threats when undertaking a professional activity:

Self-interest Threats

- **Holding a financial interest in, or receiving a loan or guarantee** from, the employing organization.
- **Participating in incentive compensation arrangements** offered by the employing organization.
- **Having access to corporate assets for personal use.**
- **Being offered a gift or special treatment** from a supplier of the employing organization.

Self-review Threats

PA **determining appropriate accounting treatment for a business combination after performing the feasibility study supporting purchase decision.**

Advocacy Threats

Having **opportunity to manipulate info. in a prospectus** in order to obtain favorable financing.

Familiarity Threats

- A PA being responsible for financial reporting of employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.
- having a long association with individuals influencing business decisions.

Intimidation Threats

- PA or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
 - Application of an accounting principle.
 - Way in which financial information is to be reported.
- An individual attempting to influence the decision-making process of the professional accountant.

Circumstances might be safeguards to address threats:

- Assigning additional time & qualified personnel to required tasks when an engagement has been accepted. (Interest)
- Having an appropriate reviewer, who was not a member of the team, review the work performed or advise as necessary. (R)
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client. (R,A,F)
- Involving another firm to perform or re-perform part of the engagement. (ALL)
- Separating teams when dealing with matters of a confidential nature. (Interest)

MEMBERSHIP OF THE INSTITUTE

On acceptance of application by the Council, the applicant's name shall be entered in the Register and a certificate of membership shall be issued to the applicant.

Disabilities for the Purpose of Membership (Sec- 8)

- (i) has not attained the age of 21 years at the time of his application
- (ii) unsound mind and stands so adjudged by a competent court; or
- (iii) undischarged insolvent; or
- (iv) being a discharged insolvent, has not obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part; or
- (v) has been convicted by a competent Court whether within or without India, of an offence involving moral turpitude and punishable with transportation or imprisonment or of an offence, not of technical nature unless, the CG has, by an order in writing, removed the disability;
- (vi) removed from membership of the Institute on being found on inquiry to have been guilty of professional or other misconduct

Types of Members of the Institute

Associate Member: Any person, whose name has been entered in the Register, shall be deemed to have become an Associate of the Institute and shall also be entitled to use the letters A.C.A. after his name to indicate that he is an Associate Member of the Institute.

Fellow Member: Name of following types of members shall be entered into the Register as a Fellow of the Institute, on payment of such fees along with the application made and granted in the prescribed manner-

- i) An associate member who has been in continuous practice in India for at least 5 years,
- ii) A member who has been an associate for a continuous period of not less than 5 years and who possesses such qualifications as may be prescribed by the Council

Abovementioned members entitled to use the letters F.C.A. after his name to indicate that he is a Fellow Member of the Institute.

Removal of Name from the Register (Sec- 20)

- i) who is dead; or
- ii) from whom a request has been received to that effect; or
- iii) who has not paid any prescribed fee required to be paid by him; or
- iv) any of the disabilities mentioned in Section 8

Restoration of Membership

Application for restoration & requisite fees are made within the same year of removal	Restoration shall be with effect from the date on which it was removed from the Register.
Removal of name under the orders of the Board of Discipline or the Disciplinary Committee or the Appellate Authority or the High Court	Restoration- as per such orders.
In other cases	Restoration shall be with effect from the date on which the application and fee are received.

Penalty for Falsely Claiming to be a Member etc. (Sec- 24)

any person who-

- (i) not being a member of the Institute;
 - a. represents that he is a member of the Institute; or
 - b. uses the designation CA;
- (ii) being a member of the Institute, but not having a COP, represents that he is in practice or practices as a CA,

shall be punishable 1st conviction with fine which may extend to 1000, and on any subsequent conviction with imprisonment which may extend to 6 months or with fine which may extend to 5,000, or with both.

Significance of the COP

No member of the Institute shall be entitled to practise whether in India or elsewhere unless he has obtained from the Council a COP

CA whose name has been removed from the membership, during such period of removal, will not appear before the various tax authorities or other bodies before whom he could have appeared in his capacity as a member of this Institute.

Q: A CAIP has been suspended from practice for 6 months and surrendered his COP during this period. However, he continued to represent clients before income tax authorities. Is this permissible?

- A member cannot take up any practice separable from their capacity as a member of the Institute since they are bound by the Act and its Regulations.

- Representing before income tax authorities is considered an act in the capacity of a CA and member of the Institute. It is PM

Members - deemed to be in Practice

"Member of the Institute shall be deemed "to be in practice" if he,

- (i) engages himself in the practice of accountancy; or
- (ii) offers to perform/ performs service involving the auditing or verification of financial transactions, books, accounts or records, or the preparation, verification or certification of financial accounting and related statements or holds himself out to the public as an accountant; or
- (iii) renders professional services/ assistance in or about matters of principle or detail relating to accounting procedure or recording, presentation or certification of financial facts or data; or
- (iv) renders such other services as, in the opinion of the Council, are or may be rendered by a CAIP;

Explanation - Member who is salaried employee of CAIP or Firm of CA shall deemed to be in practice for the limited purpose of training of article assistants.

Council has passed a resolution permitting a CAIP to render entire range of "Mgt. Consultancy and other Services".

The "Mgt. Consultancy " doesn't include the function of statutory or periodical audit, tax (both direct taxes and indirect taxes) representation or advice concerning tax matters or acting as liquidator, trustee, executor, administrator, arbitrator or receiver. But CAIP can render all the above.

Management Consultancy & Other Services

Financial Management Planning and Financial Policy	Systems Analysis, Design, and Computer Related Services
Capital Structure Planning and Finance Raising Advice	Advisor/Consultant to an Issue Drafting of prospectus, listing agreement, advice on post issue activities, advice on selection agencies w.r.t to issue.
Working Capital Management	Investment Counselling
Preparing Project Reports and Feasibility Studies	Registrar for Share/Securities Transfer
Preparing Cash Budgets, Cash Flow Statements, etc.	Quality Audit
Budgeting including Capital and Revenue Budgets	Environment Audit
Inventory Management, Material Handling, Storage	Energy Audit
Market Research and Demand Studies	Recovery Consultant in Banking Sector
Price-Fixation and Other Management Decision Making	Insurance Financial Advisory Services
Management Accounting, Cost Control, Value Analysis	Insolvency Professional
Control Methods, Management Information, Reporting	Personnel Recruitment and Selection
Business Policy, Corporate Planning, Growth, Diversification	Executive and Wage Incentive Plans
Organization Structure, Human Resources Development	Management and Operational Audits
Valuation of Shares and Business, Merger, Acquisition	

Not Permitted:

Broking	Underwriting	Portfolio Mgt.
Finance advisor, receive commission/fees from mutual fund co.		

Companies not to Engage in Accountancy (Sec- 25)

No company, whether incorporated in India or elsewhere, shall **practise as chartered accountants**.

LLP include Company as partner - **Not allowed**

Cancellation and Restoration of COP

COP shall be liable for cancellation, if:

- name is removed** from the Register; or
- Council is satisfied, after giving an opportunity of being heard, that such **certificate was issued on the basis of incorrect**, misleading or false information, or by mistake or inadvertence; or
- a member has **ceased to practise**; or
- a member has **not paid annual fee** for COP till 30th day of Sept. of the relevant year.

Where a COP is cancelled, surrender the same to the Secretary.

Further, on an **application made & on payment of such fee**, Council may **restore the COP** w.e.f. the **date on which it was cancelled**, & whose application, complete in all respects, together with the fee, is **received by Secretary before the expiry of the relevant year**.

CAIP Prohibited from using a Designation Other Than CA

- Members are **permitted to use the word 'CA'** as prefix before their name irrespective they are in practice or not.
- CAIP can't use any designation other than that of a CA, nor he can use any other description, whether in addition to/ substitution to. **Member who is not in practice and does not use the designation of a CA** may use any other description.

Merchant Banker / Advisor to an issue: Members may obtain registration as category IV Merchant Banker to act as **Advisor or Consultant to an issue**.

In client **Companies' offer documents** and advertisements regarding **capital issue**, name and address of the CA or firm of CA's acting as Advisor or Consultant to the Issue could be indicated under the caption **"Advisor/Consultant to the Issue"**.

Note: Name and address of such CA /firm of CA should not appear prominently.

Members who are also **Directors in Companies, members of Political parties or Chartered Accountants Cells in the political parties**, holding different positions in clubs or other organisations **are not permitted to mention these positions**.

Member **cannot** designate himself as a **Cost Accountant**, he can **use** the letters **A.C.M.A (Associate) or F.C.M.A (Fellow)** after his name, when he is a member of that Institute.

Members are permitted to mention **membership of a foreign Institute of Accountancy**, which has been **recognized by the Council through a Memorandum of Understanding (MoU) / Mutual Recognition Agreement (MRA)** with the said Institute. (South African Institute of Chartered Accountants (SAICA), CPA Ireland, and ICAEW)

It is **improper for a CA** to state on his professional documents that he is an Income-tax Consultant, Cost Accountant, Company Secretary, Cost Consultant or a Mgt. Consultant.

Member are **allowed to appear** before the various authorities including **CLB, ITAT, Sales Tax Tribunal** where the **law has permitted the same**, so far as the designation **"Corporate Lawyer"** is concerned, the Council was of the view that a, a **Chartered Accountant in practice is not entitled to use the designation "Corporate Lawyer"**.

Further, the **members are not permitted to use the initials 'CPA'** (standing for Certified Public Accountant) on their visiting cards.

CAIP who are otherwise eligible **may also practice as Company Secretaries and/or Cost Accountants**. Such members shall, however, not use designation/s of the aforesaid **Institute/s simultaneously** with the designation "Chartered Accountant".

Maintenance of Branch Offices (Sec- 27)

CAIP or a Firm of CA has **more than 1 office** in India, each 1 of such offices should be in the **separate charge of a member of the Institute**. Failure - professional misconduct.

