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#0A6847 - Headings
#C84C32 - Key Words
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Dear Students,

We've worked really hard to make this book as accurate and error-free as possible. We even went through multiple rounds of proofreading to ensure everything is clear and correct. But, being human, there's always a chance that some small errors might have slipped through.

If you do come across any, let us know and help us improve future editions of the book!

Thank you for your trust and support and wishing you all clarity, confidence and success

Warm regards,

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ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

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PDFs and Videos

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1. QUALITY CONTROL

1. SQC 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

A. Scope and Objective

1. SQC 1 requires firms to establish a system of quality control to comply with professional standards, legal requirements, and that the reports issued by the firm are appropriate.
2. The system should include policies to achieve these objectives.
3. This standard applies to all firms, regardless of their structure.
4. The firm should document and communicate the quality control policies, encouraging feedback from personnel on quality control matters.

B. Elements of Quality Control System

The firm's quality control system should address these key elements:

1. Leadership responsibilities for quality.
2. Ethical requirements.
3. Acceptance and continuance of client relationships and engagements.
4. Human resources.
5. Engagement performance.
6. Monitoring.

C. Leadership Responsibilities for Quality

Leadership Responsibilities for Quality

1. SQC 1 requires firms to create policies and procedures to foster a culture where quality is essential for engagements.
2. The firm's CEO or managing partners must take ultimate responsibility for the quality control system. Their example sets a culture of high-quality audit work.
3. Individuals responsible for quality control should have adequate experience, ability, and authority.

Business Strategy and Quality

1. The firm's business strategy must prioritize quality in all engagements, ensuring that quality is non-negotiable.
2. The firm should ensure:
   a. Management responsibilities are assigned so that business considerations don't compromise quality.
   b. Policies on performance evaluation, compensation, and promotion emphasize the firm's commitment to quality.
   c. Sufficient resources are dedicated to developing, documenting, and supporting quality control policies.

D. Ethical Requirements

1.	The firm must establish policies and procedures to ensure compliance with relevant ethical requirements in the Code of Ethics issued by ICAI. The Code outlines fundamental principles

	like integrity, objectivity, competence, confidentiality, and professional behaviour. Principles should be emphasized through: a. Leadership actions b. Awareness and training c. Monitoring d. A process for addressing non-compliance.
2.	Independence Requirements a. Independence is a key requirement for all engagements. b. The firm must ensure that it and its personnel (including contracted experts and network firm personnel) maintain independence as required by the Code of Ethics. c. Policies should enable the firm to: ✓ Communicate independence requirements to its personnel. ✓ Identify and address circumstances or relationships that create threats to independence, ✓ Taking actions to reduce or eliminate the threats, such as applying safeguards or withdrawing from the engagement.
3.	Independence Monitoring Mechanism ✓ The firm should have a mechanism for engagement partners to inform the firm about client engagements and for personnel to report circumstances that threaten independence. ✓ All breaches must be promptly reported to the firm for action. ✓ The goal is to ensure independence requirements are met.
4.	Annual Confirmation of Independence At least annually, the firm must obtain written confirmation from personnel required to be independent, confirming compliance with the firm's independence policies and procedures.
5.	Familiarity Threat SQC 1 highlights the familiarity threat where in using the same senior personnel for a prolonged period on assurance engagements can impair performance. To address this: a. The firm should set criteria for safeguards, considering the engagement's nature and length of service of senior personnel. b. Safeguards may include rotation of senior personnel or an engagement quality control review. c. For audits of listed entities, the engagement partner must be rotated after 7 years, with a mandatory peer review process for such firms to ensure quality.

E. Acceptance and Continuance of Client Relationships and Specific Engagements

1. Obtain Information about client

Before accepting an engagement, the firm should gather important information about the client to evaluate:

a. Integrity of the Client

The firm should evaluate:

i. Reputation of the principal owners, management, related parties, and governance.
ii. The nature of the client's operations and business practices.
iii. The attitude towards accounting standards and internal controls.
iv. Whether the client seeks to keep fees low.
v. Scope limitations.

vi. Possible involvement in money laundering or criminal activities.
vii. Reasons for appointing or replacing the firm.

b. Competence to Perform Engagement

The firm must ensure:

i. Personnel have knowledge of relevant industries or subject matters.
ii. Personnel are familiar with regulatory or reporting requirements or can acquire the necessary skills.
iii. Sufficient personnel with necessary capabilities are available.
iv. Experts are available if needed.
v. Availability of individuals for engagement quality control review.
vi. Ability to meet the reporting deadline.

c. Compliance with Ethical Requirements

The firm must ensure compliance with all ethical requirements.

2. When the above information to be obtained

The firm should gather the necessary information:

a. Before accepting an engagement with a new client.
b. When deciding whether to continue an existing engagement.
c. When considering accepting a new engagement with an existing client.

3. Conflict of Interest

a. If there is a conflict of interest, it should be resolved before accepting the engagement.
b. If information arises that would have caused the firm to decline the engagement earlier, the firm should consider:
   - ✓ Professional and legal responsibilities, including whether the firm must report to the appointing party or regulatory authorities.
   - ✓ Whether to withdraw from the engagement or the client relationship.

4. Withdrawal from Engagement

Policies for withdrawing from an engagement or client relationship should include:

a. Discussions with the client's management and governance regarding appropriate actions.
b. If withdrawal is decided, discussing the reasons with the client.
c. Considering professional, regulatory, or legal requirements for reporting the withdrawal.
d. Documenting key issues, consultations, and conclusions.

F. Human Resources

1. The firm must establish policies and procedures to ensure it has sufficient personnel with the capabilities, competence, and commitment to ethical principles to meet professional standards and legal requirements.
2. The firm should address HR issues such as:
   a. Recruitment
   b. Compensation
   c. Training
   d. Career development
   e. Performance evaluation.
3. The firm should assign responsibility for each engagement to an engagement partner.

4. Responsibilities of the engagement partner must be clearly defined, communicated, and the partner must have the necessary capabilities, competence, authority, and time.
5. The firm should ensure competence and skill in the engagement team and groom personnel for their roles.
6. The firm should assess the performance of partners and team members based on their commitment to quality.

G. Engagement Performance

Consistency in Quality

Consistency in engagement quality is achieved through:

a. Briefing engagement teams on objectives
b. Ensuring compliance with engagement standards
c. Supervising and reviewing performance
d. Appropriately documenting work.

Consultation in Difficult Matters

Consultation should occur in difficult or contentious matters:

a. Concept: Consultation means discussing complex matters with people having specialized knowledge within or outside the firm, for appropriate professional judgment.
b. Internal Consultation: Discussing issues with knowledgeable individuals within the firm.
c. External Consultation: Consulting with external firms or regulatory bodies when needed.
d. Documentation: All consultations and results should be documented.

Engagement Quality Control Review (EQC)

a. Significant Judgments made should be reviewed by an EQCR before issuing the report.
b. The extent of the review depends on the engagement's complexity and risk.
c. EQCR does not reduce the engagement partner's responsibilities.
d. Mandatory for audits of listed entities. For other engagements, the firm should establish criteria for EQC.
e. For audits of listed entities, EQC includes:
    - ✓ Engagement Teams Evaluation of independence
    - ✓ Significant Risk identified and responses to them.
    - ✓ Materiality and significant risk related judgments.
    - ✓ Review of consultations on complex matters, differences of opinion and resolutions
    - ✓ Significant and Disposition of corrected and uncorrected misstatements
    - ✓ Matters to be Communicated with management and governance
    - ✓ Review of working papers in relation to significant judgments and conclusions.
    - ✓ Appropriateness of Report to be issued.

Meaning of Engagement Quality Control Reviewer (EQCRr)

EQCRr is a suitably qualified person (internal or external) who reviews engagement quality.

a. The reviewer must remain objective and not participate in engagement decisions.
b. If there's significant consultation with reviewer, the firm ensures the reviewer's objectivity by appointing another individual if necessary.
c. The firm's policies should allow for replacing the EQCR if objectivity is compromised.

Difference of Opinion

a. Differences of opinion between team members or the reviewer and engagement partner should be resolved before the report is issued.
b. In case recommendation of reviewer are not accepted by the engagement partner and
c. The matter is not resolved to the reviewer's satisfaction, the matter shall be resolved by following procedures established by the firm [such as consulting another firm or professional]

Engagement Documentation

The firm should ensure timely completion of final engagement files:

a. Shall be Completed within 60 days for audit engagements, or within appropriate limits for other engagements.
b. If 2 or more reports on the same subject matter, treat each report separately for assembly of final engagement files. [E.g., Report on Component FI and Report for Statutory purpose on the same FI]
c. Policies should ensure confidentiality, integrity, accessibility, and retrievability of documentation.
d. The engagement quality control review should be documented, showing:
   - ✓ Procedures have been performed
   - ✓ Review is complete before the report is issued
   - ✓ No unresolved matters challenge judgments or conclusions.
e. Engagement documentation is the property of the firm, and the firm may disclose portions to clients without affecting its work validity or independence.
f. Retention period for documentation is typically 7 years for audit engagements or as required by law.

H. Monitoring

1. The firm should ensure its quality control system is relevant, effective, and compliant, including periodic inspections of completed engagements.
2. Monitoring involves:
   - ✓ Evaluating if the system is appropriately designed and effectively implemented.
   - ✓ Ensuring compliance with updated standards, legal, and regulatory requirements.
   - ✓ Assigning responsibility for monitoring to experienced partners or individuals.
   - ✓ Addressing complaints and allegations of non-compliance.
   - ✓ Taking remedial actions when necessary.

2. SA 220 Quality Control for an Audit of Financial Statements

Introduction	
1.	Engagement Partner's Responsibility The engagement partner is responsible for quality control procedures in accordance with SA-220, with the firm subject to SQC 1. Team's Responsibility The engagement team must implement applicable quality control procedures and provide the firm with relevant information regarding independence. Reliance on Firm's System Engagement teams may rely on the firm's system of quality control.
2.	Objective Of Auditor The auditor must ensure that quality control procedures provide reasonable assurance that: 1. Compliance with Standards The audit complies with professional standards, and regulatory/legal requirements. 2. Appropriateness of Auditor's Report The auditor's report is appropriate in the circumstances.
3.	Elements The standard outlines the engagement partner's responsibilities, including: a. Leadership for Quality b. Ethical Requirements c. Client Relationships and Engagements d. Assignment of Teams e. Engagement Performance f. Monitoring
4.	Leadership Responsibilities for Quality The actions of the engagement partner shall emphasis: a. Importance to Audit Quality ✓ Ensuring compliance with professional standards, ✓ Compliance with firm's policies, ✓ The ability of the team to raise concerns and ✓ Issue the reports that are appropriate in the circumstances b. The Fact that Quality is essential for performing audits.
5.	Relevant Ethical Requirements The engagement partner must: a. Independence Threats Identify threats to independence and ensure safeguards are in place. b. Reporting Independence Issues Report to relevant persons in firm about independence issues and take appropriate actions (e.g., withdrawal from the audit, where legally permitted).
6.	Acceptance And Continuance of Clients The engagement partner must assess, before accepting a new client or continuing an existing engagement with existing client or before accepting new engagement from an existing client: a. Integrity & Competence

	Assess the integrity of principal owners and the competence of the team, considering resources and time. b. Ethical Compliance Ensure compliance with ethical requirements and evaluate any significant matters from previous audits.
7.	Assignment of Engagement Teams Ensure the engagement team and any experts have the competence and capabilities to perform the audit in accordance with standards, legal and regulatory requirements.
8.	Engagement Performance The engagement partner must ensure: a. Direction, supervision, and performance are in line with professional standards. b. The auditor's report must be appropriate for the situation. c. Review audit documentation to ensure adequate evidence supports the conclusions before issuing the report. d. Ensure appropriate consultation takes place on difficult and complex contentious matters within or outside the firm as necessary.
9.	Engagement Quality Control Review For audits of listed entities and others, the engagement partner must: a. Appoint Reviewer Ensure an engagement quality control reviewer is appointed. b. Discuss Significant Matters Discuss significant audit matters with the reviewer. c. Do Not Date till Review Do not date the auditor's report until the quality control review is completed. d. Reviewer's Evaluation The reviewer evaluates significant judgments made, including: ✓ Discuss significant matters with the engagement partner. ✓ Review financial statements and the proposed auditor's report. ✓ Review selected audit documentation to support judgments made. ✓ Evaluate if the auditor's report is appropriate based on the work performed. e. For Listed Entities The reviewer should additionally consider: ✓ The team's evaluation of the firm's independence. ✓ Whether appropriate consultation took place on contentious matters. ✓ Ensure the audit documentation reflects the work done and judgments made and supports the conclusions reached. f. Differences of Opinion ✓ Differences of opinion between team members or the reviewer and engagement partner should be resolved before the report is issued. ✓ In case recommendation of reviewer are not accepted by the engagement partner & ✓ The matter is not resolved to the reviewer's satisfaction, the matter shall be resolved by following procedures established by the firm [such as consulting another firm or professional]
10.	Monitoring The quality control system must include a monitoring process to ensure that policies and procedures are: a. Purpose of Monitoring

	Designed to provide reasonable assurance that the system is relevant, adequate, and effective. b. Engagement Partner's Responsibility ✓ The engagement partner must consider the results of the firm's monitoring process as evidenced in latest information circulated by the firm or network firms and ✓ Whether if any deficiencies noted will affect the audit engagement.
11.	Documentation 1. By Engagement Partner The engagement partner must document the following: a. Issues related to ethical requirements and how they were resolved. b. Conclusions on independence compliance and any relevant discussions with the firm. c. Conclusions regarding acceptance and continuance of client relationships and audit engagements. d. Nature, scope, and conclusions from consultations during the audit. 2. By EQC Reviewer The engagement quality control (EQC) reviewer must document: a. That the required procedures for the quality control review were performed. b. The review was completed before the date of the auditor's report. c. The reviewer must confirm there are no unresolved matters that question the judgments or conclusions made by the engagement team.

3. SQC 1 VS. SA 220

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 audits, reviews of historical financial Information, and other assurance and related services engagements.	It is applicable to audit engagements only.
3	It relates to setting up of a quality control system consisting of policies and procedures for firm as a whole.	It deals with responsibilities of engagement teams to implement quality control procedures 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 professional standards and regulatory and legal requirements so that reports issued by firm or engagement partners are appropriate in circumstances.	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.

4. Mechanisms for Review of Quality Control

Board	Peer Review Board	Quality Review Board (QRB)	National Financial Reporting Authority (NFRA)
By	Constituted by the Council of ICAI	Set up by Central Government, with members nominated by the Central Government and Council of ICAI	Constituted under Section 132(1) of Companies Act, 2013
Objective	a. Ensure compliance with technical, professional, and ethical standards. b. Ensure proper systems are in place, including documentation, to ensure quality assurance services.	a. Recommend improvements for the quality of services provided by members of ICAI. b. Review the quality of services, including audit services. c. Guide members to improve service quality and adhere to regulatory requirements.	a. Monitor and enforce compliance with accounting and auditing standards. b. Oversee the quality of services related to compliance with these standards. c. Investigate audit services under specific regulations.
Purpose	Enhance the quality of professional work, ensuring more reliable and useful audit reports.	Review and improve the quality of services, including audit quality for companies.	Monitor and ensure audit quality for listed companies, insurance companies, banking companies, and other companies as specified by NFRA Rules, 2018.
Scope	Review of systems and procedures in practice units to ensure compliance with technical, professional, and ethical standards and regulatory requirements.	Risk-based approach for selecting statutory auditors for quality reviews. Empanelled technical reviewers conduct audits across the country.	NFRA reviews audit services for specific companies (listed, insurance, banking, etc.) under Section 132(2) and Section 132(4). NFRA Rules, 2018 govern the scope of companies under review.
Peer Review Process	Peer review involves examining assurance engagement records for compliance during the review period.	Review of audit services for members under risk-based approach by empanelled reviewers.	NFRA investigates and enforces compliance for the audit of specified companies, including listed companies, and may take enforcement actions if necessary.

Outcome	1. Unqualified peer review certificate issued if report is satisfactory. 2. Qualified report issued if issues are found, with a follow-up review scheduled.	Suggestions for improving service quality and adherence to regulatory standards. Audit services reviewed for improvement in compliance.	NFRA oversees the audit quality for specified companies and enforces compliance with accounting and auditing standards. Reviews and investigations can lead to regulatory actions.
Limitations	Peer review applies to Practice Units.	QRB reviews audit services for entities outside the scope of NFRA, and those referred by NFRA.	NFRA handles companies under Rule 3 of NFRA Rules, 2018, such as listed companies, banks, and insurers. QRB cannot review services for these entities.

2. GAAP and Auditors Responsibilities

. SA 240 Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A. Meaning of Fraud	
1.	SA 240 Definition Fraud is defined as "An intentional act by one or more individuals (management, governance, employees, or third parties) using deception to obtain an unjust or illegal advantage."
2.	Auditor's Concern Though Fraud is a broad concept, The auditor focuses on frauds that causes MMS in the financial statements.
3.	Fraud vs. Error Misstatements can arise from fraud or error. The key difference is whether the act is intentional (fraud) or unintentional (error).

B. Objectives of SA 240	
1.	Identifying & Assessing Risks The auditor must identify and assess risks of material misstatement in the financial statements due to fraud.
2.	Obtaining Evidence The auditor must obtain S&A audit evidence about assessed risk of fraud and design appropriate responses.
3.	Responding to Fraud The auditor must respond appropriately to identified or suspected fraud.

C. Types of Frauds	
1.	Fraudulent Financial Reporting Intentional misstatements such as omissions or misrepresentation in financial statements.
2.	Misappropriation of Assets Theft or unauthorized use of the entity's assets.

D. Why Fraudulent Financial Reporting	
Intentional misstatements in financial statements to deceive users, including omissions or falsifications.	
1.	Window Dressing Management may manipulate earnings to deceive users about the entity's performance and profitability.
2.	Small Adjustments Growing Bigger Manipulations start with small actions, inappropriate changes, leading to fraudulent reporting due to pressures and incentives.
3.	Pressure and Incentives Pressures, such as market expectations or performance-based compensation, may lead to FFR by MMS in financial statements.
4.	Secure Funding or Avoid Taxes

	Management might also inflate earnings to secure financing or reduce earnings to minimize taxes.

E. How Fraudulent Financial Reporting is Committed	
Fraud can occur through:	
1.	Falsifying or altering accounting records and documentation used to prepare financial statements.
2.	Intentionally omitting or misrepresenting significant transactions or events in the financial statements.
3.	Misapplying accounting principles in amounts, classifications, or disclosures.
4.	Overriding Internal Controls Management overrides internal controls, often using techniques such as: a. Recording Fictitious journal entries at period-end to manipulate results. b. Inappropriate adjustments to assumptions or judgments used to estimate account balances. c. Omitting, advancing, or delaying recognition of events or transactions in financial statements. d. Concealing or not disclosing information that could affect the financial statements. e. Engaging in complex transactions to misrepresent the entity's financial position. f. Altering records and terms related to significant transactions.

F. How Misappropriations are Committed	
1.	Meaning Misappropriation of assets involves the theft of an entity's assets, often by employees in small amounts, but it can also involve management, who are in a position to conceal misappropriations that are difficult to detect.
2.	Ways of Misappropriation Misappropriation can happen in various ways: a. Manipulation of Cash Embezzling receipts such as misappropriating collections on accounts receivable or diverting payments to personal accounts. b. Theft of Assets Stealing assets (physical or intellectual), e.g., inventory for personal use, or disclosing technological data for personal gain. c. Fictitious Transactions Causing the entity to pay for goods or services that were never received, e.g., payments to fake vendors or kickbacks to purchasing agents. d. Personal Use Using entity's assets for personal use, e.g., using assets as collateral for personal loans or loans to related parties.
3.	Along with Misleading Records Misappropriation is often hidden using false or misleading records to conceal missing assets or unauthorized pledges. Note: Although auditors may suspect or identify fraud, they do not make legal determinations regarding whether fraud has occurred.

G. Primary Responsibility to Prevent and Detect Fraud	
1.	Primary Responsibility for Fraud Prevention 1. Responsibility: Fraud prevention and detection is the responsibility of both management and those charged with governance. 2. Fraud Prevention & Deterrence: Management, with oversight from governance, should emphasize fraud prevention (reduce opportunities) and deterrence (encourage the likelihood of detection and punishment). 3. Culture of Ethics: A strong culture of honesty and ethics should be promoted, supported by active oversight from governance.
2.	Responsibilities of the Auditor in Relation to Fraud 1. Audit Objective: To obtain reasonable assurance that financial statements are free from MMS, whether from fraud or error. 2. Inherent Limitations of Audit: a. Limitations: Audits have inherent limitations, so some MMS may not be detected, even with proper planning. b. Significance in Fraud Detection: The risk of not detecting fraud is higher than error due to schemes designed to conceal fraud. c. Concealment and Collusion: Fraud may involve forgery, failure to record transactions, or misrepresentations that are harder to detect, especially with collusion. d. Detection Factors: The ability to detect fraud depends on: ✓ Skill of the perpetrator ✓ Frequency and extent of manipulation ✓ Degree of collusion ✓ Size of manipulated amounts ✓ Seniority of those involved e. Judgment Misstatements: It's difficult to determine if misstatements in judgment areas (e.g., accounting estimates) are caused by fraud or error. f. Risk of Management Fraud: The risk of not detecting management fraud is higher than employee fraud, as they can directly manipulate records and override controls. 3. Maintain Professional Scepticism: ✓ Auditors must maintain professional scepticism, especially regarding the possibility of management override of controls. ✓ They must recognize that procedures effective for detecting errors might not be as effective for detecting fraud.

H. Fraud Risk Factors Involves	
1.	Incentive or Pressure ✓ Pressure to meet unrealistic financial targets or Significant consequences to management on failure to meet targets. ✓ Significant bonus linked to unrealistic profit target may create incentive. ✓ Individuals may also steal assets due to living beyond their means.
2.	Perceived Opportunity ✓ Opportunity exists when an individual believes they can override internal controls, especially if in a position of trust or knowledge of control weaknesses. ✓ Control environment that is not effective may create opportunity

3.	Rationalization Rationalization occurs when individuals justify their fraudulent actions. Some may have values or attitudes that allow them to commit fraud, or they may feel forced to due to pressure.

I. Incentives / Pressures for FFR - Examples	
Economic or operational pressures that can push individuals towards fraudulent reporting.	
1.	High competition or market saturation with declining margins
2.	Vulnerable to changes like technology shifts, product obsolescence, or fluctuating interest rates.
3.	Significant drop in customer demand or increasing industry / economic failures.
4.	Losses that threaten bankruptcy, foreclosure, or hostile takeover.
5.	Recurring negative cash flows or inability to generate cash flows despite.
6.	Rapid growth or unusually high profits compared to industry peers.
7.	Impact of new accounting, statutory, or regulatory requirements.
8.	External pressures to meet expectations from 3rd parties due to: ✓ Profitability or trend level expectations of investment analysts or creditors ✓ Expectations created by management [E.g., Overly optimistic press releases] ✓ Need to obtain additional debt or equity financing ✓ Marginal ability to meet listing requirements or debt repayments ✓ Perceived adverse effects of reporting poor financial results.
9.	Personal financial situation of management or those charged with governance arising from: ✓ Significant financial interests in the entity. ✓ Significant portions of their compensation contingent upon achieving aggressive targets. ✓ Personal guarantees of debts of the entity. ✓ Excessive pressure on management or operating personnel to meet financial targets established by those charged with governance

J. Opportunities for FFR – Examples	
Conditions that allow for fraudulent reporting due to the nature of operations or industry.	
1.	Significant transactions with related parties, especially those not audited or audited by different firms.
2.	Industry dominance allowing manipulation of terms with suppliers or customers
3.	Financial data based on subjective estimates difficult to verify.
4.	Unusual or complex transactions, especially those close to period end.
5.	Operations across borders with different business environments.
6.	Use of business intermediaries without clear business justification.
7.	Unjustified operations in tax-haven jurisdictions.
8.	Monitoring of Management: ✓ Ineffective oversight over F/R Process or ✓ Domination of management without compensating controls.
9.	Complex or Unstable Organisation Structure ✓ Difficulty in deciding individuals controlling interest in the entity. ✓ Overly complex structure involving unusual legal entities. ✓ High turnover of senior management, legal counsel.
10.	Deficient Internal Control Components

	✓ Inadequate control monitoring or ineffective controls over interim F/R. ✓ High Turnover rates or ineffective accounting or internal audit employees. ✓ Ineffective accounting systems and significant deficiencies in Internal controls

K. Attitudes / Rationalizations for FFR	
Ineffective communication of ethical and entity values or Attitudes or ethical standards that promote or allow fraudulent activities.	
1.	Non-financial managers overly involved in accounting policies or estimates.
2.	Known history of legal violations or fraud allegations against the entity or management.
3.	Excessive interest in maintaining or increasing stock price or earnings.
4.	Committing to unrealistic forecasts to analysts, creditors, or third parties.
5.	Management fails to address significant internal control weaknesses in time.
6.	Interest in minimizing reported earnings for tax purposes.
7.	Low morale or dissatisfaction among senior management.
8.	No distinction between personal and business transactions.
9.	Conflicts between shareholders in closely held companies.
10.	Justifying poor or inappropriate accounting practices based on materiality.
11.	Strained relationship between management and the current or predecessor auditor ✓ Frequent disputes with auditors ✓ Unreasonable demands on auditor to complete audit [e.g., Time constraints] ✓ Restrictions on the auditor that limit access to people or information or communication with TCWG ✓ Domineering management behaviour in dealing with the auditor attempting to influence scope of work.

L. Incentives / Pressures for MAA	
Personal or relational pressures that motivate employees to misappropriate assets.	
1.	Personal Financial Obligations Financial pressure on employees or management with access to assets may lead them to misappropriate assets.
2.	Adverse Employee Relationships Poor relationships with the entity, especially for employees with access to assets, may lead to misappropriation. Examples of Adverse Relationships: a. Known or anticipated future layoffs. b. Changes in compensation or benefits. c. Promotions or rewards that do not meet employee expectations can motivate theft.

M. Opportunities for MAA	
Conditions that increase the likelihood of asset misappropriation due to the nature of assets or internal controls.	
1.	Large amounts of cash increase the risk of misappropriation.
2.	Small, valuable, or in-demand inventory items are susceptible to theft.
3.	Assets like bearer bonds, diamonds, or computer chips can be easily stolen and converted to cash.

4.	Small, marketable fixed assets or assets without clear ownership identification can be stolen.
5.	Inadequate Internal Controls Weak internal controls increase the likelihood of asset theft. Examples of Control Weaknesses: ✓ Inadequate Segregation of Duties or Independent checks ✓ Inadequate Oversight of senior management Expenditures ✓ Inadequate oversight on employees responsible for assets. ✓ Inadequate Screening of Employees ✓ Inadequate Record Keeping ✓ Inadequate system of Authorization and Approval ✓ Inadequate Physical Safeguards over assets such as cash, inventory and investments. ✓ Lack of timely Reconciliations ✓ Lack of Proper Documentation ✓ Lack of Mandatory Vacations ✓ Lack of IT Controls Understanding ✓ Inadequate Access Controls over automated records.

N. Attitudes / Rationalizations for MAA	
Attitudes and justifications that allow or ignore the risks of asset misappropriation.	
1.	Disregard need of Monitoring or reducing risk of misappropriation
2.	Disregarding Internal Controls, overriding existing controls and failing to remedy known deficiencies in ICS.
3.	Employee Dissatisfaction with the entity
4.	Sudden Changes in Behaviour or Lifestyle of employees
5.	Tolerance for Petty Theft

O. Evaluation of Fraud Risk Factors	
1.	Fraud Risk Factor Evaluation ✓ The auditor must evaluate whether fraud risk factors are present. ✓ While these factors don't always indicate fraud, they have often been linked to instances of fraud and can signal risks of MMS.
2.	Difficulty in Detecting Fraud ✓ Fraud is often concealed, making it hard to detect. ✓ Although risk factors are helpful, they cannot be ranked easily, and their significance varies. ✓ Some entities may exhibit fraud risk factors without actual risks of misstatement
3.	Professional Judgment in Evaluation Determining the fraud risk factors and whether they affect the financial statement assessment requires professional judgment.
4.	Maintaining Professional Scepticism ✓ The auditor must maintain scepticism throughout the audit, considering the possibility of fraud despite past experience with management's honesty. ✓ Records and documents are typically accepted as genuine unless there's reason to believe otherwise, in which case further investigation is required.

	✓ If responses from management or those charged with governance are inconsistent, the auditor must investigate these inconsistencies.
5.	Discussion Among Engagement Team a. The engagement team must discuss how the entity's financial statements might be susceptible to material misstatement due to fraud, including how fraud might occur. b. This discussion should take place even if the team believes management and those charged with governance are honest.

P. Risk Assessment Procedures for Fraud Risk Identification	
1.	Inquiries of management and others Ask management and others within the entity about fraud risks, how they are identified, and how they are addressed.
2.	Understanding governance oversight Understand how those charged with governance (e.g., board of directors) oversee management's processes for identifying and responding to fraud risks.
3.	Internal control and analytical procedures Review the internal controls set up by management to mitigate fraud and assess unexpected patterns during analytical procedures that may indicate fraud risks.
4.	Evaluate fraud risk factors Evaluate if the information obtained from risk assessment activities suggests the presence of fraud risk factors.

Q. Response to Assessed Risk - At Financial Statement Level	
Overall Responses to address fraud risks at the financial statement level:	
1.	Assign and Supervise Personnel Assign and supervise personnel based on their knowledge, skills, and the risks of material misstatement due to fraud.
2.	Evaluate Accounting Policies Evaluate whether the selection and application of accounting policies (especially subjective measurements and complex transactions) may suggest fraudulent financial reporting or management's effort to manage earnings.
3.	Incorporate Unpredictability Incorporate unpredictability in the selection of audit procedures, including nature, timing, and extent, to address fraud risks.

R. Response to Assessed Risk - At Assertion Level	
Audit Procedures responsive to fraud risks at the assertion level:	
1.	Design Further Audit Procedures Design and perform audit procedures that are responsive to the fraud risks at the assertion level in terms of nature, timing, and extent.
2.	Change Audit Procedures May Change the nature, timing, and extent of audit procedures to obtain more reliable and relevant evidence or additional corroborative information.

3.	For example, of Sales Fraud Risk If management is under pressure to meet earnings expectations, it may inflate sales by entering into sales agreements with terms that delay revenue recognition. In such cases, the auditor may: a. Design External Confirmations Confirm not only the amounts owed but also the details of sales agreements (e.g., date, rights of return, delivery terms). b. Inquire with Non-Financial Personnel Supplement external confirmations with inquiries of non-financial personnel regarding any changes in sales agreements or delivery terms.

S. Audit procedures Responsive to Management Override of Controls	
Management Override of controls is a risk due to management's ability to manipulate accounting records and prepare fraudulent financial statements.	
1.	Fraud Risk from Management Override Management can override controls, creating a risk of material misstatement due to fraud. This is a significant risk in all entities.
2.	Test Journal Entries and Adjustments Test the appropriateness of journal entries recorded in the general ledger and other adjustments made during financial statement preparation.
3.	Review Accounting Estimates Review accounting estimates for biases and evaluate if these biases suggest a fraud risk.
4.	Evaluate Unusual Transactions For significant transactions that seem unusual or outside the normal course of business, evaluate whether they suggest fraudulent reporting or misappropriation of assets.
5.	Perform Additional Procedures The auditor may need to perform additional procedures to respond to the risks of management override of controls.

T. Evaluation of Audit Evidence for Identified misstatement	
1.	Evaluate Analytical Procedures The auditor shall evaluate whether analytical procedures performed to form an overall conclusion about the financial statements indicate any unrecognized risk factors.
2.	Evaluate Misstatements ✓ When the auditor identifies a misstatement, they must assess if it indicates fraud. ✓ If so, the auditor shall evaluate the implications on the audit, especially the reliability of management representations, recognizing fraud is rarely an isolated incident.
3.	Re-Evaluate Fraud Risk If the auditor identifies a misstatement (material or not) that might be the result of fraud and involves management, especially senior management, they must re-evaluate the risks of material misstatement due to fraud and adjust audit procedures accordingly.
4.	Consider Possible Collusion The auditor shall consider if there are signs of collusion among employees, management, or third parties when reconsidering the reliability of evidence previously obtained.
5.	Evaluate Implications of Fraud

	When the auditor confirms or is unable to conclude if the financial statements are materially misstated due to fraud, they shall evaluate the implications for the audit.

U. Circumstances - Auditor is unable to Continue Engagement	
If the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit:	
1.	Determine Responsibilities The auditor must determine the professional and legal responsibilities in the situation, including if they are required to report to persons who made the audit appointment or to regulatory authorities.
2.	Consider Withdrawal The auditor must consider whether it is appropriate to withdraw from the engagement, where withdrawal is legally permitted.
3.	If the Auditor Withdraws a. Discuss Withdrawal The auditor must discuss the withdrawal with the appropriate level of management and those charged with governance, explaining the reasons for the withdrawal. b. Report Withdrawal The auditor must determine whether there is a professional or legal requirement to report the withdrawal and the reasons for it to the person or persons who made the audit appointment or, in some cases, to regulatory authorities.

V. Management Representation in Context of Fraud	
1.	Management Responsibility for ICS Management acknowledges their responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
2.	Disclosed Entities Risk Assessment Results Management has disclosed the results of their assessment of the risk that the financial statements may be materially misstated due to fraud.
3.	Disclosed Info About Frauds Management has disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity, involving management, employees or others that could materially affect the financial statements.
4.	Disclosed Allegations Management has disclosed to the auditor any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators, or others.

W. Communication of Frauds Identified – To Management and TCWG	
1.	Communicate to Management If the auditor identifies fraud or has information suggesting fraud, they must communicate this timely to the appropriate level of management to inform those responsible for preventing and detecting fraud.
2.	Communicate to TCWG ✓ If the auditor identifies or suspects fraud involving management or others leading to a material misstatement, they must communicate this timely to those charged with governance (TCWG).

	✓ Discuss the nature, timing, and extent of audit procedures needed to complete the audit.
3.	Communicate Other Fraud Matters to TCWG The auditor must communicate any other fraud-related matters to TCWG that, in the auditor's judgment, are relevant to their responsibilities.

X. Communication of Frauds Identified – To Regulatory and Enforcement Authorities	
1.	Report to External Party If the auditor identifies or suspects fraud, they must determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity.
2.	Override of Confidentiality The auditor's duty to maintain confidentiality may be overridden by legal responsibilities in certain situations, such as when auditing banks, where the auditor must report fraud to supervisory authorities (e.g., RBI).
3.	Report if Management Fails to Act If management or those charged with governance fail to take corrective action, the auditor may have a duty to report misstatements to authorities.
4.	Reporting Requirements in Specific Cases In some cases, there may be specific provisions in the audit mandate or related legislation requiring the auditor to report fraud, whether discovered during the audit or not.

Y. Documentation under SA 240	
1.	Documentation of Risk Understanding The auditor must document: a. Significant decisions made during the team discussion about the entity's susceptibility to material misstatement due to fraud. b. Identified and assessed risks of material misstatement due to fraud, both at the financial statement level and the assertion level.
2.	Documentation of Responses to Risks The auditor must document: a. Overall responses to the assessed risks of material misstatement due to fraud, including the nature, timing, and extent of audit procedures at assertion level. b. The results of the audit procedures, including those addressing the risk of management override of controls.
3.	Documentation of Communications About Fraud The auditor must document all communications about fraud with management, those charged with governance, regulators, and others.
4.	Documentation of NO - Revenue Recognition Risk If the auditor concludes that there is no risk of material misstatement due to fraud related to revenue recognition, they must document the reasons for that conclusion.

2. SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements

A. Scope and Objective	
1.	Scope SA 250 deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements.
2.	Non-Applicability SA 250 does not apply to other engagements where the auditor is specifically engaged to test and report on compliances with specific laws or regulations. [E.g., Compliance Audits]
3.	Objective The purpose is to help the auditor identify material misstatements in the financial statements due to non-compliances with laws and regulations.

B. Effect of Laws and Regulations on F/s	
	Legal and Regulatory Framework The laws and regulations an entity is subject to affect its financial statements is known as legal and regulatory framework.
1.	Type 1 Laws and Regulations have Direct effect on the financial statements that determine the reported amounts and disclosures in the financial statements.
2.	Type 2 Laws and Regulations have Indirect effect on financial statements or set provisions for business conduct but do not affect financial reporting directly.
	Industry Variance Entities in heavily regulated industries (e.g., banks, chemical companies) face more stringent laws. Others are subject to general laws (e.g., occupational safety).
	Consequences of Non-Compliance Non-compliance can lead to fines, litigation, or other consequences that may affect the financial statements.

C. Objective of Auditor under SA 250	
1.	Obtain sufficient audit evidence on compliance with laws and regulations that have a direct effect on amounts and disclosures in financial statement.
2.	Perform Specific audit procedures to identify non-compliance with other laws and regulations that may materially affect the financial statements.
3.	Respond appropriately to instances of non-compliance or suspected non-compliance identified during the audit.

D. Primary Responsibility of Management for Compliance with L & R	
1.	Management Responsibility It is the management's responsibility, with oversight from those charged with governance, to ensure the entity's operations comply with laws and regulations, including those affecting financial statement amounts and disclosures.
2.	Policies and Procedures Examples of policies and procedures to prevent and detect non-compliance includes: a. Monitoring legal requirements and ensuring operations meet them.

	b. Implementing and maintaining appropriate internal controls. c. Developing, publicizing, and following a code of conduct. d. Ensuring employee training to understand the code of conduct. e. Monitoring compliance with the code of conduct and disciplining non-compliant employees. f. Engaging legal advisors to help monitor legal requirements. g. Keeping a register of significant laws and regulations relevant to the entity's industry and h. A record of complaints.
3.	Additional Oversight in Larger Entities In larger entities, these policies may be supported by assigning responsibilities to internal audit functions, an audit committee, or a compliance function.

E. Responsibilities of Auditor in relation to Laws and Regulations	
1.	Auditor's Responsibility The auditor is not responsible for preventing non-compliance and cannot detect all non-compliance with laws and regulations.
2.	Assurance on Financial Statements The auditor is responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.
3.	Legal and Regulatory Framework The auditor considers the applicable legal and regulatory framework when conducting the audit of financial statements.
4.	Inherent Limitations In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for reasons as below: a. Laws unrelated to F/s Many laws, especially those related to operations, do not affect financial statements or are not captured by the entity's financial reporting systems. b. Concealment of Non-Compliance Non-compliance may be concealed through actions like collusion, forgery, or management override of controls. c. Legal Determination Whether an act constitutes non-compliance is for a court of law to decide. d. Removal from Financial Transactions The further removed non-compliance is from financial transactions, the less likely the auditor is to detect it.
5.	Types of Laws and Regulations SA 250 distinguishes between 2 categories of laws and regulations: a. Type 1 Laws ✓ Laws which have a direct effect on financial statement amounts and disclosures, such as tax and labour laws. ✓ The auditor's responsibility is to obtain sufficient audit evidence about compliance. b. Type 2 Laws ✓ Laws that do not directly affect amounts and disclosures in financial statements, but fundamental for business operations or to avoid material penalties (e.g., operating licenses, solvency requirements, environmental laws).

	✓ The auditor's responsibility is to perform specified audit procedures to identify non-compliance with such laws.
6.	Professional Scepticism ✓ The auditor must remain alert to the possibility that other audit procedures may reveal non-compliance with laws and regulations. ✓ Maintaining professional scepticism is crucial, especially considering the number of laws and regulations that affect the entity.

F. Auditors Considerations and Procedures for Laws and Regulations	
1.	Understanding of Legal and Regulatory Framework The auditor must obtain a general understanding of: a. The legal and regulatory framework applicable to the entity and its industry. b. How the entity is complying with this framework.
2.	Compliance with Type 1 L&R ✓ The auditor must obtain sufficient appropriate audit evidence regarding compliance with laws that have direct effect on material amounts and disclosures in the financial statements. ✓ Examples include laws affecting form and content of financial statement or industry-specific reporting issues.
3.	Audit Procedures for Type 2 Laws For laws that do not directly affect financial statements, the auditor should perform the following procedures to identify instances of non-compliances: a. Inquire management and those charged with governance about compliance with such laws. b. Inspection of any correspondence with regulatory or licensing authorities.
4.	Laws with Fundamental Effect on Operations a. Some laws, if not complied with, could severely affect the entity's operations or its going concern status (e.g., a bank failing to meet capital requirements or an NBFC not meeting RBI registration requirements). b. There are many laws related to the operating aspects of the entity that do not affect financial statements or are not captured by the entity's financial reporting systems. c. Audit procedures should focus on identifying non-compliance with laws that may materially affect the financial statements, as the financial consequences can vary.
5.	Scepticism a. While forming an opinion on the financial statements, the auditor should remain alert to instances of non-compliance or suspected non-compliance with laws that might affect the financial statements. b. The auditor should stay alert throughout the audit to the possibility that other procedures may uncover instances of non-compliance with laws.
6.	Written Representation The auditor must request a written representation from management and those charged with governance confirming that all known instances of non-compliance or suspected non-compliance affecting financial statement preparation have been disclosed to the auditor.

G. Audit Procedures when Non-Compliance is Identified or Suspected	
1.	Aware of Non-Compliance If the auditor becomes aware of non-compliance or suspected non-compliance:

	a. Obtain an understanding of the nature and circumstances of the act. b. Gather further information to assess its possible effect on the financial statements.
2.	Discussion with Management and Governance If the auditor suspects non-compliance, they must discuss the matter with Management and, if necessary, those charged with governance.
3.	Insufficient Information from Management a. If management or governance do not provide sufficient information to support compliance, and the suspected non-compliance could materially affect the financial statements, the auditor should Consider obtaining legal advice. b. Also, the auditor must evaluate the impact of the lack of evidence on the audit opinion.
4.	Evaluation of Non-Compliance The auditor must evaluate: a. The implications of non-compliance on the risk assessment, reliability of written representations, and other aspects of the audit. b. Take appropriate action based on this evaluation.

H. Reporting Non-Compliance to Those Charged with Governance	
1.	Communication The auditor must communicate non-compliance to those charged with governance, unless they are already aware, and the matter is clearly not inconsequential insignificant.
2.	Intentional & Material Non-Compliance If the non-compliance is intentional and material, the auditor must communicate it to governance as soon as practicable.
3.	Involvement of Management or Governance If management or governance is suspected to be involved, the auditor should report to the next higher authority (e.g., audit committee).
4.	No Higher Authority If no higher authority exists or the auditor is unsure if action will be taken, the auditor may need to seek legal advice.

I. Reporting Non-Compliance in the Auditor's Report	
1.	Material Effect on F/S If non-compliance materially affects the financial statements and is not reflected adequately, the auditor will issue a qualified or adverse opinion per SA 705.
2.	Unable to Obtain Evidence If the auditor is prevented from obtaining enough appropriate evidence to assess the non-compliance, they must issue a qualified or disclaimer of opinion.
3.	Unable to Determine Non-Compliance If the auditor cannot determine non-compliance due to circumstantial limitations, they must evaluate how it affects the opinion in line with SA 705.

J. Reporting Non-Compliance to Regulatory Authorities	
	The auditor must determine if there is a responsibility to report the identified/suspected non-compliance to external authorities.

K. Documentation	
	The auditor must document identified/suspected non-compliance and the results of discussions with management, governance, and other parties.

L. Indicators of Noncompliance's with Laws and Regulations	
1.	Investigations by Regulatory Bodies
2.	Payment of Fines or Penalties
3.	Payments for Unspecified Services
4.	Purchasing goods or services at prices significantly above or below market value.
5.	Unusual cash payments or payments made with bearer cheques.
6.	Uncommon or excessive payments for legal services or retainership fees.
7.	Unusual Transactions with companies in tax havens.
8.	Unauthorized transactions or those not properly recorded.
9.	Negative media coverage or adverse comments.

3. SA 260 Communication with Those Charged With Governance

A. Who are "Those Charged with Governance" [TCWG]	
1.	The person(s) or organization(s) responsible for overseeing the strategic direction and ensuring accountability, including the financial reporting process.
2.	Includes Management Personnel In some entities, those charged with governance may include management personnel (e.g., executive members of a board or an owner-manager).
3.	Depending on Governance Structures Governance structures differ based on factors like culture, legal background, size, and ownership. For example: a. Separate vs. Single Boards: Some entities have a supervisory board separate from the executive board. In other entities both functions are performed by a single board. b. Legal Positions: Governance roles can be part of the entity's legal structure, e.g., company directors. c. Overlap of Governance and Management: In some cases, those charged with governance also manage the entity. In others, governance and management are separate. d. Collective Responsibility: Governance is usually a collective responsibility of a governing body like a board of directors, supervisory board, partners, trustees, or equivalent. e. Smaller Entities: In smaller entities, governance may rest with one person, e.g., an owner-manager or a sole trustee. f. Diversity and Auditor Communication: Due to diverse structures, the auditor may not always identify the correct persons for communication in all audits. g. Undefined Governance Structures: In some cases, such as family-owned entities or not-for-profits, the governance structure may not be formally defined.
4.	Engaging party has to determine TCWG a. Agree with engaging party: The auditor may need to discuss and agree with the engaging party on the relevant persons to communicate with.

	b. Understanding entity: The auditor's understanding of the entity's governance structure (as per SA 315) helps identify the appropriate persons for communication, depending on the matter.

B. Significance of Communication with TCWG [Effective 2-way communication]	
1.	For Benefit of Auditor and TCWG The auditor and those charged with governance together develop a constructive working relationship to support the audit process, while maintaining the auditor's independence and objectivity.
2.	For the Benefit of the Auditor The auditor relies on those charged with governance for information about the entity and its environment, including sources of audit evidence and insights into specific transactions or events.
3.	For the Benefit of TCWG Those charged with governance in fulfil their role of overseeing the financial reporting process, which helps reduce risks of material misstatement in the financial statements.

C. Objectives of the Auditor under SA 260	
a.	Communication of Responsibilities of the Auditor ✓ To clearly communicate the auditor's responsibilities relating to the audit and ✓ To provide an overview of the planned scope and timing of the audit.
b.	Obtain Relevant Information ✓ To obtain information from TCWG relevant to the audit.
c.	Timely Observations ✓ To provide with TCWG timely observations that are significant and relevant to their role in overseeing the financial reporting process.
d.	Promote Two-Way Communication ✓ To encourage effective two-way communication between the auditor and those charged with governance.

D. Matters to Be Communicated by the Auditor	
1. The Auditor's Responsibilities	
a.	Responsibility for Opinion The auditor is responsible for forming and expressing an opinion on the financial statements, which are prepared by management with the oversight of those charged with governance.
b.	Management's Responsibility That The audit does not relieve management or those charged with governance of their responsibilities.
c.	Engagement Letter Auditor's responsibilities are often included in the engagement letter or another written agreement, which may need to be agreed upon with TCWG, depending on the legal framework.
2. Planned Scope and Timing of the Audit	
a.	Understanding Audit Impact Communication helps those charged with governance understand the audit scope, discuss risk and materiality, and identify areas for additional audit procedures.

b.	Assisting Auditor's Understanding Helps the auditor gain a better understanding of the entity and its environment.
c.	Communicating the Overview The auditor communicates an overview of the planned scope and timing, including significant risks identified during the audit.
d.	Understanding Significant Risks Communicating significant risks helps those charged with governance understand why these matters require special audit attention.
e.	Auditor's Responsibility While communication helps plan the audit, the auditor maintains responsibility for establishing the overall audit strategy and audit plan, including necessary procedures to obtain sufficient audit evidence.
f.	Care in Communication Care is needed when discussing audit procedures with those charged with governance, especially when they are involved in managing the entity, to avoid compromising audit effectiveness.
	3. Significant Findings from the Audit
a.	Qualitative Aspects of Accounting The auditor should communicate their views on Qualitative aspects of accounting practices, including policies, estimates, and disclosures.
b.	Significant Difficulties The auditor must communicate any significant difficulties encountered during the audit, such as: ✓ Delays by management or the unavailability of personnel or required information. ✓ An unreasonably brief timeline to complete the audit. ✓ Extensive unexpected effort required to obtain sufficient audit evidence. ✓ Restrictions imposed by management. ✓ Management's unwillingness to assess the going concern assumption when requested.
c.	Significant Matters Discussed with Management The auditor should communicate significant matters discussed with management, such as: ✓ Significant events or transactions that occurred during the year. ✓ Business conditions or plans that affect risk of material misstatement. ✓ Concerns about management's consultations with other accountants. ✓ Disagreements with management on significant matters.
d.	Written Representations Any written representations the auditor is requesting.
e.	Auditor's Report Impact Any circumstances affecting the form or content of the auditor's report.
f.	Other Significant Matters Any other significant matters arising that are relevant to the oversight of the financial reporting process.
Note:	Communication of findings includes requesting further information from TCWG
	4. Auditor's Independence in Listed Entities
a.	Independence Compliance The auditor must confirm that the engagement team, the firm, and relevant network firms have complied with ethical requirements regarding independence.

b.	Relationships Impacting Independence The auditor should disclose all relationships or matters between the firm, network firms, and the entity that may affect independence.
c.	Total Fees Charged Fees for both audit and non-audit services provided to the entity should be disclosed, along with how they are allocated.
d.	Safeguards to Independence The auditor must disclose the safeguards in place to eliminate or reduce any threats to independence.
5. Terms of Audit Engagement	
	Engagement Letter The agreed terms of the audit engagement should be documented in the engagement letter, including the expected form and content of the auditor's report.
6. Reporting as per SA 700 Series	
a.	Circumstances for Additional Information in Auditor Report If the auditor expects ✓ to modify the opinion, ✓ report a material uncertainty about going concern, or ✓ include key audit matters (SA 701), ✓ include Emphasis of Matter, or Other Matter paragraphs, Communication with those charged with governance is required.
b.	Draft Report for Discussion The auditor may provide a draft of the auditor's report to those charged with governance to discuss how these matters will be addressed.

E. Establish Communication Process and Documentation	
1.	Form, Timing, and Content The auditor must communicate the form, timing, and general content of communications with those charged with governance.
2.	Written Communication The auditor shall communicate significant findings in writing if, in their professional judgment, oral communication is not sufficient.
3.	Scope of Written Communication Written communications need not cover all matters from the audit.
4.	Adequacy of Communication Process The auditor evaluates whether the two-way communication has been adequate for the audit. If not, the auditor must: ✓ Assess its effect on risks of material misstatement. ✓ Determine its impact on obtaining sufficient appropriate audit evidence. ✓ Take appropriate action.
5.	Documentation ✓ If matters are communicated orally, the auditor must document what, when, and to whom the matters were communicated. ✓ If communicated in writing, the auditor must retain a copy of the communication as part of the audit documentation.

4. SA 299 Joint Audit of Financial Statements

Discussed in Audit Reporting [Chapter 7]

5. SA 402 Audit Considerations Relating to an Entity Using a Service Organisation

A. Important Definitions	
1.	Service Organization (S/O) A third-party organization that provides services to user entities relevant to their financial reporting systems.
2.	User Entity (U/E) An entity that uses a service organization's services, and whose financial statements are being audited.
3.	Service Auditor (S/A) An auditor who provides an assurance report (Type 1 or Type 2) on the controls of a service organization.
4.	User Auditor (U/A) An auditor who audits and reports on the financial statements of a user entity.

B. Services provided by S/O are relevant to User Entity Financial Statements	
1.	Relevance of Services Services provided by a service organization are relevant to the audit of a user entity's financial statements when they affect the user entity's information system and related business processes for financial reporting. This includes controls over safeguarding assets, not just financial reporting.
2.	Services Affecting the Audit A service organization's services affect a user entity's financial reporting if they impact any of the following: a. Impact the class of transactions in the user entity's operations that are significant to its financial statements. b. Impact the procedures (both IT and manual) used by the user entity to initiate, record, process, correct, transfer, and report transactions in the financial statements. c. Impact the related accounting records, either electronic or manual, used to initiate, record, process, and report transactions in the user entity's financial statements. d. Impact on how the user entity's information system captures events and conditions (other than transactions) significant to the financial statements. e. Impact the financial reporting process used to prepare the user entity's financial statements, including significant accounting estimates and disclosures. f. Impact on Controls over journal entries, including non-standard entries used to record non-recurring, unusual transactions or adjustments.
3.	User Auditor's Work The nature and extent of work performed by the user auditor depend on the significance of the services provided by the service organization and their relevance to the audit.

C. Objectives of User Auditor	
1.	Understand Services ✓ To understand the nature and significance of the services provided by the service organisation and their impact on the user entity's internal control relevant to the audit. ✓ This understanding helps to identify and assess risks of material misstatement.
2.	Design Audit Procedures To design and perform audit procedures that are responsive to the identified risks.

D. Types of Service Auditors Report	
Type 1 Report	Type 2 Report
Description by Management: A description, prepared by management of the service organisation, of a. the system, b. control objectives, and c. related controls as of a specified date.	Description by Management: A description, prepared by management of the service organisation, of a. the system, b. control objectives, and c. related controls as of a specified date or throughout a specified period, and, d. in some cases, their operating effectiveness throughout the period.
Service Auditor's Report: A report by the service auditor providing reasonable assurance, including an opinion on a. the description of the system, b. control objectives, and related controls, and c. suitability of their design to achieve the specified control objectives.	Service Auditor's Report: A report by the service auditor providing reasonable assurance, including: a. An opinion on the description of the system, b. control objectives, and related controls, c. the suitability of their design, and d. the operating effectiveness of the controls. b. A description of the service auditor's tests of controls and the results.

E. Understanding of The Services Provided by S/O	
1.	Nature of Services by S/O ✓ Understand the nature of the services provided by the service organisation and their significance to the user entity, including their effect on the user entity's internal control. ✓ Information can be obtained from user manuals, contracts, service auditor reports, etc.
2.	Materiality of Transactions ✓ Understand the nature and materiality of the transactions processed or the accounts/financial reporting processes affected by the service organisation. ✓ Even if transactions seem immaterial, they might still be significant due to their nature, and the user auditor may need to understand the controls over them.
3.	Degree of Interaction ✓ Understand the degree of interaction between the user entity and the service organisation. ✓ This refers to how much control the user entity has over the service organisation's processing.

	✓ For example, a high degree of interaction occurs when the user entity authorizes transactions and the service organisation processes them.
4.	Relationship Between U/E and S/O Understand the relationship between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the service organisation.

F. Obtaining an Understanding of Internal Control Relevant to the Audit	
1.	Evaluate IC (Internal Controls) The user auditor must evaluate the design and implementation of relevant controls at the user entity related to the services provided by the service organisation, including those for the transactions processed by the service organisation.
2.	Understand Services by S/O from U/E ✓ The user auditor must ensure they have a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit. ✓ This understanding helps with the identification and assessment of risks of material misstatement.
3.	Unable to Obtain Understanding from U/E If the user auditor cannot obtain sufficient understanding from the user entity, they must obtain it through one or more of the following: 1. Type 1 or Type 2 Report Obtain a Type 1 or Type 2 report from the service organisation, if available. 2. Contact Service Organisation Contact the service organisation through the user entity to obtain the necessary information (following SA 505 procedures). 3. Visit the Service Organisation Visit the service organisation and perform procedures to gather the necessary information about the relevant controls. 4. Use Another Auditor Use another auditor to perform procedures that provide the necessary information about the relevant controls at the service organisation.

G. Using of Type 1 or Type 2 Reports by U/A of U/E	
1.	Sufficiency and Appropriateness of Audit Evidence The user auditor must ensure: a. The service auditor's professional competence (except if they are a member of the ICAI) and independence from the service organisation. b. The adequacy of the standards under which the Type 1 or Type 2 report was issued.
2.	Using a Type 1 or Type 2 Report as Audit Evidence If the user auditor plans to use a Type 1 or Type 2 report as evidence, they must: a. Evaluate Description and Design of Controls Evaluate whether the description and design of controls at the service organisation is for a date or period that is appropriate for the audit. b. Evaluate Sufficiency and Appropriateness Assess the sufficiency and appropriateness of the evidence provided by the report for understanding the user entity's internal control relevant to the audit.

3.	Complementary User Entity Controls (CUEC) ✓ The user auditor must determine if the complementary user entity controls identified by the service organisation are relevant to the user entity. ✓ If they are relevant, the auditor must obtain an understanding of whether the user entity has designed and implemented these controls. ✓ CUEC: These are controls the service organisation assumes and will be implemented by the user entity to achieve control objectives, and they are identified in the service organisation's system description.

H. Responding to the Assessed Risks of MMS in Relation to Services Provided By S/O	
The user auditor must:	
1.	Determine Availability of Audit Evidence Check if sufficient and appropriate audit evidence is available from records held at the user entity for the relevant financial statement assertions.
2.	Perform Further Audit Procedures If not, perform additional audit procedures to obtain the necessary evidence or use another auditor to perform those procedures at the service organisation on behalf of the U/A.
3.	Tests of Controls If the user auditor's risk assessment expects that controls at the service organisation are operating effectively, the user auditor must gather audit evidence about their operating effectiveness using one of the following methods: a. Obtain a Type 2 report from the service organisation, if available. b. Perform appropriate tests of controls at the service organisation. c. Use another auditor to perform tests of controls at the service organisation on behalf of the user auditor.

I. Using a Type 2 Report as Audit Evidence	
1.	Evaluate Description, Design, and Effectiveness of Controls The user auditor must assess whether the description, design, and operating effectiveness of controls at the service organisation is for a date or period, appropriate for the audit.
2.	Complementary User Entity Controls ✓ The user auditor must determine whether the complementary user entity controls identified by the service organisation are relevant to the user entity. ✓ If so, the auditor must understand whether the user entity has designed and implemented these controls and, if needed, test their operating effectiveness.
3.	Evaluate Time Period of Tests The user auditor must evaluate whether the time period covered by the tests of controls and the time elapsed since last testing are adequate for the audit.
4.	Relevance and Sufficiency of Tests of Controls The user auditor must assess whether the tests of controls performed by the service auditor, and their results, are relevant to the assertions in the user entity's financial statements and provide sufficient appropriate audit evidence to support the user auditor's risk assessment.

J. MMS in F/S Related to S/O Services
Inquire About Fraud or Misstatements The user auditor must ask the user entity's management if the service organisation has reported, or if the user entity is aware of, any fraud, non-compliance with laws, or uncorrected misstatements affecting the user entity's financial statements.
Evaluate Effect on Audit Procedures The user auditor must assess how such matters affect the nature, timing, and extent of further audit procedures, including how they impact the audit conclusions and the user auditor's report.

K. Reference in Audit Report of the User Auditor
In case of Unmodified Opinion a. The user auditor should not refer to the work of a service auditor in the audit report if the opinion is unmodified, unless required by law or regulation. b. If required, the report must clarify that the reference does not reduce the user auditor's responsibility for the audit opinion.
Modified Opinion (No S&A Evidence) a. The user auditor must modify the opinion in the audit report according to SA 705 if they cannot obtain sufficient appropriate audit evidence about the services provided by the service organisation relevant to the audit. b. If the reference to service auditor's work is relevant to understanding a modification to the opinion, the report must clarify that the reference does not reduce the user auditor's responsibility for the opinion.

3. AUDIT PLANNING, STRATEGY AND EXECUTION

1. Audit Plan & Process

A. Benefits of Audit Planning of FS

- ✓ Attention to Important areas.
- ✓ Timely resolution of Potential Problems.
- ✓ Proper Organisation and Management of Audit Engagement.
- ✓ Proper Selection of Engagement Team.
- ✓ Direction and Supervision of Engagement Team.
- ✓ Easy Coordination in work done by auditors of components and experts.

B. Nature and Extent of Planning

1.	Size and Complexity of the Auditee Larger and more complex organizations require more detailed planning compared to smaller ones.
2.	Past Experience & Expertise The experience and expertise of the key audit team members influence the level of planning required.
3.	Change in Circumstances Changes in circumstances may require adjustments in the audit plan.

C. Audit planning Process

1.	Ongoing Process Planning is not a discrete phase of an audit but rather a continuous and iterative. It starts after the last audit and continuing through the current one.
2.	Timing and Audit Programming Timing of activities and procedures is considered, along with audit programming.
3.	Periodic Review The audit plan is reviewed periodically to update it with new areas identified.

D. Key Considerations in Planning

Planning includes the need to consider such matter like:

a. Analytical procedures to be applied as risk assessment procedures.
b. Obtaining a general understanding of the legal and regulatory framework.
c. Determination of materiality as per SA 320.
d. Involvement of experts.
e. Performance of other risk assessment procedures.

2. Preparation of Audit strategy and Plan

A. Involving Entity's Personnel

1.	Discussion with Management The auditor may discuss the audit plan with the entity's management to facilitate and ensure proper conduct of audit.

2.	Help from Client's Staff The auditor may seek help from the client's personnel in specific audit areas.
3.	Predictability Risk When discussing matters, care is required as discussing detailed audit plans may make the audit predictable and reduce its effectiveness.
4.	Surprise Checks E.g., Surprise checks should not be discussed with the client.

B. Involving Engagement Team	
1.	Involvement of Key Team Members The auditor should involve key engagement team members while developing the audit strategy and plan.
2.	Allocation Based on Expertise Allocate audit areas based on the capabilities and experience of team members to improve audit effectiveness.
	Conclusion Ultimately, the auditor is responsible for the overall audit strategy and audit plan.

C. Acceptance & continuation of Client Relationships & Audit Engagements	
1.	Performing Procedures (SA 220) Auditor must perform procedures as per SA 220, to evaluate the continuance of the client relationship & audit engagement. Key areas include: a. Assess the integrity of the principal owners, key management and TCWG of the entity. b. Ensure engagement team is competent having capabilities, expertise, time & resources. c. Confirm that the firm & engagement team can comply with ethical requirements. d. Review significant matters from current or past audits and their impact on continuing the client relationship.
2.	Evaluating Ethical Requirements Assess compliance with ethical requirements including independence as per SA 220.
3.	Establishing Engagement Terms Understand and Agree on the terms of the engagement, as required by SA 210.

D. Contents of Audit Plan	
1.	Description of the Audit Plan The auditor should develop an audit plan that includes: a. NTE of planned risk assessment procedures under SA 315. b. NTE of further audit procedures at the assertion level under SA 330. c. Other audit procedures required to ensure the engagement complies with SAs.
2.	Detailed Audit Plan The audit plan is more detailed than the overall audit strategy, including specific audit procedures for the team.
3.	Ongoing Planning Planning for audit procedures happens over the course of the audit as the plan develops.
4.	Early Execution of Procedures

	The auditor may begin executing some further audit procedures for certain transactions, balances or disclosures before all planning is complete.

E. Changes to Planning Decisions	
1.	Updating the Audit Strategy and Plan The auditor shall update and modify the overall audit strategy and plan as needed.
2.	Reasons for Change Changes may occur due to: a. Unexpected events affecting the audit. b. Changes in conditions. c. Audit evidence obtained from the results of audit procedures
3.	Need for Change The auditor may need to revise the strategy and plan based on these revised circumstances to ensure an effective audit.
4.	Dynamic and Flexible Plan The audit plan should be dynamic and flexible, allowing for modifications as required.

[TYU 1]

3. Factors while Establishing Overall Audit Strategy.

A. Factors while Establishing Overall Audit Strategy	
Overall Audit strategy sets scope, timing and direction of Audit that guides development of audit plan. The following are kept in mind:	
1.	Characteristics of Engagement Identify the scope of the engagement such as the nature of business, number of locations, and use of previous audit workings.
2.	Reporting Objectives Determine the reporting objectives to plan audit timing and the communications required, such as meetings with management.
3.	Team's Efforts Consider the factors that are significant for guiding the engagement team's efforts.
4.	Preliminary Work Review the results of preliminary activities and the relevance of knowledge from other engagements by the engagement partner.
5.	Nature of Resources Determine the NTE of resources needed for the engagement.

B. Benefits of Overall Audit Strategy	
1.	Employment of Qualitative Resources The resources to deploy such as the use of appropriately experienced team members for high-risk areas or the involvement of experts on complex matters.
2.	Allocation of Quantity of Resources The number of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count, the extent of review of other auditors' work in the case of group audits, or the allocation of audit hours to high-risk areas.
3.	Timing of Deployment of Resources

	When these resources are to be deployed, such as whether at an interim audit stage or at or close to key cut-off dates.
4.	Management of Resources a. How such resources shall be managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held. b. How engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and c. Whether to complete engagement quality control reviews.

C. Details Discussion of Considerations in Establishing Overall Audit Strategy
1. Characteristics of Engagement
a. Financial Reporting Framework b. Industry-Specific Reporting Requirements c. Expected Audit Coverage including number & locations of components to be audited. d. Nature of the control relationships between a parent and its components e. Extent to which components are audited by other auditors. f. Entity's use of service organizations and how the auditor may obtain evidence concerning the design or operation of controls performed by them. g. Expected use of audit evidence obtained in previous audits. h. Effect of information technology on the audit procedures. i. Availability of client personnel and data.
2. Reporting Objectives
a. Organizing meetings with management and TCWG to discuss the NTE of the audit. b. Discussing with management and TCWG about the type and timing of the reports. c. Communicating with auditors of components about the types and timing of reports to be issued. d. The nature and timing of communications among engagement team members. e. Expected communications with 3rd parties including statutory reporting responsibilities.
3. Preliminary Engagement Activities
a. Determining materiality based on SA 320 b. Identifying areas with a higher risk of MMS during the audit. c. Impact of assessed risk of MMS at FS Level on direction, supervision, and review of the audit. d. Engagement team members should have inquisitive attitude, exercise professional skepticism. e. Reviewing previous audits for any identified deficiencies and actions taken to address them. f. Management's commitment to design, implement and maintain sound internal controls. g. Volume of transactions may affect reliance on the entity's internal controls. h. Significant changes in the FRFW like changes in AS. i. Changes in the legal /regulatory environment that impact the entity's operations and reporting. j. Significant industry specific developments and development in the economic environment. k. Significant business developments affecting the entity.
4. Nature, Timing and Extent of Resources
a. Allocation of Manpower b. Assigning team members to specific audit areas based on the complexities involved. c. Deciding the number of team members and time allotted for specific audit areas (e.g., inventory count). d. Scheduling the start of audit areas

e. Coordinating, directing, and supervising resources
f. Planning audit team meetings & determining frequency to discuss the status of work performed.
g. Deciding the location of audit meetings (on-site at client premises/off-site at auditor's office)

4. Documentation

A. Documenting Audit Plan	
1.	Auditor shall document a. Overall audit strategy b. Detailed audit plans. c. Significant changes to the strategy or plan, with reasons for such changes d. Document other communications or agreements with management or governance regarding additional services. e. Discussions with key persons of the entity
B. Need for Documentation [Assists the auditor]	
1.	Record of Key Decisions Documentation serves as a record of key decisions made during the audit planning to communicate with the team.
2.	Evidence of Compliance It acts as evidence that the audit is properly planned and conducted according to SA.
3.	Audit Programme Memorandum The auditor may summarize the overall audit strategy in an Audit Programme Memorandum, either standard or customized.

5. Relationship

A. Relationship between Audit strategy & Audit plan	
1.	Strategy vs Plan a. The audit strategy is prepared first, providing the framework for developing the audit plan. b. The audit plan is more detailed.
2.	Inter-Relationship a. Audit strategy & audit plan are inter-related. b. A change in one lead to change in the other.
3.	Scope & Conduct a. Audit strategy sets the scope and conduct of the audit procedures. b. It forms the foundation for the audit plan.
4.	Audit Plan Detailed audit plan outlines the NTE of audit procedures to obtain SAAE.

6. Audit Programme

A. Meaning	
1.	Audit Programme A document to allocate work to team members, listing audit procedures and instructions, along with estimated time for completing tasks.
2.	Formulating an Audit Programme Understanding how to plan an audit programme helps in linking audit objectives with procedures to ensure a purposeful audit.
B. Matters to Consider in Planning	
1.	Nature of Business 1. On first appointment, auditor should examine financial and accounting system. 2. In case of industrial concerns, auditor must understand the manufacturing processes, and quantitative records. 3. The audit programme must consider the technical, financial, and accounting setup of the company.
2.	Overall Plan 1. Systematic approach to the audit work is necessary. 2. If deviations from the overall plan are needed, modify the plan first, then adjust the audit programme accordingly. 3. Ensure the framework under the overall plan is strictly followed.
3.	Internal Control & Accounting Procedures 1. Internal controls ensure financial and statistical records are checked, and errors are discovered. 2. Auditor needs reasonable assurance that transactions are authorized and recorded correctly. 3. Evaluation of internal controls helps determine the NTE of substantive procedures. 4. Examination of IC system has 3 steps: Review, Compliance Testing & Evaluation.
4.	Size of Organisation Larger organisations increase the complexity of audits especially those with branches, multiple products or large turnovers.
5.	Information about Organisation Auditor should obtain information on the client's history, business purpose, and time schedule for completing the audit.
6.	Accounting & Management Policies a. Review past FS to understand accounting practices. b. Ensure consistency in policies over the years.
7.	Drawing up the Audit Programme Auditor decides on areas to audit in detail or with test checks and specific audit procedures based on business conditions.
8.	3 Stages of Audit Programme for First-Time Audit 1. Start with a broad outline of the audit programme. 2. Fill in details after reviewing internal controls and identifying deficiencies. 3. Apply special procedures such as verification of balances and inspection of fixed assets.
9.	Audit Programme for Subsequent Audits

	Review and modify the audit programme based on: 1. Experience from previous audits. 2. Changes in business, internal controls, accounting procedures, or management. 3. Evaluation of internal control for the current year.
10.	Circumstances for Altering Audit Programme 1. Increased turnover or significant changes in accounting procedures since planning. 2. Discovery of ineffective internal control procedures during the audit. 3. Significant increase in book debts or stock values compared to previous year. 4. Suspicion of asset misappropriation.
11.	Reconsideration of Audit Programme The audit programme should be reconsidered as the audit progresses, based on: 1. Auditor's review of internal control & preliminary evaluation. 2. Results from compliance and substantive procedures.

[TYU 2& 3]

C. Audit Execution	
1.	Key phases in Audit Execution Stage are: a. Execution Planning ✓ Plan work in advance to ensure effective, efficient and timely audit results. ✓ Prepare a detailed audit program outlining audit objectives, scope, and approach. ✓ Consider manpower, team qualifications, and time requirements during planning. ✓ Preliminary survey may be needed to gather required information about audit area.
2.	b. Risk and Control Evaluation ✓ Conduct a detailed risk and control assessment for each audit segment. ✓ Identify risks, controls and design steps to test control effectiveness. (Prepare Risk control matrix) ✓ Consider materiality levels as they are linked to audit risks during evaluation.
3.	c. Testing ✓ Test the operating effectiveness of controls to ensure they work as intended. ✓ Use multiple test methods to evaluate the effectiveness of controls.
4.	d. Reporting ✓ SA 700 provides guidelines on the form and content of the auditor's report. ✓ Review audit evidence to form an opinion on the FS. ✓ Consider compliance with FRFW & Statutory requirement (Company Law, AS, Ind AS). ✓ Audit report should clearly express the opinion on the FS.

7. SA 600 Using the Work of Another Auditor

	Detailed Explanation
	Preface a. The auditor remains responsible for forming and expressing an opinion on the financial information, even when delegating work to assistants or other auditors. b. However, the auditor can rely on others' work if adequate skill and care are exercised. c. If relying on the work of independent statutory appointees on which auditor is relying in forming his opinion (e.g., branch auditors), the auditor's report must state this clearly such reliance.
A.	Division of Responsibility 1. The principal auditor is NOT responsible for the work of other auditors, unless there is reason to doubt their reliability. 2. If the principal auditor relies on other auditors for parts of the financial information, they must clearly state the division of responsibility in the report, indicating the extent of the work done by other auditors (e.g., branches, subsidiaries).
B.	Definitions ✓ Principal Auditor: The auditor responsible for reporting on the entity's financial information which includes financial information of components audited by other auditors. ✓ Other Auditor: An auditor (other than the principal auditor) who is responsible for financial information of component which is included in the financial information audited by principal auditor. ✓ Component: A division, branch, subsidiary, joint venture, or other entity whose financial information is included in the financial information audited by principal auditor's.
C.	Acceptance of Principal Auditor The auditor must assess whether their participation is sufficient to act as the principal auditor. Considerations include: a) Materiality of the portion audited by the principal auditor. b) Knowledge of the business of the components. c) Risk of material misstatements in components audited by others. d) Whether the principal auditor needs to perform additional procedures to have significant participation in the audit of the components.
D.	Principal Auditor Procedures 1. Right to Visit and Examine Accounts of a Component a. The principal auditor may have the right to visit a component and review its financial records if required by law. b. The principal auditor can generally rely on their work unless special circumstances require a direct review. 2. Assessing the Competence of Another Auditor Before relying on another auditor's work, the principal auditor must evaluate their professional competence, especially if the auditor is not a member of the Institute of Chartered Accountants of India. 3. Procedures to be performed when using work of another auditor

	The principal auditor should perform procedures to ensure the adequacy of the work done by the other auditors, including: a) At Planning Stage: Advise other auditors of the use of their work and coordinate efforts. b) Special Considerations: Inform other auditors about areas requiring special attention, inter-component transactions, and the audit timetable. c) Reporting Requirements: Advise other auditors of accounting and auditing requirements. 4. Review written summary of procedures The principal auditor may discuss audit procedures with the other auditor or review a summary of their procedures and findings through a questionnaire or checklist. a. May also wish to visit the other auditor. b. The nature, timing, and extent of procedures depend on the circumstances and the principal auditor's knowledge of the other auditor's professional competence. 5. Consider significant Findings of Other auditors c. The principal auditor may discuss audit findings and other financial matters with the other auditor and component management if needed. d. Additionally, the principal auditor may decide to apply supplementary procedures to verify records or financial statements if necessary. These supplementary tests can be conducted by either the principal auditor or the other auditor, depending on the situation. 6. When the Other Auditor is Not Professionally Qualified a. In some cases, the other auditor may not be professionally qualified. b. Example: If a component is in a foreign country where laws allow a non-professional auditor to conduct the audit, this may be acceptable. 7. Principal Auditor's Documentation Responsibilities a. The principal auditor must document the audited components, procedures performed, and conclusions. b. Example: This includes recording discussions with the other auditor and reviewing their written procedures. c. However, if sufficient audit evidence confirms compliance with quality control policies, the principal auditor need not document reasons for limiting procedures. d. If the other auditor's report is not unmodified, the principal auditor must document how they addressed any qualifications or adverse remarks when forming their own report.
E.	Coordination Between Auditors 1. Sufficient Liaison is necessary between the principal auditor and the other auditor. This may involve written communications. 2. The other auditor should cooperate with the principal auditor, alerting them to significant findings and adhering to the audit timetable. 3. The principal auditor should notify the other auditor of any important matters that affect their work. 4. The principal auditor may require the other auditor to complete a detailed questionnaire for information needed.
F.	Modified Opinion by Other Auditor

	1. If the other auditor issues a modified report, the principal auditor must assess whether it impacts their own report. 2. The principal auditor should document how they dealt with qualifications or adverse remarks in the other auditor's report. 3. If the principal auditor cannot use the work of the other auditor and hasn't performed sufficient procedures, they should issue a qualified or disclaimer of opinion, unless the component is immaterial.

8. SA 610 Using the Work of An Internal Auditor

A. Internal Audit Function and Objectives	
	Meaning A function of the entity that performs assurance and consulting activities to evaluate and improve: a. Entity's Governance processes b. Risk management c. Internal control processes
	Activities Related to Governance Evaluates the governance process in achieving objectives on: a. Ethics and Values b. Performance Management and accountability. c. Ensure risk and control information is communicated effectively within the organization. d. Effectiveness of communication among TCWG, management, and auditors.
	Activities Related to Risk Management a. Identify and evaluate significant risks. b. Contribute to improving internal controls. c. Perform procedures to assist in detecting fraud.
	Activities Related to Internal Controls a. Evaluation of Internal Controls. b. Examination of Financial and Operating Information c. Review of Operating Activities d. Review of Compliance with L&R

B. 2 Types of usage of work of Internal Auditor
Using Work Performed by Internal Audit Function (Type 1) ✓ To Obtain information relevant to the external auditor's assessment of risks of material misstatement (error or fraud). ✓ If not prohibited by law or regulation, the external auditor may, after evaluation, use work performed by the internal audit function. ✓ This work may partially substitute for audit evidence to be obtained directly by the external auditor.
Direct Assistance (Type 2) ✓ If not prohibited by law or regulation, internal auditors may perform audit procedures under the direction, supervision, and review of the external auditor.

C. External Auditor's responsibility under SA 610
✓ External auditor has sole responsibility for the audit opinion expressed.
✓ This responsibility is not reduced by using the internal audit function or direct assistance.
✓ The external auditor is not required [No compulsion] to use internal audit work to modify or reduce procedures. It remains the absolute discretion of the external auditors.

D. Objective of External Auditor	
Objective	✓ Determine if the work of the internal audit function or direct assistance from internal auditors can be used. ✓ Identify which areas and to what extent internal audit work or assistance will be used.
Type 1	✓ Determine whether the internal audit work is adequate for the purposes of the audit.
Type 2	✓ Appropriately direct, supervise, and review the work performed by internal auditors.

E. Evaluating Internal Audit Function before using Type 1 Work
1. Objectivity and its Evaluation The extent to which the IAFs organizational status and relevant policies support their objectivity.
2. Competence The level of competence of the internal audit function. Refers to knowledge and skills required to perform tasks diligently and as per standards.
3. Systematic and Disciplined Approach Whether the internal audit function applies a systematic and disciplined approach, including quality control such as Internal audit activities are planned, performed, supervised, reviewed, and documented systematically. The IAF activities are different from entity's monitoring control activities.

F. IAF work shall not be used by External auditor in following circumstances
1. If the IAFs objectivity is not adequately supported by Organizational Status & Policies.
2. If the IAF lacks sufficient competence.
3. If the IAF does not apply a systematic and disciplined approach, including quality control.

G. Nature and Extent of work of IAF to be used by External Auditor
1. External auditor considers the nature and scope of work performed or planned by the internal audit function. Examples of work that can be used by the external auditor include a. TOC: Testing the operating effectiveness of controls. b. Substantive Procedures: Performing substantive procedures involving Limited Judgment. c. Inventory Observations: Observing inventory counts. d. Tracing Transactions: Tracing transactions through the information systems. e. Regulatory Compliance: Testing compliance with regulatory requirements. f. Audits or review of financial info of components that are not significant to group.

2.	The External auditor shall evaluate whether, using the planned work of IAF would still result in E.A. sufficiently involved in audit.
3.	Shall make all Significant Judgments a. The more judgment required in planning and performing audit procedures. b. The more judgment involved in evaluating audit evidence gathered. c. If the assessed risk of material misstatement at the assertion level is higher, with focus on significant risks. d. The IAFs objectivity is Not adequately supported by its status and policies. e. The lower the level of competence of the internal audit function.

H. Using the work of IAF	
1.	Discuss Planned Usage The external auditor shall discuss the planned use of the IAF work to coordinate respective activities.
2.	Review Internal Audit Reports The external auditor shall read reports of the internal audit function to understand the nature, extent of procedures performed, and related findings.
3.	Perform Audit Procedures The external auditor shall perform sufficient audit procedures on the internal audit work planned for use to assess its adequacy for audit purposes. a. Whether work of IAF is properly planned, performed, supervised, reviewed and documented b. Whether S&A Evidence obtained for conclusions reached. c. Whether conclusions reached are appropriate in the circumstances. d. Whether Reports prepared are consistent with the results of work performed.
4.	Nature and extent of E.A. Procedures Shall be responsive to E.A. evaluation of a. Amount of Judgment Involved b. Assessed risk of MMS c. Extent of IAFs objectivity d. Level of competence of function

I. EA usage of IAFs staff for Direct Assistance [Type 2]	
1.	Direct Assistance Refers to the use of internal auditors to perform audit procedures under the direction, supervision, and review of the external auditor.
2.	Evaluation by EA Prior to usage under Direct Assistance If not prohibited by law or regulation, the external auditor shall: a. Assess the competence of internal auditors providing direct assistance. b. The existence and significance of threats to objectivity. In evaluating these the following are relevant factors: ✓ Extent of IAF organisational status and relevant policies and procedures support objectivity of Internal auditors. ✓ Family and personal relationships with individuals working in the entity ✓ Association with division or departments to which the work relates to.

✓ Significant financial interest other than remuneration
3. Prohibition on Type 2 External auditor shall not use internal auditors if: a. There are significant threats to objectivity. b. Internal auditors lack sufficient competence.
4. Restrictions on scope of work from Direct Assistance External auditor shall not use internal auditors for direct assistance for procedures that: a. Involve making significant judgments. b. Relate to higher assessed risks of material misstatement requiring significant judgment. c. Relate to work already performed or planned to be performed to management or TCWG. d. Relate to decisions the external auditor makes under this SA 610.
5. Review work performed by Internal auditors E.A. Shall direct, supervise and review work performed by Internal auditors as per SA 220. In doing so: a. Recognise that Internal auditors are not independent of the entity b. Review the underlying audit evidence for some of the work performed by internal auditors. c. Ensure that Internal auditors obtained S&A Audit evidence to support conclusions.
6. Written Agreements Before using internal auditors for direct assistance, the external auditor shall obtain: a. From Management: Written agreement the management will allow the internal auditors to perform under the external auditor's instructions without intervention. b. From Internal Auditors: Written agreement to: ✓ Maintain confidentiality as instructed by EA. ✓ Inform the external auditor of any threats to objectivity.

J. Documentation
If the external auditor uses internal auditors for direct assistance, the auditor must include in the audit documentation: 1. Basis for the decision on the use of internal auditors' work. 2. Who reviewed the internal audit work and the date/extent of that review (SA 230). 3. Written agreements from management and internal auditors. 4. Working papers prepared by the internal auditors for the audit.

9. SA 620 Using the Work of an Auditor's Expert

Content	
A.	Important Definitions Auditor's Expert: An individual or organization with expertise in any field other than accounting or auditing, whose work in that field is used by the auditors to obtain S&A Audit evidence. Can be an internal or external expert. Management's Expert: An individual or organization with expertise in any field other than accounting or auditing, whose work is used by the entity in preparing the financial statements.

B.	Applicability 1. SA 620 covers the auditor's responsibility when using the work of an expert other than accounting or auditing to obtain sufficient audit evidence. 2. SA 620 does not apply to: ✓ Using Experts who are part of engagement team and are specialized accounting or auditing areas. ✓ Use of Work of management's expert (covered under SA 500).
C.	Sole Responsibility – Auditors Only The auditor has sole responsibility for the audit opinion, even if the auditor uses the work of an auditor's expert. The auditor may accept the expert's findings as audit evidence if deemed appropriate.
D.	Objective of the Auditor The auditor's objectives are: 1. To decide whether to use the work of an auditor's expert. 2. To ensure that expert's work is adequate for audit purposes.
E.	Examples ✓ Valuation of financial instruments, land, buildings, and machinery. ✓ Analysis of complex or unusual tax compliance issues. ✓ Actuarial calculation of liabilities. ✓ Interpretation of contracts, laws, and regulations. ✓ Estimation of oil and gas reserves.
F.	Determining the need of auditor's expert An auditor may need an expert in areas like: 1. Understanding the entity and its internal controls. 2. Assessing risks of material misstatement. 3. Designing and performing audit procedures. 4. Evaluating the sufficiency of audit evidence. Auditor's understanding of the other field: Can obtain sufficient understanding of another field without an auditor's expert. This can be obtained through 1. Experience in Auditing those entities, 2. Education or professional development in that field [Formal courses, discussions with experts]. 3. Discussion with fellow auditors who performed similar engagements
G.	Considerations on Deciding to Use an Auditors Expert The auditor may consider: 1. Whether management used a management's expert. 2. The nature and significance of the matter and complexity 3. The risks of MMS of the matter. 4. Auditors' knowledge and experience with the work of expert. 5. Availability of alternative audit evidence. When management used a managements expert work: 1. The nature, scope and objectives of the management's expert's work. 2. Whether the management's expert is: ✓ employed by the entity, or

	✓ is a 3rd party engaged by it to provide relevant services. 3. Management's Control or influence over the work of the management's expert. 4. The management's expert's competence and capabilities. 5. Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
H.	Audit Procedures Influenced by Auditors Expert's Work 1. When deciding on NTE of audit procedures, the auditor considers: ✓ Nature and risks of MMS of the matter the expert is involved with. ✓ The significance of the expert's work. ✓ The auditor's prior experience with that expert's work. 2. More extensive procedures may be needed when: ✓ The matter is complex and involves subjective judgments. ✓ The auditor does not have prior experience with that expert and not aware of expert's competence, capability and experience. ✓ Auditor expert is performing procedures that are integral part of the audit. ✓ Whether the Auditors expert is external to the firm and not subject to firms Quality control policy and procedures.
I.	Evaluate Competence, Capability, and Objectivity of Auditors Expert 1. The auditor must evaluate Competence, capabilities, and objectivity of the expert. 2. In case of Auditors external expert: a. Inquire of the entity about any known interests or relationships with such expert. b. The Interests and relationships include: ✓ Financial interest, Business and personal relationships, ✓ Providing other services to the entity by such expert ✓ Obtain representation from Auditor expert about interest and relationships. c. If relationship exists: d. Discuss with such expert and on applicable safeguards and evaluate whether the safeguards are adequate. e. Whether experts work is subject to technical standards or ethical standards. f. Relevance of the expert's competence to the audit matter including any speciality. 3. The above Evaluations is a continuous process and adjusts for unexpected events.
J.	Agreement with Auditor's Expert The auditor must agree on: 1. Nature, scope, and objectives of the expert's work. 2. Roles and responsibilities of both auditor and expert. 3. Communication timing and reporting. 4. Confidentiality requirements.
K.	Evaluating Adequacy of Auditors Expert's Work The auditor evaluates the adequacy of the expert's work by: 1. Reviewing the reasonableness of the expert's findings. 2. Inquiries of auditor's expert's work. 3. Reviewing their working papers and reports. 4. Performing corroborative procedures like: ✓ Observing the expert's work. ✓ Confirming with third parties.