Exemption has been given to members practicing in **hill areas** subject to certain conditions:

- Open **temporary offices in the plains** for a limited period **not exceeding 3 months** in a year.
- Regular office need not be closed** during this period & **correspondence can continue to be made at the regular office**.
- Name board of the firm** in the **temporary office** should **not be displayed at times other than the period such office** is permitted to function as above.
- Temporary office shouldn't** be mentioned in the letterheads, visiting cards or any other documents as a **place of business** of the member/firm.
- Before winter**, member/firm to **inform the Institute** that he is **opening the temporary office** from a particular date and after the office is closed at the expiry of the period of permission, an **intimation to be sent** to the office of the Institute by registered post.

Member being in charge of an office of a CAIP or a firm of such CA's shall be satisfied only if the **member is actively associated with such office**.

Such association shall be deemed to exist:

- if the **member resides** in the place where the **office is situated / he attends** the **said office** for a period of **not less than 182 days** in a year

Council's decisions:

- No bar** on putting **name-plate or a name-board** of an individual member and **not of the firm**.
- Exemption** may be granted to a member or a firm of CAIP to have a **2nd office without 2nd office being under the separate charge of a member** of the Institute, provided-
 - the second office is located in the **same premises**, in which the first office is located or,
 - the second office is located in the **same city**, in which the first office is located or,
 - the second office is located within a **distance of 50 km. from the municipal limits of a city**, in which the first office is located.

A member **having 2 offices** of the type referred to above shall have to declare, which of the **two offices is his main office**, which would **constitute his professional address**.

KYC Norms for CA in Practice

Mandatory in nature and shall apply in all assignments pertaining to attestation functions. The KYC Norms approved by the Council:

Individual/ Proprietor	Corporate Entity	Non-Corporate Entity
General Information	General Information	General Information
Name of the Individual PAN No. or Aadhar Card No. of the Individual Business Description Copy of last Audited FS	Name and Address of the Entity Business Description Name of the Parent Co. in case of Subsidiary Copy of last Audited FS	Name and Address of the Entity Copy of PAN No. Business Description Partner's Names & Addresses (with their PAN/Aadhar Card/DIN No.) Copy of last Audited FS
Engagement Information	Engagement Information	Engagement Information
Type of Engagement	Type of Engagement	Type of Engagement
	Regulatory Information	
	Company PAN No. CIN & DIN Directors Names & Addresses	

Schedules to the Act

Types of Schedules	Part	Clause
First Schedule	Part I: Professional misconduct in relation to Chartered Accountants in practice	12
	Part II: Professional misconduct in relation to Members of the Institute in service	2
	Part II: Professional misconduct in relation to Members of the Institute generally	3
	Part IV: Other misconduct in relation to Members of the Institute generally	2
Second Schedule	Part I: Professional misconduct in relation to Chartered Accountants in practice	10
	Part II: Professional misconduct in relation to Members of the Institute generally	4
	Part III: Other misconduct in relation to Members of the Institute generally	1

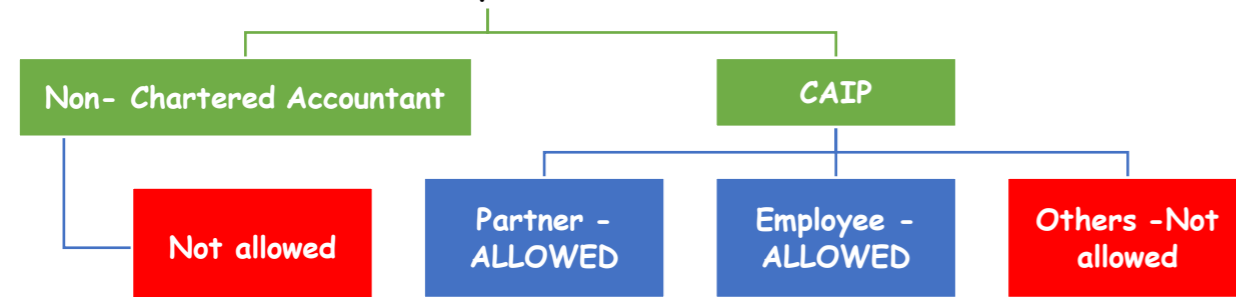
The First Schedule

PART I - Professional Misconduct in relation to CAIP

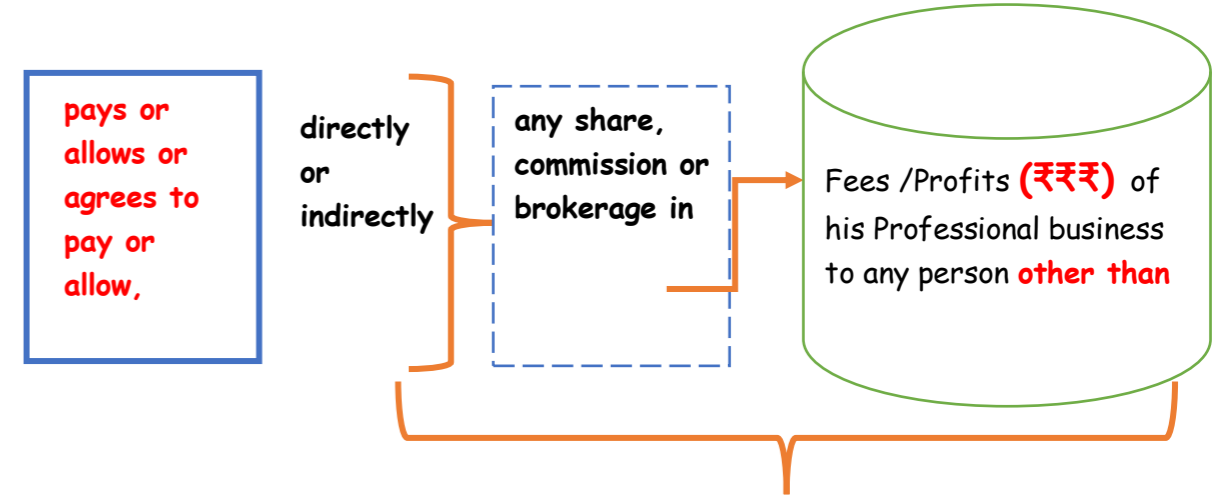
A CAIP is deemed to be guilty of professional misconduct if he:

Clause (1): allows any person to practice in his name as a CA unless such person is also a CAIP and is in partnership with or employed by him.

Who can be allowed to practice in a CA's name?



Clause (2):



- Member of Institute
- Or a Partner
- or legal rep. of deceased partner, retired partner
- or a member of any other professional body or with such other persons having such Qualification as may be prescribed.

Regulation 53 A(1)

Professional bodies	Persons
Institute of Company Secretaries	Company Secretary
Institute of Cost & Works Accountants	Cost Accountant
Bar Council of India	Actuary
Institute of Architects.	Bachelor in Engineering/ Technology/ Architecture/LAW
Institute of Actuaries of India	MBA

Accept such assignment wherein a % of professional fee is deducted by the Govt. to meet the administrative and other expenditure: **Allowed**

Share of Profit/Sale of Goodwill (Death Cases)

Partnership Firm: LR will **continue to receive share** if **Deed provides** for it.

Sole Proprietorship Firm: (**Only lump sum consideration, no % in share**)

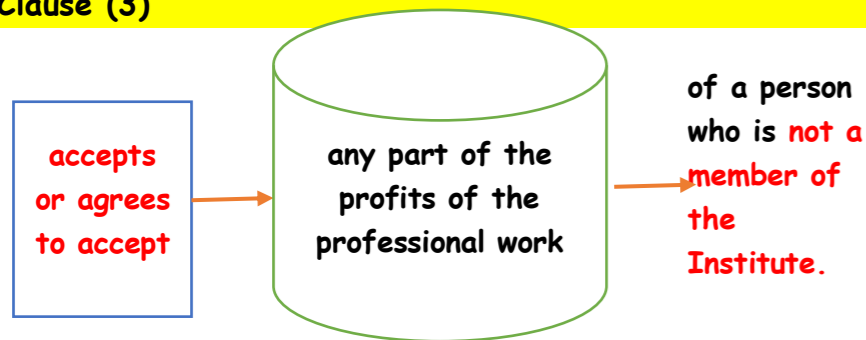
1. Goodwill can be transferred to other CA if:
 - ♦ Sale to be completed within 1 year of death
 - ♦ If dispute of legal heir inform ICAI within 1 year about dispute & name preserved for 1 year from dispute settlement.
2. No sharing of fees between LR & purchaser of goodwill on **death of Sole proprietor.**
3. payments can be made in instalments (if agreement allows)

Sale of Goodwill: Goodwill of a proprietary concern of CA can be sold to another member who is otherwise eligible, after the death of the proprietor.

Legal heir to obtain the permission of the Council **within 1 year** of the death of the proprietor.

- Ex: 1)** CA gave 50% of the audit fees received by him to non CA, under the **nomenclature of office allowance** - Guilty. It is not the nomenclature to a transaction that is material but it is the substance of the transaction, which has to be looked into.
- 2) Offered **2% profits** of ca firm to article by ca **in addition to stipend** : Guilty.
- 3) X, CAIP, died in a road accident. His widow proposes **to sell the practice of her husband to Mr.Y CA** for ` 5 lakhs. The price also includes right to use the firm name - X and Associates. **Mr Y can practice on the name of Proprietor.**

Clause (3)



Such restriction shall not apply to persons/member of professional bodies as prescribed in Regulation 53A.

Referral fees among members in practice: **Allowed** ✓

CA accepting commission//profit sharing from registered valuer for referring valuation assignment: **Not allowed** ✗

Clause (4)

enters into **partnership**, in or outside India, with any person **other than**

- CAIP or,
- Member of any **other professional body** having such qualifications as may be prescribed, or
- including a **resident** who but for his residence abroad would be entitled to be registered as a member under section 4(1)(v) or

whose **qualifications** are recognized by the CG or the Council for the purpose of permitting such partnerships.

Prescribed Regulation 53A (3) and Regulation 53B.

CruX: CS, Cost accountant, actuary, Bachelor in Engineering Architecture/law

Note-Members **can't form Multi-Disciplinary partnerships** until Regulators of such other professionals also permit partnership with CA's.