	✓ Detailed analytical procedures to check considerations of materiality. ✓ Re-performing calculations. ✓ Discussion with another expert in the same field. ✓ Discussing the expert report with management. 5. Evaluating reasonableness of assumptions used and 6. If source data used by the expert, evaluate the relevance, reliability, completeness and accuracy of such source data.
L.	When the Expert's Work is Not Adequate If the expert's work is not adequate, the auditor must: 1. Agree with the expert on further work needed. 2. Perform further audit procedures. 3. Employ or engage another expert 4. If auditor cannot resolve the matter, the auditor may need to express a modified opinion (SA 705) because he has not obtained S&A Evidence.
M.	Reporting in Auditor's Report 1. Unmodified Opinion (UMO): a. The auditor shall not refer to the expert's work unless required by law. b. If such a reference is made, state that auditor's responsibility is not reduced by such a reference. 2. Modified Opinion (MO): a. The auditor may refer, because such a reference is relevant, to make users to understand nature of a modification. b. If the auditor refers to the expert's work in a modified opinion, it does not reduce the auditor's responsibility for the audit opinion.

10. SA 540 Auditing Accounting Estimates including FV Accounting estimates and related Disclosures

A. Scope and Definitions	
1.	Objective of SA 540 The auditor's objective is to obtain sufficient, appropriate audit evidence that: 1. Accounting estimates, including fair value estimates, in the financial statements are reasonable. 2. Related disclosures in the financial statements are adequate.
2.	Definitions ✓ Accounting Estimate: Approximation of a monetary amount in absence of precise measurement. This term is used for fair value where there is estimation uncertainty. ✓ Auditor's Point Estimate: The amount, or range, derived from audit evidence to evaluate management's point estimate. ✓ Management's Point Estimate: The amount selected by management for recognition or disclosure. ✓ Management Bias: Lack of neutrality by management in presenting information. ✓ Estimation Uncertainty: The inherent lack of precision in measuring an accounting estimate.

✓ Outcome of an Accounting Estimate: The actual monetary amount that results from the resolution of underlying transactions/events addressed by accounting estimate.

B. Auditor's Responsibility / Audit Procedures

1. Risk Assessment Procedures
   The auditor should understand:
   a. The financial reporting framework relevant to accounting estimates and disclosures.
   b. How management identifies transactions/events requiring accounting estimates.
   c. Inquiries of management about changes in circumstances that may affect accounting estimates.

2. Understanding How Management Identifies Need for Accounting Estimates
   a. Management is responsible for determining if an estimate is needed and ensuring it meets the financial reporting framework.
   b. Auditor's risk assessment helps identify circumstances requiring accounting estimates.
   c. Inquiries of management about changes in transactions, accounting policies, or regulations that may affect estimates.
   d. If management fails to identify an estimate, the auditor may need to assess internal control deficiencies.

3. Inquiries of management about changes in circumstances:
   Includes inquiries whether
   a. Entity has engaged in new types of transactions.
   b. Changes in Terms of transactions.
   c. Accounting policies relating to accounting estimates have changed.
   d. Regulatory or other changes outside the control of management.
   e. New conditions or events have occurred.

4. How Management Makes the Estimates
   The auditor should understand:
   a. The method or model used for the estimate.
   b. Relevant controls.
   c. Whether an expert was used.
   d. Assumptions used in the estimates.
   e. Changes in methods and reasons.
   f. How management assessed estimation uncertainty.
   g. Review outcome of prior estimates and their subsequent re-estimation in Current period.

   Note: The review is not intended to call into question the judgments made in the prior periods that were based on information available at that time.

5. Estimation Uncertainty
   For estimates with significant risk, the auditor should evaluate:

	a. How management considered alternative assumptions or outcomes, and why others were rejected. b. Whether the assumptions used by management are reasonable. c. Application of the financial reporting framework and d. Management's intent & ability to carry out specific course of actions. Unaddressed Estimation Uncertainty: If uncertainty is not addressed, the auditor may develop a range to evaluate the estimate. 6. Recognition and Measurement Criteria - Significant Risk For significant risks in accounting estimates, the auditor must obtain S&A evidence on: a. Whether management's decision to recognize or not recognize the estimate in financial statements is appropriate. b. Whether the measurement basis used by management is appropriate and consistent with the framework. 7. Evaluating the Reasonableness of Accounting Estimates & Determining Misstatements The auditor must evaluate, based on audit evidence, whether the accounting estimates in the financial statements are reasonable or misstated, considering the financial reporting framework.

C. Risk Assessment and Response	
1.	Identifying and Assessing Risks of Material Misstatements 1. The auditor must evaluate the degree of estimation uncertainty in accounting estimates. 2. The auditor must determine if estimates with high estimation uncertainty give rise to significant risk.
3.	Responses to the Assessed Risks of Material Misstatement Based on the risk assessment, the auditor must determine: a. Whether management has appropriately applied the financial reporting framework relevant to the accounting estimate. b. Whether the methods used for making accounting estimates are appropriate and consistent. c. If there are changes in accounting estimates or methods from prior periods, whether those changes are appropriate.
4.	Audit Procedures 1. Subsequent Evidence: Determine if events occurring up to the audit report date provide sufficient evidence regarding the accounting estimate. 2. Test checks the data used by management for making the accounting estimate. 3. Evaluate whether the method used for measurement and assumptions are reasonable. This can include: i. Testing the accuracy, completeness, and relevance of data used for the estimate. ii. Considering the source, relevance, and reliability of external data. iii. Recalculating the estimate and checking internal consistency. Test checks on the effectiveness of controls over estimates, with substantive procedures.

5. **Need for Expert Assistance**

The auditor should consider if specialized skills or knowledge are needed to obtain sufficient appropriate audit evidence, particularly if expert assistance is required for certain aspects of accounting estimates.

D. Audit Reporting & Disclosure

1. **Disclosures Related to Accounting Estimates:**

a. The auditor must obtain sufficient evidence that disclosures related to accounting estimates comply with the financial reporting framework.

[Assumptions used, Methods of Estimation, Basis of Selection of estimates, Changes from prior period and source and implication of estimation uncertainty]

b. For significant risks, the auditor must evaluate the adequacy of estimation uncertainty disclosures.

Written Representations:

The auditor must obtain written statements from management about the reasonableness of significant assumptions used in accounting estimates.

2. **Documentation of Accounting Estimates**

The audit documentation must include:

a. The basis for conclusions on the reasonableness of accounting estimates and disclosures.

b. Indicators of management bias (if any).

Accounting Related Content

Content

1. **Nature of Accounting Estimates**

1. Some financial statement items require estimation rather than precise measurement, referred to as accounting estimates.

The information available to management for making of an accounting estimate varies widely,

which affects the degree of estimation uncertainty.

The degree of estimation uncertainty affects, in turn, the risks of material misstatement of accounting estimates.

2. These estimates arise due to uncertainties in business activities or specific characteristics of assets/liabilities.

2. **Low Estimation Uncertainty**

Some accounting estimates have low estimation uncertainty and pose lower risks of material misstatements:

a. Activities that are not complex.

b. Estimates related to routine transactions.

c. Estimates derived from readily available data.

d. Simple fair value estimates.

e. Accepted models for estimates.

3. **High Estimation Uncertainty**

Some estimates involve high estimation uncertainty, often with significant assumptions:

a. Outcome of litigation.

b. Fair value estimates for non-publicly traded derivatives.

	c. Estimates based on specialized models or uncertain inputs (e.g., wage revision agreements).
4.	Degree of Estimation Uncertainty The degree of uncertainty varies by: a. Nature of the accounting estimate. b. The method used to make the estimate. c. The subjectivity of assumptions.
	Notes 1. Not all fair value items involve estimation uncertainty (e.g., open market data for unquoted shares). 2. Estimation uncertainty may exist even with well-defined methods and data.
5.	Examples of Accounting Estimates 1. Non-fair value estimates: a. Allowance for doubtful accounts. b. Inventory obsolescence. c. Warranty obligations. d. Depreciation. e. Provisions for investments. f. Long-term contracts. g. Litigation settlements. 2. Fair value accounting estimates: a. Complex financial instruments not traded publicly. b. Share-based payments. c. Property/equipment held for disposal. d. Goodwill and intangible assets in a business combination.
6.	Estimation Involves Judgments 1. Estimation involves judgments based on available information. 2. Assumptions are made about uncertain future conditions. 3. The auditor is not responsible for predicting future events.
7.	Management Bias a. Financial reporting frameworks require neutrality in estimates. b. Management judgment may lead to bias (unintentional or intentional). c. Bias increases with the subjectivity of estimates. d. Indicators of bias may persist over multiple periods. e. If bias is intended to mislead, it's considered fraudulent. Management Bias is difficult to detect at an account level: a. It may only be identified in the aggregate of groups of accounting estimates or b. All accounting estimates or c. When observed over a number of accounting periods
8.	The Measurement Objective of Accounting Estimates a. Measurement Objectives: Measurement objectives depend on the financial reporting framework and the financial item being reported. b. Forecasting Estimates: Some estimates aim to predict the outcome of transactions, events, or conditions.

	c. Fair Value Estimates: Other estimates, like fair value, aim to measure the current value of an item at the measurement date based on market conditions. d. Fair Value Measurement: For fair value, measurement is based on a hypothetical current transaction between knowledgeable, willing participants in an arm's length transaction. e. Outcome vs. Recognition: A difference between the estimate and actual outcome doesn't necessarily mean a misstatement, especially for fair value estimates, as the outcome can change due to subsequent events.

11. SA 450 Evaluation of Misstatements Identified during the Audit

A. Meaning of Misstatement	
1.	Misstatement A difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. [Misstatements can arise from error or fraud]
2.	Uncorrected Misstatements Refer to misstatements that auditor has accumulated during the audit that have not been corrected.

B. Accumulation of Misstatements identified in Audit	
1.	Accumulation of Identified Misstatements ✓ The auditor shall accumulate misstatements identified during the audit, except those that are clearly trivial. ✓ "Clearly trivial" is not another expression for "not material". ✓ Matters that are "clearly trivial" will be of a wholly different (smaller) order of magnitude than materiality as per SA 320, and will be matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. ✓ When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.
2.	Categories of Misstatements ✓ Factual Misstatement: Misstatements about which there is no doubt. ✓ Judgemental Misstatements: Differences arising from the judgments of management concerning accounting estimates that the auditor considers unreasonable, or the selection or application of accounting policies that the auditor considers inappropriate. ✓ Projected Misstatements: the auditor's best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

C. Consideration of Identified Misstatements as Audit Progresses	
1.	Revision of Overall Audit strategy and plan The auditor shall determine whether overall audit strategy and plan need any revision if: a. The nature of identified misstatements and circumstance of their occurrence indicates other potential misstatements.

	b. The aggregate misstatements accumulated approach materiality as per SA 320.
2.	Request to Management The auditor may request management to: a. Review transactions, account balances, or disclosures to understand the cause of the misstatement, b. Perform procedures to identify the actual misstatement and make adjustments to the financial statements.
3.	Additional Audit Procedures If management has identified and corrected misstatements after the auditor's request, the auditor shall perform additional audit procedures to ensure that no misstatements remain.

D. Communication and Correction of Misstatements identified	
1.	Timely Communication ✓ The auditor shall communicate all misstatements accumulated during the audit to the appropriate level of management, unless prohibited by law. ✓ This enables management to evaluate, disagree if necessary, and take corrective action.
2.	Request Management to Correct Misstatements ✓ The auditor shall request management to correct misstatements. ✓ Corrections help maintain accurate records and reduce risks of future material misstatements caused by cumulative uncorrected errors.
3.	Management Refuses to Correct If management refuses to correct misstatements, the auditor shall: ✓ Understand management's reasons for refusal. ✓ Take that understanding in evaluating whether the financial statements are free of material misstatement.

E. Evaluating effect of Uncorrected Misstatements	
1.	Evaluating effect of Uncorrected Misstatements ✓ Re-evaluate Materiality levels: First Confirm whether materiality is still appropriate based on actual financial results prior to evaluating uncorrected misstatements. ✓ Materiality of Uncorrected misstatements: Determine if uncorrected misstatements are material individually or in aggregate, considering: a. Their size and nature of the misstatement in relation to specific transactions, account balances, or disclosures and circumstances of their occurrence. b. The effect of prior period uncorrected misstatements on the relevant class of transactions, balances, disclosures and financial statements as a whole.
2.	Communication with TCWG ✓ The auditor shall communicate with TCWG about: a. Uncorrected misstatements, individually and in aggregate, and their impact on the auditor's report. b. Request corrections for uncorrected misstatements. c. Discuss the effect of prior period misstatements on the current financial statements.

3.	Written Representation ✓ The auditor shall request a written representation from management and TCWG that uncorrected misstatements are immaterial to the financial statements. ✓ A summary of these items shall be included or attached to the representation.

F. Documentation of Misstatements Identified shall include	
1.	Trivial level ✓ The audit documentation must include the amount below which misstatements are considered clearly trivial.
2.	Accumulated Misstatements ✓ Document all misstatements accumulated during the audit and indicate whether they have been corrected.
3.	Conclusion on Uncorrected Misstatements ✓ The auditor's conclusion on whether uncorrected misstatements are material, individually or in aggregate and ✓ Basis for that conclusion.

12. SA 520 Analytical Procedures

A. Analytical Procedures - As Sole Substantive Audit Procedures	
	Substantive Analytical Procedures When designing and performing substantive analytical procedures (alone or with tests of details) as per SA 330, the auditor shall:
1.	Suitability of Procedures Determine the suitability of specific substantive analytical procedures for the given assertions, considering: ✓ Assessed risks of material misstatement ✓ Results of tests of details, if performed.
2.	Reliability of Data Evaluate the reliability of data used to develop expectations by considering: ✓ Source ✓ Comparability ✓ Nature and relevance of information ✓ Controls over data preparation.
3.	Development of Expectation Develop an expectation for recorded amounts or ratios and ensure it is sufficiently precise to identify misstatements that could result in material misstatement of financial statements.
4.	Acceptable Difference Determine the acceptable difference between recorded amounts and expected values without requiring further investigation.

B. Overall Conclusions	
1.	Purpose of Analytical Procedures The conclusions from analytical procedures are intended to corroborate conclusions formed during the audit of individual components or financial elements.
2.	Auditor's Opinion These procedures help the auditor draw reasonable conclusions to support their opinion on the financial statements.
3.	Identifying New Risks Analytical procedures may reveal a previously unrecognized risk of material misstatement.
4.	Action Required In such cases, as per SA 315, the auditor must: ✓ Revise their assessment of risks. ✓ Modify further planned audit procedures accordingly.

C. Investigating results of Analytical Procedures	
If analytical procedures performed identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:	
1.	Inquiring of Management The auditor should: ✓ Request management to explain the significant fluctuations or inconsistencies. ✓ Evaluate management's response against other audit evidence.
2.	Performing Additional Audit Procedures If management fails to provide an adequate explanation, the auditor should, Perform additional procedures to identify any material misstatements.

4. RISK ASSESSMENT AND INTERNAL CONTROL

1. Materiality & Risk Assessment

A. Content	
1.	Risk Assessment a. Assesses the level of risk in business processes, considering business environment, regulatory environment, organizational structure and management concerns. b. Focuses on areas with the greatest risk by identifying assertions that might have MMS. c. Scepticism in evaluating procedures: ✓ Selecting an inappropriate audit procedure ✓ Misapplying an appropriate audit procedure ✓ Misinterpreting results from an audit procedure
2.	Audit Risk d. The risk of giving an inappropriate audit opinion FS that are materially misstated.

B. Components of Audit Risk	
1.	Inherent Risk Susceptibility of an assertion to misstatement without consideration of related ICs. Examples: ✓ Technological changes causing inventory to be more susceptible to overstatement ✓ Business risks related to the entity's objectives, operations, and industry. Risk of particular concern to the auditor includes: ✓ Complex calculations prone to errors. ✓ High-value inventory at risk of misstatement. ✓ Uncertain accounting estimates with measurement challenges. ✓ Insufficient working capital affecting operations. ✓ Volatile industry with frequent business failures. ✓ Technological changes making products obsolete.
2.	Control Risk a. Risk that internal controls will not prevent, detect or correct MMS on time. b. The entity must assess business risks and implement controls to manage them. c. Entity-level controls (e.g., board oversight) apply to all assertions d. Activity-level controls relate to specific assertions. e. Some control risk always exists due to limitations of IC systems.
3.	Detection Risk a. Risk that the auditor will not detect a MMS even though performing audit procedures. b. Auditors identify areas with high risk of misstatement and apply audit procedures accordingly. c. Also consider possibility of: [These are examples of non-sampling risk as well] ✓ Inappropriate procedure selected. ✓ Incorrect application of the right procedure. ✓ Misinterpretation of results.

C. Relationship Between Components	
	a. Audit Risk (AR) = Risk of Material Misstatement (RMM) x Detection Risk (DR) b. Risk of Material Misstatement (RMM) = Inherent Risk (IR) x Control Risk (CR) c. Detection Risk (DR): Risk that the auditor does not detect a misstatement, even if audit procedures are performed correctly. d. The combined level of IR and CR is inversely related to DR. e. Audit Materiality is inversely related to Audit Risk. Mathematically: AR = IR x CR x DR.

D. Levels of Assessment of Risk of MMS	
1.	Financial statement level a. Risks that affect the financial statements as a whole and potentially impact many assertions. Example: If the top accountant is not competent, errors could affect multiple areas of the FS (e.g., accuracy, existence, valuation). b. These risks are pervasive and are not confined to a single account, transaction, or disclosure. Example: Errors in the FS may not be limited to one specific area, like sales completeness, but could affect multiple assertions
2.	Assertion level a. Risks identified at the specific assertion level for transactions, account balances, or disclosures. Example: Each assertion (e.g., valuation, completeness) is individually assessed for risk. b. The risk is assessed individually for each assertion in the FS. Example 1: Risk for valuation of payables may be low, but for inventory (affected by obsolescence), it may be high.

2. Different Types of Assertions made by Management

A. Assertions Related to Class of Transactions and Events [T&E]:

Assertion	Meaning
Occurrence	T&E and events occurred and relate to the entity.
Completeness	All T&E that should have been recorded are recorded.
Accuracy	T&E are recorded appropriately with correct amounts.
Cut-off	T&E are recorded in the correct accounting period.
Classification	T&E are recorded in the proper accounts.

B. Assertions Related to Account Balances:

Assertion	Meaning
Existence	Assets, liabilities, and equity interests exist.
Rights and Obligations	The entity holds rights to assets, and liabilities are its obligations.
Completeness	All assets, liabilities, and equity balances are recorded.

Valuation and Allocation	Balances are recorded at appropriate amounts with correct valuations and adjustments.

C. Assertions Related to Presentation and Disclosures:

Assertion	Meaning
Occurrence and Rights	Disclosed T&E and other matters have occurred and relate to the entity.
Completeness	All required disclosures are included.
Classification & Understandability	Financial Information is appropriately presented and described and disclosures are clearly expressed
Accuracy and Valuation	Disclosed items are fair and at appropriate amounts.

3. Steps Involved in Risk Identification

A. Steps involved for identification of risk	
1.	Assess the significance of the assessed risk and revise materiality for the specific account.
2.	Determine likelihood of the risk occurring and its impact on audit procedures.
3.	Document the assertions that are affected.
4.	Consider the impact of risk on each assertion (completeness, existence, accuracy, validity, valuation, presentation).
5.	Identify significant risks that require separate attention.
6.	Enquire and document the management's response to the risk.
7.	✓ Consider the nature and effectiveness of the IC system in mitigating the risk. ✓ Ensure controls are routine, designed to prevent or detect and correct errors, and assess if they are manual or automated.
8.	Consider any unique characteristics of the risk.
9.	Consider inherent risks in transactions, account balances, or disclosures that need further audit procedures. Examples: High-value inventory, complex contracts, or sales from a single customer.

B. Indicators of Possible Potential Misstatement	
1.	Completeness 1. Transactions not identified. 2. Source documents not prepared. 3. Source documents not captured. 4. Rejected source documents not represented.
2.	Existence 1. Fictitious or unauthorised transactions entered. 2. Source documents overstated. 3. Transactions duplicated on source documents. 4. Capture of source documents duplicated. 5. Invalid source documents captured on subsidiary ledgers.
3.	Recording 1. Source documents captured inaccurately.

	2. Processing of transactions is inaccurate. 3. Inaccurate adjustments made in subsidiary ledgers.
4.	Cut-Off Transactions recorded in the wrong period.

4. Risk based Audit Approach

A. Meaning	
1.	Risk-Based Audit (RBA) 1. Approach that analyses audit risks, sets materiality thresholds & allocates more resources to high-risk areas. 2. Audit procedures focus on identified high-risk areas, not all areas of the audit. 3. Essential in both financial audits and audit of FS including internal controls. 4. Focuses on identifying FS misstatement risks & reducing the impact to acceptable level. 5. Helps identify risks for improving auditee's risk management and control processes.
2.	RBA in Performance Audit 1. Focuses on risks to delivery of activities with economy, efficiency, and effectiveness. 2. Risk analysis identifies areas at risk and helps focus audit attention for assurance in performance auditing.

B. Audit Risk Analysis	
1.	Meaning 1. Auditor performs an analysis of audit risks before conducting specific audit procedures. 2. Risk assessment is subjective and based on professional judgment. 2. Audit risk is the possibility that the auditor fails to appropriately modify their opinion on misstated FS.
3.	Audit Risks from Error and Fraud a. Error: An unintentional mistake due to omission / inclusion of erroneous transactions. b. Fraud: An intentional misstatement in accounting records or documents meant to deceive or conceal misappropriations.
4.	Auditor's Responsibility The auditor must plan and perform the audit to obtain reasonable assurance that FS are free of MMS, caused by either error / fraud.
5.	Error Risk Errors may arise from issues in principle, estimates, information processing, financial reporting or disclosure.
6.	Fraud Risk Fraud risk involves manipulation, falsification or misrepresentation in accounting records/ FS. It includes misapplication of accounting principles or misappropriation of funds.

C. General steps in conducting Risk Based Audit	
1.	Audit Objective The auditor aims to obtain reasonable assurance that no MMS exist in the FS.

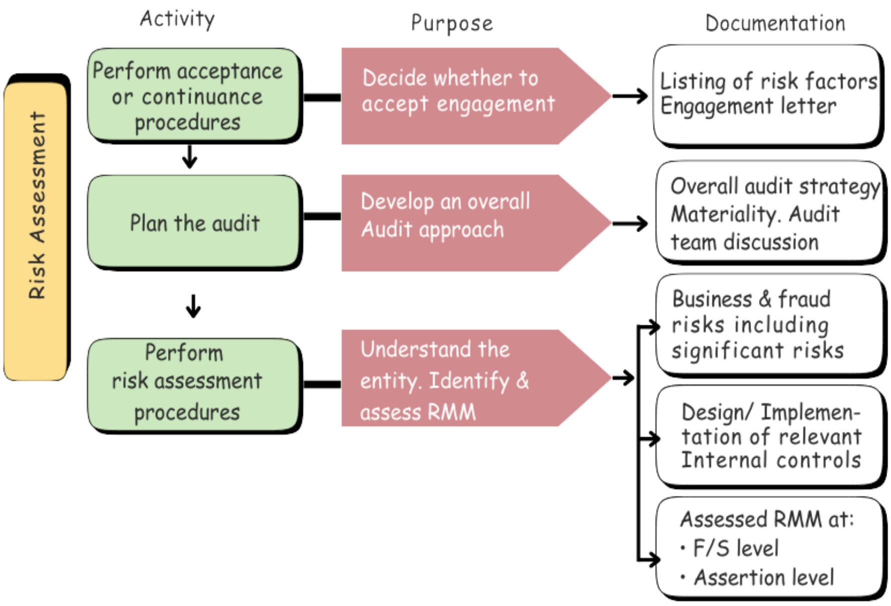
2.	Key Steps 1. Assessing the ROMM in the FS. 2. Designing and performing further audit procedures to respond to the assessed risks and reduce them to an acceptable level. 3. Issuing an appropriate audit report based on the audit findings.
3.	Risk-Based Audit Process The risk-based audit process has 3 phases: 1. Risk assessment 2. Risk response 3. Reporting

D. 3 distinct phases of Risk Based audit

Phase 1 – Risk Assessment

The first phase of the audit involves understanding the client, identifying risks and assessing internal controls.

1.	a. Perform procedures to assess whether to accept or continue working with the client. b. Plan the overall audit approach. c. Perform Risk Assessment procedures to understand the business and identify inherent and control risks. d. Identify and assess the design and implementation of internal controls. e. Assess the ROMM in the FS. f. Identify significant risks requiring special consideration and assess if substantive procedures alone are enough. g. Report any material weaknesses in IC to management and TCWG. h. Assess ROMM at both the financial statement level and at assertion level.



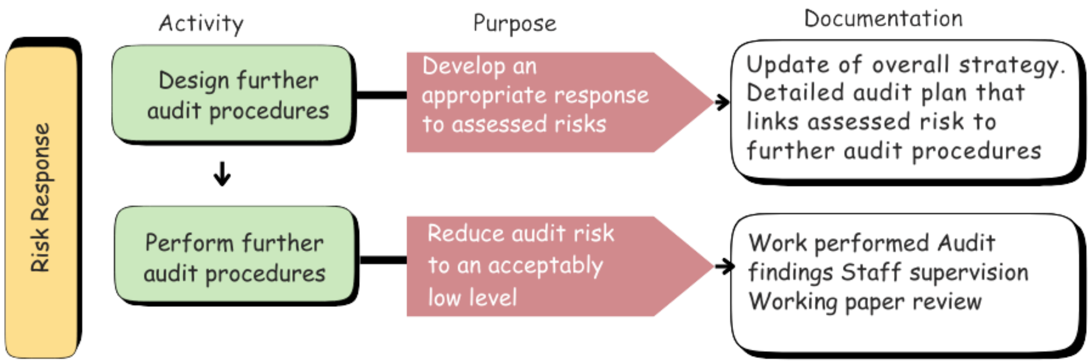
Phase 2 – Risk response

Auditors design and perform procedures to respond to identified risks.

1.	Design Audit Procedures Plan and perform audit procedures to address assessed risks & gather sufficient evidence to support the audit opinion.
2.	Considerations for Procedures

Factors to consider when planning procedures:

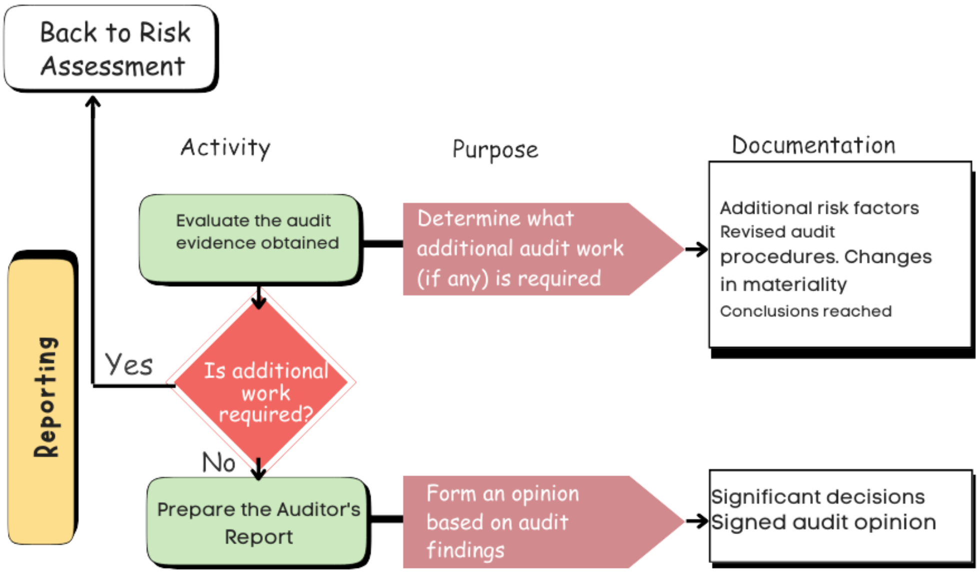
a. Address assertions that cannot be handled by substantive procedures alone.
b. Consider ICs that reduce the need for substantive procedures.
c. Use analytical procedures to reduce the need for other audit tests.
d. Include an element of unpredictability in procedures.
e. Perform procedures to address the risk of fraud or management override of controls.
f. Address significant risks identified.
g. Mix of Tests of ICs & substantive procedures.



Phase 3 – Reporting

The final phase involves evaluating audit evidence, forming conclusions & issuing the audit opinion.

a. Determine if audit evidence is sufficient to reduce ROMM to an acceptably low level.
b. Check if the risk level has changed if conclusions are appropriate and if any suspicious circumstances exist
c. Report findings to management & governance and issue the audit opinion.



[TYU 1 & 2]

5. Internal Control Systems

A. IC Environment	
Meaning of IC system Policies and procedures adopted by management to ensure efficient business conduct, safeguard assets, prevent fraud and ensure accuracy and completeness of records and timely preparation of financial statements. Understanding IC System The auditor's understanding of internal control is crucial for assessing risks and planning audit procedures.	
1.	Control Environment The auditor must assess management's attitudes and actions toward internal controls to understand their importance.
2.	Overall Audit Plan Understanding of controls is not required for every assertion or account balance but helps shape the audit approach.
3.	Audit Evidence The auditor uses tests of control to gather evidence, especially if control risk is assessed as low.
4.	Evidence for Effective Operation of Controls The auditor considers a. How controls are applied, b. The consistency of application, and c. The personnel responsible.
5.	Deviations in Controls a. Concept of effective control recognises deviations. b. Deviations may occur due to personnel changes or fluctuations in volume of transactions & human errors. c. The auditor investigates the causes and adjusts audit procedures accordingly.
6.	Evaluation of Control Effectiveness The auditor evaluates whether ICs are functioning as expected & modifies audit procedures if needed.
7.	Internal Controls Throughout the Period The auditor checks if internal controls were consistently used and adjusts procedures if controls broke down during a specific period.

B. Nature of Internal Control	
1.	SA 315 Definition Internal control is a process designed by management to ensure the achievement of objectives like reliable financial reporting, operational efficiency, safeguarding assets, and compliance with laws.
2.	Internal Control Process A system designed to support business objectives, addressing risks related to operations, compliance and financial reporting.

C. Scope of Internal Control	
1.	Scope Internal controls go beyond accounting and include all administrative controls that influence decision-making, such as production methods, pricing policies, and quality control.
2.	Auditor's Focus in Financial Audit The auditor focuses on policies and procedures affecting FS, including safeguarding assets, fraud detection, accuracy of records, and reliable financial info.
3.	Administrative Controls Administrative controls are less relevant to financial records but may be evaluated if they affect financial record reliability.
4.	Integration of Internal Control Internal controls are integral to the company's activities and are not practiced in isolation. Examples a. Controls ensuring accuracy of production data for analytical procedures. b. Controls detecting non-compliance affecting financial statements.

D. Objectives of Internal Controls	
1.	Objectives of IC Management sets IC objectives based on business nature, scale, and professionalism.
2.	Accounting System Objectives a. Transactions are authorized by management. b. Transactions are recorded for financial info and asset accountability. c. Assets and records are safeguarded. d. Assets are verified regularly; appropriate actions are taken & discrepancies addressed.
3.	Control Objectives Ensure transactions are complete, valid, and accurate.
4.	If control objectives of ICs are not met a. If internal controls are strong, auditors can limit tests. b. Weak controls require more focused audit procedures. Example If sales transactions are improperly valued, the auditor will test sales invoices and expand confirmations.

Basic Control Objectives

Ensure all transactions are

- Recorded
- Real
- Properly Valued
- Recorded Timely
- Properly Posted
- Properly Classified and Disclosed
- Properly Summarized

E. Limitations of Internal Controls	
1.	Cost-Benefit Trade-Off Management may decide that the cost of internal controls should not exceed the benefits derived from them.

2.	Not Targeting Unusual Transactions ICs may not address transactions that are unusual or exceptional in nature.
3.	Human Error Mistakes can occur due to carelessness, distraction or misjudgment.
4.	Circumvention via Collusion ICs can be bypassed through collusion with employees or external parties.
5.	Abuse of Responsibility Responsible person may override internal controls, especially members of management.
6.	Management Manipulation Management may manipulate transactions, estimates or judgments in FR.

F. Structure of Internal Control	
1.	Segregation of Duties Ensures no one person handles all aspects of a transaction. It minimizes fraud and errors and helps detect them early. a. Why and Where Segregate tasks such as authorization, execution, custody of assets, and record-keeping to reduce fraud risk. b. Excessive Tasks Avoid excessive allocation of tasks, which could lead to cumbersome procedures and high administration costs. c. Rotation of Duties Periodically rotating tasks to detect fraud early, prevent vested interests, and ensure employees stay up-to-date and careful.
2.	Authorization of Transactions a. Establish delegation of authority to ensure transactions are carried out per management's guidelines, either generally or specifically. b. This objective can be achieved by making independent comparison of transaction document with general or specific authorizations.
3.	Adequacy of Records & Documents a. Ensure transactions are properly recorded, classified, and safeguard assets. b. Maintain proper documentation for audit purposes. c. Transactions should be authorized, recorded at correct amounts, and classified in appropriate accounts. d. Protect assets and records from unauthorized access. e. For prompt, accurate, complete, and appropriate recording of accounting transaction, several procedures are often established by the management.
4.	Accountability & Safeguarding of Assets Accountability begins from asset acquisition and extends to disposal. Frequent physical checks and reconciliations are required. a. Reconciliation Frequency More frequent reconciliations for sensitive or error-prone assets like cash or inventories. b. Authorized Personnel Access ✓ Only authorized personnel should access and handle assets. ✓ Physical custody and document processing control is crucial.

5.	Independent Checks Regular checks by independent staff (internal or external auditors) to verify that control procedures are operating effectively.

G. Components of Internal Controls	
1.	Control Environment
2.	Risk Assessment Process
3.	Information System
4.	Control Activities
5.	Monitoring of Controls

H. Elements of Control Environment	
	The control environment includes: a. The governance and management functions. b. The attitudes, awareness, and actions of TCWG and management. c. It sets the tone of an organization, influencing the control consciousness of its people.
1.	Communication & Enforcement of Integrity and Ethical Values ✓ The effectiveness of controls depends on the integrity and ethical values of the people. ✓ Management actions to eliminate dishonest or unethical behaviour. ✓ Communication of policies on ethics and integrity.
2.	Commitment to Competence ✓ Ensures individuals have the knowledge and skills required for their roles.
3.	Participation by Those Charged with Governance ✓ TCWG influence the control consciousness of the entity. ✓ Oversight of whistleblower procedures and IC effectiveness.
4.	Management's Philosophy & Operating Style ✓ Management's attitudes toward FR & decision-making, such as conservative or aggressive approaches.
5.	Organisational Structure ✓ The structure defines authority, responsibility and reporting lines. ✓ Structure should be appropriate to the size and nature of the business.
6.	Assignment of Authority & Responsibility ✓ Includes policies related to business practices, key personnel experience, and clear understanding of objectives. ✓ Ensures everyone knows their role in achieving the entity's goals.
7.	Human Resource Policies & Practices ✓ Recruitment of qualified individuals based on integrity, experience and competence. ✓ Training policies to set expected performance standards. ✓ Appraisal systems for promotions based on performance.

I. Entity's Risk Assessment Process	
1.	Auditor's Understanding of Risk Process The auditor must understand if the entity has a process for: a. Identifying business risks relevant to FR. b. Estimating the significance of the risks. c. Assessing the likelihood of occurrence.

	d. Deciding how to address those risks.
2.	Role of Risk Assessment Process The entity's risk assessment helps identify and manage risks. A suitable process assists the auditor in detecting MMS. Judgment is required to assess the appropriateness of the process.
3.	Factors that can affect or change Risks Risks can change or arise due to: a. Changes in operating environment (e.g., new regulations). b. New personnel affecting internal control. c. New information systems impacting internal control risks. d. Rapid growth putting strain on controls. e. New technology introducing new risks. f. New business models / products / activities adding new risks. g. Corporate restructurings affecting supervision and duties. h. Expanded foreign operations introducing new or unique risks (currency transactions). i. New accounting pronouncements affecting FR risks.

J. Control Activities	
A.	Performance Reviews Reviews and analyses comparing actual performance with budgets, forecasts and previous periods. Includes: a. Investigating discrepancies b. Comparing internal data with external sources c. Reviewing functional performance.
B.	Information Processing Information system controls include: a. Application controls: Ensure accuracy of data of individual applications (e.g., edit checks, numerical sequence checks, reviewing accounts & trial balances). b. General IT controls: Ensure system security and functionality of many applications (e.g., program change controls, controls that restrict access to programs or data).
C.	Physical Controls Physical security over assets: a. Protect assets with secured facilities. b. Authorization for access to data and programs. c. Periodic counting and comparison with accounting records (e.g., cash or inventory). d. Ensures reliability of FS preparation, especially if assets are prone to misappropriation.
D.	Segregation of Duties Segregation of responsibilities to reduce fraud: a. Different people authorize, record, and manage assets. b. Prevents a person from committing and concealing errors or fraud. c. Higher-level authorisation may be required for specific transactions such as major acquisitions.

K. Information Systems and related Business Process	
1.	Information System An information system includes: a. Infrastructure (physical & hardware components) b. Software c. People, procedures, and data.
2.	Financial Reporting System FR system includes methods and records that: a. Identify and record valid transactions b. Describe transactions with sufficient details c. Measure value of transactions for financial reporting d. Record timing of transactions in the proper accounting period e. Present transactions & disclosures properly in financial statements
3.	Quality of System-Generated Information The quality of system-generated information affects: a. Management's ability to make appropriate decisions in managing & controlling the entities activities. b. The reliability of financial reports
4.	Communication of Policies Communication may include: a. Policy manuals, accounting and financial reporting manuals, and memoranda. b. Electronic, oral communication or management actions.

L. Monitoring of Controls	
1.	Objective of Monitoring Controls Management monitors controls to ensure they operate as intended and adjust them as needed. Monitoring helps ensure controls remain effective over time. Example: If bank reconciliations aren't monitored, they may stop being prepared.
2.	Activities Involved in Monitoring Monitoring may include: a. Management reviewing whether bank reconciliations are prepared on timely basis. b. Internal auditors checking sales personnel compliance with sales policies c. Legal department overseeing compliance with ethical/business policies d. Using external communications to identify problems or improvement areas
3.	Mentoring of Entity's ICs Internal auditors regularly evaluate the effectiveness of controls, reporting on strengths, weaknesses and providing recommendations for improvement.

M. Objectives and Considerations of Internal Check System	
1.	Concept and Meaning of Internal Check Internal check system means organizing book-keeping and staff duties so no one person handles all aspects of a transaction. It's a built-in control to check transactions.
2.	Objectives of Internal Check 1. Detect errors and frauds easily. 2. Minimize errors and fraud by staff. 3. Increase staff efficiency.

	4. Identify where fraud and errors occur. 5. Protect business integrity. 6. Prevent misappropriation, embezzlement and falsification of cash.
3.	Factors for Effectiveness of Internal Checks a. Clarity of responsibility: Define who is responsible for each task through organizational chart depicting names of persons help to fix up responsibility. b. Division of work: Tasks should complement each other. Rotation of work should be implemented. c. Standardization: Standard policies should guide accounting process commensurate with the size of business. d. Appraisal: Periodic reviews of operations to improve efficiency.
4.	General Conditions of Internal Check a. No one person should control all operations. b. Rotate staff regularly. c. Staff should be encouraged to take annual leave. d. Only authorized people should access assets. e. Proper accounting control and regular checks. f. Use mechanical devices to prevent cash loss. g. Monitor budget deviations. h. Use staff from multiple sections. i. Distribute powers judiciously. j. Regular verification of accounting records.
5.	Note on Statutory Audit a. Statutory audits are time and cost-limited. b. A system of internal checks is essential especially in large organizations for audits to be effective.

[TYU 3 & 4]

N. Review of System of Internal Controls by Auditors	
1.	Evaluating the Design of Control Evaluating control design involves checking if the control, alone or with others, can prevent or detect MMS.
2.	Implementation of Control Control implementation means the control exists and is actively used by the entity.
3.	Importance of Effective Control Assessing control design is more important than implementation. A poorly designed control may be a material weakness or significant deficiency.
4.	Manual and Automated Controls Internal controls may include both manual and automated elements. Their use depends on the nature and complexity of the entity's operations.
5.	Manual Control Suitability Manual elements in internal controls are more suitable where judgement and discretion are required such as: a. Large, unusual, or non-recurring transactions. b. Difficult-to-predict errors. c. Changing circumstances. d. For Monitoring effectiveness of automated controls.

6.	Risks to Internal Control The nature and characteristics of the information system affect internal control risks.
7.	Review of Internal Controls The auditor reviews the internal control system to: a. Formulate an opinion on whether the system allows for accurate FR. b. Identify weaknesses and adjust the audit plan. For Example: If auditor is not satisfied with internal controls: ✓ If trade receivables control is weak, the auditor may expand balance confirmations. ✓ Investments and cash are normally verified at period-end, but if control weaknesses are found, the auditor may conduct surprise checks before or after the routine verification. ✓ If billing controls are weak, the auditor may compare invoices with forwarding notes and verify invoice calculations.
8.	Timing of Review of Internal Controls The timing of the internal control review is a matter of professional Judgement and depends on: a. Size and complexity of the client. b. Previous knowledge of controls. c. A comprehensive review should occur every 3 years. d. Smaller operations may review controls alongside other audit procedures. e. For big entities the review will be conducted as a distinct phase before finalisation of audit.
9.	Letter of Weakness a. If weaknesses are found, the auditor should inform the client and ensure these issues are addressed. b. It is the duty of the auditor to see how far the inadequacies and weaknesses have been removed. c. It is a useful practice to note the following after each function: ✓ Any change in the system of internal control. ✓ Any further weakness noted in the internal control. ✓ Any instance where the prescribed system or procedure has not been followed. d. This should be considered in the audit for modification in programme
10.	Review Procedures a. The review involves inquiring personnel, examining documentation and tracing transactions to understand controls. b. It helps identify controls for compliance testing.

O. Internal Control Assessment & Evaluation of Control environment	
1.	Standard Operating Procedures (SOPs) Well-defined SOPs clearly outline roles, responsibilities, processes, and controls. This ensures that controls are understood and consistently applied, even during staff turnover.
2.	Enterprise Risk Management a. A robust process to identify and mitigate risks across the organization along with regular reviews, helps identify gaps and take corrective actions early. b. Reduces surprises of failures in controls.
3.	Segregation of Job Responsibilities Ensures that no individual handles all aspects of a transaction/decision, reducing the risk of errors or fraud. Segregation of duties is essential for control.

4.	Job Rotation in Sensitive Areas a. Regularly rotating employees in sensitive areas prevents complacency and misuse of controls. b. Job rotation ensures fresh perspectives and vigilance in key commercial functions.
5.	Delegation of Financial Powers Document A clearly defined document on delegation of powers ensures that controls are clearly operational and not dependent on specific individuals.
6.	Information Technology Based Controls With IT and ERP systems, controls can be embedded directly into processes, reducing human dependency. IT-based controls have a better audit trail, lower failure rates and are easier to monitor.

6. Techniques of Evaluation of Internal Controls

The following are the 3 popular techniques of evaluation of internal control:

A. Questionnaire	
1.	Meaning A questionnaire consists of a set of organized questions aimed at evaluating the effectiveness of controls and identifying any weaknesses.
2.	Addresses Various Areas The questionnaire covers different functional areas such as purchases, sales, trade receivables, trade payables, wages, etc.
3.	Filled by Client a. The questionnaire is filled by company executives in charge of different areas. b. The auditor may hold meetings with executives or fill it himself in certain cases. c. Questions are framed for simple Yes/No/Not applicable answers. d. A "No" or a "Yes" answer may indicate weaknesses. e. In certain cases, detailed answers may be requested.
4.	Standardised ICQ Basic assumptions for the internal control questionnaire (ICQ) include: a. Division of duties in large organizations. b. No custodial functions for accounting. c. Segregation of duties. d. Evidence of work performed by individuals. e. Review by others in routine tasks. f. Proper documentation and recording of transactions.
5.	Purpose The questionnaire serves as a record of the state of internal controls provided by the client.
6.	Periodicity a. The questionnaire is required for the first year of the audit. b. For subsequent years, the auditor may ask the client to confirm if any changes have occurred. c. If there are changes, the auditor will note them. d. Every 3rd year, the questionnaire should be issued even without changes, to stay control-conscious.

B. Check List	
1.	Meaning A checklist is a series of instructions or questions regarding IC that the auditor must follow or answer.
2.	Initials for Instructions When an instruction is carried out, the auditor initials the space opposite the instruction.
3.	Question Format If the checklist is in the form of a question, the answer is generally "Yes," "No," or "Not Applicable."
4.	Reminder Nature The checklist serves as a reminder for the auditor on what to check for testing the internal control system.
5.	Intended for Auditor's Staff The checklist may also be used by the auditor's own staff to ensure tasks are completed.
6.	Checklist vs Questionnaire While a questionnaire is for the client, a checklist is more for the auditor's staff and includes instructions or points.
7.	ICQ vs Checklist a. ICQ has more detailed questions; checklist is broader. b. "Yes" in ICQ indicates weakness; "No" in checklist indicates weakness. c. ICQ does not always reveal the significance of a "No," but checklist requires a statement about material weaknesses.
8.	Example Checklist Questions Example of questions for the audit staff about the cashier's duties: f. Is not responsible for opening mail. g. Does not authorize ledgers. h. Does not authorize expenditure. i. Takes annual leave regularly. j. Balances the cash book daily. k. Verifies cash balance daily. l. Prepares monthly bank reconciliation. m. Holds no unnecessary balance. n. Follows procedures for payment authorization. o. Has proper security or fidelity bond.

C. Flow Chart	
1.	Graphical Presentation A flow chart is a graphic presentation of internal controls in an organization, showing controls for each section or sub-section.
2.	Less Narratives Unlike a narrative form, a flow chart reduces the need for detailed narratives, providing a concise, comprehensive way to review internal controls.
3.	Bird's Eye View A flow chart provides a bird's eye view of the system, summarizing the auditor's findings visually.

4.	Every Detail Included A flow chart includes every relevant detail regarding control points, showing how operations are performed.
5.	Diagram Format A flow chart is essentially a diagram with lines and symbols, making it an effective way to present the state of internal controls.
6.	Flow of Activities A well-drawn flow chart shows the flow of activities, including: a. Points of document creation/receipt b. Number of document copies c. Sequential stages d. Distribution e. Authorization checks f. Filing g. Disposal
7.	Analytical Knowledge Needed A strong knowledge of internal controls is required to effectively use flow charts. It demands an analytical mind to identify control points.
8.	Section/Department-wise Charts Flow charts should be created section-wise or department-wise to ensure clarity and readability.

D. Communicating Weaknesses Identified in Internal Controls	
1.	Purpose of Letter Lists areas of weakness in internal control and suggests improvements.
2.	Auditor's Role The letter discusses weaknesses identified during the audit, not an assessment of internal control. The audit is not designed to evaluate internal control adequacy.
3.	Reference Document The letter serves as a reference for management to improve and enforce internal control.
4.	Auditor's Responsibility Issuing the letter doesn't relieve the auditor of their duty to qualify the FS if weaknesses remain and affect the FS materially.
5.	Case Law In Re S.P. Catterson & Ltd. (1937), the auditor was cleared of negligence for fraud since they had identified weaknesses and recommended changes that management ignored.
6.	SA 265 View SA 265 outlines the auditor's responsibility to communicate deficiencies in internal control to TCWG and management. The auditor's role focuses on reporting deficiencies, not evaluating the overall effectiveness of IC's.
7.	Audit Procedure ✓ The auditor identifies deficiencies in internal control. ✓ Determines whether deficiencies are significant. ✓ Communicates significant deficiencies and any other deficiencies to management in writing on a timely basis.
8.	Contents of Letter The letter must include:

	a. A description of deficiencies and their potential impact. b. Sufficient information to help management understand the context: ✓ The audit was for expressing an opinion on FS. ✓ The audit considered internal control but was not for evaluating effectiveness. ✓ The report is limited to significant deficiencies identified during the audit.

[TYU 5]

7. Internal control Frameworks

A. Need of Internal Control Frameworks	
1.	Need for ICS a. Internal controls are essential for the governance of every organization. Whether using a global framework or a company-specific one, management should aim to safeguard business value. b. There are global frameworks to guide the development of internal control systems.
2.	Control within Processes a. Controls should be embedded in processes that help the company achieve its objectives. b. It's better to integrate early warning mechanisms into existing management information systems. c. BOD should ensure they have timely, relevant and reliable reports on progress and risks.
3.	Objective of ICS a. Internal control is crucial for daily business operations and achieving business objectives. b. It covers the entire company's activities, not just FR. c. The chapter reviews international frameworks for internal control.
4.	Guidance Note on Audit of Internal Financial Controls ICAI has issued a Guidance Note on auditing ICOFR under the Companies Act, 2013. It covers: a. Scope of reporting on internal controls. b. Essential components of internal controls. c. Technical and implementation guidance for auditing internal controls. d. Guidance Note states: "To claim FS present a T&F view, compliance with FRFW is essential."
5.	FR Framework a. The Accounting Standards under the Companies Act, 1956 (as per Section 133 of the 2013 Act) form the FRFW. b. Auditors use this framework to assess if the FS present a true and fair view of the company's position and performance.
6.	IC Framework a. A benchmark internal control system is essential to assess the adequacy of controls. b. This system allows management and auditors to evaluate compliance with ICs.

B. COSO [Committee of Sponsoring Organisation] Framework	
1.	COSO Framework ✓ Introduced in 1992, the COSO Integrated Framework provides guidance on establishing better internal controls to help companies achieve their objectives. ✓ It categorizes entity-level objectives into three areas:

	Operations, Financial Reporting and Compliance.
2.	Components of COSO Framework The COSO Framework includes 5 components with over 20 basic principles: a. Control Environment b. Risk Assessment c. Control Activities d. Information and Communication e. Monitoring
3.	17 Internal Control Principles The 17 principles represent the core concepts for an effective ICS. These principles must be present and functioning in every entity.
4.	Control Environment Principles 1. Integrity and ethical values. 2. Oversight responsibility. 3. Structure, authority, and responsibility. 4. Commitment to competence. 5. Accountability enforcement.
5.	Risk Assessment Principles 1. Specifies objectives. 2. Identifies and analyses risks. 3. Assesses fraud risks. 4. Identifies and analyses significant changes.
6.	Control Activities Principles 1. Selects and develops control activities. 2. Selects and develops controls over technology. 3. Deploys through policies and procedures.
7.	Information and Communication Principles 1. Uses relevant information. 2. Communicates internally. 3. Communicates externally.
8.	Monitoring Principles 1. Conducts ongoing evaluations. 2. Evaluates and communicates deficiencies.
9.	Objectives of COSO Framework COSO is designed to assess the effectiveness of internal controls in achieving management-defined objectives: a. Operations Objectives: Efficiency, effectiveness, and safeguarding assets. b. Reporting Objectives: Internal and external financial and non-financial reporting, ensuring reliability and transparency. c. Compliance Objectives: Ensuring compliance with laws and regulations.
10.	Limitations of Internal Control ✓ The Framework acknowledges limitations due to factors like human error, management override, judgment uncertainties, and collusion. ✓ Effective systems minimize these risks but can't eliminate them. Reasonable assurance is provided, not absolute assurance.

C. COCO [Criteria of Control] Framework	
1.	Criteria of Control Framework ✓ Developed by the Canadian Institute of Chartered Accountants in 1992. ✓ Aimed at improving organizational performance, decision-making, controls, risk management, and corporate governance.
2.	Framework Structure The framework includes 20 criteria in 4 key areas of an organization: a. Purpose (direction) b. Commitment (identity and values) c. Capability (competence) d. Monitoring and Learning (evolution)
3.	Scope of Control ✓ Control involves the entire organization but starts at individual level with the employee.
4.	Assessing Control Effectiveness ✓ To assess whether controls are effective, each criterion is examined to identify the controls in place to address them.

D. COBIT [Control Objectives for Information and Related Technology]	
1.	COBIT Framework ✓ Created by ISACA (Information Systems Audit and Control Association) for IT governance and management.
2.	Structure of COBIT COBIT includes 34 high-level processes covering 210 control objectives, categorized into 4 domains: a. Planning and Organization b. Acquisition and Implementation c. Delivery and Support d. Monitoring and Evaluation
3.	Purpose of COBIT ✓ Designed to support managers by bridging the gap between technical issues, business risks, and control requirements.
4.	Business Value ✓ Business managers are equipped with a model to deliver value and improve risk management in IT processes.
5.	Control Model ✓ COBIT ensures the integrity of the information system. It is used globally by managers responsible for IT business processes.
6.	Global Recognition ✓ COBIT is a recognized guideline applicable to any organization across industries, ensuring quality, control, and reliability of information systems.
7.	IT Resource Management ✓ Guides organizations on using IT resources (applications, information, infrastructure, people) to manage IT domains, processes, and activities, addressing business requirements like compliance, efficiency, integrity and availability.

8.	Compliance and Governance ✓ Well-governed IT practices help businesses comply with laws, regulations, and contractual arrangements.

E. Combined Code of Committee on Corporate Governance	
1.	Turnbull Report (Guidance for Directors) ✓ Published by the ICAEW to assist listed companies in implementing the Combined Code on internal control.
2.	Key Principles of the Combined Code: a. Sound System of Internal Control ✓ The board must maintain a sound system of internal control to protect shareholders' investment and company assets. b. Annual Review of Effectiveness ✓ Directors must annually review the effectiveness of the internal control system, including financial, operational, compliance controls, and risk management. ✓ They must report to shareholders on the review. c. Internal Audit Function ✓ Companies without an internal audit function should periodically review whether they need one.
3.	Director's Judgment ✓ Directors must exercise judgment when reviewing how the company has implemented the internal control requirements and report the findings to shareholders.
4.	Risk-Based Approach ✓ The board should adopt a risk-based approach to establish and review the effectiveness of the ICS. ✓ This should be integrated into the company's normal management and governance processes.
5.	Integration into Management Processes ✓ Internal control should not be a separate, one-time exercise for regulatory compliance but part of the company's ongoing operations.

F. Sarbanes-Oxley Act	
1.	SOX Section 404 Overview ✓ SOX Section 404 requires publicly traded companies to establish internal controls and procedures for FR and to document, test, and maintain these controls for effectiveness.
2.	Purpose of SOX ✓ The main goal of SOX is to reduce corporate fraud by tightening FR procedures and requirements.
3.	Sarbanes-Oxley Act (2002) ✓ The Sarbanes-Oxley Act, signed into law in 2002, revamped federal regulations related to corporate governance and reporting obligations for publicly traded companies.
4.	SEC & PCAOB Requirements ✓ Management must assess its ICOFR and test their design and effectiveness. ✓ Management must report on the effectiveness of these controls in the annual report. ✓ External auditors must provide 2 opinions: i. An independent opinion on the effectiveness of the ICS.

	ii. A traditional opinion on the financial statements.
5.	Definition of Internal Control ✓ For SOX Section 404, most companies and CPA firms use the COSO Internal Control — Integrated Framework. ✓ This framework helps management understand the scope of their controls and identify potential gaps in SOX 404 compliance.
6.	Management's Responsibility ✓ Management must assess whether the ICS ensures reasonable assurance that material errors in FS will be prevented or detected.
7.	Internal Control Report in Annual Report Securities and Exchange Commission (SEC) rules require a company's annual report to include the following: a. Management's responsibility for establishing and maintaining adequate ICOFR. b. The framework used by management to evaluate the effectiveness of ICs. c. Management's assessment of IC effectiveness, including any material weaknesses. d. A statement that the public accounting firm that audited the FS has issued an attestation report on management's assessment.
8.	Attestation Report Requirement ✓ Companies must include the attestation report from the registered public accounting firm that audited FS as part of their annual report.

5. AUDIT EVIDENCE

1. SA 500 Audit Evidence

Section	Explanation
1. Audit Evidence	Audit evidence is the information used by the auditor to form conclusions for the audit opinion. It includes both accounting records and other information.
2. Scope of SA 500	a. This SA covers the auditor's responsibility to design and perform audit procedures to obtain sufficient and appropriate audit evidence for forming a reasonable opinion. b. This SA applies to all audit evidence obtained during the audit.
3. Objective of the Auditor	The auditor must design and perform audit procedures to obtain sufficient and appropriate audit evidence to form reasonable conclusions and base the audit opinion.
4. Information to be Used as Audit Evidence	Relevance and Reliability The auditor must consider the relevance and reliability of the information used as audit evidence.
	Management Expert's Information If using information from a management expert, the auditor must evaluate the expert's competence, objectivity, and the appropriateness of their work.
	Entity-Produced Information When using information produced by the entity, the auditor must assess its reliability, completeness, and accuracy.
5. Audit Procedures to Obtain Audit Evidence	Risk Assessment Procedures Includes: a. Inquiries b. Inspection and Observation c. Analytical procedures
	Further Audit Procedures Include: a. Test of controls b. Substantive procedures: i. Test of details ii. Substantive analytical procedures
6. Inconsistency or Doubts on Reliability of Evidence	If there are inconsistencies or doubts about the reliability of audit evidence, the auditor must decide what changes to make in the audit procedures and consider the impact on other parts of the audit.

2. SA 501 Audit Evidence - Specific Considerations for Selected Items

Section	Explanation
1. Objective of the Auditor	a. Existence and Condition of Inventory The auditor must obtain sufficient and appropriate evidence regarding the existence and condition of inventory.
	b. Completeness of Litigation and Claims The auditor must assess the completeness of litigation and claims involving the entity.
	c. Presentation and Disclosure of Segment Information The auditor must ensure that segment information is presented and disclosed in accordance with the financial reporting framework.
2. Existence and Condition of Inventory	Attend Management's Inventory Counting The auditor must attend the inventory count to: a. Evaluate management's procedures for counting. b. Observe management counting. c. Inspect the inventory. d. Perform test counts. e. Reconcile the physical inventory with records. f. If inventory counting is done after year-end, identify changes and ensure they are properly recorded.
	Physical Inspection by Auditor If the auditor can't attend inventory counting due to unforeseen circumstances, they must perform physical counts on alternative date and check intervening transactions.
	Physical Inspection Impracticability If attending inventory counting is impracticable, the auditor must perform alternative procedures, such as: a. Inspecting subsequent sales of inventory. b. If alternative procedures are not possible, the auditor must modify the opinion per SA 705.
	Inventory in Custody of Third Party If inventory is held by a third party, the auditor must: a. Request confirmation from the third party. b. If confirmation is unreliable, perform alternative procedures, like: ✓ Attending the third party's count. ✓ Obtaining auditor's reports on third-party counts. ✓ Inspecting warehouse receipts.
3. Litigation and Claims	Design Audit Procedures The auditor must perform procedures to identify litigation and claims that could risk material misstatements, such as: a. Inquiries with management and legal counsel. b. Reviewing minutes of meetings and correspondence. c. Reviewing legal expense accounts.
	Confirmation from External Legal Counsel The auditor must seek direct confirmation from external legal counsel if: a. There is a risk of material misstatement in litigation.

	b. Other litigation may exist. c. For more clarity on existing litigations.
	Management Refuses Permission for Communication If management refuses to allow the auditor to communicate with external legal counsel, or the counsel does not respond, and if sufficient audit evidence cannot be obtained, the auditor must modify the opinion per SA 705.
	Written Representations The auditor must request written representations from management confirming that all known litigation and claims are disclosed and properly accounted for in the financial statements.
4. Segment Information	Evaluate Methods Used by Management The auditor must: a. Understand and evaluate whether management's methods for determining segment information comply with the applicable reporting framework, covering: ✓ Sales, transfers, and intersegment eliminations. ✓ Budgets, operating profits. ✓ Allocation of assets and costs. ✓ Consistency with prior periods. b. Where appropriate, test these methods.
	Perform Audit Procedures The auditor must perform analytical procedures or other procedures to test the presentation and disclosure of segment information.

3. SA 505 External Confirmations

Section	Explanation
1. Definitions	External Confirmation Audit evidence obtained as a direct written response from a third party, in paper or electronic form.
	Positive Confirmation Request A request asking the third party to respond directly, agreeing or disagreeing with the information or providing the requested details.
	Negative Confirmation Request A request asking the third party to respond only if they disagree with the information provided.
	Exception A response that shows a difference between the information requested or the records of the entity and response of third party
2. External Confirmation Procedures	Step 1: Determining Information to Be Confirmed The auditor confirms or requests information on Account balances, terms of agreements, contracts, transactions, etc.
	Step 2: Selecting the Appropriate Confirming Party Choose a party that is knowledgeable about the information to be confirmed (e.g., a bank official for financial information).
	Step 3: Designing the Confirmation Requests

	The design of requests affects response rates and audit evidence. Key factors include: ✓ Risk of material misstatement. ✓ Layout and Presentation of request. ✓ Prior experience. ✓ Assertions being addressed. ✓ Method of communication (e.g., paper, email). ✓ Management's authorization for the confirmation.
	Step 4: Sending Requests Send the confirmation requests, and send follow-up requests if necessary.
3. Management's Refusal to Allow Confirmation	a. Inquire about Refusal If management refuses, ask for reasons and evaluate if they are reasonable.
	b. Evaluate Implications Assess how refusal affects risk of material misstatement and audit procedures.
	c. Perform Alternative Procedures Use alternative audit procedures to obtain reliable evidence.
	d. Communication with Governance If refusal is unreasonable, communicate with those charged with governance (per SA 260).
	e. Impact on Audit Opinion Determine how refusal affects the audit and opinion (per SA 705).
4. Doubts About Reliability of Responses	Further Audit Evidence If doubts arise about a response's reliability, obtain further evidence.
	Evaluate Implications Assess how unreliable responses affect the risk of material misstatement and other audit procedures.
5. Negative Confirmations	Conditions for Using Negative Confirmations Negative confirmations provide less persuasive evidence. They should not be used as the sole procedure unless: a. The risk of misstatement is low. b. The population is large, with small and similar balances. c. Low exception rate is Expected. d. Very low non-response rate is expected.
6. Results of External Confirmation	a. In case of Non response, Auditor shall perform Alternative procedures. b. When response to PCR is not received, the auditor shall determine implications in the audit report. c. In case of Exceptions, the auditor shall investigate the differences.

4. SA 510 Initial Audit Engagements - Opening Balances

Section	Explanation
1. Objective of the Auditor	Misstatements in Opening Balances The auditor needs to obtain evidence whether opening balances contain misstatements that materially affect the current period's financial statements.

	Consistency of Accounting Policies The auditor needs to verify if accounting policies in the opening balances have been consistently applied or changes have been properly accounted for, presented, and disclosed.
2. Definitions	Initial Audit Engagement A new engagement where: ✓ The prior period's financial statements were not audited; or ✓ The prior period's financial statements are audited by predecessor auditor.
	Opening Balances a. The Account balances at the beginning of the period, based on the previous period's closing balances. b. These include disclosures like contingencies and commitments.
	Predecessor Auditor The previous auditor who audited the financial statements of an entity in the prior period before being replaced by the current auditor.
3. Audit Procedures for Opening Balances	Obtain Evidence on Misstatements The auditor shall obtain evidence to assess whether opening balances contain misstatements affecting current period's financial statements. This includes: ✓ Verifying if the prior period's closing balances were correctly carried forward. ✓ Checking if the appropriate accounting policies were applied. ✓ Performing specific audit procedures like comparing opening balances to the previous approved balance sheet.
	Misstatements Identified a. If the auditor identifies misstatements, they must perform additional procedures to assess their impact on the current period's financial statements. b. Misstatements should be communicated with management and those charged with governance as per SA 450.
4. Consistency of Accounting Policies	Apply Policies Consistently a. The auditor must verify that accounting policies in the opening balances were applied consistently in the current period and b. Any changes in policies were properly accounted for, presented, and disclosed.
5. Audit Conclusions and Reporting – Opening Balances	Misstatements in Opening Balances If the opening balances contain material misstatements that are not properly accounted for or disclosed, the auditor will issue a qualified or adverse opinion as per SA 705.
	Insufficient Audit Evidence If the auditor cannot obtain sufficient evidence about the opening balances, they will issue a qualified opinion or disclaimer of opinion as per SA 705.
6. Audit Conclusions and Reporting – Consistency of	Inconsistent Policies or Disclosures If the auditor finds that: ✓ Accounting policies are not consistently applied; or

Accounting Policies	✓ Changes in policies are not properly accounted for or disclosed, the auditor will issue a qualified or adverse opinion as per SA 705.
7. Modifications in Predecessor Auditor's Report	Relevant Modifications If there was a modification in the predecessor auditor's report and it remains relevant for the current period, the current auditor must also modify the opinion as per SA 705.

5. SA 530 Audit Sampling

SA 530

"Audit Sampling"

- **Scope of the SA & Objective of the auditor**
  - **Scope**
    This SA applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with auditor's use of statistical and non statistical sampling.
  - **Objective**
    To provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.
- **Sample design, size and selection of items for testing**
  1. While designing audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population.
  2. The auditor shall determine sample size sufficient to reduce sampling risk to an acceptably low level.
  3. The auditor shall select items for the sample such that each sampling unit in the population has a chance of selection.
- **Performing Audit Procedures**
  1. The auditor shall perform appropriate audit procedure on each item selected.
  2. If audit procedure is not applicable on the selected item, apply the procedure on a replacement item.
  3. If the auditor is unable to apply the designed audit procedure to a selected item, treat that item as a deviation from the prescribed control, in case of tests of controls, or a misstatement, in the case of tests of details.
- **Other points of consideration**
  1. The auditor shall investigate the nature and cause of deviation or misstatement identified and evalute its possible effect.
  2. When a deviation / misstatement is considered as anomaly, the auditor shall perform audit procedures to obtain high degree of certainity that it is not representative of the population.
  3. For test of details, the auditor shall project misstatements found in the sample to the population.
  4. The auditor shall evaluate the results of the sample and whether the use of audit sampling has provided a reasonable basis for conclusion about the population tested.

6. SA 550 Related Parties

Scope of the SA	Objectives of the auditor	Requirements of the SA	Identification of previously unidentified or undisclosed related part transactions.	Identified significant related party transactions outside the entity's normal course of business	Other important points
This SA deals with the auditor's responsibilities regarding related party relationships and transactions. It expands on how SA 315, SA 330, SA 240 are to be applied in relation to related party relationships and transactions.	To obtain an understanding of the related party transactions to: 1. recognize fraud risk factors arising from such transactions. 2. conclude whether financial statements in so far as they are affected by such transactions a) achieve a true and fair presentation. b) are not misleading. To obtain audit evidence as to whether the related party transactions are properly identified, accounted for, and disclosed in the financial statements.	1. Risk Assessment procedures and related activities. 2. Understanding the Entity's related party relationships and transactions. 3. Maintaining alertness for related party information when reviewing records or documents. 4. Sharing related party information with the Engagement team. 5. Identification and assessment of the risk of material misstatement associated with related party transactions and relationships. 6. Responses to the Risks of Material Misstatement associated with related party relationships and transactions.	1. Auditor shall determine whether the underlying circumstances confirm the existence of such transactions. 2. Communicate within the team. 3. Request managment to identify all transactions with newly identified related parties. 4. Perform more substantive procedures. 5. Reconsider risks with respect to other related parties. 5. If non disclosure by the management appears intentional, evaluate the implications for the audit.	1. Inspect the underlying contracts and evaluate: a) the business rationale of the transactions. b) whether the terms of transactions are consistent with managment's explanations. c) whether such transactions have been properly accounted for. 2. Obtain audit evidence that the transactions have been appropriately authorised and approved.	**The auditor shall obatin Written Representation that:** a) all the related parties and related party transactions have been disclosed to the auditor and b) all such transactions have been properly accounted for and disclosed. **Communication with TCWG** The auditor shall communicate with TCWG significant matters arising during the audit in connection with the entity's related parties. **Documentation:** The auditor shall include in audit documentation names of the related parties and the nature of the related party transactions.

6. COMPLETION AND REVIEW

1. SA 560 Subsequent Events

	Content
A.	Objectives 1. Obtain audit evidence on whether events occurring between the financial statements date and the auditor's report date that require adjustment are appropriately reflected. 2. Respond to facts that become known after the auditor's report date that might require a change in the report.
B.	Definitions 1. Subsequent Events: Events between the financial statements date and the auditor's report date, and facts known to the auditor after the date of audit report. 2. Date of Financial Statements: The end date of the latest period covered. 3. Date of Approval: Date when all financial statements are prepared, and those responsible have asserted that they have taken responsibility. 4. Date of Auditor's Report: Date when the auditor issues the report according to SA 700. 5. Date Financial Statements are Issued: The date when the report and statements are available to third parties.
C.	Audit Procedure for Identifying Subsequent Events The auditor must perform procedures to identify subsequent events: 1. Ensure management has procedures in place to identify subsequent events. 2. Inquiring Management: ✓ New commitments, borrowings, or guarantees. ✓ Sales or acquisitions of assets. ✓ Assets appropriated or destroyed (e.g., fire, flood). ✓ Developments regarding contingencies. ✓ Any unusual accounting adjustments. ✓ Events that may challenge the going concern assumption. 3. Reading Minutes: Read minutes from meetings held after the financial statements date. 4. Interim Financial Statements: Review the latest subsequent interim financial statements if available.

Case	Details
Case I: Facts Known After Auditor's Report but Before Financial Statements Are Issued	1. Generally, the auditor does not have to perform any procedures after the auditor's report date. 2. If a fact is discovered after the auditor's report but before the financial statements are issued, and this fact could have affected the report: a. Discuss the matter with management and those charged with governance. b. Determine if the financial statements need to be amended. c. Inquire how management will address the issue. 3. If Management Amends the Financial Statements:

	i. Audit Procedures: Perform necessary audit procedures on the amendment. ii. Obtain sufficient and appropriate evidence regarding the amendment. 4. If Management Does Not Amend the Financial Statements: i. If the auditor's report has not been issued, modify the opinion as required by SA 705 and then issue the report. ii. If the report has already been issued, notify management not to issue the statements to third parties until amendments are made. iii. If the financial statements are issued without amendments, the auditor must take appropriate action to prevent reliance on the auditor's report.
Case II: Facts Known After Financial Statements Have Been Issued	1. After the financial statements are issued, the auditor is not required to perform additional audit procedures. 2. New Fact Discovered: If a fact is discovered after the financial statements are issued, and this fact could have affected the auditor's report: a. Discuss the matter with management and, where appropriate, those charged with governance. b. Determine if the financial statements need to be amended. c. Inquire how management will address the issue. 3. If Management Amends the Financial Statements: i. Perform necessary audit procedures on the amendment. ii. Review steps taken by management to inform those who received the previously issued financial statements. iii. Provide a new auditor's report on the amended statements, including an emphasis of matter or other matter paragraph describing the effect on the earlier financial statements and report. 4. If Management Does Not Take Necessary Steps: The auditor should take action to prevent reliance on the audit report and financial statements already issued.

2. SA 570 Going Concern

Covered in Audit Reporting [Chapter 7]

3. SA 580 Written Representation

	Content
A.	Definition of Written Representation A written statement from management to the auditor, confirming certain matters or supporting other audit evidence. Written representations do not include financial statements, their assertions, or supporting books and records.
B.	Written Representations as Audit Evidence 1. Written representations are necessary for the audit and are considered audit evidence, similar to responses to inquiries. 2. They provide necessary audit evidence, but on their own, they do not offer sufficient appropriate evidence.
C.	Objectives of the Auditor 1. To obtain written representations confirming management believes they have fulfilled their responsibility for preparing the financial statements and providing complete information to the auditor. 2. To support other audit evidence through written representations, if necessary or required by other SAs. 3. To respond appropriately to written representations from management.
D.	Date of and Period Covered by Written Representations 1. The date of the written representation should be as close as possible to the auditor's report date, but not later. 2. The written representation must cover all the financial statements and period referenced in the auditor's report.
E.	Doubt as to the Reliability of Written Representations 1. If the auditor has concerns about management's competence or integrity, they must assess how this affects the reliability of the representations and audit evidence. 2. If written representations conflict with other audit evidence, the auditor must perform further procedures to resolve the issue. 3. If the representations are unreliable, the auditor may need to modify the opinion in the auditor's report, usually issuing a disclaimer of opinion in accordance with SA 705.
F.	Written Representations Not Provided If management does not provide requested written representations: 1. The auditor should discuss the matter with management. 2. The auditor must reassess management's integrity and how this affects the reliability of representations. 3. Appropriate actions must be taken in line with SA 705, often resulting in a disclaimer of opinion.

7. AUDIT REPORT

1. SA 700 Forming an Opinion and Reporting on Financial Statements

A. Introduction	
1.	Scope of SA 700 SA 700 deals with the auditor's responsibility to form an opinion on the financial statements. Also deals with form and content of the auditor's report to be issued after the audit.
2.	Need of SA 700 1. Global Consistency: Balances the need for consistency and comparability in audit reporting globally while making the information more relevant to users. 2. Credibility: Promotes credibility in the global marketplace by making audits conducted as per globally recognised SAs. 3. Helps promote user understanding and highlights unusual circumstances.
3.	Objective of the Auditor The auditor's objectives according to SA 700 (Revised): 1. Form an opinion on the financial statements based on the evaluation of audit evidence. 2. Clearly express that opinion in a written report.

B. Forming of an Opinion	
1.	Auditor's Opinion The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in line with the applicable financial reporting framework.
2.	Basis for Opinion To form this opinion, the auditor concludes whether reasonable assurance has been obtained that the financial statements are free from material misstatement due to fraud or error.
3.	Factors to be Considered ✓ Whether sufficient appropriate audit evidence has been obtained. ✓ Whether uncorrected misstatements are material, individually or in aggregate. ✓ The evaluations performed.

C. Key Definitions of SA 700	
1.	General Purpose Financial Statements Financial statements prepared in accordance with a general-purpose framework.
2.	General Purpose Framework A financial reporting framework designed to meet the common financial information needs of a wide range of users.
3.	Types of Financial Reporting Frameworks The financial reporting framework can be a fair presentation framework or a compliance framework.
4.	Fair Presentation Framework ✓ Requires compliance with the framework's requirements AND ✓ Acknowledges, to achieve fair presentation, management may:

	i. Explicitly / Implicitly, to provide additional disclosures beyond those required by the framework. ii. Explicitly, to Depart from a framework requirement (in extremely rare cases) to achieve fair presentation.
5.	Compliance Framework ✓ Requires compliance with the framework's requirements and ✓ Does not acknowledge the need for additional disclosures or departure from requirements as described in the fair presentation framework.

D. Form of Opinions [Types]	
1.	Unmodified Opinion The auditor expresses an unmodified opinion when the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
2.	Modified Opinion [SA 705] The auditor issues a modified opinion: a. If the auditor concludes based on audit evidence obtained, the financial statements are not free from material MMS, or b. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements are free from MMS.
3.	Wording of Unmodified Opinion ✓ The auditor's opinion uses one of these phrases: a. "Present fairly, in all material respects [...] in accordance with [the applicable financial reporting framework]." b. "Give a true and fair view [...] in accordance with [the applicable financial reporting framework]." ✓ These phrases are considered equivalent.
4.	Prohibited Wordings When expressing an unmodified opinion, phrases like "with the foregoing explanation" or "subject to" must not be used as they suggest a conditional opinion or a weakening of the opinion.

E. Contents / Elements of Auditor's Report for Audit Conducted as per SA's	
1.	Title
2.	Addressee
3.	Auditor's Opinion
4.	Basis for Opinion
5.	Material Uncertainty Related to Going Concern [SA 570]
6.	Key Audit Matters [SA 701]
7.	Emphasis of Matter Paragraph [SA 706]
8.	Other Matter Paragraph [SA 706]
9.	Responsibilities of Management
10.	Auditor's Responsibilities
11.	Other Information Para [SA 720]
12.	Report on Other Legal/Regulatory Requirements

13.	Signature of the Auditor
14.	Place of Signature [Ordinarily the city where the report is signed]
15.	Date of the Auditor's Report The date must be on or after the date of approval of the financial statements.
16.	UDIN (Unique Document Identification Number)

F. Detailed Explanation for Above Elements	
1.	Title The auditor's report must have a title clearly indicating it is the report of an independent auditor, e.g., "Independent Auditor's Report."
2.	Addressee ✓ The report is addressed based on the engagement terms or law/regulation. ✓ Typically, auditors report is addressed to the shareholders or those charged with governance.
3.	Auditor's Opinion Includes the heading "Opinion" and also: a. Identifies the entity being audited. b. State that the financial statements have been audited. c. Identify the title of each financial statement. d. Refer to Notes, policies, and e. Specify the date and period covered by the financial statements.
4.	Basis for Opinion Includes the heading "Basis for Opinion" and also: a. State that Audit is conducted as per Standards on Auditing (SAs). b. Refers to the section that contains "Auditors responsibilities" c. Statement that Auditor is independent and complied with ethical requirements. d. State that the auditor believes he obtained sufficient and appropriate audit evidence as a basis for the opinion.
5.	Going Concern, as per SA 570 [Detailed Discussion on SA 570 is covered in later parts] a. The auditor shall obtain S&A Audit evidence whether use of Going concern is appropriate in preparation of financial statements. b. Conclude whether any material uncertainty exist that may cast significant doubt on entities ability to continue as going concern c. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, appropriate disclosure is required in F/S to achieve fair presentation and not mislead.
6.	Key Audit Matters (KAM), As per SA 701, KAM is applicable for: ✓ Listed Entities: For Audit of Complete set of GPFS of listed entities, the auditor shall communicate KAMs ✓ Law / Regulation: Where required by law or regulation. ✓ Auditors Discretion: Where auditor decided to includes issues like significant public interest or audits of financial institutions or charitable entities.
7.	Other Information

Addresses SA 720 requirements for inconsistencies or matters related to information beyond the audited financial statements.

8. Responsibilities for Financial Statements

States management's responsibility for:

a. Preparing statements as per the applicable financial reporting framework [AFRFW].
b. Internal controls to ensure F/S are free from MMS.
c. Appropriateness of use of going concern basis of accounting in preparation of F/S.

Note: This section shall also identify those responsible for oversight of financial reporting process if they are different from management.

[Heading shall be modified accordingly to include TCWG]

9. Auditor's Responsibilities

Section	Description
I. Primary Responsibilities	
Objectives of the Auditor	✓ Obtain reasonable assurance that the financial statements are free from MMS due to fraud or error. ✓ Issue an auditor's report with an opinion.
Reasonable Assurance	Reasonable assurance is a high level of assurance, but it's not a guarantee that all material misstatements will be detected.
Misstatements	Misstatements may arise from fraud or error and are material if they could influence users' decisions.
II. Additional Responsibilities under SAs	
Judgment & Scepticism	The auditor must exercise professional judgment and maintain professional scepticism throughout the audit.
Audit Process	✓ Identify & assess risks of material misstatement due to fraud or error. ✓ Design & perform audit procedures to respond to those risks. ✓ Obtain sufficient & appropriate evidence. ✓ Understand internal control to design effective audit procedures. ✓ Evaluate accounting policies, estimates, and disclosures.
Going Concern	Assess going concern assumptions and identify material uncertainties.
Fair Presentation	In case of fair presentation framework, evaluate presentation, structure, and disclosures.
Group Audits	When SA 600 applies, describe division of responsibility between auditors for group audits, including the work of other auditors.
III. Communication Responsibilities	
Governance Communication	Communicate with those charged with governance regarding ✓ The audit scope & timing and ✓ Significant findings, ✓ Deficiencies in internal control.
Independence for Listed Entities	Statement that auditor complied with ethical requirements regarding independence and communicate the relationships and matters that affect independence including safeguards
Key Audit Matters (KAM)	For listed entities and others, describe Key Audit Matters (KAM) unless restricted by law.

	Location of Responsibilities Section 3 options: ✓ Within the body of the auditor's report or ✓ As an appendix to the report or ✓ On an official website, if permitted by law or regulation where law or regulation expressly permits
10.	Other Reporting Responsibilities 1. Includes legal and regulatory reporting, such as the section "Report on Other Legal and Regulatory Requirements." 2. The other reporting requirements shall be presented immediately after report on financial statements 3. If presented in the same section along with related elements as per SA, the report shall clearly differentiate other reporting responsibilities from reporting as per SAs.
11.	Signature of the Auditor ✓ Individual CAP: Signed by the engagement partner in personal name, ✓ Firm: Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. ✓ MRN FRN: Mention Membership Number (MRN) and the Firm Registration Number (FRN). ✓ As per Sec 141(2) read with Sec 145, Only the person appointed as auditor shall sign the audit report. ✓ Clause 12 of Part 1 of SCH 1, a CAP is treated as guilty if he allows any other person to sign on his behalf unless he is a partner.
12.	Place of Signature Specifies the city where the audit report is signed.
13.	Date of Auditor's Report The date is no earlier than: 1. The auditor obtaining sufficient appropriate audit evidence. 2. The financial statements being approved by those with authority.
14.	UDIN ✓ Means Unique Document Identification Number (UDIN) ✓ All certificates and Reports issued on or after 1st July 2019 shall contain UDIN.
15.	Prescribed Layout for Auditor's Report If a specific layout or wording is required by law, the auditor's report must refer to Standards on Auditing (SAs) only if such audit report includes minimum elements. [Refer ICAI SM for format under law /regulation]

G. Audit report if Audit is conducted both as per SAs and ISAs

When an auditor is required to conduct audit in accordance with both SAs and ISAs or any other jurisdiction, The report can refer to both Standards and can do so only:

No Conflicts in Requirements

a. The auditor must ensure there is no contradiction between the Standards on Auditing (SAs) and the International Standards on Auditing (ISAs) or other jurisdictional standards.
b. If a conflict exists that could lead to a different opinion or omission of an Emphasis of Matter (EOM) or Other Matter (OM) paragraph, dual reference is not allowed.

Minimum Reporting Elements

a. If the auditor follows the reporting structure of ISAs or other jurisdictional standards, the report must still include all essential elements required by SAs.
b. Any reference to "law or regulation" should be understood as referring to the Standards on Auditing (SAs).

Clear Identification of Standards Referenced

When the report refers to both ISAs (or other jurisdictional standards) and SAs, it must clearly identify each standard and mention the jurisdiction of origin of the other auditing standards.

H. Supplementary Information along with Financial Statements

If supplementary information, which is not required as per AFRFW, is presented:

1. As Integral Part:
   a. Evaluate whether such Supplementary information is Integral part of the financial statements due to nature and presentation.
   b. If so, the auditor's opinion should cover such supplementary information.
2. Not Integral Part:
   - ✓ If supplementary info is not considered as integral part, auditor should verify whether such information is clearly differentiated from audited financial statements.
   - ✓ If this is not the case, Request management to differentiate clearly.
   - ✓ If management refuses to do so, the auditor shall identify and explain that such supplementary information is unaudited by them.
3. Examples:
   - Integral: Notes that reconcile financial statements with another framework.
   - Not Integral: Additional schedules that don't affect the audited financials.

2. SA 701 Communicating Key Audit Matters in the Independent Auditor's Report

A. Scope

SA 701 outlines the auditor's responsibility to communicate Key Audit Matters (KAM) in the auditor's report and addresses:

- ✓ Auditors Judgments on what to communicate.
- ✓ Form and content of such communication.

B. Applicability

1. Listed Entities: For audits of complete set of GPFS of listed entities, KAM must be communicated in line with SA 701.
2. Law or Regulation: If required by law or regulation, or if the auditor chooses to communicate KAM, it must comply with SA 701.
3. Public Interest: The auditor may communicate KAM for other entities of significant public interest, e.g., large businesses with wide stakeholders.

Prohibition on KAM

Communicating KAM is prohibited If auditor disclaims opinion on the F/S.

C. Definition of Key Audit Matter

Key Audit Matters are those matters that, in the auditor's professional judgement → Were of most significance in the audit of the financial statements of the current period → Key audit matters are selected from matters communicated with those charged with governance

D. Purpose of Communicating Key Audit Matters (KAM)

1. Enhances communicative value of auditor's report and provide greater transparency in the auditor's report by providing insights about the audit.
2. Offer additional information to help users understand the entity and areas of significant management judgment.
3. Communicating KAM is:
   a. Not a substitute for disclosures required by the financial reporting framework.
   b. Not a substitute for a modified opinion under SA 705.
   c. Not a separate opinion on individual matters.
   d. Not a substitute for reporting on material uncertainty under SA 570 - Going concern.