Where a CA had engaged himself as a partner in two business firms and MD in 2 Companies and was also holding COP without obtaining permission of the Institute: **Guilty** of PM under **Clauses (4) and (11)**

Clause (5)

Secures any professional business 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,

Clause (6)

Solicits

- clients or
- professional work

Either directly or indirectly by

- circular,
- advertisement,
- interview,
- personal communication,
- or by any other means.

Following is not restricted:

- Securing professional work from **another CAIP**; or
- Responding to **tenders or enquiries** issued by various users of professional services or organizations.

Tenders

CAIP shalln't respond to any tender in areas **which are exclusively reserved for CA's** such as audit and attestation services.

Can respond-

- where **minimum fee of the assignment is prescribed** in the tender document itself or
- where the areas are **open to other professionals** along with the CA's. (EMD and security deposit - **allowed** where applicable.)

Advt. of coaching/teaching by CAIP

- Indirect solicitation - Violation of clause.
- Such members **may put**, outside their Coaching/teaching premises- **sign board** (name of Coaching/teaching Institute, contact details and subjects taught only.)
- Size and type of sign board, the Council **Guidelines as applicable to Firms of CA** would apply.

Empanelment for allotment of work

Allowed: only when member is aware that such panel exist.

Not allowed - Roving Enquires

Publication of Books, Articles or Presentation

Any professional attainment(s) - **Not allowed**
Designation "CA" and name of the firm. - **Allowed**

Educational Videos

Allowed- CA Designation. Mentioning CA Firm wherein the member is a partner/ proprietor, contact details or website address - **Not allowed.**

Giving Public Interviews

Member or firm name - **Allowed**
Publicity or professional attainment - **Not allowed.**

Advertisement and note in the press

- Personal canvassing or canvassing for **clients of previous employer** through the help of the employees are also not permitted.
- Members should not advertise for soliciting work or advertise for professional work.

Exceptions:

- A member may **request** another CAIP for professional work.
- A member **may advertise** - changes in partnership or dissolution of a firm, or of any change in address and telephone no's. Bare statement of facts & consideration given to the appropriateness of area of distribution of newspaper or magazine and no. of insertions.
- A member is also permitted to issue a **classified advertisement in the journal/ newsletter of the ICAI** to give info. for sharing professional work on assignment basis or for seeking partnership or salaried employment of an accountancy nature. provided it only contains the accountant's name, address or telephone no., fax no., e-mail address and address(es) of social Networking sites of members. However, **mere factual position of experience and area of specialization**, are **permissible**.

Issue of Greeting Cards or Invitations

Professional designation, status and qualifications - **Not allowed**
Designation "CA" and firm name may be used in greeting cards, invitations for marriages and religious ceremonies and any invitations for opening or inauguration of office of the members, change in office premises and change in telephone numbers, provided that such greeting cards or invitations etc. are **sent only to clients, relatives and friends of the members concerned.**

Sponsoring Activities

- sponsor an event - Not allowed.
However, may sponsor an event conducted by a Programme Organizing Unit (**PoU**) of the ICAI, provided prior approval of Continuing Professional Education (CPE) Directorate of the ICAI.
- Members sponsoring **activities relating to CSR** allowed and may use "CA" designation.
Firm name or CA Logo- Not allowed

Sharing Firm Profile with prospective Client

Not allowed unless it is in response to **proposed client's specific query**

Television or Movie Credits

Sharing name of the member or Firm of CA's for inclusion in Television or Movie Credits **exhibition of name is not made differently** as compared to other entries in the credits.

Scope of representation which an auditor is entitled to make u/s 140(4) of the Companies Act, 2013

Opportunity not being abused to **secure needless publicity**, it does not tantamount directly or indirectly to canvassing or soliciting for his continuance as an auditor. The letter should indicate **his willingness** to continue as auditor if reappointed by the shareholders.

Acceptance of original professional work by a member emanating from the client introduced to him by another member

Not allowed. If any professional work of such client comes to him directly, it should be his **duty to ask the client** that he should **come through the other member** dealing with his **original work.**

Website Guidelines

- ◆ The websites should be on a "pull" model, (info.is provided upon request than being pushed to users.)
- ◆ Info. from the website **not to be shared via email** or other means except on request.
- ◆ Permitted information on the websites: member/firm name, establishment year, addresses, contact details, **services offered (on request)**, partner details, employee details, job vacancies, **no. of articled assistants (on request)**, Nature of **assignments handled (on request)**, & passport-style photographs. **Mention of names of clients and fees is not permissible.**

Note:

- Disclosure of names of clients and/or fees charged, on the website is permissible only where it is required by a regulator,
- "This disclosure is in terms of the requirement of [name of the regulator] having jurisdiction in [name of the country/ area where such regulator has jurisdiction] vide [Rule/ Directive etc. under which the disclosure is required by the Regulator]."
- ◆ Educational content and professional info. can be shared.
- ◆ **Chat rooms** for interaction & **document mgt.** for clients are **allowed.**
- ◆ Linking to **social networking sites is allowed.**
- ◆ Members **can offer online advice** to clients upon request.
- ◆ The website must **not solicit clients**, and its content should adhere to professional ethics.
- ◆ Secrecy of client matters must be maintained, and **no banner advertisements or unprofessional content** should be present.
- ◆ Links to ICAI, govt., regulatory bodies, and professional bodies are allowed. Any **post taken** by any member of firm in these **bodies should not be mentioned on the website.**
- ◆ The website address should be related to the individual/firm's name but not for solicitation.
- ◆ The **info. on the website should match ICAI's records** closely. Q- Bio data of partners on web - Allowed

Online 3rd party platform

- ◆ Some website provide online consultancy services of CA/CA firms.
- ◆ **Only consultancy & advice services** can be offered on these platforms.
- ◆ **CA's contact address shouldn't be given** on the website.
- ◆ **Not to advertise professional achievements or status**, only a statement that they are CAs is allowed.

Advert. in newspaper boxes

Not allowed.

Publication of Name or Firm Name by CA's in the Telephone or other Directories.

- ◆ CA's and their firms may have entries made in telephone directories (in printed or electronic form) by **making a special request or by paying an additional fee.**
- ◆ Entry should appear in the **section/category of "CAs"** only.
- ◆ Member/firm should belong to the **town/city in respect of which the directory is being published.**
- ◆ **Order** of the entries - **alphabetical.**
- ◆ Entry should **not be made in a differential or prominent manner** that gives the impression of publicity/advertisement.
- ◆ **Entries should not be restricted and should be open to all CA's/firms of CA's** in the particular city/town in respect whereof the directory is published.
- ◆ Members can also include their **names in trade/social directories.**

Summarised cases: Clause 6

1. A CA sent **circulares offering profit planning services**, conveying that they were **meant for strangers only**: **Guilty**
2. A CA published an **advertisement congratulating himself** on office opening: **Guilty**
3. A CA's newspaper **advertisement offered services in accounts, tax, labor laws, and mgt**: **Guilty**
4. A CA claimed **expertise in liaising with government departments**: **Guilty**
5. A CA sent a letter for his **firm's empanelment as auditor**, endorsed by a **MP**: **Guilty**

Q. M/s LMN, a firm of CA's, responded to a State Government tender for computerizing land revenue records. They **paid an earnest deposit** of ₹50,000 as part of the tender's terms. As per Clause (6) of Part I of the Chartered Accountants Act, 1949, members can respond to tenders for services other than audit, and they can pay reasonable earnest money/security deposits in non-exclusive areas. **Since computerizing land revenue records falls outside exclusive areas for CA's - Not PM**

Q. **CAIP**, sent letters to **two CA firms**, requesting **professional work** due to his limited practice and clients. Mr. Clever reported this to the ICAI. According to Clause (6) of Part I of the Chartered Accountants Act, 1949, a CA can request professional work from another CA in practice. **Not PM.**

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 University** established by law in India or recognized by the **CG** or
- a **title** indicating membership of Institute of CA's or of any other institution that has been recognized by the **CG** or may be recognized by the Council.

Other Designations

- Income-tax Consultant, Corporate Lawyer, Cost Accountant, CS, Cost Consultant, MP or Municipal Counsellor, Mgt. Consultant/expert on **their professional documents - Not allowed.**
- Members empanelled as **Insolvency Professionals or Registered Valuers** can mention these titles on their visiting cards and letterheads.
- Members can indicate membership of recognized foreign accounting institutes on visiting cards, such as South African Institute of Chartered Accountants (SAICA), CPA Ireland, and ICAEW.

Date of Setting-Up Practice

- **not to mention** on letterheads or professional documents.

Practice as Advocate:

- Members **can practice** as advocates with **Bar Council's permission.**
- In advocacy matters, the designation 'CA' should not be used, but it can be used for other matters i.e., **simultaneous use- Not allowed.**

Practice as Company Secretary/Cost Mgt. Accountant

- Members can practice as CS and/or CMA, but **not simultaneously with the designation 'Chartered Accountant'.**

Notice in the Press about Examination Success

- Allowed but Notices about exam success should not contain **undesirable publicity.**

Appearance on Electronic Media:

- Members **can appear** on TV, films, the internet, and **give lectures, describing themselves as CA's.**
- Special qualifications can be mentioned, but not in an **exaggerated manner.**
- Professional opinions must be objective, not promotional.

Public Announcements with Details of Directors:

- **Mention of CA is allowed**, but don't advertise professional attainments.
- Descriptions about expertise, specialization, or appellations should not be included when companies announce CA as Directors.

Organizing Training Courses, Seminars:

- CA's **can hold** courses, seminars, and invite staff from other firms, but **undue prominence should not be given** of the name of CA on any booklet/ document.

Appointments on public posts

- MP/ MLA etc - use ca designation. Firm name - not allowed.

Logo	Common CA logo.
Photo in magazine Only if free	Allowed
Visiting card	Photo, vision, mission, values - Not allowed.
QR	Allowed but it should not contain any disallowed info.
Size of Sign Board	<ul style="list-style-type: none"> ➤ Glow signs / lights on large sized boards not allowed. ➤ Name boards at residences can be used with the CA designation. Firm name - Not allowed.