E. Determining Key Audit Matters

1. KAM are derived from matters communicated with those charged with governance that required significant auditor attention during the audit.
2. The auditor considerations include:
   a. Areas of higher risk or significant risks identified under SA 315.
   b. Areas involving significant management judgment, including accounting estimates with high estimation uncertainty.
   c. The impact of significant events or transactions during the period.
3. Examples of KAM:
   a. Assessment of Impairment
   b. Provision for losses and contingencies
   c. Valuation of Financial instruments
   d. Matters related to revenue recognition
   e. Taxation Matters

F. Manner of Communicating Key Audit Matters

1. KAMs are described under appropriate subheading in a separate section in the auditor's report.
2. The introductory section explains:
   a. KAM are those matters that in the auditor's professional judgment were of most significant in the audit of F/S of current period and
   b. These matters were addressed in the context of the audit as a whole, and the auditor does not provide a separate opinion on these matters.
3. If there is no KAM to communicate, the auditor's report must specifically mention under heading KAM, that there are No Key Audit Matters to communicate

3. SA 705 Modifications to the Opinion in the Independent Auditors Report

- Audit report
  - Unmodified report
  - Modified Report
    - Emphasis of Matter
      - Other Matter
    - Modified Opinion
      - Qualified Opinion
      - Adverse Opinion
      - Disclaimer of Opinion

A. Scope of SA 705
1. SA 705 deals with the auditor's responsibility to issue an appropriate report when, under SA 700 (Revised), a modification to the auditor's opinion is necessary. 2. It also deals with the form and content of the report in case of modified opinion.

B. Circumstances for Modification
The auditor issues a modified opinion in case: 1. If the auditor concludes based on audit evidence obtained, the financial statements are not free from MMS, or 2. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements are free from MMS.

C. Objective of the Auditor
The objective is to express clearly an appropriately modified opinion when: 1. The auditor concludes that the financial statements are not free from material misstatement. 2. The auditor is unable to obtain sufficient appropriate audit evidence.

D. Types of Modified Opinions
1. Qualified Opinion: The auditor expresses a qualified opinion when: a. The auditor, based on S&A Evidence conclude that Misstatements, individually or aggregate, are material but not pervasive. b. The auditor unable to obtain S&A Evidence on which to base opinion, but concludes that possible effects on financial statements of undetected misstatements, if any, could be material but not pervasive. 2. Adverse Opinion: The auditor, based on S&A Evidence conclude that Misstatements, individually or aggregate, are material AND pervasive. 3. Disclaimer of Opinion: The auditor unable to obtain S&A Evidence on which to base opinion, but concludes that possible effects on financial statements of undetected misstatements, if any, could be material AND pervasive. Auditor disclaims opinion in rare cases involving multiple uncertainties, interaction of uncertainties prevents forming an opinion.

E. Definition of Pervasive
Pervasive describes the impact of misstatements or undetected misstatements that: a. Are not confined to specific elements, accounts, or items or b. If so confined, Represent a substantial proportion of the financial statements or c. In relation to disclosures that are fundamental to users' understanding of the financial statements. Note: Pervasive is not localised to any one or two elements but impact across various elements. For example, if audit evidence for inventory is unavailable but other elements (e.g., trade receivables, PPE, loans, trade payables) are properly supported, the issue is limited to inventory and does not affect the other elements.

F. Determining the Type of Opinion
The type of modified opinion depends on: 1. Nature of the matter giving rise to modification: a. Whether the financial statements are materially misstated, or b. Inability to obtain sufficient audit evidence leading to possible material misstatements. 2. Pervasiveness: Regarding the pervasiveness of the effects or possible effects on the financial statements.

Summary of Opinions

Situation	SL No.	MMS exist?	Pervasive?	Opinion
Sufficient and appropriate audit evidence Obtained	1.	No	NA	UQO
	2.	Yes	No	QO
	3.	Yes	Yes	AO
Sufficient and appropriate evidence NOT Obtained	SL No.	Material item?	Possible effect is Pervasive?	Opinion
	1.	Yes	No	QO
	2.	Yes	Yes	DOO

G. Consequence of Management-Imposed Limitation	
1.	Request to Remove Limitation: If, after accepting the engagement, management imposes a limitation on the audit scope that may lead to a qualified opinion or disclaimer, the auditor shall request management to remove the limitation.
2.	Management refuses to remove: If management refuses, the auditor shall: a. Communicate the matter to those charged with governance. b. Determine if alternative procedures can be performed to obtain sufficient appropriate audit evidence.
3.	Unable to obtain evidence even through alternatives: If the auditor is unable to obtain S&A Evidence through alternative procedures and:

Learn Contextually

	a. If the possible effects of undetected misstatements are material but not pervasive, the auditor shall qualify the opinion. b. If the possible effects are both material and pervasive: i. Withdraw from the audit, where possible under law. ii. If withdrawal is not possible, disclaim an opinion.
4.	Communication MMS identified before withdrawal: Before withdrawing, the auditor shall communicate to those charged with governance any material misstatements identified during the audit that would have led to a modified opinion.
5.	If Auditor proposes to Resign (as per LODR regulations) a. within 45 days from end a quarter, the auditor must issue the audit or review report for that quarter before resigns. b. After 45 days, the auditor must issue Audit or review reports for the quarter as well as for the next quarter. c. If all 3 quarterly review reports have been issued, then the auditor shall issue full-year audit report before resignation.
6.	ICAI Announcement on Resignation of Auditor of unlisted company An auditor resigning from an unlisted company must provide clear reasons for resignation in the resignation letter and cannot cite "professional pre-occupation" as a reason.

H. Reference in Audit Report for Modified Opinion

1. Heading of Opinion and Basis for opinion shall refer the type of modified opinion.
   For Example: in case of Q.O – headings shall be changed to "Qualified Opinion" and "Basis for Qualified Opinion"
2. The Basis for Opinion section shall include a description of the matter giving rise to the modification.

I. Basis for Opinion in Modified Opinion

1. MMS in F/s related to specific amounts: If MMS in F/S relates to a specific amount including quantitative disclosures, the auditor shall include a description and quantification of the financial effects of the MMS unless impracticable.
   Unable to Quantify: If quantification is not practicable, the auditor shall state so.
2. MMS in Narrative Disclosures: In basis of opinion, explain how the narrative disclosure is misstated.
3. MMS by non-disclosure:
   a. Discuss with those charged with governance.
   b. Describe the nature of omitted information.
   c. Unless prohibited by L/R, Include the omitted disclosures if practicable based on S&A evidence is obtained.
4. Inability to Obtain Evidence: Describe the reasons for the inability.
5. In Case of Disclaimer of Opinion: The auditor shall not include:
   a. A Reference to the section of auditor's responsibilities.
   b. A Statement about whether S&A evidence obtained.

Note: Any other matter which could have resulted in modified opinion and effect there of shall also be included in BFO section.

J. Auditor's Responsibilities in Disclaimer Opinion
When disclaiming an opinion, the auditor shall amend auditors' responsibilities to include only: a. A Statement that auditor is responsible to conduct an audit as per Standards on Auditing to issue an auditor's report. b. A Statement that, because of matters described in the Basis for Disclaimer of Opinion, the auditors could not obtain S&A evidence. c. A Statement on independence and other ethical responsibilities. Note: Unless required by L/R, Key Audit Matters section shall not be included in case of DOO.

K. Other considerations related to A.O. or D.O.O
Adverse or Disclaimer of Opinion If the auditor expresses an adverse opinion or disclaims an opinion on the financial statements as a whole, certain restrictions apply.
No Unmodified Opinion Allowed in Same Report The auditor's report shall not include an unmodified opinion on a single financial statement or specific elements, accounts, or items under the same financial reporting framework.
Reason for Restriction Including an unmodified opinion in such cases would contradict the auditor's adverse opinion or disclaimer of opinion on the overall financial statements.
Refer SA 805, where I clearly explained about specific element related opinion which is exception to the above rule.

L. Communication with TCWG
When a modified opinion is expected, the auditor shall communicate with those charged with governance about: ✓ The circumstances leading to the modification. ✓ The wording of the modification.

4. SA 706 EOMP and OMP in the Independent Auditor's Report

	Detailed Explanation
1.	Scope and Objective SA 706 deals with additional communication in the auditor's report to: a. EOMP: Draw attention to matters presented or disclosed in the financial statements that are fundamental to users' understanding of financial statements. b. OMP: Draw attention to matters other than those presented or disclosed in the financial statements but relevant to users' understanding of the audit, auditor's responsibilities, or report.
2.	Definitions a. Emphasis Of Matter Paragraph [EOMP] A paragraph in the auditor's report referring to a matter appropriately presented/disclosed in the financial statements, that in auditors' judgement is of such importance that it is fundamental to users' understanding of F/S.

	b. Other Matter Paragraph [OMP] A paragraph in the auditor's report referring to a matter not presented or disclosed in the financial statements, but relevant to users' understanding of the audit, auditor's responsibilities, or auditors report.
3.	Usage of EOMP: EOMP can be included in audit report in respect of a matter provided: 1. The auditor is not required to modify the opinion on such matter as per SA 705. 2. The matter is not determined as a Key Audit Matter under SA 701. Examples of EOMP 1. Uncertainty about the outcome of exceptional litigation or regulatory action. 2. A major catastrophe significantly affecting the entity's financial position. 3. Significant subsequent events between the financial statement date and the auditor's report date. 4. Early application of a new accounting standard with a material impact on the financial statements.
	Manner of Presentation of EOMP 1. Include the paragraph in a separate section of the auditor's report with a heading containing the term "Emphasis of Matter". 2. Clearly express the matter being emphasized and provide a reference to the relevant disclosure in the financial statements. 3. State that the auditor's opinion is not modified concerning the matter emphasized. 4. EOMP is not a substitute for: a. A Modified Opinion as per SA 705. b. Disclosures required in the financial statements as per AFRFW. c. Reporting under SA 570 when material uncertainty exists regarding an entity's ability to continue as a going concern.
4.	Other Matter Paragraphs Include an OMP in the auditor's report if: a. It is not prohibited by law or regulation. b. The matter is not determined as a Key Audit Matter under SA 701.
	Separate Section for OMP Include the OMP in a separate section of the auditor's report with the heading "Other Matter" or another appropriate heading.
5.	Communication with Governance If an EOMP or OMP is expected to be included, the auditor shall communicate this with those charged with governance, including the wording of the paragraph.

5. SA 710 Comparative Information - Corresponding Figures and Comparative Financial Statements

A. Scope
1. SA 710 addresses the auditor's responsibilities regarding comparative information in an audit of financial statements.

2. If prior period financial statements were audited by a predecessor auditor or were not audited, the requirements of SA 510 also apply.

B. Nature of Comparative Information

1. The nature of comparative information depends on the AFRFW.
2. There are 2 approaches to auditor's reporting responsibilities on comparative information:
   a. Corresponding figures and
   b. Comparative financial statements
3. The approach is often specified by law, regulation, or terms of engagement.
4. Essential Audit reporting differences:
   a. Corresponding figures: Auditor's opinion refers to the current period only.
   b. Comparative financial statements: Auditor's opinion refers to each period presented in F/S.

C. Objectives

1. Obtain sufficient appropriate audit evidence that comparative information is presented in accordance with the applicable financial reporting framework.
2. Report in line with the auditor's reporting responsibilities.

D. Meaning of Comparative Information

Amounts and disclosures of one or more prior periods included in the financial statements as per the financial reporting framework.

E. Audit Procedures for Comparative Information

1. Auditor shall verify whether the financial statements include the required comparative information and whether it is appropriately classified and
   a. Ensure comparative information agrees to prior period amounts and disclosures.
   b. Verify consistency of accounting policies or ensure changes are properly accounted for and disclosed.
2. If a material misstatement in comparative information is identified, perform additional audit procedures to obtain sufficient evidence to determine MMS in current period F/s.
3. If prior period financial statements were audited by the same auditor, follow SA 560 for relevant requirements.
4. As per SA 580, obtain written representations for all periods referred to in the auditor's opinion.
5. Also obtain a specific representation regarding any prior period item disclosed in current year statement of P&L

F. Audit reporting regarding corresponding figures

1.	Corresponding Figures ✓ Comparative information where prior period amounts and disclosures are presented as part of the current period's financial statements. ✓ These figures are intended to be read only in relation to the current period figures and ✓ The level of detail is dictated by their relevance to the current period figures.
2.	Auditor's Opinion

	The auditor's opinion on corresponding figures shall not refer corresponding figures, except in the following cases: a. Unresolved Prior Period Modifications: If the prior period report included a qualified, disclaimer, or adverse opinion, and the matter remains unresolved, modify the current period opinion. In BFMO para: i. Material in Current Period [CP]: Refer to both the current period's figures and the corresponding figures in the Basis for Modification paragraph, if the unresolved matter materially affects current figures. ii. Not Material in CP: Explain that the current period opinion is modified due to the unresolved matter's effects on the comparability of current and prior period figures (Even if no material impact on current figures). b. Material Misstatement in Prior Period: If a material misstatement exists in prior period financial statements on which unmodified opinion is issued, ✓ Corrected in CP: Verify if the misstatement was corrected under the financial reporting framework. ✓ If not corrected, express a qualified or adverse opinion on the current period's financial statements. c. Prior Period Financial Statements Not Audited: i. If prior period financial statements were not audited, state the same in Other Matter paragraph that the corresponding figures are unaudited. ii. This statement doesn't reduce responsibility to obtain sufficient audit evidence to ensure opening balances as per SA 510. d. Prior Period Audited by Predecessor Auditor: ✓ If prior period financial statements were audited by a predecessor auditor, and the auditor refers to the predecessor's report: i. Include an Other Matter paragraph stating the financial statements were audited by a predecessor auditor. ii. Mention the type of opinion expressed and the reasons for any modification. iii. State the date of the predecessor auditor's report.

G. Audit reporting for Comparative Financial Statements	
1.	Definition of Comparative Financial Statements ✓ Comparative information includes prior period amounts and disclosures for comparison with the current period. ✓ If audited, the prior period information is referred to in the auditor's opinion. ✓ The level of information is comparable to that of the current period financial statements.
2.	Auditor's Opinion ✓ Auditor's opinion must refer to each period for which financial statements are presented and on which an audit opinion is expressed.
3.	Difference of Opinion with prior report issued by same auditor ✓ If the auditor's opinion on prior period financial statements differs from the previously expressed opinion, disclose the substantive reasons in an Other Matter paragraph as per SA 706.

4.	Prior Period Financial Statements Audited by a Predecessor Auditor a. If prior period financial statements were audited by a predecessor auditor, include an Other Matter paragraph stating: i. That the prior period was audited by a predecessor auditor. ii. The type of opinion expressed, and reasons for any modification. iii. The date of the predecessor auditor's report (unless it is revised). b. If a material misstatement exists in prior period financial statements on which the predecessor auditor expressed unmodified opinion, communicate with management and those charged with governance, and notify the predecessor auditor. c. If prior period statements are amended, and the predecessor auditor issues a new report, the current auditor reports only on the current period.
5.	Prior Period Financial Statements Not Audited a. If the prior period was not audited, include an Other Matter paragraph stating that the comparative financial statements are unaudited. b. Such a statement does not reduce auditor's responsibility for obtaining sufficient appropriate evidence on opening balances as per SA 510.

6. SA 720 Auditors Responsibility related to Other Information

Content	
A.	Objective of SA 720 The auditor's objectives are: 1. To check if there's a material inconsistency between other information and the financial statements. 2. To check if there's a material inconsistency between other information and the auditor's knowledge from the audit. 3. To respond appropriately if material inconsistencies or misstatements are found. 4. To report as per this SA. Note: ✓ Responsibilities apply before or after the auditor's report. ✓ The auditor does not provide assurance on other information. ✓ This SA doesn't apply to preliminary announcements or prospectuses.
B.	Definitions ✓ Other Information: Financial or non-financial information (other than financial statements and the auditor's report) included in an entity's annual report. *[OMP is diff]* ✓ Annual Report: An annual report is a document or set of documents prepared annually by management or those charged with governance as required by law, regulation, or custom. It aims to provide owners or stakeholders with information on: • Operations of the entity • Financial results and position, as presented in the financial statements • Developments, future outlook, risks, and uncertainties • Governance matters, including a statement from the governing body The annual report includes or accompanies the financial statements and the auditor's report.

	✓ Misstatement of Other Information: Incorrect or misleading information (including omission of key details).
C.	Audit Procedure for Other Information 1. Obtain Other Information: The auditor must obtain other information: a. Discuss with management which documents make up the annual report and their timing of issue. b. Arrange to obtain the final version of the document(s) before the audit report date, if possible. c. If some of the documents are available after the audit report date, request written representation from management to provide them to auditor when available, before making them available to third parties. 2. Read the Other Information: The auditor should read the other information and check for: a. Material inconsistencies with the financial statements. b. Material inconsistencies with the auditor's knowledge from the audit. c. Indications that the other information is materially misstated.
D.	Responding to Material Inconsistencies If the auditor finds material inconsistencies, then the auditor shall: 1. Discuss with management and determine if a misstatement exists in other information. 2. Determine if the financial statements are misstated. 3. Decide if the auditor's understanding of the entity needs updating.
E.	If MMS Exists in Other Information 1. Request correction from management: a) If management agrees to correct, confirm the correction. b) If management refuses, communicate with those charged with governance to request correction. 2. If MMS Identified Before the Report Date: a) If not corrected, consider the impact on the auditor's report. b) Consider withdrawing from the engagement if needed. 3. If MMS Identified After the Report Date: a) If corrected, perform necessary procedures. b) If not corrected, take appropriate action to inform the users about the uncorrected misstatement. [Similar to SA 560]
F.	If MMS Exists in Financial Statements If the auditor identifies a material misstatement in the financial statements, they should respond appropriately.
G.	Auditor's Reporting Requirements The auditor must include a separate section titled "Other Information". This section should include: 1. A statement that management is responsible for the other information. 2. An identification of: a. Other information obtained before the auditor's report date. b. For Listed entities, other information to be obtained after the report date.

	3. A statement that the auditor's opinion does not cover the other information and no assurance is given. 4. A description of the auditor's responsibilities in relation to reading, considering, and reporting on other information. 5. If other information obtained before the report date: a. A statement that the auditor has nothing to report, or b. If there's an uncorrected misstatement, describe the misstatement.
H.	Reporting prescribed under Law or Regulation If law or regulation requires the auditor to refer to other information in the audit report using a specific layout or wording, the report shall mention Standards on Auditing only if it includes: a. Identification of the other information obtained before the audit report date. b. Description of the auditor's responsibilities regarding this information. c. Explicit statement on the outcome of the auditor's work related to this information.

Summary of reporting:

MMS in Other Information

UMO and Report in Other Info para about such MMS in Other Info.

MMS in FInancial Statements

Modified Opinion and Reasons in Basis for M.O para of the report.

7. SA 299 Joint Audit of Financial Statements

A. What is Joint Audit
✓ Joint Audit refers to appointing two or more individuals/firms for auditing financial statements (SA 299 – Joint Audit of Financial Statements). ✓ Popular in audit of large entities. Sometimes due to requirement of law. ✓ Sec. 139(3), Members may resolve that, audit will be conducted by more than one auditor.

	B. Responsibilities of Joint Auditors
1.	Individual or separate Responsibilities When work is divided among joint auditors, each auditor is responsible only for their allocated works, which may base on: a. Items of assets or liabilities b. Income or expenditure c. Geographical areas d. Identified units e. Period of financial statements
2.	Joint Responsibilities Indivisible responsibilities in the following circumstances: a. Audit work not divided among auditors and performed collectively. b. Decisions taken collectively regarding common areas. c. Matters brought to all joint auditors' attention by one auditor and agreed upon by all. d. Ensuring of the financial statements that comply with statutory requirements.

	e. Verifying presentation and disclosure requirements as per the applicable financial reporting framework (AFRFW). f. Ensuring the audit report complies with relevant standards and statutes.
3.	In Determining NTE of Audit Procedures a. Each joint auditor is responsible for determining the nature, timing, and extent of audit procedures for their assigned areas. They must individually assess the internal control system and risk related to their work. b. For common audit areas, joint auditors collectively decide on the audit procedures, ensuring their appropriateness. However, executing these procedures correctly remains the individual responsibility of the respective joint auditor.

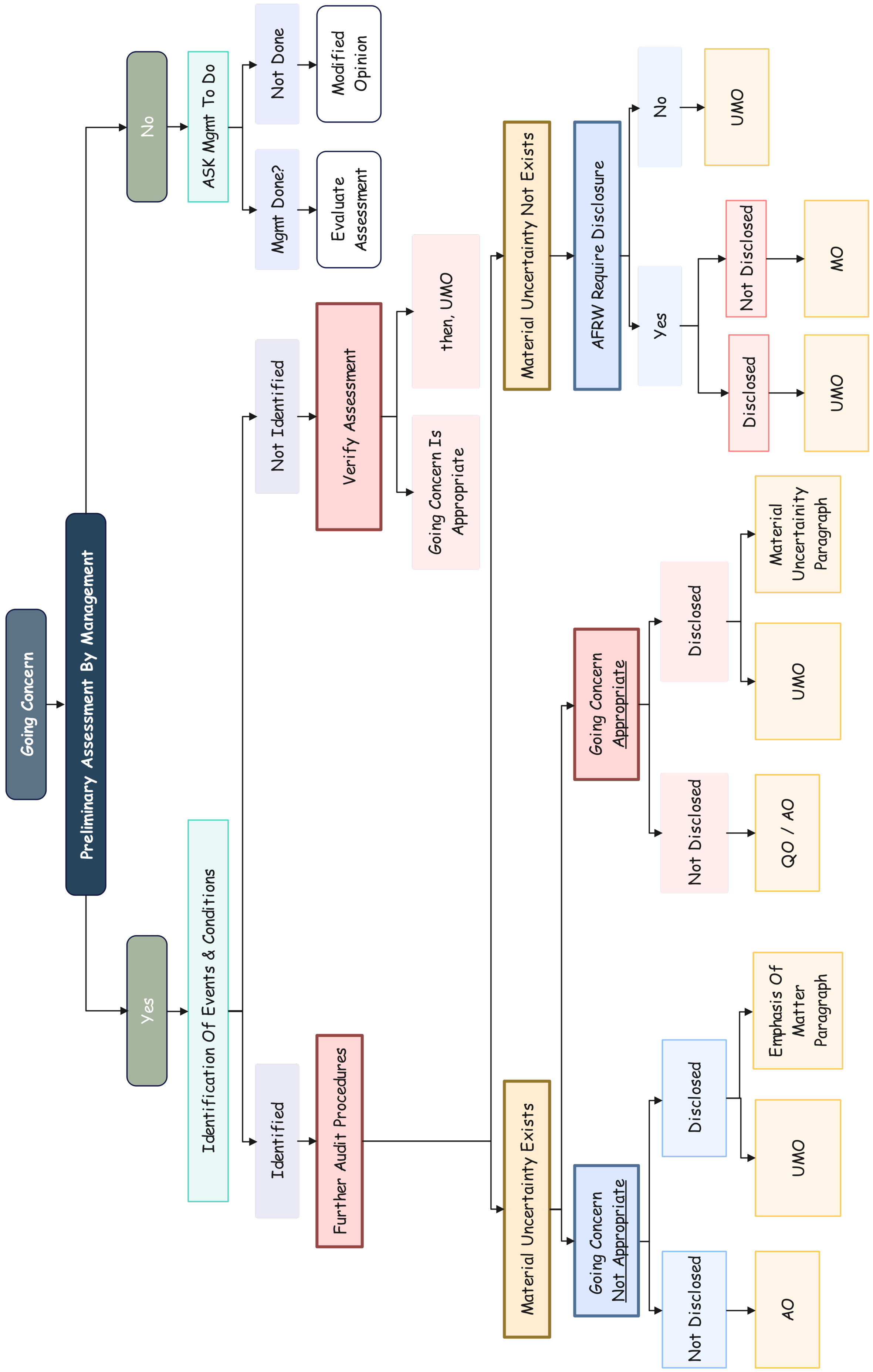
C. Audit Reporting in Case of Joint Audit	
1.	Common Report Generally, joint auditors issue a single audit report with common conclusions and a common opinion.
2.	Disagreement among Joint Auditors ✓ A joint auditor is NOT bound by the majority's opinion. ✓ If there is a difference of opinion, the disagreeing auditor can issue a separate report. In such a case, each joint auditor's report should refer to the other joint auditor's report.
3.	Communication to TCWG a. If joint auditors plan to modify the opinion in the auditor's report, they must inform TCWG about the reasons and proposed wording to comply with SA 705. b. Similarly, if they intend to include an Emphasis of Matter or Other Matter paragraph, they must communicate this along with the wording to ensure compliance with SA 706.

D. Coordination among Joint Auditors
Coordination ✓ Proper coordination is essential. ✓ If any matter is identified that affects the work of other joint auditors, it must be communicated to them before the audit report date.
Entitled to rely on other Joint Auditors Work a. Assume that other joint auditors have completed their assigned audit work as per the Standards on Auditing. They do not need to review or test the work done by other joint auditors. b. Assume that other joint auditors will inform them of any departures from financial reporting standards or any significant observations noticed during the audit. c. If one joint auditor audits the financial statements of a division or branch, the other joint auditors can assume that these statements comply with legal and regulatory requirements and present a true and fair view of the divisions or branch's financial position and operations.

E. Special Considerations under SA 299	
1.	Engagement Partner Role The Engagement Partner and Key Engagement Team from each joint auditor should be involved in audit planning.

2.	Overall Audit Strategy Joint auditors must jointly establish the overall audit strategy, as required under SA 300.
3.	Joint Audit Plan A Joint Audit Plan must be developed before starting the audit, addressing: a. Division of areas and identification of common areas. b. Reporting objectives of the engagement team. c. Communication of significant factors among joint auditors to guide the engagement team. d. Results of preliminary engagement activities. e. Assessment of resources required for the engagement.
4.	Risk Assessment Each joint auditor must assess the risk of material misstatement and communicate it to others.
5.	Audit Procedures Joint auditors should discuss and document the nature, timing, and extent of procedures for common areas and specific areas.
6.	Engagement & Management Letters Joint auditors must obtain a common engagement letter and a common management representation letter regarding management's responsibilities.
7.	Work Allocation Work allocation among joint auditors must be documented and signed by all and communicated to those charged with governance.

8. SA 570 Going Concern



A. Objective of the Auditor under SA 570	
1.	S&A Evidence on Appropriateness Obtain S&A audit evidence to conclude on the appropriateness of management's use of the going concern basis in preparing the financial statements.
2.	Whether a Material Uncertainty Exists Conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
3.	Report as per SA 570 Report findings in accordance with the requirements of SA 570 Going Concern.

B. Responsibilities of the Auditor under SA 570	
1.	Auditor's Responsibilities a. Obtain S&A audit evidence and conclude on the appropriateness of management's use of the going concern basis in preparing the financial statements. b. Conclude whether a material uncertainty exists about the entity's ability to continue as a going concern.
2.	What if AFRFW silent on this? These responsibilities apply even if the financial reporting framework does not explicitly require management to assess the entity's ability to continue as a going concern.

C. Risk assessment Procedure related to Going Concern	
1.	As per SA 315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern during risk assessment procedures.
2.	Evaluate Management's Preliminary Assessment a. If performed: ✓ Discuss the assessment with management. ✓ Whether management has identified events or conditions that may cast significant doubt on going concern. ✓ Evaluate management's plans to address these events or conditions. b. If not performed: ✓ Discuss with management the basis for using the going concern basis of accounting. ✓ Inquire whether events or conditions exist that may cast significant doubt on entities ability to continue as going concern.
3.	Remain alert throughout the audit The auditor shall remain alert throughout the audit for evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

D. Examples of Events or Conditions Casting Significant Doubt	
1.	Financial Events or Conditions a. Net liability or net current liability position. b. Fixed-term borrowings maturing without realistic prospects of renewal or repayment. c. Reliance on short-term borrowings for long-term assets. d. Indications of withdrawal of financial support from creditors.

	e. Negative operating cash flows from historical or prospective financial statements. f. Adverse financial ratios. g. Operating losses or h. Significant deterioration in asset values. i. Arrears or discontinuation of dividends. j. Inability to pay creditors on time. k. Non-compliance with loan terms. l. Change from credit to cash-on-delivery with suppliers. m. Failure to obtain financing for essential investments or new product development.
2.	Operating Events or Conditions a. Management's intent to liquidate or cease operations. b. Loss of key management without replacement. c. Loss of market, key customers, franchises, licenses, or suppliers. d. Labour difficulties. e. Shortages of Important supplies. f. Emergence of a highly successful competitor.
3.	Other Events or Conditions a. Non-compliances with capital or regulatory requirements (e.g., solvency or liquidity). b. Pending legal/regulatory proceedings that could lead to claims the entity cannot meet. c. Changes in laws or regulations or policies that adversely affect the entity. d. Uninsured or underinsured catastrophes.

E. Evaluate management's assessment of going concern	
1.	Evaluation of Management's Assessment a. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. b. Inquire if they identified any events or conditions that cast significant doubt on entities ability to continue as a going concern.
2.	Period of Assessment a. As per Framework/Law: The auditor shall cover the same period as management's assessment, as per the AFRFW or law/regulation. b. Minimum 12 Months: If management's assessment covers less than 12 months from the financial statement date, the auditor shall request an extension to at least 12 months.

F. Audit Procures if events or conditions are identified	
1.	Objective If any events or conditions identified that cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain S&A audit evidence to determine whether a material uncertainty exists by performing additional audit procedures including consideration of mitigating factors.
2.	Additional Audit Procedures to Obtain Evidence a. Request Management's Assessment: If Management assessment is not performed, request management to assess the entity's ability to continue as a going concern.

	b. Management's Plans for future actions: Evaluate the likelihood of management's plans for future actions will improve the situation and feasibility of these plans. c. Analyse Cash Flow Forecasts: If entity prepared a cash flow forecasts, evaluate: a. Reliability of underlying data used to prepare the forecasts. b. Whether there is adequate support for assumptions underlying the forecasts. d. Consider Additional Information: Determine whether new facts or information have become available since management's assessment e. Written Representations: Request written representations from management and TCWG regarding their plans, future actions and their feasibility.

G. Audit Reporting under SA 570	
1.	If Use of Going Concern Basis is Inappropriate If the financial statements are prepared using the going concern basis, but in the auditor's judgment this is inappropriate, the auditor shall express an adverse opinion.
2.	Use of Going Concern Basis is Appropriate but a Material Uncertainty Exists Adequately Disclosure in Financial Statements: If the financial statements adequately disclose the material uncertainty, the auditor shall: a. Express an unmodified opinion. b. Include in a separate section in the auditor's report titled "Material Uncertainty Related to Going Concern" and: ✓ Draws attention to the relevant note in the financial statements. ✓ State that the material uncertainty exist that may cast significant doubt on the entity's ability to continue as a going concern and ✓ Also state that the auditor's opinion is not modified in respect of this matter. Inadequate Disclosure in Financial Statements: If the financial statements do not adequately disclose the material uncertainty, the auditor shall: a. Express a qualified opinion or an adverse opinion, as per SA 705. b. In the Basis for Qualified (Adverse) Opinion section, state that a material uncertainty exists, its potential impact, and that the financial statements do not adequately disclose this matter.
3.	Management Unwilling to Make or Extend Assessment If management is unwilling to make or extend its assessment, the auditor shall: ✓ Consider the implications for the auditor's report. ✓ Express a qualified opinion or a disclaimer of opinion if S&A audit evidence cannot be obtained regarding the use of the going concern basis.

9. SA 600 Using Work of Other Auditor

Discuss along with this Chapter [Covered in Chapter 3 Audit Strategy]

10. SA 610 Using the work of Internal Auditor

Discuss along with this Chapter [Covered in Chapter 3 Audit Strategy]

11. SA 620 Using the work of an Auditors Expert

Discuss along with this Chapter [Covered in Chapter 3 Audit Strategy]

12. Reporting Requirements Under The Companies Act, 2013

	Reporting on Other Legal and Regulatory requirements [Other Reporting Requirements]
1.	Reporting Requirement on Matters (Section 143(1)) The auditor shall inquire into: a. Whether loans and advances are: i. Properly secured, and ii. Terms are not prejudicial to the company or its members. b. Whether transactions represented by book entries are prejudicial to the company's interests. c. Whether shares or securities are sold at a price less than the purchase price (not applicable to banking and investment companies). d. Whether loans/advances are shown as deposits. e. Whether personal expenses are charged to the revenue account. f. For shares allotted for cash, verify: i. Whether cash has actually been received. ii. Whether the position in books and balance sheet is correct and not misleading. Reporting Requirements Positive responses can be ignored. Adverse comments must be stated in the report with reasons.
2.	Reporting on Accounts Examined (Section 143(2)) a. The auditor shall report to members on accounts examined and financial statements, considering the provisions of the Act, accounting and auditing standards, and other prescribed rules or orders. b. Auditor shall report whether financial statements provide a true and fair view of: i. The state of affairs of the company at the end of the year and ii. The profit/loss and iii. Cash flows for the year. iv. Other matters prescribed under Rule 11 of audit and auditors' rules.
3.	Additional Reporting Requirements (Section 143(3)) The report shall include: a. Whether the auditor sought and obtained information and explanations necessary for audit. If not, details and effect thereof on financial statements. b. Whether proper books of account were maintained, and adequate branch returns not visited by him are received from management. c. Consideration of branch audit report submitted under Section 143(8) and the manner in which it is dealt in his report. d. Whether the balance sheet and profit and loss account agree with the books and returns. e. Whether F/S comply with accounting standards. f. Observations or comments with adverse effects on the company's functioning. g. Whether any director is disqualified under Section 164(2).

	h. Qualifications, reservations, or adverse remarks on accounts or related matters. i. Whether the company has adequate internal financial controls (IFCs) and their operating effectiveness Note: This do not apply to private companies which are ✓ OPCs, ✓ Small companies, and ✓ Other private companies • Whose turnover is less than 50 Crore as per latest audited F/S and • Borrowings are less than 25 Crore at any time during the year. j. Such other matters as per Rule 11: a. Whether company disclosed impact of pending litigations on financial position. b. Whether company made Provisions for material foreseeable losses on long-term contracts, including derivatives. c. Whether there is a delay in transferring amounts to IEPF. d. Obtain Management's representation that: ✓ Client is Funding Party: The company [Funding Party] has NOT advanced or loaned or invested in any entity including foreign entity [i.e., Intermediary] that such intermediary shall • Lend or advance or invest directly / indirectly in another entity identified by the funding party [i.e., Ultimate beneficiary] or • Provide any guarantee or security or alike on behalf of ultimate beneficiary. ✓ Client is Intermediary: The company [i.e., Intermediary] has NOT received any funds from any entity including foreign entity [i.e., Funding party] that the company shall • Lend or advance or invest directly / indirectly in another entity identified by the funding party or • Provide any guarantee or security or alike on behalf of ultimate beneficiary. ✓ Obtain Limited Assurance on Representation: Conclude based on S&A evidence, whether nothing has come to the attention of the auditor that the above 2 representations contain any MMS. e. Whether the company complied with Section 123 for dividends declared/paid. f. Whether the company is using an accounting software that has ✓ A feature of audit trail and ✓ Such feature is not tampered and ✓ Audit trail is preserved as per statutory requirements [8 years] Reporting Requirements The auditor shall report whether positive or negative and for negative responses or qualifications, reasons must be stated in terms of Section 143(4).
4.	Reporting related to Section 197(16): a. The auditor of the company shall, in his report under section 143, make a statement as to whether the remuneration paid by the company to its directors is in accordance with the provisions of this section. b. If paid excess of the limit laid down, give such other details as may be prescribed". [This provision is applicable only for PUBLIC COMPANIES]

5.	Reporting on Other Matters (Section 143(11)): The Central Government, in consultation with the National Financial Reporting Authority, may require additional statements in the auditor's report for specified classes of companies (e.g., CARO, 2020).

1.	Reporting on Frauds (Section 143(12)) If auditor has a reason to believe that an offence of fraud involving: A. Frauds ≥ Rs. 1 crore: Report to the Central Government under Rule 13 of the Companies (Audit and Auditors) Rules, 2014. [ADT 4] [Refer Manner of reporting below] B. Frauds < Rs. 1 crore: Report to the Audit Committee or the Board, as case may be: a. Nature of Fraud b. Approximate amount involved c. Parties Involved Further the BOD shall include in Board report: d. Nature of Fraud e. Approximate amount involved f. Parties Involved g. Remedial Actions taken.
2.	Manner of reporting to central government [For Frauds ≥ 1 core] a. Report to Board/Audit Committee: The auditor must report the fraud within 2 days of knowing it and seek a reply within 45 days. b. Forward to Central Government: If the auditor receives a reply, they must send it along with their report and comments to the Central Government within 15 days. c. No Reply from BOD: If no reply is received within 45 days, the auditor must send the report to the Central Government with a note stating no response was received. d. The report shall be on letterhead of the auditor. e. Form of report shall be in form ADT 4 f. Submission Method: The report must be sent to the Secretary, Ministry of Corporate Affairs, via Registered Post (Acknowledgement Due) or Speed Post, followed by an email confirmation.
3.	Cost and Secretarial Auditors 1. Fraud reporting u/s 143(12) also apply to cost auditors and secretarial auditors under Sections 148 and 204. 2. If an auditor, cost accountant, or company secretary fails to comply with Sec 143(12): a. Listed companies: Penalty of ₹5 lakh b. Other companies: Penalty of ₹1 lakh Note: Include fraud-related matters in CARO 2020, paragraph 3, point (xi).
4.	Fraud under SA 240 and Sec 447 of companies Act a. The definitions of fraud in SA 240 and Section 447 of the Companies Act, 2013 are similar. However, Section 447 includes acts intended to harm the company, shareholders, creditors, or others, even if there is no financial gain or loss. b. Auditors may not detect the frauds unless its financial impact appears in the company's books. c. Examples:

	✓ If an employee takes bribes to Favor a vendor, the auditor may not detect it since it's not recorded in company accounts. ✓ If a key managerial person's password is stolen and misused, the impact may not be easily identifiable. d. Auditor's Role: Auditors must follow SA 240 while planning and performing audits to identify risks of material fraud in financial statements.

13. The Companies (Auditor's Report) Order, 2020 [CARO, 2020]

Content	
1.	Applicability of CARO 2020 CARO 2020 applies to all companies, including foreign companies, Except: 1. Banking companies 2. Insurance companies 3. Companies licensed under Section 8 4. One Person Companies (OPC) 5. Small companies 6. Private limited companies that satisfied ALL the following 4 conditions: a. Is not a subsidiary or holding company of public companies. b. Aggregate paid-up capital and reserves & Surplus does not exceed Rs. 1 crore on balance sheet date. c. Aggregate borrowings from Banks and FIs does not exceed Rs. 1 crore at any time during the financial year. d. Whose turnover does not exceed Rs. 10 crores in the financial year.
2.	Additional Points ✓ For holding and subsidiary companies, CARO limits are computed separately for standalone financials and not based on consolidated. ✓ For companies with branches, CARO limits are based on the entire company. ✓ Branches are also covered under CARO, if the same applies to the company as a whole.
3.	Non-Applicability on Consolidated Financial Statements: CARO 2020 does not apply to CFS. However, in the Audit report on CFS, the principal auditor shall report on Clause (xxi) of Para 3 of the order.

Matters to be Included in under CARO 2020 of Auditor's Report	
1.	Fixed Assets a. Fixed Asset Register: Whether the company is maintaining proper records including quantitative details and situation of PPE and intangible assets. b. Physical Verification: Whether PPE have been physically verified at reasonable intervals and discrepancies, if any, were properly dealt in the books. c. Title of Immovable Property: Whether title deeds of all immovable property are in the company's name. If not, disclose details in the following Format: [Horizontal / Vertical]

Details of the Property [Vertical Format]	Example
1. Description of the property	Factory Build.

		2. Gross Carrying Value	Rs. 1.5 Crore
		3. Held in Name of	Mr. Ram
		4. Whether Promoter, Director or their relative or employee	Director
		5. Period Held in others name	Since Incorp.
		6. Reasons for Not held in Name of Company	Expl. in Class

d. Revaluation: Whether PPE or intangible assets were revalued and if so,
  - ✓ is it done by a Registered Valuer.
  - ✓ Specify amount of change if change is ≥10% of aggregate of net carrying value of each class of PPE or Intangibles.

e. Benami Transactions: Whether any proceedings under the Benami Transactions Act are initiated/pending against the company. If so, whether company made appropriate disclosures in financial statements.

2. Inventories

a. Physical Verification:
  - ✓ Whether physical verification of inventory has been conducted at reasonable intervals and
  - ✓ Any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account.

b. Working Capital Loans:
  - ✓ Whether the company been sanctioned working capital limits in excess of 5 crore rupees, in aggregate, from Banks or FIs on security of current assets and
  - ✓ Whether the quarterly returns or statements filed with such banks or FIs are in agreement with the books of accounts. If not, give details

3. Loans, Advances, Investments, Guarantees

Whether the company has invested in or provided loans or advances in the nature of loans [secured or unsecured], or stood guarantee, or provided security to any other entity. If so, Indicate:

a. Breakup between Related Parties and Others: The aggregate amounts during the year and balance outstanding on balance sheet date
  - ✓ To subsidiaries, Associates and Joint Ventures
  - ✓ To Others

b. Terms: Whether terms and conditions of the above transactions are not prejudicial to the company's interest.

c. Regular Repayments: In respect of loans and advances in nature of loans, whether the repayment receipts are regular

d. Overdue > 90 Days: If the amount is overdue for >90 days, whether reasonable steps are taken to recover.

e. Renewals / Extensions: Whether the loans or advances which fall due in this year has been rescheduled or extended or fresh loans granted to settle overdue loans and if so,
  - ✓ Specify the aggregate amount of such dues renewed or extended or settled by fresh loans and

- ✓ The percentage of the aggregate to the total loans or advances in the nature of loans granted during the year

f. Demand Loans: Whether any loans or advances in the nature of loans granted which are repayable on demand or without specifying any terms or period of repayment, if so,
- ✓ Specify the aggregate amount, percentage thereof to the total loans granted,
- ✓ Aggregate amount of loans granted to Promoters, related parties.

Note: point a and e doesn't apply to a company whose principal business is to give loans.

4. Compliance with Sections 185 & 186

Whether the company is in compliance with sec. 185 and 186 in respect of loans, investments, guarantees and security. If not, provide details thereof.

5. Deposits

1. In case the company has accepted deposits from the public, verify compliance with
   - ✓ Sections 73 to 76 of companies act.
   - ✓ RBI directives, and
   - ✓ orders from CLB/courts/tribunals
2. In any noncompliance, state the nature of contravention

6. Cost Records

Whether maintenance of cost records has been prescribed u/s 148(1). If so, whether such accounts and records have made and maintained.

7. Statutory Dues

a. Undisputed Dues:
- ✓ Whether the company is regular in depositing undisputed statutory dues (PF, ESI, taxes, etc.) and
- ✓ If not, indicate the extent of arrears outstanding on balance sheet date for a period more than 6 months.

b. Disputed Dues: Dues not deposited on account of dispute. The auditor shall indicate:
- ✓ Amount involved in the dispute and
- ✓ Forum where dispute is pending.

Note: Mere representation to department doesn't constitute dispute

8. Undisclosed Income

Whether any transactions not recorded in the books of account have been discovered during the year in the tax assessments under the Income Tax Act, 1961, if so, whether the same has been properly recorded in the books of account during the year.

(Author Note: May Be treated as prior period items in the accounting records)

9. Defaults in Repayment

a. Lender-wise Defaults: Whether company has defaulted in repayment of loans or interest to any lender, if yes, indicate the following details:

Lender wise defaults in case of Banks, FIs and Government	Example
1. Nature of Borrowing	WC Loan
2. Name of the Lender	ICICI Bank
3. Amount Not paid	Rs. 10,10,000/-
4. Whether principal or interest	Both
5. No. of Days Delay	>25 Days
6. Remarks, If any	To be paid soon

	b. Wilful defaulter: Whether the company is declared as a wilful defaulter by any lender. c. Diversion of Funds: Whether term loans are applied for the same purpose for which they were obtained. If not, indicate the amount of loan diverted and the purpose. d. Short-term funds diverted: Whether short term funds used for long term purposes, if so, indicate the nature and amount used. e. Loans taken for subsidiaries: Whether the company has taken any funds to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case. f. Loans against pledge of shares: ✓ Whether the company has raised any loans during the year on pledge of securities held in Subsidiaries/Associates/Joint ventures and if so, report details thereof ✓ Also report whether the company has defaulted in repayment of these loans.
10.	End Use of Funds a. IPO / FPO: ✓ Whether the money raised by way of initial or further public offer (including debt instruments) were utilized for the purposes for which those are raised. ✓ If not, the details along with the defaults, delays & subsequent rectifications, if any, to be reported. b. Preferential Allotment: ✓ Whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review. If so, verify the following: • Compliance with section 42 of the act and • The amount raised have been used for the purpose for which they are raised. ✓ If not, provide the details in respect of the amount involved & nature of non-compliance
11.	Fraud Reporting a. Noticed or Reported: Whether any fraud by the company or on the company has been noticed or reported during the year. If yes, the nature and the amount involved is to be indicated. b. Reported to CG: Whether any report u/s 143(12) has been filed by the auditors in Form ADT-4 with the Central Government. c. Whistle Blower Complaints: Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company.
12.	Nidhi Company Compliance a. Whether Nidhi Company has complied with the net owned funds (i.e., net worth) to deposits in the ratio of 1:20 to meet out the liability. i.e., for every one rupee of net owned funds, Nidhi company cannot accept more than 20 rupees of deposits. b. Whether Nidhi Company is maintaining 10% Unencumbered term deposits as specified in Nidhi Rules, 2014 to meet out the 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.
13.	Related Party Transactions Whether all transaction with related parties is

	✓ Companies Act: In compliance with section 177 & 188 where applicable, & ✓ Disclosure as per AS: Details have been disclosed in the financial statements etc., as required by applicable accounting standards.
14.	Internal Audit system a. Whether the company has an internal audit system commensurate with the size and nature of its business. b. Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor.
15.	Non-Cash Transactions Whether Company has entered into any Non-Cash Transactions with directors & if so provisions of section 192 have been complied with.
16.	Non-Banking Financial Institutions a. 45IA OF RBI Act: Whether the company is required to be registered u/s 45-IA of RBI Act 1934, and if so, whether the registration has been obtained. b. NBFC Activities: Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934. c. Core Investment Company: ✓ Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, 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 the number of CICs which are part of the Group.
17.	Cash Losses Whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses.
18.	Resignation of Auditors Whether there has been any resignation of the statutory auditors during the year, if so, Whether the auditor has taken into consideration of the issues, objections or concerns raised by the outgoing auditors.
19.	Material Uncertainty On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, ✓ Whether the 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 balance sheet. ✓ As and when they fall due within a period of one year from the balance sheet date.
20.	CSR Compliance

	a. Other-than Project expense: Whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII within a period of six months of the expiry of the financial year proviso to sec. 135(5). b. Project expense: Whether any amount remaining unspent u/s 135(5) related to any ongoing project, has been transferred to special account u/s 135(6).
21.	This clause applies for A/R on CFS: a. Whether there have been any qualifications or adverse remarks by the respective auditors in the CARO 2020 reports of the companies included in the consolidated financial statements, b. If yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.

Reporting Requirement under CARO 2020:

1. Where, in the auditor's report, the answer to any of the questions referred to in above is unfavourable or qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be.
2. Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same.

14. Other Content

A. Relationship betweeen KAM and EOMP		
Standard	Key Audit Matters (KAM) [SA 701]	Emphasis of Matter [SA 706]
Definition	Matters of most significance in the audit, selected from those communicated with governance.	A paragraph in the auditor's report that highlights a matter already disclosed in the financial statements, which is fundamental to users' understanding.
Fundamental Matters	Some KAM may also be fundamental to users' understanding of the financial statements. In such cases, the auditor may highlight or draw further attention to their importance.	A matter not identified as KAM (e.g., subsequent events) may still be fundamental to users' understanding and can be included in EOM.
Purpose & Communication	Provides additional information to help users understand areas of significant management judgment in the financial statements.	Draws users' attention to a specific matter without modifying the audit opinion.
Effectiveness & Usage	KAM enhances transparency and allows users to engage better with management regarding critical areas of the audit.	Excessive use of EOM can reduce its effectiveness in highlighting important matters.
Interrelation	Communicating KAM does not replace the need for an EOM paragraph when necessary.	EOM is not a substitute for KAM when SA 701 applies.

Prominence in Report	KAM can be explained in detail in the auditor's report, helping users understand their significance.	The auditor may present an EOM matter more prominently (e.g., as the first matter in KAM) or add extra details to emphasize its importance.

B. Difference between Notes to Accounts and Qualifications	
1.	Notes - Management's Viewpoint Typically, management explains their viewpoint on matters of disagreement with the auditor through notes in the financial statements, for better understanding by users of the statements.
2.	Auditor's Disagreement When the auditor disagrees with management, this is recorded as a qualification in the auditor's report, while management's explanation is noted in the financial statements.
3.	Auditor's Qualification If the auditor decides to modify his report, he may refer to management's note and then provide further details, including quantification and impact on financial statement captions, as much as possible.
4.	Manner of Qualification by Auditor ✓ The auditor must clearly express the nature of the qualification in the report. ✓ If the auditor answers any statutory affirmations negatively or with qualification, the reasons must be stated. ✓ All qualifications must be in the auditor's report.
5.	Irregularity & Breach of Law ✓ If the company commits an irregularity leading to a breach of law, the auditor should qualify the report and inform shareholders. ✓ The opinion should be expressed as "except for" the effects of the irregularity. ✓ Avoid phrases like "subject to" or "with the foregoing explanation" as they are unclear.
6.	Reference to Notes in the Report Notes Reference: Referencing notes to accounts in the auditor's report does not automatically qualify the report.

C. Distinction between Auditors certificate and Report

Aspect	Certificate	Report
Definition	A certificate is a written confirmation of the accuracy of facts, without involving any estimate or opinion.	A report is a formal statement made after enquiry, examination, or review, and includes the auditor's opinion.
Nature	It involves verification of facts, where the auditor certifies specific figures.	It involves expression of opinion, based on estimates and judgment.
Examples	Examples include certifying circulation figures of a newspaper or the value of imports/exports of a company.	The report may cover financial analysis, audit findings, or any other review requiring judgment.
Auditor's Responsibility	The auditor is responsible for the factual accuracy of what is certified.	The auditor is responsible for ensuring the report is based on factual data, and that the opinion is in accordance

		with the facts and based on due care and skill.
Key Element	Verification of specific facts.	Opinion based on analysis, estimates, and judgment.
Precision	Exact accuracy is required.	No exact accuracy is required, as it involves estimates.

D. Communication to Management and TCWG

Discussed in detailed in GAAP

8. SPECIALISED AREAS

1. Introduction

SA	Description	Key Considerations
SA 800	Audit of Financial Statements Prepared in Accordance with Special Purpose Framework	a. Applies to special purpose frameworks. b. Focuses on audits of financial statements that follow special guidelines.
SA 805	Audit of a Single Financial Statement or Specific Element, Account, or Item	a. Applies when auditing a single financial statement or a specific element. b. Special considerations for individual items or accounts.
SA 810	Audit of Summary Financial Statements	a. Relevant when the auditor reports on summary financial statements derived from audited financial statements. b. Must be the same auditor.

2. SA 800 Special Considerations - Audit of FS prepared in accordance with SPFW (Revised)

A. Scope of SA 800
Areas Addressed a. Acceptance of the Engagement b. Planning and Performance of the Engagement c. Forming an Opinion and Reporting on the Financial Statements

B. Meaning of SPFW	
1.	Special Purpose Framework a. FRFW designed to meet the needs of specific users. b. It can be either a fair presentation framework or a compliance framework.
2.	SPFW determines a. Form and content of financial statements. b. What constitutes a complete set of financial statements.
	Examples a. Cash basis of accounting (creditors). b. Regulatory reporting provisions (regulator's requirements). c. Contractual provisions (bond indentures, loan agreements, project grants).
3.	Special Purpose vs General Purpose a. SPFW is for specific users. b. GPFW is for the common financial information needs of a wide range of users.
4.	Financial Statements a. The term "financial statements" in this SA refers to a complete set of special purpose financial statements. [CSSPFS] b. It includes related notes such as summary of significant accounting policies & explanatory information.

C. Consideration when accepting such engagement	
1.	Financial Information Needs The intended users' needs are key in determining the acceptability of the financial reporting framework used for SPFS.
2.	Applicable Financial Reporting Framework a. It includes financial reporting standards set by an authorised /recognised organisation. b. These standards are presumed acceptable if the organisation follows an established / transparent process.
3.	Laws and Regulations Some laws or regulations may require a specific framework for preparing SPFS for certain entities. In such cases, the framework is presumed acceptable unless indicated otherwise.
4.	Conflict with Legislative/Regulatory Requirements a. If financial reporting standards are supplemented by legislative or regulatory requirements, SA 210 requires the auditor to check for conflicts. b. Auditor must take prescribed actions if conflicts exist.
5.	Framework from Other Sources a. The framework may also come from contracts or other sources. b. Acceptability is determined by whether the framework shows attributes of acceptable FRFW as per SA 210.
6.	Professional Judgment In SPFW, the importance of each attribute is determined by the auditor's professional judgment based on the engagement's needs.

D. Considerations when planning and performing such audit	
1.	Compliance with SA 200 The auditor must comply with: a. Relevant ethical requirements including independence. b. All relevant SAs for the audit.
2.	Exceptions to Compliance with SA. The auditor may depart from an SA's requirement in exceptional circumstances using alternative audit procedures to meet the aim of that requirement.
3.	Special Considerations for SAs Application of some of the requirements of the SAs in an audit of SPFS may require special consideration by the auditor.
4.	Understanding Accounting Policies SA 315 a. The auditor should understand the entity's selection & application of accounting policies. b. For contract-based financial statements, the auditor must understand management's significant interpretations of the contract. *An interpretation is significant when alternative interpretation could result in a material difference in FS.
5.	Materiality Threshold SA320 a. In SPFS (those prepared on contract requirements), management may agree on a threshold below which misstatements will not be adjusted or corrected b. The existence of such a threshold does not relieve the auditor from determining materiality as per SA 320 for planning and performing the audit.
6.	Communication requirements SA 260 (Revised)

	a. The auditor needs to determine the appropriate person within the entity's governance structure to communicate with. b. If all of TCWG are involved in managing the entity, the communication requirements are modified accordingly. c. When both GPFS and SPFS are prepared, those responsible for oversight of the SPFS may differ from those responsible for the GPFS.
7.	Forming an Opinion and Reporting SA 700 (Revised). When reporting on special purpose financial statements, the auditor must follow the requirements in Revised SA 700.

E. Description of AFRFW	
1.	Evaluation of Financial Statements Revised SA 700 requires the auditor to evaluate: a. Whether financial statements adequately refer to or describe the AFRFW b. In the case of contract-based financial statements, whether significant interpretations of the contract are described in the FS.
2.	Form and Content of Auditor's Report SA 700 (Revised) deals with form & content of the auditor's report including specific ordering of certain elements.
3.	Special Purpose Financial Statements For SPFS, the auditor's report must include: a. Purpose for which the financial statements are prepared and the intended users. b. If management has a choice of reporting frameworks, the auditor must reference management's responsibility for determining the framework's acceptability.
4.	Key Audit Matters (SA 701) If key audit matters are communicated in the auditor's report on SPFS, SA 701 applies fully.
5.	Other Information (SA 720) a. SA 720 (Revised) applies when reports accompany SPFS. b. These reports designed for owners or stakeholders are treated as annual reports. c. In case of FS prepared using SPFW, Similar stakeholders are the specific users for whom the SPFW is designed to prepare the SPFS.
6.	Reference to GPFS in SPFS's Auditor's Report a. The auditor may include an Other Matter paragraph in the auditor's report on SPFS to refer to the auditor's report on the complete set of GPFS as per SA 706 (Revised). b. This could include matters referred like material uncertainty related to going concern.

F. Alerting readers that the FS are prepared as per SPFW	
1.	Use of Special Purpose Financial Statements SPFS may be used for purposes other than those for which they were intended (e.g., placed on public records by a regulator).
2.	Emphasis of Matter Paragraph To avoid misunderstandings, the auditor includes an EOM paragraph in the report, explaining that the financial statements are based on a SPFW & may not be suitable for other purposes.
3.	SA 706 (Revised)

	SA 706 (Revised) requires the EOM paragraph to be placed in a separate section of the auditor's report with a heading.

G. Restriction on Distribution or Use	
1.	Alert for Specific Users a. The auditor may indicate that the auditor's report is intended solely for specific users. b. This may involve restricting distribution or use of the report depending on applicable laws or regulations.
2.	Expanding the Alert The alert paragraph may be expanded to include restrictions on distribution or use with the heading modified accordingly (If needed).
	Example of Emphasis of Matter We draw attention to Note X: Describes the basis of accounting. The financial statements are prepared to comply with contract reporting provisions, and may not be suitable for other purposes. The report is intended solely for the Company and DEF Company Limited and should not be used by others. The auditor's opinion is not modified concerning this matter.

[TYU 1 & 2]

3. SA 805-Audits of SFSE, Accounts or Items of a FS (Revised)

SFSE – Single Financial Statement and specific Element

A. Scope & Objective of SA	
1.	Application of Sas a. SAs 100-700 series apply to the audit of FS. b. These SAs should be adapted as needed when auditing other historical financial information.
2.	SA 805 a. SA 805 applies to audits of single financial statements or specific elements. b. It does not apply to reports from component auditors for consolidated financial statements.
3.	Special Purpose Framework SA 800 If a single financial statement or specific element is prepared under a SPFW, SA 800 (Revised) also applies to the audit.
4.	Objective of the Auditor The auditor's goal when applying SAs in an audit of a single financial statement or specific element/account/item is to address the special considerations relevant to the audit.

(a) The acceptance of the engagement;

(b) The planning and performance of that engagement; and

(c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement.

5.	Single Financial Statement a. A single financial statement is different from a CSFS. b. For example: a cash flow statement is considered a single financial statement.
6.	Element of a Financial Statement The term "element of a financial statement" refers to an element, account/item of a FS For example: ✓ Trade receivables or cash and bank balances or

	✓ Liability for claims incurred but not reported [in case of insurance companies], ✓ A Schedule of Net Tangible assets, including related notes. ✓ Schedule of disbursements in relation to a lease property. ✓ Schedule of externally managed assets and incomes of a private pension plan.
7.	Related Notes A single financial statement/specific element includes related notes which consist of: a. Summary of significant accounting policies b. Other explanatory information relevant to the statement or element.

B. Consideration when accepting such engagement	
1.	Application of Sas a. SA 200 requires the auditor to comply with all relevant SAs for the audit including when auditing a single financial statement or specific element. b. This applies even if the auditor is not engaged to audit the CSFS.
2.	Practicability of Applying SAs If the auditor not audited the CSFS, He must determine whether the audit of a single financial statement or element in accordance with SAs is practicable.
3.	Compliance with Ethical Requirements The auditor must comply with: a. Relevant ethical requirements including independence in financial statement audits. b. All relevant SAs for the audit.
4.	Exceptions to Compliance The auditor must comply with each SA unless: a. The entire SA is not relevant, or b. A conditional requirement does not apply. c. In exceptional cases, alternative procedures may be used to meet the aim of the requirement.
5.	Auditor who is not engaged to audit CSFS a. If the auditor is not engaged for the CSFS, they: ✓ May lack full understanding of the entity and its environment including its internal control. ✓ Doesn't have Audit evidence about general quality of accounting records. b. As a result, Audit will require additional corroborative evidence to support or verify the evidence already obtained from the accounting records.
6.	Audit work disproportionate to the Audit of Element a. Some SAs may require audit work that seems disproportionate to the element being audited. b. E.g., SA 570 (going concern) may be impractical for small elements like accounts receivable. c. If the audit of a SFSE is impracticable, the auditor may discuss with management whether another type of engagement would be more feasible.

C. Acceptability of the Financial Reporting Framework	
1.	Acceptability of FW a. SA 210 requires auditor to determine acceptability of FRFW used in preparing the FS. b. In case of audit of SFSE, the auditor must assess:

	✓ Whether the AFRFW enables adequate disclosures to help the intended users understand the information conveyed. ✓ The effect of material transactions and events on the information conveyed.
2.	Applicable Framework a. A SFSE may follow a framework established by an authorised standards setting organisation. b. The auditor checks if the framework includes all the relevant requirements for adequate disclosures in the presentation.

D. Considerations when planning & performing the audit	
1.	Application of Sas a. In an audit a SFS or specific element, all relevant SAs must be adapted to the circumstances of the engagement. b. SAs like SA 240, SA 550 and SA 570(Revised) are relevant even for specific elements, because issues like fraud, related party transactions or going concern may still apply.
2.	Communication with Governance a. The auditor needs to determine the appropriate person within the entity's governance structure to communicate with. b. If all TCWG are involved in managing the entity, the communication requirements are modified accordingly. c. When both CSFS and SFS/ element are prepared by the entity, those responsible for preparation of SFS/Element may differ from those responsible for the CSFS.
3.	Use of Evidence from CSFS a. When auditing a SFS or element alongside the entity's CSFS, the auditor can use evidence obtained from the CSFS audit. b. However, the auditor must still obtain SAAE specific to the SFS or element.
4.	Interrelationship of Financial Statements a. Individual FS which comprises CSFS & many elements of FS are interrelated, so Audit of SFS or element cannot be considered in isolation. b. The auditor needs to perform procedures to address interrelated items during the audit.
5.	Materiality Considerations a. Materiality determined for a SFS or specific element may be lower than for the CSFS. b. This will affect the audit procedures (nature, timing, and extent) and the evaluation of uncorrected misstatements.

E. Forms of Opinion	
1.	Agreed Terms of the Audit a. SA 210 requires the agreed terms of the audit to include the expected form of any reports. b. For a single financial statement or specific element, the auditor should assess whether the expected form of opinion is appropriate.
2.	Form of Opinion The form of opinion depends on the AFRFW & any applicable laws or regulations.
3.	Opinion for Unmodified Opinion When expressing an unmodified opinion on a CSFS:

	a. FPFW: The opinion states that the financial statements present fairly, or give a true and fair view in accordance with the applicable framework. b. CFW: The opinion states the financial statements are prepared, in all material respects, according to the applicable framework.
4.	Presentation of SFS/Element a. For a SFS or specific element, the framework may not explicitly address how the presentation should be made. b. If based on framework a from an authorised standards-setting organisation, the auditor considers if the expected opinion form is appropriate.
5.	Factors the auditor Considers for the use of Phrases "Present Fairly" a. Whether the FRFW is explicitly or implicitly limited to preparing a CSFS. b. Whether SFS or specific element: ✓ Complies fully with the relevant requirements of the framework. ✓ Includes the necessary disclosures related to the FS/element. c. Whether it is necessary to provide disclosures beyond those required by the FW or d. Depart from any FW requirement in exceptional circumstances to achieve fair presentation.
6.	Auditor's Professional Judgment The auditor's decision on the form of the opinion is based on professional judgment.
7.	Use of Phrases The auditor considers whether the phrases "presents fairly, in all material respects" or "gives a true and fair view" are accepted in the jurisdiction for a SFS/specific element.

F. Forming an Opinion & Reporting Consideration	
1.	Opinion and Reporting a. The auditor must follow the requirements in Revised SA 700 and, when applicable, SA 800 (Revised). b. He is required to apply the reporting requirements of other SA's adapted as necessary in circumstances of the engagement.
2.	Disclosure Evaluation (SA700 Revised) The auditor must ensure that the Single financial statements or specific element provide adequate disclosures for the intended users to understand material effects.
3.	Going Concern (SA 570) The auditor's report must describe management's responsibilities regarding going concern and may need to be adapted based on the applicable framework.
4.	Key Audit Matters For audits of listed entities, SA 700 (Revised) requires the communication of key audit matters in line with SA 701 for audit of GPFS.
5.	Other Information a. SA 720 (Revised) applies when reports accompany SFS/ Element of FS. b. These reports designed for owners or stakeholders with information on matters presented in SFS/Element of FS are considered to be Annual Report under SA 720. c. When auditor determines that the entity plans to issue such a report, SA 720(revised) applies to this audit.
6.	Auditor's Signature The auditor's report must be signed by auditor/engagement partner in their personal name and include their membership number & firm registration number.

7.	Implications of matters in Audit Report on CSFS a. The auditor must consider implications on matters included in the Audit Report on the CSFS for the audit of the single statement or specific element. b. This involves his professional judgement to consider whether a matter is relevant or not.
8.	Factors that may be relevant to consider those implications
	a. Nature of the Matter: The nature of the matter in the auditor's report on the complete set and how it relates to the single financial statement or specific element.
	b. Pervasiveness of the Matter(s): How pervasive the matter(s) in the complete set report are and their potential impact on the single statement or element.
	c. Differences in Financial Frameworks: The nature and extent of differences between the AFRFW used.
	d. Period Differences: The difference in periods between the CSFS and SFS or the element.
	e. Time Elapsed: The time elapsed since the auditor's report on the CSFS.
9.	Example a. If there is a qualification on accounts receivable in the CSFS, it likely impacts the audit of the single financial statement or specific element relating to accounts receivable. b. A qualification on long-term debt in the complete set is less likely to impact an audit of a Statement of Profit and Loss or a specific element like accounts receivable.
10.	Reference to Auditor's Report Even when matters from the complete set report do not affect the audit of the single statement/element, the auditor may include them in an Other Matter paragraph as per SA 706(Revised).
11.	Material Uncertainty - Going Concern The auditor may refer to a Material Uncertainty Related to Going Concern section in audit report of CSFS in the auditor's report on the SFS or element.
12.	Separate Opinion for each engagement For audits of both the SFSE and CSFS, the auditor should express separate opinions for each engagement.
13.	SFSE Must be Differentiate from CSFS If the single statement or element is presented with the complete set and lacks sufficient differentiation, the auditor must ask management to rectify this.
14.	Differentiation of Opinions The auditor must differentiate the opinion on the single financial statement/element from the complete set opinion. The report should not be issued until this is ensured.
15.	M.O. in Audit Report on CSFS: If the audit report on the CSFS includes: ✓ Modified Opinion (SA 705 Revised), ✓ EOMP/OMP (SA 706 Revised), ✓ Material Uncertainty Related to GC (SA 570 Revised), ✓ Statement of an uncorrected material misstatement of the other information (SA 720 Revised) Then the auditor shall consider the implications that these matters may have for ✓ The audit of the SFS or the specific element of FS and ✓ The auditor's report thereon.
16.	AO / DOO on CSFS – *UMO on Specific Element* and *AO / DOO on SFS*

	A.O / D.O.O on CSFS: ✓ When auditor expresses adverse opinion /disclaims an opinion on the entity's CSFS, ✓ Revised SA 705 does not allow the auditor to include unmodified opinion on a SFS or specific element of FS in the same audit report. ✓ Because an it would contradict the adverse opinion or disclaimer on CSFS. UMO on Single Element [Separate Report]: When auditor expresses adverse opinion /disclaims an opinion on the entity's CSFS but considers it appropriate to express an unmodified opinion on a specific element, this is only allowed if: ✓ The auditor is not prohibited by law or regulation from doing so AND ✓ The unmodified opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion /disclaimer AND ✓ The specific element does not constitute a major portion of the entity's CSFS. For Audit of SFS – AO or DOO only [even if separate report]: The auditor shall not express unmodified opinion on SFS even if it is not published together with the adverse opinion or disclaimer report of CSFS because the SFS/Element is considered a major portion of CSFS. Note: If a disclaimer of opinion can be expressed for results of operations and cash flows, while an unmodified opinion can be given on the state of affairs of the financial statements. [Only if Permitted in Audit of CSFS]
17.	SA 800 and 805 SA 800 and SA 805 do not override other SAs and do not cover all special considerations for the engagement.

[Refer TYU 3]

4. SA 810 - Engagements to Report on Summary Financial Statements (Revised)

A. Scope and meaning	
	Scope Deals with the auditor's responsibilities when reporting on summary financial statements derived from financial statements audited in accordance with SAs by the same auditor. Summary Financial Statements (Summary FS) a. Reflect historical financial information derived from audited financial statements (AFS), but with Less detail. b. They still provide a structured representation of the entity's economic resources or obligations at a point in time or the changes during a period. c. Different laws & regulations may use different terminology to describe such historical financial information.

B. Accepting an Engagement	
1.	Only if Audited the CSFS [say AFS]: The auditor should usually accept an engagement to report on Summary FS only if the auditor has audited the financial statements from which summary statements are derived.
2.	The requirement exists because without auditing the financial statements first, the auditor lacks the necessary knowledge to report on the Summary FS.

C. Before Accepting engagement to report on Summary F/S
a. Determine Acceptability of Criteria. [Refer D]
b. Agreement of Management that it acknowledges and understands its responsibility. [Refer F]
c. Agree with Management, the form of opinion to be expressed on Summary F/S.

D. Acceptability of Applicable Criteria	
1.	Determine Acceptability of Criteria Before accepting the engagement, the auditor must assess whether the applied criteria for preparing the Summary FS is acceptable.
2.	Applied Criteria The criteria refer to the guidelines used by management to prepare the Summary FS, ensuring they fairly represent the AFS. [Refer D]
3.	Risk Factors There's an increased risk that Summary FS may be misleading due to limited disclosures and aggregated information if criteria are not well-defined.
4.	Factors Affecting Determination The auditor's evaluation should consider: a. The nature of the entity b. The purpose of the Summary FS c. The information needs of the intended users d. Whether the criteria will ensure the Summary FS are not misleading.

E. Applicable Criteria for Summary Financial Statements	
1.	Criteria for preparing Summary FS ✓ The criteria for preparing Summary FS can be set by an authorised standards setting organisation, law or regulation. ✓ If no established criteria exist, management may develop criteria based on industry practice.
2.	Unacceptable Criteria If the auditor concludes the applied criteria are unacceptable or cannot obtain management's agreement, the auditor must not accept the engagement unless required by law or regulation.
	If the engagement is conducted in accordance with such law or regulation which does not comply with this SA. a. The auditor's report will not state that the engagement was conducted in accordance with this SA. b. The terms of the engagement should mention this fact. c. The auditor should assess the effect that this may have on the engagement to audit the financial statements from which the Summary FS are derived

3.	Disclosure of Summary Nature Adequate disclosure of the summarised nature of Summary FS can be provided with a title such as: "Summary FS prepared from the AFS for the year ended March 31, 20XX."

F. Management's Responsibilities for Summary Financial Statements	
1.	Obtain Agreement from Management The auditor must obtain management's agreement that it acknowledges its responsibility: a. For the preparation of the summary financial statements in accordance with the applied criteria. b. To make the audited financial statements available to the intended users.
2.	Availability of Audited Financial Statements a. Management must ensure the audited financial statements are available without undue difficulty. b. If law or regulation prohibits statements to be available, it should be described in the summary financial statements.
3.	Factors Affecting Availability The auditor's evaluation is affected by factors such as: a. Whether the summary financial statements clearly state where or from whom the audited financial statements can be obtained. b. Whether the audited financial statements are on public record. c. Whether management has a process for easy access to the audited financial statements.
4.	Inclusion of Auditor's Report Management is responsible for including the auditor's report on the summary financial statements in any document containing Summary FS or indicating that the auditor has reported on them.

F. Nature of Procedures to be performed by the auditor	
1.	Disclosure of Summarised Nature Evaluate whether the summary financial statements clearly disclose their summarised nature and identify the audited financial statements.
2.	Description of Availability When summary financial statements are not accompanied by the AFS, evaluate whether they clearly describe: a. From whom or where the audited financial statements are available; or b. The law or regulation that exempts making the audited financial statements available.
3.	Disclosure of Applied Criteria Evaluate whether the summary financial statements adequately disclose the applied criteria used in their preparation.
4.	SFS Agree with AFS Compare the summary financial statements with the related information in the audited financial statements to verify whether they agree or can be re-calculated from the related information.
5.	Compliance with Applied Criteria Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
6.	Appropriateness of Information

	Evaluate whether, considering the purpose of the summary financial statements, they contain the necessary information and are at an appropriate level of aggregation to ensure they are not misleading in the circumstances.
7.	Availability of Audited Financial Statements Evaluate whether the audited financial statements are available to the intended users without undue difficulty, unless law or regulation provides an exemption as discussed.

G. Form of Opinion	
1.	When the auditor has concluded that an unmodified opinion on the Summary FS is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use any one of the following phrases:

(a) The accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria or

(b) The accompanying summary financial statements are a fair summary of the audited financial statements, in accordance with the applied criteria

2.	If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described above, the auditor shall:

(a) Apply the procedures discussed earlier and any further procedures necessary to enable the auditor to express the prescribed opinion and

(b) Evaluate whether users of the summary financial statements might misunderstand the auditor's opinion on the summary financial statements and, if so, whether additional explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding.

	Do NOT Accept the engagement on SFS If the auditor concludes that additional explanation in the auditor's report cannot avoid misunderstanding, the auditor must not accept the engagement unless required by law or regulation.
3.	Compliance with SA An engagement required by law or regulation that does not comply with this SA should not indicate that it was conducted in accordance with this SA.

H. Auditor's Report on Summary Financial Statement	
1.	Title must clearly indicate it is the report of an independent auditor.
2.	Addressee If the addressee of the summary financial statements is different from the audited financial statements, the auditor must evaluate the appropriateness of this.
3.	Identification of Summary Financial Statements Identify the summary financial statements including the title of each statement. If included in a document with other information, consider identifying page numbers.

4.	Identification of Audited Financial Statements
5.	Clear Expression of Opinion
6.	Disclosure Statement Include a statement indicating that the summary financial statements lack full disclosures and are not a substitute for the audited FS.
7.	Subsequent Events (if required) If required, include a statement that the summary and audited financial statements do not reflect subsequent events.
8.	Reference to Audited Financial Statements Refer to the auditor's report on the audited financial statements, including the date and the unmodified opinion expressed.
9.	Management's Responsibility Describe management's responsibility for preparing the summary financial statements in accordance with the applied criteria.
10.	Auditor's Responsibility State that the auditor's responsibility is to express an opinion on whether the summary financial statements are consistent with the audited financial statements.
11.	Auditor's Signature The auditor's signature, firm registration number, membership number (Institute of Chartered Accountants of India), and UDIN must be included.
12.	Date of Auditor's Report Include the date of the auditor's report. The auditor shall date the auditor's report on the summary financial statements not earlier than ✓ The date when the auditor has gathered enough evidence to base the opinion, including evidence that the summary financial statements have been prepared and those with recognized authority have asserted responsibility for the statements. ✓ The date of the auditor's report on the audited financial statements.
13.	Place of Signature

I. Reporting when – Summary FS are Consistent with AFS	
1.	Qualified Opinion on Audited Financial Statements Auditors Report on AFS includes ✓ Qualified Opinion (SA 705 Revised), ✓ Emphasis of Matter paragraph or an Other Matter paragraph (SA 706 Revised), ✓ Material Uncertainty Related to Going Concern (SA 570 Revised), ✓ Communication of Key Audit Matters (SA 701) ✓ Statement that describes an uncorrected material misstatement of the other information (SA720 Revised) AND Summary FS are Consistent with AFS or a Fair summary of AFS, as per applied criteria The auditor's report on the summary financial statements shall a. State that the auditor's report on the AFS includes ✓ Qualified opinion, EOM para, OMP Para, MURGC section, Communication of KAM, or a statement of Uncorrected MMS of Other Information AND b. Describe:

	✓ The basis for qualified opinion on the AFS & the effect on Summary FS, ✓ The matter referred to in the EOM, OMP, MURGC section in the auditor's report on AFS and the effects on the Summary FS or ✓ The uncorrected MMS of Other information & the effects on the info included in a document containing Summary FS & auditor's report
2.	Adverse Opinion or Disclaimer of Opinion in AFS The auditor's report on the Summary FS shall, a. State that auditor's report on AFS contains an adverse /disclaimer of opinion; b. Describe the basis for that adverse opinion / disclaimer of opinion; and c. State that, as a result of the adverse / disclaimer of opinion on AFS it is *inappropriate to express an opinion* on the Summary FS.

J. Reporting when – Summary FS are Inconsistent with AFS
If Summary FS are not consistent with AFS as per the applied criteria & management does not agree to make necessary changes, Auditor may express adverse opinion on Summary FS.

K. Restriction On Distribution or Use	
	Restriction or Alert in Audited Financial Statements If the auditor's report on the AFS has restricted distribution or alerts readers that the statements are prepared using a SPFW, the auditor must include a similar restriction or alert in the auditor's report on the Summary FS.

L. Comparatives	
1.	No Comparatives in Summary FS If AFS contain comparatives but Summary FS do not contain it, ✓ Auditor must assess whether the omission is reasonable in the context of the engagement. ✓ Auditor must determine the impact of an unreasonable omission on auditor's report.
2.	Comparatives Reported by Another Auditor If Summary FS contain comparatives reported by another auditor, Auditor's report on Summary FS also includes the matters of SA 710 as reported in AFS.

M. Unaudited Supplementary Info presented with Summary FS	
1.	Unaudited Supplementary Information The auditor must evaluate if any unaudited supplementary information is clearly differentiated from the Summary FS.
2.	Presentation of Unaudited information If the auditor concludes that the presentation of the unaudited information is not clearly differentiated, the auditor must ask management to change the presentation.
3.	Management Refusal If management refuses to make the change, the auditor must explain in the auditor's report that the unaudited information is not covered by the report.

N. Information in documents containing Summary FS	
1.	Reading of Document The auditor must read the document containing the Summary FS & auditor's report and check if there is a material inconsistency with the summary financial statements.
2.	Identifying Material Inconsistency If the auditor identifies a material inconsistency: ✓ Auditor must discuss it with management and ✓ Determine whether the Summary FS or the information in the document needs to be revised.
3.	Management Refusal to Revise If management refuses to revise the information, the auditor should consider the impact on the auditor's report on the summary financial statements & take appropriate action.

O. Auditors Association	
1.	Auditor's Report not included in the Document If the auditor becomes aware that the entity plans to state that the auditor has reported on the Summary FS but will not include auditor's report, He must request management to include the auditor's report.
2.	Management Refusal to Include Auditor's Report If management refuses to include the auditor's report, the auditor must take appropriate actions to prevent inappropriate association with the Summary FS.
3.	Auditor Not Engaged on Summary Financial Statements If auditor is only engaged to report on the entity's FS but not Summary FS, auditor must a. Ensure the reference to the auditor is in the context of Auditor's report on AFS. b. Ensure the statement does not imply that the auditor has reported on the summary FS.
4.	Management Does Not Meet Requirements a. If the conditions in 3(a) or (b) are not met, the auditor should request management to change the statement or not refer to the auditor. b. Alternatively, the entity may engage the auditor for the Summary FS.
5.	Auditor Disagreement If management refuses to comply, the auditor must inform them that the auditor disagrees with the reference and take actions to prevent inappropriate references to the auditor.

P. Timing of Work & Events subsequent to the date of AR on AFS	
1.	Date of Auditor's Report on Summary Financial Statements If the auditor's report on Summary FS is dated later than the report on the AFS: ✓ It must state that the summary FS and audited FS do not reflect the effects of subsequent events after date of Auditors report on Audited FS.
2.	Awareness of New Facts If the auditor becomes aware of facts that existed at the date of the auditor's report on the AFS but were previously unknown: ✓ Auditor must not issue the report on the summary FS until considering these facts in accordance with SA 560.
3.	No Additional Audit Evidence Required

	When the auditor reports on Summary FS after the audit of FS, there is no need to obtain additional audit evidence on the AFS or report on subsequent events as the Summary FS are derived from the AFS.

[TYU 5 & 6]

9. RELATED SERVICES

1. Standards on related services

A. Standardization procedure	
1.	Chartered Accountants in Practice Chartered Accountants may provide services that do not involve expressing an opinion on the truth and fairness of financial statements.
2.	Standardization of Procedures To standardize procedures for non-assurance services, the AASB of ICAI issued 2 Standards on Related Services. a. SRS 4400 Engagements to Perform Agreed-upon Procedures regarding financial information b. SRS 4410 Compilation Engagements which involve preparing financial information without providing an opinion.
B. Related Services & Agreed upon Procedures	
1.	Assurance Engagements Assurance engagement means a practitioner expresses a conclusion to increase the confidence of users regarding the evaluation or measurement of a subject matter against specific criteria.
	Meaning of Assurance The practitioner gives an opinion to help users make confident decisions, knowing the chance of information being incorrect is minimized.
2.	Related Services All engagements are not assurance engagements. Related services include: ✓ Tax return preparation without assurance. ✓ Consulting or advisory engagements like management or tax consulting. ✓ Engagements covered by Standards for Related Services like agreed-upon procedures or compilation of financial information.
3.	Agreed-upon Procedures In these engagements, the auditor is engaged to provide a report on factual findings based on specific procedures performed on subject matter of specified elements, accounts or items of a financial statement.
4.	Role of the Practitioner A person performing related services need not be the auditor of the entity's financial statements.

2. SRS 4400 Engagements to Perform Agreed upon procedures on Financial Information

A. Objective	
The objective of an agreed-upon procedures engagement is for the auditor to perform audit-like procedures agreed by the auditor, the entity, and third parties and report on factual findings.	
1.	No Assurance Provided a. The auditor does not provide assurance in the report. b. Users assess the procedures and findings to draw their own conclusions.
2.	Restricted Report The report is restricted to those who agreed to the procedures, as others may misinterpret the results without knowing the context.

B. Differences between Audit and Agreed-upon procedures	
1.	Audit An audit expresses an opinion and assurance to users.
2.	Agreed-Upon Procedures a. In agreed-upon procedures engagement, only a report of factual findings is provided. b. No assurance is given. Instead, users draw their own conclusions from the findings. c. Agreed-upon procedures engagements are considered as non-assurance engagements.
3.	Example of Agreed-Upon Procedures (To evaluate accounts payable validity): a. Compare names of major suppliers & amounts in trial balance with suppliers' statements. b. Obtain statements or confirmations from suppliers to verify balances. c. Compare statements/confirmations to amounts in the trial balance. d. Report actual findings (e.g., variations) without providing assurance.

C. General principles of an agreed-upon procedures engagement	
1.	Ethical Compliance a. The auditor must comply with the Code of Ethics from the ICAI. b. Ethical principles include integrity, objectivity, professional competence, due care, confidentiality, professional conduct, and technical standards.
2.	Independence a. Independence is not mandatory for an agreed-upon procedures engagement. b. However, the engagement terms may require compliance with independence requirements in the Code of Ethics c. If the auditor is not independent, they must include a statement in the report.

C. Terms of the engagement	
1.	Understanding of Agreed Procedures The auditor must ensure that representatives of the entity and other specified parties clearly understand the agreed procedures and conditions of the engagement.
2.	Engagement Letter An engagement letter helps avoid misunderstandings about the objectives, scope, auditor's responsibilities and the form of reports. It should include: a. A list of procedures agreed upon. b. A statement that the distribution of the report will be restricted to the agreed parties.

3.	Matters to Be Agreed Key matters to be agreed upon include: a. Nature of the engagement b. Purpose of the engagement. c. Identification of the financial information to which procedures will apply. d. Nature, timing, and extent of specific procedures. e. Limitations on distribution of the report. If limitations conflict with legal requirements, the auditor should not accept the engagement.

D. Planning and procedures in an agreed upon procedures	
1.	The auditor should plan the work to ensure an effective engagement.
2.	Procedures and Evidence The auditor must carry out the agreed-upon procedures and use the evidence obtained to report factual findings. The procedures may include: a. Inquiry and analysis b. Re-computation, comparison, and other clerical checks c. Observation d. Inspection e. Obtaining confirmations

E. Documentation and reporting aspects in an agreed upon procedures	
1.	Title
2.	Addressee
3.	Identification of specific financial or non-financial information to which the procedures were applied.
4.	A statement that the procedures performed were agreed-upon with the recipient.
5.	A statement that the engagement followed the applicable Standard on Related Services.
6.	Identification of the purpose for which the agreed upon procedures were performed.
7.	A listing of the specific procedures performed.
8.	A description of the auditor's factual findings, including errors or exceptions found.
9.	A statement that procedures do not constitute an audit/review, so no assurance is provided.
10.	A statement that additional procedures, an audit, or a review might reveal other matters.
11.	A statement that the report is restricted to those who agreed to the procedures.
12.	A statement that the report only relates to the specified elements, items of financial and non-financial information specified and does not extend to the entire financial statements.
13.	Date of the report & Place of Signature
14.	Auditor's Signature

Documentation: Auditor should document matters which are important for evidence to support the report of factual findings & that engagement was carried out as per SRS & terms of engagement.

[TYU 1]

3. SRS 4410 Compilation Engagements

A. Applicability	
1.	SRS 4410 Overview a. It deals with practitioner's responsibility when assisting management with preparation & presentation of historical financial information without obtaining assurance. b. The practitioner must report in accordance with this standard.
2.	Application It applies to compilation engagements for historical financial information.
3.	Other Financial Information Compilation engagements for non-historical financial information and non-financial information can also be performed under this standard with necessary adaptations.
4.	SQC 1 Applicability ✓ SQC 1 applies to all Engagements. ✓ Since SRS 4410 is an Engagement, SQC 1 applies to compilation engagements by firms.

B. Compilation engagement and its purposes	
1.	Meaning It involves Practitioner using accounting & financial reporting expertise to aid management in preparing & presenting financial information as per AFRFW & issuing a report.
2.	Assistance of CA in Practice Management may ask a professional accountant to assist with the preparation and presentation of financial information.
3.	Not an Assurance Engagement ✓ A compilation engagement is not an assurance engagement. ✓ The practitioner does not verify the accuracy or completeness of information provided by management/ gather evidence for an audit opinion or review conclusion.
4.	Purposes Compilation engagement can be required for various purposes: a. Mandatory periodic financial reporting as required by law or regulation. b. Other purposes, such as: i. Internal use (financial information for management or governance). ii. External reporting (providing information to funding bodies or for grants). iii. Transactional purposes (mergers, acquisitions, or changes in ownership).

C. Objectives	
1.	Application of Expertise The practitioner applies accounting and financial reporting expertise to assist management in preparing and presenting financial information as per AFRFW framework.
2.	Reporting The practitioner reports in accordance with the requirements of this SRS.