Q. CAIP, is a partner in 3 firms. While printing his personal letterheads, B includes the names of all three firms.

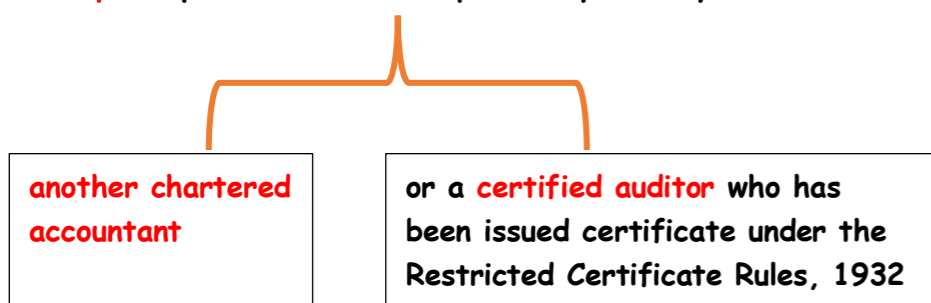
No prohibition against printing the names of the firms on personal letterheads. B is not guilty

Q. A CA allegedly promoted his services after the demonetization policy, offering assistance in converting cash with minimum tax liability through mass SMS.

He was found guilty of professional misconduct under Clauses (6) and (7) of Part I and "Other Misconduct" under Clause (2) of Part IV of the First Schedule along with Section 22 of the Chartered Accountants Act, 1949.

Clause (8)

accepts a position as auditor previously held by



without first communicating with him in writing.

Professional Reasons for Not Accepting an Audit:

- **Non-compliance with section 139 and 140** of the companies act, 2013
- **Non-payment of undisputed audit fees (Except sick units) or issuance of a qualified report**

Note

- In case of issuance of qualified report, member may accept audit if he thinks that **attitude of retiring auditor was not proper and justified**.
- If he feels that **retiring auditor qualified report for good** and valid reasons, **refuse to accept audit**. There is no fixed rule which would prevent auditor from accepting appointment offered to him in these circumstances. Before accepting audit, ascertain full facts of case.

Fees pending due to non availability of previous auditor: get DD in the favour of retiring partner equivalent to undisputed amount.

Valid Communication:

- **Company** should be asked whether **retiring auditor had been informed** of intention to change.
- If answer is 'Yes', then **communication** should be **addressed to retiring old auditor**.
- If it is **found that retiring auditor has not been informed & client is not willing to inform**, it would be necessary to **ask reason** for proposed change.
- If **no valid reason** for change, it would be **healthy practice to not accept audit**. If he decides to accept **audit he should address a communication to retiring auditor**.
- **Mere posting of a letter** "under certificate of posting" is **insufficient** to establish communication with the retiring auditor.
- **Positive evidence** of communication reaching the addressee is **essential**.
- **Effective methods** include
 - "Registered Acknowledgement due,
 - "hand-delivery with an acknowledgment,
 - **email acknowledgment** (registered with ICAI/ Last known), or
 - **Unique Identification Number (UDIN)**.

Premises and Address Verification

- Communication returned with "**Office found Locked**" or "**No such office exists** at this address" written on it is **deemed delivered** to the retiring auditor.

Communication Across All Audit Types

- **Communication with the previous auditor**, who is a CAIP, is essential for **all types of audits**, including Statutory, Tax, GST, Internal, Concurrent, and others.
- **Communication for Assignments by Other Professionals: Communicate** even in cases of **assignments conducted by non-Chartered Accountant professionals**.

Time Constraints in Government Audit

- **Equal Application:** While communication with the previous auditor is mandatory for **both govt. and non-govt entities**.
- **Conditional Acceptance:** In cases where time constraints prevent waiting for the outgoing auditor's reply, the incoming auditor **can conditionally accept the appointment** and initiate immediate work. The incoming auditor should clarify in their acceptance letter that their final acceptance hinges on information received from the previous auditor and any professional objections raised.
- He must **hold his reports** until final reply not received.

Summary of case laws: Clause 8

1. A CA sent a registered letter to the previous auditor **after starting the audit:** Guilty.
2. Applies regardless of whether the previous auditor is aware of the appointment.
3. **Knowledge of the previous auditor's understanding does not exempt from compliance.** Incoming auditor bears the onus to communicate with the outgoing auditor.

Q. Mr. X's Failure to Communicate with Previous Tax Auditor
 • Mr. X, a CA, **swiftly initiated a tax audit** after accepting the appointment under Section 44AB of the Income-tax Act, due to the **client's urgency** to file returns.
 • He later **realized he hadn't communicated** with the previous tax auditor and, **to rectify his mistake, sent a registered post** with acknowledgment **before finalizing the tax audit report**.
 • Mr. X is guilty. This clause mandates communication with the retiring auditor **before accepting an appointment**.

Clause (9)

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

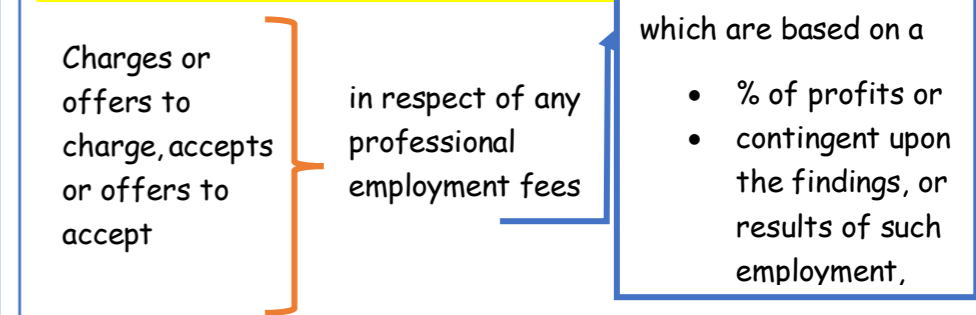
- It **would not be sufficient** for incoming auditor to accept certificate from Mgt. that provisions of above sections have been complied with. It is **necessary to verify** relevant records of Co.
- If **Co is not willing to allow incoming auditor** to **verify relevant records, should not accept** audit assignment.

ESB Guidelines in case of removal/resignation by auditor -chart14

Q: CA Raja declined an auditor appointment for Castle Ltd. Board appointed CA Rani as the auditor in place of CA Raja, which CA Rani accepted.

- Board can appoint an auditor in a casual vacancy under Section 139(8) of the Companies Act, 2013.
- However, **CA Raja's non-acceptance doesn't create a casual vacancy for the Board to fill**. Consequently, it's **treated as if no auditor was appointed during the Annual General Meeting (AGM)**.
- Section 139(10) of the Companies Act, 2013 states that **if no auditor is appointed or re-appointed at an AGM**, the existing auditor continues.
- The **appointment of CA Rani by the Board is legally defective**.
- Clause (9) of Part I of First Schedule to the CA Act, 1949 deems an auditor guilty of misconduct if they accept an appointment without verifying compliance with Sections 139 & 140 of Companies Act, 2013.
- **Conclusion: CA Rani is guilty** of PM for accepting appointment without verifying statutory requirements.

Clause (10)



except as permitted under any regulations made under this Act.

Fees set by a court/other public authority are not considered contingent.

Specific situations where such fee structures are allowed: (Regulation 192)

- (a) For **receivers or liquidators**, fees can be based on a % of asset realization or disbursement.
- (b) Auditors of **co-operative societies** may base their fees on a % of paid-up capital, working capital, or income/profits.

Specific situations where such fee structures are allowed:

- (c) Valuers for **direct taxes and duties** can charge fees based on a percentage of the valued property.
- (d) **Management consultancy services**, as decided by the Council, may use a percentage-based and contingent fee structure.
- (e) **Fundraising services** can charge fees as a percentage of funds raised.
- (f) **Debt recovery services** can base fees on a % of the debt recovered.
- (g) Services related to **cost optimization** can use % age based fee structure linked to the benefits achieved.
- (h) **Other services** or audits may be included as decided by the Council, such as acting as an **Insolvency Professional and providing Non-Assurance Services to Non-Audit Clients**.

Clause (11)

Engages in any business or occupation other than the profession of CA unless permitted by the Council so to engage.

- Provided that nothing contained herein shall disentitle a CA from being a director of a co. (Not being MD or a WTD) unless he or any of his partners is interested in such company as an auditor.
- A member can accept office of a MD or WTD only after obtaining, specific and prior approval of Council. (Not allowed if member and/or his partners and relatives hold substantial interest in such a company.)
- CAIP is permitted generally to be a Director Simplicitor in any Co.
- "Director Simplicitor" means an ordinary / simple Director who is not a MD or WTD and is required only in Board Meetings and not paid any remuneration except for attending such meetings.
- Relative means husband, wife, brother or sister or any lineal ascendant or descendant of that member;
- Substantial interest - carrying 20% or more voting power owned by member directly, or Relatives of the member, and/or Concerns where the member or their relatives hold a substantial interest.

General Resolution permits CAIP to engage in various occupations without specific permission from the Council. Permitted activities:

1. Employment under CAIP or firms of CA's.	8. Acting as Notary Public, Justice of the Peace, Special Executive Magistrate , and similar roles.
2. Private tutorship .	9. Part-time tutorship under the coaching org. of the Institute.
3. Authorship of books and articles.	10. Valuation of papers , acting as paper-setter, head-examiner, or moderator for any examination.
4. Holding of a Life Insurance Agency License for the limited purpose of receiving renewal commissions.	11. Editorship of professional journals .
5. Attending classes and appearing for any examination .	12. Acting as Surveyor and Loss Assessor under the Insurance Act.
6. Holding public elective offices such as (M.P.), (M.L.A.), and (M.L.C.).	13. Acting as a recovery consultant in the banking sector.
7. Holding honorary leadership positions in charitable-educational or other non-commercial organisations.	14. Owning agricultural land and engaging in agricultural activities.

Specific Resolution : Business or occupations that CAIP may engage in, but they require specific and prior approval from the Council for each case. Summarized list:

1. Full-time or part-time employment in business concerns , provided that the memb. and/or their relatives don't hold a "substantial interest" in such concerns.	6. Part-time or full-time lectureship for courses other than those related to the examinations conducted under ICAI .
2. Full-time or part-time employment in non-business concerns .	7. Part-time or full-time tutorship under any educational institution other than the coaching org. of the ICAI .
3. Holding office of MD or a WTD in a BC provided that the memb. and/or their relatives don't hold substantial interest in such a concern.	8. Editorship of journals other than professional journals .
4. Interest in family business concerns , including interests acquired through inheritance, succession, or partition of the family business, or concerns in which the member has acquired an interest due to relationships, but where no active part is taken in management .	9. Any other business or occupation for which the Executive Committee believes that permission may be granted.
5. Interest in an educational institution .	

Notes.

1. **Council can refuse permission** for certain **activities** even if they fall within the **defined** categories & can make **case-specific decisions** based on individual circumstances.
2. **Auditor of a subsidiary co. cannot simultaneously be a director of its holding co.** to maintain auditor independence. **Ethical Standards Board (ESB) noted that Public conscience is expected to be ahead of law.** Members, are expected to interpret the **requirement as regards independence much more strictly than what the law requires** and should not place themselves in positions which would either compromise their independence.
3. **CAIP may act as liquidator, trustee, executor, administrator, arbitrator, receiver, adviser or representative**
4. Subject to control of Council, a CAIP may act as a liquidator, trustee, executor, administrator, arbitrator, receiver, adviser or representative for costing, financial or taxation matter, or may take up an appointment that may be made by the Central Government or a State Government or a court of law or any other legal authority or may act as a Secretary in his professional capacity, provided his employment is not on a salary-cum-full-time basis".
5. A CAIP can have interest in a family business in following manner - as proprietary firm , partnership firm , Karta or member of a HUF if it is inherited/succeeded/partitioned and not created by him, provided he is not actively involved in managing it. Investments must be from HUF funds, and required declarations and evidence must be submitted to the Decentralized Office.

8. Coaching:

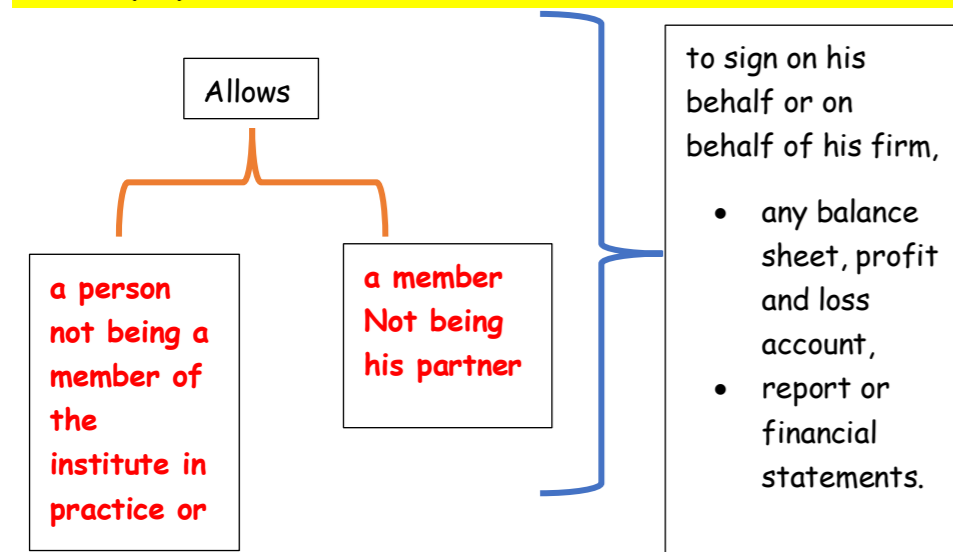
- General Permission: **private tutorship and part-time tutorship under the ICAI coaching**.
- Specific Permission: Allows CA's to engage in **part-time or full-time tutorship under any educational institution** other than the Coaching of the Institute.

Condition attached to both general and specific permissions: **total hours spent on direct teaching for these activities should not exceed 25 hours per week.**

Summarized cases/ Ques/Illustrations

1. A CAIP was authorized to **manage a Co.'s day-to-day affairs** and owned more than 51% of the co. .Later, he applied for **permission to be Executive Chairman** of the company. **It was determined that he engaged in another occupation without Council permission** during the period **before his application**.
2. **CA worked as an AM (Finance) along CAIP** without obtaining the Institute's required permission - guilty.
3. **CAIP** and simultaneously **worked as an LIC agent** under a different name - guilty.
4. CA was in **full-time employment** while also holding a **full-time COP**. Although he **claimed not to have conducted any attestation** functions during this period- Guilty
5. **Partnership with uncle** in textile business - Guilty clause 4 and 11
6. X CAIP appointed director of **co where his partner is statutory auditor** - Guilty
7. **Editor of monthly Journal which analyses performance of stock market and mutual fund schemes**. - Guilty, **analysis of such scheme can't be treated as professional journal**
8. Editorship of "**company audit**" Journal - **Not guilty**
9. **Wrote cookery book - not guilty** (Permits Authorship of any book)
10. CA. AB, a **CAIP is holding the positions** of a promoter director in ABG Pvt. Ltd. and **being a sleeping partner** in his family's garments manufacturing business.
As a Promoter Director: CA. AB is **not guilty of PM** for his role as a promoter director. No prohibition on CA's being promoter directors or signatories to the MOA & AOA of a co.
As a Sleeping Partner: CA. AB is **guilty of PM**. **Prior approval** from the Council to engage in any business or occupation.
11. CA holds a COP & has 4 articulated clerks. He **accepts a full-time lecturer** position in a college and **becomes a business partner** with his brother. Guilty - he did not obtain specific and prior approval.
12. CAIP becomes the **executive chairman** of a Software Co. on 01/04/19, 2019. He **applied for permission on 10/04/19**. - Guilty
13. Trading in commodity derivatives, is not covered under general permission. - Guilty
14. Sold Domain for royalty - Guilty
15. CAIP may be an **equity research adviser**, but he cannot publish a **retail report**.

Clause (12)



Note - CAIP+ Partner (Not employee)

Power to sign routine documents, which don't require expressing a professional opinion or authentication, can be delegated. These instances include:

1. Issuing **audit queries** during an audit.
2. Requesting **info. or sending questionnaires**.
3. Sending **letters with draft observations** or FS.
4. **Initiating and stamping vouchers and schedules** prepared for audits.
5. Handling **routine correspondence** with clients.
6. Issuing **memorandum** for **cash verification** or **physical verification** and recording their results.
7. Providing **acknowledgments** for **records produced**.
8. Generating **bills** and **issuing acknowledgments** for money receipts.
9. **Handling routine matters** in **tax practice**, subject to the provisions of Section 288 of the Income Tax Act.
10. Any **other tasks related** to **office administration** and **routine work** in accountancy practice.

Note that revised SA 700 mandates mentioning **Membership No. and Firm Registration No.**, and members should follow the **UDIN Guidelines**.

Example:

1. S, a CAIP, **gives power of attorney to an employee CA** to sign reports and FS on his behalf - **Guilty**.
2. Directed his assistant to Sign stock certificate/Issue of Net worth certificate - **Guilty**.
3. Directed his assistant to attend GST proceedings for client as authorised representative - Not guilty.

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

A member of the Institute (other than a member in practice) shall be deemed to be guilty of PM, if he being an employee of any company, firm or person-

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 CA 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.**

Example: Mr. 'C,' a CAIP and an employee, recommended a lawyer to his employer. The lawyer paid Mr. 'C' a **referral fee** as gratitude from the professional fee. - **Guilty**.

PART III - Professional 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 professional misconduct, if he -

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.

Example:

1. CA continued to **train an articled clerk** even after his Institute **membership was revoked**. He also **didn't respond to the Institute's inquiries** about this matter. Guilty under Clause (2) of Part III of the First Schedule.
2. Mr. 'G', **while applying for a COP, didn't fill in the columns which solicit info. about his engagement** in other occupation or business, while he was engaged in a business - Guilty.

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

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he -

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.

Example:

1. YKS & Co appointed as a **concurrent auditor** of a bank. Ca of firm **used his influence to obtain a loan** and subsequently **failed to repay it**. This act, unrelated to his professional work, **brings disrepute** to the profession and the ICAI: Guilty
2. CA had fraudulently **availed large bank limits for various companies/firms**, using assets in **his name** and others as collateral. He **failed to inform the Institute about his roles as Proprietor/Director of these entities**, PM under Clause (11) of Part I of First Schedule and 'Other Misconduct' under Clause (2) of Part IV of First Schedule.

- CA didn't disclose that his name had been removed from the Register of Members due to non-payment of fees. He continued to sign audit reports and conduct audits, resulting in professional and other misconduct under Clause (1) of Part II of the Second Schedule and Clause (2) of Part IV of First Schedule.
- CA falsely verified Form No.32 and fraudulently affixed a digital signature for a company's director appointment: Guilty.
- CA Preeto, who withdrew ₹2,75,000 from her bank account, including ₹2,70,000 inadvertently credited to her account by the bank, and later contested the bank's claim for the amount with interest: Guilty
- CAIP took a loan against his personal investments from a bank and issued two cheques for loan repayment. However, both cheques bounced due to insufficient funds: Guilty.
- Engages Article assistant for election campaigning - Guilty
- Approached manager for loan and told if loan is sanctioned CA will file manager return for free - Guilty.

THE SECOND SCHEDULE

Part 1: Professional misconduct in relation to members of the Institute in practice

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he-

Clause 1

Discloses Information acquired in the course of his professional engagement to any person other than his client without the consent of his client or otherwise than as required by any law for the time being in force.

- Statutory auditor can seek clarifications from branch auditors but doesn't have direct access to their working papers.
- Auditors can rely on another auditor's work without accessing their working papers.
- Auditors may choose to share portions of their working papers with the client.
- Section 143(12) of the Companies Act, 2013 mandates auditors to report fraud offenses involving company officers or employees to the CG within 60 days. (Not to registrar)
- Disclosure under legal compulsion may not constitute misconduct.