D. Scope of the standard	
1.	Scope The scope of a compilation engagement varies but always involves assisting management in preparing & presenting financial information as per AFRFW.
2.	Draft Information In some cases, management may already have drafted or preliminary financial information.
3.	Management Responsibility Management retains full responsibility for the financial information including applying judgment in preparation, selecting accounting policies and developing accounting estimates.
4.	Financial Reporting Framework Different FRFW may be used, ranging from entity-specific to established standards, depending on the nature of entity & the intended use of the information.

E. Ethical requirements in the context of compilation engagements	
1.	Ethical Requirements The practitioner must comply with ethical requirements, identify potential threats to compliance, and address them appropriately in line with the Code of Ethics.
2.	Independence Since a compilation engagement is a non-assurance engagement, independence requirements do not apply. However, laws or regulations or terms of engagement may impose independence requirements.

F. Engagement acceptance and continuance	
1.	Engagement Terms The practitioner must agree on the terms of engagement with management & the engaging party including the intended use, distribution and restrictions on the financial information.
2.	Financial Reporting Framework The APFRFW must be identified.
3.	Objective & Scope The objective and scope of the compilation engagement must be agreed upon.
4.	Practitioner's Responsibilities The practitioner's responsibilities including compliance with ethical requirements, must be clearly stated.
5.	Management's Responsibilities a. Financial information preparation and presentation in line with an acceptable FRFW b. Design, implementation & Maintenance of Internal controls for accurate financial statement preparation which is free from MMS due to fraud or error. c. Ensuring accuracy and completeness of records and documents provided. d. Judgments required in the financial information preparation and presentation for which the practitioner may provide assistance.
6.	Practitioner's Report The expected form and content of the practitioner's report must be outlined.
7.	Engagement Letter

	The practitioner must record the terms of engagement in a letter/written agreement prior to starting the engagement. For recurring engagements, the practitioner must assess whether the terms need revision.

G. Performing the compilation engagement	
1.	Understanding Matters The practitioner must understand a. The entity's business and operations, including the accounting system and records. b. The financial reporting framework, including its application in the entity's industry.
2.	Compiling the Financial Information The practitioner must: a. Compile financial information using records, documents, explanations and significant judgments provided by management. b. Discuss significant judgments with management or TCWG. c. Review the compiled information in light of entity's business & applicable framework. d. Report any incomplete, inaccurate, or unsatisfactory information to management and request corrections. e. Withdraw if management fails to provide necessary information.
3.	Propose Amendments The practitioner must propose amendments if: a. The financial information does not adequately describe the FRFW. b. Amendments are needed to prevent MMS. c. The compiled information is misleading.
4.	Withdraw from Engagement a. Withdraw if management refuses to amend the compiled information. b. If withdrawal is not possible, determine the professional and legal responsibilities in the situation.
5.	Obtain Acknowledgement The practitioner must obtain an acknowledgement from management that they take responsibility for the final version of the compiled financial information.
6.	Communication with Management The practitioner must communicate with management or those charged with governance on important matters during the engagement that require attention.

H. Practitioner's Report on compilation engagement	
1.	Title
2.	The addressee(s) as required by the terms of the engagement.
3.	A statement that the practitioner has compiled the financial information based on information provided by management.
4.	A description of the responsibilities of management or TCWG in relation to the compilation engagement and the financial information.
5.	Identification of the APFRFW and, if a special purpose framework is used, reference or describe it.
6.	Identification of the financial information, including the title and date/period of each element of the information.

7.	Description of practitioner's responsibilities in compiling the information including that the engagement was performed as per SRS & relevant ethical requirements were complied with.
8.	Description of what a compilation engagement entails according to this SRS.
9.	Explanations that a. Since it is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information. b. The practitioner does not express an audit opinion or a review conclusion on whether the financial information complies with the applicable framework.
10.	If using a special purpose financial reporting framework, the report should: a. Describe the purpose &intended users of the financial information or reference a note in the information that discloses this. b. Alert readers that the financial information may not be suitable for other purposes.
11.	Date of the practitioner's report
12.	The practitioner's signature
13.	Place of Signature

I. Engagement Level Quality Control and Documentation	
1.	Engagement Level Quality Control The engagement partner is responsible for: a. Ensuring the overall quality of the compilation engagement. b. Ensuring the engagement complies with the firm's quality control policies and procedures.
2.	Documentation The practitioner must include in the engagement documentation: a. Significant Matters A record of significant matters arising during the engagement and how they were addressed by the practitioner. b. Reconciliation A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information provided by management. c. Final Version Acknowledgement A copy of the final version of the compiled financial information, acknowledging that management or TCWG accept responsibility, and the practitioner's report. d. Additional Documents The practitioner may also consider including: A copy of the entity's trial balance, summary of significant accounting records or other information used to perform the compilation.

[TYU 2]

10. REVIEW OF FINANCIAL INFORMATION

A. Introduction	
1.	Standards on Quality Control (SQC) SQC applies to all services covered by Engagement Standards.
2.	Review Engagements Standards on review engagements are part of Engagement Standards.
3.	Quality Control for Review Engagements Quality control in review engagements is based on the assumption that firm follows SQC 1.

B. Meaning of Review	
1.	A review is a limited assurance engagement.
2.	Combination of nature, timing and extent of evidence gathering is minimum to get a meaningful level of assurance.
3.	Limited assurance provides lower assurance than an audit, involving fewer procedures and gathering sufficient evidence for drawing conclusions.
4.	Review relates to financial statements based on historical financial information, similar to an audit.

Aspect	Audit	Review
Type of Assurance	Audit is a reasonable assurance engagement, providing a higher level of assurance.	Review is a limited assurance engagement, providing a lower level of assurance than an audit.
Procedures Performed	Performs extensive procedures, including tests of controls and substantive procedures.	Performs fewer procedures, focusing on inquiry and analytical procedures.
Conclusions	Draws reasonable conclusions based on SAAE.	Draws limited conclusions based on SAAE.
Reporting	Provides an assurance opinion.	Provides an assurance conclusion.
Language of Opinion/Conclusion	The language of the opinion is positively worded.	The language of the conclusion is negatively worded.

1. SRE 2400 Engagements to Review Historical Financial Statements

SRE 2400 deals with:

- The practitioner's responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements and
- The form and content of the practitioner's report on the financial statements.

A. Introduction	
1.	Conclusion in Review The practitioner expresses a conclusion that enhances confidence of intended users about FS prepared in accordance with a FRFW.
2.	Type of Framework Financial statements may be prepared using GPFW or SPFW.
3.	Nature of Conclusion The practitioner's conclusion is based on obtaining limited assurance. The report includes a description of the review engagement for clarity.
4.	Procedures Performed The practitioner performs inquiry and analytical procedures to obtain SAAE for a conclusion.
5.	Additional Procedures If the practitioner believes the financial statements may be materially misstated, they will perform additional procedures to reach a conclusion.

B. Objective of SRE 2400	
1.	Obtained Limited Assurance The practitioner aims to: a. Obtain limited assurance through inquiry and analytical procedures to determine if the FS are free from MMS. b. Report on the FS as a whole and communicate findings as required by SRE 2400.
2.	Not Obtained Limited Assurance If limited assurance cannot be obtained and a modified conclusion is insufficient, the practitioner may either: a. Disclaim a conclusion in the report. b. Withdraw from the engagement if permitted by law or regulations.

C. Compliance with Ethical Requirements and Engagement Level Quality Control	
	Ethical Requirements The practitioner must comply with relevant ethical requirements, including independence. The engagement partner is responsible for the overall quality of the review engagement.

D. Factors affecting Acceptance & Continuance of Client Relationships	
The practitioner shall not accept the review engagement if:	
1.	a. No Rationale ✓ The practitioner is not satisfied that there is a rational purpose for the engagement such as scope limitations or inappropriate association with FS. ✓ If a law / regulation requires an audit, then review engagement is not appropriate. b. Review Engagement Not Appropriate If the practitioner believes that review engagement is not suitable in the given circumstances, he may recommend another type of engagement. (audit/ compilation).
2.	Non-Compliance with Ethical Requirements The practitioner believes ethical requirements, including independence, will not be met.
3.	Non-Availability of Information Practitioner believes necessary information to perform review is unavailable / unreliable.
4.	Doubts about Integrity of Management The practitioner has doubts about integrity of management, which could affect the proper performance of the review.
5.	Limitation on Scope by Management If management or TCWG impose a limitation on the scope that could lead to the practitioner disclaiming a conclusion on the FS.

E. Preconditions for accepting a Review Engagement	
The following points to be considered Prior to Accepting a Review Engagement:	
1.	Acceptability of FRFW a. The practitioner must determine if the FRFW used is acceptable. b. In the case of special purpose statements, understand the purpose and intended users.
2.	Management's Responsibilities Management must agree to its responsibilities: a. Prepare financial statements in line with AFRFW, ensuring fair presentation. b. Establish necessary internal controls to ensure FS are free from MMS (fraud or error). c. Provide the practitioner with: i. Access to all relevant information (records, documentation, etc.). ii. Additional information the practitioner may request. iii. Unrestricted access to relevant personnel for obtaining evidence.
3.	Practitioner's Satisfaction If the practitioner is not satisfied with the preconditions, he must discuss the matter with management / TCWG.
4.	Decision on Engagement a. If issues cannot be resolved to the practitioner's satisfaction, they must not accept the engagement unless required by law or regulation.

	b. If accepted as per L&R, the review report shall not mention compliance with SRE.
5.	Post Acceptance Issues If preconditions do not present after engagement acceptance, the practitioner must: a. Discuss the issue with management or governance. b. Decide whether the issue can be resolved. c. Determine whether to continue the engagement.

F. Agreeing to the terms of engagement	
1.	Prior to Performing the Engagement The practitioner must agree on the terms of the engagement with management or TCWG before starting the engagement.
2.	Written Agreement The agreed terms must be in a written agreement like an engagement letter or other form.
3.	Recurring Engagements For recurring review engagements, the practitioner must assess whether circumstances (like changes in acceptance considerations) require revising the terms or reminding existing terms to Management or TCWG.
4.	Change in Terms of Engagement d. Reasonable Justification: ✓ The practitioner must not agree to a change in the terms unless there is reasonable justification. ✓ If asked to change the engagement to one with no assurance, the practitioner must evaluate whether it's justified. e. New Terms in Writing: ✓ If the terms are changed during the engagement, the new terms must be agreed upon and recorded in writing.

G. Performing a Review Engagement after Acceptance	
1.	Determine Materiality 1. The practitioner must determine materiality for the entire FS and apply it in designing procedures & evaluating results. 2. The judgment on materiality is the same regardless of the level of assurance in the conclusion. 3. The practitioner should revise the materiality amount for FS, if new information arises.
2.	Obtaining Understanding of the Entity The practitioner must gain an understanding of the entity, its environment and the FRFW to identify potential areas of MMS in the FS.
3.	Designing and Performing Procedures through Inquiry and Analytical Procedures a. To gather sufficient evidence for a conclusion, the practitioner should perform inquiry and analytical procedures: ✓ To address all material items in the FS including disclosures. ✓ To focus on areas where misstatements are likely. b. Procedures should be designed to meet objectives of the engagement. He may perform other procedures if effective/ efficient based on the engagement circumstances.

	c. Performing other procedures does not change the objective of obtaining limited assurance for the FS. d. Practitioner may review accounting records to identify significant/unusual transactions.
3A.	Inquiry 1. Inquiry involves seeking information from management & relevant persons within the entity. 2. Key inquiries may cover: i. Accounting estimates. ii. Related parties. iii. Significant, complex, or unusual transactions. iv. Suspected fraud. v. Subsequent events that affect the financial statements. vi. Management's going concern assessment. vii. Events casting doubt on going concern. viii. Contingencies (commitments, obligations, or material non-monetary transactions). 3. Inquire Non-Financial Information The practitioner may inquire about non-financial data if relevant to the engagement: a. Actions taken at meetings (owners, governance, committees) affecting FS disclosures. b. Communications from regulatory bodies. c. Matters arising during the course of other procedures. 4. Evaluating Responses The practitioner should assess reasonableness and consistency of management's responses in relation to results from other procedures, knowledge of entity.
3B.	Analytical Procedures The practitioner should ensure that the data from the entity's accounting system is adequate for performing analytical procedures.

H. Why Inquiry & Analytical Procedures are Important	
1.	Importance of Inquiry a. Inquiry provides evidence about management intent, often being the principal source. b. If information on management's intent is limited, the practitioner may look at: ✓ Past history of management's actions. ✓ Reasons for choosing a course of action. ✓ Ability to pursue the chosen course of action. c. Professional scepticism is essential when evaluating management's responses to identify possible MMS. d. Inquiry helps update the practitioner's understanding of the entity & its environment, identifying areas where misstatements may occur.
2.	Importance of Analytical Procedures a. It helps to update the practitioner's understanding of the entity and its environment, identifying areas of potential misstatements. b. It helps to identify inconsistencies / variances in the FS such as trends, values or norms (e.g., Key performance indicators).

	c. It provides corroborative evidence for inquiries / analytical procedures already performed. d. It serves as additional procedures if the practitioner suspects misstatements in FS. e. Various methods can be used in Analytical Procedures ranging from simple comparisons to complex statistical analyses: ✓ Evaluating financial information for consistency with expected values. ✓ Developing expectations based on relevant sources such as industry information.

I. Specific Circumstances	
1.	Related Parties a. The practitioner should stay alert for arrangements / information that may indicate related party relationships / transactions not previously identified or disclosed by management. b. If significant transactions outside the normal business course are identified, the practitioner must inquire with management about the nature of these transactions, related parties involved and the business rationale.
2.	Fraud and Non-Compliance with Laws or Regulations a. If there are indications of fraud or non-compliance with laws or regulations, the practitioner must communicate this to appropriate level of management and request management's assessment of the effects on the FS. b. The practitioner must consider how management's assessment of fraud or non-compliance affects the conclusion on the FS & if there's a need to report it externally.
3.	Going Concern a. During the review, the practitioner must assess the entity's ability to continue as a going concern. b. If concerns arise, inquire with management about their plans and whether these plans are feasible to address the going concern issue. c. Evaluate management's responses and determine if the FS should continue to be prepared on a going concern basis or if they are materially misstated. d. Consider management's responses to all relevant information gathered during the review.
4.	Use of Work Performed by Others If practitioner relies on work performed by others, he must ensure that work is adequate for the review's purposes.
5.	Review of Group Financial Statements When reviewing group FS, the practitioner must plan the procedures to achieve the objectives of review are as per this SA considering the context of the group FS.

J. Additional Procedures when FS are materially misstated	
1.	If Matters Indicate Possible Misstatement If the practitioner believes that the FS may be materially misstated, he must design and perform additional procedures to: a. Conclude that the matter is not likely to cause a MMS. b. Determine if the matter cause the FS to be materially misstated.

2.	Practitioner's Judgment Response to potential misstatements varies depending on the circumstances and based on the practitioner's professional judgment.
3.	Additional Procedures Additional procedures aim to gather S&A Audit Evidence to form a conclusion on matters that could cause material misstatements. These procedures may include: a. Inquiry / analytical procedures either in greater detail or focused on affected items, b. Other procedures such as substantive tests of details or external confirmations.
4.	Example of Additional Procedures a. A review of accounts receivable shows a large amount of overdue payments, and there is no provision for bad debts. b. This raise concerns that the financial statements might be incorrect. c. The reviewer asks management if there are uncollectible accounts that should be reported as impaired. d. Possible Outcomes Based on Management's Response 1. No Issues Found: If management's response confirms that the accounts are not misstated, no further action is needed. 2. Financial Statements Are Clearly Misstated: If it is clear that the accounts are misstated, the reviewer concludes that the financial statements as a whole are incorrect. No further procedures are required. 3. Uncertainty Remains: If doubts persist but there is no solid proof of misstatement, the reviewer must perform additional procedures. This may include requesting further analysis from management. What Happens Next? ✓ If additional procedures resolve the issue, the reviewer can conclude either (1) or (2). ✓ If the issue is still unclear, the reviewer must continue performing procedures. ✓ If a clear conclusion cannot be reached, the reviewer must acknowledge a scope limitation and cannot provide an unmodified opinion on the financial statements.

K. Procedures related to subsequent events	
1.	Subsequent Events If practitioner becomes aware of events between the date of FS and the practitioner report date that require adjustment or disclosure in the FS, they must ask management to correct the misstatements.
2.	Amending the Financial Statements a. The practitioner is not required to perform any procedures after the report date. b. However, if a fact arises after the report date but before the financial statements are issued that could have caused the report to be amended, i. Discuss the matter with management or TCWG. ii. Determine whether the FS need to be amended. iii. If needed, inquire how management intends to address the issue in the FS.
3.	Management Not Amending the Financial Statements If management refuses to amend the financial statements and the report has already been provided:

	a. The practitioner must notify management and TCWG not to issue FS to third parties until the amendments are made. b. If the FS are issued without amendments, the practitioner must take appropriate actions to prevent reliance on their report.

L. Written representations	
1.	Not a Substitute for Evidence Written representations (WR) are a crucial source of evidence in a review engagement. If management changes / does not provide the requested WR, it indicates significant issues.
2.	Importance of Written Representations Requesting written rather than oral representations can prompt management to consider matters more rigorously, improving the quality of the representations.
3.	Responsibilities of Management Practitioner must request management to provide a written representation that they have fulfilled their responsibilities including: ✓ Preparing the FS in line with the AFRFW and fair presentation. ✓ Providing all relevant information and access as agreed. ✓ Ensuring all transactions are recorded in the FS. ✓ If required by law, public statements may cover some or all of these responsibilities.
4.	Representations Related to Disclosures The practitioner may request additional WR for specific items or disclosures in FS to support the conclusion whether modified or unmodified.
5.	Representation on Additional Matters Management must provide written representations on: a. Related party identities and transactions. b. Fraud or suspected fraud affecting the entity. c. Non-compliance with laws or regulations affecting financial statements. d. Going concern assumptions. e. Subsequent events that require adjustment or disclosure. f. Material commitments, obligations, or contingencies. g. Non-monetary transactions or transactions for no consideration.
6.	No WR Provided: a. If management does not provide WR: ✓ The practitioner should discuss the matter with management or governance. ✓ Re-evaluate the integrity of management and the reliability of representations. ✓ Take appropriate actions, considering the effect on the conclusion. b. If management does not provide the required representations or if their integrity is in doubt: ✓ The practitioner may disclaim the conclusion or withdraw from the engagement if allowed by law or regulation.

M. Evaluating evidence obtained from the procedures	
1.	Evaluation of Evidence The practitioner must evaluate if SAAE has been obtained.

	If not, perform additional procedures to form a conclusion on the FS.
2.	When Evidence is Insufficient a. In some cases, the practitioner may not have obtained the expected evidence from inquiry and analytical procedures. b. If the evidence obtained is not sufficient to form a conclusion on the FS, the practitioner shall consider other procedures to gather the needed evidence such as: ✓ Extend the work performed or ✓ Perform additional procedures judged necessary.
3.	When Additional Procedures Are Not Possible If extending the work / performing additional procedures is not possible, Practitioner cannot obtain sufficient evidence & must determine the effect on their report.
4.	Discussing Limitations Practitioner must discuss the limitations with management and TCWG, if insufficient evidence prevents forming a conclusion.
5.	Inability to Perform Specific Procedures If the practitioner cannot perform a specific procedure but obtains sufficient evidence through other procedures, it does not constitute a limitation on the review scope.
6.	Limitations Imposed by Management Limitations on the scope imposed by management may affect the review, especially in terms of identifying MMS and deciding whether to continue the engagement.

N. Practitioner's Conclusion on FS	
1.	Considerations in Forming the Conclusion The practitioner must consider the impact of: a. Uncorrected misstatements identified during the review or from the previous year's review on the financial statements as a whole. b. Qualitative aspects of the entity's accounting practices, including possible bias in management's judgments.
2.	Additional Considerations for Fair Presentation Framework If the financial statements are prepared using a FPFW, the practitioner must also consider: a. The overall presentation, structure, and content of the FS as per the AFRFW. b. Whether the FS including the related notes, represent the underlying transactions and events in a way that gives a true and fair view.
3.	Conclusion on the Financial Statements The practitioner's conclusion, whether unmodified or modified should be expressed in the appropriate form based on the FRFW applied to the FS.

O. Unmodified conclusion in the Practitioner's report	
1.	Unmodified Conclusion The practitioner expresses an unmodified conclusion when they have obtained limited assurance and conclude that nothing has come to their attention that suggest FS are not prepared as per AFRFW.

2.	Wordings for Unmodified Conclusion When expressing an unmodified conclusion, unless required by law or regulation, the practitioner must use the appropriate phrase: a. Fair Presentation Framework: "Based on our review, nothing has come to our attention that causes us to believe that FS do not give a true & fair view as per AFRFW' b. Compliance Framework: "Based on our review, nothing has come to our attention that causes us to believe the FS are not prepared, in all material respects as per AFRFW"

P. Modified conclusion in the Practitioner's report	
1.	Modified Conclusion The practitioner expresses a modified conclusion when: a. The financial statements are materially misstated. b. The practitioner cannot obtain sufficient evidence for material items in the FS.
2.	Material Misstatement in FS If the FS are materially misstated, the practitioner shall express: a. Qualified conclusion if the misstatement is material but not pervasive. b. Adverse conclusion if the misstatement is both material and pervasive.
3.	Headings of Conclusion Paragraph The practitioner must: a. Use appropriate heading (Qualified, Adverse or Disclaimer of Opinion) in the conclusion paragraph. b. Provide a description of the issue causing the modification under an appropriate heading (e.g., Basis for Qualified Conclusion) before the conclusion paragraph.
4.	Wordings for Qualified Conclusion If a qualified conclusion is expressed, the practitioner must use: a. Fair Presentation Framework: "Except for the effects of the matters described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe the financial statements do not give a true and fair view." b. Compliance Framework: "Except for the effects of the matters described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe the financial statements are not prepared in accordance with AFRFW"
5.	Wordings for Adverse Conclusion If an adverse conclusion is expressed, the practitioner must use: a. Fair Presentation Framework: "Due to the significance of the matters described in the Basis for Adverse Conclusion paragraph, the FS do not give a true and fair view." b. Compliance Framework: "Due to the significance of the matters described in the Basis for Adverse Conclusion paragraph, FS are not prepared in accordance with the AFRFW"

6.	Basis for Conclusion Paragraph In the basis for conclusion paragraph, the practitioner shall: a. Describe and quantify the financial effects of misstatements related to specific amounts unless impracticable. b. Explain how disclosures are misstated if the misstatement relates to narrative disclosures. c. Describe the nature of omitted information if the misstatement relates to non-disclosure of required information. [Quantitative disclosures] Note: Narrative disclosures are part of corporate financial reporting providing management's view of company events. They are discretionary in nature.

Q. Conclusion on reporting in case of inability to obtain SAAE.	
1.	Unable to Obtain Evidence If the practitioner cannot form a conclusion due to insufficient evidence, they must: a. Express a qualified conclusion if the possible effects of undetected misstatements could be material but not pervasive. b. Disclaim a conclusion if the possible effects could be both material and pervasive.
2.	Withdrawal from Engagement The practitioner must withdraw if: a. Management imposes a limitation on the scope after the engagement is accepted, preventing him from obtaining sufficient evidence. b. Practitioner determines the possible effects of undetected misstatements are both material and pervasive and withdrawal is possible under applicable law or regulation.
3.	Wordings for Qualified Conclusion If the practitioner expresses a qualified conclusion due to insufficient evidence, they must use: a. Fair Presentation Framework: "Except for the possible effects of the matter(s) described in Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe the FS do not give a true and fair view" b. Compliance Framework: "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 the FS are not prepared as per AFRFW"
4.	Wordings for Disclaimer of Conclusion When disclaiming a conclusion, the practitioner must state: a. Due to the significance of the matter in the Basis for Disclaimer of Conclusion paragraph, the practitioner is unable to obtain sufficient evidence. b. The practitioner does not express a conclusion on the financial statements.
5.	Basis for Conclusion Paragraph In the basis for conclusion paragraph, the practitioner must include the reasons for the inability to obtain SAAE for either a qualified conclusion or disclaimer.

R. Elements of Practitioner's Report	
1.	Title The report must clearly indicate that it is the report of an independent practitioner for a review engagement.
2.	Addressee The addressee(s), as required by the circumstances of the engagement, must be mentioned.
3.	Introductory Paragraph The introductory paragraph must: a. Identify the FS reviewed, including the title and date/period covered by each statement. b. Reference the summary of significant accounting policies and other explanatory information. c. State that the FS have been reviewed.
4.	Management Responsibilities Describe management's responsibility for preparing the financial statements including: a. Preparation in accordance with the AFRFW, including fair presentation where relevant. b. Internal controls to ensure the FS are MMS (fraud/error). c. For SPFS, describe the purpose and intended users. d. Reference of management's responsibility for selecting acceptable FRFW (if applicable)
5.	Practitioner's Responsibilities a. Describe the practitioner's responsibility to express a conclusion, referencing this SRE and relevant law/regulation. b. Describe the review of FS, its limitations, and state: ✓ The review is a limited assurance engagement. ✓ Procedures involve inquiries of management and analytical procedures. ✓ Procedures are less than those in an audit and the practitioner does not express an audit opinion. c. Conclusion Paragraph: Contain the practitioner's conclusion on the financial statements and reference the applicable financial reporting framework. d. If the conclusion is modified, include a paragraph: ✓ With the modified conclusion. ✓ Describing the matter(s) giving rise to the modification. e. Reference the practitioner's obligation to comply with ethical requirements.
6.	Date of the Practitioner's Report The report must be dated not earlier than when the practitioner has obtained sufficient evidence, including: a. All statements in the financial statements have been prepared. b. Those with authority have taken responsibility for the statements.
7.	Practitioner's Signature
8.	Place of Signature.

S. Emphasis of Matter Paragraph	
1.	Purpose The practitioner may highlight a matter in FS that is important for users to understand. This should only refer to what is already presented or disclosed in the statements.
2.	No Material Misstatement (MMS) If the practitioner believes the matter is important and correctly presented, they will add an EOM paragraph in the report ensuring there is sufficient evidence to support this.
3.	Placement in Report EOM paragraph should be placed immediately after the paragraph with the practitioner's conclusion on the FS under the heading "Emphasis of Matter".

T. Other Matter Paragraph	
1.	Purpose If the practitioner needs to communicate something relevant but not presented in the FS, they will use the OM paragraph. It includes matters like responsibilities, review or the practitioner's report.
2.	Requirement This communication should be made under the heading "Other Matter" or a similar appropriate heading, provided it is not prohibited by law or regulation.

U. Report on Other Legal and Regulatory Requirements	
1.	Additional Responsibilities A practitioner may be asked to address additional reporting responsibilities in the report on FS beyond the requirements of this SRE.
2.	Separate Section a. These additional responsibilities should be reported in a separate section titled "Report on Other Legal and Regulatory Requirements" or any other appropriate heading. b. This section should come after the "Report on the FS".

V. Documentation	
The documentation serves as evidence that the review was conducted according to this SRE and any legal & regulatory requirements and a record for the basis of the practitioner's report.	
1.	Aspects to be Documented The practitioner must document the following to ensure that an experienced practitioner can understand the work performed having no previous connection with the engagement: a. Nature, timing, and extent of procedures performed to comply with this SRE and legal requirements including: ✓ Who Performed the Work & when it was completed. ✓ Who reviewed the work for quality control including period & extent of the review. b. Results of the procedures and the conclusions drawn from them. c. Any significant matters that arose during the engagement, the conclusions reached, and any professional judgments made in reaching those conclusions.

2.	Discussions Document discussions with management, governance and others about significant matters during the review including the nature of these matters.
3.	Inconsistencies If inconsistent information is found regarding significant matters, document how the inconsistency was addressed.

[TYU 2]

2. SRE 2410 Review of Interim FI Performed by the Independent Auditor of the Entity

A. Introduction	
1.	SRE 2410 Overview SRE 2410 covers the auditor's professional responsibilities when reviewing the interim financial information of an audit client and the form and content of the report.
2.	Application of SRE 2410 It applies when the independent auditor reviews the interim financial information as part of their audit of the entity's financial statements.
3.	Interim Financial Information a. Interim financial information is financial data prepared and presented according to an applicable financial reporting framework. b. It includes either complete or condensed financial statements for a period shorter than the entity's financial year.
4.	Example Interim financial information may relate to the financial statements for a quarter of the financial year.

B. Objective of an Engagement to Review Interim Financial Information	
1.	Objective of Review The objective is for the auditor to conclude if anything from the review suggests that the interim FI is not prepared correctly as per AFRFW.
2.	Procedures to Reduce Risk The auditor performs inquiries, analytical and review procedures to reduce the risk of giving an inappropriate conclusion when the Interim FI is materially misstated.
3.	Difference from an Audit a. The objective of a review differs from an audit. b. A review does not give a basis to express an opinion on whether the FI is true and fair or presented as per the AFRFW.
4.	Assurance Level A review does not provide reasonable assurance that the interim FI is free from MMS.
5.	Review Procedures A review involves making inquiries with those responsible for financial and accounting matters and applying analytical and other review procedures.
6.	Evidence in Review A review may highlight significant matters affecting the interim FI, but it does not provide the full evidence needed for an audit.

C. Agreeing the Terms of the Engagement	
Auditor & Client must agree on the terms of the engagement which are usually recorded in an engagement letter to avoid misunderstandings.	
1.	Nature of the Engagement
2.	Objective and Scope of the Review
3.	Management's Responsibilities
4.	Auditor's Responsibilities
5.	Assurance Obtained.
6.	Nature and Form of the report.

D. Understanding the Entity and its environment	
1.	Auditor's Understanding The auditor needs to understand the entity and its environment including internal control, for both annual and interim FI to plan the review. This helps to: a. Identify potential MMS and assess the likelihood of their occurrence. b. Choose inquiries, analytical and other procedures that help determine if the interim FI are as per the AFRFW.
2.	Same auditor for prior periods a. If the auditor has audited the annual FS before, they already have an understanding of the entity & its internal control for the audit. b. When planning the review of interim FI, the auditor updates their understanding. c. The auditor also understands any differences in IC between interim & annual FI.
3.	Procedures to Update Understanding The auditor uses various procedures to update their understanding of the entity like: a. Read documentation from the prior year's audit and previous interim reviews to identify matters that could affect current interim FI. b. Assess risk including the risk of management override of controls from prior year audits. c. Review the most recent annual FI and interim FI. d. Consider materiality relating to interim FI and AFRFW to decide on review procedures. e. Consider corrected MMS and uncorrected immaterial misstatements from the prior year's FS. f. Evaluate continuing issues from the prior year like material weaknesses in IC. g. Consider results from any audit procedures performed for the current year's FS before the review date. h. Consider the results of any internal audit and management's subsequent actions. i. Inquire with management about the risk that interim FI may be misstated due to fraud. j. Ask management about any changes in the entity's business activities. k. Inquire with management about any significant changes in internal control & their effect on the interim FI. l. Ask management about how the interim FI was prepared & the reliability of the underlying accounting records.
4.	New Auditor A new auditor who has not audited the annual FS, should also understand the entity and its IC for both annual and interim FI.

5.	Communication with Component Auditors The auditor determines and communicates the review procedures for components to other auditors.

E. Inquiries, Analytical and other review procedures	
1.	Review Procedures a. A review does not usually require tests like inspection, observation, or confirmation. b. It mainly involves Inquiries with responsible personnel and analytical procedures to review interim FI instead of corroborating significant accounting matters.
2.	Auditor's Understanding The auditor's understanding of the entity, its internal control, and prior risk assessments affects the review procedures including materiality considerations for the interim FI.
3.	Procedures to be performed The auditor typically performs the following: a. Read minutes from meetings (shareholders, governance) to identify matters that may affect interim FI and inquire about issues not in the minutes. b. Consider the effect of issues like audit modifications, unadjusted misstatements from the prior year's audit or reviews. c. Communicate with other auditors regarding significant components of entity's financials. d. Inquire with management about various matters, including: e. Whether the interim financial information aligns with the financial reporting framework. f. Whether there have been changes in accounting principles or how they are applied. g. Whether new transactions require new accounting principles. h. Whether the interim financial info contains uncorrected misstatements. i. Any unusual situations like business combinations or disposals. j. Significant assumptions related to fair value measurements or disclosures. k. Whether related party transactions are correctly accounted for and disclosed. l. Significant changes in commitments and contractual obligations. m. Significant changes in contingent liabilities (litigation, claims). n. Compliance with debt covenants. o. Any matters arising during the review process. p. Significant transactions occurring around the cut-off period. q. Any knowledge of fraud or suspected fraud involving management or key employees. r. Any allegations of fraud or suspected fraud affecting interim financial information. s. Any actual or possible non-compliance with laws/regulations that could affect interim financial information. t. Apply analytical procedures to identify unusual relationships or items that might indicate a misstatement. u. Read interim FI to see if anything indicates that it is not prepared in accordance with the AFRFW. v. Some review procedures can be done before or during the preparation of interim financial information, e.g., understanding the entity or reading minutes. w. Performing some review procedures early in the interim period helps to identify accounting matters earlier. x. Auditor may perform certain audit procedures concurrently with the review of interim FI for efficiency.

	y. A review usually doesn't require confirming litigation or claims with lawyers, but direct communication may be necessary if the interim FI seems incorrect. z. The auditor may reconcile the interim FI with accounting records.

F. Inquiries about Subsequent Events & Going concern	
	a. Inquiring About Subsequent Events The auditor should inquire if management has identified events that may require adjustments or disclosures in the interim FI. b. Going Concern The auditor should inquire if management's assessment of going concern has changed, and if events suggest doubt about it, the auditor should ask about management's plans and consider the adequacy of disclosures. c. Additional Inquiries If a material adjustment is questioned, the auditor should make additional inquiries or procedures to resolve the issue, e.g., by discussing transactions with management or reviewing contracts.

G. Evaluation of Misstatements identified	
1.	Evaluation of Uncorrected Misstatements The auditor should assess whether the uncorrected misstatements, both individually and in total, are material to the interim FI.
2.	Evaluation of Misstatements Any misstatements including inadequate disclosures are assessed both individually and in total to decide if a material adjustment is needed to ensure the interim FI is as per AFRFW.
3.	Professional Judgment The auditor uses professional judgment to evaluate the materiality of any uncorrected misstatements the entity has not fixed.

H. Obtaining Management representations	
1.	Internal Control Responsibility Management acknowledges responsibility for designing and implementing internal controls to prevent and detect fraud and error.
2.	Compliance with Financial Reporting Framework Management confirms that the interim FI is prepared and presented as per AFRFW.
3.	Uncorrected Misstatements Management believes that the uncorrected misstatements identified by the auditor are immaterial both individually and in total. A summary of these items is included in / attached to the WR.
4.	Disclosure of Fraud or Suspected Fraud Management has disclosed to the auditor any fraud or suspected fraud that may have affected the entity.
5.	Risk Assessment of Misstatements Management has disclosed the results of its assessment of risks that could cause the interim FI to be materially misstated due to fraud.

6.	Non-compliance with Laws and Regulations Management has disclosed any known or possible non-compliance with laws and regulations that could affect the interim FI.
7.	Subsequent Events Management has disclosed any significant events that have occurred after the B/S date that may require adjustments or disclosures in the interim financial information.

I. Auditor's responsibility for accompanying information	
1.	Read the Other Information The auditor should read the other information that comes with the interim financial information to check if any of it is materially inconsistent with the financial data.
2.	Material Inconsistency If a material inconsistency is found, the auditor considers whether to amend the interim FI /other information. a. MMS in Interim Financial Information If an amendment is needed in the interim FI and management refuses to make the change, the auditor considers the impact on the review report. b. MMS in Other Information If an amendment is needed in the other information and management refuses to make the change, the auditor may include an additional paragraph in the review report, withhold the report, or withdraw from the engagement. c. MMS of Fact in Other Information If the auditor identifies a MMS of fact in the other information, they should discuss it with management.
3.	Other Information not Related to Interim FI The auditor may identify a MMS of fact in information unrelated to financial matters. The auditor discusses the issue with management and assesses the validity of the information potentially involving a third-party consultation. ✓ Validity of the Other Information When discussing the apparent misstatement, the auditor considers whether there are differences in judgment or opinion and may suggest management to consult a third party. ✓ If Management Refuses to Amend If management refuses to correct a MMS of fact, the auditor may consider notifying governance or seeking legal advice.

J. Communication of matters to management	
1.	Communicate to Appropriate Level of Management If a material adjustment is needed for the interim FI to comply with the AFRFW, the auditor should inform the appropriate level of management.
2.	Communicate to TCWG (Those Charged with Governance) If management does not respond appropriately within a reasonable time, the auditor should inform TCWG

3.	Manner of Communication The auditor communicates the matter either orally or in writing. The choice depends on: a. Nature, Sensitivity, and Significance of the Matter b. Timing of Communication c. Documenting Oral Communication
4.	TCWG Not Responded If TCWG does not respond within a reasonable time, the auditor should consider: a. Whether to modify the review report. b. Whether to withdraw from the engagement / resign from the appointment.
5.	Communication of Fraud If the auditor believes fraud or noncompliance with laws exists: a. Communicate to Management The auditor should communicate the matter to the appropriate level of management. b. Consideration of Collusion or Involvement of Management ✓ Auditor considers the likelihood of collusion / involvement of management in fraud. ✓ Auditor also considers reporting to TCWG & implications for the review.
6.	Governance Matters to TCWG a. Auditor communicates matters of governance interest arising from review to TCWG. b. Communicate such matters when the auditor identifies matters that are important and relevant for TCWG in overseeing the financial reporting and disclosure process.

K. Review report on Interim FI	
1.	Title
2.	Addressee
3.	Introductory Para Identify the interim FI reviewed, including the titles of the FS and the date/period covered.
4.	Management Responsibilities ✓ FPFW: Management is responsible for the preparation and fair presentation of the interim FI in accordance with the AFRFW. ✓ CFW: Management is responsible for the preparation and presentation in accordance with the applicable framework.
5.	Auditors Responsibilities a. The auditor expresses a conclusion on the interim financial information based on the review. b. The review was performed according to SRE 2410. c. The review consists of inquiries, mostly from financial and accounting personnel, and analytical procedures. d. A review is less detailed than an audit as per SA and does not provide the same level of assurance. No audit opinion is expressed.
6.	Conclusion Para ✓ FPFW: Conclusion on whether anything has come to the auditor's attention to suggest the interim financial information does not present fairly, in all material respects, in accordance with the applicable framework. ✓ CFW: Conclusion on whether the interim financial information is not prepared, in all material respects, in accordance with the applicable framework.

7.	Date
8.	Place
9.	Signature AND MRN
10.	FRN
11.	UDIN The Unique Document Identification Number (UDIN) must be generated and stated for review engagements as it is an assurance engagement under SRE 2400 or SRE 2410.

L. Departure from the AFRFW for preparation and presentation of Interim FI	
1.	Modified conclusion a. The auditor should express a qualified / adverse conclusion if they believe a material adjustment is needed for the interim FI to comply with the AFRFW. b. If the interim financial information may be materially affected by a departure from the framework and management does not correct it, the auditor modifies the review report.
2.	Manner of modification a. The modification should describe the nature of the departure and if possible, its effects on the interim FI. b. If necessary, information is omitted for adequate disclosure, the auditor modifies the review report and includes the omitted information. c. The modification is generally done by adding an explanatory paragraph to the review report and qualifying the conclusion.
3.	Adverse conclusion If the departure is material and pervasive to the interim FI, the auditor should express an adverse conclusion.

M. Limitation on scope	
1.	Meaning of limitation on scope A limitation on scope prevents the auditor from completing the review. If the review cannot be completed, the auditor must communicate in writing the reason to management and TCWG and consider issuing a report.
2.	Limitation on scope imposed by management a. Do Not Accept Engagement: The auditor should not accept the review engagement if they are aware of a limitation on scope imposed by management that will prevent completing the review. b. Limitation After Accepting Engagement: ✓ If a limitation is imposed after accepting the engagement, the auditor requests its removal. ✓ If refused, the auditor cannot complete the review and must communicate the reasons in writing. c. Material Adjustment: If the auditor believes a material adjustment is needed for the interim FI to comply with the framework, they must communicate this matter. d. Legal and Regulatory Responsibilities: ✓ The auditor considers any legal requirements to issue a report. ✓ If required, auditor disclaims a conclusion & explains why the review can't be completed.

3.	Other limitations on scope a. Circumstances: ✓ A limitation on scope can occur for reasons other than management's actions. ✓ In rare cases, limitation may be material but not pervasive to the FI. b. Modifying Review Report: In such cases, the auditor modifies the report to indicate the matter and qualifies the conclusion, explaining the limitation in an explanatory paragraph. c. Qualified Opinion in Audit: If a limitation on scope existed in the latest audit, the auditor assesses its impact on the review and the implications for the review report.

N. Going concern and Significant Uncertainties	
1.	EOMP (Emphasis of Matter Paragraph) If the auditor identifies a material uncertainty about the entity's ability to continue as a going concern during their review and adequate disclosure is made in the interim FI, the auditor modifies the report with an EOMP.
2.	Uncertainty in Prior Period: a. The auditor may have added an EOMP in a prior audit / review report to highlight a MURGC issue. b. Continued Uncertainty: If the uncertainty persists and is adequately disclosed in the current review, the auditor adds an EOMP to the current report to highlight the continued material uncertainty. c. Modified Conclusion: If the material uncertainty is not adequately disclosed, the auditor expresses a qualified or adverse conclusion and refers to the material uncertainty in the report.

O. Other considerations	
1.	Review report cum Interim FI a. Inclusion of Review Report: Management agrees that the review report will be included in any document containing interim FI if it mentions that the information has been reviewed by the auditor. b. Review Report Not Included: If the review report is not included, the auditor may need legal advice to decide on the next steps. c. Modified Review Report Not Included: If the auditor issues a modified review report and management fail to include it, the auditor may seek legal advice and may consider resigning from the audit engagement.
2.	Read in conjunction with latest audited FS a. Condensed Financial Information: Interim financial statements may not include all details of a full set of statements but should explain key events or changes in the annual FS. It is assumed users have access to the latest audited FS. b. Statement Requirement: If necessary, the auditor discusses with management about including a statement to read the interim FI in conjunction with the latest audited FS. c. Misleading Information:

	If the statement is not included, the auditor evaluates if the interim FI is misleading, and considers the impact on the review report.

P. Documentation	
	Review Documentation The auditor must prepare documentation that is sufficient and appropriate to: a. Support the auditor's conclusion, and b. Show that the review was performed in line with this SRE and any relevant legal and regulatory requirements.

[TYU 3 & 4]

11. PFI AND OTHER ASSURANCE SERVICES

Concept of Assurance Services	
1.	Assurance Engagements An assurance engagement may focus on subject matters other than historical financial information. These engagements can involve: ✓ Examining prospective financial information [PFI] or ✓ Providing assurance on non-financial matters like the design & operation of internal control in an entity.
2.	Standards on Assurance Engagements Standards on Assurance engagements contains responsibilities of professional accountants.
3.	Level of Assurance The level of assurance in these engagements is moderate level.

1. SAE 3400 - Examination of Prospective Financial Information

A. Meaning of various terms	
a. SAE 3400 provides guidance for engagements examining prospective financial information, including procedures for best-estimate & hypothetical assumptions. b. The examination of PFI does not have to be conducted by the entity's statutory auditor.	
1.	Prospective Financial Information (PFI) PFI is based on: ✓ Assumptions about future events and ✓ Possible actions by the entity.
2.	Nature of Prospective Financial Information It is highly subjective & requires significant judgment to prepare.
3.	Forms of Prospective Information Prospective financial information can be: ✓ A forecast, ✓ A projection, or ✓ A combination of both (e.g., 1 year forecast + 5 years projection).
4.	Forecast Forecast means Prospective Financial Information prepared based on: 1. Assumptions about future events that management expects to happen AND 2. The actions management expects to take at the time of preparing the information. 3. Author Note: Forecast is based on best estimate assumption. Best-Estimate Assumptions Assumptions that reflect anticipated experience with no provision for risk of adverse deviation.
6.	Projection PFI is prepared based on: 1. Hypothetical assumptions about future events or management actions that are not expected to occur (e.g., in start-up phase or major operational changes), or

	2. A mix of best-estimate and hypothetical assumptions (ideas or suggestions) are used to prepare PFI.
7.	Meaning of Auditor The term auditor refers to any individual performing services related to the examination of PFI and does not imply that they are the statutory auditor of the entity's FS.

B. Purpose & Scope of SAE 3400	
1.	Purpose To set standards and provide guidance for engagements to examine & report on PFI, including procedures for best-estimate & hypothetical assumptions.
2.	Scope SAE3400 is not applicable to examination of PFI expressed in general terms (management's discussion & analysis in annual reports) though many of the procedures may still be applicable
3.	Reference to Other Standards When applying this SAE, auditors should use principles from the other SA issued by the ICAI to the extent practicable.

C. Nature of assurance provided for PFI	
1.	Prospective Financial Information PFI relates to future events and actions that have not yet occurred & may not occur.
2.	Evidence a. Evidence used to support assumptions is future oriented, hence speculative in nature. b. It is different from evidence used in historical data. c. Therefore, the assurance level is only moderate.
3.	Opinion An opinion cannot be expressed on whether the prospective results will be achieved.

D. Responsibility of preparation and presentation of PFI	
1.	Management is responsible for preparation & presentation of the PFI including: a. Identification and Disclosure of the PFI b. Explain the basis of the forecast. c. Underlying Assumptions

E. CA in practice in association with PFI	
1.	Need for CA's CA's traditionally handled historical financial information but now stakeholders like banks, financial institutions and investors rely on CA reports for projected cash flow and profitability.
2.	Code of Ethics - Prohibits Clause 3 of part I of second schedule of CA, Act 1949 states that a CA cannot allow their name to be linked with earnings estimates contingent upon future events.
3.	Exception to Clause 3 The above clause allows a CA to associate their name with prospective FS as long as they: a. Disclose the sources of information

	b. Explain the basis of forecasts and major assumptions c. State they do not vouch for the accuracy of the forecasts.
4.	Projections Based on Hypothetical Assumptions The same rules apply to projections based on hypothetical assumptions about future events, as long as the CA does not vouch for the accuracy of the projection.

F. Duties of member examining PFI	
1.	Management's Assumptions The auditor should verify that: a. Management's best-estimate assumptions are reasonable b. Management's hypothetical assumptions are consistent with the purpose of information.
2.	Basis of Preparation The auditor should ensure that the PFI is properly prepared based on the assumptions.
3.	Presentation and Disclosure The auditor should confirm that PFI is properly presented & all material assumptions are disclosed including whether they are best-estimate/hypothetical assumptions.
4.	Consistency with Historical Statements The auditor should verify that the PFI is prepared on a consistent basis with historical financial statements using the appropriate accounting principles.
5.	Application of Other Standards The auditor should apply relevant SA where practicable while examining the PFI.

G. Acceptance of Engagement by Auditor in relation to PFI	
1.	Precautions Before Acceptance Before examining PFI, the auditor considers: a. Intended Use b. Whether it is for general or limited distribution. c. Nature of assumptions whether they are best estimates or hypothetical. d. Elements to be included in the information e. Period covered by the information.
2.	When to Decline or Withdraw The auditor should reject or withdraw if assumptions are unrealistic or the information is inappropriate for its purpose.
3.	Reliance on Historical Data The auditor should assess if past financial data is reliable for projections.
4.	Engagement Letter Auditor must agree on terms with the client through an engagement letter.

H. Examination Procedures	
1.	Key Factors in Examination Procedures When deciding nature, timing, and extent of procedures, auditors consider: a. Knowledge obtained during previous engagements b. Management's competence regarding the preparation of PFI c. Likelihood of MMS

	d. Extent to which PFI is affected by management's judgment e. Sources of information considered by management for adequacy, reliability of underlying data including data from third parties like industry statistics to support assumptions. f. Stability of entity's business and g. the engagement team's experience with the business, the industry in which the entity operates and experience with reporting on PFI.
2.	Assessing Evidence Reliability Evaluate sources & reliability of data such as budgets, debt agreements, and industry reports.
3.	Hypothetical Assumptions If Hypothetical assumptions are used, all significant implications must be considered.
4.	Consistency Check Ensure hypothetical assumptions align with the financial purpose and are not unrealistic.

I. Presentation & Disclosure of PFI	
When reviewing PFI, the auditor must ensure the following:	
1.	Informative & Not Misleading The presentation is clear, informative, and not misleading.
2.	Accounting Policies Policies are clearly disclosed in the notes.
3.	Changes in Accounting Policy If policies changed from last financial statements, the reason & impact must be disclosed.
4.	Disclosure of Assumptions ✓ Assumptions should be clearly disclosed stating if they are best estimates /hypothetical. ✓ If assumptions are highly uncertain, this must be disclosed.
5.	Date of Preparation The date of preparation should be disclosed and management must confirm assumptions are still valid as of this date.
6.	Range Disclosure If results are shown as a range, basis for setting it must be clear & not biased/misleading.

J. Report Components for Examination of PFI	
1.	a. Title b. Addressee c. Identification of the PFI d. Reference to the SA applicable to the examination of PFI e. Statement that management is responsible for PFI including the underlying assumptions f. When applicable, a reference to the purpose and/or restricted distribution of PFI. g. Statement that examination procedures included examination on test basis, of evidence supporting the assumptions, amounts & other disclosures in forecast / projection. h. Statement of negative assurance as to whether the assumptions provide reasonable basis for the PFI i. Opinion as to whether PFI is properly prepared on the basis of the assumptions & is presented in accordance with the relevant FRFW.

	j. Appropriate caveats concerning the achievability of the results indicated by the PFI. k. Date of report l. Place of signature and m. Signature.

H. Disclaimers in the Report	
1.	Reasonable Basis State whether anything suggests that assumptions do not provide reasonable basis for PFI.
2.	Opinion on Preparation Express an opinion if financial information is prepared properly & as per the reporting FW.
3.	Actual vs. Projected Results State that actual results may differ significantly from projections & if a range is given, there's no guarantee that results will fall within it.
4.	Intended Use of Projection For projections, emphasize that they are based on hypothetical assumptions, and caution readers against using them for purposes other than intended.
5.	Presentation and Disclosure Inadequacy If the prospective financial information is not adequately presented or disclosed, a qualified or adverse opinion should be expressed or withdrawal from engagement should be made.
6.	Unreasonable Assumptions – Adverse Opinion If assumptions do not provide a reasonable basis for financial information, an adverse opinion should be expressed, or withdrawal from engagement should be made by the auditor.
7.	Examination Affected by Conditions If conditions prevent necessary procedures, Auditor shall either withdrawal from the engagement or disclaimer of the opinion and describe the scope limitation in the report.

I. Documentation
Documentation Document matters which are important as evidence to support report on examination of PFI & evidence that examination was carried out as per this SAE.

[TYU 1]

2. SAE 3402 Assurance Reports on Controls at a Service Organisation

Discussed / Read this topic Immediately after SA 402

A. Purpose of SAE 3402	
1.	Coverage This SA Covers assurance engagements where a professional accountant reports on controls at a service organization (S.O) that impact user entities' ICOFR
2.	Purpose To Provide a report for user entities and their auditors on the effectiveness of controls at the S.O.
3.	Link to SA 402 Complements SA 402 by offering appropriate evidence for audits under SA 402.

B. Scope and Applicability	
1.	Applicability of SAE 3402 This SAE applies only if the S.O is responsible for or make assertion about the suitable design of controls.
2.	SAE 3402 does not cover assurance engagements that: a. Only report whether controls at S.O operated as described. b. Only report on controls at S.O unrelated to financial reporting of user entities (e.g., production/ quality control).

C. Meaning of Service Organization & User entity	
1.	Service Organization (S.O.) A third-party organization that provides services to user entities affecting their internal controls related to financial reporting.
2.	User Entity An entity that uses services of service organizations.

D. Why Controls at S.O. are important to User entity's ICOFR	
1.	Impact on User Entity's Internal Control ✓ Controls at a service organization may be relevant to a user entity's financial reporting. ✓ Such controls may relate to presentation, disclosure, and auditing evidence. E.g., A company has outsourced its payroll processing functions. The S.O. is responsible for the accurate preparation of payrolls and timely remittance of statutory dues. The controls at S.O. dealing with Timely remittance are relevant for user entity, as late remittance attracts penalties for user entities.
2.	Scope of Controls at S.O. Includes controls over the user entity's information systems maintained by S.O. and other internal control components at the service organization. [Controls Related to description of system are relevant] [Controls of S.O. for their own P&P of F/s are not relevant]
3.	Professional Judgment in Assessing Relevance Whether a service organization's controls are relevant to a user entity's internal control depends on control objectives and suitability of criteria.

E. User Auditor & Service Auditor	
1.	User Auditor An auditor who audits and reports on the financial statements of a user entity.
2.	Service Auditor A professional accountant in public practice who, at the request of a S.O, provides an assurance report on its controls.

F. Objectives of a Service Auditor (as per SAE 3402)	
1.	Obtain Reasonable Assurance Ensure that the S.O system and controls are fairly presented, designed and operating effectively based on suitable criteria, a. System Description Verify whether the S.O's description of its system accurately represents its design and implementation throughout the specified period / at a specific date for a Type 1 Report b. Control Design Assess whether the controls related to the stated control objectives were suitably designed throughout the specified period / at a specific date for a Type 1 Report. c. Control Effectiveness (For Type 2 Report) If included in the scope of the engagement, determine whether the controls operated effectively to achieve the stated control objectives throughout the specified period.
2.	Reporting Provide a report based on service auditor's findings in accordance with the above objectives.

G. Type I & Type II Report	
Type 1 report is a report that comprises	Type 2 report is a report that comprises
a. The service organization's description of its system b. A written assertion by the service organization and based on suitable criteria: ✓ The description fairly presents the service organization's system as designed and implemented at the specified date; ✓ The controls related to the control objectives stated in description of its system were suitably designed as at the specified date; and c. A service auditor's assurance report that conveys reasonable assurance about the matters referred to in (b).	a. The service organization's description of its system b. A written assertion by the service organization and based on suitable criteria: ✓ The description fairly presents the service organization's system as designed and implemented throughout the specified period; ✓ The controls related to the control objectives stated in description of its system were suitably designed throughout the specified period; and ✓ The controls related to the control objectives stated in description of its system operated effectively throughout the specified period; and c. A service auditor's assurance report that: ✓ Conveys reasonable assurance about the matters in (b) and

	✓ Includes a description of the tests of controls and the results thereof.
Note: Type 1 report is a report on the description and design of controls at a service organization Type 2 report is a report on the description, design and operating effectiveness of controls at a service organization.	

H. Proceeding with an Engagement	
1.	Compliance with Ethical Requirements The service auditor must comply with ethical requirements including independence, as applicable to assurance engagements.
2.	Communication with Management & TCWG a. The service auditor shall interact with the S.O through inquiries, requests and representations. b. Identify the appropriate persons within management or governance to communicate with.
3.	Acceptance & Changes in Engagement Terms a. The service auditor must ensure capability & competence before accepting an engagement. b. Verify that the criteria used to describe the system are suitable and available for user entities and auditors. c. Ensure that the engagement scope and system description are useful to user entities and auditors. d. If the S.O requests a scope change, auditor must determine if it is reasonably justified.
4.	Assessing Suitability of Criteria a. The service auditor shall assess if the criteria used in describing the system and evaluating controls are appropriate b. Assess for Type 2 reports whether controls are operating effectively.
5.	Determination of Materiality Consider materiality while planning & conducting the engagement regarding system description, control design and control effectiveness in Type 2 reports,
6.	Understanding the Service Organization's System Obtain a clear understanding of the S.O's system, including the controls that are part of the engagement scope.
7.	Obtaining Evidence on System Description Evaluate whether the S.O's system description is fairly presented within the scope of the engagement.
8.	Obtaining Evidence on Control Design Identify necessary controls for achieving control objectives and assess if they were suitably designed.
9.	Obtaining Evidence on Operating Effectiveness (Type 2 Reports) Test the controls that are essential for achieving control objectives and assess their operating effectiveness throughout the period.
10.	Understanding the Internal Audit Function If applicable, assess the role and activities of the internal audit function to determine its relevance and possible reliance in the engagement.
11.	Requesting Written Representations Obtain written confirmations from the S.O stating: a. Reaffirm the assertions regarding the system description.

	b. That all relevant information and access have been provided. c. Disclosures to service auditor of the following: ✓ Non-compliance, fraud, or deviations impacting user entities. ✓ Design deficiencies in controls. ✓ Instances where controls failed to operate as described. ✓ Subsequent events that could impact the assurance report.
12.	Identifying Subsequent Events Inquire about any significant events occurring after the period covered by the system description up to the date of service auditors report, that might have significant impact on the assurance report.

I. Service Auditor's Assurance Report	
1.	Title
2.	Addressee
3.	Identification of a. S.O's system description and assertion which includes matters of Type 1 & 2. b. Specifies any excluded parts of the description. c. If applicable, clarifies that complementary user entity controls are not evaluated but are necessary for achieving control objectives. d. Mentions any subservice organizations and their nature of activities.
4.	Identifies the criteria used and the entity defining the control objectives.
5.	States that the report and test descriptions in Type 2 reports is intended for user entities and their auditors.
6.	Statement that service organization is responsible for: a. Preparing the system description and assertion, ensuring accuracy and completeness. b. Providing the described services. c. Stating control objectives, unless specified by law, regulation, or other bodies. d. Designing and implementing controls to achieve control objectives.
7.	Service Auditor's Responsibilities a. Express an opinion on the system description, design of controls, and for Type 2 reports, their operating effectiveness. b. Conduct the audit as per SAE 3402, ensuring ethical compliance and reasonable assurance. c. Summarize audit procedures and confirm that evidence obtained is **SAAE**. d. Acknowledge control limitations and, for Type 2 reports, the risk of projecting results to future periods.
8.	Opinion of Service Auditor a. Type 2 Report: States whether, in all material respects: ✓ The system description fairly presents the system throughout the period. ✓ The controls were suitably designed throughout the period. ✓ The tested controls operated effectively throughout the period to achieve control objectives. b. Type 1 Report: States whether, in all material respects: ✓ The system description fairly presents the system as at the specified date. ✓ The controls were suitably designed as at the specified date.

9.	Date of Service Auditor Report must be not earlier than when the service auditor has obtained sufficient evidence to support the opinion.
10.	Signature - The report must be signed by the service auditor.
11.	Place of Signature

J. Additional Reporting Requirements for Type 2 Reports	
1.	Separate Section on Control Testing Describes the tests of controls performed and their results.
2.	Details of Control Testing Clearly states: ✓ Which controls were tested. ✓ Whether testing covered all items or a sample. ✓ The nature of tests, ensuring user auditors can assess their relevance to risk.
3.	Reporting Deviations If deviations are identified: ✓ Specifies sample size and number of deviations. ✓ Describes nature of deviations found.
4.	Reporting Even If Control Objectives Are Met Even if control objectives are achieved, any deviations identified must still be reported.

K. Modified Opinion & Documentation	
1.	Circumstances of Modified Opinion If the service auditor concludes that: 1. The system description is not fairly presented. 2. The controls were not suitably designed. 3. In Type 2 report - The tested controls did not operate effectively. 4. The service auditor cannot obtain SAAE. Then the Service Auditor opinion shall be modified and the assurance report must clearly explain the reasons for modification.
2.	Documentation Requirements The service auditor must prepare documentation that allows an experienced auditor with no prior connection to understand: a. Nature, timing, and extent of procedures performed to comply with this SAE & legal / regulatory requirement. b. Results of procedures and evidence obtained. c. Significant matters, conclusions, and professional judgments made.

[TYU 2]

3. SAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

A. Meaning & Scope	
1.	Scope SAE 3420 covers reasonable assurance engagements on Pro forma FI in a prospectus.
2.	Practitioner's Role Reports on the responsible party's compilation of pro forma financial information.
3.	Applicability Applies when reporting is: a. Required by securities law/regulation of stock exchange where the prospectus is issued. b. A generally accepted practice in that jurisdiction.
4.	Meaning Pro forma FI refers to FI including adjustments to show the impact of an event or transaction on unadjusted financial information, as if it had occurred at an earlier date.
5.	Offer Documents Proforma FI is used to show the effect of a transaction on a company's FS, assuming it happened at an earlier date.
6.	Forms of Pro Forma Information It can take the form of a Statement of P&L and B/S to show how the transaction affects assets, liabilities and earnings of the Issuer.
7.	Additional Disclosures It also includes notes such as: a. Significant aspects of the transaction. b. Assumptions used. c. Adjustments made.
8.	Purpose of Proforma FI in Prospectus Helps illustrate the impact of a significant event or transaction on an entity's unadjusted financial information using pro forma adjustments.
9.	Not an Actual Position Does not reflect the entity's actual financial position, performance, or cash flows.

B. Objectives as per SAE 3420	
1.	Reasonable Assurance Ensure that the pro forma financial information is compiled by the responsible party, in all material respects, based on the applicable criteria.
2.	Reporting Provide a report based on the practitioner's findings.

C. Compilation of Pro Forma FI	
1.	Compilation Process Responsible party gathers, classifies, summarizes and presents FI to show the impact of a significant event or transaction on unadjusted FI as if it had occurred at a selected date.

2.	Step 1: Identifying Source Identify the source of the unadjusted financial information and extract unadjusted FI. Step 2: Making Adjustments Apply proforma adjustments to unadjusted FI based on the purpose of the pro forma FI Step 3: Presentation Present the final pro forma FI with necessary disclosures.

D. Nature of Practitioner's Responsibility	
1.	Responsibility for Compilation a. The practitioner is not responsible for compiling pro forma financial information. b. This is the responsible party's duty.
2.	Practitioner's Role The practitioner's sole responsibility is to report whether Pro forma FI has been compiled, in all material respects based on the applicable criteria.
3.	Nature of Engagement Is a reasonable assurance engagement to assess whether the applicable criteria used in the compilation provide a reasonable basis for presenting the significant effects of the event/transaction.
4.	Applicable Criteria The criteria used by the responsible party to compile the pro forma financial information. These may be: a. Established by a standard-setting organization, law, or regulation. b. Developed by the responsible party if no established criteria exist.

E. Steps involves in an Engagement	
1.	The following steps are involved in an engagement: a. Engagement Acceptance b. Planning and performing the engagement c. Obtain Written Representations d. Forming the opinion e. Preparing the assurance report

F. Engagement acceptance	
Before accepting an engagement to report on Pro forma FI in a prospectus, the practitioner must consider key factors.	
1.	Practitioner's Competence Ensure that practitioner has the necessary capabilities and competence to perform the engagement.
2.	Suitability of Criteria Based on preliminary knowledge and discussions with the responsible party, ensure the applicable criteria are suitable and the Proforma FI is not misleading.
3.	Opinion Wording Evaluate whether the opinion wording required by law or regulation aligns with the procedures specified in SAE 3420.
4.	Use of Audited/Reviewed Information

	If Unadjusted FI or acquiree/divestee information has been audited/reviewed with a modified opinion or EOM, assess if referencing it, is permitted by law or regulation.
5.	Understanding the Entity If the entity's historical FI has never been audited or reviewed, determine if the practitioner can gain sufficient understanding of its accounting & financial reporting.
6.	Understanding the Acquiree If an acquisition is involved & the acquiree's financials have never been audited/reviewed, assess whether the practitioner can gain a sufficient understanding of its financial reporting practices.
7.	Agreement with Responsible Party Obtain agreement that the responsible party acknowledges its responsibilities, including: a. Disclosure of Criteria If the applicable criteria are not publicly available, ensure they are adequately disclosed to intended users. b. Compilation Responsibility Confirm that the responsible party is accountable for compiling the pro forma FI based on the applicable criteria. c. Access to Practitioner The responsible party must provide: ✓ Access to all relevant records, documentation, and information. ✓ Additional information requested by the practitioner. ✓ Access to entity personnel and advisors for obtaining evidence. ✓ If required, access to individuals within the acquiree in a business combination.

G. Planning and performing the Engagement	
1.	Criteria Evaluation The practitioner must assess whether the applicable criteria are suitable, as required by the Framework for Assurance Engagements.
2.	Materiality When planning and performing the engagement, consider materiality in evaluating whether the pro forma FI has been compiled, in all material respects, based on the applicable criteria.
3.	Understanding Compilation Process Gain an understanding of how the responsible party has compiled the Proforma FI.
4.	Sources of Unadjusted Financial Information The practitioner must: a. Obtain evidence about the appropriateness of the source. b. If no audit report exists for the source, perform procedures to confirm its appropriateness. c. Ensure the responsible party has appropriately extracted the unadjusted FI. d. Obtain evidence on the appropriateness of the pro forma adjustments.
5.	Pro Forma Adjustments Adjustments to unadjusted financial information may include: a. Illustrating the impact of a significant event or transaction as if it occurred at an earlier date. b. Ensuring consistency with APFRFW and accounting policies of the reporting entity.
6.	Presentation The practitioner must evaluate the presentation of Pro forma FI.

7.	Other Information The practitioner must review other information in the Prospectus to identify any material inconsistencies with Pro forma FI.

H. Written Representations	
Written Representations The practitioner shall request written confirmations from the responsible party regarding the following:	
1.	Identification of Adjustments The responsible party has identified all appropriate pro forma adjustments needed to illustrate the impact of the event or transaction at the selected date or period.
2.	Compliance with Criteria The Pro forma FI has been compiled, in all material respects, based on the applicable criteria.

I. Opinion	
1.	Unmodified Opinion The practitioner expresses an unmodified opinion when the Pro forma FI has been compiled, in all material respects, based on the applicable criteria.
2.	Modified Opinion Issued when the Pro forma FI does not meet the applicable criteria in all material respects. a. Law Does Not Permit Modified Opinion If law/regulation does not allow a prospectus with a modified opinion, but the practitioner believes a modification is necessary, the practitioner must discuss the matter with the responsible party. If the responsible party does not agree to make the necessary changes, the practitioner shall → Withdraw from the engagement or → Consider seeking legal advice. b. Law Permits Modified Opinion If law/regulation allows a modified opinion, the practitioner must apply the requirements in the Framework regarding modified opinions.
3.	Emphasis of Matter Paragraph The practitioner may include EOM Para to highlight a significant issue fundamental to the user's understanding of the Pro forma FI. a. Relevance The paragraph must only refer to matters already disclosed in the Pro forma FI. b. Sufficient Evidence The practitioner must obtain sufficient appropriate evidence that the matter does not affect whether Pro forma FI has been compiled in all material respects.
4.	Preparing the Assurance Report The practitioner's report must include key elements: 1. Title

	2. Addressee 3. Introductory Paragraphs that Identify: ✓ The Pro forma FI. ✓ The source of unadjusted FI and whether it has an audit/review report. ✓ The time period/date covered by Pro forma FI. ✓ A reference to applicable criteria used & source of that criteria. 4. Statement that the responsible party is responsible for compiling the Pro forma FI based on the applicable criteria. 5. Description of practitioner's responsibilities: ✓ Expressing an opinion on whether the Pro forma FI has been compiled in all material respects. ✓ Clarify that the practitioner has not audited/reviewed historical financial data. ✓ State that Pro forma FI is for illustrative purposes only. 6. Statement that engagement was performed in compliance with SAE 3420 and ethical requirements. 7. Statement that i) A reasonable assurance engagement involves procedures to assess whether the applicable criteria provide a reasonable basis for presenting the significant effects of the event or transaction. The related pro forma adjustments give appropriate effect to those criteria and The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information ii) The Procedures selected depends on practitioner's judgment considering: ✓ Nature of the entity. ✓ Event or transaction related to the Pro forma FI . ✓ Engagement circumstances. iii) The engagement also includes evaluating overall presentation of the pro forma FI 8. Practitioner's opinion may use one of these phrases unless otherwise required by law: ✓ "The pro forma FI has been compiled, in all material respects, on the basis of the applicable criteria." ✓ "The pro forma FI has been properly compiled on the basis stated." 9. Signature 10. Date 11. Place of signature
5.	Documentation As with all assurance engagements, the practitioner must maintain proper documentation throughout the engagement under SAE 3420.

[TYU 3]

12. DIGITAL AUDITING AND ASSURANCE

1. Digital Audit

A. Meaning & Features of DA	
1.	Meaning of Digital Audit a. Digital Audit ensures the effectiveness of IT systems in organizations. b. It is important for organizations to review their technology-related controls to identify gaps, risks and ensure regulatory compliance. c. A strong controls and security position builds trust with stakeholders.
2.	Key Features of Digital Audit a. Encourages the auditee to embrace latest technological advancements & stay updated. b. Improves quality of opinion, leading to a more reliable audit report. c. Saves time, cost, and human effort, allowing more productive tasks. Digital processes can operate autonomously, driving real-time transactions. d. Standardizes processes and implements controls to mitigate risks. e. Provides a comprehensive overview of end-to-end processes, focusing on how technologies are utilized, controlled, and optimized. f. Helps create a future digital strategy, paving the way for adopting AI, Robotics, analytics and automation. g. Helps auditee make informed decisions.
3.	Advantages of Digital Audit a. Enhanced Effectiveness & Efficiency: Automation and tools increase efficiency, saving time and costs by automating routine tasks b. Better Audit Quality: Technology quickly evaluates massive volumes of data, helping auditors detect areas needing further testing and reducing the chance of missing misstatements. c. Lower Costs: Automation reduces the time spent on manual tasks which lowers the overall audit cost. d. Better Analytics: AI and improved analytics capabilities help identify trends and patterns that may be difficult to spot manually, aiding in the detection of fraud. e. Improved Risk Assessment: Automating audit processes and streamlining testing improves risk assessment by focusing testing efforts on high-risk areas and enabling informed decisions.

B. Considerations for Using Digital Techniques & Automation	
1.	a. Know the business benefits that the organization wants to achieve with automation. b. People first: Change is difficult, so don't underestimate it. c. Target the right processes: This is key for successful automation. d. Automation is not a standalone solution; it should be part of a broader digitalization strategy. e. Ensure the process is working & standardized before automating. Bots don't easily adapt to process changes.

	f. Governance & data security are critical. Automation introduces new challenges, so these must be included in risk framework.
2.	Auditor's Focus on Technology Changes 1. New activities or changes in processes due to new technology (e.g new revenue streams, automation of tasks, changes in personnel roles or staffing levels affecting the internal control environment). 2. Changes in system development: Auditors will assess if changes to the system introduce new risks and whether new controls are required. 3. Impact of new technology on how the organization generates and uses relevant, quality information for supporting internal controls.

2. Considerations in Auditing Digitally

	A. Concept of Audit Digitally
1.	Auditing Digitally a. Auditing Digitally involves using technology for effective and efficient audits. In a rapidly growing IT environment, adapting technology is crucial. For example, using sampling tools for selecting sample size based on materiality or using BOTs for compliance checks. b. Digitizing audits through automation and innovation is key. New technologies help capture data, automate procedures and analyse information, focusing on real risks of the client. c. The opportunity lies in understanding how technology can help & applying it to auditing challenges.
2.	Expectations from an Auditor a. Audit teams should involve experts in software applications and technologies like RPA, AI, blockchain. This expertise ensures the highest quality audits. b. Investment in upskilling people digitally is essential for quality technology audits. c. Technology investment has focused on developing tools for data analytics and collaboration tools, driving quality audits. Advanced technologies like AI and drones can have a bigger impact on audit scope such as identifying fraud with machine learning. d. The auditor reviews the final results file to identify any exceptions (eg. changes without approvals). e. BOTs reduce manual intervention, provide accurate results, save time, and help auditors review exceptions quickly.

	B. Key Features /Advantages of Auditing Digitally
1.	Improved Quality of Audits a. Automation and data analytics help move from sample auditing to reviewing full transactions. b. This allows audit teams to better analyse information and understand the business. c. Though implementation requires upfront investment, the value is undeniable once running.
2.	Decreasing Human Dependency a. Technology reduces manual intervention, lowering the risk of manual errors.

	b. It also streamlines the testing process and reduces errors from individual judgment.
3.	Increases Transparency a. ERPs and tools with audit trails allow auditors to trace transactions end-to-end. b. They can review details like the date of changes, who made them, and what was changed, enhancing the transparency of the audit process.
4.	Automation and Ease a. Automating tasks like data extraction, recording work and sampling improves audit quality and reduces errors. b. Dashboards (e.g., Power BI) help auditors understand positions and form opinions with ease.
5.	Improved Efficiency Technology and digital upskilling help auditors become more efficient. Tasks that once required deep expertise can now be done after simple training, resulting in fewer errors, higher efficiency and improved talent retention and confidence.
6.	Better Risk Assessment Automation and technology allow auditors to focus on real challenges and assess potential risks precisely. Dashboards, visual presentations and tools help identify where risks lie and which areas need more attention.

C. Considerations in Auditing Digitally	
With emergence of new technologies, the auditor's needs are unique. There are few questions it is important to ask and answer – at all stages of tech journey:	
1.	What problems are you trying to solve? a. Continuously evaluate emerging technology & latest tools to see what benefits the audit. b. Think about what will make your audit easier / better & how to measure the ROI.
2.	Which technology can help you? a. Many vendors and start-ups use data acquisition, manipulation and visualization tools. b. Consider how these will integrate into current processes & flag potential implementation issues early.
3.	How will you upskill your people to use the technology? a. Technology is only effective if used properly. b. Training and development are essential to ensure teams understand and use it effectively. c. Continuous training helps overcome reluctance to change.
4.	Range of automated solutions a. There are range of automation solutions that help standardize tasks & optimize efforts. b. Some techniques include robotics & automation for data gathering, data analytics for planning, budgeting and reporting by dashboards.

Macros and Scripts

- Rules-based automation within a specific application

Business Process Automation (BPA)

- Reengineering existing business processes e.g. workflows

Robotic Process Automation (RPA)

- Automating labour intensive, repetitive activities across multiple systems and interfaces

Intelligent Process Automation (IPA)

- Combining RPA with artificial intelligence technologies to identify patterns, learn over time, and optimize workflows Understand Identify Assess

3. Understanding of the It Environment

A. Understanding IT's Role in Business	
1.	Understanding how the entity relies on IT and its setup helps the auditor identify potential risks from the entity's IT usage (SA 315).
2.	Identifying IT Controls Knowing how IT is used by the entity helps in identifying controls over the entity's IT processes.
3.	Assessing IT Complexity Assessing the complexity of the IT environment helps decide if IT specialists or experts are needed for the audit.
4.	Auditor's Understanding of Automated Environment The auditor should understand the following: a. Applications being used by the company. b. Details of the IT infrastructure components for each application. c. The company's organization structure and governance. d. The policies, procedures, and processes followed. e. The extent of IT integration and the use of SO. f. Understanding IT risks and controls.

Application	Used for	Database	Operating System	Network	Server and Storage
SAP ECC/ HANA	Integrated application software	Oracle 19c	HP-UX	LAN, WAN	HP Server and NAS
REVS	Front Desk, Guest Reservations	MS-SQL Server 2018	Windows 2016 Server	In-house developed	HP Server Internal HDD
KOTS	Restaurant and Kitchen Orders	MS-SQL Server 2018	Windows 2016 Server	In-house developed	HP Server Internal HDD
BILLSYS	Billing	Oracle 12c	Windows 2016 Server	Packaged Software	HP Server Internal HDD

B. Key Areas for An Auditor to Understand IT Environment	
1.	Understand the Flow of Transaction The auditor needs to understand how transactions and information flow through IT systems. Changes in flow can occur due to program changes or data changes in processing or storing those transactions.
2.	Identification of Significant Systems Auditor identifies IT applications & infrastructure that affect account balances & disclosures in the system.
3.	Identification of Manual and Automated Controls The auditor needs to identify manual and automated controls in the IC system which help assess the risk of MMS.
4.	Identification of the Technologies Used The auditor should consider emerging technologies like Blockchain, Robotics, AI, IoT, Biometrics, Drone and assess any related risks to the entity's FR.
5.	Assessing the Complexity of IT Environment Complexity varies in IT applications. Factors to assess complexity: a. Automation used in the organization, b. Entity's reliance on system-generated reports, c. Customization in IT applications, d. Entity's business model, e. Significant changes during the year, f. Emerging technologies implementation.

4. Identifying the Risks arising from usage of IT

A. Risks arising from use of IT	
1.	Unauthorized Access to Data Unauthorized access to data may lead to data destruction, improper changes, or inaccurate recording of transactions, especially in shared databases.
2.	Risk of Privileged Access IT personnel gaining excessive privileges can break segregation of duties and lead to unauthorized changes to master data.

3.	Changes to Data Unauthorized changes to IT applications or other aspects of the IT environment.
4.	Update Failures Failure to update IT applications or other parts of the IT environment when necessary.
5.	Inappropriate Manual Intervention Manual changes or intervention that may disrupt the automated processes or lead to errors.
6.	Data Loss a. Data loss or corruption can occur due to poor cybersecurity controls, hackers, or physical breaches. b. This can lead to fraud or theft of sensitive data.
7.	Downtime System downtime caused by hardware failures, cyberattacks or power outages which affect the business operations.
8.	Integration Risks a. System integration risks occur when one system failure impacts all integrated systems. b. System compatibility risks arise if different software versions are used or patches aren't updated, causing bugs or performance issues.
9.	Compliance Risks Regulatory compliance risks arise from changing laws or guidelines which impacts the business operations, costs, and investments.
10.	Performance Issues Performance issues arise from heavy data load, network usage, or slow response times. Scaling hardware can help but may be costly.

B. Importance to identify IT Dependencies	
1.	Identifying IT Dependencies Documenting IT dependencies helps identify how IT supports the business, potential risks, related IT General Controls and aids in developing an effective audit approach.
2.	How IT Dependencies Arise IT dependencies occur when IT is used to initiate, authorize, record, process, or report transactions or financial data included in FS.

C. Types of IT Dependencies	
1.	Automated Controls Automated controls enforce business rules in the IT environment: Examples: a. Purchase order approval via format checks (e.g., specific date format), b. Existence checks (e.g., no duplicate customer numbers), c. Reasonableness checks (e.g., maximum payment amount).
2.	Reports System-generated reports provide information for manual controls, performance reviews, or to aid in audit for performing substantive test of details and analytical procedures. (e.g., vendor master report, customer ageing report).
3.	Calculations

	IT systems perform accounting calculations (e.g. straight-line depreciation or invoice amounts).
4.	Security Security and segregation of duties are controlled by IT to restrict access and prevent fraud or errors.
5.	Interfaces Interfaces transfer data between IT systems (e.g from payroll sub-ledger to GL).

D. Understanding & responding to risks arising from IT Dependencies	
1.	Understanding IT Dependencies Auditors need to understand how management responds to risks arising from IT dependencies affecting the flow of transactions & FI.
2.	IT General Controls (ITGCs) Management may implement IT GCs to address risks related to IT dependencies.
3.	Impact on Control Design IT dependencies can affect how the entity's controls are designed and implemented.
4.	Evaluating ITGCs and Risks Auditors should scope in ITGCs for testing when IT dependencies are identified. If IT controls are not operating effectively, IT dependencies cannot be relied upon.

Access Security Objective

To ensure that access to programs & data is authenticated and authorized to meet FR objectives

- Access requests to the application are properly reviewed and authorized by management
- Access of terminated user is removed on a timely basis
- Access rights to applications are periodically monitored for appropriateness
- Transactions of administrative and sensitive generic IDs are monitored
- Security policies are procedures are maintained
- Access to operating system and database is restricted.

Program Change Objective

To ensure modified systems continue to meet FR objectives

- Change Management policy and procedures are maintained.
- Development, testing and production environments are segregated for changes to application configurations
- Changes are adequately tracked and recorded.
- Changes to application configurations are adequately tested and approved before being migrated into production
- Emergency changes are approved.
- Segregation of duties is mainatined between developer and implementor.

Data Centre And Network Operations Objective

To ensure production systems are appropriately backed up to meet FR objectives

- Policies and procedures for data back and recovery is maintained.
- Data is appropriately backed up and recoverable
- Restoration testing is perfomed
- Monitoring and complaince of service level agreements.
- Batch job scheduled are monitored for failures and access is restricted.

5. Assessing Cyber Risks

A. Cyber Risk	
1.	Meaning A cyber-attack is an attempt to gain unauthorized access to a system with the intent to damage, steal, alter, disable, or destroy data.
2.	Cyber Risk Management Regulators require financial institutions to assess maturity of cybersecurity program, manage cyber risks and enhance resiliency against cyber-attacks.

B. Common Cyber-Attacks	
1.	Malware Malware is malicious software designed to harm computers, networks or servers. Subtypes include: ✓ Ransomware: Encrypts data and demands payment for decryption. Often spread via phishing emails or unpatched vulnerabilities. ✓ Fileless Malware: Uses legitimate tools built into the system to carry out an attack, no installation needed, making it hard to detect. ✓ Trojan: Appears as legitimate software, often installed through phishing or social engineering. ✓ Mobile Malware: Targets mobile devices via malicious downloads, phishing, or unsecured Wi-Fi.
2.	Denial-of-Service (DoS) ✓ DoS attacks flood a network with false requests, disrupting business operations. ✓ It causes temporary inaccessibility to services without data loss.
3.	Phishing Phishing is a tactic to steal sensitive information via emails, SMS, social media, or calls. Types of phishing: ✓ Spear Phishing: Targets specific individuals or organizations to steal login credentials or infect devices with malware. ✓ Whaling: Targets C-level executives to steal money, data, or access computers for further attacks. ✓ Smishing: Uses SMS to deceive people to reveal personal data. ✓ Vishing: Uses phone calls or voice messages to trick individuals into sharing private information like bank details.
4.	Spoofing Spoofing involves disguising as a trusted source to access systems or steal data, install malware or extort money. ✓ Domain Spoofing: Fake websites or emails impersonating a business or person. ✓ Email Spoofing: Forged sender addresses in emails to trick recipients to open malicious attachments or links.
5.	Identity-Based Attacks Occurs when an attacker uses compromised user credentials to impersonate a legitimate user and gain access to other accounts.

6.	Insider Threats Employees (current or former) with access to networks, sensitive data or intellectual property may pose risks to the organization.
7.	DNS Tunnelling DNS Tunnelling exploits DNS queries and responses to bypass security and transmit malware or steal sensitive data from a network.
8.	IoT-Based Attacks IoT attacks target Internet of Things devices which allows hackers to control devices, steal data or infect other devices.

C. Stages of Cyber Risks	
1.	Stage 1: Assessing the Cyber Risk No organization is immune to cyber risks. Risks vary across organizations even in the same industry. Common threats include: ✓ Ransomware disabling operations (plants and facilities). ✓ Email phishing & hacks by criminals for fraud and theft. ✓ Insiders committing malicious activities, leading to information theft and fraud.
2.	Stage 2: Impact of Cyber Risk Cyber-attacks can affect one or more risk areas with varying impacts. Some examples include: ✓ Regulatory costs. ✓ Business interruptions, causing operational challenges. ✓ Data loss, reputational loss, and litigation. ✓ Ransomware, where entire systems are encrypted. ✓ IP theft, affecting competitive advantage and potentially causing impairment charges. ✓ Incident response costs, including for investigations and remediation. ✓ Breach of privacy, if personal data of customer is hacked that will have a significant impact on the company. ✓ Fines and penalties.
3.	Stage 3: Managing the Cyber Risk A strategic approach to cyber risk management helps organization to: ✓ Gain a holistic understanding of cyber risks and threats. ✓ Assess IT and cybersecurity programs against relevant regulatory requirements. ✓ Align cybersecurity and IT transformation initiatives with strategic objectives and critical risks. ✓ Understand accepted risks and documented compensating controls.

6. Cyber Security Framework

A. Identify the Risk	
1.	Risk Assessment Auditor should assess if the entity's risk assessment process considers cybersecurity risks.
2.	Periodic Assessment

	Entity should conduct regular risk assessments and develop a strategy to identify risks like IT system failure, data loss, or unauthorized access.
3.	Asset Management Entity should maintain & review an inventory of information assets (e.g., intellectual property, patents, trade secrets.
4.	Classify and Prioritize Assets Classify and prioritize protection of information based on sensitivity & business value. Periodically review systems connected to the network.
5.	Governance Review Management should review how cybersecurity risks affect internal controls & FR, including impacts on data recoverability and revenue recognition.
6.	Cybersecurity Program Check if a risk-based cybersecurity program (e.g., NIST, ISO) can be used.
7.	Roles and Responsibilities Establish roles and responsibilities for cybersecurity (e.g., CISO, CIO).
8.	Risk Discussion Discuss the risk assessment with TCWG (e.g., Audit Committee, BOD).

B. Protect the Risk	
1.	Safeguarding Assets Understand processes for safeguarding assets from cybersecurity risks, including monitoring for unauthorized access.
2.	Training Conduct formal training to raise awareness of cyber-attack risks.
3.	Data Security Implement controls for data security.
4.	Protect Critical Assets Identify & prioritize material digital assets for protection (e.g. intellectual property, trade secrets)

C. Detect the Risk	
1.	Identify Risks and Incidents Implement controls to identify and assess cybersecurity risks, evaluate impact, and consider timely disclosures.
2.	Monitor Security Breaches Review processes to monitor and detect security breaches or incidents (e.g. anti-virus, firewall logs).
3.	Event Monitoring Establish monitoring to track how many attacks are denied by the firewall and if system upgrades are required.

D. Respond to the Risk	
1.	Incident Capture In case of a cybersecurity breach, capture details of the incident and how it was identified.

2.	Communication Communicate the incident with those responsible & with TCWG.
3.	Response Plan The security incident response plan helps analyze the attack's impact and decide the appropriate actions.
4.	Assess Costs a. Assess litigation, regulatory investigation and remediation costs as part of the mitigation process. b. Evaluate future plans for improvement.