Example

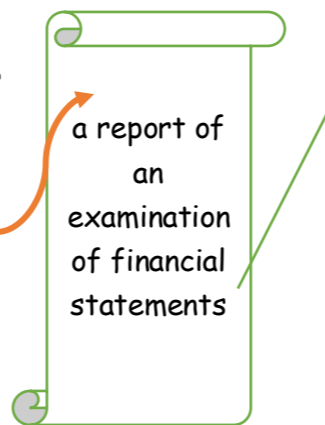
- CA, was invited to present a paper on the Indian Leather Industry at a Chamber of Commerce. During his presentation, he shared vital client information, believing it would benefit the nation's international competitiveness: Guilty
- XYZ Co. Ltd. applies for a bank loan. The bank, noticing you as the auditor, requests an opinion and detailed financial information, which is in your working papers. What should your response be? No Disclosure.

Example

- CA discovers tax fraud documents from years when the client wasn't represented by him. Should he disclose this to tax authorities? : No. Advising the client to make a disclosure regarding the discovered fraud related to past years. The CA is under no obligation to continue representing the client for past matters.
- Mr. Z, a CA, shared vital client business information during a symposium to benefit the nation's international competitiveness. - Guilty

Clause 2

Certifies or submits in his name or in the name of his firm



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 CAIP.

Questions

- Mr. A, a CA, was the auditor of 'A Limited. The company's investments in the Balance Sheet for 2019-20 were shown as ₹10 lakhs, same as the previous year, but later discovered to be only ₹25,000, inflated for obtaining a higher bank loan.

CA is guilty of misconduct if he certify a FS without proper examination, fail to exercise due diligence, or are grossly negligent in their duties.

While the primary responsibility for investment verification lies with the management, auditors must verify physical existence and valuation, which was neglected for two years in this case.

Auditors should not blindly rely on management's representations. Therefore, Mr. A is held liable for professional misconduct under Clauses (2), (7), and (8) of Part I of the Second Schedule.

- CA issued false certificates to various parties for past exports, receiving monetary consideration in return, without verifying any supporting records or documents. These fraudulent certificates enabled unscrupulous importers to obtain import licenses, evade customs duty, and cause a significant loss of government revenue amounting to several Crores of Rupees.

Guilty of professional misconduct under clauses (2), (7), and (8) of Part I of the second schedule.

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.

CA:

- can be involved in preparing profit or financial forecasts and reviewing them. (s
- discloses in their report the information sources, the basis of the forecasts, and the major assumptions used in creating the forecasts.
- should not vouch for the accuracy of these 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.

Notes

- Above clause is applicable to all types of attest function. such as Tax Audit, GST Audit, Concurrent Audit of Banks, Audit of non-corporate borrowers, etc.
- CAs in employment can't certify the FS of the company where they work.
The term "FS" includes reports and certificates any attest function as required by law or for income-tax purposes.
Not applicable on statements prepared by employed members solely for their employers' internal use and are not intended for external authorities.
- CAs cannot express an opinion if:
 - They are owners or partners in the business under audit.
 - Their partner or relative has substantial interest in the business under audit.
 - They or their partner or relative are directors or employees of the company being audited.
- A statutory auditor cannot simultaneously serve as the internal auditor of the same entity.
- An internal auditor cannot be the tax or GST auditor of the same entity.
- After completing a tenure as a director or resigning from a company, a CA cannot accept an audit assignment for that company for a period of 2 years.

7. Not allowed:

- Accept the role of an auditor for a college if they work as part-time lecturers in that college.
 - Accept the position of an auditor for a Trust if their partner is either an employee or a trustee of that Trust.
8. CA's cannot engage in bookkeeping for their clients.
9. They are allowed to perform cost evaluation for clients they are auditing but cannot conduct cost audits.

Cases

- CA Dev issued a 'Turnover Certificate' for M/s. ASAS Traders, of which his brother was the proprietor: **Guilty**
- Mr. Shah, a CA, certified FS of a co. where his wife is a Director with substantial interest. **Guilty**
- CA Firm was appointed to evaluate product costs for a company. One partner of the CA firm was a Non-Executive Director of the company: **Does not constitute misconduct.**

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 FS where he is concerned with that FS in a professional capacity.

Examples - Guilty in the following

- CA failed to report to the shareholders about the non-creation of a sinking fund as per the Debenture Trust Deed.
- CA did not disclose that a large amount of loans had been given out of the funds of an Employees Provident Fund to the Employer Company, which contravened Provident Fund Rules.
- Mr. Joe, a CA during the audit of M/s XYZ Ltd. found that the company had taken a loan of ₹10 lakhs from the Employees Provident Fund, which was not reflected in the books of account. However, he ignored this information in his report

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.

Cases

- Co. didn't provide for depreciation as required by co. law, & the CA was aware of this fact but didn't mention it in his report: **Guilty**

- Auditor of a co. incorrectly stated the authorized capital in the audit report, mentioning a lower amount than the actual authorized capital. Also he failed to report on the allotment of equity shares that exceeded the authorized capital at the time: **Guilty**
- Failed to disclose contingent liabilities related to a corporate guarantee given to a group co. in the FS: **Guilty**
- A CAIP represented a co. before tax authorities. He submitted info, and explanations to the authorities on behalf of his client, which were later found to be false and misleading: **Not Guilty**

Clause (7)

does not exercise due diligence, or is grossly negligent

in the conduct of his professional duties.

Cases/Examples - Guilty in the following

- CA audited 'New Era,' a Haryana daily, and certified its circulation figures using the MIS without inspecting the books of accounts: **Guilty**
- Failure to indicate the mode of valuation of investments in shares and not drawing attention to the inclusion of uniforms in the depreciation account.
- Wrongly certifying the increase in Paid-up Share Capital without proper evidence: Clauses (7), (8), & (9)
- Failure to report unrecorded entries in the bank pass book.
- Issuing a certificate without verifying the facts, relying on an articulated clerk.
- Failure to check bank balances and obtain certificates from bankers. Clauses (7) & (8)
- Failure to disclose total indebtedness & alterations in bank books.
- Failure to provide separate notes in the audit report.
- Not submitting audit reports on time.
- Issuing 2 different certificates with varying figures: (7) & (8)
- Negligence in auditing a significant prior period adjustment: (7), (8), & (9)

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.

Cases/Examples - Guilty in the following

- CA issued a circulation certificate for a periodical without thoroughly examining how the circulation was being maintained. He didn't review financial records, bank statements, or evidence of payment for printers' bills.

- CA failed to report a discrepancy in the books of a client involving a land transaction. He didn't report discrepancy in the audit report, and the CA failed to provide evidence for not qualifying the appearance of a housing loan in the FS. Clauses (6), (7), and (8) of Part I of the Second Schedule.

Clause (9)

Fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

Cases/Examples - Guilty in the following

- Audit of Listed Companies: SEBI mandates that statutory audit of listed companies must be conducted by auditors who have undergone Peer Review by the Institute and hold a valid certificate from the Peer Review Board. Guilty under
 - clause 9 of Part I of the second schedule
 - Clause 1 of Part II of second schedule
- Unique Document Identification Number (UDIN) mandatory for all Corporate/Non-Corporate Audit, Attest, and Assurance functions.
- CA failed to conduct sample checking of bank accounts, vouch for transactions, and relied on assistants for auditing work: Guilty Clauses 7, 8, and 9.
- CA conducted incomplete and inadequate audits, missing key checks and balances: Clauses 7, 8, and 9.

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.

Cases/Examples - Guilty in the following

- Advances received for services to be rendered don't fall under Clause (10)
- Funds received for short-term expenses (e.g., statutory fees, stamp paper purchase) that will be spent within a reasonably short time need not be placed in a separate bank account.
- Funds received by a CA in roles like trustee, executor, or liquidator must be placed in a separate bank account immediately.
- Refund voucher issued by the Income Tax Department in the client's name was wrongly credited to his own bank account: Clauses (7) & (10)
- Converting a Savings Bank account in his individual name into a joint account with the client without the client's consent. Fraudulently discharged 3 Fixed Deposit Receipts (FDRs) in the client's name: Guilty Clause (10)

Part II: Professional Misconduct in relation to members of the Institute in generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of PM, if he

Clause (1)

contravenes any of the **provisions of this Act or the regulations** made there under or any **guidelines** issued by the Council.

Examples

1. Stipend to be **paid on monthly. No Deferred payment system** allowed even **interest agreed/ Paid**.
2. Agreement to **pay stipend** to articles on **annual basis**: Guilty
3. **Premium** from **Articled Clerks** - Guilty
4. Can train **max 10 articles** together
5. Article should **work minimum 35 hrs a week & Max 45 hrs a week**.
6. Accepting a **loan from an article or his relative or from firm** where article/relative is interested.
7. Taken **article under internship** even though there is **no vacancy** in the firm & article came to know Articleship deed not registered: Guilty

Clause (2)

being an **employee** of any **co., 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.

Defalcation and embezzlement of moneys received in professional capacity amounts to fraud (Covered in SA-240) & such member will be deemed to be guilty of professional misconduct under this clause.

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

Clause (1)

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:

Conduct of a Member being an employee

A **member** of Institute **who is an employee** shall **exercise due diligence and shall not be grossly negligent** in the conduct of his duties.

Maintenance of books of account

CA **didn't maintain books of account** for his professional earnings on the ground that his **income is less than the limits** prescribed u/s 44AA of the Income Tax Act, 1961.

A member of the Institute in practice or the firm of CA of which he is a partner, **shall maintain and keep** in respect of his / its professional practice, **proper books of account** including the following-

- (i) a **Cash Book**;
- (ii) a **Ledger**.

Doesn't matter whether section **44AA** of the Income Tax Act, 1961 **applies or not**. Here, **CA is guilty of PM**.

Tax Audit Assignments under Section 44AB of the Income-tax Act, 1961:

- A CAIP **can't accept more** than the **"specified number of tax audit assignments"** in a F.Y.
- **"Specified number of tax audit assignments"** is **60** for individual CA or proprietary firms, regardless of the type of assesses.
- For a **firm of Chartered Accountants**, the limit is **60 tax audit assignments per partner**.
- Audits conducted under **Section 44AD, 44ADA, and 44AE** of the **Income Tax Act** are **not counted in the specified limit**.
- **Each year's audit** is considered a **separate assignment**.
- Auditing a **concern's head office and branch offices** = 1 assignment.
- If there are **10 partners** in a firm of CA in practice, then all the partners of the firm can **collectively sign 600 tax audit reports**. This **maximum limit of 600 tax audit assignments** may be **distributed between the partners** in any manner whatsoever. For instance, **1 partner can individually sign 600 tax audit reports** in case **remaining 9 partners are not signing any tax audit report**.

Auditing one or more branches of the same concern = 1 assignment.

Part-time practicing partners of a firm are not counted towards the firm's tax audit assignments. (Part time COP)

Appointment of an Auditor in case of non-payment of undisputed fees

- ❖ A CAIP **can't** accept appointment as an auditor of an entity if the **undisputed audit fee owed to another CA for statutory audit** under Companies Act, 2013, **or other statutes, hasn't been paid**.
- ❖ Above Prohibition doesn't apply to "sick units," defined as entities **registered for at least 5 years**, with **accumulated losses exceeding their entire net worth**.
- ❖ **Undisputed audit fee includes** any **related audit expense** incurred by auditor.

Specified number of audit assignments

- ❖ CAIP **can't hold more than the "specified number of audit assignments"** of Companies under **Section 141 of the Companies Act 2013** at any time. (**Sec 141 - 20 audits**)
- ❖ Specified no. of audit assignments is **30 for individual CA excluding one-person Companies and dormant companies**.
- ❖ **No. of partners in a firm** at the **time of accepting an audit assignment is considered**.
- ❖ CA in **full-time or part-time employment elsewhere** are **not counted** for determining the **specified number of audit assignments** for firms.

Appointment as Statutory auditor

- ❖ A CAIP **can't accept** the appointment as a **statutory auditor of (PSUs), Govt. Companies, Listed Companies, and other Public Companies** with an **annual turnover of ₹50 crores or more** if they **accept any other work, assignment, or service related to the same entity(s)** with **remuneration exceeding statutory audit fee**.
- ❖ These **restrictions apply to fees** for other work, services, or assignments **payable to the statutory auditors and their associated entities**.
- ❖ **"Other work" or "service" or "assignment"** includes Management Consultancy and all other professional services permitted by the Council **but excludes**
 - ◆ **audit under any other statute,**
 - ◆ **certification work required by statutory auditors,**
 - ◆ **and representation before an authority.**

Question

B is auditor of Z Ltd., which has a ₹200 crore turnover, with an audit fee of ₹50 lakhs. Z Ltd. offers auditor B a management consultancy assignment for ₹1 crore during the year. B seeks advice on accepting the assignment.

Answer: According to the Council General Guidelines, accepting the management consultancy assignment for ₹1 crore while being the statutory auditor for Z Ltd. would **constitute misconduct**.

Appointment of an auditor when he is indebted to a concern

- ❖ A member of the Institute in practice, a partner of a practicing firm, or a relative of such member or partner can't accept the appointment as an auditor of a concern if they are indebted to the concern or have given guarantees or provided security related to the indebtedness of a third party to the concern.
- ❖ The limits for indebtedness are fixed in the statute, and in other cases, it should not exceed ₹100,000.
- ❖ Advance fees - Not allowed.
- ❖ Progressive Fees - Allowed
- ❖ As per Companies Act - Indebtedness - 5 lacs, Guarantee or security - 1 lacs

Unique Document Identification Number (UDIN)

- ❖ ICAI implemented the UDIN system to combat false certification, unauthorized attestation, and the issuance of fake certificates.
- ❖ Members of the ICAI in practice are required to generate a UDIN for various types of documents, certificates, GST and Tax Audit Reports, and other Audit, Assurance, and Attestation functions. (Mandatory)

Guidelines for Corporate Form of Practice

- ❖ Members in practice are allowed to hold office as MD, WTD, or Manager of a body corporate exclusively engages in Management Consultancy and Other Services permitted by the Council.
- ❖ Such members can maintain a full-time COP while being part of the Management Consultancy Company.
- ❖ There is no restriction on the equity holding of members or their relatives in the co.
- ❖ These members are considered to be in full-time practice and can continue to perform attest functions in their individual capacity or in a Proprietorship/Partnership firm.
- ❖ The Management Consultancy Company's name - distinct name & Registered with the Institute.

Ethical Compliance on corporate form of practice

- ❖ Not to accept internal audits or book-keeping or other assignment from entity where practitioner or firm is auditor.
- ❖ Ceiling limits on non-audit fees, is applicable to it.
- ❖ Management Consultancy Companies must comply with clauses (6) & (7) of Part-I of First schedule.

Networking

Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, profit or cost, professional resource.

Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records;
- Partners and staff;
- Audit manual
- Training courses and facilities

Forms of the Network:

- ❖ Mutual entity which will act as a facilitator for constituents of Network.
- ❖ Partnership firm subject to the condition that the total no of partners does not exceed 20.
- ❖ Limited Liability Partnership.
- ❖ Company
- ❖ Sole Practitioner/proprietor, partnership or any such entity as may be permitted

Note: A firm is allowed to join 1 network. Firms having common partner shall join only 1 network.

Approval process

- ❖ Network must have unique name & requires approval from Institute.
- ❖ To distinguish it from a Chartered Accountants' firm, the name should include "& Affiliates" after the network's name.
- ❖ Use of "& Co." or "& Associates" is not allowed. An application for name approval, Form 'A', is required.
- ❖ Names of the network can be found in Appendix II.
- ❖ Even if a name is initially approved, the Institute can withdraw its approval if it is later deemed undesirable.
- ❖ Institute will assess & either approve or reject the network's name. The decision will be communicated to the network & this communication should occur within 30 days from the date of receiving Form 'A.'
- ❖ Merely obtaining approval for the network's name doesn't grant the network the right to practice using that name. Additional steps and compliance required.

Registration of Network with Entities in India

- ❖ After the network's name is approved the Institute will reserve that name for (3) months from the date of approval.
- ❖ Network is required to register itself with Institute by submitting an application in Form B within the 3m period. Failure - cancellation of the assigned name upon the expiration of this period.
- ❖ Registration - mandatory.
- ❖ If different Indian firms are networked with a common Multinational Accounting Firm, they will be considered as part of the same network.

Change in Constitution of Registered Network:

- ❖ Inform the Institute. (Form C - 30 days)

Ethical Compliance for Networks

- ❖ If 1 firm within the network is statutory auditor of an entity, neither the associates (including networked firms) nor the said firm can accept assignments like internal audit/book-keeping that are prohibited for the statutory auditor firm.
- ❖ Non-Audit Fee Guidelines: For a network firm conducting statutory audits (including its associates and firms with common partnerships), the same rules as mentioned in the relevant notification apply. For other firms within the same network collectively, the non-audit fee ceiling is set at 3 times the fee payable for conducting the statutory audit of the same co.
- ❖ Where rotation of firms applies, no member firm of the network can accept appointment as an auditor in place of any retiring member firm within the network.

Recommended Self Regulatory measures:

Branch Audits

The branch audits of a co should not be conducted by its statutory auditors consisting of 10 or more members, but should be conducted by the local firms of auditors consisting of less than ten members.

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.

Joint Audit

- ❖ In the case of large companies, the practice of associating a practicing firm with less than 5 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.

Fees - Disclosure

Firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on the client and concern about losing the client create a self-interest or intimidation threat.

Limit:

If Limit mentioned in this Para exceeds (Threat), Then Audit firm needs to Disclose / report the fact to ICAI (Institute).

Disclosure is required where for 2 consecutive years, Below Limits are exceeded:

Auditee	Gross annual Professional fees from an audit client represent
Non-Public Interest Entities	40% of the total Fees of the Firm
Public Interest Entities	20% of the total Fees of the Firm

If the fees continue to exceed mentioned limits, the firm shall in each such year disclose this fact to the Institute.

Exemption:

1. Total fees received by the firm does not exceed Rs. 20 Lakhs (Including fees for other services rendered) Including different firms in which such member or firm may be a partner to all audit clients
2. Audit of government Companies, public undertakings, nationalized banks, & PFI, or where appointments of auditors are made by Government or Regulators.

Public Interest Entity:

- a. Listed Entity, Or,
- b. Defined by regulation or legislation as a public interest entity for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities.
- c. Banks and Insurance Companies are to be considered as Public Interest Entities.

Non-compliance with Laws and Regulations (NOCLAR):

(A) Committed by:

Instance of Non-Compliance with Laws & Regulation or suspected NOCLAR committed by:

- A client/professional accountant's employing organisation;
- TCWG of client
- Management of a client or employing organisation;
- other individuals working for or under the direction of a client/employing organisation.

(B) Applicability of NOCLAR:

IESBA Code of Ethics

NOCLAR applicable to all assignments (in case of members in practice), and to all employers (in case of members in service).

ICAI Code, applicability of NOCLAR:

- Audits assignment of entities listed in India having NW \geq 250 Cr. (in case of members in practice) and
- Senior Professional Accountants, being employees of listed entities. (in case of members in service)

Senior professional accountant

Means KMP (Directors, officers, senior employees able to exert significant influence over decision regarding acquisition, deployment and control of the employing organisation's human, financial, technological resources)

Notes:

- NOCLAR will be applicable if professional accountant encounters non-compliance or suspected non-compliance in the course of providing a professional service to a client. He is not required to investigate, nor responsible for ensuring complete compliance.
- A professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, he is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement.
- Matters that are clearly inconsequential, or relating to personal misconduct pertaining to business activities of the client not covered.
- Disclosure of the matter would be precluded if contrary to law or regulation.

(C) NOCLAR vs. SA 250:

SA 250	NOCLAR
SA 250 is applicable only on Audit engagements.	NOCLAR is applicable on professional accountants in service and in practice.
SA 250 deals with auditor's responsibilities for: <ol style="list-style-type: none"> Laws having direct effect on determination of material amounts and disclosures in the F.S. & L&R that do not have direct effect on determination of the amounts & disclosures in the F.S., but compliance with which may be fundamental to the operating aspects of business. 	NOCLAR, takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms.
SA 250 does not define stakeholders.	NOCLAR is related to effect of non-compliance on investors, creditors, employees as also general public.
No such provision for imminent breach of law.	If accountant become aware of imminent breach of law that would cause substantial harm to investors, creditors, employees or general public, he shall determine whether to disclose matter immediately to appropriate authority to prevent or mitigate consequences of breach.