E. Recover from Risk	
1.	Recovery Actions Take appropriate actions to recover from the attack and restore business operations.
2.	Recovery Plan Implement a recovery plan after assessing the impact and communicating with regulators.
3.	Improvements Implement necessary improvements (e.g., patch upgrades, better controls, improved firewalls, anti-virus, tools).

[TYU 1]

7. Control considerations for Cyber Risks

A. Controls around Vendor Setup and modifications	
1.	Cyber Schemes Cyber schemes can involve fraudulent changes to vendor bank account or other critical info via email phishing scams.
2.	Incorrect Fund Transfers Entities may mistakenly send funds to fraudsters, reducing liabilities owed to actual vendors, impacting the FS (loss of cash and related expense). a. Responsibility for Changes Determine who is responsible for vendor master data changes and whether the process is centralized or decentralized. b. Communication Channels Evaluate if email is used for vendor data changes & whether multi-factor authentication (MFA) is enabled. c. Systems and Technologies Assess systems and technologies used for initiating, authorizing & processing vendor data changes. d. Authentication Protocols Define authentication protocols for verifying vendor data changes (e.g call-back procedures, multi-factor authentication).

B. Controls Around Electronic Transfer of Funds	
1.	Awareness of Fraudulent Requests Ensure personnel responsible for wire transfers are educated on phishing scams related to fraudulent transfer requests.
2.	Authentication Protocols Define authentication protocols for verifying wire transfer requests (e.g., call-back procedures, dual-authentication).
3.	Systems and Technologies Review systems and technologies used for initiating, authorizing, and releasing wire transfers.

C. Controls Around Patch Management	
a.	Patch Management Program Ensure the entity has a patch management program in place.
b.	Vulnerability Scans Run periodic vulnerability scans to identify missing/unapplied patches.
c.	Notification of Patches Understand how the entity is notified of patches by external vendors (e.g., Microsoft for Windows patches).

8. Considerations for Remote Audit

1. Concept of Remote Audit
a. Remote audit or virtual audit is when the auditor uses the online or electronic means to conduct the audit. b. It could be partially or completely virtual. c. Auditor engages using technology to obtain audit evidence or perform documentation.

2. Feasibility and Planning	
a.	Planning Agree on audit timelines, meeting platform (e.g., Zoom, Microsoft Teams, Google Meet), data exchange methods and access authorization requests.
b.	Technology and Resources a. Ensure the feasibility of technology. b. Check if auditors and auditees have the required competencies. c. Check if the necessary resources are available.
c.	Execution Phases Conduct video/tele conferencing and use document sharing platforms for transferring audit evidence.

3. Confidentiality, Security, and Data Protection	
a.	Data Security and Confidentiality Restrict access to document sharing platforms and encrypt data to ensure security.
b.	Archiving and Data Removal

	Once audit evidence is reviewed, remove it from the platform and store according to archiving standards and data protection regulations.
c.	Legislation and Regulations Consider laws that may require additional agreements (e.g., no recording of sound/images, or authorization for using images).
d.	Screenshot Guidelines Screenshots of auditees should not be taken without authorization. Screenshots of documents or records should be approved by the audited organization.
e.	IT System Access Use a VPN when accessing the auditee's IT system to ensure a secure and encrypted connection and protect against unauthorized access.

4. Risk Assessment	
a.	Communication Clarity Clear and consistent communication between auditor and auditee is crucial for successful remote audits.
b.	Risk Identification and Management Identify, assess, and manage risks to achieve audit objectives. Document whether the remote audit will meet the audit objectives based on input from both the audit team and auditee.

5. Advantages and Disadvantages of Remote Audit

Advantages	Disadvantages
No travel time and costs involved.	Network issues cause interruptions in interviews and meetings.
Audit team works from a home environment.	Limited or no ability to observe facility culture or body language of the auditees. Time zone differences may affect efficiency.
Evidence can be collected over an extended period, not interfering with daily activities.	Increased risk of doctored documents or omitted information, requiring more planning and additional procedures.
Auditor can get first-hand evidence directly from IT system.	Remote access to sensitive IT systems may be restricted with security and privacy concerns.
Wider selection of auditors from a global pool of experts.	Cultural challenges for auditors and lack of knowledge of local laws or regulations could impact the audit. Physical verification cannot be performed.

9. Emerging Technologies in Audit

1. Introduction	
1.	Emerging Technologies Emerging technologies are changing the financial reporting landscape. Auditors are leading these transformations. (e.g., Data Analytics, AI, RPA, Blockchain)

2.	Upskilling for Auditors & Clients As ET impact financial reporting, auditors and clients must upskill to keep pace.
3.	Impact of Emerging Technologies on Internal Controls Auditors need to assess how emerging technologies impact ICOFR and if management is properly evaluating this.
4.	Data Analytics Techniques a. Data Analytics involves extracting meaningful insights from raw system data. b. It helps auditors draw conclusions and make informed decisions.
5.	Audit Data Analytics Audit data analytics involves analysing large data sets to find insights, trends, and patterns, leading to more accurate findings.
6.	Audit Analytics Benefits It helps businesses create strategies based on verified data. It enables auditors to audit large volumes of data effectively.
7.	Audit Analytics Helps ✓ Discover patterns ✓ Identify anomalies ✓ Extract useful information from data.

	2. Meaning & Examples of various tools of CAAT
1.	ACL (Audit Command Language) a. ACL is a data extraction and analysis software used for fraud detection, risk management, and analyzing large datasets. b. It helps auditors find irregularities or patterns in transactions that may indicate control weaknesses or fraud. Example: ACL is used for Trial Balance reconciliations during audits. If a General Ledger dump and system Trial Balance are provided, ACL can ensure data completeness beyond the capacity of Excel by performing functions like record count, sum, and pivoting which Excel can't handle.
2.	Alteryx Alteryx consolidates financial or operational data, automating analytics and performing Machine Learning to detect fraud or irregularities. It also helps automate periodic processes like reconciliations, consolidations, and continuous audits. Example: In a logistics organization, Alteryx was used to recompute revenue entries. The expected revenue was understated because outdated rate versions were used. Alteryx helped analyse and focus on the actual risk by recomputing large data sets.
3.	Power BI Power BI is a business intelligence platform for aggregating, analyzing, visualizing, and sharing data. Auditors can use it to identify outliers and for creating interactive dashboards for audit reporting. Example: Power BI was used by auditors to analyze sales trends in an apparel company. They identified untimely sales during non-business hours using an interactive sales data dashboard.

4.	CaseWare CaseWare provides data analysis tools for audit engagements, helping auditors to work quickly, accurately, and consistently. It also helps streamline processes, eliminating routine tasks, and integrates everything needed for assurance and reporting engagements. Example: CaseWare turns documents, including FS, into client-ready reports. It integrates with client data, allowing real-time communication with clients while ensuring data consistency.

[TYU 2]

10. Automated Tools in Audit

Technology	Key Concepts	Audit Implications	Common Risks	Example
A. Internet of Things (IoT)	✓ IoT connects devices (e.g., phones, washing machines) to the internet. ✓ Key components: data collection, analytics, connectivity. ✓ Impacts business models and exposes new risks (laws, regulations).	✓ Auditors may need to evaluate automated controls and new systems. ✓ Review consumer-facing tools affecting transaction flow (e.g., mobile payments). ✓ Train auditors to evaluate IoT-related controls.	✓ Device hijacking, data breaches, hacking. ✓ New risks from connected systems.	✓ Connected Cars, Smart Homes, Predictive Equipment Maintenance. ✓ e.g., refrigerators ordering eggs when stock is low.
B. Artificial Intelligence (AI)	✓ AI learns and makes decisions based on data analysis and algorithms. ✓ Examples: Self-driving cars, smart assistants (Siri, Alexa), predictive systems.	✓ Review AI algorithms for unintended biases. ✓ Ensure AI outputs are reviewed and approved. ✓ Consider AI's impact on transaction flows and decision-making.	✓ Security vulnerabilities, improper configuration, data privacy. ✓ Potential bias in algorithms.	✓ Self-Driving Cars, Smart Assistants. ✓ AI systems suggesting flight bookings based on price predictions.
C. Blockchain	✓ Blockchain uses a decentralized & distributed	✓ Review governance, security of	✓ Transaction irreversibility, cyber-attacks,	✓ Bitcoin and other cryptocurrency transactions.

	ledger with encryption for secure transactions. ✓ Immutable blocks and validation by participants. ✓ Secures and tracks digital transactions.	blockchain transactions. ✓ Assess how blockchain interacts with legacy systems. ✓ Ensure compliance with data laws and privacy.	data privacy risks. ✓ Exposure to compliance issues across geographies.	✓ Blockchain used for instant settlements in banking (e.g., XY Bank's blockchain pilot).
D. Non-Fungible Tokens (NFT)	✓ NFTs represent ownership of unique items (e.g., digital art, music, videos). ✓ Secured by blockchain and cannot be altered or copied. ✓ Contains Digital Signature.	✓ Audit NFT codes for safety and security ✓ Review ownership and copyright concerns. ✓ Ensure data privacy is protected.	✓ Ownership issues, security vulnerabilities, market instability. ✓ Potential for online frauds.	✓ Digital Art, Music, Sports Collectibles. ✓ NFTs as digital assets secured by blockchain (e.g., Crypto Kitties).
E. Robotic Process Automation (RPA)	✓ RPA automates repetitive processes via bots that operate continuously with precision. ✓ Can interact with any software like humans.	✓ Auditors must understand RPA processes (data extraction, aggregation). ✓ Review source code and logs. ✓ Focus on RPA's accuracy, compliance in operations.	✓ Operational risks from improper bot deployment. ✓ Change management issues due to improper testing. ✓ Strategy misalignment and unrealistic expectations.	✓ Ticket Booking Bot for passenger booking systems. ✓ AI, bots automating repetitive tasks like booking, payment, and customer support.

Audit Implications of RPA in detail	
1.	Understanding RPA Auditors must understand RPA processes like data extraction, aggregation, sanitization, and cleansing. Without understanding these, auditors can't perform a proper audit.
2.	Review of Source Code A comprehensive audit may require reviewing the source code. Auditors need to know the tools used for RPA development to effectively review logs, configuration controls, privileged access controls and general IT controls.

Common Risks of RPA	
1.	Operational & Execution Risks Risks arise when robots are deployed without a proper operating model. Wrong tools, wrong assumptions, shortcuts, and poor security and compliance pose major risks. Proper responsibilities, training, and clear role definitions can help reduce these risks.
2.	Change Management Risks If the change management lifecycle is not followed or testing is incomplete, it can lead to inaccurate results.
3.	RPA Strategy Risk Unrealistic KPIs, wrong expectations, and poorly defined business goals create uncertainty. Management should evaluate RPA's characteristics, potential, and limitations before starting the process.
RPA in Audits with Standards	
a.	IND AS, IFCoFR, & Standards on Auditing Incorporating IND AS, IFCoFR and SA ensures accurate FR and effective IC. Combining RPA with these frameworks enhances audit efficiency, accuracy, and compliance. RPA developers and auditors should work together to align RPA workflows with these standards.

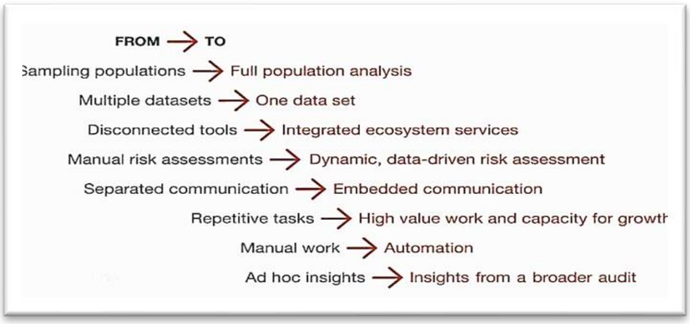
11. Control considerations or objectives of Auditing Digitally

A. Control Considerations	
1.	Holistic Understanding Auditors should understand industry changes and IT environment to evaluate management processes for initiating, processing, and recording transactions, and then design appropriate auditing procedures.
2.	Technology Risks Auditors should consider risks from implementing new technologies and how they differ from traditional systems.
3.	Digital Upskilling Auditors should assess if digital upskilling or specialists are needed to evaluate new technologies and assist in risk assessment, control design, and effectiveness. Example: cybersecurity experts and IT specialists.
4.	Technology Risks to Test Auditors should test controls for the following technology risks: a. Reliance on systems that inaccurately process data or incorrect data. b. Unauthorized access to data leading to destruction or improper changes in data, including unauthorized transactions or inaccurate recordings. c. IT personnel gaining access beyond required duties, leading to insufficient segregation of duties. d. Unauthorized changes to data in master files. e. Unauthorized changes to systems or programs. f. Failure to make necessary changes to systems or programs. g. Inappropriate manual intervention in automated processes. h. Potential data loss or inability to access data as needed.

	i. Risks introduced by using 3rd service providers. j. Cybersecurity risks that threaten the integrity and security of digital systems.

B. Key steps for auditors in a changing technology environment	
1.	Professional Scepticism Auditors should maintain sufficient professional scepticism when reviewing management's risk assessment for new systems.
2.	Impact of New Technology Understand the direct and indirect effects of new technology and assess how its use impacts the auditor's overall risk assessment.
3.	Transaction Flow and ICFR Systems Understand how technologies impact the flow of transactions, assess the completeness of the in-scope ICFR systems, and design a sufficient audit response.
4.	Appropriateness of Management's Processes Assess the appropriateness of management's processes for selecting, developing, operating, and maintaining controls related to technology based on its usage.

12. Next Generation Audit

A. NG Audit & its usage	
1.	Next Generation Audit The Next Generation Audit is human-led, tech-powered, and data-driven, combining emerging technologies to redefine how audits are performed.
2.	Aims of Next Generation Audit The Next Generation Audit focuses on leveraging technology to enhance audit quality, efficiency, and effectiveness. 
3.	Advancing Technologies Technologies like 3D printing, AR, VR, biotechnology, drones (UAVs), and quantum technology are rapidly advancing, with broad societal implications. Example: Drone Technology Drones can be used for remote stock counts, carrying sensors and cameras to photograph and examine large quantities of assets and inventory, optimizing audit quality and speed.
4.	Common Risks ✓ Emerging technologies come with risks like public safety, cybersecurity, data privacy, data protection, lack of standards, and technical challenges. ✓ Data tracking raises concerns about taxation, jurisdiction and customer protection.

	✓ Regulators and auditors need to focus on controls around privacy, data security, and governance for better regulation.

B. New Technologies	
1.	Augmented Reality (AR) AR enhances the real world by adding digital elements, visible through devices. Example: Pokémon Go, where players chase digital creatures in real locations.
2.	Virtual Reality (VR) VR replaces the real world with a simulated one, using devices like headsets. Example: VR for simulated experiences like flying or skydiving. AR/VR in Industries: ✓ In architecture and engineering, AR/VR helps visualize building plans. ✓ In business, it allows for product previewing and customization. ✓ In health, AR aids surgeons with live data.
3.	Metaverse The Metaverse is a 3D digital space combining AR, VR, AI and Cryptocurrency enabling lifelike experiences online. Future Considerations for Metaverse a. Building digital monetary systems and economic principles for virtual land. b. Balancing governance models with user input. c. Handling digital identity issues (e.g., KYC). d. Ensuring synchronicity in real-time interactions and transactions.

C. Potentials application of Virtual Reality	
1.	Virtual Banking and Transactions Virtual banks in the Metaverse offer bank accounts, personalized dashboards, and transactions using virtual currencies, attracting tech-savvy customers.
2.	Digital Asset Management A digital asset platform in the Metaverse allows users to buy, sell, and trade NFTs and virtual assets, offering transparency and secure transactions.
3.	Virtual Financial Education A Financial Academy in the Metaverse provides interactive financial education via virtual classrooms, including simulated investments and hands-on experience.
4.	Virtual Meetings and Conferences In the Metaverse, participants attend global conferences via virtual avatars, with keynote speeches, networking, and virtual exhibition booths.
5.	Data Visualization and Analytics Virtual analytics tools in the Metaverse help financial professionals visualize and analyze complex financial data in interactive 3D environments for better decision-making.

13. GROUP AUDIT

1. Introduction

A. Overview of CFS	
1.	CFS & Accounting Standards AS 21 and Ind AS 110 define principles and procedures for preparing and presenting CFS.
2.	Requirement to Prepare CFS If a parent company decides or is required to prepare CFS, it must follow the applicable AS under the relevant FRFW.
3.	Format of CFS ✓ CFS should be presented in the same format as the parent's separate financial statements. ✓ The formats for B/S, Statement of P & L, Statement of Changes in Equity are prescribed under Schedule III of the Companies Act, 2013.
4.	Audit of CFS a. The entity preparing CFS may be required to engage an auditor for its audit. b. Laws or regulations may require CFS to be audited by the same statutory auditor of the entity who audits its standalone financial statements (SFS).
5.	Guidance Note (GN) on CFS i. Provides guidance on audit issues and procedures for CFS audits. ii. May also be used for special purpose CFS audits but it does not cover accounting matters related to consolidation.

B. Preparation of CFS – Mandatory under Companies Act 2013	
1.	Applicability of CFS As per Section 129(3) of the Companies Act, 2013, a company with subsidiaries, associates, or joint ventures must prepare a CFS in the same form and manner as its own FS.
2.	Same Rules for CFS As per Section 129(4), the rules for preparation, adoption, and audit of a holding company's SFS also apply mutatis mutandis to its CFS.
3.	Approval by Board & Members BOD must approve CFS before signing & it must be laid before the AGM along with SFS.
4.	Salient Features of Subsidiary Financial Statements The company must attach Form AOC-1 with its FS, highlighting the key financial details of its subsidiary/subsidiaries.
5.	Schedule III Format As per the Companies (Accounts) Rules, 2014, CFS must comply with Schedule III of the Act and Applicable AS
6.	Exemption from CFS CFS preparation is not required if the company meets any of the following conditions: a. Consent of All Members It is a wholly-owned subsidiary / partially-owned subsidiary and all other members agree in writing to not present CFS. b. Unlisted Companies

	The company's securities are not listed & not in the process of listing on any stock exchange (India or abroad). c. Holding Company Prepares CFS The ultimate or intermediate holding company files a CFS that complies with the AS. **d.** Notified Companies As per Section 129(6), CG can exempt companies from CFS requirements.
7.	Investment Entity Exemption As per Ind AS 110, Investment entity need not present CFS if it measures all subsidiaries at Fair Values through P&L. A parent shall determine if it is an investment entity. Parent of Investment Entity As per Ind AS 110 (Para 33), a parent of an investment entity must consolidate all controlled entities, unless the parent itself is an investment entity. Definition of Investment Entity An entity that: a. Raises funds from investors for investment management services. b. Invests funds solely for returns from capital appreciation or investment income. c. Evaluates investments on a fair value basis.

C. Management's Responsibility for CFS	
1.	Preparation & Presentation of CFS The parent's management is responsible for preparing and presenting CFS. This includes: a. Identifying Components b. Identifying reportable segments, where applicable. c. Identifying related parties and their transactions for reporting. d. Collecting accurate and complete financial data from components. e. Making necessary adjustments for proper consolidation. f. Harmonization of accounting policies and framework. g. GAAP Conversion, if required.

D. Parents Instructions to Components Management	
1.	Accounting Policies Components must follow the parent's accounting policies.
2.	Disclosure Requirements+ Complying with statutory and disclosure requirements of the parent.
3.	Segment Reporting Reporting identifiable business segments.
4.	Related Parties Identifying and reporting related parties & transactions.
5.	Reporting Timetable Following a specific timeline for submission of financial data.

Learn Contextually

E. Auditor's responsibility for Audit of CFS	
1.	Principal Auditor's Responsibility Auditor must ensure that the CFS is prepared in accordance with the AFRFW & also report on matters as per the Companies Act, 2013 & other relevant statutes.
2.	Auditors Objectives in Audit of CFS The auditor should: a. Ensure CFS is in line with the AFRFW. b. Express an opinion on the true and fair view of CFS. c. Enquire into matters under Section 143(1) of the Companies Act, 2013. d. Report on matters under Section 143(3). [a to j] e. Validate whether the company is required to prepare CFS as per the FRFW.
3.	Application of Auditing Standards The SA's, Guidance Notes issued by ICAI apply equally to audit of CFS as they do for SFS.
4.	Audit Process for CFS The auditor must: a. Plan the audit for effective and timely execution. b. Understand the accounting and internal control systems, including IT tools used for consolidation. c. Apply professional judgment to assess audit risk and design audit procedures to reduce risks to an acceptable level.

F. Audit considerations while conducting Audit of CFS	
1.	Basis of CFS a. CFS is prepared using the SFS of the parent and its components as per applicable AS. b. The auditor may use the work of other auditors as per the SA unless he audits all components himself. c. CFS includes "other financial information" such as: ✓ Disclosures about components ✓ Adjustments for different accounting policies ✓ Adjustments for significant transactions between parent and components This OFI shall be disclosed additionally in CFS.
2.	Use of Other Auditors a. The principal auditor (PA) must assess whether his own work alone is sufficient to form an opinion on the true and fair view of CFS. b. If needed, the principal auditor may use "other auditors", who may be: ✓ Statutory auditors of components ✓ Auditors appointed specifically to assist in CFS audit. c. SA 600 lays down guidelines for using another auditor's work in CFS.
3.	Materiality Determination a. For standalone audits, materiality is computed component-wise. b. For CFS, the auditor computes materiality at the group level to assess: ✓ Consolidation adjustments (permanent & current period) ✓ Whether a component's financials significantly impact the group financials ✓ Whether additional components should be included in the audit c. The PA may communicate materiality to component auditors for a consistent approach.
4.	Confirmation from Component Auditors

	The PA obtains confirmations from component auditors regarding: a. Independence b. Ethical compliance c. Information needed for consolidation & disclosures
5.	Modified Opinion in Component Audits a. If a component auditor issues a modified opinion (Qualified Opinion, Emphasis of Matter, Other Matter), the PA should comply with SA 600. b. The materiality concept is applied while considering these observations.
6.	Applicable Accounting Standards AS & Ind AS applicable to CFS: a. AS 21 (CFS) b. AS 23 (Accounting for Associates) c. AS 27 (Joint Ventures) d. Ind AS 110 (CFS) e. Ind AS 111 (Joint Arrangements) f. Ind AS 112 (Disclosure of Interests in Other Entities) g. Ind AS 28 (Associates & Joint Ventures)

G. Audit process for Audit of CFS	
1.	Audit Planning Before starting the Audit The auditor should plan for an efficient and timely audit and includes: a. Understanding group structure and group-wide controls, including IT systems used. b. Reviewing accounting policies of parent and components along with translation of foreign components. c. Determining N.T.E of audit procedures based on risk of MMS in consolidation process. d. Evaluating the need for other auditors and coordinating work accordingly.
2.	Audit Process a. Obtain a list of all components and ensure their inclusion in CFS unless valid exclusion criteria apply. b. Verify the completeness of information by: ✓ Reviewing prior year working papers for known components. ✓ Checking investment details of the parent and components. ✓ Reviewing joint ventures, statutory records, and shareholding changes. c. Document audit procedures for completeness. d. Verify various means of control, joint control or significant influence, such as BM minutes, shareholder agreements, and post-year-end transactions.
3.	Excluded Components from CFS a. Auditor must assess if exclusions comply with AS & Companies act. b. Reasons for exclusion under: ✓ AS 21: If the relationship is temporary or there are severe long-term restrictions on fund transfer. ✓ Companies Act, 2013: Intermediate subsidiaries not required to prepare CFS if they meet specific conditions (e.g., wholly-owned, unlisted, holding company filing CFS). ✓ Ind AS 110: Exclusion due to temporary control must be justified and disclosed. c. Auditor should also verify if reasons for exclusion are mentioned in the CFS. d. If any component is excluded for other than those allowed by the AFRFW, the auditor should modify the opinion in the audit report.

4.	Changes in Status of Components The auditor should check if a subsidiary becomes an associate or a joint venture and verify that this change is correctly accounted for under the applicable FW.
5.	Method of Consolidation a. Under Accounting Standards (AS): ✓ Subsidiaries: Combined line by line, with adjustments for goodwill, minority interest, and intra-group transactions (AS 21). ✓ Associates: Accounted using the Equity Method (AS 23). ✓ Joint Ventures: Reported using Proportionate Consolidation (AS 27). b. Under Ind AS: ✓ Subsidiaries: Combined per Ind AS 110, with adjustments for goodwill, capital reserves, and elimination of intra-group transactions. ✓ Associates & Joint Ventures: Accounted using the Equity Method (Ind AS 28), while joint operations are recorded in separate financials (Ind AS 111) ✓ Business combinations in stages require revaluation at fair value (Ind AS 103).
6.	Other Adjustments a. Auditor should verify that all adjustments required by AS/Ind AS have been made correctly and approved by management. b. Adjustments include: ✓ Permanent consolidation adjustments (e.g., eliminating inter-company transactions). ✓ Current period adjustments (e.g., unrealized profits, deferred tax).
7.	Off-Balance Sheet Entities & De-Facto Control a. The auditor should check for Off-balance-sheet entities used to transfer business risks but not formally classified as subsidiaries. b. De-facto control should be considered where an investor has SI over decision-making, even with less than 50% voting rights.

[TYU 1]

2. Special Considerations

A. Permanent Consolidation Adjustments	
1.	Permanent Consolidation Adjustments Adjustments made during the first consolidation or when shareholding changes. These include: a. Calculation of Goodwill or Capital Reserve as per Accounting Standards. b. Determination of Minority/Non-Controlling Interests (NCI).
2.	Verification by Auditor The auditor should ensure calculations are accurate and: a. Pay special attention to pre-acquisition reserves of components. b. Verify if pre-acquisition reserves are properly allocated between parent and minority interests/NCI. c. Check for changes in permanent adjustments due to: ✓ Further acquisition of shares ✓ Disposal of components in later years.
3.	Netting Off Goodwill and Capital Reserve a. Permitted – Net Off: If one subsidiary has goodwill and another has a capital reserve, the parent may net them off in the consolidated B/S, if allowed by the FRFW.

	b. Disclose Gross Amounts: Auditor should verify that the gross amounts of goodwill and capital reserves are properly disclosed in the notes to the consolidated financial statements to show the excess/shortage over the parent's share of the subsidiary's equity.

B. Current Period Consolidation Adjustments	
1.	Current Period Adjustments Adjustments made in the accounting period for which CFS is prepared. These adjustments primarily relate to eliminating intra-group transactions and account balances.
2.	Types of Current Period Adjustments a. Intra-Group Transactions: Eliminate interest paid/received, management fees, etc. b. Unrealized Profits: Remove profits from intra-group asset transfers. c. Deferred Tax: Record deferred tax on unrealized profits of intra group. d. Intra-Group Indebtedness: Remove loans/debts of inter-company.
3.	Different Accounting Policies Adjustments made to harmonize accounting policies of parent and components for consistency in CFS.
4.	Subsequent Events Adjustments for events after the B/s date but before the auditor's report. ✓ Adjusting Events: Provide evidence about conditions existing at the B/s date. ✓ Non-Adjusting Events: Events arising after B/s date but not requiring adjustment. ✓ Disclosure Requirement: If significant, nature and financial impact should be disclosed.
5.	Different Balance Sheet Dates If a component's B/s date is different from the parent's, adjustments are required for significant transactions/events occurring between the component's financials and CFS reporting date.
6.	Foreign Components Convert foreign component's financials from local GAAP to the GAAP used in CFS.
7.	Minority Interest (Non-Controlling Interest - NCI) a. Determine equity movements for NCI since subsidiary acquisition. b. Under Ind AS, NCI may have a negative balance if the subsidiary's net worth is negative.
8.	Deferred Tax Adjustments Record temporary differences from intragroup profit/loss elimination and undistributed profits under Ind AS.
9.	Memorandum Records a. Consolidation adjustments are recorded in memorandum records maintained by parent. b. The auditor should review these records for accuracy.

C. Audit Process for CFS	
1.	Audit Process Overview The auditor should review memorandum records and verify key aspects of CFS preparation.
2.	Verification of Intra-Group Transactions Ensure elimination of intra-group transactions and account balances.
3.	Uniform Accounting Policies Verify that CFS follows uniform accounting policies for like transactions.
4.	Disclosure of Different Accounting Policies

	If harmonization is impracticable, adequate disclosures must be made in CFS (AS 21 & Ind AS 110).
5.	Adjustments for Different GAAP Ensure conversion of component's GAPP to match CFS GAAP.
6.	Minority Interest (Non-Controlling Interest - NCI) Verify the calculation of NCI and whether it includes cases where losses exceed equity.
7.	Deferred Tax Adjustments Verify deferred tax adjustments arising from intra-group transactions under Ind AS.
8.	Income and Expenses Ensure subsidiary's income and expenses are included in CFS from the date of control until disposal.
9.	Audit Procedures for Adjustments Gain an understanding of management's methods for making adjustments to reduce audit risk.
10.	Impairment of Goodwill a. Goodwill must be tested for impairment annually. b. Auditor must verify impairment calculations and methodology used by management. c. If impairment is determined in foreign currency, verify adjustments in currency translation reserves. d. Intra-group losses may indicate potential impairment requiring recognition.
11.	Same Reporting Date for Components a. CFS should have a uniform reporting date. b. If a component has a different reporting date, adjustments should be made. c. The reporting difference should not exceed: ✓ 6 months under AS ✓ 3 months under Ind AS. d. Auditor should review significant transactions/events between component's reporting date and parent's reporting date.
12.	Consistency in Reporting Periods a. Auditor should ensure consistency in reporting periods across all components. b. Any changes in reporting periods must be disclosed.
13.	Disclosures in CFS a. Auditor should verify that all relevant disclosures have been made. b. Additional statutory disclosures required in SFS but not in CFS should be assessed. c. CFS must separately disclose for each component: ✓ Net assets amount & % of consolidated net assets. ✓ Profit/loss amount & % share in CFS. ✓ Other Comprehensive Income (OCI) amount & % in CFS. ✓ Consolidation adjustments should be separately disclosed.
14.	Disclosures in SFS but Not in CFS Ind AS 110 does not mandate all SFS disclosures in CFS. Based on Section 129(4) & MCA Circular 39/2014, only CFS-relevant disclosures should be made. Examples of SFS disclosures not required in CFS: ✓ Bonus shares source (profits, reserves, securities premium). ✓ Unutilized funds from public issues. ✓ Disclosure under MSME Act, 2006 ✓ Details of investments in corporate bodies.

	✓ CIF value of imports (For raw materials, spare parts, capital goods). ✓ Expenditure in foreign currency (For royalty, fees, interest, etc.). ✓ Value of imported vs. indigenous raw materials consumed. ✓ Foreign remittances (dividends, shareholder details, etc.). ✓ Foreign exchange earnings (exports, royalties, interest, etc.).

3. Management Representations

A. Written Representations	
1.	SA 580 - Written Representations The auditor must obtain written representations from Management and TCWG
2.	Parent's Responsibility The auditor of CFS must ensure that parent management: ✓ Acknowledges responsibility for a true and fair presentation of CFS. ✓ Approves the CFS in compliance with the FRFW.
3.	Written Representations from Parent Management The auditor must obtain written confirmations on key matters material to CFS.
4.	Examples of Written Representations a. Ensure all components are included in CFS. b. Identify reportable segments for disclosure. c. Identify related parties and transactions for reporting. d. Verify appropriateness and completeness of permanent & current period adjustments, including elimination of intra-group transactions.

B. Audit reporting under CFS	
1.	Situations in CFS Audit a. The parent's auditor audits all components included in the CFS. b. The parent's auditor is not the auditor of some components and must rely on the work of other auditors.
2.	Applicable Auditing Standards The auditor must consider the following SA while preparing the report: a. SA 700 – Forming an Opinion and Reporting on FS. b. SA 705 – Modifications to the Opinion in the Auditor's Report. c. SA 706 – EOM & OMP.
3.	Use of Other Auditors' Work If the parent's auditor relies on other auditors, SA 600 must be followed.

4. Reporting

A. Audit reporting of CFS	
1.	When the Parent's Auditor audits All Components Audit Report Should Include: 1. Whether principles & procedures for CFS preparation follow requirements of relevant Accounting Standards. If not, modify opinion as per SA 705. 2. Opinion on whether the CFS gives a true and fair view of the group's financial position and performance. 3. If CFS includes a cash flow statement, issue an opinion on its true and fairness.
2.	When the Parent's Auditor is Not the Auditor of All Components 1. SA 706 – Other Matter Paragraph: If relying on other auditors, apply SA 600 and disclose the magnitude of portion of financial information audited by others. 2. Such a disclosure is made under Other Matter Paragraph. 3. Quantification: Specify the rupee amount or percentage of total assets, revenues, and cash flows audited by other auditors. 4. Unaudited Components: Disclose total assets, revenues, and cash flows before applying consolidation adjustments. 5. Mentioning other auditors' work is not a qualification but shows divided responsibility.
3.	When Component Auditor Uses a Different Accounting Framework 1. Different GAAP: Some foreign components prepare financials under local GAAP (e.g., US GAAP, IFRS), and their auditors may not be familiar with the parent's GAAP. 2. Conversion adjustments: Parent's management converts component financials to the parent's GAAP before consolidation, and the parent's auditor verifies the conversion adjustments. 3. Group Accounting Policies: Some components may prepare FS directly under parent's GAAP using parents Group Accounting Manual. Note: The group accounting manual would normally contain all accounting policies, including relevant disclosure requirements in line with AFRFW. 4. Principal Auditor's Role: The principal auditor ensures the group accounting policies comply with parent's GAAP and determine whether or not to rely on component auditors' reports and make a reference in Auditors report on CFS.
4.	When Component Auditor Uses a Different Auditing Framework 1. Components Audits should be conducted under Indian GAAS for consistency. 2. If the component auditor follows a different framework, then it should align with Indian GAAS for the parent's auditor to rely on it.
5.	When Some Components Are Not Audited 1. Ideally, all components should be audited (either by the parent's auditor or component auditors). 2. If a component remains unaudited, the parent's auditor must evaluate modification to the CFS audit report. Because it leads non availability of S&A Audit evidence. 3. The auditor must assess qualitative & quantitative impact of unaudited balances and decide on possible opinion modification.

[TYU 2 & 3]

14A. BANK AUDIT

1. Special Considerations by the Auditor

Special audit considerations arise in the audit of banks due to:	
1.	The nature of risks associated with the transaction's banks undertake.
2.	The scale of banking operations and the significant exposures that can develop rapidly.
3.	The extensive reliance on IT to process transactions.
4.	The impact of statutory and regulatory requirements on banking operations.
5.	Development of New Products & Services The continuous evolution of new products, services, and banking practices, which may not align with accounting principles and auditing practices.
6.	Operational Risks The rise of Net Banking and mobile services, exposing banks to operational and financial risks.

Audit Approach and Considerations

a. Auditors must consider the above factors when designing their audit approach.

b. Branch Auditors and Statutory Central Auditors (SCAs) need in-depth knowledge of the products and risks to address them in the audit plan and prevent material misstatements in financial statements.

c. Since banks use multiple applications for transactions, auditors should understand the interface controls between them.

2. Legal Framework

The principal enactments which govern the functioning of several types of banks are:

a. The Banking Regulation Act,1949
b. The State Bank of India Act,1955
c. The Reserve Bank of India Act,1934
d. The Companies Act,2013
e. The Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970
f. The Regional Rural Banks Act, 1976
g. The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980
h. The Information Technology Act, 2000
i. The Prevention of Money Laundering Act, 2002
j. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
k. The Credit Information Companies (Regulation) Act, 2005
l. The Payment and Settlement Systems Act, 2007
m. The Co-operative Societies Act, 1912 for Co-operative Banks

3. Form and Content of Financial Statements

Content	
1.	Balance Sheet & Profit and Loss Account Every banking company must prepare a Balance Sheet and Profit and Loss Account as per the forms set in the 3rd Schedule to the Banking Regulation Act, 1949

	(Form A for Balance Sheet, Form B for Profit and Loss Account).
2.	Accounting Standards ✓ Banking companies must comply with Accounting Standards under Companies Act, 2013 ✓ However, the implementation of Indian Accounting Standards (Ind AS) has been deferred by RBI for scheduled commercial banks.
3.	Consolidating Branch Accounts ✓ Standalone financial statements are prepared by consolidating branch accounts and incorporating various verticals/departments of a bank, especially in nationalized or public sector banks. ✓ In private banks, accounting is centralized, and no mandatory branch audit is required per RBI guidelines.
4.	SEBI Regulations Listed Banks must comply with SEBI regulations, including LODR Regulations.

Audit of Accounts & Appointment of Auditor	
1.	Audit Requirements Sub-section (1) of section 30 of the Banking Regulation Act requires the Balance Sheet and Profit and Loss Account of a banking company to be audited by a qualified auditor as per the law.
2.	Appointment of Auditors Most banks, especially nationalized and public sector banks, appoint 4 or more firms of chartered accountants as Statutory Central Auditors (SCAs), as per RBI guidelines.
3.	Appointment Letter a. The appointment letter typically includes b. Period of appointment c. Details of other central auditors d. Details of previous auditors e. Procedural requirements for accepting the assignment f. Division of work for joint auditors
4.	Letter of Acceptance a. The letter of acceptance includes: b. Confirmation of no disqualification c. How the audit will be conducted d. Declaration of fidelity and secrecy e. Restriction on taking other assignments from the bank, etc.
5.	Scope of Assignment The scope includes any special reports or certificates required in addition to the main report.
6.	Statutory Branch Auditors (SBAs) For statutory branch audits, the appointment letter follows similar guidelines but involves only 1 firm of chartered accountants.
7.	Authority for Appointment a. The auditor of a banking company is appointed at the annual general meeting of shareholders. b. The auditor of nationalized banks is appointed by the Board of Directors. c. RBI approval is required before appointment.

4. Conducting an Audit

Stage I: Initial Considerations	
1.	Acceptance & Continuance Engagement risk assessment is critical before accepting the audit engagement, influencing both the decision to accept the audit and the audit plan.
2.	Declaration of Indebtedness a. RBI requires banks to obtain a declaration of indebtedness confirming that the auditor/firm and associated individuals haven't been declared wilful defaulters. b. This is in addition to the disqualification requirements under Section 141 of the Companies Act, 2013.
3.	Internal Assignments in Banks The RBI prohibits audit firms from undertaking statutory audits while also involved in internal assignments for the same bank in the same year.
4.	Terms of Audit Engagements a. SA 210 requires the auditor to agree on audit engagement terms with the bank before starting significant fieldwork. b. The terms should be documented to prevent confusion about responsibilities. c. This is typically done via an engagement letter.
5.	Communication with Previous Auditor As per Clause (8) of Part 1 of SCH 1 of the CA Act, 1949, the incoming auditor must communicate with the previous auditor before accepting the position.
6.	Planning The audit plan must be well-documented, flexible, and updated as needed, outlining timing, extent of checks, and audit procedures at the assertion level.
7.	Establish the Engagement Team Qualified and experienced professionals must be assigned based on the size, nature, and complexity of the bank's operations.

Stage II: Understanding	
1.	Understanding the Bank & Its Environment Understanding the bank's environment, including its internal controls, is essential for risk assessment and developing an audit plan to address specific risks.
2.	Understanding the Bank's Accounting Process Understanding the bank's accounting process helps identify and assess risks of MMS, whether due to fraud or not, and plan further audit procedures.
3.	Understanding the Risk Management Process The bank's risk management system is supported by controls and performance indicators to manage business and financial risks effectively.

Oversight by those charged with governance	Identification, measurement and monitoring of risks	Control activities	Monitoring activities	Reliable information systems
Those charged with governance (BOD/Chief Executive Officer) should approve written risk management policies. The policies should be consistent with the bank's business objectives and strategies, capital strength, management expertise, regulatory requirements and the types and amounts of risk it regards as acceptable.	Risks that could significantly impact the achievement of bank's goals should be identified, measured and monitored against pre-approved limits and criteria.	A bank should have appropriate controls to manage its risks, including effective segregation of duties (particularly, between front and back offices), accurate measurement and reporting of positions, verification and approval of transactions, reconciliation of positions and results, setting of limits, reporting and approval of exceptions, physical security and contingency planning.	Risk management models, methodologies and assumptions used to measure and manage risk should be regularly assessed and updated. This function may be conducted by the independent risk management unit.	Banks require reliable information systems that provide adequate financial, operational and compliance information on a timely and consistent basis. Those charged with governance and management require risk management information that is easily understood and that enables them to assess the changing nature of the bank's risk profile.

Stage III: Risk Assessment	
1.	Identifying & Assessing Risks of Material Misstatements SA 315 requires identifying and assessing risk of MMS at the financial statement level and assertion level for transactions, balances, and disclosures, to guide audit procedures.
2.	Assess the Risk of Fraud & Money Laundering SA 240 focuses on identifying and assessing fraud risks, obtaining appropriate audit evidence, and responding accordingly. Auditors must maintain a professional scepticism to detect misstatements due to fraud.
3.	RBI Guidelines on Money Laundering RBI has issued guidelines on Know Your Customer (KYC) and anti-money laundering, requiring banks to set up policies, procedures, and controls to recognize and report money laundering activities.
4.	Specific Risks Assessment Auditors should identify and assess specific risks of MMS at the financial statement level, especially risks relating to the banking industry and the use of IT.
5.	Outsourcing Related Risks [SA 402 Relevance] Banks often outsource to reduce costs and access expertise not available internally. However, outsourcing introduces specific risks that must be effectively managed.

Stage IV: Execution	
1.	Engagement Team Discussions The engagement team should discuss to gain a better understanding of the bank, its environment, and internal control, to assess potential MMS in the financial statements.
2.	Response to Assessed Risks SA 330 requires auditors to design and implement responses to the assessed risks of material misstatement at the financial statement level. The nature, timing, and extent of audit procedures should be based on the risks identified.
3.	Establish Overall Audit Strategy SA 300 emphasizes that the auditor should establish the overall audit strategy before starting the audit. This strategy should involve key engagement team members and specialists, depending on the characteristics of the audit engagement.

4.	Audit Planning Memorandum The auditor must prepare an audit planning memorandum to: a. Describe the expected scope and extent of audit procedures. b. Highlight significant issues and risks identified during planning and risk assessment. c. Provide evidence of appropriate audit planning and responses to risks.
5.	Determine Audit Materiality a. The auditor must consider the relationship between audit materiality and audit risk. b. Materiality is determined based on the auditor's professional judgment, knowledge of the bank, engagement risk, and reporting requirements. It is influenced by the size or nature of a misstatement or both.
6.	Going Concern The auditor should assess if there are any events or conditions that may raise doubt about the bank's ability to continue as a going concern.

Stage V: Reporting	
	Students should refer to the reporting requirements in the Auditor's Report section of this chapter. For a detailed understanding of the stages involved in conducting an audit, refer to the Guidance Note on Audit of Banks.

5. Special Considerations in IT Environment

Content	
1.	Changes in Banking Technology a. The advent of CBS systems, payment systems, and Aadhar integration for cardless transactions has revolutionized banking. b. However, these technological developments present new challenges for auditors, as the audit must be conducted through these systems.
2.	Information to be shared with Auditors Since IT systems are crucial in preparing and presenting financial statements, it is essential for the bank to share detailed information with auditors, such as: ✓ Overall IT policy and structure ✓ Data processing and interfaces under various systems ✓ Data integrity and security Policies ✓ Business continuity plans and disaster control plans ✓ Information about the accounting manual, critical accounting entries, and their interaction with IT systems ✓ controls over key aspects like account heads, expense booking, and overdue identification. ✓ Controls over e-banking and internet banking products ✓ MIS reports and their periodicity. ✓ Exception reports and their generation processes
3.	Review of IT Environment a. The IT environment and computerized accounting systems must be reviewed at the head office level. b. Branch auditors generally don't have access to the IT policy, so they must rely on Statutory Central Auditors to conduct data review, control tests, and substantive checks at the branch level.

4.	Auditors' Responsibilities a. Statutory Central Auditors must understand the IT environment and controls set by the bank's management, evaluating whether these controls are operating effectively. b. Audit procedures should be designed based on this understanding, involving discussions with the IT department.
5.	Key Security Control Aspects to be verified Auditors need to ensure: ✓ Authorised, accurate, and complete data is available for processing. ✓ The system restarts without distorting entries after interruptions. ✓ The system prevents unauthorized amendments. ✓ Access controls match staff responsibilities. ✓ Segregation of duties is ensured. ✓ Ensure changes in system parameters are authenticated. ✓ Verify that manual charges are properly accounted for and authorized. ✓ Ensure exception transaction reports are verified daily. ✓ Ensure account master and balances cannot be altered without proper authorization. ✓ General ledger and subsidiary book balances should match.

6. Internal Audit and Inspection

	Content
1.	Central Audit & Inspection Department a. The central audit and inspection department in banks is a combination of centralized and decentralized functions, usually headed by a Chief Audit Executive. b. The department is responsible for conducting Risk-Based Internal Audit (RBIA) as per RBI framework.
2.	Responsibilities The department is responsible for: a. Identifying branches for revenue audits b. Appointing concurrent auditors and defining their scope c. Meeting concurrent auditors, addressing issues, conducting trainings, and reviewing their work.
3.	Primary Function The main function is to ensure the audit process is handled smoothly, effectively, and efficiently.
4.	Risk-Based Internal Audit Risk-Based Internal Audit (RBIA) is conducted based on the risk assessment of business and control risks at branches. This process involves: 1. Identifying inherent business risks in branch activities (Business Risk) 2. Assessing the effectiveness of control systems for monitoring these risks (Control Risk) 3. Assessing overall business and control risks
5.	Risk Matrix A risk matrix is created considering various risk factors, including the risk of branches.

7. Internal Control in Certain Selected Areas

Content	
1.	Internal Control in Banks Banks must implement and maintain internal controls to mitigate risks, ensure good governance, and meet regulatory requirements.
2.	General Internal Controls ✓ Staff rotation to prevent fraud ✓ Independent checks by another officer ✓ Daily proofing of arithmetical accuracy ✓ Bank forms (cheque books, drafts, etc.) stored securely with a responsible officer ✓ Mail opened by a responsible officer with signature verification ✓ Signature book and telegraphic code shall be kept with responsible officials. ✓ Insurance against risks like fire, theft, and employee infidelity ✓ Defined financial powers for officers ✓ Surprise inspections of head office and branches by the internal audit department to check irregularities
3.	Cash Controls ✓ Joint custody of cash by two officers ✓ Daily test-checking of cash balances ✓ No access to cashiers to the customer ledger accounts ✓ Cash receipt Vouchers signing by an officer ✓ Payments shall be made only after voucher has been authorised. ✓ High-value cash transactions verified by a higher officer ✓ Excess cash remitted to the currency chest
4.	Cheque Clearing ✓ Cheque Truncation System (CTS) for quicker processing. This eliminates movements of physical cheques. ✓ The branch has to make a call and confirm with customer for any cheques received for inward clearing for an amount of Rs. 5 Lakh and above. ✓ Verification of signature on cheques ✓ Unpaid cheques under outward clearing shall be sent to customers.
5.	Bills for Collection ✓ All documents for bills must be entered in register and sent with the bills ✓ Accounts credited only after bills are collected ✓ No double entry for bills sent between branches in the amalgamated balance sheet.
6.	Bills Purchased ✓ Verification of documents of title are assigned to bank, when purchasing bills ✓ Adequate margin maintained for bill purchases. ✓ Immediate recovery steps if bills aren't collected ✓ Irregular accounts reported to Head Office ✓ Bills purchased and outstanding at year end, discount shall be apportioned between both the years.
7.	Loans & Advances ✓ Make advances only after evaluating creditworthiness of borrowers must be checked. ✓ Documents (e.g., agreements, promissory notes) must be executed before advancing loans

	✓ Margins for securities should be maintained to cover decline in market values. ✓ Securities kept in joint custody ✓ Securities must be registered in the name of the bank, if applicable. ✓ All Advances shall be kept within sanctioned limit and drawing power. ✓ Any outstanding balance in advances exceeding sanctioned limit and drawing power shall be reported. ✓ The operations in the advance accounts shall be reviewed at least once a year.
8.	Demand Drafts ✓ Signature verification for demand drafts ✓ Confirmation sent to the paying branch when a DD is sold/issued. ✓ Take immediate steps, if paying branch does not receive confirmation.
9.	Inter Branch Accounts ✓ Accounts adjusted only based on official advice from other branches ✓ Prompt action on entries if not responded within a reasonable time.
10.	Credit Card Operations ✓ Effective Screening of credit card applications ✓ Strict control over storage and issuance of cards ✓ Merchant verification of available limits. ✓ Regular reporting from merchants of settlements accepted by them. ✓ Reimbursement to merchants shall be made only after verification. ✓ Ensure statements are sent to customers regularly. ✓ Monitoring of overdue payments and stop credit, if required, to avoid increased losses. ✓ Periodic reviews of credit card holders' accounts, including limits revision and provisioning for doubtful amounts

8. Compliance with CRR And SLR Requirements

	Compliance & Reporting
1.	Cash Reserve Ratio (CRR) CRR is a minimum fraction of total deposits that commercial banks must hold as reserves, either in cash or as deposits with the central bank.
2.	CRR Compliance a. The RBI reviews the liquidity situation and adjusts the CRR rate accordingly. b. Auditors need to refer to the master circulars issued by the RBI to ensure compliance with CRR requirements.
3.	Statutory Liquidity Ratio (SLR) SLR is the requirement for commercial banks to maintain a certain liquid assets like gold, cash and government-approved securities before lending to customers.
4.	SLR Compliance a. RBI requires statutory central auditors to verify SLR compliance on 12 non-Friday dates each fiscal year. b. The goal of SLR is to maintain liquid assets to handle sudden increased demand from depositors.
5.	Auditor Report The resultant report is to be sent to Top Management of the Bank and to Reserve Bank.

The reports are:

Correctness of the compilation of DTL (Demand and Time Liabilities) position	Maintenance of liquid assets as prescribed u/s 24 of Banking Regulation Act.

Audit Procedures for CRR and SLR	
1.	Understanding RBI Guidelines Obtain an understanding of RBI circulars regarding the composition of DTL items.
2.	Trial Balance Verification a. Request branch auditors to send weekly trial balances. b. Branch auditors should verify the correctness of trial balances and examine cash balances on selected dates.
3.	DTL Consolidation Examine DTL position consolidations prepared by the bank, including valuation of securities according to RBI guidelines.
4.	Exclusion from Liabilities Some of these Items are: a. Paid-up capital, reserves, any credit balance in Profit & Loss Account of the bank, b. Loans from RBI/financial institutions, c. Bills discounted by a bank d. Net Income tax provision. e. Amount received from DICGC towards claims held by banks. f. Amount received from ECGC by invoking the guarantee. g. Amount received from insurance companies for ad hoc settlement of claims. h. Amount received from court receiver. i. Net unrealized gain/loss arising from derivatives transactions. j. Income flows received in advance like annual fees and other charges. k. Liabilities arising on account of utilisation of limit under 'Bankers' Acceptance Facility'. l. Amounts of recoveries from the borrowers w.r.t Bad & Doubtful Debts m. Amounts received in Indian currency against import bills and held in sundry deposits n. Un-adjusted deposits/balances for agency business like dividend/interest warrants. o. Margins held and kept in sundry deposits for funded facilities.
5.	Inclusion in Liabilities Ensure correct inclusion of liabilities. Some of the items are: a. Net Credit Balance in Branch Adjustment Accounts b. Interest Accrued on deposits should be calculated on each reporting fortnight, c. Foreign Borrowings, and d. Reconciliation of Nostro accounts.
6.	Exempted Categories for DTL Computation Examine exempted items such as a. Minimum Eligible Credit (EC), Long-term bonds for infrastructure loans, b. Verify Incremental FCNR(B) and NRE deposits. c. Verify conversions of foreign currency assets/liabilities based on RBI reference rates.
7.	Branch Data Consolidation Ensure consolidation of data from all branches including foreign branches to arrive at Net balances in Branch Adjustment Accounts.

8.	Form A and Form VIII Verification Examine the correctness of Form A (CRR) and Form VIII (SLR) returns on a sample basis.
9.	Regional Consolidation a. Verify regional consolidation of branch data with reports signed by regional managers. b. The central auditor should apply audit procedures to the overall consolidation for the bank. c. The auditor should describe the same in his report.
10.	Unaudited Branches In SLR compliance report, the auditor shall specify the number of unaudited branches and state the reliance on their returns in forming an opinion.
11.	Automated Data Flow (ADF) Develop audit procedures around the ADF for CRR and SLR reporting.

9. Verification of Assets

A. Audit of Cash, bank balances and money at call and short notice	
1.	Audit Approach a. The auditor's main objective is to verify the existence and completeness of these items as on the balance sheet date & audit procedures should be tailor made to meet that objective b. Banks implement strong internal controls for cash such as joint custody of cash and periodic checks. Balances with other banks are reconciled periodically. c. The auditor should assess the effectiveness of these controls.
2.	Schedule of Accounts The auditor should first obtain an accurate schedule of accounts in the prescribed format.
3.	Cash and Bank account Reporting a. The 3rd Schedule to Banking Regulation Act, 1949 requires disclosures for Cash, Balances with RBI, balances with other banks and money at call in the balance sheet. b. Cash appears in nearly all branches while bank accounts are reported mainly in branches with treasury operations. c. Money at call and short notice is handled by the treasury department at the head office.
Detailed Audit Procedures	
1.	Cash a. Physical verification of cash (including foreign currency, ATM, and cash deposit machines) close to the balance sheet date. b. Verify that the physical cash balance matches the balance in the cash register or CBS.
2.	Balance with Reserve Bank of India a. Verify ledger balances with bank confirmation certificates and reconciliation statements at year-end. b. Review reconciliation statements, focusing on: a. Un responded cash transactions. b. Revenue items requiring adjustments/write-offs. c. Un responded credit and debit entries for over 15 days.
3.	Balance with Other Banks (Other than RBI) a. Ensure no outstanding charges or interest credits and all items have been taken to revenue. b. Verify Outstanding cheques that are sent or received for clearing.

	c. Ensure bills or outstation cheques sent for collection are credited by year-end. d. Examine large transactions to avoid window-dressing. e. Verify balances with foreign banks and convert to Indian currency at the balance sheet date exchange rate.
4.	Money at Call and Short Notice a. Verify system of authorisation for lending including compliance with head office guidelines. b. Verify call loans with borrower certificates and call loan receipts. c. Check that balances in the relevant Tally register match control accounts. d. Verify subsequent repayments from borrowing banks. e. Ensure call loans are not netted off against loans received. f. Verify proper accrual of interest & accounted for on year-end balances.

B. Audit of Investments	
1.	Objectives a. Auditor's objectives are to ensure existence, ownership and valuation of investments as well as compliance with statutory and regulatory requirements. b. The audit procedures should be as per guidelines of RBI & the bank's investment policy.
2.	Internal Control Evaluation a. Review bank's investment policy to ensure it aligns with RBI guidelines and Statutory provisions. b. Confirm that the policy outlines separate objectives for bank's own account and customer investments.
3.	Separation of Duties Ensure segregation of duties within the bank between front, middle and back office functions for executing, settling, monitoring and accounting trades.
4.	Examination of Reconciliation a. Examine reconciliation of investment accounts. b. Verify physical securities, obtain counter-party confirmations and check Subsidiary General Ledger (SGL) balances with Public Debt Office (PDO). c. Examine control and reconciliation of Bank Receipts (BR's).
5.	Examination of Documents a. Ensure that investments are within the bank's authority. b. Verify compliance with any restrictions on ownership or disposal of investments. c. Verify acquisition and disposal with broker's contract note, bill of costs, and receipts.
6.	Physical Verification of Investments a. Physically verify investment scrips at year-end. b. Verify investments held with Public Debt Office [PDO] of RBI, custodians and depositories with the statement of holdings. c. In the case of BRs, examine counterparty confirmations and obtain written explanations for any long-outstanding BRs.
7.	Classification and Shifting a. Ensure that investments are classified into HTM, HFT, and AFS categories. b. Verify that any shifts between categories are approved by Board of Directors (BOD).
8.	Valuation of Investments a. Ensure the valuation method for investments is appropriate and follows RBI guidelines.

	b. Verify the correct classification of investments at acquisition, based on decisions from Board of Directors or Investment Committee. c. Ensure that non-performing investments (NPI) are classified properly and provisions for depreciation are made. d. Verify that income from investments is properly accounted for, particularly for electronic income receipts. e. Verify adequate disclosure for change in method of valuation. f. Examine Profit/Loss on Sale of Investments are computed and accounted properly. g. Verify that there is proper system for recording and maintaining TDS Certificates.
9.	Dealings in Securities on Behalf of Others a. Verify that prior approvals were obtained for dealings on behalf of others. b. Confirm that income from these dealings is accurately recorded and stated in financial statements. c. Review for any undisclosed liabilities or breaches of fiduciary duties.
10.	Special-purpose Certificates a. Ensure separate accounts are maintained for investments made on bank's own account, PMS clients' account and for others. b. Ensure that investments under PMS are audited by external auditors.
11.	Audit, Review, and Reporting a. Banks should conduct half-yearly reviews of their investment portfolio. b. The review should include operational aspects, investment policy changes & compliance with RBI guidelines. c. Internal auditors should conduct monthly reviews of treasury transactions and report major irregularities.

C. Audit of Advances	
1.	Classification of Advances It is based on: a. Nature of advance (e.g., cash credit, overdrafts, term loans, bills purchased). b. Nature and extent of security (e.g., secured by assets, covered by guarantees). c. Place of advance (within or outside India). d. Advances in India are also classified by sector (e.g., priority sector).
2.	Audit Approach The auditor must focus on obtaining evidence for: a. Amounts outstanding at the balance sheet date. b. Amounts due to the bank and their documentation. c. No unrecorded advances. d. Valuation and recoverability of advances. e. Classification and disclosure as per accounting standards and regulatory requirements.
3.	Evaluation of IC's over Advances [Compliance Procedures] a. Verify credit appraisal procedures including loan applications & borrower credit worthiness. b. Ensure advances are sanctioned by delegated authority. c. Ensure loan documents are executed before disbursal. d. Verify compliance with sanction terms and end use of funds. e. Check security's existence, enforceability and valuation including registration requirements.

Learn Contextually

4.	Substantive Audit Procedures a. Verify master data in CBS for accuracy (instalments, rate of interest, loan tenure). b. Ensure each customer is tagged with a single customer ID across all accounts. c. Examine all large advances while others on sample basis. d. Review problem accounts using SMA-1 and SMA-2 lists. e. Examine restructured accounts for RBI compliance and additional provisioning. f. Examine accounts that are adversely commented by Concurrent Auditors. g. Review accounts slipped into NPA within 12 months of sanction (Quick Mortality A/c) h. Verify the completeness & accuracy of Interest charges. i. Carry out Proper Analytical Procedures
5.	Recoverability of Advances a. Review borrower statements showing compliance with terms & conditions. b. Examine latest financial statements of borrowers. c. Review security inspection reports. d. Check auditor's reports for borrowers with credit facilities from multiple banks above a specified limit fixed by BOD.
6.	Verification of Asset Classification, Income Recognition and Provisioning As per prudential norms, the auditor must ensure that: a. Advances are classified based on RBI norms. b. Income is recognized only on actual recovery. c. Proper provisions are made for advances with doubtful recoverability. d. Auditor must familiarize himself with the latest RBI Master Circular on provisioning and review subsequent RBI circulars issued before the audit. e. Ensure that the norms are followed as minimum provisioning requirements but higher provisions should be made where recovery is at risk. f. Ensure that banks make adequate provisions for bad debts before paying any dividends. g. Statutory central auditors & branch auditors have to verify the applicability of prudential norms on asset classification, income recognition and provisioning.
7.	Classification and Provision a. Verify if the bank has an automated system for identifying and classifying advances through CBS without manual intervention. b. Ensure advances classification is appropriate, particularly where there are recovery threats. c. Ensure secured and unsecured portions of advances are correctly separated and provisions are calculated accurately.
8.	Accounts Regularized Near Balance Sheet Date a. Verify if an advance is regularized before the balance sheet date with genuine sources. b. Assess if further funds were provided by the bank post-regularization. c. Check for inherent weakness in the account. d. Bank has to provide evidence about manner of regularisation to eliminate doubts. e. Ensure accounts are classified as per the position on the balance sheet date. f. NPA shall be recognized based on Past Due/Overdue concept and not Balance Sheet date.
9.	Drawing Power Calculation a. Ensure drawing power is calculated according to bank's credit policy and sanction letters. b. Ensure proper reporting of sundry creditors and stocks covered under LCs/guarantees. c. Ensure net value of debtors is correctly calculated when book debts are used as security. d. It is to be ensured that drawing power is calculated of net of stipulated margin.

	e. Review the stock audit and book debts audit for advances exceeding stipulated limits. f. Special focus shall be given on comments made by statutory auditor. g. Construction Companies: The Valuation of WIP be on consistent manner. Mobilisation advances shall be reduced while calculating DP Limit. h. Consortium advances: The lead bank decides the DP Limits and binding on member banks.
10.	Accounts with Temporary Deficiencies a. Ensure temporary deficiencies does not classify an account as NPA. b. Ensure stock statements used for calculating DP are not less than 3 months old. c. The outstanding in account shall be treated as irregular if DP is calculated based on stock statements older than 3 months.
11.	Review of Limits a. Verify that limits are reviewed within 180 days of due dates. Accounts with unreviewed limits more than 180 days, should be considered NPA. b. Ensure no repetitive ad hoc/short reviews.
12.	Borrower wise classification a. Ensure that asset classification is done borrower-wise basis not facility-wise. b. Ensure that LC devolvement or invoked guarantees are treated as part of the borrower's principal account for prudential norms application.
13.	Government Guaranteed Advances a. Ensure interest is not recognized unless realized. b. Central Government guarantees can be treated as NPA only when repudiated. [90 days norm is irrelevant] c. State Government guaranteed advances treat as NPA if overdue for more than 90 days. d. When Bank has not invoked CG Guarantee though amount is overdue, then reason to be reported in LFAR.
14.	Agricultural Advances a. Apply NPA norms based on crop season as per State Level Bankers Committee. b. These norms are applicable to all direct Agri. advances mentioned in master circular. c. Ensure that other than direct agricultural advances, follow the same NPA identification norms as non-agricultural advances.
15.	Provisioning for Standard Assets a. Ensure provisions for standard assets are in line with RBI Circulars and b. Ensure different sectors have the required provisioning rates. c. Check standard advances bifurcation for correct provision calculation.
16.	Restructured Advances Meaning: a. Restructuring is when a lender makes adjustments/offers concessions to a borrower facing financial difficulties. b. It involves modification of terms of advances or instalments or repayment period/rate. Audit steps: a. Verify compliance with RBI guidelines for restructuring. b. Banks cannot restructure with retrospective effect. c. Ensure provisions are made for accounts pending restructuring approval. d. Accounts are downgraded from standard to substandard upon restructuring but NPAs will remain in the same category.
17.	Upgradation of Accounts a. Ensure proper RBI guideline adherence for upgraded accounts from NPA to standard.

	b. Ensure the overdue portion is fully cleared before upgrading. Also check that there is no possibility of incorrect upgradation based on partial recoveries. c. Recoveries may be made after the cut-off date but account can still be upgraded based on the balance sheet date.
18.	Sale/Purchase of NPAs a. Ensure NPA sale/purchase policy is defined and followed including valuation, procedures, and delegation of powers. b. Ensure sale/purchase of NPA is without recourse. c. Verify that the bank has not purchased an NPA it originally sold. In case of Sale of NPA: a. Ensure the NPA sale is removed from books b. Ensure NPA sold has been NPA for at least 2 years in the books of the bank. c. Verify sale consideration is paid upfront on cash basis only not contingent price. d. Check if NPA is sold: ✓ Below Net Book Value (NBV) - Shortfall is charged to P &L a/c for that year. ✓ Above NBV – Excess provision should not be reversed. It should be used to cover any losses from the sale of other NPAs. e. Verify that bank does not have any legal, operational or other risks related to sold NPA. In case of Purchase of NPA: a. Ensure provisioning requirements based on classification for purchased NPAs. b. Verify recoveries from purchased NPAs are accounted for correctly ✓ 1st Adjustment against - Acquisition cost ✓ Recovered Amount in excess of Acquisition cost – Recognise as Profit c. Verify Capital adequacy is adjusted with 100% risk weights for purchased NPAs from other banks.

[Refer TYU 1]

D. Audit of Fixed Assets	
1.	Classification and Disclosure of Fixed Assets a. Fixed Assets (FA) should be classified into 2 categories in B/S i.e., under Premises and Other Fixed Assets. ✓ Premises: wholly or partly owned for business purpose including residential premises used by employees of bank. ✓ Other assets: Furniture & fixture, motor vehicles, computers, office equipment. b. Leasehold and Intangible assets should be disclosed as per Accounting Standards (AS). c. Ensure bank does not hold immovable property for more than 7 years unless required for own use.
2.	Evaluation of Internal Control (Compliance Procedure) a. Examine the system of internal controls over expenditures on FA. b. Examine Accountability and utilisation controls. c. Examine information controls for availability of information about FA. d. Ascertain the location of documents of title (Evidence for Ownership of FA's) e. Ascertain whether the FA register is maintained centrally or at branches. f. Check if acquisitions and disposals are communicated to the head office.
3.	FA – Premises a. Verify the opening balance of premises with fixed assets schedule. b. Verify new acquisitions of premises are authorized, has title deeds and payment records.

	c. Verify self-constructed assets with contractor's bills and payment records. d. Ensure proper capitalization and amortization for leasehold properties. e. Ensure no properties are included that are not for own use along with written representation from branch management. f. If the title deeds are kept at the head office, the branch auditor shall get a written confirmation from the branch and inform Central Auditor & LFAR report. g. Ensure Premises under construction shown separately as 'premises under construction'. h. Verify that Advances/payments to contractors for such assets are shown under "FA" i. Check the appropriateness of basis of revaluation for premises that are re-valued. j. Ensure the treatment of revaluation surplus/deficit is as per the relevant AS
4.	FA - Other Fixed Assets a. Follow audit procedures of premises that would be relevant for Other FA. b. Ensure physical verification of movable assets through periodic checks are conducted by branch management & by internal/concurrent audit team. c. Verify that discrepancies are properly accounted in the BOA. d. Ensure adequate provisioning of damaged assets has been made with proper approvals. e. Ensure accumulated depreciation is also transferred if FA are transferred. f. Ensure compliance with RBI guidelines and AS 26 for intangible assets. g. Ensure similar assets are grouped together. h. Verify expenditure on FA post bringing it to working condition is treated properly. i. Ensure similar assets are grouped together. j. Verify that expenditure on assets post working condition is treated properly. k. Review whether the consolidated fixed assets schedule matches in all respects and verify that all transfers in/out are accurate. l. Check the depreciation against the gross block especially for computer hardware/software.
5.	Sale of Fixed Assets a. Verify sale deed and receipt for sale of assets. b. Ensure profit/loss on sale is properly accounted.
6.	Leased Assets Ensure accounting & provisioning compliance with RBI guidelines and AS 19 for leased assets.
7.	Impairment of Assets Verify compliance with RBI circulars and AS 28 for impairment of assets.

E. Audit of Other Assets	
1.	Inter-Office Adjustments a. Ensure inter-branch accounts are reconciled at the central level. b. Report on yearend status indicating dates up to which accounts have been reconciled. c. Mention number & amount of outstanding entries separated into Debit & Credit entries. d. Check if discrepancies are properly dealt with in BOA.
2.	Interest Accrued a. Verify if interest is accrued on entire loan mainly on overdue bills purchased/discounted. b. Ensure that only realizable interest is recognized based on AS 9.
3.	Tax Paid in Advance/Tax Deducted at Source a. Ensure that TDS certificates are collected and sent to the head office periodically. b. Check TDS credits in Form 26AS and Income tax returns to verify such claims. c. Confirm availability of TDS certificates & claim of the same in IT returns filed at HO.

4.	Stationery and Stamps a. Ensure stationery & stamps includes only exceptional items of expenditure like bulk purchases of security paper. b. Evaluate the existence, effectiveness and continuity of IC's over these items. c. Evaluate internal controls adequacy over stationery & stamps in the LFAR. d. Physically verify stationery & stamps at year-end and check for any shortages. e. Ensure that the cost of stationery consumed is properly charged to the P&L A/c.
5.	Non-Banking Assets Acquired in Satisfaction of Claims a. Ensure non-banking assets are acquired in satisfaction of debts & intended for disposal. b. Verify assets with documentary proofs (settlement term, court order, arbitral awards) c. Check ownership of property is vested with the bank. d. Ensure assets are recorded at lower of net book value or net realizable value of asset acquired at acquisition date. e. Assess if disputes require contingent liability/ provision as per AS29. f. Ensure compliance with Section 9 of Banking Regulation Act.
6.	Non-Interest-Bearing Staff Advances a. Examine staff advances with reference to documentation and bank policy. b. Verify the availability, enforceability and valuation of security. c. Ensure that advances relate to employees on the rolls of the bank as of the B/S Date.
7.	Loans and Advances to Officials and Relatives a. Verify that loans are sanctioned by the next higher sanctioning authority. b. Ensure that loans to senior officers or higher amounts have been reported to the Board.
8.	Security Deposits a. Examine security deposits with authorities/others have proper documents & receipts. b. Ensure deposit has not become due & assess the recoverability of overdue amounts. c. Ensure provision is made against the amount of deposit that is doubtful to recover.
9.	Suspense Account a. Obtain details on old outstanding entries in suspense a/c & reasons for delay. b. Ensure necessary provisions or write-offs are made for outstanding balances that require it.
10.	Prepaid Expenses a. Verify the basis of allocation of expenditure to different periods is reasonable. b. Ensure that discounting/rediscounting charges allocated to different periods are as per bank's accounting policy.
11.	Miscellaneous Debit Balances on Government Account a. Review ageing statements for these items. b. Examine the recoverability of old outstanding items. c. Ensure claims for reimbursement have been made by branch as per terms & conditions. d. Ensure the net balance of recoverable at HO should also be taken as per ageing analysis e. Verify if provisions are needed due to lack of confirmation/justification for old balances. f. Ensure reasons are recorded & reviewed for major variances compared to previous year.

10. Verification of Capital & Liabilities

A. Audit of Capital	
1.	Share Capital a. Verify the opening balance of capital from the previous year's audited balance sheet. b. Examine documents supporting the increase in capital ✓ For authorised capital increase: check Special resolutions and MOA. ✓ For subscribed & paid-up capital increase: Verify with prospectus, registrar reports, bank statements, and returns filed with the ROC.
2.	Capital Adequacy a. Ensure that the capital adequacy of the bank is assessed based on its risk profile. b. Understand the global Basel Committee norms which relate a bank's capital to its operational risks. a. Ensure compliance with Basel III including risk management, governance & transparency standards. b. Ensure that the bank is encouraged to hold lower-risk assets & incorporate off-balance sheet exposures in capital assessments.
3.	Stress Testing a. Ensure bank has Board approved Stress Testing Framework which integrate with its risk management system. b. Verify that stress tests assess the bank's ability to survive economic shocks and maintain capital buffers under extreme adverse scenarios.
4.	Basel III Framework a. Capital adequacy rules for banks designed to protect depositors and shareholders by ensuring efficient capital use and setting regulatory capital standards b. Verify that the bank complies with Basel III requirements for capital adequacy, stress testing, and market liquidity risk. Purpose of Basel III Accord 1. Absorb shocks from financial/economic stress. 2. Improve risk management and governance. 3. Enhance transparency and disclosure.
5.	Capital Adequacy Measures in India a. It is Governed by statutes with minimum capital requirements and statutory reserves for different banks. b. The RBI prescribes a uniform approach for scheduled commercial banks. c. Banks must have enough capital to absorb losses from business risks. d. Capital is split into Tier I and Tier II based on quality. Tier I: ✓ Highest quality capital which consists of share capital and disclosed reserves. ✓ It is fully available to cover losses. Tier II: ✓ Lower quality capital including certain reserves and subordinated debt. ✓ Less effective in absorbing losses compared to Tier I capital. e. Indian banks and foreign banks operating in India have separate guidelines. f. Detailed guidelines provided by RBI on how to calculate risk weighted assets and off-balance sheet items for CRAR Audit process:

	a. Verify that RBI guidelines are followed for capital adequacy with minimum capital requirements for different types of banks. b. Ensure bank maintains the required CRAR of at least 9% on an ongoing basis for banks. c. Review classification of capital into different Tiers as per characteristics/quality of instruments.
6.	Capital Risk Adequacy Ratio (CRAR) a. Verify the calculation of CRAR as: **Eligible Capital Funds / Risk Weighted assets × 100.** b. Check risk weights for different types of loans for calculating risk-weighted assets

B. Audit of Reserves & Surplus

The following are disclosed under "Reserves & Surplus"

Statutory Reserves* | Capital Reserves* | Share Premium*

Revenue and Other Reserves including investment Fluctuation Reserve* | Balance in Profit and Loss Account

a. Verify opening balances of reserves with reference to the previous year's Audited B/S.
b. Check that additions and deductions from reserves are properly documented.
c. Ensure legal compliance for statutory reserves and share premium.
d. Verify that the prescribed percentage of profits is transferred to reserve fund.
e. Check for exemption from transfers & review documents granting such exemption.
f. Ensure appropriations from share premium A/c comply with legal requirements.
g. Verify compliance with foreign laws for overseas branches.

D. Audit Procedures for Deposits

1.	Current and Saving Accounts a. Verify current & saving a/c's opened during the year for KYC compliance on sample basis. b. Ensure saving accounts are opened for individuals, HUF and approved institutions. c. Verify balances and check interest calculations (no interest paid on current accounts) d. Ensure Balance confirmation procedure are followed consistently on a sampling basis. e. Ensure debit balances in current a/c are shown under advances not netted out as liabilities. f. Ensure compliance with RBI guidelines on treatment of accounts as inoperative/dormant. g. Check inoperative a/c's for revival authorization especially in cases where significant reduction in balances of such accounts compared to previous year
2.	Term Deposits a. Ensure deposit receipts & cash certificates are issued serially & accounted in registers. b. Verify bulk deposits (₹2 crore and above) & term deposits for correctness of interest rates calculations. c. Ensure foreclosure penalties are applied when term deposits are closed early. d. Verify recurring deposit accounts opened during the year on sample basis.
3.	Deposits in Foreign Currencies (FCNR) a. Verify FCNR accounts opened during the year & compliance with RBI guidelines. b. Check credits and debits in FCNR accounts for proper RBI compliance on sample basis.

	c. Ensure conversion to INR at notified rates by Head Office. d. Examine the resultant increase/decrease are taken to the P & L A/C. e. Verify that interest on deposit is calculated on the basis of 360 days in a year.
4.	NRE and NRO Accounts a. Verify credits & debits in NRE and NRO accounts for RBI compliance on sample basis. b. Check reparability of Accounts ✓ NRE A/c's are repatriable, ✓ NRO A/c's are not repatriable except for current income.
5.	General Deposits Compliance a. Ensure deposits are not inflated for B/S presentation b. Qualify in the main report in case of indication of window dressing on deposits or advances. c. Verify that interest accrued but not due is shown under "other liabilities & provisions" but not shown under deposits. d. Ensure Framework on Know Your Customer (KYC) and Anti-Money Laundering (AML) are formulated & put in place.

D. Audit of Borrowings

Borrowings of a bank are required to be shown in the balance sheet as follows.

Borrowings in India → - Reserve Bank of India
- Other Banks
- Other Institutions & Agencies
← Borrowings outside India

1.	Secured Borrowings a. The total amount of secured borrowings (domestic and foreign) should be disclosed in the notes to the relevant schedule. b. Inter-office transactions are not considered borrowings & not presented as such.
2.	Borrowings a. Obtain & verify confirmation certificates & supporting documents like agreements and correspondence. b. Use external confirmations received directly for reliable audit evidence as per SA 505. c. Ensure a clear distinction between 'rediscount' and 'refinance' for proper disclosure. d. Verify that borrowings at call and short notice are properly authorised and verify interest rates and duration of such borrowings. e. Ensure the branch has HO authorization for borrowings & the terms for borrowings are as per the authorisation. f. Verify that amount shown under Branch A/C's are properly classified based on security.

E. Other Liabilities & Provisions

1.	Bills Payable a. Evaluate internal controls over bills payable. b. Ensure drafts, mail transfers, and traveller's cheques are in standard forms. c. Ensure unused forms are kept under responsible officer's custody. d. Verify reliable private code for coding/decoding telegrams by authorized officers. e. Ensure signatures on DD'S are checked with specimen signature book.

	f. Confirm immediately TT & DD's issued by branch by an advice to concerned branches. g. Examine sample of outstanding bills payable with relevant registers & investigate old outstanding debits paid without advice & ascertain the reasons for the same.
2.	Inter-office Adjustments Confirm the balance in inter-office adjustments a/c is shown under liabilities if in credit.
3.	Interest Accrued Examine interest accrued on deposits/ borrowings to ensure it's not included under the head 'Deposits & Borrowings'.
4.	Others (Including Provisions) a. Examine other provisions and liabilities as done for other entities. b. Ensure advances and investments exclude provisions made to auditor's satisfaction.

F. Audit of Contingent Liabilities	
1.	Contingent Liabilities (CL) Ensure all contingent liabilities are identified and properly valued. Obtain management representation on the following: a. All off-balance sheet transactions have been properly accounted when they occurred b. Off-balance sheet transactions are supported by underlying documents. c. Year-end contingent liabilities have been disclosed. d. No crystallized liabilities requiring provision/adjustment are included in CL. e. Estimated amount of financial impact of CL is based on best estimates as per AS 29. f. Review guarantees issued on behalf of the bank's directors for legal compliance. g. Ensure management justifies non-disclosure of remote contingent liabilities. h. Ensure system exists for non-fund based/adhoc credit facilities to regular constituents. i. Ensure IC for transactions giving rise to CL's are by proper authorisation & procedures. j. In case of LCs for Import of Goods, verify payment to overseas suppliers on shipping documents and are in conformity with terms of the LCs. k. Ensure the system maintains adequate records for obligations. l. Verify IC's ensure that CL are properly identified and recorded. m. Test completeness of recorded obligations. n. Review year-end CL for accuracy based on prior experience. o. Examine comfort letters issued by the bank. p. Verify whether bank has extended non-fund facility or adhoc credit facility to other than its regular constituents. In such case, Ensure concurrence from existing bankers on customer's financial position.
2.	Claims Against the Bank Not Acknowledged as Debts a. Examine evidence (e.g., correspondence, legal docs, union communications) for claims. b. Review minutes of BM, contracts and tax disputes for claims. c. Ascertain status of claims outstanding at the year end from management. d. Review subsequent events for completeness and valuation of claims.
3.	Outstanding Forward Exchange Contracts & Derivative Contracts a. Verify forward exchange contracts using bank's computer system & check underlying documents to test the existence of the contracts. b. Check derivative contracts (options, interest rate swaps) with relevant reports.
4.	Guarantees Given on Behalf of Constituents a. Ensure ICs over guarantee issuance including authorisation, limits sanctioned & margins taken from customers.

	b. Ensure controls over unused guarantee forms are kept in custody & a record is maintained. c. Ensure stock of the forms are physically verified & reconciled with BOA. d. Verify guarantee register for expired guarantees to ensure proper marking off. e. Verify guarantee validity using guarantee letters & counter-guarantees from customers. f. Check Registers with list of O/S guarantees to ensure all are included in this head. g. Examine expired guarantees are not included in this head. h. Verify securities held as margin and consider provisions under AS 29 if claims arise.
5.	Acceptances, Endorsements, and Other Obligations a. Ensure internal controls exist for letters of credit and unused LC form's custody. b. Verify balances of Letter of credit from the bank's register. c. Examine the guarantees of customers and copies of LC's issued along with securities obtained to issue LC. d. Examine if the bank has incurred a potential financial obligation in respect of letters of comfort and ensure the amount is properly disclosed under contingent liability if an obligation exists.
6.	Other Items that is Contingently Liable Identify & verify any other contingent liabilities (underwriting contracts, bills rediscounting, disputed tax demands).
7.	Bills for Collection a. Ensure bills on other branches are not included in bills for collection. b. Verify outward bills with corresponding registers maintained. c. Examine collections after year-end to ascertain existence and completeness of bills collection on balance sheet date. d. Ensure customer account is credited only after the bill is collected by the bank. e. Check IC's for commissions on collected bills & non-accrual of income for outstanding bills.

11. Auditor's Report

The auditor should state the following in a report to CG:

Whether, in the auditor's opinion, the 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 the affairs of the bank.

In case the auditor had called for any explanation or information, whether it has been given and whether it is satisfactory.

Whether or not the transactions of the bank, which have come to the auditor's notice, have been within the powers of that bank.

Whether or not the returns received from the offices and branches of the bank have been found adequate for the purpose of audit.

Whether the profit and loss account shows a true balance of profit or loss for the period covered by such account.

Any other matter which the auditor considers should be brought to the notice of the Central Government.

A. Format of Auditor's Report	
1.	Audit Report Compliance a. Ensure the audit report complies with SA 700, SA 705, SA 706, SA 710, and SA 720. b. Include disclosures on unaudited branches such as advances, deposits, interest income, and interest expenses. c. The auditor must report matters covered by Section 143 of the Companies Act, 2013. d. CARO 2020 is not applicable to banking companies.
2.	Rule 11 of the Companies (Audit and Auditors) Rules, 2014 a. Report on the impact of pending litigations on financial position. b. Report if provisions for material foreseeable losses on long-term/ derivative contracts have been made. c. Verify if the company has transferred amounts to the IEPF as required. d. Obtain management representations include the following: ✓ No funds have been advanced or loaned to intermediaries with an understanding to loan/invest or provide any guarantee/security in ultimate beneficiaries. ✓ No funds have been received from funding parties with an understanding to loan/invest or provide any guarantee/security in ultimate beneficiaries. ✓ Confirm these representations are accurate without MMS. e. Ensure the dividend declared or paid complies with Section 123 of the Companies Act. f. Verify that the accounting software used for maintaining BOA has audit trail(EDIT LOG) feature. g. Ensure the audit trail has not been tampered with & is preserved as per statutory record retention requirements.

B. Long Form Audit Report	
	a. The audit report for public sector, private sector, and foreign banks includes the LFAR. b. Statutory central auditors & branch auditors are required to provide the LFAR. c. LFAR for branch auditors is a questionnaire covering cash, balance with banks, investments, advances, deposits. d. Branch auditors submit LFAR to statutory central auditors. e. Consolidation is done at the HO & LFAR is given to management by central auditors. f. LFAR should be placed before the Audit Committee of the Bank (ACB) after examination indicating actions for any rectifications of Irregularities. g. A copy of LFAR with the Board's views should be submitted to RBI within 60 days of submission of LFAR by statutory auditors.

C. RBI Circular on Bank Frauds and Other reporting Requirements	
1.	a. RBI Circular provides guidelines on the implementation of recommendations of the Committee on Legal Aspects of Bank Frauds applicable to all scheduled commercial banks. b. The circular outlines the liabilities of accounting and auditing professions, including professional conduct, non-disclosure of client information, and the need to report fraud. c. The auditor should ensure compliance with Standards on Auditing. d. As per Section 143(12) of the Companies Act, if the auditor believes that a fraud involving prescribed amounts has occurred, he must report the matter to the CG. e. The auditor is not required to review each transaction. f. If fraud is suspected during routine duties, the auditor should report it to RBI and the Chairman/MD/Chief Executive of the bank.

D. Reports & Certificates by Central Statutory Auditor	
1.	a. Report on adequacy and effectiveness of IFCOFR in banks. b. Long Form Audit Report (LFAR). c. Report on compliance with SLR requirements. d. Report on treasury operations conducted as per RBI Instructions. e. Certificate on reconciliation of securities in investment accounts and PMS accounts. f. Certificate on compliance with prudential guidelines by the bank. g. Report on income recognition, asset classification and provisioning as per norms. h. Report on serious irregularities as per Section 143(12) of the Companies Act, 2013. i. Certificate on custody of unused Bank Receipt forms and their utilisation. j. Authentication of capital adequacy ratio and disclosures in notes to accounts. k. Report on compliance with recommendations of Ghosh and Jilani Committee. l. Report on adverse credit-deposit ratio in rural areas. m. Asset liability management. n. Certificate on Corporate Governance for listed banks o. Certification on claims of interest subsidies and interest subvention.

12. Concurrent Audit

A. Scope & Purpose	
1.	Meaning a. An audit or verification of transactions/activities as they happen, not a pre-audit.

	b. It ensures the authenticity of transactions in the shortest time after they occur. c. Ensures regular verification of transactions to detect any deviation from procedures. d. Take remedial action quickly. Importance in banks a. It has gained acceptance in both public and private sector banks. b. In some banks, internal inspection staff handles this task & in other banks outside professional firms (Chartered accountants) are assigned. c. The RBI has issued specific guidelines for conducting this audit.
2.	Scope a. The scope should be clearly defined for the whole bank by the Central Inspection and Audit Department consulting the Audit Committee of the Board of Directors (ACB). b. High-risk transactions with large financial implications should be prioritized over transactions with lesser amounts. c. Random transaction testing of such high value of transactions wherever required d. The detailed scope of the concurrent audit should be approved by the ACB. e. Banks have an Audit Manual which includes detailed instructions for conducting the audit.
3	Purpose a. The concurrent audit system is part of a bank's early-warning system. b. It ensures timely detection of irregularities and c. It prevents fraudulent transactions at branches. d. Bank should review once a year on the effectiveness of system & take steps to correct any lacunae.
4	Concurrent Audit Overview: a. Selection of branches and coverage of business operations b. Appointment of auditors c. Reporting procedures, follow-up and rectification processes d. Utilisation of feedback for quick management decisions.