D) Following examples would be covered in NOCLAR:-

Fraud, corruption and bribery	Fraud, corruption and bribery
Securities markets and trading	Banking and other financial products and services
Data protection	Environmental protection
Public health and safety	Tax and pension liabilities and payments

E) Responding to NOCLAR

Steps to be taken for Responding

- Obtaining an **Understanding** of the Matter.
- Addressing** the Matter.
- Determining **Whether Further Action Is Needed.**
- Seeking **Advice.**
- Determining Whether to **Disclose** the Matter to an **Appropriate Authority.**
- Imminent Breach.**
- Documentation.**

Documentation Requirements in NOCLAR

- How Mgt/TCWG have responded to matter.
- Course of action of accountant, judgments & decisions made.
- How accountant is satisfied that public interest is fulfilled.

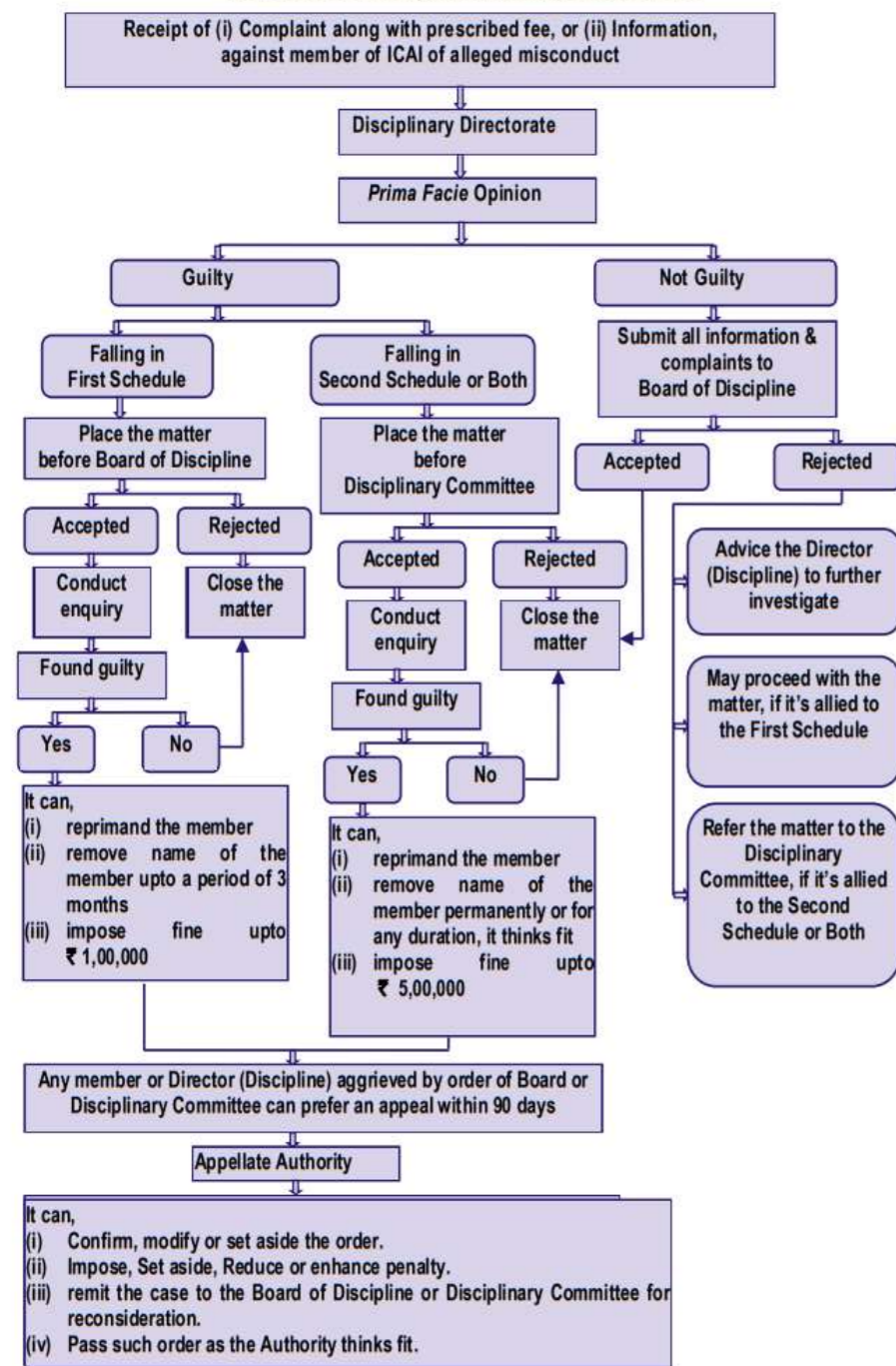
Recent Decisions of Ethical Standards Board:

Allowed	Not Allowed
Equity research adviser (Not - Publish retail report)	Audit of a bank where loan is taken against FD
Hold credit card of a bank where he is auditor (o/s balance not exceeding ₹ 1,00,000)	CAIP can't receive Financial advisor and receive fees/commission from financial institutions
Registration Authority (RA) for obtaining digital signatures	Exercise lien over client documents/records for non-payment of fees
Member of a trust (Not allowed if Auditor is a member of same trust)	Print vision & values behind visiting cards
Mediator/Arbitrator in Court	Take agencies of UTI, GIC or NSDL
Be a settlor of a trust	Hold Customs Brokers Licence
Internal auditor of a company and statutory auditor of its employees PF Fund	Accept stock audit of Any branch of bank where he is statutory auditor
Appear as tax representative on behalf of employer. (Not - Appear as tax representative on behalf of other employees of the employer)	Appointed as Internal auditor of a PF Trust by a Govt. Co. can't be appointed as statutory auditor
	Concurrent auditor of bank 'X' and statutory auditor of bank 'Y' which (sponsored by 'X')
	Internal auditor and tax auditor simultaneously

ESB Guidelines in case of removal/resignation by auditor -

Auditor Resigns	Send communication to BOD + ICAI stating professional reasons. Obligatory for incoming auditor to obtain such copy from BOD & consider it before accepting audit
Auditor willing for reappointment but not appointed	He Shall file with ICAI a copy of statement which is also sent to shareholders by Mgt. of company. Obligatory for incoming auditor to obtain such copy from BOD & consider it before accepting audit
ESB can ask for additional info. if required	
Also applicable to removal of auditor by govt./other statutory bodies	

Flow Chart of Discipline Procedure Mechanism



Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor.

- Accounting and Book-keeping Services
- Internal Audit
- Design and Implementation of Financial Information System
- Actuarial Services
- Investment Advisory Services
- Investment Banking Services
- Rendering of Outsourced Financial Services
- Management Services
- Any Other Prescribed Services

Framework of Internal Byelaws of Network - Bye-laws may contain following -

- Appointment of Managing Committee, from managing partners of member firms. Minimum & maximum number of members of Managing Committee
- Administration of network
- Contribution of membership fees to meet cost of administration of network.
- Identifying partner of member firms to be responsible for assignment (EP)
- Development of training materials for members of network
- Issue of News-letters for staff & clients
- Development of software for different types of assignments
- Development & maintenance of data bases
- Library
- Appointment of technical director
- Determining compensation to member firms for resources
- Peer review of member firms

CA India Logo Guidelines (2023):



- **Logo Design:**
 - ✓ Features blue "CA" letters with an inverted tri-colour tick mark (upside down) on a white background.
 - ✓ **Symbolism:** Blue represents creativity, innovativeness, knowledge, integrity, trust, truth, stability & depth; the tick mark reflects wisdom and value of professional.
 - ✓ 'India' is also added in logo, as it epitomizes Institute's connection to India First approach and commitment to serve Indian economy in public interest.
- **Usage Rules:**
 - ✓ No alteration of font, colour, size, spacing, or dimensions.
 - ✓ Maintain the original colour palette and white background.
 - ✓ Do not rotate, tilt, shrink, or distort the logo.
- **Implementation:**
 - ✓ Transition period of 1 year for replacing existing stationery and signage.
 - ✓ Encouraged use on letterheads, visiting cards, websites, etc.

Summary of Recent Ethical Standards Board Decisions:

1. **Advisory on BRSR:** (CAip) can provide **advisory services** related to BRSR to an **audit client**.
2. **Assurance on BRSR:** CAip can provide **assurance services** on BRSR of an FS audit client.
3. **Preparation of BRSR Study:** CAip cannot prepare BRSR studies for audit clients.
4. **Compilation Engagements:** Statutory auditors cannot engage in SRS 4410 compilation for the same entity.
5. **Skill Development Council Audits:** CAip can perform **assessment/performance audits** of skill development council centres as **management consultancy services**.
6. **Mystery Audit:** CAip can accept **mystery audit** assignments.
7. **Company Portal Information:** CA members can list as **promoter/director** on company portals but cannot mention **professional attainments** or firm names, adhering to **Clause (6) and (7)** of Part I of the **First Schedule**.
8. **Professional Director Role:** CAip can become a **professional director** on the **Board of a Co-operative Bank**.
9. **IFSC/GIFT City Office:** CAip can set up offices in **IFSC/GIFT City** and provide services to **IFSC units** from offices **outside IFSC**.
10. **Firm's Vision on Visiting Cards:** Not permissible to print **firm's vision and values** on visiting cards but allowed on firm profiles for specific requests.
11. **ASM Assignments:** Bank auditors cannot accept **ASM assignments** of the same bank customer simultaneously.
12. **Internal Auditor and Procurement Officer:** CAip cannot hold both roles **simultaneously** in the same organization.
13. **Fee Based on Grant Utilization:** CAip can charge **fees based on % of grant utilized** by educational institutions for purpose. (i.e., Education institute received Grant → CA Appointed to verify that whether Education institute Utilized grant for same purpose).
14. A CAip may be a **Non-executive/independent director** in a **Co-operative Bank**, provided he is not involved into day to day activity of the organization, nor he or any of his partners are interested in the Bank as an auditor.