B. Coverage of Concurrent Audit	
1.	Cash a. Verify daily cash transactions, especially high-value receipts & payments. b. Ensure proper accounting of inward and outward cash remittances. c. Check currency chest transactions and reporting to RBI. d. Review expenses paid in cash involving sizeable amounts.
2.	Investments a. Ensure purchases & sales of securities are within delegated power & HO instructions b. Confirm physical possession of securities. c. Verify compliance with RBI/HO guidelines for BRs, SGL forms, documentation & accounting. d. Ensure sale/purchase transactions are done at beneficial price to the bank.
3.	Deposits a. Check deposit transactions (received and repaid). b. Perform interest checks on large deposits. c. Verify new current accounts opened and ensure no unusual operations.
4.	Advances

	a. Ensure sanctioning of loans with delegated authority. b. Confirm documents and securities are received and properly charged. c. Verify post-disbursement supervision & follow-up is proper. d. Check for misutilisation or diversion of loans. e. Verify letters of credit and bank guarantees are within authority and properly recorded. f. Ensure proper follow-up of overdue bills of exchange. g. Verify whether the classification of advances has been done as per RBI guidelines. h. Verify whether the claims to DICGC and ECGC is submitted in time. i. Verify instances of exceeding delegated powers have been reported to Head Office.
5.	Foreign Exchange a. Review foreign bills negotiated under letters of credit. b. Verify FCNR and other NR accounts to ensure if debits/credits are permissible c. Ensure inward/outward remittances are properly accounted for. d. Check forward contracts for purchase/sale of foreign currency to ensure authorisation and correct charges recovered. e. Ensure balances in Nostro A/c in different foreign currency are within prescribed limits. f. Ensure that overbought/oversold position in different currencies are reasonable. g. Ensure adherence to guidelines issued by RBI/HO about dealing room operations. h. Ensure verification/reconciliation of Nostro and Vostro account transactions/balances
6.	House Keeping a. Verify proper maintenance & balancing of a/c's, ledgers & registers including clean cash. b. Ensure timely reconciliation of entries in various accounts. c. Ensure timely adjustment of large value entries d. Conduct a percentage check of interest, discount, commission, and exchange calculations. e. Check whether debits in income account are permitted by the competent authorities. f. Check the transactions of staff accounts. g. Examine day book to verify as to how the differences in clearing are adjusted. h. Examine detection & prevention of revenue leakages through examination of income & expenditure a/c. i. Verify cheques returned/bills returned register and reasons for their return. j. Check of inward and outward remittances (DDs, MTs & TTs)
7.	Other Items a. Verify compliance with government business transactions. b. Ensure branch gives proper compliance to Inspection/Audit reports c. Ensure prompt resolution of customer complaints. d. Confirm statutory returns submitted to RBI/Head Office.

C. Appointment of Concurrent auditors	
1.	Choice of Auditor Banks have the discretion to choose whether to appoint internal staff or external auditors for concurrent audit.
2.	Qualifications of Internal Staff a. Internal staff must be experienced, well-trained and sufficiently senior. b. Staff should be independent of the branch being audited.
3.	Terms & Tenure

	a. Audit Committee of the Bank (ACB) decides the terms of appointment for external firms of Chartered Accountants. b. Coverage of areas, required skill sets, number of staff, and the time to be devoted to the audit are considered in deciding the appointment. c. Remuneration is determined by the ACB based on above factors. d. ACB decides the maximum tenure of external auditors. e. Maximum tenure is five years for external auditors with the bank. f. No external auditor can continue with a branch/business unit for more than 3 years.
4.	Cancellation of Appointment a. Appointments may be cancelled, if serious omissions or commissions are found in the work of external auditors. b. The matter must be reported to RBI and ICAI.

D. Reporting Systems	
1.	Reporting Findings a. Structured format for reporting should be prepared by each bank. b. Major deficiencies should be highlighted in a special note & given to branch offices. c. Quarterly review of key features from concurrent audits be placed before the ACB.
2.	Zone-wise Reporting a. Zone-wise reporting of findings should be provided to the ACB. b. Annual appraisal/report of the audit system should be presented to the ACB.
3.	Discussion with Branch Manager The auditor should discuss important issues with the branch manager and relevant officers to clarify doubts & consider the opposite viewpoint before submission of report.
4.	Action on Irregularities a. Minor irregularities should be rectified promptly. b. Serious irregularities should be reported to controlling office/HO for immediate action.
5.	Fraudulent Transactions Fraudulent transactions must be reported to the Inspection & Audit Department, Chief Vigilance Officer and concerned Branch Managers (unless involved).
6.	Follow-up Action Follow-up on concurrent audit reports should be a high priority ensuring rectification without delay.

13. Audit Committee

A. Role of Audit Committee	
	Banks are required to constitute Audit Committee to oversee total audit function including: a. Reviews of internal inspection/audit system focusing on its quality and effectiveness in terms of follow up. b. Reviews the appointment and remuneration & quality of work of concurrent auditors. c. Periodic meetings with concurrent and statutory auditors help the committee oversee operations of the total audit function in the bank.

[Refer TYU 2 & 3]

Learn Contextually

14B. AUDIT OF NBFC's

1. Introduction

A. Criteria for Registration	
1.	Criteria to Qualify as NBFC A company is considered an NBFC if: a. More than 50% of its total assets (excluding intangible assets) are financial assets AND b. More than 50% of its gross income comes from financial assets.
2.	Registration and Regulation of NBFC As per Section 45-IA of the Reserve Bank of India Act, 1934: a. An NBFC must obtain a certificate of registration from the Reserve Bank of India (RBI). b. The company must have a net owned fund (NOF) of at least INR 25 lakh or an amount specified by RBI (up to INR 100 crore).
3.	Net Owned Fund (NOF) Requirements RBI specifies different NOF amounts for different categories of NBFCs. a. For certain NBFCs, the minimum NOF is INR 2 crore. b. For companies applying for registration, the NOF requirement is INR 10 crore c. 2 Core NOF: NBFC-P2P, NBFC-AA, and NBFCs with no public funds or customer interface. d. NBFC-IFC and IDFNBFC must have INR 300 crore NOF.
4.	Timeline for NOF Compliance RBI has set a deadline of 31st March 2027 for certain categories of existing NBFCs to meet the INR 10 crore NOF requirement.
5.	Application Process for Registration a. A company must apply to RBI in prescribed form with necessary docs for registration. b. RBI issues the Certificate of Registration if the company meets the conditions outlined in Section 45-IA of the RBI Act.
6.	Regulatory Guidelines a. RBI issues directions on topics such as public deposit acceptance, capital adequacy, income recognition, asset classification, provision for bad debts, and risk exposure. b. Auditors must report non-compliance with the RBI Act to the RBI, Board of Directors, and shareholders.
7.	Fair Practices Code RBI has issued the Fair Practices Code for NBFCs to follow in their lending business, covering loan terms disclosures and non-coercive recovery methods.

B. Types of NBFC	
1.	Definition of NBFC As per Section 45-I(f) and Section 45-I(c) of the RBI Act, 1934 (amended in 1997), An NBFC is: a. A company registered under the Companies Act 1956/2013. b. Engaged in businesses like loans and advances, acquisition of securities, leasing, hire-purchase, insurance, and chit business. c. Excludes institutions whose principal business is agriculture, industrial activity, goods trade (other than securities), services, or real estate transactions.

2.	Residuary Non-Banking Company A non-banking institution whose principal business is receiving deposits under any scheme or arrangement (in lump sum or instalments) is also considered an NBFC.
3.	NBFCs are categorized as: a. Deposit accepting NBFCs b. Non-deposit accepting NBFCs
4.	NBFCs Categories NBFCs are further categorized based on their size: a. Base Layer b. Middle Layer c. Upper Layer d. Top Layer.
5.	Activity Type NBFCs are also categorized based on the types of activities they conduct. ✓ Investment and Credit Company [ICC] ✓ Infrastructure Finance Company [IFC] ✓ Core Investment Company [CIC] ✓ Non-Operative Financial Holding Companies [NOFHC] ✓ Infrastructure Debt Fund [IDF] ✓ Micro Financial Institutions [MFIs] ✓ Factors ✓ Asset Finance Companies [AFC] ✓ Loan Company ✓ Mortgage Guarantee Companies [MGC]

C. Exempted NBFCs

Certain companies that do financial business but regulated by other regulators are exempted:

a. Housing Finance Institutions
b. Merchant Banking Companies
c. Stock Exchanges
d. Stock-broking/Sub-broking Companies
e. Venture Capital Fund Companies
f. Nidhi Companies
g. Insurance Companies
h. Chit Companies
i. Specified Micro Finance Companies
j. Securitisation and Reconstruction Companies
k. Mutual Benefit Companies
l. Core Investment Companies
m. Alternative Investment Fund (AIF) Companies

Note: CICs with asset size less than 100 Crore and *CICs with asset size more than 100 crore and not accessing public funds* are exempted from registration.

D. Layers of NBFC

1.	Base Layer (NBFC-BL) a. Non-deposit taking NBFCs with asset size below ₹1000 crore.

	b. NBFCs engaged in: i. NBFC-P2P (Peer to Peer Lending Platform) ii. NBFC-AA (Account Aggregator) iii. Non-Operative Financial Holding Companies (NOFHC) iv. NBFCs not availing public funds and no customer interface.
2.	Middle Layer (NBFC-ML) a. Deposit taking NBFCs (NBFC-Ds) regardless of asset size. b. Non-deposit taking NBFCs with asset size ₹1000 crore and above. c. NBFCs engaged in: i. Standalone Primary Dealers (SPDs) ii. Infrastructure Debt Fund NBFCs (IDF-NBFCs) iii. Core Investment Companies (CICs) iv. Housing Finance Companies (HFCs) v. Infrastructure Finance Companies (NBFC-IFCs).
3.	Upper Layer (NBFC-UL) a. Comprises NBFCs identified by RBI based on enhanced regulatory requirements using specific parameters and a scoring methodology. b. The TOP 10 NBFCs by asset size will always be in this layer regardless of other factors.
4.	Top Layer (NBFC-TL) a. Ideally empty. b. Will be populated if RBI determines a substantial increase in systemic risk from NBFCs in the Upper Layer. c. NBFCs deemed high-risk will move to the Top Layer from the Upper Layer.

E. Categorisation of NBFC's carrying out specific activity	
1.	Base Layer (NBFC-BL) The following NBFCs will always remain in the Base Layer: a. NBFC-P2P (Peer to Peer Lending) b. NBFC-AA (Account Aggregator) c. NOFHC (Non-Operative Financial Holding Companies) d. NBFCs without public funds and no customer interface.
2.	Middle Layer (NBFC-ML) These NBFCs will be placed in the Middle Layer or Upper Layer (not in the Base Layer): a. NBFC-D (Deposit-taking) b. CIC (Core Investment Companies) c. IFC (Infrastructure Finance Companies) d. HFC (Housing Finance Companies) e. SPD (Standalone Primary Dealers) and IDF-NBFC (Infrastructure Debt Fund NBFCs), which will always remain in the Middle Layer.
3.	Other NBFCs The following NBFCs may lie in any layer depending on the scale-based regulatory framework: a. NBFC-ICC (Investment and Credit Companies) b. NBFC-MFI (Micro Finance Institution) c. NBFC-Factors d. NBFC-MGC (Mortgage Guarantee Companies).

4.	Government-Owned NBFCs a. Government-owned NBFCs will be placed in the Base Layer or Middle Layer, depending on the specific case. b. They will not be placed in the Upper Layer until further notice.
5.	NBFC-D and NBFC-ND-SI ✓ NBFC-ND will be referred to as NBFC-BL. ✓ NBFC-D and NBFC-ND-SI will be referred to as NBFC-ML or NBFC-UL, depending on the case.
6.	Existing NBFC-ND-SI Existing NBFC-ND-SI with asset size between ₹500 crore and ₹1000 crore (except those in the Middle Layer) will be known as NBFC-BL.

The following glide path is provided for the existing NBFCs 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

2. Difference between Banks & NBFC's

A. Key differences	
1.	Deposits NBFCs cannot accept demand deposits but some can accept Term Deposits.
2.	Payment and Settlement System NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.
3.	Deposit Insurance Deposit insurance from Deposit Insurance and Credit Guarantee Corporation (DICGC) is not available to depositors of NBFCs unlike in banks.
4.	Exposure to Priority Sector NBFCs are not required to have minimum exposure to the priority sector unlike banks.

3. Prudential Norms

A. Capital Requirements	
1.	Capital Ratio for NBFCs a. NBFCs must maintain a minimum capital ratio of 15% of their aggregate risk-weighted assets (including off-balance sheet items). b. Tier 1 capital for most NBFCs must be at least 10% except for certain NBFCs (e.g., NBFC-MFI, NBFCs lending against gold jewellery).
2.	Tier 1 Capital a. Tier 1 capital includes: ✓ Owned funds reduced by investments in other NBFCs & related group companies ✓ Perpetual debt instruments issued by non-deposit taking NBFCs up to 15% of aggregate Tier 1 capital.

	b. NBFCs-BL cannot include perpetual debt instruments in Tier 1 capital.
3.	NBFCs Lending Against Gold Jewellery a. NBFCs primarily engaged in lending against gold jewellery (loans comprise 50% or more of financial assets) b. Tier 1 capital must be 12% of their risk-weighted assets.
4.	Tier 2 Capital a. Tier 2 capital includes: ✓ Preference shares (non-convertible). ✓ Revaluation reserves (discounted at 55%). ✓ General provisions & loss reserves (e.g., Standard Assets). ✓ Hybrid debt capital instruments. ✓ Subordinated debt. ✓ Excess perpetual debt instruments (beyond Tier 1 limits) Total T2 Capital Cannot exceed T1 Capital b. NBFCs-BL cannot include perpetual debt in Tier 2 capital.

B. Risk weighted asset	
1.	Credit Risk and Risk Weights Credit risk is expressed as percentage weightages assigned to balance sheet assets (e.g. Fixed Assets: 100 weight, Cash & Bank Balances: 0 weight).
2.	Risk Adjustment Calculation The value of each asset/item must be multiplied by the risk weights to determine the risk-adjusted value of assets.
3.	Aggregate for Capital Ratio The aggregate risk-adjusted value of assets is used to calculate the minimum capital ratio for the NBFC.
4.	Risk Weighted Asset Calculation The risk weighted assets are calculated by applying the weight to the funded items.

No.	Weighted Risk Assets (On-Balance Sheet Items)	% Weight
1.	Cash and bank balances including fixed deposits and certificates of deposits with banks	0
2.	Investments:	
	(a) Approved securities (except at (c) below)	0
	(b) Bonds of public sector banks	20
	(c) Fixed deposits/certificates of deposits/bonds of public financial institutions	100
	(d) Shares of all companies, debentures/bonds, commercial papers, mutual fund units	100
	(e) PPP and post-COD infrastructure projects (existing over a year)	50
3.	Current assets/Other Financial Assets:	
	(a) Stock on hire (net book value)	100
	(b) Intercorporate loans/deposits	100
	(c) Loans and advances fully secured against deposits held	0
	(d) Loans to staff	0
	(e) Other secured loans and advances considered good	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	125
	(f) Bills purchased/discounted	100
	(g) Others (To be specified)	100
4.	Fixed Assets (net of depreciation):	
	(a) Assets leased out (net book value)	100
	(b) Premises	100
	(c) Furniture & Fixture	100
5.	Other assets:	
	(a) Income tax deducted at source (net of provision)	0
	(b) Advance tax paid (net of provision)	0
	(c) Interest due on Government securities	0
	(d) Others (to be specified)	100
6.	Domestic Sovereign:	
	(a) Fund based claims on the Central Government	0
	(b) Direct loan/credit/overdraft exposure and investment in State Government securities	0
	(c) Central Government guaranteed claims	0
	(d) State Government guaranteed claims (not in default or in default ≤90 days)	20
	(e) State Government guaranteed claims (in default >90 days)	100

C. Income Recognition	
1.	Income Recognition a. Income (e.g., interest, discount, hire charges, lease rentals) on NPA is recognized only when actually realized. b. Any income recognized before the asset became non-performing and remains unrealized must be reversed.
2.	Asset Classification Norms NBFCs (except NBFC-MFIs) must classify their assets based on credit risk: a. Standard assets b. Sub-standard assets c. Doubtful assets d. Loss assets
3.	Asset Upgradation The asset class cannot be upgraded merely because of rescheduling unless it satisfies the required conditions for upgradation.

D. Asset Categorisation	
1.	Standard Asset a. No default in repayment of principal or interest. b. No perceived problem or risk higher than normal business risks.
2.	Sub-Standard Asset a. An asset classified as NPA for a period: ✓ ≤ 18 months (For NBFC-BL)

	✓ ≤ 12 months (For NBFC-ML and above) b. An asset whose terms (interest/principal) have been renegotiated, rescheduled, or restructured and 1 year of satisfactory performance is not achieved.
3.	Doubtful Asset a. A term loan or b. A lease asset or c. A hire purchase asset or d. Any other asset which remains sub-standard for a period: ✓ > 18 months (For NBFC-BL) ✓ > 12 months (For NBFC-ML and above)
4.	Loss Asset a. An asset identified as a loss by the NBFC, internal or external auditors or RBI and to the extent it is not written off. b. An asset with non-recoverability risks due to erosion of security, non-availability of security or fraud/ omission by the borrower.
5.	Non-Performing Asset (NPA) An asset is considered an NPA if: a. Interest/ Bills has remained overdue for more than 180 days. b. Term loan (including unpaid interest) where the installment / interest remains overdue for >180 days. c. Demand or call loan overdue for >180 days from the date of demand or call or the interest remains overdue for >180 days. d. Interest on short-term loans/advances or income on receivables under other current assets remains overdue for >180 days. e. Dues from the sale of assets or services rendered, or reimbursement of expenses incurred remain overdue for >180 days. f. Any credit facilities (including bills purchased and discounted) become NPA when any of the above facilities have an outstanding balance overdue for >180 days. g. Lease rental or hire purchase instalments remain overdue for >180 days. Note: NBFC classifies each account based on its record of recovery for lease and hire purchase transactions. Note: The period of more than 180 days for NPA classification as mentioned above shall be adjusted as per glide path outlined.
6.	NPA Glide Path NPA classification norm has changed to overdue period of >90 days for applicable NBFCs. a. A glide path is provided to help NBFCs adhere to the 90-day NPA norm. b. NPA classification norm is adjusted according to the following timeline: ✓ >150 days overdue: By March 31, 2024 ✓ >120 days overdue: By March 31, 2025 ✓ >90 days overdue: By March 31, 2026. d. The glide path does not apply to NBFCs already required to follow the 90-day NPA norm.

E. Provisioning Requirements	
1.	Loss Assets a. 100% of the outstanding amount must be provided for. b. If assets are allowed to remain in the books, the entire asset should be written off.

2.	Doubtful Assets a. 100% provision to the extent the advance is not covered by the realisable value of the security. b. Additional provision based on how long the asset has been doubtful: ✓ Up to 1 year: 20% provision ✓ 1-3 years: 30% provision ✓ > 3 years: 50% provision
3.	Sub-Standard Assets 10% provision of the total outstanding amount must be made.
4.	Standard Asset Provisioning a. NBFC-BL must provide 0.25% of the outstanding as provision for standard assets. b. NBFC (except NBFC-UL), the provision for standard assets is 0.40%. c. The provision should not be netted from gross advances but shall be shown separately as "Contingent Provisions against Standard Assets"
5.	Phased Amendments These regulatory requirements will be amended in phases under the Scale-Based Regulation by RBI for NBFCs.

4. Audit Procedures

A. Steps of Audit	
1.	Ascertaining the Business of the Company a. The auditor must review the Memorandum & Articles of Association of the NBFC to understand the type of business the company is involved in. b. The auditor should also analyse the business policy, board/committee meeting minutes, and corporate business plan/strategy to determine the principal business activities. c. It is important to corroborate findings with the actual financial results of the company. d. The classification of the company as an NBFC depends on its principal business activity, which affects compliance with public deposit limits.
2.	Evaluation of Internal Control System The management is responsible for maintaining an adequate accounting system with internal controls. a. Auditor shall understand the accounting system & IC's to determine the audit procedures. b. Ascertain whether IC's put in place are adequate and are being followed effectively. c. Evaluate the effectiveness of recovery systems. d. Ascertain whether the periodical review of advances is done to prevent high levels of NPAs.
3.	Verify Registration with RBI a. NBFCs must comply with Section 45-IA of the RBI Act, 1934 & obtain registration with the RBI. b. The minimum Net Owned Fund (NOF) requirement is ₹10 crore. c. The auditor should obtain a COR granted by the RBI or check the application if not granted. d. He shall verify the dual conditions relating to registration & maintenance of NOF have been complied with by the NBFC's

	e. Ensure compliance with investment in liquid assets & quarterly returns are filed regularly with RBI.
4.	Verify NBFC Acceptance of Public Deposit Directions a. Auditor shall check whether the NBFC is properly classified and if it complies with regulations for accepting public deposits. b. The auditor should verify: i. Ceiling on public deposits based on credit rating & check public deposits accepted/held are as per level of credit rating assigned ii. Interest and brokerage calculations for public deposits. iii. Written applications from depositors in prescribed format. iv. Maintenance of a deposit register. v. Deposits are paid on time and in case of delay, check reasons for the delay/default and actual payment date. vi. Investments in approved liquid assets safely kept with designated banks and Check RBI certificate confirming this. vii. Timely filing of prescribed returns. viii. If the NBFC does not accept public deposits, check for board resolution stating so. ix. Ensure board resolution confirming investment in group company shares/securities and a statement that no public deposits will be accepted. c. In case of credit rating upgrade/downgrade, ensure deposits are adjusted within the specified timeframe. d. If downgraded below minimum investment grade: ✓ Stop accepting/renewing deposits. ✓ Deposits should run off to maturity. ✓ Report to RBI within 15 working days. ✓ No renewal without depositor consent.
5.	Verify NBFC Prudential Norms The auditor should ensure compliance with prudential norms related to: a. Income recognition, asset classification, provisioning for bad debts, capital adequacy norms, prohibition on loans against own shares, etc. b. Ensure that BOD shall frame policy on demand/call loans & implement the policy. c. Assess whether NBFC has complied with the prudential norms. d. Ensure that advances are properly classified as standard, substandard, doubtful, or loss and proper provisions are made. e. Ensure that unrealised income of NPA's are not taken to the P & L a/c. f. NPAs should have income recognized on a realization basis only. g. Verify that NPAs from the previous year remain classified as NPA unless regularized. h. Examine the accounts if the NPA has become Regular & treated as performing in CY.

[Refer TYU 1]

5. Classification of Frauds by NBFC

A. Types of fraud	
1.	Misappropriation and Criminal Breach of Trust
2.	Fraudulent Encashment Fraud through forged instruments, manipulation of books of accounts, creation of fictitious accounts, or conversion of property for personal gain.
3.	Unauthorized Credit Facilities

4.	Negligence and Cash Shortages a. Cases of negligence and cash shortages will not be reported as fraud unless there is a suspicion of fraudulent intent or when fraud is proved. b. The following Cash Shortages are always treated as Frauds: ✓ More than ₹10,000. ✓ More than ₹5,000, If detected by the management, auditor, or inspecting officer, and not reported by the person handling cash.
5.	Cheating and Forgery
6.	Irregularities in Foreign Exchange Transactions
7.	Other Types of Fraud
8.	Fraud Reporting Requirement for Overseas Branches a. NBFCs with overseas branches should report all frauds that occur at such locations to the Reserve Bank. b. Frauds in overseas branches must be reported following the prescribed format and procedures.

6. Audit Check-List [E.g., For NBFC-ICC]

A. Audit procedure for Shares, Securities & Investments	
1.	Verify Shares and Securities a. Physically verify all the shares and securities held by the NBFC. b. For securities lodged with institutions/banks, obtain a certificate from them.
2.	Loans Against Own Shares Ensure that the NBFC has not advanced any loans against the security of its own shares.
3.	Dividend Income and Bond Interest a. Verify that dividend income has been received and interest on investments (except for NPAs) is accounted for. b. Ensure dividend income is recognised on cash basis only Except: ✓ Declared by the body corporate in its Annual General Meeting ✓ Right to receive the payment has been established. c. Income from bonds/debentures of corporates is accounted on accrual basis only if: ✓ Interest rate on these instruments is predetermined ✓ Interest is serviced regularly and not in arrears.
4.	Test Check Bills/Contract Notes Test check bills/contract notes from brokers to verify the prices against stock market quotations on the respective dates.
5.	Board Minutes for Investment a. Review the Board minutes for purchase/sale of investments. b. Ensure investments are classified as current/long-term based on board resolutions.
6.	Valuation of Investments Verify that investments have been valued as per NBFC Prudential Norms and ensure adequate provision for fall in market value of securities.
7.	Investments in Subsidiaries/Group Companies a. Obtain a list of subsidiaries/group companies, verify investments made during the year. b. Ascertain the basis for arriving at the acquisition price of shares

	c. Ensure that the valuation is in line with prudential norms.
8.	Unquoted Debentures/Bonds Ensure that unquoted debentures/bonds are not treated as investments but as term loans or other credit facilities for income recognition & asset classification.
9.	Compliance with AS 13 Ensure compliance with AS 13 (or other AS) to the extent consistent with NBFC Directions.
10.	Confirmation from Depository Obtain confirmation regarding holdings for shares/securities held through a depository,
11.	Securities Lend/Borrowed a. Verify that securities are received back by the lender or paid by the borrower at the end of the specified period with all corporate benefits (dividends, rights, bonus, etc.). b. Verify charges paid or received for securities lent/borrowed.
12.	Confirmation from Approved Intermediary Obtain a confirmation from the approved intermediary regarding securities deposited/borrowed at the year-end.
13.	Loan Sanction Verification Ensure that each loan/advance has been properly sanctioned with terms regarding borrowings limits, security, interest and repayment conditions.
14.	Security Verification for Loans Verify the security obtained for loans and agreements made with concerned parties, including the nature and value of security and borrower's net worth.
15.	Balance Confirmations Obtain balance confirmations from concerned parties for loans/advances.
16.	Bill Discounting Verify proper records/documents for bills discounted/rediscounted by the NBFC and ensure discounting charges are duly accounted for by the NBFC.
17.	Lending/Investing Limits Verify that the NBFC has not lent/invested in excess of the specified limits to any single borrower or group of borrowers as per NBFC Prudential Norms.
18.	Loan Appraisal and Follow-up Verify whether the NBFC has a proper system for loan appraisal and follow-up and analyse recovery performance to ensure a manageable level of NPAs.
19.	Loan Classification and Provisioning a. Ensure that loans/advances (including bills purchased and discounted) are properly classified into Standard, Sub-standard, Doubtful, or Loss Assets. b. Verify adequacy of provision for bad and doubtful debts as per NBFC Prudential Norms.

7. Auditor's Duty – Compliance with RBI Auditor Report Directions

A. Compliance with NBFC Auditor's report – RBI Direction	
1.	Increased Responsibility of Auditors for NBFCs a. Auditors have increased responsibilities with respect to reporting to BOD & RBI. b. These additional reporting requirements are in addition to the normal reporting requirements under Section 143 of the Companies Act, 2013.

2.	Verification as per section 45MA a. Auditors must exercise extra care when auditing NBFCs to ensure that all matters required for reporting to the RBI are properly addressed. b. Auditors must inquire whether the company has submitted required statements and information related to public deposits. c. If the auditor is not satisfied with the compliance, it is their duty to report to the RBI with details about the aggregate amount of deposits held by the company.
3.	Report to RBI in Auditor's Report The auditor is required to include the report made to the RBI in the audit report provided to the company under Section 143 of the Companies act.

Report to BOD as per Master Direction – RBI [Filing of Supervisory Returns] Directions 2024

B. Matters to include in the Auditors Report to BOD - In the case of ALL NBFCs	
1.	CoR (Certificate of Registration): ✓ Verify if the NBFC has obtained a valid CoR from the RBI if it is engaged in non-banking financial activity. ✓ Ensure that the NBFC meets the Principal Business Criteria as per RBI's directions. ✓ If the company holds CoR, verify if the company is entitled to continue holding it in accordance with its Principal Business Criteria. Net Owned Fund (NOF) Requirement: Check if the NBFC meets the required NOF as per the RBI Master Directions and Deposit Taking Company Directions.
2.	Certificate from Statutory Auditor (SAC) a. NBFC must submit a Statutory Auditor Certificate (SAC) confirming: ✓ The company is engaged in non-banking financial business. ✓ The company is eligible to hold a CoR. b. The SAC must be submitted to the RBI Regional Office within 5 working days of signing the auditor's report but not later than December 31st of the same year. c. The format for the SAC is prescribed in the Master RBI Directions, 2024.

C. Report to BOD - In the case of NBFCs Accepting/holding public deposits	
1.	Public Deposits and Borrowings Verify whether the public deposits and other borrowings like unsecured debentures/bonds & shareholders' funds are within the limits set by the NBFC Public Deposit Directions.
2.	Regularization of Excess Deposits Check whether excess public deposits beyond permissible limits have been regularized as required by the RBI Directions
3.	Public Deposits without Credit Rating Verify that the NBFC is not accepting public deposits without a minimum investment grade credit rating from an approved credit rating agency.
4.	Capital Adequacy Ratio (CAR) Confirm whether the Capital Adequacy Ratio (CAR) disclosed in the return to the RBI is correct and in compliance with the minimum CRAR prescribed by the RBI Master Direction.
5.	Credit Rating for Fixed Deposit Schemes For NBFCs without minimum investment grade, check:

	i. If credit rating for each fixed deposit scheme is valid and assigned by an approved credit rating agency. ii. Whether the aggregate deposits have exceeded the specified limits of the credit rating agency at any point during the year.
6.	Violations on Acceptance of Public Deposits Verify NBFC has violated any restrictions on acceptance of public deposits as per directions.
7.	Default on Deposit Payments Verify whether the NBFC has defaulted on paying interest or principal on deposits once due.
8.	Compliance with Prudential Norms Ensure compliance with prudential norms on income recognition, accounting standards, asset classification, provisioning for bad debts and concentration of credit / investments as per the RBI Master Directions (2023).
9.	Compliance with Liquid Assets Requirement Check compliance with the liquid assets requirement as per Section 45-IB of the RBI Act, and ensure that the details of designated banks holding approved securities are communicated to the RBI in the specified return (NBS 3).
10.	Submission of Return on Deposits Verify whether the NBFC has furnished the return on deposits to the RBI within the prescribed period as specified in DNBS 01 as per Master Direction [FOSR] 2024.
11.	Quarterly Return on Prudential Norms Ensure that the NBFC has submitted the quarterly return on prudential norms to the RBI within the stipulated period as per Master Direction [FOSR] 2024.
12.	Compliance with Branch Opening/Closing Requirements Check if the NBFC has complied with the requirements for opening new branches, closing existing branches, or appointing an agent to collect deposits, as specified in the Master Direction - NBFC Public Deposit Directions 2016.

D. Report to BOD - In the case of a NBFCs not accepting public deposits	
1.	Board Resolution on Non-Acceptance of Public Deposits Verify if the Board of Directors has passed a resolution for non-acceptance of any public deposits.
2.	Acceptance of Public Deposits Ensure that company has not accepted any public deposits during the relevant period/year.
3.	Compliance with Prudential Norms Check whether the company has complied with prudential norms related to income recognition, accounting standards, asset classification, and provisioning for bad and doubtful debts as per the Master Direction of RBI.
4.	Capital Adequacy Ratio (CRAR) a. Ensure that the CRAR disclosed in the return submitted to the RBI in Form NBS-7 is correctly calculated & compliant with the minimum CRAR prescribed by the RBI. b. Verify that the company has submitted the annual statement of capital funds, risk assets/exposures & risk asset ratio (NBS-7) to the RBI within the specified time.
5.	Classification as NBFC Micro Finance Institution (MFI) Check whether NBFC has been correctly classified as NBFC Micro Finance Institution (MFI) as per the Master Direction of RBI.

E. Miscellaneous	
1.	Compliance with RBI Advice on Non-Requirement of CoR If a company is not required to hold CoR as per specific advice from RBI, the auditor must verify that the company is complying with the conditions stipulated by the RBI.
2.	Reasons for Unfavorable or Qualified Statements a. If the auditor's report includes any unfavorable or qualified statements, The auditor must explain the reasons for such statements. b. If the auditor cannot express an opinion on any of the items, the report must specify the reasons
3.	Obligation of Auditor to Submit an Exception Report to RBI a. If the auditor finds that the company has: ✓ Not complied with provisions of Chapter III B of RBI Act, ✓ Non-Banking Financial Companies Acceptance of Public Deposits Directions (2016), ✓ Master Direction – NBFC Scale Based Regulation Directions (2023), b. The auditor must report the details of such findings to the RBI Regional Office under whose jurisdiction the company is located. c. The auditor's report should only cover contraventions of the provisions of the RBI Act and relevant Directions, Guidelines, or Instructions mentioned. d. The report should not include a statement regarding compliance with any of the provisions.

8. Auditor's Duty relating to Compliance with CARO 2020

A. Clause 3 - Investments, Guarantee, Security, Loans or Advances:	
	Whether the company has invested in or provided loans or advances in the nature of loans [secured or unsecured], or stood guarantee, or provided security to any other entity. If so, a. Breakup between Related Parties and Others: The aggregate amounts during the year and balance outstanding on balance sheet date ✓ To subsidiaries, Associates and Joint Ventures ✓ To Others b. Terms: Whether terms and conditions of the above transactions are not prejudicial to the company's interest. c. Regular Repayments: In respect of loans and advances in nature of loans, whether the repayment receipts are regular d. Overdue > 90 Days: If the amount is overdue for >90 days, whether reasonable steps are taken to recover. e. Renewals / Extensions: Whether the loans or advances which fall due in this year has been rescheduled or extended or fresh loans granted to settle overdue loans and if so, ✓ Specify the aggregate amount of such dues renewed or extended or settled by fresh loans and ✓ The percentage of the aggregate to the total loans or advances in the nature of loans granted during the year f. Demand Loans: Whether any loans or advances in the nature of loans granted which are repayable on demand or without specifying any terms or period of repayment, if so, ✓ Specify the aggregate amount, percentage thereof to the total loans granted,

	✓ Aggregate amount of loans granted to Promoters, related parties. Note: point a and e doesn't apply to a company whose principal business is to give loans.
B. Clause 16 - Non-Banking Financial Institution	
	a. 45IA OF RBI Act: Whether the company is required to be registered u/s 45-IA of RBI Act 1934, and if so, whether the registration has been obtained. b. NBFC Activities: Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934. c. Core Investment Company: ✓ Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, 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 the number of CICs which are part of the Group.

[Refer TYU 2]

9. Indian Accounting Standards (IND AS)

A. Compliance with IND AS	
1.	Compliance with Indian Accounting Standards (Ind AS) NBFCs must comply with Ind AS as per Rule 4(1)(iv) of the Companies (Indian Accounting Standards & Compliance requirements have been amended by the Companies (Indian Accounting Standards) (Amendment) Rules, 2023. Format for Preparation of Financial Statements by NBFCs under Ind AS a. Ministry of Corporate Affairs (MCA) issued a notification on October 11, 2018. b. Introduced Division III under Schedule III of the Companies Act, 2013. c. Prescribes a format for F/S applicable to NBFCs complying with Ind AS.

10. Difference between Division II and Division III

A. Presentation requirement under Division III	
1.	Presentation Differences between Division III (NBFCs) and Division II (Non-NBFCs) The presentation requirements under Division III for NBFCs are largely similar to Division II (for non-NBFCs) but with the following exceptions:
2.	Order of Balance Sheet Items NBFCs can present the items of the balance sheet in order of their liquidity unlike Division II, where this is not allowed.
3.	Disclosure of Other Income or Expenditure a. NBFCs must disclose any item of 'other income' or 'other expenditure' exceeding 1% of total income separately in the notes. b. In Division II, the disclosure is required for items exceeding 1% of revenue or ₹10 lakhs, whichever is higher.
4.	Disclosure of Debts due from LLPs NBFCs must separately disclose debts due from any LLP in which a director is a partner or member under 'receivables'.

5.	Disclosure of Revenue and Comprehensive Income NBFCs must disclose 'revenue from operations' and 'other comprehensive income' on the face of the Statement of Profit and Loss instead of showing them only in the notes as required under Division II.
6.	Disclosure of Trade Receivables with Increased Credit Risk NBFCs are required to separately disclose trade receivables which have a significant increase in credit risk or credit impaired.
7.	Disclosure of Conditions on Statutory Reserves NBFCs must separately disclose in the notes the conditions or restrictions attached to statutory reserves as per the relevant statute.

[Refer TYU 3]

15. AUDIT OF PSU

1. Broad Framework for Government Audit

A. Introduction

1. **Government Company (Section 2(45) of the Companies Act, 2013)**

A Government Company is one where 51% or more of the paid-up share capital is held by the Central Government, State Government or both. It also includes subsidiary companies of such government companies.

Article	Provisions
Article 148	• Appointment of C&AG by the President. • Special procedure for removal of C&AG, only on the ground of proven misbehaviors or incapacity. • Salary and other conditions of service to be determined by the Parliament.
Article 149	• Perform such duties and exercise such powers in relation to the accounts of the Union and States and of any other authority or body as may be prescribed by or under any law made by the Parliament. • The C&AG's (Duties, Powers and Conditions of Service) Act, 1971 defines these functions and powers in detail.
Article 150	• On the advice of the C&AG, President to prescribe such form in which accounts of the Union and Statesshall be kept.
Article 151	• Audit reports of the C&AG relating to the accounts of the Central/ State Government should be submittedto the President/Governor of the State who shall cause them to be laid before Parliament/State Legislative Assemblies.

2. **Audit by Comptroller and Auditor General (C&AG)**

The C&AG of India audits Government companies through the Indian Audit and Accounts Department. The C&AG is an independent constitutional authority with safeguards for independence.

- All the Union and State Government departments and offices including the Indian Railways and Posts and Telecommunications.
- Public commercial enterprises controlled by the Union and State governments, i.e. government companies and corporations.
- Non-commercial autonomous bodies and authorities owned or controlled by the Union or the States.
- Authorities and bodies substantially financed from Union or State revenues.

3.	C&AG's Term and Powers C&AG holds office for 6 years or until 65 years of age whichever is earlier. They can resign anytime via a letter to the President. The C&AG's Act of 1971 defines their duties and powers including conducting audits of numerous organisations.
4.	Audit of Government Companies (Commercial Audit) Chartered Accountant firms appointed by C&AG audit government companies. C&AG shall comment on audit reports and conduct a supplementary audit if necessary.
5.	Audit Board Setup Audit Boards are constituted by the Indian Audit and Accounts Department to conduct comprehensive audit appraisals of Public Sector Enterprises. These boards work under the C&AG's supervision, involve experts, and incorporate feedback from management.
6.	Action on Audit Reports To handle diverse audit reports, specialized committees like PAC, Estimates Committee, and COPU have been constituted by Parliament and State Legislatures & they review them. This process ensures focused attention on key issues, improving governance.
7.	Public Accounts Committee (PAC) PAC ensures: a. Funds are disbursed legally. b. Expenditure is authorized. c. Funds are appropriated correctly as per the provsions made. d. Accounts of autonomous/ semi – autonomous bodies audited by C&AG.
8.	Estimates Committee The Estimates Committee examines: a. Economies and improvements in organization and administration. b. Alternative policies. c. Efficient use of funds. d. Presentation formats and reports issues of wasteful expenditure.
9.	Committee on Public Undertakings (COPU) COPU examines: 1. Reports of C&AG on public undertakings. 2. Autonomy and efficiency of these undertakings. 3. Sound management practices. 4. Evaluation of performance, policies, and financial working of the PSU.
10.	C&AG's Role in Financial Committees C&AG supports Financial Committees by: 1. Forming the basis for committee discussions. 2. Scrutinizing submissions by Ministries and helping committees validate facts and figures. 3. Ensuring Action Taken Reports from Ministries are presented to Parliament.

[TYU 1]

B. Objective and Scope of Public Enterprises Audit	
1.	Audit Types Conducted by C&AG The C&AG conducts 3 main types of audits: a. Financial Audit Audit of FS to ensure accuracy and fairness. b. Compliance Audit Examines whether the entity follows applicable laws, rules, and regulations. c. Performance Audit

	Evaluates the efficiency, economy and effectiveness with which public enterprises operate and meet their goals.
2.	Propriety Audit Focuses on management decisions (sales, purchases, contracts) to ensure they are made in the best interest of the undertaking and align with financial propriety principles.
3.	Comprehensive Audit Combines efficiency and performance audit. It assesses if an undertaking has met its objectives, achieved value-for-money and identifies areas of weakness.
4.	Organization's Decision to Be Taken by Competent Authority Ensures management decisions are made by competent authority after considering all relevant factors (economic, technological, public interest) and available alternatives.
5.	Helping Government Audit as an instrument of accountability to help both the government and enterprise managements improve efficiency & effectiveness by identifying financial & operational deficiencies.
6.	Highlighting Efficient & Economic Operations Focus on financial & physical performance and emphasizing efficiency & economic management of resources. Audit aims to improve operations.
7.	Fiscal & Managerial Accountability Audit covers two elements: a. Fiscal Accountability Audit of fund provisions, sanctions, compliance and propriety. b. Managerial Accountability Audit of efficiency, economy and effectiveness (often referred to as efficiency-cum-performance audit).

C. Elements of PSU Audits	
Basic Elements of Public Sector Auditing Public sector auditing enhances confidence by providing relevant, independent, and objective assessments on deviations from standards or principles of good governance.	
1.	The Three Parties in Audit Auditing involves 3 main parties: a. Auditor The Supreme Audit Institution (SAI) of India, consisting of the CAG and IAAD perform the auditing function. b. Responsible Party Responsibilities are defined by constitutional or legislative arrangements. This party may be responsible for subject matter information, managing the subject matter or addressing audit recommendations. c. Intended Users Individuals, organizations or classes for whom the audit report is prepared.

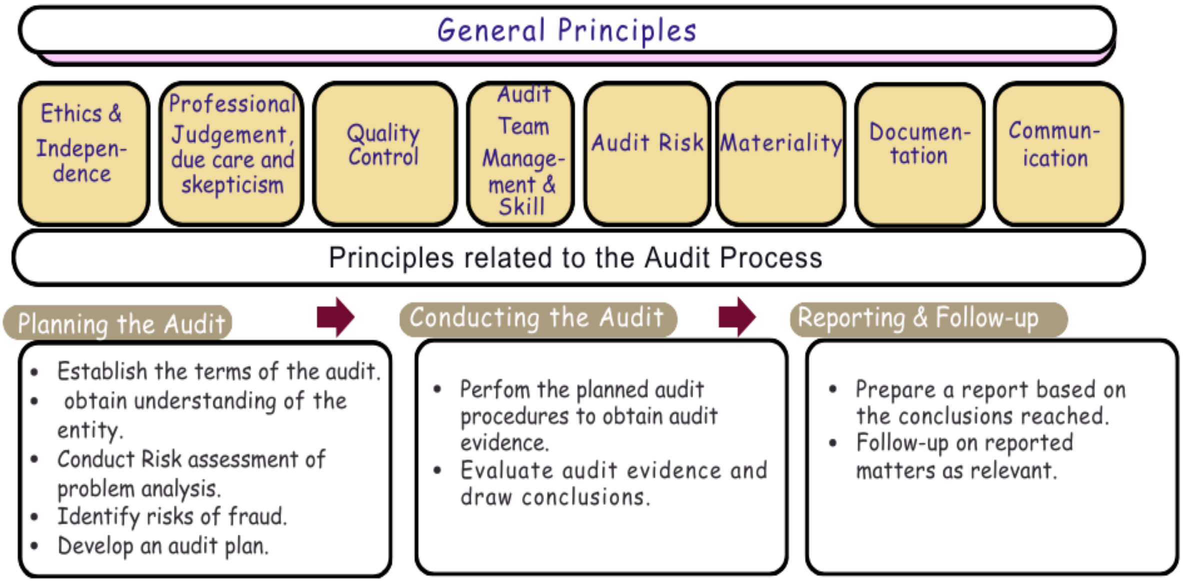
2.	Subject Matter, Criteria and Subject Matter Information:
	Subject matter: This refers to the information, condition or activity that is measured or evaluated against certain criteria. **Criteria**: These are the benchmarks used to evaluate the subject matter. **Subject matter information**: This refers to the outcome of evaluating or measuring the subject matter against the criteria.
3.	Types of Engagement **Attestation Engagements:** In attestation engagements, the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion. **Direct Reporting Engagement:** In direct reporting engagements, it is the auditor who measures or evaluates the subject matter against the criteria. Audits can be classified into 2 main types: c. Attestation Engagements Financial audits are always attestation engagements based on financial information provided by the responsible party. d. Direct Reporting Engagements Performance audits and compliance audits are direct reporting engagements where the auditor directly reports on findings.

D. Principles of PSU Audits

Principles of PSU Audits

The principles guide the personnel of SAI India & are fundamental to conducting all types of PSU Audits. These principles are divided into 2 groups:

1.	General Principles General standards that apply to all auditors providing a foundation for the audit process.
2.	Principles related to the Audit Process Principles specifically focused on the audit process itself guiding how audits are conducted and ensuring quality and consistency in results.



E.	Audit of Government Companies
1.	Appointment of Auditors under Section 139(5) & 139(7) Statutory auditors of Government Companies are appointed or reappointed by the C&AG, not by the company's annual general meeting (AGM) as in private sector companies. The remuneration is decided by the company, following guidelines from the C&AG.
2.	Role of C&AG in the Audit Process The C&AG may direct the appointed auditor on how to audit the company's accounts. The auditor submits the audit report to the C&AG including any directions issued by the C&AG and their impact on the company's accounts and FS.
3.	Additional Reports under Section 143(5) The report under section 143(5) is in addition to the reports issued by statutory auditors under other clauses of section 143.
4.	Supplementary Audit under Section 143(6)(A) The C&AG has the right to conduct a supplementary audit of the company's financial statements within 60 days of receiving the audit report. The C&AG can require additional information for this audit.
5.	Comments on or Supplementing the Audit Report (Section 143(6)(B)) If the C&AG adds comments to or supplements the auditor's report, these comments must be sent to everyone entitled to the company's audited FS. The comments must also be presented at the AGM.
6.	Test Audit under Section 143(7) The C&AG can order a test audit of a company's accounts if necessary. The provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers, and Conditions of Service) Act, 1971, apply to this test audit.

2. Concept of Various Types of Audit

A. Financial Audit	
1.	Purpose of Financial Audit Financial audit is conducted to: a. Express Audit Opinion Provide an opinion on the FS. b. Enhance Confidence Increase the confidence of intended users in the FS.
2.	C & AG's Opinion on Financial Statements The C&AG expresses an opinion on whether the FS are prepared in accordance with a fair presentation FRFW.
3.	True and Fair View The C&AG assesses if the FS present a true and fair view of the company's financial position in all material respects according to the FW.

B. Compliance Audit

Compliance Audit

Compliance audit is the independent assessment of whether a subject matter follows the applicable criteria.

Audit Focus

This audit examines whether activities, financial transactions, and information comply with relevant rules & regulations that govern the entity.

Key Concerns of Compliance Audit

Compliance audit focuses on:

a. Regularity
   Adherence to formal criteria set by laws, regulations and agreements applicable to the entity.

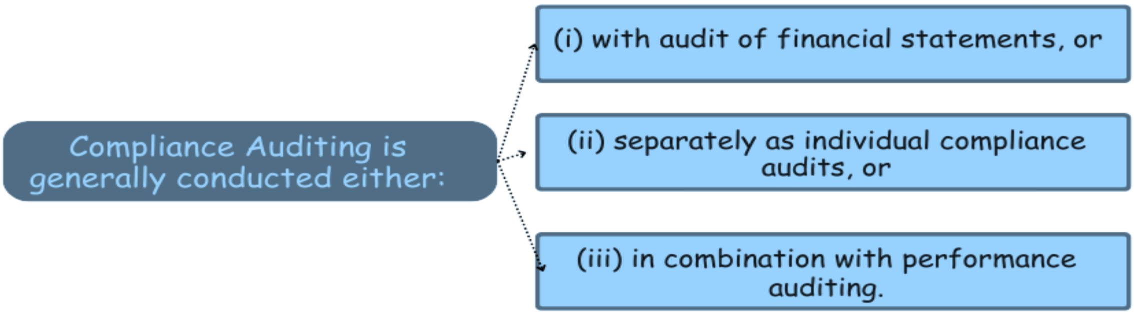
b. Propriety
   Ensuring sound financial management & the ethical conduct of public officials.

Emphasis on Regularity and Propriety

While regularity is the primary focus, propriety is also important in the public sector where there are specific expectations regarding financial management and official conduct.

Perspective of Compliance Audit

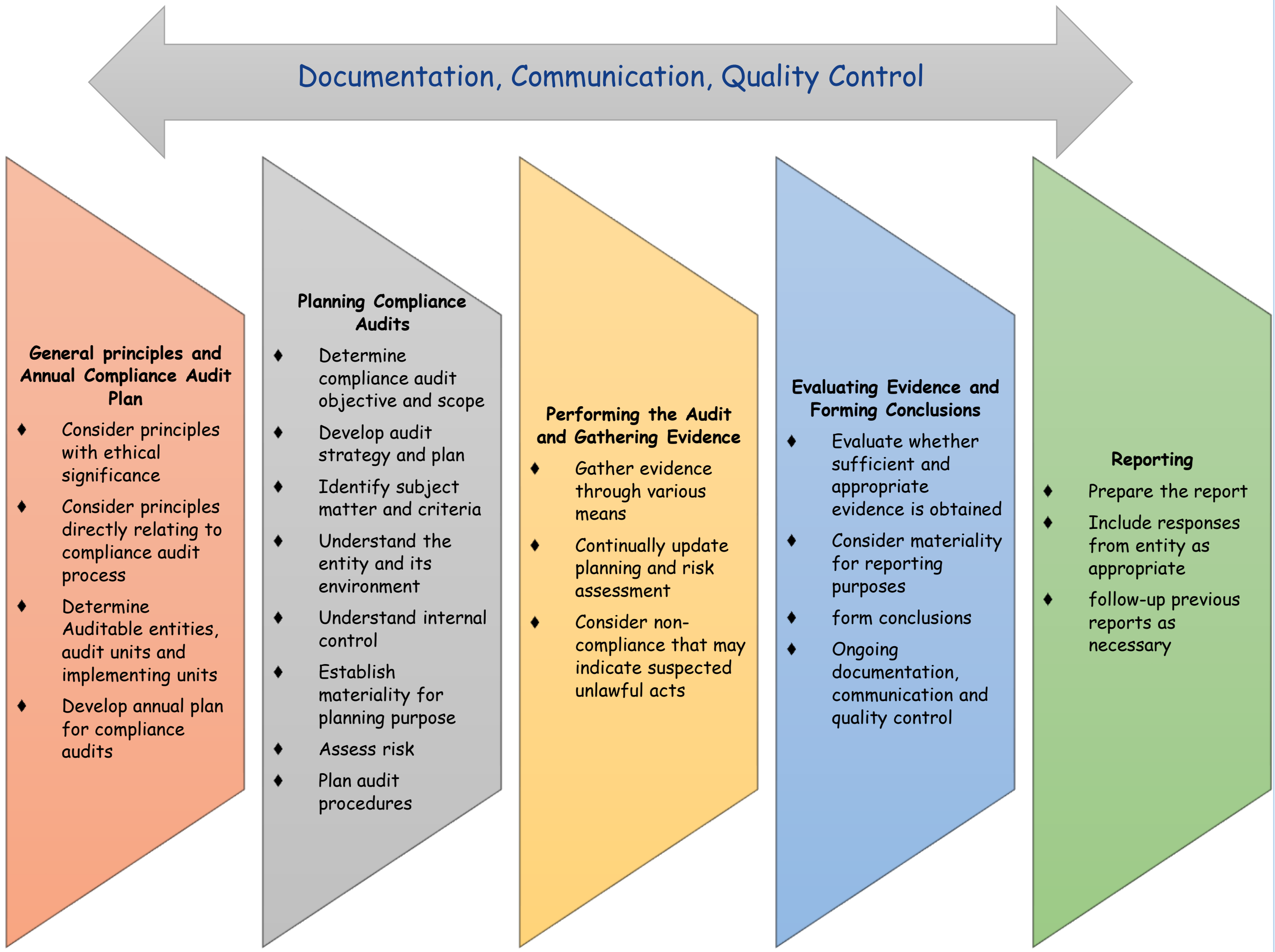
Compliance audit can be part of a combined audit and may be conducted in:



Compliance Audit in Performance Audit

When part of a performance audit, compliance is viewed in context of economy, efficiency & effectiveness. Non-compliance can explain or impact performance audit findings.

Compliance Audit Process



C. Performance Audit

1.	Meaning A performance audit is an objective & systematic examination of evidence to assess the performance of a government organization. It aims to improve public accountability and help decision-making for corrective action.
2.	C&AG and Subordinates Performance audits in PSUs are conducted by the C&AG through subordinate offices of the IAAD, guided by manuals and standards set by the C&AG.
3.	Advantage of Performance Audit Performance audit helps improve governance and oversight by examining: a. Efficiency and Effectiveness Whether decisions by the legislature or executive are made and implemented efficiently & effectively. b. Value for Money Ensures that taxpayers or citizens receive value for money in public spending.
4.	Performance audits focus on economy, efficiency, and effectiveness.

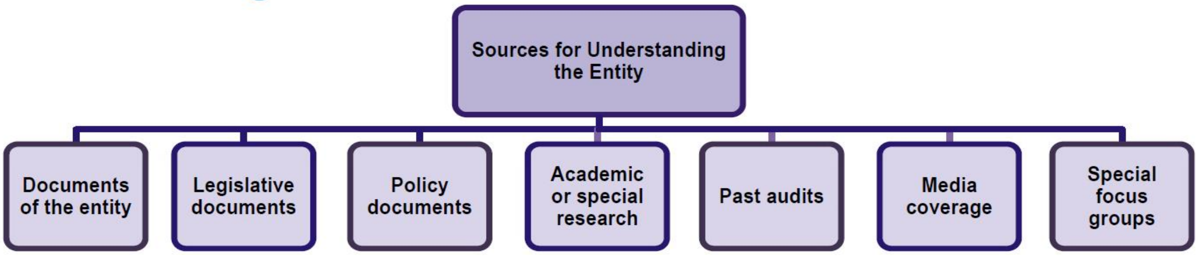
	a. Economy Minimizing the cost of resources (e.g., human, financial, material) used for an activity, ensuring appropriate quantity and quality at the best price. b. Efficiency The input-output ratio. Efficiency is achieved with maximum output with minimum input or minimum input for a given output. Efficiency audit includes: ✓ Whether sound procurement practices are followed. ✓ Ensuring resources (human, financial, material) are properly protected, maintained, and efficiently used. ✓ Using the optimal number of resources (staff, equipment, facilities) to deliver the right quantity and quality of services on time. ✓ Ensuring public sector programs are well managed, regulated, organized, and executed efficiently. ✓ Ensuring objectives are met cost-effectively with efficient operating procedures. c. Effectiveness The extent to which objectives are achieved and the relationship between the intended impact and actual impact of an activity. It includes: ✓ Assessing whether the objectives and resources for a program are suitable, consistent, and relevant to policy. ✓ Determining the extent to which a program achieves the desired results. ✓ Assessing whether observed social and economic impacts are due to the program or other factors. ✓ Identifying factors that prevent the program from achieving its goals. ✓ Checking if the program complements, duplicates, or counteracts other programs. ✓ Assessing if there are more effective or cost-efficient alternatives for the program. ✓ Evaluating if the management control system is adequate for measuring, monitoring, and reporting the program's effectiveness. ✓ Ensuring compliance with applicable laws and regulations. ✓ Identifying ways to make programs work more effectively.

D. Objective of Performance Audit	
1.	Economy, Efficiency, and Effectiveness Evaluating the economy, efficiency, and effectiveness of policies, programmes, organization, and management.
2.	Accountability and Transparency Promotes accountability by helping those in charge to improve performance; promotes transparency by giving stakeholders insight into government actions.
3.	Value Addition Performance auditing focuses on areas with the greatest potential for development, providing constructive incentives for improvement.
4.	Measurable Objectives and Indicators Government departments must create measurable objectives and performance indicators to track progress and ensure outcomes are monitorable.

5. Audit Regulations
The C&AG regulations require government departments to define intermediate and final outputs, unit costs and benchmark quality of outcomes.

E. Planning for Performance Audit

1. Step 1: Understanding the Entity/Programme



Key sources include:

a. Documents: Administration files, reports, budgets, internal audits, websites, etc.
b. Legislative Documents: Legislation, parliamentary records, reports from committees.
c. Policy Documents: Planning Commission, Ministry of Finance documents, etc.
d. Academic/Research: Independent evaluations, academic research & reports from SAIs.
e. Past Audits: Information from previous financial and performance audits.
f. Media Coverage: Regularly documented in print & electronic media.
g. Special Focus Groups: Reports from NGOs, World Bank, RBI, interest groups, etc.

2. Step 2: Defining Objectives and Scope

a. Set clear objectives to guide the audit. Focus on key issues.
b. Objectives should define the NTE of the audit.

3. Step 3: Determining Audit Criteria

Define audit criteria to assess whether a program meets expectations. Criteria should be attainable and come from:

a. Procedure manuals of the entity.
b. Policies and guidelines.
c. Past criteria used in similar activities or by other entities.
d. Expert opinion and scientific knowledge.
e. General literature and research papers.

4. Step 4: Deciding Audit Approach

There is no single audit approach. Choose based on the audit's focus. Possible methods include:

a. Analysis of Procedures: Review systems, documents, and guidelines.
b. Case Studies: In-depth analysis of a specific issue or program under review.
c. Use of Existing Data: Investigate & validate available data for completeness & accuracy.
d. Surveys: Collect data from a population to assess program outcomes.
e. Analysis of Results: Perform output-input analysis to assess program efficiency.
f. Quantitative Analysis: Examine financial and implementation data using sampling if data is too large.

5. Step 5: Developing Audit Questions

Prepare list of questions to guide the audit, ensuring it is comprehensive & cover all audit objectives.

6. Step 6: Assessing Audit Team Skills

a. Evaluate if Performance auditors possess special aptitude & knowledge.

	b. Evaluate if the audit team has the required skills and if outside expertise is needed. The audit team should have a strong understanding of the subject. c. The team should also decide which aspects need specialized expertise.
7.	Step 7: Preparing Audit Design Matrix (ADM) a. The audit team prepares an Audit Design Matrix (ADM) to organize the audit, showing data collection methods, evidence sources, and analysis approach. b. The ADM helps focus the audit and ensures effective and high-quality results. c. ADM is designed on the basis of information & knowledge obtained during planning stage. **A specimen of ADM is given as under:**

Audit Objective (1)	Audit Questions (2)	Audit Criteria (3)	Evidence (4)	Data Collection and Analysis Method (5)

8.	Step 8: Establishing Time Table and Resources a. Timetable and resource allocation are key. Define the audit team and record the proposed timelines for activities. b. Monitor progress against the timeline and adjust as needed. c. Ensure flexibility for delays and translation if necessary.
9.	Step 9: Intimation of Audit Programme a. Intimate the audited entities about the audit's scope, team & schedule before starting. b. Ensure acknowledgement of this information. c. Refine audit objectives as the audit progresses and document any changes. d. Audit program should be flexible to address any unexpected issues that may arise. Share significant changes with all involved teams.

F. Detailed Comprehensive Audit	
1.	Role of the Comptroller and Auditor General Assists the legislature in reviewing public undertakings by conducting an efficiency-cum-performance audit of areas not covered by internal or professional auditors.
2.	Audit Focus Areas of focus may vary based on the nature of the enterprise but generally include: a. Investment decisions b. Project formulation c. Organizational effectiveness d. Capacity utilization e. Management of equipment, plant, machinery f. Production performance g. Materials management h. Cost and price management i. Sales and credit control j. Budgetary and internal control systems
3.	Key Audit Issues a. Capital Cost Comparison: How does the capital cost compare with the approved planned costs? Are there substantial increases or unnecessary expenditure? b. Production Performance: Have planned outputs been achieved? Has there been under-utilization of capacity or shortfall in performance? What caused it?

	c. Rate of Return: Has the planned rate of return been achieved? d. Project Formulation & Execution: Are the systems for project formulation and execution sound? Any inadequacies affecting gestation and capital cost? e. Cost Control: Are cost control measures adequate? Are there wastages in RM consumption? f. Purchase Policies: Are the purchase policies adequate? Have they led to inventory piling and redundancy? g. R&D Programmes: Does the enterprise have research & development programs? How well have they contributed to profit improvement and cost reduction? h. Repairs & Maintenance: Is the enterprise's system for repairs and maintenance adequate? i. Procedural Effectiveness: Are the procedures in place effective and economical? j. Project Planning: Is there poor or inefficient project planning?
4.	Guidelines for Performance Appraisal The Bureau of Public Enterprises issues guidelines on general management, financial management, materials management which serve as a basis for evaluating performance.
5.	Other Criteria Additional criteria sources include: ✓ Industrial engineering and technical studies by experts ✓ Financial propriety standards

[TYTU 2]

G. Detailed Propriety Audit	
1.	Principles Propriety refers to actions that meet public interest, customs, laws, and professional standards. It focuses on economy, efficiency, and faithfulness in transactions. a. Key Tests ✓ Substance of transactions rather than just documents. ✓ Financial prudence, public interest, and prevention of wasteful expenditure. b. Officer Vigilance Officers must exercise the same care in handling public money as they would with their own personal funds. c. Propriety Audit Auditors look for improper, avoidable, or infructuous expenditure, even if it follows existing rules and regulations. d. Audit Considerations ✓ Audits look at wisdom, faithfulness, and economy of transactions. ✓ Propriety audit is now integrated with regularity audit. e. Regulation of Propriety Audit Rules for propriety audits depend on common sense and auditor judgment but are supported by general principles in the Audit Code. f. Principles of Propriety Principles include: ✓ Expenditure must be reasonable and officers must act prudently, like managing their own funds. ✓ Authorities shouldn't pass orders that benefit themselves. ✓ Funds should not benefit only specific individuals or groups. ✓ No indirect benefits to employees or management beyond agreed remuneration.

	g. Audit Responsibility ✓ The executive must enforce economy in public spending. ✓ Auditors report wastefulness and improper expenditure.
2.	Relevant Provisions in Companies Act, 2013 Certain sections of the Companies Act, 2013 focus on propriety in audits: a. Section 143(1): Requires inquiries into specified matters related to propriety in company financials. b. Section 143(6) & 143(7): Calls for supplementary audit and test audit for government companies. c. Section 148: Relates to cost records and cost audits to ensure cost consciousness and efficiency. d. Part II of Schedule III: Requires additional information for Profit and Loss accounts, which help in propriety audits. e. Propriety Audit under Section 143(1) ✓ 143(1)(a): Are loan terms prejudicial to the company's interests? ✓ 143(1)(b): Are book entry transactions prejudicial to the company? ✓ 143(1)(c): Were investments sold at loss & was the sale reasonable in that scenario? ✓ 143(1)(d): Are loans and advances misclassified as deposits? ✓ 143(1)(e): Have personal expenses been charged to company accounts? ✓ 143(1)(f): Are share allotments for cash recorded accurately and has actual cash been received? f. Section 148 – Cost Records & Audit: ✓ Ensures cost consciousness, helps monitor productivity & detects undue wastage. ✓ Specific items to be audited include material consumption and major expenses.
3.	Propriety Elements under CARO, 2020 The C & AG audits propriety in Government accounts. Propriety is part of routine audits but may lack flexibility leading to compliance-driven audits. CARO Clauses Certain CARO 2020 clauses focus on propriety & the exercise of judgment by auditors, such as in FR, asset management, and revenue management.

H. Problems involved in Propriety Audit	
1.	Nature of Propriety Audit Propriety is a moral term and its interpretation depends on the moral standards accepted by society at a given time. This makes propriety audit inherently challenging.
2.	Formulation of Audit Propositions In regular audits, propositions are based on verifiable events like accuracy, ownership & compliance. However, it is difficult to form verifiable propositions due to its subjective nature in propriety audit.
3.	Subjectivity in Propriety Audit Propriety audit involves subjectivity because it is hard to define clear standards for public interest, customs, and conduct. C&AG has developed norms for propriety to guide auditors on verifying government expenditure.
4.	Moral Evaluation in Propriety Audit Propriety involves evaluating decisions based on objectives and circumstances.

	For instance, air travel is not wasteful unless it is proven that rail travel would have been more feasible and given the same results.
5.	Judgment in Propriety Audit Subjectivity of propriety requires discretion. Decisions made in a dynamic environment (economic, social, political) should be judged based on the circumstances at the time, not hindsight. Objective judgment is crucial.

I. Audit Report of C & AG	
1.	Introduction Contains a general review of the working results of Government companies, deemed Government companies and corporations.
2.	Comprehensive Appraisal Results Includes results of comprehensive appraisals of selected undertakings conducted by the Audit Board.
3.	Company Auditors' Reports A resume of company auditors' reports submitted under the directions of the C&AG and comments on the accounts of Government companies.
4.	a. Significant Audit Results Details significant audit results of undertakings not appraised by the Audit Board, including financial irregularities, wasteful expenditure and system deficiencies. b. State Reports For some specified states, a separate audit report (commercial) is submitted to the legislature. For others, the commercial chapter is part of the main audit report. c. State Audit Reports Contents Contains audit appraisals of performance in selected companies/corporations, financial irregularities, wasteful expenditure, system deficiencies & a general review.

16. INTERNAL AUDIT

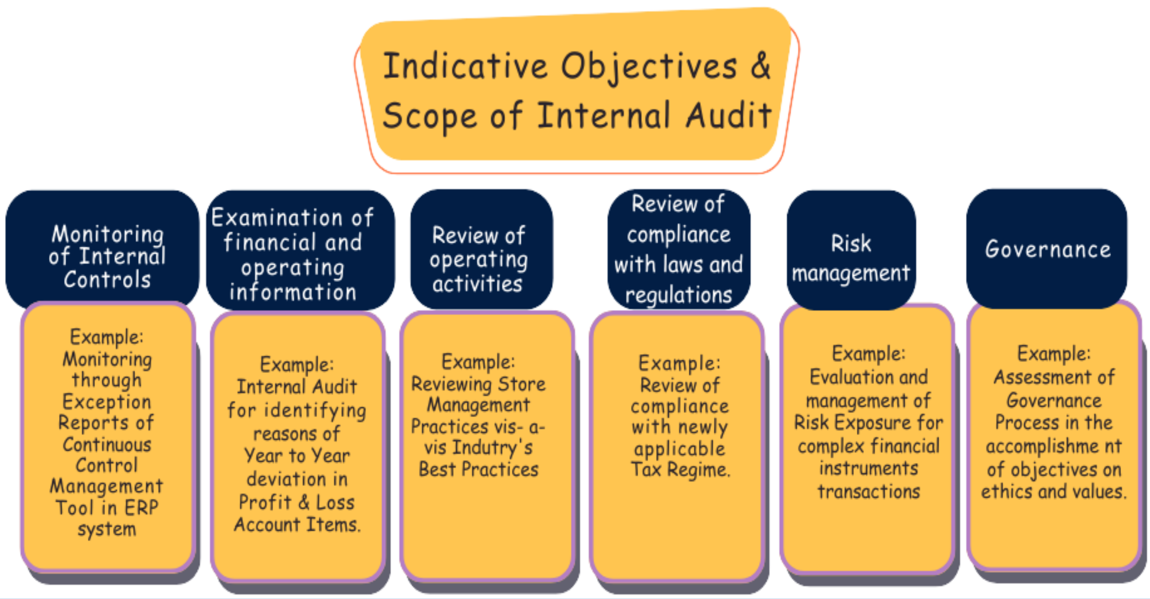
A. Concept of Internal Audit and its applicability

1. Definition of Internal Audit

a. Internal Audit provides independent assurance on the effectiveness of internal controls and risk management to enhance governance and achieve organizational objectives.
b. It may go beyond assurance to include an advisory/consulting role.
c. Internal audit is not confined to financial transactions only.

Objectives and Scope (SA 610):

a. Monitoring of internal controls
b. Examination of financial and operating information
c. Review of operating activities
d. Review of compliance with laws and regulations
e. Risk management
f. Governance



2. Applicability under Companies Act

As per Section 138 of the Companies Act, these companies must appoint an internal auditor:

a. Listed companies
b. Unlisted public companies with:
   - ✓ Paid-up share capital of 50 crore rupees or more, or
   - ✓ Turnover of 200 crore rupees or more, or
   - ✓ Loans or borrowings from banks/public institutions exceeding 100 crore rupees, or
   - ✓ Deposits exceeding 25 crore rupees
c. Private companies with:
   - ✓ Turnover of 200 crore rupees or more, or
   - ✓ Loans/borrowings exceeding 100 crore rupees

3. Who Can Be Appointed as Internal Auditor

a. The internal auditor can be a CA, CMA, or another professional approved by the Board.
b. The auditor may or may not be an employee of the company.
c. The internal auditor should be seen as part of management with authority to investigate all activities to meet the objectives and scope of the audit.

4.	Responsibilities of Internal Auditor a. Maintain internal control systems by examining accounting procedures and safeguarding assets against misappropriation. b. Operate independently from accounting staff. c. Identify issues and draw attention to deficiencies in policies and practices. d. Stay informed about business events and changes in policies. e. Be independent, even if management seeks business support from the auditor. f. Sometimes assigned operational responsibilities like risk management, compliance, or process re-engineering, but must communicate limitations: ✓ Cannot assume ownership of the process. ✓ Cannot take operational decisions subject to future audits. g. The audit committee and the board in consultation with the internal auditor will define the scope, methodology and periodicity of audits.

B. Management Functions and Scope of Internal Auditing	
1.	Review of Internal Control System & Procedures a. Review the design and effectiveness of ICs to strengthen the control environment and reduce risks (e.g., inherent, control and detection risks). b. Controls should be in-built in the operating functions for cost-effectiveness. c. Review limitations of ICs like cost-benefit analysis, human errors & potential collusion.. d. Ensure ICs were in use consistently during the intended period.
2.	Review of Custodianship and Safeguarding of Assets a. Verify the existence of assets. b. Review segregation of duties to prevent errors and fraud. c. Review controls to safeguard assets against losses, theft, and negligence. d. Review the controls systems (credit control systems & data storage/security).
3.	Review of Compliance with Policies, Plans, Procedures, and Regulations a. Ensure compliance with relevant policies, plans and laws across all functional areas. b. Examine systems for periodic review of policies especially after changes in operations. c. Combine results from system reviews and compliance tests to evaluate effectiveness. d. Point out weaknesses and suggest remedial actions.
4.	Review of Relevance and Reliability of Information a. Review information systems for the reliability and integrity of financial and operational information. b. Examine the accuracy of financial and operational records. c. Evaluate the usefulness of reports, considering their costs. d. Ensure reporting by exception, focusing on significant issues and distinctive features.
5.	Review of the Organisation Structure a. Assess if the organizational structure aligns with the enterprise's objectives and if responsibilities are appropriately assigned. b. Review the grouping of activities for managerial control and check if authority is balanced. c. Ensure no department dominates the others and that responsibilities don't overlap. d. Check the span of control (number of subordinates per executive) and ensure unity of command. e. Specify primary responsibilities where dual responsibilities exist. f. Evaluate managerial development processes.

6.	Review of Utilisation of Resources a. Ensure operating standards and norms are set for efficient and economical resource use. b. Standards should be identifiable and actionable by operating personnel. c. Review methods for establishing operating standards and check their appropriateness. d. Investigate large divergences between actual performance and standards. e. Identify under-utilized facilities.
7.	Review of Accomplishment of Goals and Objectives a. Review if the enterprise goals are clear and achievable. b. Ensure goals are quantifiable (monetary and non-monetary) for detailed planning. This will help identify potential problems early & allow flexibility to make improvements. c. Budgeting is key to such planning.

C. Fundamental Principles of An Internal Audit	
1.	Fundamental Principles Independence: a. The Internal Auditor must be free from any undue influences that could affect their truthfulness. This independence must be in both mind and appearance. b. The auditor should resist any pressure that could change the scope or manner of their assignments. c. The internal audit function's independence is supported by the auditor's position, reporting structure and authority derived from superiors. Integrity: a. The auditor must be honest, truthful and have high integrity. b. They should act professionally, fairly and avoid any conflicts of interest or personal gain. Objectivity: The auditor must be objective in gathering & evaluating facts, avoiding any bias or prejudice.

[TYU 1 & 2]

D. Qualities of an Internal Auditor	
1.	a. The auditor should have special expertise to evaluate management control systems, especially financial and accounting controls. b. The auditor must have a solid understanding of accounting and finance to analyse management control data. c. The auditor should also evaluate operational performance and non-monetary controls d. Basic knowledge of commerce, laws, taxation, cost accounting, economics, quantitative methods, and EDP systems is essential. e. The auditor must understand management principles and be capable of interacting with people effectively. f. The auditor should ensure the confidentiality of sensitive information.

E. Performing Internal Audit Engagement

Step 1 Obtain knowledge of the Business and its Environment

Step 2 Perform Audit Planning

Step 3 Gather required information

Step 4 Perform audit checks

Step 5 Reporting of Internal Audit Issues.

Steps
Step 1: Obtain Knowledge of the Business and its Environment
The auditor gains understanding of the business, its environment, and operations by ways of:
a. Conduct Meetings with key stakeholders, BOD and management.
b. Review business documents, SOPs, FS
c. Understand IT systems, ERP, and MIS.
d. Review applicable laws and regulations.
Step 2: Perform Audit Planning
Plan the audit in detail according to SIA 310, scope approved by the Audit Committee and BOD.
a. Conduct opening meeting with stakeholders before the start of engagement.
b. Share audit plan and schedule.
c. Prepare and approve detailed work plan based on identified risks.
Step 3: Gather Required Information
Collect and verify the required data for the audit.
a. Obtain data from direct sources.
b. Ensure data correctness and integrity.
c. Provide advance notice for any additional information.
Step 4: Perform Audit Checks
Analyse collected data to identify trends, outliers and perform testing.
a. Use analytical procedures (SIA 6).
b. Sampling where necessary (SIA 5).
c. Collect evidence (SIA 320).
d. Identify audit issues and control gaps.
e. Document work properly (SIA 330).
Step 5: Reporting of Internal Audit Issues
Prepare a draft report with findings and share results with stakeholders.
a. Prepare audit report with issues, gaps, and recommendations.
b. Define Management Action Plan with actions and timelines.
c. Review previous audit actions.
d. Circulate final report and present findings to Audit Committee.

F. Internal Audit Report & Follow up	
1.	Internal Auditor's Review a. Internal Auditor should assess the audit evidence carefully to form findings for the report and suggest remedial actions. b. If any fraud or misappropriation is found, it should be reported immediately to management.
2.	SIA 370 Reporting Results - Two Stages Stage 1 – Specific Report Assignment a. After each audit assignment, an Internal Audit Report is prepared, summarizing key findings. b. The report includes: ✓ The method of the audit. ✓ Key findings. a. The report is shared with auditee and management. b. Sometimes, it's part of overall reports for top governing authority. Stage 2 – Comprehensive Report a. A comprehensive report is prepared periodically (e.g., quarterly) covering all internal audit activities. b. It is submitted to top governing authorities like the Audit Committee.
3.	Internal Audit Report Elements a. Overview of objectives, scope, and approach. b. Statement that the audit followed the Standards of Internal Audit. c. Executive summary of key findings and their relevance to the assignment. d. Summary of corrective actions required (or agreed). e. Nature of assurance derived from the findings.
4.	Draft Report a. No final audit report should be issued without discussing a draft with auditee. b. The final report should be issued within a reasonable timeframe.
5.	Principles for Issuing Internal Audit Reports a. Basis of Report: The report is based on audit procedures and evidence. All findings should be considered, acknowledging both effective controls and risks. b. Compliance with SIA: If the audit follows SIA standards, the report will confirm this. c. Content & Format: The auditor has the freedom to decide the format based on professional judgment and the auditee's preferences. d. Documentation: Maintain copies of both draft and final reports. If needed, management action plans should be signed by responsible personnel.
6.	Follow-Up on Prior Audit Issues SIA 390 – Monitoring & Reporting of Prior Audit Issues a. The Chief Internal Auditor monitors the closure of prior audit issues by tracking the implementation of action plans. b. Management is responsible for implementing these plans. c. Follow-up is usually in the form of an Action Taken Report (ATR). d. If no action is taken in a reasonable time, the auditor should report it. e. The auditor should also review the implementation of recommendations and highlight any unimplemented actions to management.

G. Difference between Internal & Statutory Audit		
Basis	Internal Audit	External Audit
Meaning	It refers to an ongoing audit function performed within an organization by a separate internal auditing department.	It is an audit function performed by the independent body which is not a part of the organization.
Examination	The Internal auditor examines the Operational efficiency of the organisation.	The External auditor examines the Accuracy and Validity of Financial Statements.
Appointment	The Internal auditor is appointed by the Management	The External auditor is appointed by the Members.
Users of Report	The user of internal audit report is Management.	The user of external audit report is Stakeholders.
Period	Internal audit is a Continuous Process throughout the year	An External audit is done once in a year.
Opinion	Opinion is provided on the effectiveness of the operational activities of the organization.	Opinion is provided on the truthfulness and fairness of FS of the company
Status of Auditor	The Internal auditor could be an employee of the company.	The External auditor is mandatorily not an employee of the company.

Students are advised to refer once again SA 610 – Using the work of internal auditor.

H. Audit Trail	
1.	Meaning of Audit Trail Audit Trail (or Edit Log) is a visible record that shows the changes made to data, allowing it to be traced back to the original source. It includes: a. Date and time of changes (timestamp) b. User ID who made the change c. What data was changed (transaction reference, success/failure)
2.	Audit Trail in Accounting Software Audit trails can be enabled at the accounting software level (depending on available features) or captured directly in the underlying database.
3.	Internal Controls for Audit Trail To ensure the audit trail is working, the company needs to design and implement specific internal controls, mainly IT-related, which will be evaluated by auditors. Some key controls include: a. Controls to ensure the audit trail feature is enabled and not disabled. b. Controls to assign unique User IDs to individuals, ensuring no sharing. c. Controls to authorize changes to audit trail configurations and keep logs of changes. d. Controls to restrict access to the audit trail and its backups, with access logs maintained.

Learn Contextually

17A. DUE DILIGENCE

A. Concept of Due Diligence	
1.	Investigation Process Due diligence is a process where investors investigate a potential investment, including examining operations, management, and verifying material facts.
2.	Information Disclosure It involves conducting inquiries to ensure accurate, timely, and sufficient disclosure of material information that may impact the transaction outcome.
3.	Financial & Non-Financial Analysis Due diligence includes studying both financial and non-financial aspects to assess the feasibility of successful restructuring plans.
4.	Pre-Acquisition Analysis Before acquiring a controlling interest, due diligence is carried out to verify that the target business aligns with the information provided.
5.	Investment/Loan Recommendations Due diligence may also apply when making investment recommendations or advancing a loan/credit.
6.	Corporate Restructuring & Financing Due diligence is necessary in cases such as corporate restructuring, venture capital financing, lending, leveraged buyouts, public offerings, and disinvestment. It's also important when a unit changes management teams within a group.

B. Difference Between Due Diligence and Audit	
1.	Audit Audit is an independent examination of an organization's financial statements to form an opinion on their accuracy.
2.	Due Diligence Due diligence is the process of examining a potential investment to confirm all material facts about the business opportunity. It involves reviewing both financial and non-financial records that are relevant. Simply put, it's the careful review a reasonable person would do before entering into an agreement or transaction.

C. Importance of Due Diligence	
1.	Due Diligence Timing Due diligence begins after parties agree in principle on a deal but before signing a binding contract. It starts with initial talks, data collection, and evaluation.
2.	Purpose The goal of due diligence is to help the purchaser or investor gather all necessary information about the business, including its strengths, weaknesses, and critical success factors before completing the transaction.
3.	Identifying Problems Due diligence may uncover problems or potential issues that can affect the price negotiations or be addressed through specific contract clauses, like warranties or indemnities.

4.	Reasons for Due Diligence Due diligence serves several purposes: 1. Confirm Business Validity To confirm the business is what it appears to be. 2. Avoid Deal-Killers To identify potential 'deal killer' defects in the target company and prevent a bad deal. 3. Valuation & Negotiation To gather information useful for valuing assets, defining representations and warranties, and negotiating price concessions. 4. Compliance To ensure the transaction meets the required investment or acquisition criteria.

D. Classification of Due Diligence	
1.	Commercial/Operational Due Diligence Evaluates the commercial, strategic, and operational aspects of the entity. Focuses on whether the proposed merger creates operational synergies.
2.	Financial Due Diligence Analyses the entity's financial records (books of accounts, etc.). Performed after commercial due diligence to assess financial health.
3.	Tax Due Diligence Reviews the tax implications of the merger/acquisition, often included in financial due diligence due to its impact on financial status.
4.	Information Systems Due Diligence Focuses on the entity's computer systems and IT infrastructure, ensuring that systems are compatible or adaptable to the acquirer's needs.
5.	Legal Due Diligence Reviews legal aspects such as property ownership or compliance with laws and regulations.
6.	Environmental Due Diligence Assesses the entity's environmental impact, including its adaptability and sustainability in relation to the acquirer.
7.	Personnel Due Diligence Evaluates the entity's personnel policies to ensure alignment with the acquiring entity's goals or to determine if changes are needed for integration.

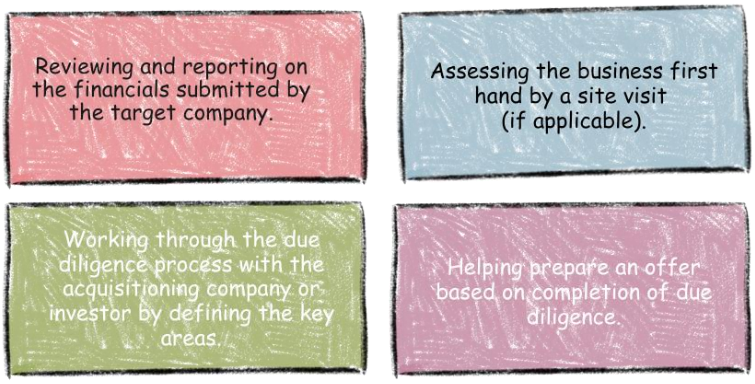
E. Financial Due Diligence	
1.	Scope of Financial Due Diligence Financial due diligence should not be mistaken for an overall due diligence review. It focuses on financial implications but is not comprehensive unless specified.
2.	Timing of Financial Due Diligence It begins after the price is agreed or a restructuring plan is set. Initial decisions are based on net worth and profit trends of the target company, assuming contingent liabilities are accounted for.
3.	Objective of Financial Due Diligence Its main goal is to verify and analyze the provided information to evaluate the costs and benefits of the proposed acquisition or merger.
4.	Key Areas of Verification

	Below are the objectives that may be included in the financial due diligence process: 1. Business History Brief overview of the business history. 2. Promoter Background Review of the background and reputation of the promoters. 3. Accounting Policies Evaluation of the accounting policies and practices followed by the company. 4. Management Information Systems Review of the management information systems in place. 5. Management Structure Understanding the management structure of the company. 6. Trading Results Analysis of past and recent trading results. 7. Assets and Liabilities Examination of assets and liabilities from the latest balance sheet. 8. Tax Status Review of the current income tax status, including appeals and pending assessments. 9. Cash Flow Analysis of cash flow patterns. 10. Commercial Activities A brief description of the commercial and other activities carried out by the company. 11. Future Profitability Projection of future profitability.

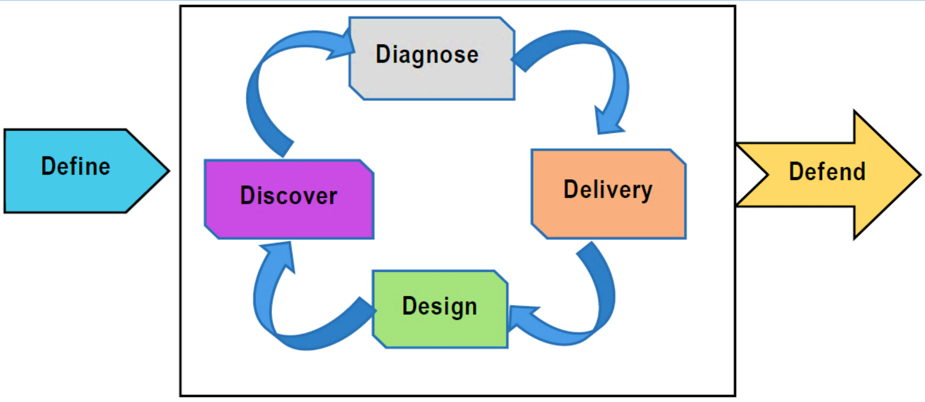
F. Full Fledged Financial Due Diligence	
1.	Brief History & Promoter Background The accountant reviews the company's history and promoter background to understand key events, market share, survival strategies, and any regulatory impact. Important aspects to investigate: 1. Nature of business 2. Employment details 3. Product/services, markets 4. Suppliers 5. Inventories 6. Patents, licenses 7. Foreign currency transactions 8. R&D and legal regulations
2.	Accounting Policies The accountant must assess the accounting policies and any recent changes that might impact the company's financial statements. The focus is on: a. Inappropriate policies b. Effect of policy changes c. Materiality of changes, especially on profitability. A report should summarize: a. Policies followed b. Differences with the acquiring company's practices.

3.	Review of Financial Statements The accountant must ensure the financial statements comply with statutes and accounting standards. Key steps: 1. Review operating results and profit. 2. Identify extraordinary items. 3. Compare budgeted vs. actual figures. 4. Benchmark results against similar companies. 5. Analyse net worth, and consider valuation of assets (including intangible assets). 6. Look for hidden liabilities or overvalued assets.
4.	Taxation While tax due diligence is a separate review, it's included in the financial due diligence. It focuses on: 1. Tax compliance (regular payments, pending liabilities). 2. Tax implications of the merger/acquisition.
5.	Cash Flow Review of historical cash flows and patterns to assess the company's cash-generating abilities. Key areas to focus on: 1. Ability to meet payables and debts. 2. Effectiveness in turning receivables and inventories into cash. 3. Idle funds and investment patterns.
6.	Financial Projections The accountant should evaluate financial projections for the next 5 years, including: 1. Assumptions made (optimistic, pessimistic, and likely scenarios). 2. Identify any unrealistic assumptions. 3. Check arithmetical accuracy of projections. 4. Assess the achievability of targets.
7.	Management & Employees Key areas include: 1. Evaluating the workforce and management staff. 2. Assessing potential issues with labour laws and ongoing litigation. 3. Employee benefits and obligations (e.g., P.F., E.S.I., gratuity). 4. Reviewing key employee compensation and stock options. 5. Identifying employees who may leave post-acquisition.
8.	Statutory Compliance Review the company's compliance with relevant laws and regulations. The accountant must: 1. Create a checklist of laws applicable to the entity. 2. Assess the company's compliance history to identify penalties or legal issues that could impact the financials.

G. Work Approach to Due Diligence	
1.	Importance of Due Diligence The purchase of a business is often the largest and most expensive asset purchase in a lifetime. Caution is essential during the due diligence process to assess the business's fair value.

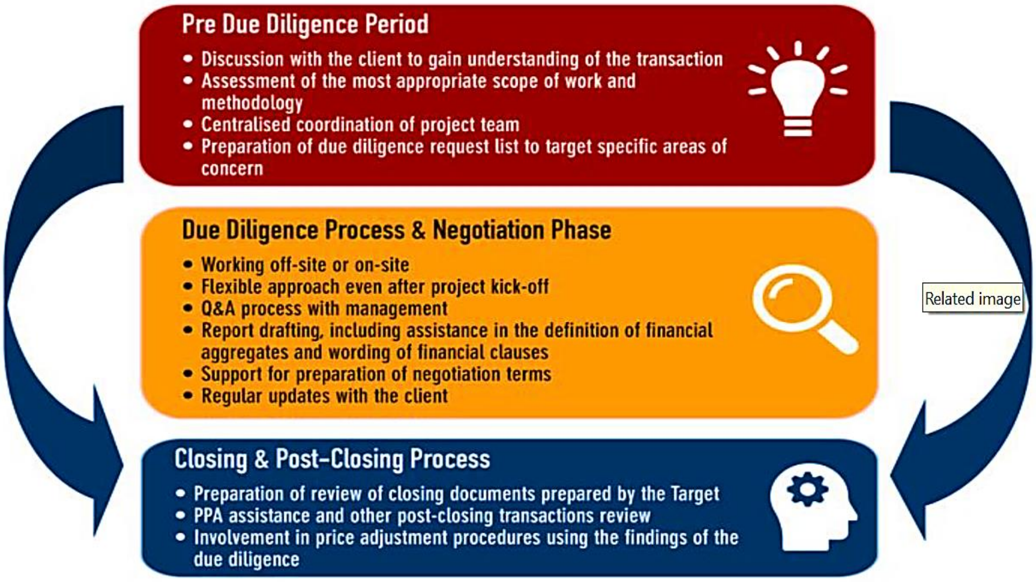


2.	Challenges in Strategy Finding the correct strategy is difficult, especially in challenging economic circumstances. The situation is unique, with variables like: a. Company age b. Markets c. Geography d. Price levels e. Competitive dynamics.
3.	Meeting Market Needs When a company and its products are adapted to meet market needs and customer expectations, it can lead to exceptional performance changes.
4.	Six-Dimensional Process Framework A comprehensive model (Six-Dimensional Process Framework) is used to describe this approach to business strategy and decision-making. The framework guides the evaluation of key factors in the process.



H. Process of Conducting Due Diligence	
1.	Start with an Open Mind Approach due diligence without assumptions. Identify trouble spots and ask for explanations, rather than looking for problems that may not exist.
2.	Get the Best Team If your firm lacks the expertise or staff to handle the task, hire due diligence experts. Ensure they have strong industry experience.
3.	Get Help in All Areas Involve experts in finance, tax, legal, marketing, technology, and other relevant areas to get a 360-degree view of the acquisition candidate.
4.	Talk to Key Stakeholders

	Speak with customers, suppliers, business partners, and employees to gather insights and further evaluate the target company.
5.	Take a Risk Management Approach Conduct thorough research, but also avoid overwhelming the target company's team with too many questions. Maintain a balanced approach.
6.	Prepare a Comprehensive Report Create a detailed report that highlights compliance issues and identifies substantive risks or concerns.



I. Contents of Due Diligence Report	
1.	Executive Summary A brief overview of the key findings and conclusions from the due diligence review.
2.	Introduction Introduction to the due diligence process and the purpose of the report.
3.	Background of Target Company Overview of the target company, including history and key facts.
4.	Objective of Due Diligence The goal and purpose of the due diligence process in this specific case.
5.	Terms of Reference & Scope of Verification Outline of the scope of the review and the areas covered in the investigation.
6.	Brief History of the Company A short history of the company and its evolution.
7.	Shareholding Pattern A summary of the company's ownership structure and key shareholders.
8.	Observations on the Review Key findings or observations from the due diligence process.
9.	Assessment of Management Structure Evaluation of the management team, their capabilities, and any risks associated with them.
10.	Assessment of Financial Liabilities Review of the company's financial liabilities, including debts, obligations, and outstanding payments.
11.	Assessment of Valuation of Assets

	Evaluation of the value of the company's assets and their accuracy.
12.	Comments on Properties & Leases Review of the company's properties, including leases, liens, and any encumbrances.
13.	Assessment of Operating Results Analysis of the company's operating results (profit, losses, trends).
14.	Assessment of Taxation & Statutory Liabilities Review of the company's tax situation and any statutory liabilities.
15.	Legal Liabilities (Litigation) Assessment of potential legal liabilities from ongoing or past litigation.
16.	Assessment of Net Worth Evaluation of the company's net worth and financial health.
17.	Interlocking Investments & Obligations Review of investments and financial ties with group/associate companies and any amounts affected by litigation or unaccounted liabilities.
18.	SWOT Analysis A SWOT analysis (Strengths, Weaknesses, Opportunities, Threats) of the company.
19.	Comments on Future Projections Review and comments on the future financial projections and business outlook.
20.	Status of Charges & Mortgages Overview of charges, liens, mortgages, and the status of company assets.
21.	Suggestions on Covering Contingent Liabilities Recommendations on ways to cover unforeseen or undetected contingent liabilities, such as affidavits or indemnities.
22.	Suggestions for Post-Merger/Acquisition Recommendations on actions to be taken before and after the merger or acquisition.

17B. FRAUD INVESTIGATION

1. Introduction to Concept of Investigation

Basis	Investigation	Audit
1. Objective	Aims to establish a fact, event, or assess a specific situation.	Main goal is to verify if financial statements reflect a true and fair view of the company's affairs.
2. Scope	May be statutory or non-statutory.	Scope is wide; for statutory audits, it is defined by relevant laws.
3. Periodicity	No rigid time frame; may cover multiple years. Outcome is uncertain.	Conducted on a quarterly, half-yearly, or yearly basis.
4. Nature	Requires detailed study of facts and figures. Voluntary in nature.	Involves sample testing to form an opinion. Mandatory for companies.
5. Inherent Limitations	No inherent limitations due to its nature.	Audit has inherent limitations due to scope and process.
6. Evidence	Seeks conclusive evidence.	Primarily concerned with prima-facie evidence (persuasive evidence).
7. Observance of Accounting Principles	Analytical and requires critical thinking to evaluate facts.	Follows generally accepted accounting principles (GAAP) and audit standards.
8. Appointing Agency	Can be appointed by a third party.	Appointed by the owner or shareholders of the company.
9. Reporting	Reports outcome to the person(s) commissioning the investigation.	Reports outcome to the owners of the business entity.

Aspect	Investigator	Auditor
Approach to Facts	Does not accept a stated fact as correct until it is substantiated.	Relies on stated facts unless there are suspicious circumstances.
Suspicion	Approaches work with a frame of mind to suspect, verify, and satisfy.	Does not suspect unless there are circumstances to raise suspicion.

Step	Description
Step 1:	Determination of Objectives and Establishment of Scope Clarify what the investigation aims to achieve. Obtain clear instructions on the object, scope, and purpose. Specify the period of investigation.
Step 2:	Formulation of the Investigation Programme Tailor the programme based on the type of investigation and business circumstances. Focus on relevant areas and make it flexible for adjustments during progress.
Step 3:	Collection of Evidence ✓ Inquire with the client and gather documents and oral explanations. ✓ Obtain client authorization if needed. ✓ Seek convincing evidence, including expert opinions.
Step 4:	Analysis and Interpretation of Findings

	Analyze and correlate the facts based on gathered evidence. Avoid preconceived notions. The conclusion should be well-reasoned, clear, and backed by facts.
Step 5:	Reporting of Findings Prepare a report based on the client's instructions and the findings. Ensure it is relevant, with proper assumptions and conclusions linked to evidence.
Note:	Higher Chances of Disagreement Investigation lacks standardized procedures and can result in disagreements due to its intimate involvement with affected parties. Judgment and discretion are crucial.

Special Issues in Investigation	
A.	100% Verification vs. Selective Verification 1. The decision depends on the case. a. For small amounts (e.g., cash defalcation), 100% verification may be necessary. b. For profitability, selective verification may suffice, but material transactions must not be missed. 2. Statistically recognized sampling methods are safer than "test checks".
B.	Reliance on Audited Statements 1. If the investigation arises due to doubt in the audited statement, no reliance should be placed. 2. If investigating business value, audited statements can generally be trusted unless errors are found or the investigator is required to test everything again. 3. Confirm in writing if audited accounts are to be accepted. 4. If accounts are not audited by a qualified accountant, they should be verified.
C.	Need for Expert Assistance 1. The investigator may require expert opinions for specific matters. 2. It is advisable to get the client's consent to consult experts and establish cost expectations at the start of the investigation.
D.	Investigation in Disputes and Conflicting Claims 1. Investigations often arise from disputes or conflicting claims. The investigator must stay neutral and avoid bias in the data provided. 2. Pressure from clients (either sellers or buyers) is common, but the investigator must remain professional and objective. 3. This is a challenging and exciting task that requires skill and experience.
E.	Basis of Opinion 1. The investigator must avoid speculation and base opinions on established facts. 2. If facts are not clear or records are incomplete, the investigator should either not express an opinion or clearly qualify it.
F.	Futuristic Statements 1. The investigator should not make futuristic predictions. 2. Trends can be assumed to continue in the short-term, but projecting these into future years for business valuation is not advisable.
G.	Retention of Working Papers 1. The investigator must retain all working papers, including notes, schedules, figures, and conversations. 2. Working papers should link the final figures to the books.

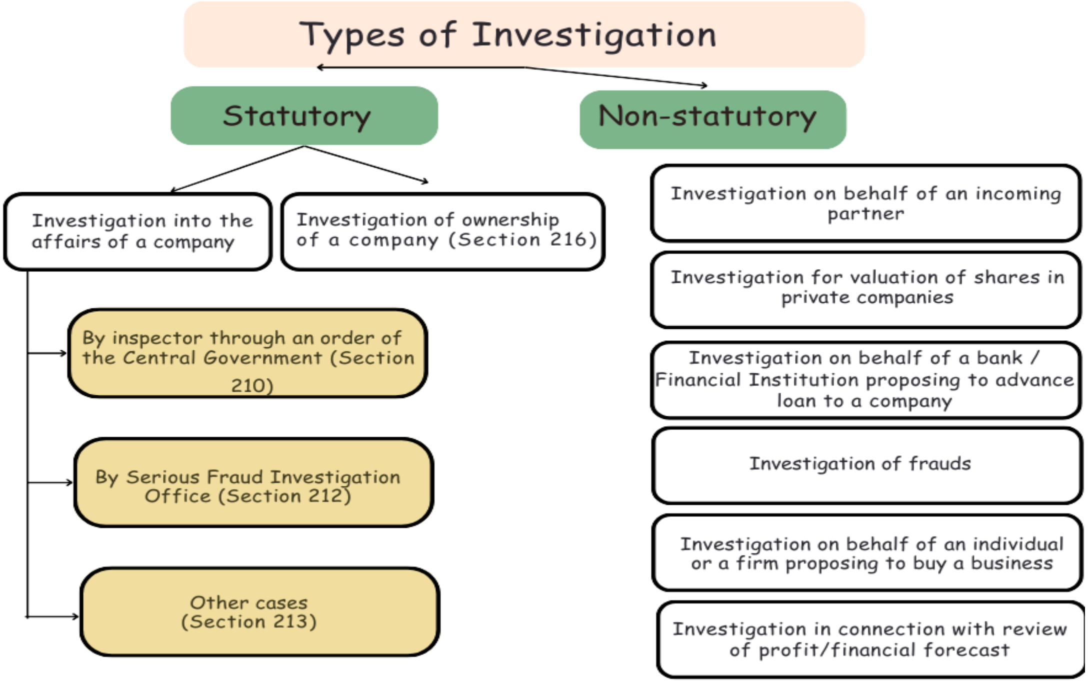
	3. Representation letters should be obtained to protect the investigator's conclusions in case of legal challenges.

2. Special Aspects in Connection with Business Investigations

Content	
A.	**Studying the Overall Picture** 1. Overall Picture: Understanding the business background is crucial, as figures are just symbols. Example: To analyse a group of companies, prepare a chart showing relationships between them. 2. Product Lines: Identify whether the business manufactures one or two key products, processes materials, or sells a single product. 3. Local vs Imported: Determine if the business relies on imported raw materials or local production. Example: A labour-intensive business depends on skilled labour and labour relations. 4. Distribution Channels: Investigate if products are sold through wholesalers or retailers. 5. Political and Economic Factors: Study the business's position in the market, the economic and political forces it faces, and the management's character. Consider how factors like labour disturbances or government policies impact profits. 6. Study the economic and financial position of the business: a. Adequacy of fixed and working capital. b. Sales and profit trends. c. Return on capital employed. d. Is the business operating at full capacity?
B.	**Statement of Profit and Loss** 1. Multiple Years Data: Compare the Statement of Profit and Loss across 5–7 years to identify trends and adjustments. 2. Inventory Valuation: Verify consistent inventory valuation; adjust for changes. Review gross profit ratios and examine any wide variations. 3. Key Areas to Examine: a. Turnover – Product Wise: Break sales figures by product to identify increasing or decreasing sales for each product. b. Expenses – Product Wise: Split expenses if the business has multiple activities (e.g., manufacturing and agency). c. Key Customer Analysis: Check whether a few large customers dominate sales or if sales are spread across many smaller customers. d. Fictitious Sales: Look for any fake sales used to boost profits. e. Wage Structure: Verify wages, especially if higher than industry norms, or if industrial disputes impact profitability. f. Depreciation & Maintenance: Ensure depreciation is consistent and adequate; verify revaluation adjustments. g. Leases: Check if adequate provisions are made for dilapidation charges at lease expiry and if relevant Accounting Standards (AS) are followed. h. Managerial Remuneration: Confirm remuneration is not excessive compared to profits, especially for company directors under Companies Act, 2013.

	i. Exceptional & Non-Recurring Items: Adjust for exceptional items to show the true profit trend. j. Income Tax Disputes: Review tax assessments for abnormal adjustments affecting taxes or assets. k. Repairs and Maintenance: Check for fluctuations in repairs costs and ensure capital vs revenue expenses are correctly allocated. l. Unusual Year: In cases of fluctuating profits, examine if past results (up to 9-10 years) smooth out the fluctuations for better profit estimation.
C.	Balance Sheet 1. Fixed Assets: Obtain age analysis to verify if old/obsolete assets need replacement. Verify ownership of assets like land and buildings. Ensure assets are impaired as per AS 28 if necessary. 2. Investments: Classify as long-term or current investments. Verify permanent declines in value for long-term investments and whether they're correctly valued. 3. Inventories: Check if inventories are consistently valued and include adjustments for damaged or slow-moving stock. 4. Trade Receivables: Check provisions for bad debts, credit period, and debt classification by age. Analyze the Debtors to Sales Ratio. 5. Other Liquid Assets: Confirm if liquid assets are readily realisable. 6. Idle Assets: Identify idle assets (e.g., unused plant or cash balances) and exclude them from the net worth unless they add value. 7. Liabilities: Ensure liabilities are accurately reported and not understated or inflated to distort profits. Examine long outstanding liabilities. 8. Taxation: Verify adequate tax provisions for unassessed liabilities and avoid temporary tax benefits or penalties. 9. Capital: Confirm if capital structure is well-balanced, with a reasonable amount of equity capital in relation to fixed assets and working capital. Excessive debentures or preference shares can affect business value.
D.	Interpretation of Figures 1. Fixed Assets: Estimate future capital expenditure for replacing obsolete assets or upgrading machinery for new products. 2. Turnover: Analyze sales trends, marketability, competition, and economic/political factors that may impact future sales. 3. Working Capital: Consider trends in inventory to turnover ratio, trade receivables, and trade payables when assessing future working capital needs. 4. Estimating Future Profits: Adjust profits for extraordinary factors to predict future maintainable profits. If profit % decreases, further investment may not be wise.

3. Statutory Investigations that requires A Chartered Accountant



A. Investigation under Section 210	
When	Central Government may order an investigation if: 1. Report from Registrar/Inspector. 2. Special resolution passed by the company. 3. Public interest requires it. Court/Tribunal also can order investigation.
Who	The Central Government appoints inspectors to investigate and report.

B. Investigation by SFIO (Section 212)	
When	Central Government may assign investigation to Serious Fraud Investigation Office (SFIO) if: 1. Report from Registrar/Inspector. 2. Special resolution passed. 3. Public interest requires it. 4. Request from Central or State Government.
Who	SFIO is assigned to investigate; no other government agencies can investigate.
Report by SFIO	1. SFIO submits reports to Central Government. 2. If fraud is found, the Central Government may apply to Tribunal for disgorgement of assets and personal liability for wrongdoers.

C. Investigation under Section 213	
When	Tribunal may order investigation if: 1. Fraud or unlawful purposes in business. 2. Mismanagement or oppression of minority shareholders. 3. Failure to provide necessary information.
Who	Tribunal can order investigation on an application from members or other parties.

Investigation Proved	If fraud or misconduct is found, officers of the company involved can be punished for fraud.
Who Can Be Appointed as Inspector	Only individuals can be appointed as inspectors. Firms or bodies corporate cannot be appointed.
Power of Inspector (Section 219)	Inspectors can investigate related companies, entities with common management, and other associated persons, with prior approval from the Central Government.
Objective of Investigation	1. To determine violation of the Companies, Act or breach of duty by directors/officers. 2. Fraud, mismanagement, or misconduct is investigated. 3. "Affairs of the company" includes assets, profits, contracts, decisions, subsidiaries, and more.

D. Procedure, Powers, etc. (Section 217)	
1.	Duty of Officers & Employees Officers, employees, and agents must: 1. Preserve and produce all relevant books and papers. 2. Assist the inspector with the investigation.
2.	Inspector Can Require Information Inspectors can ask other bodies corporate to provide information or documents if necessary.
3.	Custody of Documents Books and papers can't be kept for more than 180 days unless extended.
4.	Examine on Oath Inspectors can examine persons on oath with Central Government approval.
5.	Powers of Civil Court Inspectors have all powers of a Civil Court for investigation under the Code of Civil Procedure.
6.	Assistance from Authorities Government officers, police, and statutory authorities must assist the inspector.
7.	Evidence from Outside India Inspector can request foreign courts for evidence via a letter of request.
8.	Punishment for Non-compliance Directors or officers who disobey or fail to provide information may face imprisonment and fines.

E. Inspector's Report (Section 223)	
1.	Interim and Final Reports Inspector submits interim and final reports to the Central Government.
2.	Access to Reports Members, creditors, or others can apply for a copy of the report.
3.	Authentication of Report The report must be authenticated by the company or a public officer.
4.	Legal Proceedings The report is admissible as evidence in legal proceedings.

F. General Approach for Investigation	
1.	Clarity of Terms Terms of reference must be clear and unambiguous. The scope should not be too general to avoid confusion.
2.	Scope of Investigation Scope depends on terms of reference. It may involve affiliates, associates, and related entities.
3.	Period of Investigation Investigation period should be determined based on terms and scope.
4.	Framing of Programme Create a systematic investigation programme with working notes and evidence collection.
5.	Using Experts Experts like engineers, lawyers, etc., may assist in gathering evidence.
6.	Final Report The final report should be exhaustive, fair, and unbiased after reviewing all evidence.

G. Section 216: Investigation into ownership of the Company	
When	Central Government may appoint inspectors to investigate: a. Financially interested persons in the success or failure of the company. b. Persons able to control or influence the company's policy. c. Beneficial owners or significant beneficial owners of the company's shares. If the Tribunal directs investigation into the company's membership, the Central Government will appoint inspectors.

H. Scope and extent of investigation for above types	
1.	Scope of Investigation Central Government may define the scope and period of the investigation, limiting it to specific matters such as particular shares or debentures. Inspectors have powers to investigate arrangements or understandings related to the company.
2.	Chartered Accountant's Role If a chartered accountant is appointed, the extent of the enquiry and the objective are specified in the order issued by the appointing authority. The accountant should determine which areas of accounts require investigation and the approach to take.
3.	Example of Investigation If transactions are alleged to violate the Companies Act, the investigation should cover: ✓ Nature of the transactions. ✓ Parties involved. ✓ Amounts and circumstances of the transactions. If the contravention was deliberate with an ulterior motive, it may attract a higher penalty. Losses to the company and gains by directors or associates should also be investigated.
4.	Subsidiaries & Director's Interests In cases where the company has subsidiaries or directors are involved with other concerns, all transactions with these concerns should be scrutinized, especially sales/purchases of goods and assets from directors or related parties. These may indicate illicit profit transfers.

5.	Breach of Duty Breach of duty is only relevant if it results in a loss to the company. Investigators must examine the factors and amount of such losses.
6.	Negligence Negligence is considered if it relates to a duty under the Companies Act, Articles of Association, or shareholder/Board resolution.
7.	Director's Negligence Negligence by a director or managerial personnel must be broadly interpreted. As trustees of the company's property, they must safeguard the company's interests and those of shareholders. However, they are not responsible for company losses if decisions were made properly and, in the company's, best interest.
8.	Interrogation of Key Persons Investigators may need to interrogate directors, officers, agents, and others involved. Legal assistance may be necessary before drawing conclusions.
9.	Reporting on Management Efficiency If asked to report on management efficiency, the investigator must be careful. Typically, only general limitations of management should be indicated. The investigator must ensure fairness and provide everyone involved the opportunity to explain their actions.

4. Non-Statutory Investigations

A. Investigation on Behalf of Incoming Partner	
1.	History Investigate the history of the firm's inception and growth.
2.	Deed Review the partnership deed, focusing on: ✓ Composition of partners ✓ Capital contribution ✓ Drawing rights ✓ Retirement benefits ✓ Job allocation ✓ Financial management ✓ Goodwill
3.	Profitability Examine the firm's profitability record over multiple years, making necessary adjustments. Pay attention to partners' remuneration, ensuring it is reasonable in relation to: ✓ Business nature ✓ Profitability ✓ Partners' expertise
4.	Assets & Liabilities Assess the firm's asset and liability position: ✓ Tangible asset backing for the partner's investment. ✓ Value of intangibles (goodwill, know-how, patents, etc.). ✓ Contingent liabilities and pending tax assessments. For service firms, focus on profit record and partners' standing.

5.	Customers & Clients Evaluate the position of orders and the range and quality of clients the firm is working with.
6.	Loans & Advances Scrutinize loan finance, its terms, and its impact on the financial position. Investigate the reasons for the absence or negative impact of loans.
7.	Employees Study the composition and quality of key personnel, and assess any likelihood of their leaving the firm.
8.	Legal Obligations Identify and understand the firm's contractual and legal obligations, such as agreements with employees regarding: ✓ Salaries ✓ Bonuses ✓ Gratuity ✓ Other incidental benefits
9.	Reasons For New Partner Investigate the reason for admitting a new partner and check if it's linked to the retirement of a senior partner who may have significantly impacted the firm's success.
10.	Return On Capital Assess the capital employed and rate of return. Compare it with alternative business avenues and evaluate the possible effects of changes in capital or structure with the new partner.
11.	Firm's Specialization Gain firsthand knowledge about any specialization the firm has achieved in its activities.
12.	Goodwill Computation Understand the method used to calculate goodwill on the admission or retirement of a partner.

B. Investigation for Valuation of shares	
Necessity for Share Valuation	Private companies must restrict the transfer of shares, so their market value is not determined by supply and demand.

Methods for Valuation of Shares	
	Equity Shares Two main methods:
1.	Net Worth Basis ✓ Value = Net Worth of the company ÷ Number of equity shares. ✓ Goodwill and non-trading assets (e.g., investments) are included in the net worth.
2.	Profit Capitalization ✓ Compute average profit over the last 5-7 years. ✓ Capitalize using a reasonable rate of interest. ✓ A higher rate leads to a smaller value, and a lower rate results in a higher value.
	Preference Shares ✓ Value based on the yield of preference shares in similar companies. ✓ Adjust for transferability restrictions and dividend rates.

Special Features in Valuation	
1.	Net Worth Basis ✓ Assets should be revalued based on their utility to the business. ✓ Revaluation may result in higher or lower values compared to book value. ✓ Replacement cost: Revalue assets at current market price, minus depreciation. Original purchase cost or suitable substitutes may be used. ✓ Goodwill depends on capacity to earn super-profits and the duration for which they are expected. ✓ Requires analysis of economic, social, and political forces impacting profitability. ✓ For example, assess installed capacity vs. national requirements and potential government policy changes (e.g., price controls, licensing).
2.	Yield Basis ✓ Valuation based on present value of future dividends. ✓ Dividends depend on the company's future profits and its dividend policy. Capitalization rate is determined by: ✓ Risk of future dividends. ✓ Past performance of the company. ✓ Reserves (both secret and disclosed). ✓ Future prospects of the company's industry.
3.	Control Premium ✓ When shares are transferred, control also passes. ✓ A separate value for control should be added to the share value.

C. Investigation on Behalf of a Bank/ Financial Institution	
1.	Purpose of Loan ✓ Purpose for which the loan is required and how the borrower plans to invest the loan amount.
2.	Projections ✓ Schedule of repayment submitted by the borrower. ✓ Reasonable assumptions about future profits and available cash for repayment. ✓ Lenders focus on annual profits and mortgaged asset values.
3.	Credibility ✓ Financial standing and reputation for business integrity of the company's directors and officers.
4.	Authorization under Byelaws ✓ Whether the company is authorized by its Memorandum or Articles of Association to borrow money for the proposed purpose.
5.	History ✓ The company's growth and performance over the last 5 years.
6.	Economic Position ✓ How the company's economic position may be affected by potential economic, political, and social changes during the loan period.
7.	Previous Loan Applications ✓ Whether the company has made any previous loan applications to other Banks or Financial Institutions, and reasons for rejection.

	▪
8.	Other Factors ✓ Any additional factors the investigating accountant may consider relevant for the proposed loan.

	D. Investigating Fraud in The Context of SA 240
1.	Meaning of Fraud ✓ Defined in Section 143(10) and Section 447 of the Companies Act, 2013. ✓ Fraud includes intentional acts to deceive and gain an advantage (SA 240, Fraud in Financial Statements).
2.	Types of Fraud (SA 240) Fraudulent Financial Reporting ✓ Alteration or falsification of records ✓ Misrepresentation or omission of transactions ✓ Misapplication of accounting principles ✓ Fictitious journal entries ✓ Abnormal year-end transactions. Misappropriation of Assets ✓ Embezzling receipts, stealing assets, fictitious vendors or employees, using assets for personal gain.
3.	Fraud for Personal Gains Bribery ✓ Offering money, gifts, or favours to influence decisions (e.g., kickbacks).
4.	Corporate Frauds/Irregularities Advance Billing ✓ Booking fictitious sales to misrepresent revenue. Shell Companies ✓ Fictitious companies used to divert funds or profits. Money Laundering ✓ Converting illegal money into the banking system.
5.	Fraud at Operational Level (Employees) Tampering of Payments ✓ Altering cheques, drafts, or online payments to misappropriate funds.
6.	Off-Book Frauds ✓ Misappropriation before recording: Cash or collections taken off the books before entries are made. ✓ Hard to detect due to lack of audit trails, common in unorganised markets.
7.	Cash Misappropriation ✓ Misappropriating cash after accounting entries: Identified through surprise checks and monitoring of cash balances.
8.	Teeming and Lading ✓ Cash or cheque collections from customers diverted to personal accounts by overlapping collections.
9.	Fraudulent Disbursements ✓ False bills, personal expense bills disguised as official expenses, or inflating customer refunds.

10.	Expense Reimbursement Schemes ✓ Employees claim personal expenses as business expenses, using duplicate bills or photos of receipts.
11.	Payroll Fraud ✓ Payment to non-existent employees or inflating payroll numbers. ✓ Overstating wages to inflate payments or benefits.
12.	Commission Schemes ✓ Exaggerating sales or altering prices to earn higher commission. ✓ Often masked by legal documents in large deals.
13.	Procedure for Fraud Investigation Initial Steps ✓ Determine duties and relationships of suspected individuals. ✓ Study financial structure and internal controls. Enquiry Process ✓ Investigate areas with excessive control by a single person.
14.	Investigation of Embezzlement of Cash Cash Receipts Fraud ✓ Misappropriating receipts like sales, recoveries, or casual receipts. ✓ Methods include falsifying receipts or altering credit entries. Verification of Cash Receipts ✓ Review receipts, sales summaries, customer correspondences, and bank deposits.
15.	Inflating Cash Payments ✓ - Double payment of invoices or personal expenses disguised as business expenses. - Withdrawing unclaimed credit balances. Verification of Cash Payments ✓ - Scrutinize receipts and payments, review wage sheets, and ensure no duplicate or fake payments are made. Review of Goods Receiving System ✓ Confirm no payments made for goods not received, and verify the Petty Cash Book. Confirmation from Directors/Partners ✓ Confirm salaries, wages, and payments to relevant persons.

E. Frauds Through Suppliers' Ledger	
Type of Fraud	Description
Fictitious or Duplicate Invoices	Recording fake or duplicate invoices as purchases and then misappropriating payments made to suppliers.
Suppressing Credit Notes	Hiding Credit Notes issued by suppliers and withdrawing the unclaimed amounts.
Withdrawing Unclaimed Amounts	Illegally taking unclaimed supplier amounts by falsely showing that payments were made.
Overpriced Purchase Invoices	Approving purchase invoices at inflated prices and collecting the extra cash from suppliers.
Verification of Balances in Suppliers' Ledger for Fraud detection	
Cross-Check Purchases	Match Purchase Journal entries with the Goods Inward Book and supplier invoices to confirm that all credited amounts correspond to received goods.

Request Supplier Statements	Ask all suppliers for account statements to verify outstanding balances, allowances, and rebates.
Confirm Authorization	Ensure that adjustments (e.g., rebates, allowances) are authorized by an officer.
Examine Internal Controls	Review the purchase order system for possible collusion with suppliers.

F. Frauds Through Customers' Ledger	
Type of Fraud	Description
Teeming and Lading	Misappropriating customer payments and covering it up by crediting the amount only when another customer pays. This process is repeated until the misappropriated amount is repaid before year-end.
Misappropriation with Adjustments	Taking customer payments and falsely adjusting their account by crediting it as an allowance or rebate for overcharging.
Wrongful Crediting and Withdrawing	Crediting a customer's payment to another customer's account and later withdrawing the wrongly credited amount.
Verification of Balances in Customers' Ledger	
Check Adjustments	Review allowances for returned goods, price differences, and bad debts to ensure accuracy.
Cross-Check Sales Records	Match Order Book entries with the Sales Day Book to confirm that all sales are recorded correctly.
Customer Confirmations	Obtain direct confirmation from customers regarding their outstanding balances.
Verify Zero-Balance Accounts	Request confirmation from customers with zero balance to verify if the records are accurate.

G. Inventory Frauds	
Type of Fraud	Description
Theft of Goods	Employees directly removing goods from premises.
Concealing Theft	Misreporting stolen goods as damaged.
Manipulating Inventory Records	Adjusting records to match stolen goods, creating false balance.
Inflating Issued Quantities	Overstating raw material issues for production.
Unrecorded Dispatches	Sending out goods without recording in sales or debtor's accounts.

Verification Procedure for Defalcation of Inventory

- ✓ Identify system weaknesses in receipts, storage, and dispatch processes.
- ✓ Ensure inventory control systems track movement with detailed records.
- ✓ Compare physical stock with inventory records to detect fraud.
- ✓ Check all receipts/issues against documentary evidence (e.g., Inward & Outward Registers).
- ✓ Investigate production shortages using engineering assessments to detect inflated material usage.

H. Indicators of Fraud	
Indicators	Description
Discrepancies in Accounting Records	Includes non-recording, partial recording, incorrect recording, or delayed recording of amounts, as well as misclassifications.
Conflicting or Missing Evidence	Covers missing or altered documents, unexplained items in reconciliations, and discrepancies between entity records and received confirmations.
Unacceptable Management Responses	Includes denial of access, undue time pressure, unusual delays in providing information, denial of audit tools, and failure to address internal control deficiencies.
Other Indications	Variance in accounting policies with industry norms, frequent changes in accounting estimates, etc.

Fraud Diamond: Four Elements of Fraud

Element	Description
Incentive	A person wants or needs to commit fraud.
Opportunity	A weakness in the system allows fraud to happen.
Rationalization	The fraudster justifies their fraudulent actions.
Capability	The person has the skills and traits to commit fraud repeatedly.

I. Response to Fraud	
1.	SA 330 - Auditor's Response to Risks ✓ Auditor assigns and supervises personnel based on knowledge, skill, and ability of individuals.
2.	Evaluation of Accounting Policies ✓ Evaluate selection and application of accounting policies. - Include unpredictability in selecting audit procedures (nature, timing, extent).
3.	Response to Management Override of Controls ✓ Test journal entries and other adjustments in financial statements. ✓ Review accounting estimates for biases. ✓ Examine significant transactions outside normal business activities or unusual ones.
4.	Communication and Documentation ✓ Communicate findings to management, those charged with governance, regulatory authorities. ✓ Document risk assessments for material misstatement.
5.	Factors Affecting Auditor's Ability to Detect Fraud ✓ Skilfulness of the perpetrator. ✓ Frequency and extent of manipulation. ✓ Degree of collusion involved. ✓ Size of individual amounts manipulated. ✓ Seniority of individuals involved.
6.	Effectiveness of Audit Procedures ✓ Fraud detection depends on effectiveness of audit procedures.
7.	Detection Risk ✓ Detection risk can be reduced, but not eliminated.

J. Investigation on Behalf of An Individual or Firm Proposing to Buy a Business	
Scope	Details
Objective of Investigation	To collect information to help the purchaser decide whether to buy the business and at what price.
Investigation Process	Follows similar lines to the valuation of shares.

Additional Matters to Investigate (Proprietary Concerns/Partnerships)	
1.	Reasons for Sale ✓ Understand why the business is being sold and how the sale impacts turnover and profits, especially with the retirement of the proprietor or partners.
2.	Lease Details ✓ Check the length of lease and prospects for renewal/extension of premises.
3.	Patents ✓ Investigate the unexpired period of any patents owned by the vendors.
4.	Managerial Staff ✓ Determine the age of current managerial staff and their willingness to stay under new ownership.
5.	Pension/Gratuity Liabilities ✓ Check for possible liabilities for pensions or gratuities due to aged/ retrenched employees.
6.	Customer Base ✓ Investigate the impact on profitability if the business loses key customers.
7.	Goodwill Valuation ✓ Determine the valuation of goodwill and assess if it is correctly valued in the books.

Additional Matters (If Business Belongs to a Limited Company)	
1.	Authorized & Issued Capital ✓ Review the authorized and issued capital of the company.
2.	Uncalled Liability on Shares ✓ Check if there is any uncalled liability on shares.
3.	Share Classes and Rights ✓ Investigate the rights attached to each class of shares (if applicable).
4.	Dividend History ✓ Check past dividends paid and any arrears (especially on cumulative preference shares).
5.	Mortgages/Charges on Assets ✓ Search the Register of Charges at the Registrar of Companies for any mortgages/charges.
6.	Share Price and Valuation ✓ Investigate the price at which shares are offered. If the company is private, a valuation is necessary. Public company shares are usually priced higher than the market.

K. Investigation in connection with Review of Profit/Financial Forecasts	
1.	Profit Reports for Business Purchase ✓ Profit reports may be required as part of an investigation into the purchase of a business.
2.	Loan Application Appraisal

	✓ Banks/Financial institutions may require project cash flow and profitability statements to assess loan applications from intending borrowers.
3.	Forecasts and Uncertainties ✓ Forecasts depend heavily on the nature of the business and its uncertainties. They cannot be verified in the same way as completed financial statements.
4.	Special Review Needed ✓ Special review is required since these investigations depart from the auditor's usual role of expressing an opinion on past events.

17C. FORENSIC ACCOUNTING

1. Meaning & Scope of Forensic Accounting

A. Introduction	
1.	Meaning of Forensic Accounting a. Forensic Accounting is a specialized field that combines financial expertise & investigative skills to resolve fraud and embezzlement issues. b. Derived from the Latin word forensic, it means "suitable for use in a court of law" or "of or before the forum.". c. The definition of Forensic Accounting evolves with the growing needs of corporations, always adapting to new challenges in the field.
2.	Forensic Accounting The integration of accounting, auditing and investigative skills to study and interpret accounting evidence. It involves applying accounting methods to track and collect forensic evidence typically for investigations & prosecution of crimes like embezzlement or fraud.
3.	Red Flag Red flags are warning signs of potential danger or inappropriate behaviour. Red flags don't necessarily mean fraud exists but they signal caution is needed during investigations. Red flags are categorized into financial performance, accounting system, operational and behavioral red flags.

2. Forensic Accounting vs Financial & Statutory Audit

Aspect	Financial Audit	Forensic Accounting
Purpose	Designed to detect MMS, not immaterial frauds.	Focuses on detecting fraud and investigating financial crimes in detail.
Detection Ability	Frauds are not always detectable, as financial auditors rely on sampling and reviewing the audit trail, not the underlying events and activities.	Investigates fraud by examining the events and activities behind documents, providing a more detailed analysis.
Audit Scope	Relies on a sample of transactions to form conclusions.	Involves a thorough investigation, often going beyond standard procedures to track suspicious activities and uncover fraudulent actions.
Resources & Time	Time and costs are limited, so it's not feasible to deeply investigate every document or event.	Requires more time and resources to examine every detail and trace activities, regardless of the cost.
Primary Focus	Focused on FS and MMS.	Focuses on fraud detection, often involving criminal or legal investigations.

Aspect	Statutory Audit	Forensic Accounting
Basic Overview	1. Legal mandate 2. Conducted only by a chartered accountant 3. Measures compliance with reporting standards 4. Reasonable assurance 5. Independent opinion on FS. 6. Follows ICAI's SA	1. Supports legal cases a. In response to an event b. Financial investigations c. Used as evidence in court or to resolve disputes 2. Non-CAs allowed 3. Reports findings of evidence 4. Primarily focused on financials 5. Follows ICAI standards
Objective	True and fair picture	Discover facts and evidence
Focus	Very general – an overall review of BOA.	Narrow – validate transactions and balances
Approach	Control tests of transactions and substantive tests of balances	Focused testing to confirm suspicion or allegation
Target	Identify MMS in FS	Identify or confirm nature of violation
Skills	Testing & checking, analysis, inquiry & observation	Scrutiny & analysis, fact-finding, interviews
Presumption	Professional skepticism, due professional care	Neutrality
Outcome	Audit report opinion	Present evidence to a court of law.

3. Forensic Accounting vs Other Audits

S.no	Particulars	Other Audits	Forensic Accounting
1.	Objectives	Express an opinion as to 'True & Fair' presentation	Whether fraud has actually taken place in books
2.	Techniques	Substantive & Compliance. Sample based checking.	Investigative, substantive or in-depth checking
3.	Period	Normally for a particular accounting period.	No such limitations
4.	Verification of stock, Estimation RV of A & L.	Relies on the management certificate/Management Representation	Independent/verification of suspected/selected items where misappropriation in suspected
5.	Off balance sheet items	Used to vouch the arithmetic accuracy & compliance with procedures.	Regulatory & propriety of these transactions/contracts are examined.
6.	Adverse findings	Negative opinion or qualified opinion expressed with/without quantification	Legal determination of fraud impact and identification of perpetrators depending on scope.

4. Forensic Accountant & List of services

A. Role & Services of Accountant	
1.	Forensic Accountant Role 1. Analysis, interprets, summarizes and presents complex financial and business-related issues in a clear, supported manner. 2. Trained to look beyond the numbers and understand the business reality. 3. Considers if the firm has the necessary skills and experience before accepting work. 4. Requires detailed knowledge of fraud investigation techniques and the legal framework. 5. Must understand various frauds and how to collect evidence. 6. Can be engaged in public practice or employed by insurance companies, banks, police forces, government agencies.
2.	Forensic Accounting Services Services provided by professionals include: a. FS manipulations b. Fund diversions/asset tracing c. Anti-money laundering d. License fees, tax evasion e. Related party transactions/valuations f. Valuations/estimations of loss/damage g. Suspicious transactions under IBC (Insolvency and Bankruptcy Code)
3.	Areas of Services Performed a. Fraud detection: Investigating and analyzing financial evidence to detect fraud and trace misappropriated funds. b. Computer forensics: Developing applications to assist in the recovery, analysis, and presentation of financial evidence. c. Fraud prevention: Reviewing internal controls or consulting on the development of controls aligned with the organization's risk profile. d. Expert testimony: Assisting in legal proceedings, testifying in court as an expert witness, and preparing visual aids to support trial evidence.
4.	Expertise of a forensic accountant a. Forensic professional shall be familiar legal concepts & procedures. b. They shall have expertise in the use of IT Tools & Techniques that facilitate data recovery & analysis. c. Forensic Professional must be able to identify substance over form when dealing with an issue.

[TYU 3]

5. General steps involved in the process of Forensic Accounting

A. Steps for the process of Forensic Accounting	
1.	Step 1: Initialization a. Clarify the motive, purpose, and utility of the assignment by meeting the client to understand the facts, players, and issues. b. Perform a conflict check once relevant parties are identified. Conduct a preliminary investigation for a better understanding before planning.
2.	Step 2: Develop Plan a. Develop a plan based on client meetings and the initial investigation.

	b. The plan should outline objectives and methodology to achieve them.
3.	Step 3: Obtain Relevant Evidence a. Collect documents, economic information, assets or witnesses based on the case. b. Understand the type of fraud and how it was committed to gather detailed evidence. c. Ensure evidence proves the identity of fraudster, the fraud mechanics and the financial loss suffered. d. Collect evidence for court use, maintaining a clear chain of custody to ensure its admissibility. e. Investigate potential falsification, damage or destruction of documents.
4.	Step 4: Perform the Analysis a. Calculate economic damages. b. Summarize transactions or perform an asset trace. c. Perform present value calculations, regression or sensitivity analysis. d. Use computerized applications (spreadsheet, database) charts/graphics to explain analysis.
5.	Step 5: Reporting a. Issue a final report with findings of the fraud investigation. b. Summarize evidence, determine financial loss, and identify fraud participants. c. Include assignment details, scope, approach, limitations, findings, and opinions in the report. d. Support findings with schedules and graphics. e. Explain how the fraud scheme was set up and which controls were bypassed. f. Recommend improvements to prevent future frauds.
6.	Step 6: Court Proceedings a. The investigation may lead to legal proceedings against the suspect. b. Investigative team members may be called to court to present evidence and explain how the fraudster was identified.

6. Forensic Accounting and Investigation Report

A. Form & Content of The Report	
1.	Written Report The Professional must issue a written report that clearly and accurately conveys the results of the assignment, based on reliable and relevant evidence.
2.	Report Addressee & Distribution The report should be addressed to Primary Stakeholders and shared with other stakeholders if required or permissible.
3.	Format or Content of Report a. No fixed format is required, but the report should include the purpose, scope, work performed, limitations, assumptions, evidence, and conclusions. b. If mandated by stakeholders / regulatory requirements, the report should follow those guidelines while including the key elements.

4.	Key Elements of the Report The report should include the following key elements: a. Title, addressee, and distribution list b. Scope and objectives of the assignment c. Approach and work procedures undertaken d. Executive Summary of the results, covering the key findings e. Reference to use of expert if applicable f. Compliance with FAIS or material departures from it g. Findings supported by evidence, sources, and relevant matter h. Assumptions, limitations, and disclaimers i. Conclusions from the assessment
5.	Discussion of Draft Report a. A discussion with the subject party before finalizing the report should include their responses. b. Principles of Natural Justice require discussing findings with the subject party often through internal processes (e.g., disciplinary committee, show cause notice). c. If requested, Professional may include responses from the subject in the draft findings as part of the report.
6.	Assumptions and Limitations a. List relevant assumptions made during the assignment that significantly affect the findings. b. Limitations may include restricted access to records or people due to various reasons such as court orders or short timelines. c. The report should not express an opinion on guilt or innocence; the determination of culpability is a disciplinary or judicial process. d. The report should only highlight circumstances and facts that may aid stakeholders or further investigations.
7.	Reporting Timelines The report should be issued within a reasonable timeframe as per engagement terms. Interim reports may also be required but should not compromise the investigation's progress.

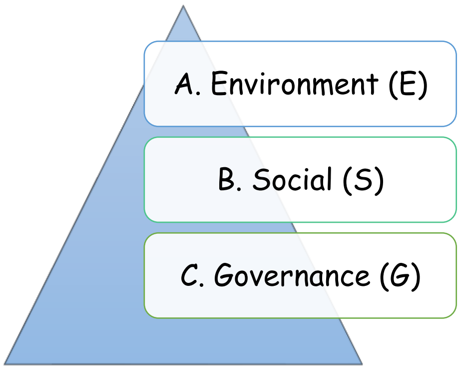
7. Overview of Forensic Accounting and Investigation

A. FAIS & its Objective	
1.	ICAI's Mandate The ICAI was formed with a responsibility to ensure Standards of Performance of its members.
2.	FAIS Publication Forensic Accounting and Investigation Standards (FAIS) are issued by ICAI to ensure high-quality forensic accounting and investigation services. a. FAIS are designed to ensure quality output from ICAI members in forensic accounting and investigations. b. The Framework outlines principles and boundaries for performing forensic accounting services, aiming to enhance quality. c. The Framework must be read with the Preface to the FAIS.
3.	Objectives of the Framework

	The Framework aims to: a. Provide an understanding of forensic accounting and investigations and its key components. b. Describe how these components come together cohesively in service delivery c. Maintain and improve the quality of forensic accounting and investigation services.
4.	Structure of the Framework The Framework is based on the definition of forensic accounting and investigation and the Code of Ethics. It comprises 4 key components forming the foundation of forensic accounting and investigations, which are mandatory except the Guidance, which is recommendatory.
5.	Key Components of the Framework The 4 components, which are the pillars of the Framework, form part of FAIS, even if not explicitly mentioned. (i) Basic Principles of Forensic Accounting and Investigations → (ii) Key Concepts. → (iii) Standards on Forensic Accounting and Investigations. → (iv) Guidance.
6.	Scope of FAIS FAIS provide: a. Minimum standards for forensic accounting and investigation assignments. b. Guidance for users of forensic services regarding expected service quality. c. Appreciation for regulators and government agencies on forensic services. d. Guidance on implementation and related practical issues.
7.	Principle-based Standards The FAIS are principle-based rather than rule-based, allowing professional judgment in unique situations. Forensic accounting and investigative skills may vary depending on the engagement.
8.	Non-Compliance or Conflicts If a member cannot comply with FAIS requirements or if there's a conflict with statutory/regulatory requirements, the report should highlight the material departures with an explanation.
9.	Classification and Numbering of FAIS FAIS will be classified and numbered in a series format when issued.

18. SDG & ESG ASSURANCE

A. SDG as per Bruntland Report	
1.	Origin The concept of sustainable development comes from the Brundtland Report, which highlights sustainable consumption in developed countries.
2.	Definition Sustainable development aims to meet the needs of developing countries while ensuring a more sustainable world. It balances the needs of the present without compromising the ability of current and future generations to sustain their lifestyles.
3.	3 Pillars of Sustainable Development Sustainable development applies to corporate policy. It is built on three main pillars of sustainability: a. Economic Sustainability Ensuring long-term economic growth without negatively impacting social, environmental, and cultural aspects. b. Social Sustainability Promoting equity, human rights, and social well-being while maintaining community stability. c. Environmental Sustainability Protecting natural resources, reducing carbon footprints, and promoting eco-friendly practices for a healthier planet.



B. Three Pillars & its Element	
1.	Environment (E) a. Refers to corporate climate policies, energy use, waste, pollution, natural resource conservation, and treatment of animals. b. Includes natural resources the entity uses (e.g., coal, electricity, water). c. Covers the processing of these resources into products/services, which results in waste (e.g., carbon emissions, water discharges, e-waste)
2.	Social (S) a. Focuses on the entity's relationships and reputation with people, communities, and institutions within its value chain. b. Encompasses labour relations, diversity, and acknowledging that every company operates in a broader & diverse society.

3.	Governance (G) 1. Involves the entity's internal systems of practices, controls, and procedures to govern itself, make sound investment decisions, comply with the law, and meet stakeholder needs. 2. Recognizes that every legal entity requires effective governance.

The above pillars include the following elements as under:

ENVIRONMENT

Climate Change:
- Carbon Emissions
- Product Carbon Foot Prints
- Financing Environmental Impact
- Climate Change Vulnerability

Natural Resources:
- Water Stress
- Bio-diversity & land use
- Raw Material sourcing

Pollution & Waste:
- Toxic emission and waste
- Packing Material and waste
- E-Waste

Environment Opportunity:
- Clean Tech
- Green Building
- Renewable Energy

SOCIAL

Human Capital:
- Labour Management
- Health & Safety
- Human Capital Development
- Supply Chain Labour Standards

Product Liability:
- Product Safety & Quality
- Chemical Safety
- Financial Product Safety
- Privacy and Data Security
- Responsible Investment

Stakeholders Opposition:
- Controversial Sourcing

Social Opportunity:
- Access to Communication
- Access to Finance
- Access to Health Care
- Opportunities in Nutrition & Health

GOVERNANCE

Corporate Governance:
- Broad Diversity
- Executive Pay
- Ownership
- Accounting

Corporate Behaviour
- Business Ethics
- Anti - Competitve Practices
- Corruption & Instability
- Financial system and stability
- Tax Transparency

C. Approach of Reporting on ESG	
1.	ESG Reporting ESG reporting involves the disclosure of information, data, and metrics that demonstrate the added value in the three ESG areas: Environmental, Social, and Governance.
2.	Types of ESG Reporting ESG reporting can be both qualitative and quantitative.
3.	Qualitative Approach Describes a company's strategy and policies on relevant ESG topics.
4.	Quantitative Approach Uses Metrics and Key Performance Indicators to measure progress against ESG goals & report achievements.
5.	Mixed Approach A combination of qualitative and quantitative reporting provides maximum value and improves the quality of disclosures.

D. SDG Goals	
1.	Adoption of SDGs (2015) The UN Member States adopted SDGs as a blueprint for global development.

2.	Number of Goals There are 17 SDGs, considered an urgent call for action for both developed and developing countries.
3.	Key Focus Areas The SDGs aim to end poverty and deprivations while promoting: a. Health and education b. Reduced inequality c. Economic growth d. Climate action e. Ocean and forest conservation
4.	UNDESA & DSDG Support The Division for Sustainable Development Goals (DSDG) under United Nations Department of Economic and Social Affairs (UNDESA) provides support and capacity building for SDGs, covering areas like: a. Water, energy, climate, oceans b. Urbanization, transport, science, technology c. Global Sustainable Development Report (GSDR), partnerships, and Small Island Developing States
5.	Role of SDGs in UN System The SDGs play a crucial role in evaluating UN systemwide implementation of the 2030 Agenda, as well as in advocacy and outreach.
6.	Commitment to 2030 Agenda To achieve the 2030 Agenda, broad ownership of SDGs must be translated into strong commitment by all stakeholders. The DSDG facilitates this engagement.
7.	17 SDGs The following are the 17 Sustainable Development Goals (SDGs):

No.		Sustainable Development Goal	No.		Sustainable Development Goal
1		No Poverty	10		Reduced Inequalities
2		Zero Hunger	11		Sustainable Cities & Communities
3		Good Health & Well-Being	12		Responsible Consumption & Production
4		Quality Education	13		Climate Action
5		Gender Equality	14		Life Below Water
6		Clean Water & Sanitation	15		Life on Land
7		Affordable & Clean Energy	16		Peace, Justice & Strong Institutions
8		Decent Work & Economic Growth	17		Partnership for the Goals
9		Industry, Innovation & Infrastructure			

E. Global Trends	
1.	Mandatory Reporting Requirements a. Primarily apply to public sector entities, government-run companies, large corporations, multinational business conglomerates, and listed companies. b. Sector-specific and thematic reporting provisions are increasing.
2.	Global Reporting Initiative (GRI) The most widely used sustainability reporting framework worldwide. a. 93% of the world's largest 250 corporations use GRI for sustainability reporting. b. Used in 100+ countries.
3.	GRI Headquarters & Hubs a. Based in Amsterdam, Netherlands. b. Has operational hubs in Brazil, China, Colombia, India, South Africa and the US
4.	Purpose Developed with multi-stakeholder contributions to enhance transparency & accountability in sustainability reporting.

F. Global Trends in Sustainability Reporting	
1.	Global Reporting Initiative (GRI) Helps organizations report on economic, environmental, and social impacts. a. General disclosures: Economic, Environment, Social. b. Target Audience: All stakeholders of the entity.
2.	Carbon Disclosure Project (CDP) Captures environmental performance data related to GHG emissions, water, forests, and supply chain. a. Key Areas: Climate Change, Forest, and Water Security. b. Target Audience: Investors, buyers and stakeholders.
3.	International Integrated Reporting Framework (IIRC) Establishes guiding principles and content elements for companies to produce integrated reports. Includes: Organizational overview, Governance, Business model, Risks, Strategy, Performance, Outlook.
4.	Comprehensive Corporate Reporting In September 2020, framework and standard-setting institutions collaborated to create a comprehensive corporate reporting system. Objectives of the Collaboration a. Joint market guidance on how frameworks & standards can be applied together. b. Integration with Financial GAAP for a coherent system. c. Commitment to collaboration among 5 institutions and other stakeholders.
5.	IFRS Foundation's Revised Constitution (Nov 2021) IFRS Foundation Trustees published a revised Constitution and Feedback Statement in response to Exposure Draft Proposed Targeted Amendments for accommodating an ISSB.
6.	Growing Demand for ESG Reporting International investors are increasingly demanding high-quality, transparent, reliable, and comparable ESG reporting.

7.	Creation of ISSB (Nov 2021) The ISSB was created to establish a global baseline of sustainability disclosure standards to provide investors with key information on sustainability-related risks & opportunities.
8.	Task Force on Climate-Related Financial Disclosures (TCFD) Established in 2015 by the Financial Stability Board (FSB) to help companies create consistent climate-related disclosures. a. Unlike GRI, TCFD is focused on financial institutions (e.g., banks, insurance firms).
9.	Climate Disclosure Standards Board (CDSB) a. International group promoting climate-related disclosures in corporate reporting. b. Helps organizations report climate risks and opportunities.
10.	ISSB's Sustainability Disclosure Standards ISSB has taken technical guidance for developing IFRS Sustainability Disclosure Standards.
11.	Value Reporting Foundation (VRF) A non-profit organization formed from the merger of SASB Foundation and IIRC.
12.	IASB & ISSB Collaboration The IASB and ISSB agreed to build an Integrated Reporting Framework.
13.	ISSB's March 2022 Consultation Launched consultation on 2 proposed standards: a. IFRS S1: General sustainability-related disclosures. b. IFRS S2: Climate-related disclosures, based on TCFD recommendations and SASB Standards.

[TYU 1]

G. Integrated Reporting	
1.	Financial Capital a. Pool of funds available for production of goods or services. b. Sourced from debt, equity, grants, or operations & investments.
2.	Manufactured Capital a. Human-created, production-oriented assets such as buildings, equipment, and infrastructure. b. Includes roads, ports, bridges, waste and water treatment plants used for goods and service production.
3.	Natural Capital a. Input for goods & services production. b. Includes water, land, minerals, forests, biodiversity, and ecosystem health. c. Organizational activities can have positive or negative impacts on natural resources.
4.	Human Capital a. People's skills, experience, capacity, and motivations to innovate and support an organization's strategy. b. Includes alignment with governance & ethical values, understanding strategy, and loyalty for improving processes. c. Covers leadership and collaboration capabilities.
5.	Social Capital a. Institutions & relationships within communities, stakeholders & networks to enhance well-being. b. Includes: ✓ Common values & behaviours.

	✓ Key relationships, trust, and loyalty with customers, suppliers, and partners. ✓ Social license to operate.
6.	Intellectual Capital a. Future earning potential, linked to R&D, innovation, human resources, and external relationships. b. Determines competitive advantage of an organization. c. Asia-Pacific leads in sustainability reporting (60% of companies reported in 2022). d. Middle East shows strong adoption of Integrated Reporting.

[TYU 2]

H. Global scenario on Sustainable Reporting in various countries

March 2021
Sustainable Finance Disclosures Regulation (SFDR) go into effect for asset managers and financial advisors operating in EU

April 2021
European commission adopts the CSRD proposal, which will require large companies to report on social and environmental impacts starting in 2024

October 2021
GRI standards updated

November 2021
IFRS Foundation announces the formation of its global reporting standardization initiative through the ISSB. UK Financial conduct authority releases sustainability requirements disclosure paper

December 2021
The European commission published the first delegated act on sustainable activities for the first 2 environmental objectives of the EU territory

February 2022
The EU adopts a proposal for a directive on Corporate Sustainability Due Diligence with Rules for companies to respect human rights and the environment in their global value chains

March 2022
US SEC annouces climate change disclosure proposal ISSB exposure draft for public commentary

April 2022
European Financial Reporting Advisory Board issues exposure draft of the European Sustainbility Reporting Standard (ESRS) for public commentary

June 2022
China's voluntary guidance for Enterprise disclosure takes effect

I. Evolution of ESG in India

Year	Initiative
2009	Corporate Social Responsibility Voluntary Guidelines (CSR Voluntary Guidelines 2009) a. Issued by MCA to encourage businesses to adopt ethical functioning, human rights, environmental development, and social responsibility. b. Aimed at integrating sustainability into business practices
2011	National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business (NVGs) Introduced in July 2011 with comprehensive principles for businesses to adopt as part of corporate responsibility
2012	SEBI Mandates BRR for Top 100 Listed Companies

	SEBI required the top 100 listed companies to file a BRR aligned with ESG principles.
2015	BRR included in SEBI (LODR) Regulations, 2015 Under SEBI LODR Regulations, Top 500 listed companies were required to file a BRR.
2017	SEBI Recommends Integrated Reporting (IR) On 6 February 2017, SEBI issued a circular encouraging top 500 listed companies to voluntarily adopt Integrated Reporting (IR) starting FY 2017-18.
2019	National Guidelines on Responsible Business Conduct (NGRBC) 2018 MCA revised the NVGs (2011) and introduced National Guidelines on Responsible Business Conduct (NGRBC), reinforcing corporate responsibility.
2019	BRR Becomes Mandatory for Top 1,000 Listed Companies Under SEBI (LODR) Regulations, 2019, the top 1,000 listed companies were required to file BRR as part of their annual report.
2021	Business Responsibility and Sustainability Report (BRSR) Introduced a. SEBI introduced BRSR replacing BRR with a more comprehensive ESG reporting framework. b. BRSR aligns with the 9 principles of NGRBC and consists of Essential Indicators (mandatory) and Leadership Indicators (voluntary).
Purpose of BRSR Provides quantitative, standardized ESG disclosures for improved comparability across companies, sectors, and time.	

J. Initiatives by ICAI relating to BRSR	
1.	Sustainability Reporting Standards Board (SRSB) Established – Feb 2020 a. ICAI constituted SRSB to promote awareness and responsible business conduct. b. Develops audit guidance for Integrated Reporting (IR).
2.	ICAI Introduced India's First Integrated Reporting (IR) Award – Encouraged by SEBI Recognizes businesses adopting IR which is acknowledged as best practice in corporate reporting.
3.	ICAI introduced a Certificate Course on: a. Sustainable Development Goals b. Business Responsibility Reports c. Integrated Reporting d. ICAI also proposed an Executive Development Program on BRR.
4.	Key Publications by ICAI on Sustainability Reporting a. SAE 3410 – Assurance Engagements on Greenhouse Gas Statements. b. Background Material on BRSR (Revised 2021). c. Sustainable Development Goals (SDGs) – Accountants Creating a Sustainable World: ✓ Part 1 (SDGs 1-5). ✓ Part 2 (SDGs 6-11). ✓ Part 3 (SDGs 12-17). d. FAQs on Sustainability Reporting – Heart of Good Governance. e. Sustainability Reporting Maturity Model (SRMM) – Version 1.0.

K. Business Responsibility and Sustainability Report	
1.	Mandatory vs. Voluntary Implementation a. Mandatory from FY 2022-23. b. Voluntary for FY 2021-22.
2.	Reporting Structure BRSR is divided into 3 sections:
3.	Section A – General Disclosures Contains details on: a. Listed company information. b. Products & services. c. Operations & employee details. d. Holding, subsidiary, and associate companies.
4.	Section B – Management Process and Disclosures Covers policy and management processes including governance, leadership and oversight.
5.	Section C – Principle-Wise Performance Disclosures Companies must report KPIs based on 9 principles of NGRBC. KPIs are classified into 2 categories: a. Essential Indicators (Mandatory Disclosures) ✓ Training programs conducted. ✓ Environmental data: Energy usage, emissions, water, waste management. b. Leadership Indicators (Optional Disclosures) ✓ Life cycle assessments. ✓ Conflict management policy details. ✓ Additional data: Biodiversity, energy consumption, supply chain management, etc.

L. Principles of BRSR	
1.	9 Principles of BRSR is categorized into ESG Components: Principle 1 – Ethics, Transparency, and Accountability – Governance a. Business decisions should be transparent and accessible to stakeholders. b. Develop and disclose policies, procedures, and performance related to ethics. c. Encourage value chain partners to adopt ethical practices. d. Avoid engagement with non-compliant entities (e.g., violating suppliers, subcontractors).
2.	Principle 2 – Safe and Sustainable Goods and Services – Environment a. Design sustainable products with minimal resource usage. b. Educate consumers about rights and responsible consumption. c. Promote reduce, reuse, and recycling of resources.
3.	Principle 3 – Promote Well-Being of All Employees Including those in the Value Chain a. Ensure regulatory compliance in employment. b. Respect employee rights, including freedom of association and collective bargaining. c. Prevent child labour, bonded labour and forced labour. d. Ensure work-life balance of employees is not compromised e. Ensure timely payments of wages which is as per living wages. f. Promote skill development, training, and career growth. g. Ensure a harassment-free workplace & safe, hygienic & comfortable work space.
4.	Principle 4 – Respect for Stakeholders' Interests and Responsiveness – Governance a. Transparently communicate business decisions and their impact on stakeholders.

	b. Identify and engage with relevant interested parties. c. Ensure fair benefit distribution among stakeholders.
5.	Principle 5 – Respect and Promote Human Rights - Social a. Understand human rights laws (Constitution of India, UN Human Rights). b. Integrate human rights into corporate policies and procedures. c. Protect human rights for employees, communities, consumers, and marginalized groups.
6.	Principle 6 – Protection and Restoration of Environment– Environment a. Assess and rectify environmental impacts throughout the product life cycle. b. Optimize resource utilization based on stakeholder feedback. c. Measure performance in pollution control, waste management, energy efficiency, and land use. d. Support climate change resilience in line with Paris Agreement and National Climate Plans. e. Adopt industry best practices for reduce, reuse, and recycle strategies.
7.	Principle 7 – Influence on Public and Regulatory Policy – Governance a. Businesses should engage in policy advocacy while aligning with BRSR principles. b. Leverage trade associations and industry groups for policy formulation. c. Promote fair competition and prevent human rights violations in policy advocacy.
8.	Principle 8 – Promote Inclusive Growth and Equitable Development – Social a. Identify and address social, cultural, and economic impacts of business activities (e.g., land acquisition). b. Track and mitigate adverse business impacts on society and the environment. c. Promote innovative products and services for marginalized communities. d. Align CSR activities with local and regional development needs. e. Ensure fair compensation in cases of displacement. f. Respect and equitably share intellectual property and traditional knowledge.
9.	Principle 9 – Provide Value to the Consumers in a Responsible Manner – Governance a. Reduce negative impacts of products on consumers, society, and the environment. b. Promote fair competition and consumer choice. c. Transparently disclose adverse effects of products. d. Maintain customer data privacy. e. Educate consumers on safe product usage, disposal, and over-consumption. f. Avoid misleading advertising. g. Provide a grievance redressal system for consumers. h. Ensure universal access to essential goods and services in a non-discriminatory manner.

M. Assurance in BRSR	
1.	Expansion of BRSR Compliance a. Currently applicable to the top 1,000 listed companies as mandated by SEBI. b. Expected to extend to all listed companies in the near future.
2.	BRSR as the Primary Sustainability Disclosure Document a. BRSR will be India's primary reporting framework for sustainability disclosures. b. Stakeholders, investors, and analysts will use it for industry analysis & decision-making.
3.	Need for Assurance in BRSR Assurance in BRSR reporting is critical for credibility and transparency.
4.	ESG Audit Importance

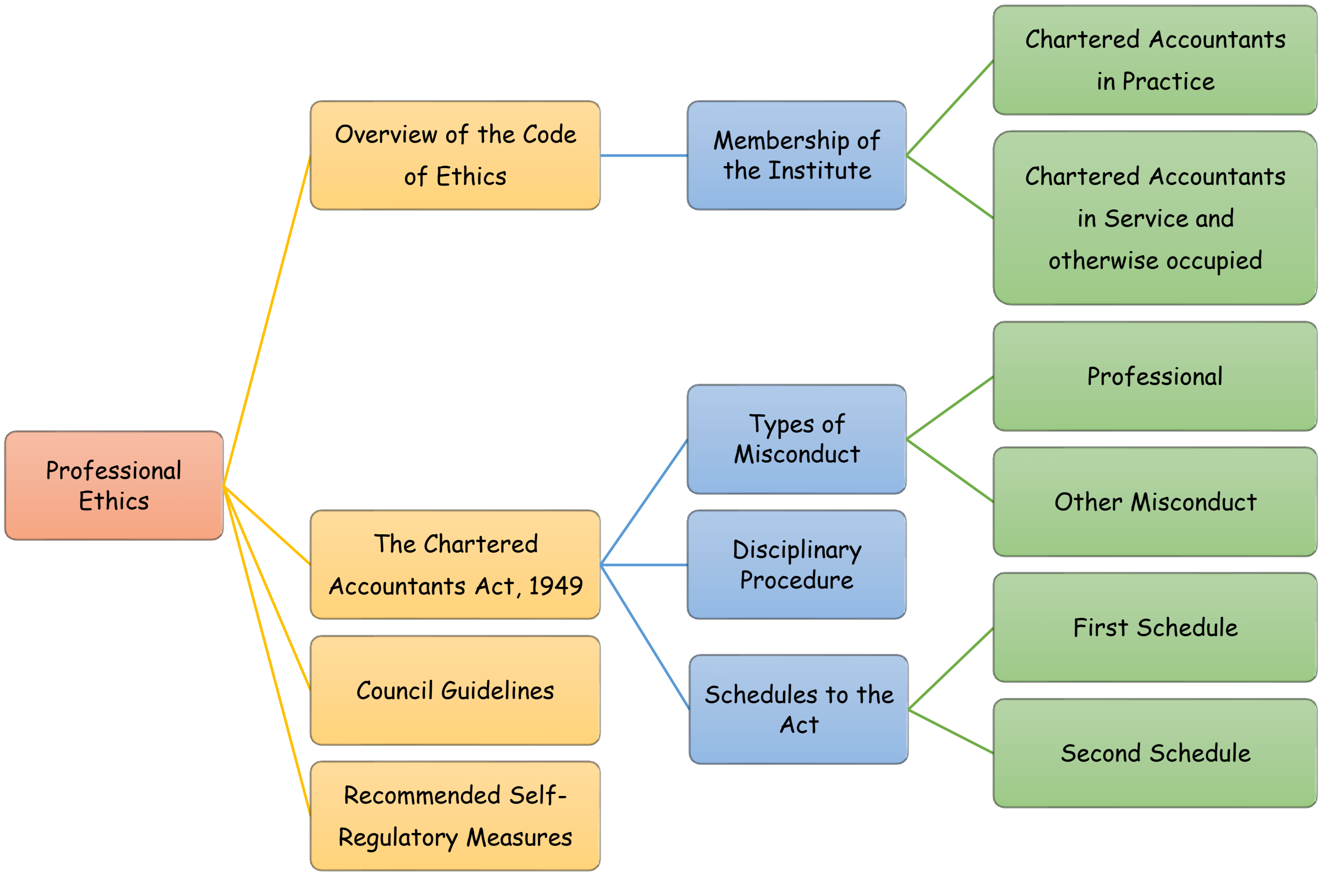
	a. Evaluates environmental and social risks linked to a company's products, services, and operations. b. Helps assess supply chain risks, risk management capabilities, and transparency with shareholders.
5.	Standard on Sustainability Assurance Engagements (SSAE 3000) a. Provides a framework for assurance engagements on sustainability information. b. Intended Users: i. Assurance providers performing sustainability audits. ii. Entities seeking professional assurance. iii. Regulators, investors, and stakeholders using sustainability data.
6.	Scope of SSAE 3000 SSAE 3000 pertains to provide reasonable/limited assurance on sustainability information.
7.	Effective Date of SSAE 3000 a. Voluntary basis for assurance reports covering periods ending on March 31, 2023. b. Mandatory from March 31, 2024 for all assurance reports.
8.	SSAE 3410 – Assurance on Greenhouse Gas Statements This SSAE deals with assurance engagements related to an entity's sustainability information including BRSR assurance.

N. Methodology for BRSR Assurance
To be determined based on best practices and regulatory requirements for ensuring data accuracy, reliability, and transparency.

	O. Social Audit Standards
1.	ICAI's - SRSB has issued Social Audit Standards (SAS 100 to 1600).
2.	Purpose of SAS Provides guidance to Social Auditors on conducting independent impact assessments of Social Enterprises operating in various sectors.
3.	Scope of the Standards Outlines audit steps and procedures for conducting a Social Impact Assessment (SIA).
4.	Minimum Requirements a. Defines the minimum requirements that must be followed in social impact assessments. b. Laws or regulations may impose additional requirements that must also be complied with.

P. Role of Auditor	
1.	Role of the Auditor a. Obtain reasonable assurance that FS are free from MMS due to fraud or error. b. Ensure FS are fairly presented in accordance with the AFRFW.
2.	Consideration of Climate-Related Risks a. While understanding an entity, the auditor should assess climate-related risks and their relevance to the audit. b. Climate risks are more significant in certain sectors, such as: ✓ Banks & Insurance ✓ Energy & Transportation ✓ Materials & Buildings ✓ Agriculture, Food & Forestry
3.	Investor & Stakeholder Expectations on Climate Risks a. Investors and stakeholders demand greater transparency on how climate-related risks are addressed in audits. b. Auditor's reports must align with applicable SA's despite external pressure for climate-related disclosures.
4.	Importance of the Auditor's Report The auditor's report is a key communication tool for audit findings. It includes: a. Audit opinion b. Auditor's responsibilities c. Key audit matters and how they were addressed (if required).
5.	EOM for Climate-Related Disclosures a. In some cases, an EOMP may be required to highlight fundamental climate-related disclosures in the FS. b. The auditor must ensure the entity has properly disclosed climate-related financial information under applicable frameworks like Ind AS.
6.	Reviewing Other Public Disclosures for Consistency a. The auditor must compare the FS with other publicly available information such as: ✓ Management reports in the annual report ✓ Press releases ✓ Investor updates b. This is a requirement under ISA 720 & SA 720.

19. PROFESSIONAL ETHICS



1. Fundamental Principles

	A. Integrity
1.	Honesty and Straightforwardness All professional accountants must be honest and straightforward in their professional and business relationships.
2.	Avoid Misleading Information Accountants should not be associated with reports, returns, or communications that: a. Contain materially false or misleading statements. b. Contain statements or information that are furnished recklessly. c. Omit or obscure information that could mislead. However, If the accountant expresses a modified report on the above then it is not considered as breach of integrity.

	B. Objectivity
1.	Professional Judgment Professional accountants must not compromise their professional or business judgment due to bias, conflict of interest, or undue influence from others.
2.	Avoid Biased Relationships

	Relationships that bias or unduly influence the accountant's professional judgment should be avoided.

	C. Professional Competence and Due care
1.	Objective a. Maintain professional knowledge and skill to ensure clients or employers receive competent professional service, based on the latest technical and professional standards and applicable legislation. b. Act diligently in accordance with technical and professional standards.
2.	Professional Competence a. Professional competence has 2 parts: ✓ Attainment of Competence ✓ Maintenance of Competence b. Provide professional services with sound judgment, applying professional knowledge and skill in activities. c. Maintain professional competence through continuous awareness of technical, professional, and business developments
3.	Diligence Diligence requires an accountant to act carefully, thoroughly, and on time. Accountants should ensure that those working under them receive appropriate training and supervision.

	D. Confidentiality
1.	Objective A professional accountant shall comply with the principle of confidentiality of information acquired through professional or employment relationships, whether current or future.
2.	Professional Accountant should refrain from a. Disclosing confidential information to outsiders without proper authority, unless there is a legal or professional duty b. Using confidential information for personal advantage or 3rd party advantage.
3.	Social Surroundings Maintain confidentiality even in social settings, including the close family.
4.	Post Relationship Confidentiality must be maintained after the relationship with the client or employer ends, as required by legal and professional standards.
5.	Exceptions to confidentiality Professional Accountants may disclose confidential information to outsiders only if ✓ Required by law (e.g., in legal proceedings) ✓ Permitted by law and authorized by client (e.g., document production in legal proceedings). ✓ There is a Professional duty or right to disclose unless prohibited by law Examples: i. To comply with peer review or quality reviews. ii. To respond to regulatory investigations. iii. To comply with technical and professional standards.
6.	Factors for Disclosure Before disclosing confidential information, accountants should consider:

	a. Whether any party's interests, including 3rd parties, could be harmed. b. Whether all relevant information is known and substantiated. c. The type of communication that is expected and to whom it is addressed. d. Whether the recipient is the right party to receive the information.

	E. Professional Behaviour
1.	Objective Accountants must not engage in any work that harms integrity, objectivity, or reputation of the profession.
2.	Accountants must not bring disrepute to the profession. They should be honest and should avoid a. Exaggerated claims ✓ The Services they are able to offer, ✓ The qualifications they possess, or ✓ Experience they have gained. b. Disparaging Others ✓ Criticizing or making unfair comparisons to fellow professionals c. Advertising Violations ✓ Direct/indirect advertising that violates guidelines issued by the Institute
3.	Conflicts in Fundamental Principles A professional accountant might face a situation in which complying with one fundamental principle, conflict with complying with one or more other fundamental principles. a. Seek Consultation with ✓ Employer/client ✓ Governance members ✓ Institute ✓ Legal Counsel b. Exercise Judgment Resolve the conflict using professional judgment or disassociate from the matter creating a conflict.

2. Different types of threats to Independence of Auditors

	Approach Specified by Conceptual Framework a. Identify threats to compliance with the fundamental principles b. Evaluate the threats identified and c. Address the threats by eliminating or reducing them to an acceptable level.

	A. Identification Of Threats
1.	Self Interest Threat The threat that a financial or other interest inappropriately influence a professional accountant's judgment or behaviour. Examples: a. Direct financial interest in a client b. Undue dependence on client fees c. Close business relationship with a client d. Concern about possibility of losing a client

	e. Potential employment with a client f. Contingent fees for assurance work
2.	Self-Review Threat The threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or an activity performed by the professional accountant. Examples: a. Discovering a significant error during re-evaluation b. Reporting on financial systems after involvement in design/implementation c. Prepared original data used in the engagement d. Assurance team member being or having been a director/officer of that client e. Performing a Service that directly affects the subject matter of assurance engagement
3.	Advocacy Threats The threat that a professional accountant promoting client's position to the point of compromising objectivity. Example: a. Promoting shares of a financial statement audit client b. Acting as advocate for assurance client in litigation or dispute with 3rd parties c. Lobbying in favour of legislation for a client
4.	Familiarity Threat The threat due to Long/close relationship with a client leading to being too sympathetic or accepting of work by professional accountant. Example: a. Close relationship with client's director/officer b. Former partner is client's director/officer or an employee in a position to exert direct & significant influence over the subject matter of the engagement. c. Accepting gifts or preferential treatment from a client. d. Long association of senior personnel with client.
5.	Intimidation Threat The threat that an accountant will be deterred from acting objectively due to actual/perceived pressures Example: a. Threatened with dismissal or replacement in relation to a client engagement b. Threatened with litigation c. Pressured to reduce work in order to reduce fees d. Planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.

	B. Evaluation Of Threats
1.	Acceptable Level A level at which a professional accountant, using the reasonable and informed third party test, would likely conclude compliance with the fundamental principles.
2.	Reasonable and Informed Third Party Test a. A consideration by the professional accountant about whether another party would reach the same conclusions. b. Perspective is from a reasonable and informed third party who ✓ Weighs all relevant facts and circumstances known by the accountant.

	✓ Need not be an accountant but possess relevant knowledge and experience to understand and evaluate the accountant's conclusions impartially.

	C. Addressing the Threats
1.	Eliminate or withdraw If the professional accountant determines that the identified threats to fundamental principles are not at an acceptable level, he shall address it in the following manner a. Eliminating the circumstances, such as interests or relationships that creates threats. b. Applying safeguards to reduce the threats to an acceptable level or c. Declining or ending the specific professional activity.
2.	Compulsory withdrawal from engagement When threats cannot be eliminated or reduced to an acceptable level, the only solution is to decline or end the professional activity.

3. Safeguards to threats to independence

A. Meaning of Safeguard	
Actions taken individually or in combination to effectively reduce threats to an acceptable level. Safeguards depend on facts and circumstances.	
B. Actions under various circumstances to address threats	
1.	Assigning additional time and qualified personnel to address self-interest threat
2.	Independent review of work by a reviewer (not team member) to address self-review threat
3.	Use of separate partners and teams with separate reporting lines for non-assurance and assurance services to address Self-review, advocacy, or familiarity threats.
4.	Engaging another firm to perform or re-perform part of the engagement to address Self-interest, self-review, advocacy, familiarity, or intimidation threats
5.	Separate teams for confidential matters to address self-interest threats

4. Non-Compliance with Laws and Regulations (NOCLAR)

	A. Applicability of NOCLAR
1.	Section 260: Professional Accountants in Service Applicable to senior professional accountants in service who are employees of listed entities. Senior Professional Accountants (SPA) means a. Directors, officers, or senior employees able to exert significant influence over the organisation involved in decision-making regarding the organisation's resources (human, financial, technological) in the acquisition, deployment and control. b. In other words, Senior Professional accountants refer to KMP
2.	Section 360: Professional Accountants in Public Practice ✓ Applicable to Audit engagements of Listed entities and having net worth of 250 crores of rupees or more. ✓ Audit shall mean Reasonable assurance engagement. It means Where a professional accountant expresses an opinion on whether financial statements give a true and fair view as per applicable financial reporting framework.

B. Meaning, Scope & Exclusions of NOCLAR	
1.	Meaning Instances of non-compliance with laws and regulations (NOCLAR) or suspected NOCLAR that a professional accountant may come across while providing services to a client or working for an employer.
2.	Scope Acts of omission or commission, whether intentional or unintentional, contrary to prevailing laws or regulations committed by a. Client or Professional Accountants of the Employing Organisation b. Those charged with governance of a client or Employing organisation. c. Management of a client or employing organisation. d. Other individuals working for or under the direction of a Client/Employing entity.
3.	Exclusions Personal Misconduct: NOCLAR does not cover personal misconduct unrelated to the business activities of the client/employing organisation. Other Parties: NOCLAR does not apply to non-compliance by parties not listed in the definition
4.	Examples a. Fraud, Corruption and Bribery b. Money laundering, terrorist financing and proceeds of crime c. Securities markets and trading d. Banking and other financial products and services e. Data protection f. Environmental protection g. Public health and safety h. Tax and pension liabilities and payments

C. Objective & Key Facts of NOCLAR	
1.	Objective of NOCLAR Emphasis on roles of management and TCWG in addressing matters related to NOCLAR. It increases awareness among professional accountants of their legal and regulatory responsibilities when faced with NOCLAR.
2.	Important Facts about NOCLAR a. During the Course of Providing a Service NOCLAR applies if a professional accountant encounters or is made aware of non-compliance or suspected non-compliance while providing a professional service. The accountant is not required to investigate or ensure full compliance. b. Expertise in Laws Not Required Professional accountants are expected to apply their knowledge, expertise, and professional judgment, but they are not required to have extensive legal knowledge. c. Certain Matters Out of Purview Matters that are inconsequential or related to personal misconduct not connected to the business activities of the client are not covered by NOCLAR. d. Disclosure Against Law Not Required Disclosure of NOCLAR to an appropriate authority is not required if such disclosure would be contrary to law or regulation, as per the IESBA Code.

D. NOCLAR VS SA 250	
1.	a. Applicability SA 250 is applicable only to audits while NOCLAR applies to both professional accountants in service and in practice. b. Focus of Responsibilities ✓ SA 250 focuses on auditor responsibilities for laws affecting material amounts and disclosures and laws fundamental to the business operations. ✓ NOCLAR extends beyond SA 250 by addressing non-compliance that causes substantial harm resulting in serious consequences (financial or non-financial). c. Stakeholders SA 250 does not define stakeholders, but NOCLAR considers the impact of non-compliance on investors, creditors, employees, and the general public. d. Exceptional Circumstances NOCLAR allows disclosure to an appropriate authority if non-compliance causes substantial harm in order to mitigate consequences of the breach. SA 250 does not include this provision

E. Steps and Documentation for NOCLAR	
1.	Steps for Responding to NOCLAR a. Obtain an understanding of the NOCLAR issue b. Address the non-compliance as per professional judgment. c. Seek external or legal advice if needed. d. Determine if additional actions are required based on the situation. e. Decide if disclosure to the appropriate authority is necessary. f. If an imminent breach is detected, take appropriate steps to mitigate the harm. g. Ensure proper documentation of all actions and decisions made. *Appropriate Authority The appropriate authority for disclosure depends on the issue (e.g. SEBI for fraudulent financial reporting).
2.	Provisions of Confidentiality (Chartered Accountants Act, 1949) a. For Members in Practice Clause (1) of Part-I: A chartered accountant in practice is guilty of misconduct if they disclose confidential information without client consent, except as required by law. b. For Members in Service Clause (2) of Part-II: A member in service is guilty of misconduct if they disclose confidential information during employment, except as required by law or permitted by the employer.
3.	Documentation Requirements a. Document how management or those charged with governance responded to the matter. b. Document the actions considered, judgments made, and decisions taken, in line with the reasonable and informed third-party test. c. Document how the accountant is satisfied that public interest has been fulfilled d. Follow documentation requirements under applicable auditing standards (e.g. SA's). e. Document significant matters that arose during the audit, the conclusions reached and judgments made. f. Document discussions with management, those charged with governance, and others about significant matters.

	g. Document identified/suspected non-compliance along with discussions & actions taken.

5. Membership of the Institute

	A. Register of Members
1.	Upon acceptance by the Council, the applicant's name is entered in the Register and a certificate of membership is issued (Sec.19). The Register includes the following details: a. Full Name, DOB, Domicile, Residential and Professional Address. b. Date of Entry of name in the register. c. Whether the member hold COP or not. d. Qualifications of the Member. e. Any other prescribed details.
	B. Disqualifications for the Purpose of Membership
2.	A member is debarred from having his name entered in or borne on the Register of Members of the Institute in the following cases (Sec.8) a. If he has not attained the age of 21 years at the time of his application. b. If he is of unsound mind and stands so adjudged by a competent court. c. If he is an undischarged insolvent. d. If he, 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. e. If he has been convicted by a competent court whether within or without India: ✓ of an offence involving moral turpitude and punishable with imprisonment or ✓ of an offence, not of a technical nature, committed in professional capacity. f. If he has been removed from membership of the Institute on being found of guilty of professional or other misconduct. Note: If a member knowingly fails to disclose the fact that he suffers from above disabilities, it will amount to professional misconduct. Accordingly, his name may be removed from permanently ROM by the council.
	C. Types of Members of the Institute
1.	Associate Member A person whose name is entered into the Register of members becomes an Associate Member and may use the letters A.C.A. after their name.
2.	Fellow Member A member who has either: a. An Associate who has been in continuous practice in India for at least 5 years. b. An Associate with at least 5 years of membership and prescribed qualifications ensuring equivalent experience to 5 years of practice. Note: Fellow Members can use the letters F.C.A. after their name to indicate their status.
	D. Removal of Name from the Register
1.	Council may remove a member's name from the Register (Sec 20) in the below cases: a. Deceased Member - If the member is dead, their name is removed from the Register. b. Member's Request - If the member requests removal from the Register. c. Non-Payment of Fee - If the member fails to pay prescribed fees required by ICAI. d. Subject to Disabilities - If the member has become subject to any disability's u/s 8. e. Removal by Order - If an order has been passed under the Act removing the member.

	E. Restoration of Name to the Register
1.	If the member's name was removed for non-payment of fees, they may be re-entered in the Register upon Payment of the arrears of annual fee, entrance fee, and any additional fee as determined by the Council.
	F. Restoration of Membership
1.	Conditions for restoration of membership (Regulation 19) a. A member's name can be restored in the Register upon application. b. The restoration applies to members who were removed due to non-payment of fees. c. The member must pay arrears of annual membership fee ✓ Entrance fee ✓ Additional fee as determined by the Council under the Act.
2.	Effective Date for Restoration of Cancelled Membership a. Application for Restoration and Removal <u>in the Same Year</u> If removal was due to non-payment of fees, restoration will be effective from the date of removal when the member pays the required fees. [NO Break in Service] b. Removal Due to Disciplinary Action If the name was removed due to disciplinary action, restoration date will be as per the order issued in this regard. c. Any other case Restoration will be effective from the date on which the application and fee are received by the Council. [Break in Service arises]
	G. Penalty for Falsely Claiming to be a Member (Sec.24)
1.	Not a Member but Claims to be a member ✓ First conviction: Fine up to ₹1,000. ✓ Subsequent conviction: Imprisonment up to 6 months or a fine up to ₹5,000 or both. Member without COP but Claims to be in Practice ✓ First conviction: Fine up to ₹1,000 ✓ Subsequent conviction: Imprisonment up to 6 months or a fine up to ₹5,000 or both.

6. CA in Practice

	A. Definition of Practicing CA
1.	A practicing Chartered Accountant is: a. A member of the Institute b. Holding a Certificate of Practice c. Includes members who are deemed to be in practice under CA Act, 1949.
	B. Significance of Certificate of Practice
1.	a. Certificate Requirement A member is not allowed to practice without a Certificate of Practice from the Council. b. Annual Fee A member must pay the annual fee for the certificate, which is determined by the Council and due by 1st April each year. c. Cancellation of Certificate The Council can cancel the Certificate of Practice under prescribed circumstances. d. Restrictions for Non-Practicing Members Members who are not in practice cannot accept engagements to render services usually performed by Chartered Accountants, even if they don't need special qualifications.

C. Council's view on Practice	
1.	The Council of the Institute holds the following views: a. Bound by Act and Regulations ✓ Once a person becomes a member of the Institute, they are bound by the Chartered Accountants Act and its Regulations. ✓ A member can only practice as a Chartered Accountant. b. No Dual Capacity ✓ A member cannot practice in any other capacity apart from being a Chartered Accountant. c. Impact of Removal from Membership ✓ A Chartered Accountant whose name is removed for misconduct cannot appear before tax authorities or other bodies in any capacity during the removal period. (Refer Illustration 1)
D. Cancellation and Restoration of COP	
1.	COP may be cancelled under the following conditions (Regulation 10) ✓ If the holder's name is removed from the Register. ✓ If the COP was issued based on incorrect, misleading, or false information, or by mistake or inadvertence. ✓ If the member ceases to practice. ✓ If the member has not paid the annual fee for the COP by 30th September of the relevant year. Action on Cancellation ✓ Upon cancellation, the holder must surrender the COP to the Secretary. Process for restoration of the COP (Regulation 11) ✓ A member can apply for restoration if it was cancelled due to non-payment of annual fee. ✓ The application must be in the approved form, and must pay the required fee. ✓ The application must be received by Secretary before the expiry of the relevant year. ✓ The COP can be restored with effect from the date it was cancelled. [NO Break]
E. Member deemed to be in practice	
1.	A member is deemed to be in practice when, in consideration of remuneration, they: a. Engages in the practice of accountancy either ✓ individually, ✓ in partnership with other Chartered Accountants, or ✓ with other recognized professionals. b. Performs auditing or verification of financial transactions, books, accounts, or records. c. Provides professional services related to accounting procedures, presentation, or certification of financial facts. d. Renders any other services the Council deems appropriate for a CA in practice. e. Setting up an establishment to offer accounting services is considered being in practice even if no clients have been served yet. f. Member is deemed to be in practice for the period he renders 'service with armed forces' g. A salaried Associate/Fellow working under a Chartered Accountant or Firm of CA's is considered "Deemed to be in practice" only for the limited purpose of training Articled Assistants.
F. MCOS Services	

1.	Chartered Accountants in practice are allowed to provide a full range of management consultancy services under a Council resolution. MCOS shall not include the function of a. Statutory audit, tax (both direct taxes and indirect taxes) representation or b. Advice concerning tax matters or c. Acting as liquidator, trustee, executor, administrator, arbitrator or receiver. Note: These services are treated as Deemed to be in practice
2.	MCOS includes 1. Financial management planning and financial policy determination*. 2. Capital structure planning and advice regarding raising finance*. 3. Working capital management*. 4. Preparing project reports and feasibility studies*. *[Consideration of "tax implications" while rendering the services at (i), (ii), (iii) and (iv) above will be considered as part of "Management Consultancy Services". 5. Preparing cash budget, cash flow statements, profitability statements, statements of sources and application of funds etc. 6. Budgeting including capital budgets and revenue budgets. 7. Inventory management, material handling and storage. 8. Market research and demand studies. 9. Price-fixation and other management decision making. 10. Management accounting systems, cost control and value analysis. 11. Control methods and management information and reporting. 12. Personnel recruitment and selection 13. Setting up executive incentive plans, wage incentive plans etc 14. Management and operational audits 15. Valuation of shares and business and advice regarding amalgamation, merger and acquisition and Acting as Registered Valuer. 16. Business Policy, corporate planning, organisation development, growth and diversification. 17. Organisation structure and behaviour, development of human resources including design and conduct of training programmes, work study, job-description, job evaluation and evaluation of workloads. 18. Systems analysis and design, and computer related services including selection of hardware and development of software in all areas of services which can otherwise be rendered by a Chartered Accountant in practice and also to carry out any other professional services relating to EDP. 19. Acting as advisor or consultant to an issue, including such matters as: 20. Drafting of prospectus and memorandum containing salient futures of prospectus. 21. Drafting and filing of listing agreement and completing formalities with Stock Exchanges, Registrar of Companies and SEBI. 22. Preparation of publicity budget, advice regarding arrangements for selection of (i) ad-media, (ii) centres for holding conferences of brokers, investors, etc., (iii) bankers to issue, (iv) collection centres, (v) brokers to issue, (vi) underwriters and the underwriting arrangement etc. 23. Advice regarding selection of various agencies connected with issue, namely Registrars to Issue, printers and advertising agencies.

24. Advice on the post issue activities, e.g., follow up steps which include listing of instruments and dispatch of certificates and refunds, with the various agencies connected with the work.
    Clarification: Activities of broking, underwriting and portfolio management are not permitted.
25. Investment counselling in respect of securities.
26. Acting as registrar to an issue and for transfer of shares/other securities.
27. Quality Audit.
28. Environment Audit.
29. Energy Audit.
30. Acting as Recovery Consultant in the Banking Sector.
31. Insurance Financial Advisory Services
32. Acting as Insolvency Professional.
33. Administrative Services.
    Meaning: Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.
    Examples of administrative services include:
    a. Word processing services.
    b. Preparing administrative or statutory forms for client approval.
    c. Submitting such forms as instructed by the client.
    d. Monitoring statutory filing dates and advising an audit client of those dates.

    For example, the functions of a GST practitioner includes:
    a. Furnish the details of outward and inward supplies.
    b. Furnish monthly, quarterly, annual or final return.
    c. Make deposit for credit into the electronic cash ledger.
    d. File a claim for refund.
    e. File an application for amendment or cancellation of registration.
    f. Furnish information for generation of e-way bill.
    g. Furnish details of challan in form GST ITC-04.
    h. File an application for amendment or cancellation of enrolment under rule 58 and
    i. File an intimation to pay tax under the composition scheme or withdraw from the said scheme.

Note:

a. Management Services cannot be provided to a company if the member is appointed as a statutory auditor for the said company as per Sec. 144 of Companies Act, 2013
b. Management Services are different from MCOS Services.
c. A CA in full time employment is representing his employer in a tax assessment, it cannot be treated as deemed to be in practice. However, if he represents colleagues in tax assessments then it may be treated as Deemed to be in practice

(Refer Illustration 2)

G. Prohibited Services for Auditor

Services Not Allowed for Auditor of the Company (Sec.144)

a. Accounting and Bookkeeping Service
b. Internal Audit
c. Design/Implementation of Financial Information System
d. Actuarial Services

	e. Investment Advisory Services f. Investment Banking Services g. Outsourced Financial Services h. Management Services [Note: MCOS is different] i. Other Services (as prescribed by law)

H. Companies cannot engage in accountancy practice

	As per Sec.25 of the Chartered Accountants Act, 1949, a. No company (including LLPs with a company as a partner) can practice as a chartered accountant. Penalty for violation If a company violates this provision, directors, managers, secretaries, and officers involved shall be punishable with a fine of ✓ First conviction: up to ₹1,000 ✓ Subsequent convictions: up to ₹5,000 b. As per provisions of the Companies Act, only Individual or Firm (Including LLP) Appointed can be appointed as Auditor of a company. Note: ✓ Only partners who are chartered accountants can sign on behalf of the firm. ✓ LLP is eligible to act as an auditor provided it should not have a partner which is a company.

7. Member in Practice is prohibited using any other designation

A. Usage of Prefix & Designation

1.	Use of the term CA: Members can use "CA" as a prefix to their name whether or not in practice. Designation Restrictions for Members in Practice a. A member in practice can only use the designation "Chartered Accountant". b. A member in practice can add descriptions related to qualifications from other recognized institutes or other professional qualifications.
2.	Merchant Banker / Advisor to an Issue a. Members can apply to be a Category IV Merchant Banker under SEBI rules. b. Can act as an Advisor/Consultant to an issue in capital market issues, but their name and address should not be prominent in client company advertisements or offer documents.
3.	Directorships, Political Positions, and Club Memberships Members cannot mention their positions as directors of companies, members of political parties, or positions in clubs or other organizations in violation of Section 7 of the Chartered Accountants Act, 1949.
4.	Members who are also eligible to practice as Company Secretaries and/or Cost Accountants. a. Members may practice as CS and/or CMA if they are eligible. b. However, they cannot use the designations as Cost Management Accountants or Company Secretary from these Institutes alongside the Chartered Accountant designation. c. But they are allowed to use A.C.M.A/F.C.M.A or A.C.S /F.C.S after their name if they are members of those other respective institutes.
5.	Qualifications of Foreign Institutes Members can mention membership of foreign accountancy institutes recognized by the ICAI through MoUs or MRAs.

6.	Improper Designations A member in practice cannot use these following designations on professional documents such as Letter Heads, Visiting Cards ✓ Income-tax Consultant, Cost Consultant, Company Secretary, Cost Management Accountant, Management Consultant, Corporate Lawyer. ✓ Certified Public Accountant (CPA)
7.	Member not in practice A member who is not in practice and does not use the designation of a Chartered Accountant may use any other description.

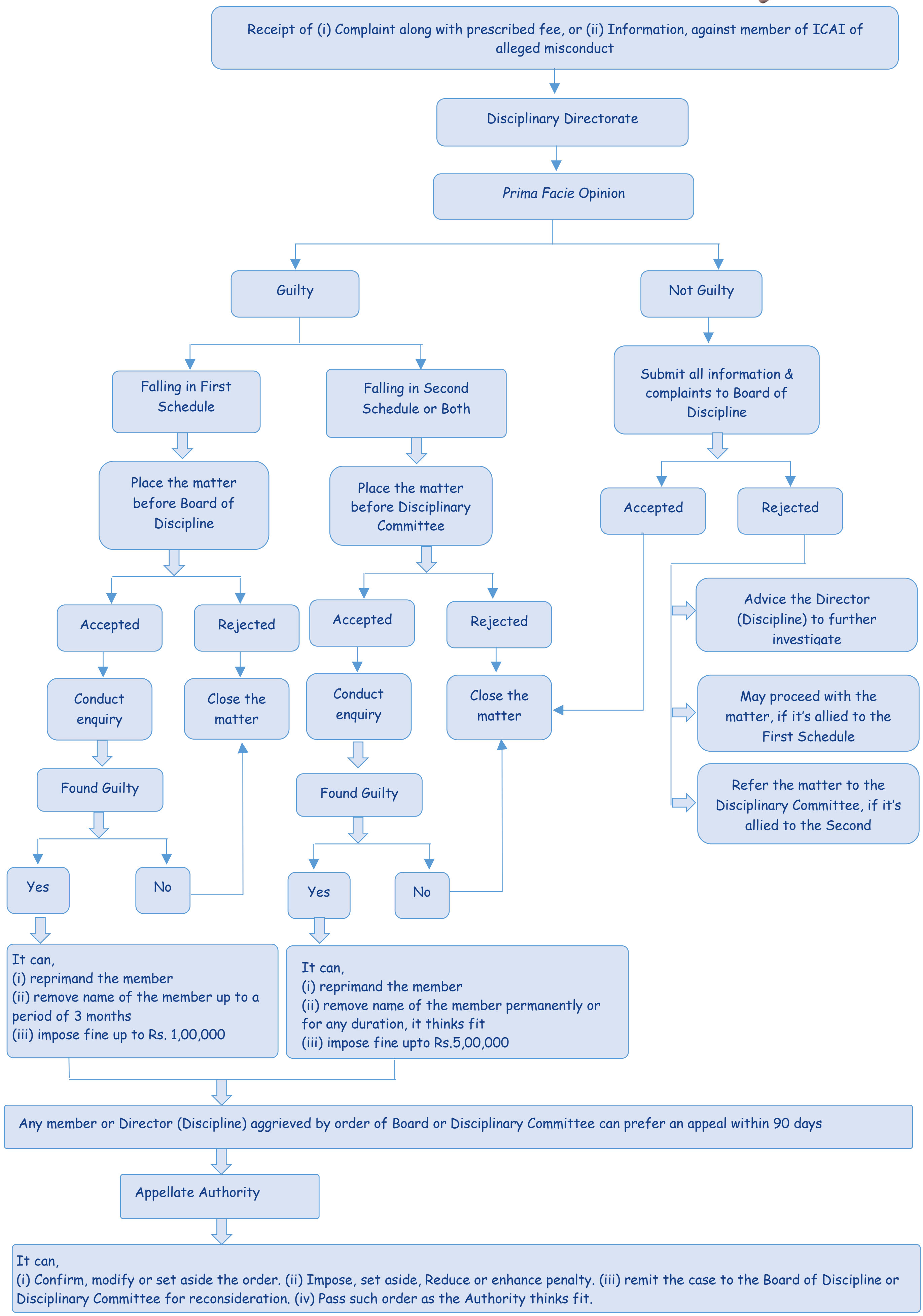
8. Maintenance of Branch Office

	A. Requirement & Incharge for Branch Offices
1.	Separate Incharge for Each Office a. If a Chartered Accountant or Firm of Chartered Accountants has more than one office in India, each branch office must be under the charge of a member of the Institute. b. Failure to comply will constitute as professional misconduct.
2.	Member's Responsibility for Branches a. The Chartered Accountant in charge of a branch must either be ✓ a partner in the firm or ✓ a paid assistant in the firm. b. If he is a paid assistant, the member must be in full-time employment with the firm. c. Active Association: The member should be actively associated with the office by either: ✓ Residing there for at least 182 days a year, or ✓ Working there for at least 182 days a year. d. In other cases, the Executive Committee decides on the active association based on the circumstances.
	B. Temporary Branch Offices
1.	Exemption for Members in Hill Areas Members practicing in hill areas can open temporary offices in plain areas for up to 3 months a year Conditions for Temporary Offices a. The temporary office must be open for not more than 3 months in a year. b. The regular office must remain open and all correspondence can be directed there. c. Temporary office name board should only be displayed during the permitted period. d. The temporary office cannot be listed on letterheads or visiting cards. e. Before opening the office, the Institute must be informed f. A notice must be sent after the office is closed
	C. Member In-charge more than One Office
1.	Member can open second office without a separate in charge of a member of institute in the following cases: a. The second office is located in the same premises [i.e., One and Same Accommodation] in which the first office is located. b. The second office is located in the same city, in which the first office is located. c. 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. (Refer Illustration 4)

D. Name Board	
1.	A name-board with the designation Chartered Accountant can be displayed at the member's residence, as long as it's an individual member's board and not a firm's board.

9. Chartered Accountant in Service

Chartered Accountant in Service	
	Professional Accountant in Service or Chartered Accountant in Service means a professional accountant employed or engaged in an executive or non-executive capacity in areas like commerce, industry, service, public sector, education, not-for-profit sector, regulatory/professional bodies or professional accountant contracted by such entities.


Receipt of (i) Complaint along with prescribed fee, or (ii) Information, against member of ICAI of alleged misconduct
Disciplinary Directorate
Prima Facie Opinion
Guilty
Not Guilty
Falling in First Schedule
Falling in Second Schedule or Both
Submit all information & complaints to Board of Discipline
Place the matter before Board of Discipline
Place the matter before Disciplinary Committee
Accepted
Rejected
Accepted
Rejected
Accepted
Rejected
Advice the Director (Discipline) to further investigate
Conduct enquiry
Close the matter
Conduct enquiry
Close the matter
May proceed with the matter, if it's allied to the First Schedule
Found Guilty
Found Guilty
Refer the matter to the Disciplinary Committee, if it's allied to the Second
Yes
No
Yes
No
It can,
(i) reprimand the member
(ii) remove name of the member up to a period of 3 months
(iii) impose fine up to Rs. 1,00,000
It can,
(i) reprimand the member
(ii) remove name of the member permanently or for any duration, it thinks fit
(iii) impose fine upto Rs.5,00,000
Any member or Director (Discipline) aggrieved by order of Board or Disciplinary Committee can prefer an appeal within 90 days
Appellate Authority
It can,
(i) Confirm, modify or set aside the order. (ii) Impose, set aside, Reduce or enhance penalty. (iii) remit the case to the Board of Discipline or Disciplinary Committee for reconsideration. (iv) Pass such order as the Authority thinks fit.

10. Types of Misconduct

	A. Meaning of Misconduct
1.	A member is liable for disciplinary action U/s 21 of the CA Act if found guilty of Professional Misconduct or Other Misconduct.
2.	Meaning of Misconduct The term "Professional or Other Misconduct" includes acts or omissions provided in the Schedules.
	B. Professional Misconduct
1.	A member engaged in the profession of accountancy in practice or service, must act in line with the provisions of the Schedules.
2.	Guilty of Misconduct a. A member is guilty of Professional Misconduct if found in violation of any act or omissions listed in the Schedules. b. Defined in Part I, II, and III of 1st Schedule & Part I and II of 2nd Schedule.
	C. Other Misconduct
1.	A chartered accountant must uphold the highest standards of integrity even in personal matters even though unrelated to professional work.
2.	Guilty of Misconduct a. A member is guilty of Other Misconduct if found guilty of any misconduct even if it does not arise out of Professional work. b. Defined in Part – IV of First Schedule and Part – III of Second Schedule.
3.	Example ✓ A member who is found to have forged the will of a relative, would be liable to disciplinary action even though the forgery may not have been done in the course of his professional duty. ✓ Other misconduct would also relate to conviction by a competent court for an offence involving moral turpitude punishable with imprisonment.

11. Schedules to the CA Act

	A. Schedules and Parts
1.	Acts or omissions constituting professional misconduct under Section 22 of the Chartered Accountants Act are defined in two schedules: ✓ First Schedule and ✓ Second Schedule.
2.	First Schedule a. Part I – Addresses misconduct of a member in practice (12 Clause) b. Part II – Focuses on misconduct of members in service (2 Clauses) c. Part III- Relates to misconduct of members generally (3 clauses) d. Part IV – Covers other misconduct applicable to all members of the Institute. (2 clauses)
3.	Second Schedule a. Part I – Addresses misconduct of a member in practice (10 Clauses) b. Part II – Relates to misconduct of members generally (4 clauses) c. Part III - Covers other misconduct applicable to all members of the Institute. (1 clause)

12. Part 1 of First Schedule – Professional Misconduct in relation to Practice

	Clause 1 - Allows any person to practice in his name as a Chartered Accountant
1.	A Chartered Accountant in practice (CAP) is deemed to be guilty if he allows another person to practice in his name Exceptions: a. The person is a Chartered Accountant in practice and b. The person is in partnership with or employed by the Chartered Accountant (Refer Illustration 5)
	Clause 2- Share of profits to non-members
1.	A Chartered Accountant in Practice (CAP) shall be guilty of professional misconduct if they pay, allow, or agree to pay or allow, directly or indirectly, any share, commission, or brokerage in the fees or profits of their professional business to any person, except as stated below. a. Permitted to share with the following persons ✓ A member of the Institute ✓ A partner ✓ A retired partner ✓ The legal representative of a deceased partner ✓ A member of other professional bodies (permitted by the Council) ✓ A person with recognized qualifications (as prescribed by the Council). b. Prescribed Professional Bodies & Qualifications ✓ ICSI ✓ ICWAI (now ICMA) ✓ Bar Council of India ✓ Indian Institute of Architects ✓ Indian Institute of Actuaries ✓ Bachelor of Engineer & MBA (as permitted by the council) c. Not a Violation Sharing fees in the form of a deposit with the SG treasury for administrative expenses related to the assignment of cooperative societies' audit is not guilty.
2.	Treatment of Share of Profit / Goodwill on death of a partner/ proprietor: a. Partnership Firm: Sharing fees with the legal representative of a deceased partner is allowed, provided it is specified in the partnership deed. b. Proprietorship Firm: ✓ Sharing Fees: Strictly prohibited between the legal representative of the deceased CAP and the buyer of goodwill. ✓ Sale of Goodwill: Permitted by following the specific conditions.
3.	Conditions for Sale of Goodwill Case 1: Death of proprietor on or after 30.08.1998: ✓ Legal heir must obtain Council permission within 1 year from the date of demise. ✓ Sale of goodwill must be completed within 1 year from the date of death. ✓ Firm's name shall not be removed for 1 year after death. ✓ If a dispute arises about the legal heir of the deceased and the Institute has received the information of dispute within 1 year, the firm's name will be kept in abeyance until 1 year after the dispute is settled. ✓ The purchaser can use the firm's name.

	Case 2: Death of proprietor on or before 29.08.1998: ✓ Sale/transfer must have been completed and Council permission to practice in the deceased proprietor's firm name must have been sought by 28.08.1999. The firm name must still be available with the Institute as on date of application. Note: In the case of partnership firms, if all partners die simultaneously, the Council's decision on goodwill/sale would also apply. (Refer Illustration 6)
Clause 3 - Accepting share of profit or fees from non-member	
1.	A Chartered Accountant in Practice (CAP) shall be guilty of professional misconduct if they accept or agree to accept any share of profits or fees from the professional work of a non-member. Permitted to share with the following persons a. A member of the Institute b. A partner c. A retired partner d. The legal representative of a deceased partner e. A member of other professional bodies f. A person with recognized qualifications Note: A member in practice is allowed to charge referral fees (fees obtained from another member in practice for referring a client).
Clause 4- Prohibiting a CAP to enter into Partnership with Non-members	
1.	A Chartered Accountant in Practice (CAP) shall be guilty of professional misconduct if they enter into a partnership, in or outside India with anyone other than CAP. Permitted to enter into Partnership with the following: a. Company Secretary (CS): Member of ICSI. b. Cost Accountant (CMA): Member of the ICMAI c. Advocate: Member of the Bar Council of India. d. Engineer: Member of the Institution of Engineers e. Architect: Member of the IIA. f. Actuary: Member of the IAI. Prohibition on Multi-Disciplinary Partnerships CAP is not permitted to form Multi-Disciplinary Partnerships unless: ✓ The regulators of the other professions also allow partnerships with Chartered Accountants and ✓ The Council issues guidelines permitting such partnerships.
Clause 5 - Prohibition on Securing Professional Business unauthorised manner	
1.	A CAP shall be guilty of professional misconduct if they secure professional business ✓ Through the services of a non-employee / non- partner of CAP or ✓ By means not open to Chartered Accountants *This prohibition does not apply to agreements permitted under Clauses (2), (3), and (4) of Part I of First Schedule. Note: ✓ A Chartered Accountant must seek professional work through their own talent, skill, and reputation, not by using agents or unethical methods. ✓ All forms of Canvassing (actively soliciting work) is strictly prohibited. ✓ "A man must stand erect, and not to be kept erect by others" applies to Professionals

	Council Decision on Violation: ✓ A Chartered Accountant wrote to Army Canteen officers sharing details of his experience, his partner and office, norms for charging audit fees ✓ The CA was found guilty of violating Clauses (5) and (6).
	Clause 6 - Prohibition on Solicitation of Clients or Professional work
1.	A CAP is prohibited from soliciting clients or professional work directly or indirectly through Circulars, Advertisements, Personal Communication, Interview or any other means. Exceptions ✓ Requesting or inviting professional work from another Chartered Accountant in practice. ✓ Responding to tenders or enquiries for professional work, subject to ICAI Guidelines.
2.	Advertisement of Coaching/Teaching Activities ✓ Members involved in coaching/teaching are prohibited from advertising through hoardings, posters, banners, or similar means. ✓ It involves indirect solicitation. ✓ A signboard outside the premises with Name of the Institute, contact details, Subjects taught is Permitted ✓ As regards the size and type of signboard, the Council Guidelines as applicable to Firms of Chartered Accountants would apply.
3.	Advertisement Activities a. Advertisement and Notes in Press: ✓ No advertisements soliciting professional work. ✓ No circulation of letters to clients ✓ No Personal canvassing or seeking clients from previous employers. b. Permitted Advertisement for Announcements of partnership changes, address or telephone number changes provided such advertisements must be limited to bare statement of facts, with careful consideration of appropriateness of area of newspaper / magazine distribution, number of insertions of the advertisement etc. c. Classified Advertisement Members may issue classified ads in the Institute's journal/newsletter for sharing work, seeking partnerships, or salaried employment. The advertisement must include only Name, Address or contact details, Social Networking site address, Actual Experience, Area of Specialization.
4.	Application for empanelment for allotment of audit and other professional work with a. Government departments, Government Companies/Corporations, b. Courts, Co-operative societies and banks and other similar institutions which prepares panels of chartered accountants. [E.g., CAG, RBI Empanelment] c. The Chartered Accountant Shall NOT make roving enquiries by applying to any such organization for having his name included in any such panel. d. It is permissible to quote fees on enquiries being received from such bodies.
5.	Tender Guidelines Members cannot respond to tenders for services exclusively reserved for Chartered Accountants (e.g., audit and attestation services). Exception ✓ The tender prescribes a minimum fee that commensurate with the size, value, volume, manpower, and nature of work or ✓ The tender is open to other professionals along with Chartered Accountants.

	EMD/Security Deposit ✓ The Council does not interfere with EMD/Security Deposit requirements unless there are complaints or instances of exorbitant deposits. Cost Sheet Requirement ✓ Members must maintain a cost sheet when responding to tenders. ✓ The cost sheet should include details such as, Number of persons involved, hours spent, Costs incurred etc. ✓ The cost sheet must be available for the Institute's perusal upon request.
6.	Publication of Books, Articles, or Presentations a. A member is not allowed to mention any professional attainments of the member or firm. b. However, the designation "Chartered Accountant" and firm name can be included.
7.	Issue of greeting cards or invitations a. A member is not allowed to mention professional status/qualifications in greeting cards or personal invitations. b. However, the designation "Chartered Accountant" and firm name can be used in invitations for marriages, religious ceremonies, office inaugurations, office address changes, or telephone number changes. c. These should only be sent to clients, relatives, and friends.
8.	Advertisement for Celebrations a. A member is not allowed to advertise events organized by the Firm of Chartered Accountants. b. However, advertisements for Silver, Golden, Diamond, Platinum, or Centenary celebrations can be published in newspapers or newsletters.
9.	Sponsoring Activities a. A member or Firm of Chartered Accountants cannot sponsor an event, but they can sponsor events conducted by a Programme Organizing Unit (PoU) of the ICAI, with prior approval from the CPE Directorate. b. Members sponsoring CSR activities can mention their individual name with the prefix "CA". However, the Firm name or CA Logo cannot be used.
10.	Sharing Firm Profile with Prospective Client A Firm profile cannot be shared with a prospective client unless it is in response to a specific query from the client and is not prohibited for use
11.	Television or Movie Credits When sharing the name of a member or Firm of Chartered Accountants for television or movie credits, it must be displayed in the same manner as other entries.
12.	Soliciting Professional Work (Roving Enquiries) A member cannot send letters, emails, or circulars to people who might need Chartered Accountant services, as it would be considered advertisement.
13.	Seeking Work from Professional Colleagues Sending an advertisement or circular to seek work from professional colleagues (unless permitted by regulations) would violate this clause.
14.	Scope of Representation Under Section 140(4) a. The auditor has the right to make a representation under Section 140(4) of the Companies Act, 2013 b. The representation does not give the auditor a prescriptive right or lien to the audit. c. The wording should avoid needless publicity or canvassing for reappointment.

	d. The letter should merely be set out in a dignified manner how the auditor has been acting independently and conscientiously throughout the term, and may express the willingness to continue if reappointed.
15.	Acceptance of Work from Clients Introduced by Another Member a. A member should not accept original professional work from a client introduced by another member. b. If the client approaches directly, the member should ask the client to go through the original member.
16.	Public Interviews a. When giving public interviews, members must ensure that it does not result in publicity or highlight their professional attainments. b. Only factual responses to specific questions are allowed
17.	Advertisements under Box Numbers Members/Firms are prohibited from using box numbers in newspapers to solicit clients or professional work. This practice violates the regulations.
18.	Educational Videos a. Educational videos uploaded by members should not make reference to the Chartered Accountants Firm where the member is a partner/proprietor. b. It should not include any contact details or website address. (Refer Illustrations 7,8,9,10)
Clause 7- Prohibition on Advertising Professional Attainments	

1.	A CAP is deemed to be guilty of professional misconduct if he advertises
	✓ his professional attainments or
	✓ services offered or
	✓ uses any designation other than Chartered Accountant on professional documents, visiting cards, letter heads and sign boards.
	However, a CAP can mention
	✓ A degree from a university established under a law (E.g., B.com, M.com)
	✓ Title indicating membership of ICAI (E.g., ACA, FCA, DISA)
	  ✓ Any other institution that is recognized by CG or the council (E.g., CS, CMA)
	  ✓ A member empanelled as Insolvency Professional or Registered Valuer can be mentioned on his visiting card and letter head.

2.	Write- up A member in practice may advertise through a write-up outlining services provided by him or his firm, subject to guidelines from the ICAI Council.

3.	Prohibited Designations
	a. It is improper to use the following designations on professional documents
	  ✓ Income-tax Consultant,
	  ✓ Cost Accountant,
	  ✓ Cost Consultant,
	  ✓ Company secretary,
	  ✓ Management Consultant
	b. Chartered Accountants are not allowed to use the designation "Corporate Lawyer" under current law, even if they appear before certain authorities
	c. Members must not use titles like Member of Parliament (MP), Municipal Councillor, or any other public functionary along with Chartered Accountant.

4.	Foreign Qualifications Members can mention titles for membership of foreign Institutes of accountancy on their visiting cards, if recognized by the ICAI Council. Recognised foreign bodies, For Example, ✓ South African Institute of Chartered Accountants [SAICA] ✓ Institute of CPA, Ireland. [CPA Ireland] ✓ Institute of Chartered Accountants in England and Wales [ICAEW]
5.	Date of Setting-up Practice Members should not mention the date of setting up their practice or firm on letterheads or other professional documents.
6.	Practice as Advocate Members can practice as Advocates with Bar Council permission, but they cannot use the title Chartered Accountant for cases where they are practicing as Advocate.
7.	Practice as Company Secretary/Cost Management Accountant a. Members eligible for practice may practice as Company Secretaries and/or Cost Management Accountants. b. However, they cannot use the designation of Chartered Accountant simultaneously. c. Even If granted permission to hold COP (Certificate of Practice) of sister institutes or Bar Council, they will be considered a member in full-time practice under ICAI.
8.	Mentioning on Professional Documents ✓ A Firm of Chartered Accountants can only use the designation "Chartered Accountant" on professional documents such as visiting cards, letterheads, and signboards. ✓ Individual members can use the prefix "CA" with their name.
9.	Notice in the Press relating to Examination Success ✓ Press notices about an individual's examination success should avoid undesirable publicity. [Articled / Assistant success in exams] ✓ It is acceptable to include basic details like candidate's name, examination passed, prizes, firm name, and town.
10.	Reports and Certificates a. Chartered Accountants must ensure that the publication of reports and certificates is limited to what is necessary for their purpose. b. Members should issue reports and certificates using the letterhead of their Firm.
11.	Appearance on Electronic Media (TV, Films, Internet) ✓ Members can appear on TV, films, Internet, and radio, and give lectures, describing themselves as Chartered Accountants. ✓ They may mention their specialised knowledge but should avoid exaggerated claims or comparisons. ✓ The focus should be on an objective professional view.
12.	Publicity for Appointments and Views a. Publicity is allowed for appointments to important positions or views on important matters. Members may mention their membership of the Institute. b. The aim is to achieve suitable publicity for the Institute and its members. c. Firm names should not be referenced.
13.	Organising Training Courses, Seminars for Staff A Chartered Accountant can organize training courses or seminars for their staff, inviting others, but should not give undue prominence to their name in related booklets or documents.

14.	Writing Articles or Letters to the Press Members may write articles or letters to the press about the profession and use the description Chartered Accountant.
15.	Size of Sign Board ✓ Members should exercise discretion and good taste when deciding the size of their office sign board. ✓ Glow signs or large boards used by shopkeepers are not allowed. ✓ A name board with the designation Chartered Accountant is allowed at a member's residence.
16.	Public Announcements in Prospectus or Announcements a. When a Chartered Accountant is a director in a company, the prospectus or public announcements should not advertise professional attainments or solicit clients. b. Members should ensure good judgment is used in these cases and request approval before such materials are issued. c. Firm names should not be mentioned
17.	Network Firms and Networking Guidelines a. The Council allows Network among Firms registered with the Institute. b. Members of the Network may advertise as per the Ad Guidelines issued by the Institute.
18.	Use of Logo a. Logos unrelated to the firm's name or its partners are not permitted on letterheads, visiting cards. This avoids unnecessary advertisement or publicity. b. To ensure compliance, logos and monograms on display materials (stationery, documents, visiting cards) are prohibited.
19.	Common CA Logo Detailed Discussion under Council Guidelines
	(Refer Illustrations 11 -14)
Clause 8 - Communication with previous auditor	
1.	If a CAP accepts the position of an auditor previously held by another chartered accountant without first communicating in writing, then such CAP shall be treated as guilty of profession misconduct. Reason for communication a. Professional courtesy is not the primary reason for the communication. b. The objective is to protect the interests of the member, the public, and the independence of the existing accountant. c. The incoming auditor should inquire about professional or other reasons why they should not accept the appointment. Common Reasons for Change of Auditor a. Every client has the right to choose their accountant and may change it at any time, provided statutory requirements are met (e.g., in the case of limited companies). b. Auditors may be changed due to factors like business venue change, retirement, death, clashes of temperament, or dissatisfaction. c. The retiring auditor should accept the situation with good grace when a change is made, regardless of the reason. Dispute Over Fees a. A fee dispute may be the reason for changing auditors, but it doesn't constitute a professional reason for rejecting the new appointment.

	b. If statutory audit fees (under the Companies Act, 2013) are unpaid, the incoming auditor should not accept the appointment unless the fees are settled. c. The incoming auditor can use their influence to help settle disputes regarding fees, especially when fees are not disputed.
2.	Communication for All Types of Audits a. The requirement for communication applies to all types of audits, including Statutory Audit, Tax Audit, GST Audit, Internal Audit, Concurrent Audit, or any other audit. b. Mandatory communication is required when the previous auditor is a CAP c. Even when the previous auditor is not a CA, it is a good practice to communicate. d. For government audits (e.g government companies, banks) ✓ If there isn't enough time to wait for the previous auditor's reply, the incoming auditor can conditionally accept the appointment and start work immediately. ✓ The final acceptance depends on any objections from the previous auditor. ✓ In the acceptance letter, the incoming auditor should specify that the acceptance is subject to professional objections from the previous auditor and will be finalized after considering the information from them.
3.	Professional Reasons for Not Accepting an Audit a. Non-compliance with Sections 139 and 140 of the Companies Act, 2013. b. Non-payment of undisputed audit fees (Except for Sick Units). c. Issuance of a modified report by outgoing auditor.
4.	Handling Undisputed Fees When Previous Auditor is Unavailable If the previous auditor is unavailable for payment of undisputed fees, the incoming auditor can ask the client to purchase a Demand Draft for the amount and ensure payment to the retiring auditor.
5.	Procedure for Accepting the Audit a. If the prospective client wants to change auditors, Check if the retiring auditor was informed. b. If not, inquire about the reason for change. ✓ If no valid reason, it is better not to accept the audit. ✓ If accepted, communicate with the retiring auditor.
6.	Objective of Communication with Retiring Auditor a. The previous auditor may have been changed due to ✓ A qualified report by the outgoing auditor or ✓ A wish not to continue due to issues with the business administration b. The retiring auditor may share insights about the client's accounts or reasons for qualifying the report which the incoming auditor must consider before accepting the audit. c. The incoming auditor must carefully consider all facts before deciding to accept the audit by taking into account the information provided by the retiring auditor. d. If the retiring auditor doesn't respond without a valid reason (other than hurt feelings), the incoming auditor can proceed after waiting for a reasonable time to avoid deadlock.
7.	Method of Communication with Retiring Auditor a. A "certificate of posting" alone is not enough to prove communication with the retiring auditor unless there is evidence that the letter was delivered. b. The Rajasthan High Court ruled that a certificate of posting does not fulfil the requirement and it emphasized that there should be positive evidence that the communication reached the retiring auditor.

	c. Members should use methods that provide positive evidence of delivery. d. The following methods are recommended for positive evidence ✓ Registered Post and Acknowledgement due. [RPAD] ✓ Hand delivery with written acknowledgement. ✓ Email acknowledgement (from the auditor's registered or last known official email address). ✓ Unique Identification Number (UDIN) from the UDIN portal. e. If the communication sent by the incoming auditor is returned with "Office found locked" on the Acknowledgement Due, it will be deemed delivered to the retiring auditor. f. If the communication is returned with the remark "No such office exists at this address," and the address is the same as registered with the Institute, it will be deemed delivered.
	(Refer Illustration 15, 16)
	Clause 9 - Prohibits to accept the audit without complying with Companies Act
1.	✓ A CAP is treated as guilty of professional mis conduct, if he accepts the audit of a company without ascertaining the compliance with Sec. 139, 140 of companies act, 2013. ✓ The incoming auditor must verify with the company that the correct procedures for appointment or change of auditor have been followed to avoid challenges by shareholders or retiring auditors. Note: a. The word "ascertain" means "to find out for certain". This would mean that the incoming auditor should find out, whether the company has complied with the provisions of Section 139, 140 the Companies Act, 2013. b. If the incoming auditor is not allowed to verify above information and records, then such appointment shall not be accepted.
2.	The incoming auditor shall verify the following aspects in this regard: a. Board Resolution for recommendation of incoming auditor. b. Minutes of General Meeting where incoming auditor is appointed. c. Whether the notice of general meeting has been sent as per the law. d. Approval of CG in case outgoing auditor is removed before expiry of term. e. Most importantly, Qualifications and Dis-Qualifications of the incoming auditor. f. Obtain a certificate from the management that they have complied with above sections. g. Communication with outgoing auditor as required under Clause - 8
3.	Steps to be taken by an Auditor: Refer Detailed Explanation in Page 19.69 to 19.73 of Edition 2024 of ISM.
4.	Unjustified Removal of auditor [Guidelines] Resignation or Doesn't offer Reappointment: ✓ Where an auditor resigns his appointment as an auditor of a Company or does not offer himself for reappointment as auditor of such Company, he shall send a communication, in writing, to the Board of Directors of the Company giving reasons therefor. ✓ If he considers that there are professional reasons connected with his resignation or not offering himself for re-appointment, should be brought to the notice of the Board of Directors, and shall send a copy of such communication to the Institute. ✓ It shall be obligatory on the incoming auditor, before accepting appointment, to obtain a copy of such communication from the Board of Directors and consider the same before accepting the appointment.

Sec. 140(4) – Appointment other than retiring auditor:

- ✓ Where an auditor, though willing for re-appointment has not been reappointed, he shall file with the Institute a copy of the statement which he may have sent to the management of the Company for circulation among the shareholders.
- ✓ It shall be obligatory on the incoming auditor before accepting the appointment, to obtain a copy of such a communication from the Company and consider it, before accepting the appointment.

ESB power to review above Communications:

The Ethical Standards Board, on a review of the communications referred to in paras (1) and (2), may call for such further information as it may require from the incoming auditor, the outgoing auditor and the Company and make a report to the Council if considers necessary.

Note: The above procedure is also followed even in the case of removal of auditors by the government and other statutory authorities.

(Refer Illustrations 17,18)

Clause 10 - Prohibited to accept fees as a percentage of profits of company

1. A CAP is treated as guilty of professional misconduct if he
   a. Charges or offers to charge,
   b. Accepts or offers to accept

   In respect of any professional employment fees which are:
   - ✓ based on a percentage of profits or
   - ✓ which are contingent upon the findings, or results of such employment.

   However, if the same is permitted under any regulations made under this act, then it shall not be treated as guilty.

   Note: Fees are not to be considered as contingent if it is fixed by court or any public authority. (E.g., Disputed Fees)

2. Exceptions

   A member can charge fees as a percentage of profits in the following cases
   a. Receiver or a liquidator: Fees may be based on a percentage of the realization or disbursement of the assets
   b. Auditor of a co-operative society: Fees may be based on a percentage of
      - ✓ the paid-up capital or
      - ✓ the working capital or
      - ✓ the gross or net income or profits.
   c. Valuer for Direct Taxes & Duties: Fees may be based on a percentage of the value of the property valued.
   d. Management Consultancy Services: Fees may be based on a percentage that is contingent upon the findings or results of the work, as decided by the Council.
   e. Fund-Raising Services: Fees may be based on a percentage of the funds raised.
   f. Debt Recovery Services: Fees may be based on a percentage of the debt recovered.
   g. Cost-Optimization Services: Fees may be based on a percentage of the benefit derived
   h. Other Services/Audits: Fees for other services or audits, decided by the Council.
      Following are permitted by Council:
      - ✓ Acting as Insolvency Professional
      - ✓ Non-Assurance Services to Non-Audit Clients

(Refer Illustration 19)

Clause 11 – Prohibited to engage in any other business	
1.	A CAP is treated as guilty of professional misconduct if he engages in any business or occupation in addition to CAP. Exceptions to Guilty: a. If a business/occupation is permitted by council. b. A CAP can be a director of a company not being MD/WTD. Allowed the following except on Full time employment: a. A CAP may act as a liquidator, trustee, executor, administrator, arbitrator, receiver, adviser or b. Can act as Representative for costing, financial or taxation matter or c. A CAP 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 d. A CAP may act as a secretary in his professional capacity Provided his employment is not on a salary-cum-full-time basis.
2.	No permission Required/General Permissions a. Employment under CA in practice or firms of such chartered accountants. b. Private tutorship. (Teaching hours - Not exceeding 25 Hours a week) c. Authorship of books and articles. d. Holding of Life Insurance Agency License for the purpose of renewal commission. e. Attending classes and appearing for any examination. f. Holding of public elective offices such as M.P., M.L.A. and M.L.C. g. Honorary office leadership of charitable-educational or non-commercial organisations. h. Acting as Notary Public, Justice of the Peace, Special Executive Magistrate etc i. Part-time tutorship under the coaching organisation of the Institute. j. Valuation of papers, Paper-setter, Head-examiner or Moderator for any examination. k. Editorship of professional journals. l. Acting as Surveyor and Loss Assessor m. Acting as Recovery Consultant in the banking sector. n. Owning agricultural land and carrying out agricultural activity.
3.	Special & Prior Permission Required a. Full-time or part-time employment in business concerns provided that the member and/or his relatives do not hold "substantial interest" in it. b. Office of MD/WTD of a body corporate within the meaning of the Companies Act, 2013. c. Full-time or part-time employment in non-business concern. d. Interest in family business concerns or concerns in which interest has been acquired as a result of inheritance/succession/partition of family and in the management of which no active part is taken. e. Interest in an educational institution. f. Part-time or full-time tutorship under any educational institution other than the coaching organization of the Institute. (Teaching hours – Max – 25 hours a week) g. Part-time or full-time lectureship for courses (other than Institute's Examination conducted in the Institute/Regional councils/their branches) h. Editorship of journals other than professional journals. [E.g., Retail Journals] i. Any other business or occupation for which the Executive Committee considers that permission may be granted.

4.	Clarifications/ Explanations: a. It is open to the Council to refuse permission in individual cases though covered under any of the above categories. b. The term "relative" in relation to a member means the husband, wife, brother or sister or any lineal ascendant or descendant of that member. [Income tax Relative Definition] c. Directorship / Promoter of a Company: ✓ A member in practice is permitted generally to be a director simplicitor in any company and as such he is not required to obtain any specific permission of the council in this behalf irrespective of whether he and / or his relatives hold substantial interest in that company. ✓ The auditor of a subsidiary company cannot accept appointment as a director in holding company of such subsidiary company. ✓ There is no bar for a member to be a promoter / signatory to the Memorandum and Articles of Association of any company. No specific permission is required. ✓ A member can accept the office of a MD/WTD only after obtaining, the specific and prior approval of the Council. d. Member in practice in a HUF doing business: "A member of the Institute can acquire interest in family business in any of the following manner: ✓ As a proprietary firm ✓ As a partnership firm ✓ In the name and style of Hindu Undivided Family as its Karta or a member. Conditions: ✓ It would be necessary for the members to provide evidence that interest in the family business concern devolved on him as a result of inheritance/succession/partition of the family business. ✓ It is also necessary for the member to show that he was not actively engaged in carrying on the said business and that the family business concern in question was not created by himself.
	(Refer Illustrations 20,21,22)
	Clause 12- Prohibiting a Non-Member/Non-Partner to sign on behalf of the firm
1.	A CAP is treated as guilty of professional misconduct if he allows to sign on his behalf or on behalf of firm: a. a non-member of the institute or b. a member who is not in practice or c. a person who is not a partner of his firm.
2.	Routine documents (no professional opinion required) can be signed by a non-member: ✓ Issue of audit queries during the course of audit. ✓ Asking for information or issue of questionnaire. ✓ Letter forwarding draft observations/financial statements. ✓ Initiating and stamping of vouchers ✓ Routine client correspondence ✓ Memorandum for cash verification ✓ Acknowledging records ✓ Raising bills/receiving payments ✓ Routine tax practice matters ✓ Other administrative tasks

	Delegation does not absolve Responsibility Delegating authority to sign routine documents does not exempt the member or firm from responsibility in case of professional misconduct.
3.	Name Disclosure Requirement a. When signing a Report or Financial Statement that requires name disclosure, the member must disclose their name. b. If there's no statutory requirement, the firm name can be used c. SA 700 mandates including Membership No. and Firm Registration No. while Signing. d. Members attention is drawn towards UDIN Guidelines (2018)
	(Refer Illustration 23 & 24)

13. Part II of First Schedule – Professional Misconduct for Member in Service

Clause 1 - Prohibits to pay, share of his Emoluments

A member of the Institute in service is deemed to be guilty of professional misconduct, if he is an employee of any company, firm or person and the emoluments he receives, if he

a. either pays or
b. allows to pay or
c. agree to pay any part or share thereof whether directly or indirectly.

Exception:

✓ The restriction does not apply to sharing among relatives, dependents, friends, etc., provided there is no relation to job procurement or retention.

Key principle

✓ Job procurement and retention must be based on professional capabilities, not by any financial deal that harms professional dignity.

Clause 2 – Prohibits to accept fees or gains from certain individuals

A member of the institute in service is treated as guilty of professional misconduct if he

a. accepts or
b. agrees to accept
c. any part of fee, profits or gains
d. from a lawyer, a chartered accountant or broker engaged by
e. such company, firm or person or agent or
f. customer of such company, firm or person
g. by way of commission or gratification.

Purpose

The aim is to ensure that an employee maintains high ethics and only receives amounts they are entitled to under the contractual agreement with the employer.

Key Principle

A member in such situations is guilty of misconduct regardless of whether they are in full-time or part-time employment or hold a Certificate of Practice.

(Refer Illustration 25)

14. Part III of First Schedule - Related to members Generally

Clause 1 – Not being Fellow of the Institute but acts as Fellow

1.	A member whether in practice or not shall be treated as guilty of professional misconduct who acts as fellow of the institute when in fact, he is not yet a fellow member of the institute.

	i.e., He is holding membership for less than 5 years [E.g., An ACA acting as FCA]
	Clause 2 – Fails to Supply Information Called for by the Institute
1.	A member shall be treated as guilty of professional misconduct does not supply the information called for, or does not comply with the requirements asked, by the a. Institute, b. Council, c. any of its committees, d. Director (Discipline), e. Board of Discipline, f. Disciplinary Committee, g. Quality Review Board or h. Appellate Authority.
2.	Council Decisions: Where a Chartered Accountant had continued to train an articled clerk though his name was removed from the membership of the Institute and he had failed to send any reply to the Institute asking him to send his explanation as to how he was training as his articled clerk when he was not a member of the Institute. Held that he was guilty under Clause (2) of Part III of the First Schedule. (Refer Illustration 26,27)
	Clause 3 – Giving False Information to Others [NOT to Institute]
1.	A member shall be treated as guilty of professional misconduct, if he provides knowingly any false information: a. While inviting work from another CA b. While responding to tenders or enquiries. c. While advertising through a writeup or anything as provided in clause – 6&7 of Part – I of this Schedule. d. Gives information knowing it to be false. Note: This clause applies whether the misrepresentation is made through documents or acts.
2.	Council Decisions: Where a Chartered Accountant had not disclosed to the Institute at any time about his engagement as a proprietor of a non-chartered accountant's firm while holding certificate of practice and had not furnished particulars of his engagement as Director of a company despite various letters of the institute which remained un-replied. Held that he was guilty under Clause (11) of Part I and Clauses (1) and (3) of Part III of the First Schedule.

15. Part IV of First Schedule - Other misconduct in relation to members generally

	Clause 1 – Held Guilty by any civil or criminal court
1.	A member shall be treated as guilty of professional misconduct if he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term not exceeding 6 months.
	Clause 2 – Brings Disrepute to the Profession or Institute
1.	A member shall be treated as guilty of professional misconduct if in the opinion of the Council, he/she brings disrepute to the profession or the Institute as a result of his/her action whether or not related to his professional work. (Refer Illustration 28)

16. Part I of Second Schedule – Professional Misconduct for CA in Practice

	Clause 1 – Prohibition of Disclosure of Information of the client
1.	A CAP Shall be deemed to be guilty of professional misconduct if he discloses information relating to client, acquired in the course of professional work, to any third party. Exception ✓ If the information is disclosed with the consent of client, to third party. ✓ Such disclosure of information is required under law. Note: The duty of not to disclose, continues even after completion of Client's work.
2.	Disclosure of Audit Working Papers ✓ Auditors do not have the duty to share the working papers with the client or others. ✓ The auditor may make portions of or extracts from his working papers available to the client at his discretion.
3.	Sharing of Information ✓ There is a difference between sharing of working papers and sharing of information. ✓ Information can be shared with the client or regulatory bodies only after obtaining the client's consent.
4.	Legal Compulsion for Disclosure A CAP may disclose information without being treated as guilty of professional misconduct, if: ✓ There is a legal requirement to disclose information and ✓ Privilege under the Evidence Act is not applicable; However, Legal advice is recommended before disclosing.
5.	Unlawful Acts or Default If an accountant suspects the client has committed unlawful acts (e.g., tax evasion), it creates a conflict between confidentiality and the duty to report illegal acts.
6.	Fraud Reporting a. If an auditor believes fraud has occurred in a company, they must report it to the Central Government within 60 days, after following the prescribed procedure. b. Fraud involving company officers or employees must be reported to the Central Government as per section 143(12) of the companies act. (Refer Illustration 29)
	Clause 2 – Prohibits a CAP to certify accounts not verified by him
1.	A CAP is deemed to be guilty of professional misconduct if he certifies or reports on financial statements which are not examined a. by him or b. by his partner/employee or c. another CAP. [Except Joint Audit]
	Clause3 – Prohibits a CAP to use his name on reports related to earnings estimate
1.	A CAP shall be deemed to be guilty of professional mis – conduct if he allows or permits his name or firm name on a report that deals with earning estimate which depends on contingent future transactions. Exception A CAP is permitted to use his name on earnings estimate documents provided he indicates clearly about a. The sources of information. b. The basis of Forecast and underlying assumptions made. c. The fact that he did not vouch for the accuracy of forecast.

2.	Council Guidelines ✓ The Council has further opined that the same opinion would also apply to projections made on the basis of hypothetical assumptions about future events and management actions which are not necessarily expected to take place so long as the auditor does not vouch for the accuracy of the projection. ✓ A Chartered Accountant issued 97 Projection Statements for certain Individuals without verifying the basic documents and on the basis of which the Bank had extended the loan amount. Afterwards, the Bank revealed that persons for whom the Respondent had issued Financial Statements did not have any business/source for repayment of loan. Held, guilty of professional misconduct falling within the meaning of Clauses (3), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
	Clause 4 - Prohibits expression of opinion an entity where CAP has Substantial Interest
1.	A CAP is deemed to be guilty of professional misconduct if he expresses opinion on financial statements of business or entities in which either he or his firm or his partner has a substantial interest * Substantial Interest refers to significant involvement in a business as per the regulations.
2.	Application of this Clause: This clause applies to reports, certificates, and attest functions related to financial statements for statutory or tax purposes. Member's Independence: a. Members should interpret independence more strictly than the law requires and avoid situations compromising their independence. b. Members must avoid situations where there could be a conflict of interest between their duty and personal interest. c. Members should maintain the same level of independence as a tax consultant or financial advisor as they do when acting as an auditor. d. The independence requirement applies to all attest functions like Tax audits, GST audits, and Concurrent audits. Examples: ✓ A chartered accountant serving as a liquidator should not audit the Statement of Accounts under Section 348(1) of the Companies Act, 2013. ✓ A chartered accountant in employment cannot certify the financial statements of the employer or any related entity, even if they have a certificate of practice. ✓ A member cannot accept an auditorship of a college if they are a part-time lecturer, or of a trust where their partner is an employee or trustee. ✓ If a member, their partner, or relative is a director or employee of a company, they cannot audit that company's financial statements. ✓ If a member, their partner, or relative holds securities or interest in a company, they cannot audit that company. ✓ A member is not allowed to write books of account for their auditee clients. ✓ A Statutory Auditor cannot be the internal auditor also for the same entity. ✓ Similarly, The Internal Auditor of an entity cannot undertake GST Audit and/or Income Tax Audit for the same entity. ✓ A member cannot accept the audit of a company for 2 years after serving as its director or resigning from the role. ✓ A member cannot undertake certification for a client who is a relative as per AS-18.

3.	Statistory Compliance ✓ Before acceptance of an audit, a member must ensure the appointment is in accordance with statutory requirements or regulations. ✓ If the appointment is authorized by regulatory authorities, the member should ensure the appointment is valid and properly documented. ✓ Section 288 of the Income-tax Act, 1961 specifies disqualifications for tax audit, hence member must ensure appointment is in accordance with the requirement.
	Clause 5 – Failure to disclose a material fact known to a CAP
1.	A CAP shall be deemed to be guilty of professional misconduct if he fails to disclose a material fact known to him which is not disclosed in financial statements in accordance with AFRFW. Exception However, this clause does not apply to financial statements prepared internally for the employer's use, not meant for external submission.
2.	Materiality Determination ✓ Materiality is determined as per SA 320 ("Materiality in Planning and Performing an Audit"). ✓ The member can only be held responsible if the materiality of the fact is proven. Materiality Judgement ✓ A fact may be material to the Profit and Loss account but not to the Balance Sheet or vice versa. ✓ Hence Materiality must be assessed for both balance sheet and profit & loss account. (Refer Illustration 30)
	Clause 6 – Fails to report a material misstatement in F/S
1.	A CAP shall be deemed to be guilty of professional misconduct if he fails to report a Material Misstatement in the financial statements known to him. Materiality Requirement Before holding a member accountable for misconduct, the materiality of the misstatement must be proven. This is consistent with Clause (5). (Refer Illustration 31)
	Clause 7 – Fails to exercise due diligence in his professional work
1.	A CAP shall be deemed to be guilty of professional misconduct if he does not exercise due diligence or grossly negligent in conducting his professional work.
2.	Auditor's Duty – Karnataka High Court Ruling: a. An auditor must use the appropriate skill, care, and caution in their work, similar to what a reasonably competent auditor would use. b. What is considered reasonable depends on the specific situation. c. An auditor is not expected to be a detective or suspicious by default. d. They are a watchdog, not a bloodhound. e. If something looks suspicious, they must investigate thoroughly. f. Otherwise, they need to be cautious and careful.
3.	Professional Misconduct in this clause refers to gross negligence. Minor errors don't automatically constitute misconduct but should be noted to prevent future lapses. (Refer Illustrations 32,33)
	Clause 8 – Fails to obtain sufficient information
1.	A CAP shall be deemed to be guilty of professional misconduct fails to obtain sufficient and appropriate evidence which is necessary for expression of opinion.

	a. However, if he is unable to obtain sufficient and appropriate evidence, he shall deny expression of opinion. (i.e., Disclaimer of opinion) b. This clause covers both expression of opinion and certification of facts. c. If a member fails with this clause, it may be further treated as gross negligence.
2.	State Limitations/Assumptions ✓ A Chartered Accountant should clearly state any limitations or assumptions in their certificate. ✓ If certain checks are not performed, they must be disclosed to avoid misleading users.
3.	Council/Court Decisions a. Chartered Accountant issued a certificate of circulation of a periodical without going into the most elementary details of how the circulation of a periodical was being maintained i.e. by not looking into the financial records, bank statements or bank pass books, by not examining evidence of actual payment of printer's bills and by not caring to ascertain how many copies were sold and paid for. Held he was guilty under Clause (8). b. The land transaction between Shivdarshan Firm (partnership) and Siddheshwari Developers should have been recorded in the books of Shivdarshan Firm, not Shivdarshan Construction (a proprietary concern). The CAP failed to report this discrepancy in their audit report. The loan from Navsarjan Industrial Co. Op. Bank Ltd was material, but the CAP failed to provide any evidence for why they chose not to qualify the loan in the financial statements. Held guilty of professional misconduct under Clauses (6), (7), and (8) of the part I of Second Schedule of the CA, ACT. c. The CA failed to report discrepancies in a bank account opened by the client as a proprietor, where there were variations such as a different account number and an incorrect account capacity. As a professional, he failed to obtain sufficient information to verify the bank account details. Held guilty of professional misconduct under Clauses (7) and (8) of the part I of Second Schedule of the CA, ACT. (Refer Illustration 34)
	Clause 9 – Fails to invite attention to any material departure from GAAP.
1.	A CAP shall be deemed to be guilty of professional misconduct if he fails to comply with generally accepted audit procedures while performing professional works. Exception However, if he is unable to comply with GAAP and mentions the same in his report, then this clause shall not apply. a. Guidance for audit Procedure ✓ What constitutes generally accepted audit procedures depends on each case's specifics. Guidance can be found in Engagement and Quality Control Standards, Statements, Guidance Notes, and other materials from the Institute. b. Audit of Listed Companies ✓ As per SEBI regulations, only auditors who have completed the Peer Review process and hold a valid certificate from the ICAI can audit listed companies under the Companies Act, 2013.
2.	a. FRN and Membership Number ✓ Auditors must mention their Membership number and Firm Registration Number (FRN) in all reports and attestation engagements. b. UDIN (Unique Document Identification Number)

- ✓ From 1st July 2019, auditors must generate a Unique Document Identification Number (UDIN) for all certifications, GST audits, tax audits, and other audit or attestation functions.

c. Failure to Perform Statutory Duty
- ✓ An auditor cannot excuse the failure to perform statutory duties by simply giving qualifications or reservations in the audit report.

d. Certifying figures of circulation of Newspapers
- ✓ Auditors certifying circulation figures for newspapers must follow the rules provided by the Audit Bureau of Circulations (ABC) and report any lapses, even minor ones.

e. Verification on behalf of Banks
- ✓ In bank verification audits, the rules and procedures differ from the usual Companies Act audits. Auditors must be familiar with and follow these special rules.

Clause 10 – Fails to keep moneys of his client other than fees in a separate banking account

1. Any amount received from client must be kept in a separate bank account and shall be utilized only for the purposes mentioned by the client.

Exceptions

However, this clause does not apply for the following receipts:

a. An advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule.

b. Moneys received for expenses to be incurred such as payment of prescribed statutory fees, purchase of stamp paper etc.

c. Moneys received by a Chartered Accountant, in his capacity as trustee, executor, liquidator.

(Refer Illustration 35)

17. Part II - Professional Misconduct in relation to the members generally

Clause 1 - Members to comply with CA act, regulations and guidelines

1. A member is deemed to be guilty of professional misconduct if he fails to comply with CA Act or any regulations made thereunder.

2. Common violations of regulations, came to the notice of the council:

Regulation 43 – Engagement of Articled Assistant.
Regulation 46 – Registration of Articled Assistant.
Regulation 47 – Premium from Articled Assistant.
Regulation 48 – Stipend to Articled Assistant.
Regulation 56 – Termination or assignment of Articles.
Regulation 65 – Articled Assistant not to engage in any other occupation.
Regulation 67 – Complaint against the employer (from Articled Assistant).
Regulation 68 to 80 – Audit Assistant.
Regulation 190 – Register of offices and firms
Regulation 190A – CA's not to engage in any other business or occupation.
Regulation 191 – Part time employment's a Chartered Accountant may accept.
Regulation 192 – Restriction on fees

Clause 2 - Prohibition to disclose Information related to Employer

1. A member is deemed to be guilty of professional misconduct if he disclosed any confidential information relating to his employer company, firm or any other person.

Exception

	However, this clause does not apply if consent of employer is obtained for such disclosure. Principles to observe ✓ This clause follows the principle of Agency Law, where an employee is expected to keep information confidential and use it only to perform their duties. ✓ As an employee, a member may have access to confidential information which must be treated with care to maintain the status and dignity of the profession.
	Clause 3 - Prohibition to provide misleading information to the Institute
1.	A member shall be deemed to be guilty of professional misconduct if he furnishes any returns, reports, statements or forms which contain any false information knowingly to the a. Institute, b. Council or c. any of its committees, d. Board of Discipline, e. Director Discipline, f. Disciplinary committee, g. Quality review board or h. Appellate authority.
2.	Council or Court Decisions a. A Chartered Accountant claimed to be a partner in a firm when he was only a manager. He was found guilty of misconduct for stating this false claim b. A member made a false statement during a hearing before the Disciplinary Committee, both in writing and on oath and was found guilty of misconduct. c. A Chartered Accountant failed to reply to the Institute's repeated reminders regarding confirmation of date of leaving the services by the Paid Assistant. Held, the Chartered Accountant was guilty of professional misconduct under this Clause. [1st SCH Might apply]
	Clause 4 - Defalcation of Money Received
1.	A member shall be deemed to be guilty of professional misconduct, if he defalcates or embezzles any money received in professional capacity. This act amounts to fraud.

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

	Clause 1 – Held Guilty by any civil or criminal court
1.	A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding 6 months. Note: Imprisonment awarded for a term exceeding 6 months in any civil/criminal matter treated as a major offence under 'other misconduct' is included in this Schedule.

19. Council Guidelines

	Chapter I -IV
1.	Chapter I – These guidelines shall be applicable to ALL the Members of the Institute whether in practice or not wherever the context so requires. Chapter II - member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties CHAPTER – III: Omitted CHAPTER – IV: Omitted

Chapter V - Maintenance of books of accounts by CAP	
1.	A member of the Institute in practice or the firm of Chartered Accountants shall maintain and keep in respect of his / its professional practice, proper books of accounts including a. A cashbook. b. A ledger. These books of accounts have to be maintained irrespective of the fact that the member turnover is less than the limits specified u/s 44AA of income tax act, 1961. (Refer Illustration 36)
Chapter VI - Limit on Number of Tax Audit Assignments	
1.	a. A member of the Institute in practice shall not accept, in a financial year, more than the "60 tax audits" under Section 44AB of the Income-tax Act, 1961. b. In case of partnership firms/LLP, the limit is counted for "per partner in practice". c. Even if a member is a partner in multiple firms, the limit of 60, shall be counted per member irrespective of his partnership in multiple firms. d. Audit conducted u/s. 44AD, 44ADA and 44AE will not be counted in the list. e. The limit on number of tax audit assignments per partner in a CA Firm may be distributed between the partners in any manner whatsoever. i.e., Even a single partner may sign on behalf of all other partners provided remaining partners are not signing. f. A Chartered Accountant being a part time practicing partner of a firm shall not be considered while calculating total limit for the firm. g. A Chartered Accountant in practice shall maintain a record of the tax audit assignments accepted by him in each Assessment Year in the format as prescribed by the Council. h. The audit of one or more branches of the same concern by one Chartered Accountant in practice shall be construed as only One Tax Audit assignment. (Refer Illustration 37)
Chapter VII - Non-payment of undisputed audit fees	
1.	A CAP shall not accept the appointment as auditor of an entity in case the undisputed audit fee of another Chartered Accountant for carrying out the statutory audit under the Companies Act, 2013 or various other statutes has not been paid. ✓ However, this prohibition shall not apply in case of sick units. Explanation 1: Undisputed audit fees is considered as the provision for audit fee in accounts signed by both the auditee and the auditor along with other expenses incurred by the auditor in connection with the audit. Explanation 2: Sick unit shall mean a unit registered for not less than 5 years which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth. (Refer Illustration 38)
Chapter VIII - Specified number of audit assignments	
1.	A member of the Institute in practice shall not hold at any time appointment of more than the "Specified Number of audit assignments" of Companies under Section 139 of the Companies Act, 2013 In case of Firm of CA's ✓ For a firm of Chartered Accountants in practice, the limit is 30 audit assignments per partner excluding One Person Companies and dormant companies. In case of Proprietorship ✓ For a Chartered Accountant in practice or a proprietary firm, the limit is 30 audit assignments excluding One Person Companies and dormant companies.

	Note: a. Audit of head office and branch offices of a company by one Chartered Accountant or firm will be counted as one audit assignment. b. The number of partners of a firm on the date of acceptance of audit assignment shall be taken into account. c. All other rules prescribed under Chapter – VI shall equally apply here.
	Chapter IX – Limits on Fees for Other Services
1.	Audit Fees in Public Sector Undertakings, Government Companies, Listed Companies: a. Audit fees for these companies must be greater than or equal to the aggregate fees received for other services rendered to the same company. b. This applies to other public companies with a turnover of Rs. 50 crore or more. c. The restriction applies to fees for other works, services, or assignments paid to the statutory auditor and their associate concerns combined. d. The aggregate fees must be considered when calculating limits for non-audit services. e. Other works/services/assignments include Management Consultancy and all other professional services authorized by the Council under Sec 2(2)(iv) of the CA Act, 1949. f. The following are not included under other service: ✓ Audit under any other statute (e.g., Tax Audit, GST Audit) ✓ Certification work required to be done by the statutory auditors. ✓ Representation before an authority. (Refer Illustration 39)
	Chapter X – Appointment of an auditor when he is indebted to a concern
1.	A member of the Institute in practice, a partner of a firm in practice, a firm, or a relative of such a member/partner shall not accept appointment as the auditor of a concern if: They are indebted to the concern or have provided guarantee or security for the indebtedness of any 3rd person to the concern. a. For limits fixed in statute or b. In other cases, the amount must not exceed Rs. 100,000. However, this restriction does not apply if the CAP received fees on progressive basis (Refer Illustration 40)
	Chapter XI – Directions in case of Unjustified Removal of Auditors:
1.	A member of the Institute in practice shall follow the direction given by the Council that the incoming auditor(s) not to accept the appointment as auditor(s), in the case of unjustified removal of the earlier auditor(s).
	Chapter XIII - Guidelines on Tenders
1.	Already Discussed earlier under Clause 6
	Chapter XIV - Unique Document Identification Number (UDIN) Guidelines
1.	The Council of the Institute implemented the Unique Document Identification Number to: a. Curb malpractice of false certification/attestation. b. Eradicate bogus certificates. c. Protect regulators, banks, stakeholders from being misled. A member of the Institute in practice must generate a UDIN for: ✓ All certifications, GST and Tax Audit Reports, and ✓ Audit, Assurance, and Attestation functions undertaken or signed by them.

Chapter XV – Guidelines for Networking	
1.	Concept of Networking a. A network is determined based on specific facts and circumstances, not legal structure. b. A larger structure may be aimed at cooperation (e.g., sharing common brand, quality control, or resources) and may be considered a network. c. The judgment is based on whether a reasonable third party would consider the entities as a network
2.	A structure is deemed a network if a. Profit/cost-sharing among entities. b. Sharing of common ownership, control, or management. c. Common quality control policies and procedures across the structure. d. Sharing a common business strategy. e. Using a common brand name (e.g., initials or name in audit reports) f. Sharing Significant professional resources
3.	Significant professional resources include: ✓ Common systems for exchanging information. ✓ Partners and staff. ✓ Technical departments for assurance engagements. ✓ Audit methodology and manuals. ✓ Training courses and facilities.
4.	Network Forms a. Mutual Entity – A facilitator without carrying out professional practice. b. Partnership Firm – No more than 20 partners. c. Limited Liability Partnership (LLP) - Subject to ICAI and other applicable laws. d. Company – Under Institute guidelines for corporate practice. Network Firms Consists of sole practitioners, partnerships, or other entities as permitted.
5.	Joining a Network ✓ A firm can join only one network. ✓ Firms with common partners can only join one network Network names approval ✓ Shall be done by the Institute and ✓ Cannot use terms like "& Co." or "& Associates". ✓ Can Use: "& Affiliates." ✓ The name is subject to the Institute's approval within 30 days. ✓ Approved names can be withdrawn if undesirable. Network Name Registration After name approval, a. Network must be registered within 3 months using Form B. b. Mandatory for registration. c. Networks with multinational firms are considered part of the network. Listing of Network a. Indian member firms joining an international network must file Form D within 30 days. b. Firms can join only one network and common partners must join the same network. c. Changes in the network's structure (e.g., new members) must be communicated to the Institute within 30 days using Form C.

Ethical Compliance for Networks

a. If a network firm is the statutory auditor of an entity, neither the firm nor its associates can accept internal audit, book-keeping, or other assignments prohibited for the statutory auditor.

b. Ceiling on non-audit fees
   - ✓ For the firm performing statutory audit - it follows the earlier discussed guidelines.
   - ✓ For other firms in the network - the non-audit fees cannot exceed 3 times the statutory audit fee for the same entity

c. In cases where firm rotation is mandated by regulatory authorities, no network firm can accept the appointment of auditor in place of a retiring network firm.

d. Networks can advertise as per ICAI guidelines.

e. All member firms and the network must comply with ethical standards set by the Council from time to time.

Consent of client

- ✓ The effect of registration of network with Institute will be deemed to be a public notice of the network and
- ✓ The consent of client will be deemed to be obtained is assumed upon network registration.

6. Network must establish operational byelaws such as

- ✓ Managing Committee formation.
- ✓ Contribution of Membership fees for network administration.
- ✓ Identifying a partner of any of the member firms of the network to be responsible for the assignment (engagement partner)
- ✓ Dispute settlement procedures through arbitration and conciliation.
- ✓ Development and maintenance of data bases relevant for different types of assignments.
- ✓ Training development material,
- ✓ Issue of newsletters,
- ✓ Development of software,
- ✓ Libraries
- ✓ Appointment of a technical director to whom references can be made.
- ✓ Determining the methodology for drawing resources from each member firm.
- ✓ Determining compensation to member firms for resources to be drawn from them
- ✓ Peer review of the member firms.

Chapter XVI – Guidelines for Logo

1.

CA INDIA

- ✓ The "CA India" logo consists of the letters 'CA' in blue with a Tri-colour upside-down tick mark in white background
- ✓ The blue colour symbolizes creativity, integrity, knowledge, trust & stability.
- ✓ The upside-down tick mark represents the wisdom & value of the profession.
- ✓ The word 'India' is added to reflect the Institute's commitment to the Indian Economy and public interest.
- ✓ There should be no alteration in the font, including colour, bold/normal, size, or spacing.
- ✓ The dimensions or design of the logo should not be changed.
- ✓ The colour palette should not be changed, and the white background must be maintained.

	✓ The logo should not be rotated in any direction (clockwise or anti-clockwise) ✓ The logo must not be shrunk or distorted, keeping the original proportion intact
Chapter XVII – Guidelines for Corporate Form of Practice	
1.	a. Members in practice can hold the office of MD, WTD or Manager in a body corporate provided the company engages exclusively in Management Consultancy services. b. Members can hold a full-time Certificate of Practice while being the Managing Director or Manager of the consultancy company. c. There is no restriction on the quantum of equity holding of the members whether individually or with relatives in such companies. d. Members holding such positions will still be regarded as being in full-time practice and can train articles. e. The name of the Management Consultancy Company must be approved by the Institute and the company must be registered with the Institute. f. Audit practice cannot be done in Corporate Form. g. Consultancy practice can be conducted in Corporate Form.
2.	Ethical Compliance a. If the individual or firm is the statutory auditor of an entity, the Management Consultancy Company cannot accept internal audit, book-keeping, or other assignments prohibited for the statutory auditor firm. b. The ceiling on non-audit fees applies to the Management Consultancy Company also. c. The company must comply with clauses (6) & (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949. d. The Management Consultancy Company must give an undertaking to comply with the relevant clauses of the Chartered Accountants Act, 1949. e. The company can only engage in Management Consultancy and Other Services as prescribed by the Council.

20. Council Guidelines for Advertisement, 2008

A. Advertising through Write up	
1.	a. Members can advertise through a write-up about their particulars, their firm, and the services they offer, maintaining the profession's reputation, dignity, and its ability to serve the public interest. b. Members must ensure the content is accurate and acknowledge that ICAI is not responsible for the claims made in the write-up.
2.	Write up Conditions ✓ The write-up must be honest and truthful. ✓ No exaggerated claims for the services, qualifications or experience of the member, firm, or associates. ✓ It must not contain disparaging references or unsubstantiated comparisons with others work. ✓ It should not bring disrepute the profession. ✓ No testimonials, endorsements, or mentions of clients' names (past or present) or fees charged ✓ Do not include achievements, awards (except those from Central/State Governments or Regulatory Bodies), or positions/accreditations granted by other organizations. ✓ Monograms or catchwords are not permissible.

	✓ The Membership No. or FRN must be mentioned in the write-up. ✓ The font size must not exceed 14. ✓ The write-up must comply with the CA Act 1949, CA Regulations 1988, Code of Ethics 2020 or any other Council guideline. ✓ The ICAI may issue a directive to remove/withdraw the write-up or any part of it.

For Detailed Notes on Permissible Contents of The Write Up – Please Refer Page. 19.129 [Not Imp from Exam Viewpoint]

B. Website of CA Firms	
1.	Chartered Accountants and CA firms can create their own websites. No specific format is mentioned. a. Websites must operate on "pull" model, meaning information is accessible only when requested by users. No unsolicited information should be pushed. b. CA's and firms must not distribute website content via email, advertisements, or any other means unless requested c. CA's cannot use circulars, ads, or any promotional material to invite users to visit their website. d. Website addresses can be included on professional stationery and email signatures but cannot be advertised separately.
2.	a. Disclosure of Client Names & Fees ✓ It is permitted only if required by a regulator (in India or abroad). ✓ Disclosure must be limited to regulatory requirements and ✓ Valid only while it is under the regulator's purview. ✓ A mandatory disclaimer must be displayed stating: "*This disclosure is in terms of the requirement of [Regulator Name] having jurisdiction in [Country/Area] under [Rule/Directive].*" b. Passport style photographs of members are allowed on the website. c. CA's may include articles, professional updates, bulletin boards and educational videos on topics of professional relevance. d. Chat rooms may be provided for communication among ICAI members and between firms & clients while maintaining confidentiality protocols. e. Firms may also offer a document management system with secure login access for clients. f. Firms can link their website to a social networking page, but must not solicit likes or visits to these pages. g. Members/firms can provide online advice to clients only upon request. h. Website content must not solicit clients or professional work. If any content violates the Code of Conduct, Ethics, or ICAI's guidelines, ICAI may take disciplinary action. i. The website must ensure secrecy and protect client information. j. No banner ads or any form of advertisement are allowed on the website. k. The website must reflect the dignity of the profession and must not contain any inappropriate material l. Websites may provide links to ICAI, regional councils, branches, government, regulatory authorities, and professional bodies. m. The website address should be close to the member's name, firm name trade name but must not solicit clients, advertise or promote services. n. Website information must match ICAI records without material variation.

C. Online Third-Party Platforms	
1.	a. Non-Chartered Accountants' firms (e.g., banks, finance companies, newspapers) may set up websites offering taxation and advisory services. CAs will be rendering advisory. b. Only consultancy and advice can be provided through such third-party websites. No other services are allowed. c. Contact address of the CA cannot be provided on these websites. d. The website cannot advertise the professional achievements or status of the Chartered Accountant except stating they are Chartered Accountants. e. The name of the Chartered Accountants' firm with suffix "Chartered Accountants" on these third-party platforms would not be permitted.
D. Publication of Name or Firm Name in Directories	
1.	Chartered Accountants and their firms may have entries in telephone directories (printed or electronic) with a special request or additional payment. Conditions a. The entry should appear only in the 'Chartered Accountants' section b. The member/firm must belong to the town/city where the directory is published. c. Entries must be listed alphabetically d. The entry should not stand out in a way that gives the impression of advertisement. e. Entries must be open to all Chartered Accountants and firms in the particular city/town. f. Members can include their names in trade/social directories as well
E. Application based Service provider Aggregators	
1.	Members cannot list themselves with online application-based service provider aggregators that include other categories like businessmen, technicians, maintenance workers or event organizers.
F. Guidelines for listing in Directories for limited circulation	
1.	The name, description and address of a member or firm may appear in directories or lists of members where names are listed alphabetically. In case of Specialized publications like "Who's Who" ✓ Members should use discretion in providing information considering the nature and purpose of the publication. A member may include other details such as: a. Directorships held b. Reasonable personal details c. Outside interests Note: Names of clients should never be included in these publications.
G. Publication for Name & Address in Advertisements	
1.	Special exemption for publishing the name and address of a member or firm with the designation Chartered Accountants in an advertisement under the following conditions: a. Advertisements for recruiting staff in the member's own office. b. Advertisements on behalf of clients requiring staff or wishing to acquire or dispose of business or property. c. Advertisements for sale of business or property by a member acting as trustee, liquidator or receiver. In all cases, ✓ The advertisement should not be more prominent than usual and the member's name or firm name should not appear in bold type.

	✓ When advertising for staff or articled assistants, avoid phrases like "a well-known firm" to prevent advertising. ✓ The ads should not include any promotional element or suggest superiority over other accountants.

21. Self-Regulatory Measures

A. Branch Audits	
1.	Branch audits should not be conducted by statutory auditors with 10 or more members. Branch audits should be done by local firms with less than 10 members. This does not restrict the statutory auditors access to branch accounts as per the Companies Act, 2013. Exceptions ✓ When accounting records are maintained at the head office. ✓ When significant operations are carried out at the branch.
B. Joint Audits	
1.	a. In the case of large companies, the practice of associating a practicing firm with less than 5 members as Joint auditors should be encouraged. b. Where a client desires to appoint such a firm as joint auditor, the senior firm should not object to the same.
C. Ratio between Qualified Staff vs Unqualified staff	
1.	A practicing firm engaged in audit work should have at least 1 member for every 5 non-qualified staff members excluding articled assistants, typists, peons and others not engaged in professional work etc.
D. Disclosure of Interest by Auditors in other firms	
1.	Auditors should disclose payments received through other firms in which they are a partner or proprietor for non-audit services
E. Recommended Minimum Scale of Fees	
1.	The Institute has issued revised Minimum scale of Fees for the professional assignments of the members of ICAI. The recommended scale of Fees is to be charged as per the work performed for various professional assignments. The Fees has been recommended separately for Class-A, B and C cities. Non-Public Interest Entities (PIE) Disclosure is required when gross annual professional fees from an audit client represent more than 40% of the total fees of the firm for 2 consecutive years Public Interest Entities (PIE) Disclosure is required when gross annual professional fees from an audit client represent more than 20% of the total fees of the firm for 2 consecutive years Exemptions on Disclosure: ✓ Exemption applies if total fees received does not exceed 20 lakhs of rupees. ✓ Exempt for audit of government companies, public undertakings, nationalized banks, public financial institutions, regulators or appointments by the Government

22. Recent Decisions of Ethical Standard Board

Decisions
1. It is not permissible for member in practice being a statutory auditor to prepare Business Responsibility & Sustainability Reporting study to Audit Clients. However, he may provide advisory services on the same.
2. Statutory auditor of an entity is not permitted to engage in assignment of compilation engagement, of that entity as per SRS 4410.
3. It is permissible for members to engage in the performance audit of the centres of skill development council of Government of India
4. It is permitted for a member in practice to accept the assignment of Mystery Audit
5. It is permitted for a member in practice to mention position as Promoter/Director on the portal of a Company. However, the member cannot mention his professional attainments and the name of the firm with which he is associated.
6. It is permitted for a member in practice to become professional director in the Board of Management of a Co-operative Bank.
7. It is permissible for a member to set up practice in IFSC/GIFT city
8. It is permissible for a member to render professional services to IFSC units from offices outside IFSC.
9. A firm is not permitted to publish its vision or mission statement on letter head, visiting card or stationery.
10. It is not permissible for a member/ firm being the statutory Auditor of a Bank to accept the assignment of ASM of a customer of the same Bank simultaneously.
11. A member in practice cannot be appointed as an Internal Auditor and Procurement officer simultaneously in an organization
12. Fees on percentage of utilization of Educational Institute grant are permissible.
13. Statutory audit of society is not permissible if immediate family member holds honorary position in managing committee.
14. Chartered Accountant as member and auditor of a Trust has no conflict of interest.
15. Using Messaging Applications for practice awareness is not permissible.
16. Practicing Chartered Accountant with COP can be member of Board of Management in Primary (Urban) Co-operative Banks.
17. Member cannot act as Trademark or Patent Attorney, but can give Professional advice on IPR.
18. Internal auditor can purchase shares of the company.
19. CA Firm can register on Udyog Aadhar.
20. Chartered accountant via kiosk is permissible if services are allowed professional activities.
21. Joint training session for clients on GST is permissible.
22. Member can be Non-executive/independent director in Co-operative Bank, if not involved in day-to-day activity and not an auditor.
23. Director Simplicitor cannot sign ROC Forms.
24. Chartered Accountant can be Authorized Representative of Foreign Company, if not auditor.
25. Chartered Accountant in service can take e-return registration but not certify, if no conflict.
26. Non-executive director cannot be statutory auditor of a joint venture of the company.
27. Equity research adviser is permissible, but not retail report.
28. Registration Authority (RA) for digital signatures is permissible.
29. Holding Credit card of bank being auditor is permissible within limit.
30. Chartered Accountant can act as mediator in Court.

31. Audit assignment of bank is not permissible if loan against Fixed Deposit in that bank.
32. Statutory / Tax Auditor cannot be Valuer of unquoted shares of the same entity. If law is silent on this aspect then it is permissible subject to independence compliance.
33. 2 years cooling period for directors becoming auditors is not enforced companies Act, and member can take decision in light of companies act, and code of ethics.
34. Financial Advisors receiving fees/commission from Financial Institutions is not allowed.
35. Lien over client documents for non-payment is not permissible.
36. Vision and values on visiting cards is not permissible due to solicitation.
37. Agencies of UTI, GIC or NSDL are not permissible.
38. Member can be settlor of a trust.
39. Customs Brokers Licence is not permissible.
40. Tax representative for employer is permissible, but not for other employees.
41. Statutory auditor cannot accept stock audit/inspection Audit of the same bank branch.
42. Internal auditor of PF Trust cannot be Statutory Auditor of the company.
43. Concurrent auditor of bank 'X' cannot be statutory auditor of bank 'Y' sponsored by 'X'.
44. Internal auditor of a company can be statutory auditor of employees PF Fund is permissible.
45. Director Simplicitor is permissible if non-executive and paid only for board meetings.

WINNER!

Let's aim Exemption in Auditing! Yes, it's absolutely achievable, and I'm ready to put in the work for you. But remember, it takes two hands to clap. So, come on—join me! Together, we can conquer this and achieve success.

Wish you
Clarity, Confidence and Success

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ABOUT US

A Pioneer Institute in the digital classroom space, founded by CA Ram Harsha.

He has always catered to serve quality. As a result today, 'SHRESHTA' stands as the most preferred institution among students. We are privileged to provide the highest standard of coaching facility for CA and CMA students at most affordable prices, turning many of our students' dreams into reality.