



# CA Final Advanced Auditing , Assurance & Professional Ethics

**Amendments for  
May 2025 exam & onwards**

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## SA 450

## EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

### INTRODUCTION

SA 450 deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

### OBJECTIVES OF AUDITOR

The objective of the auditor is to evaluate

- a) The effect of identified misstatements on the audit; and
- b) The effect of uncorrected misstatements, if any, on the financial statements.

### IMPORTANT DEFINITION

#### a) 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.

When the auditor expresses an opinion on whether the financial statements give a true and fair view or are presented fairly, in all material respects, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to give a true and fair view or present fairly, in all material respects.

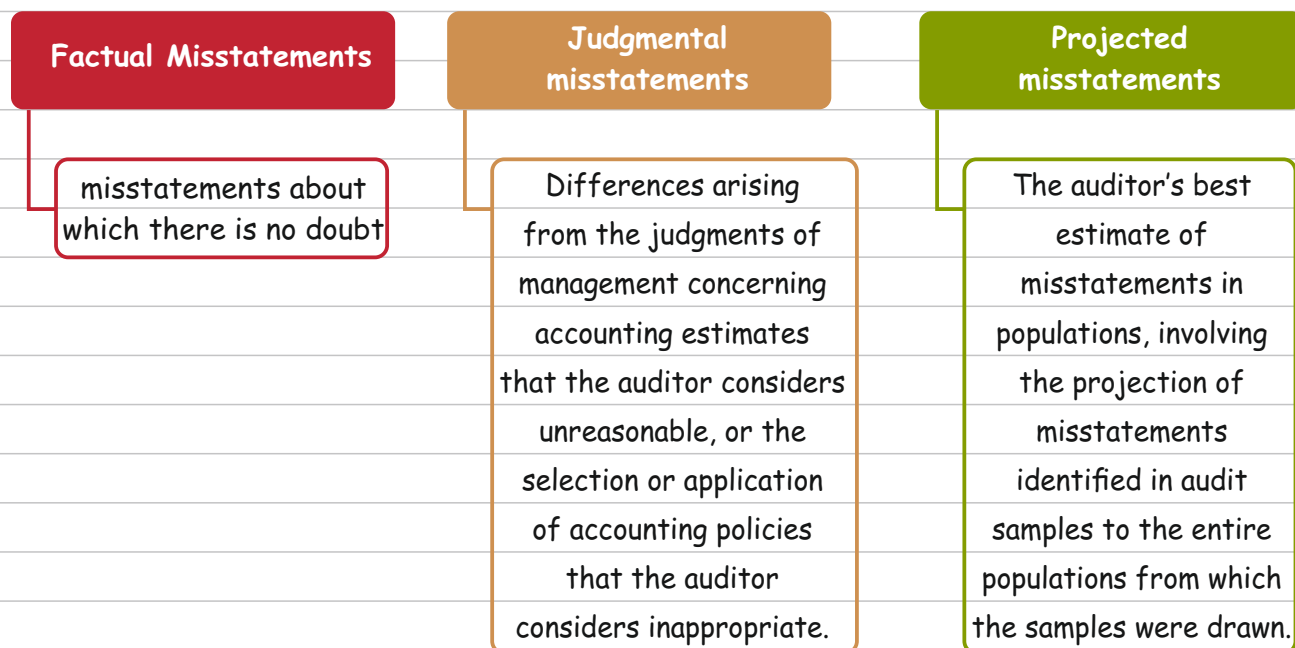
#### b) Uncorrected misstatements:

Misstatements that the auditor has accumulated during the audit and that have not been corrected.

### ACCUMULATION OF IDENTIFIED MISSTATEMENTS

- 1) The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial.
- 2) The auditor may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial statements.
- 3) "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 determined in accordance with 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.

- 4) When there is any **uncertainty** about whether one or more items are clearly trivial, the matter is considered **not to be clearly trivial**
- 5) To **assist** the auditor in **evaluating** the effect of misstatements accumulated during the audit and in **communicating** misstatements to management and those charged with governance, it may be useful to **distinguish** between **factual misstatements, judgmental misstatements and projected misstatements**.



### CONSIDERATION OF IDENTIFIED MISSTATEMENTS AS THE AUDIT PROGRESSES

- The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:
  - The **nature of identified misstatements** and the **circumstances** of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, **could be material**; or
  - The **aggregate of misstatements accumulated** during the audit approaches materiality determined in accordance with **SA 320**.
- If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform **additional audit procedures** to determine whether misstatements remain.

### COMMUNICATION AND CORRECTION OF MISSTATEMENTS

- The auditor shall **communicate on a timely basis** all misstatements accumulated during the audit with the appropriate level of management, **unless prohibited by law or regulation**.
- The auditor shall request management to correct those misstatements.
- If **management refuses** to correct some or all of the misstatements communicated by the auditor, **the auditor** shall **obtain an understanding** of management's reasons for not making the corrections and shall take that understanding into account when **evaluating** whether the financial statements as a whole are free from material misstatement.

### EVALUATING THE EFFECT OF UNCORRECTED MISSTATEMENTS

- 1) **Prior to evaluating** the effect of uncorrected misstatements, the auditor shall **reassess** materiality determined in accordance with **SA 320** to **confirm** whether it **remains appropriate** in the context of the entity's actual financial results.
- 2) The auditor shall **determine** whether uncorrected misstatements are **material, individually or in aggregate**.
- 3) **In making this determination, the auditor shall consider:**
  - a) The **size and nature** of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and
  - b) The **effect of uncorrected misstatements** related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

- 1) The **auditor shall communicate** with those charged with governance, in accordance with **SA 260**, **uncorrected misstatements** and the **effect** that they, **individually or in aggregate**, may have on the opinion in the auditor's report, **unless prohibited by law or regulation**.
- 2) The auditor's communication shall **identify** material uncorrected misstatements individually.
- 3) The auditor shall **request** that uncorrected misstatements be **corrected**. The auditor shall also **communicate** with those charged with governance the **effect** of uncorrected misstatements **related to prior periods** on the relevant classes of transactions, account balances or disclosures, and the financial statements **as a whole**.

### WRITTEN REPRESENTATION

- 1) The auditor shall **request a written representation** from management and, where appropriate, those charged with governance whether they believe the **effects of uncorrected misstatements** are **immaterial, individually and in aggregate**, to the financial statements as a whole.
- 2) **A summary** of such items shall be **included in or attached** to the written representation.

### DOCUMENTATION

The **audit documentation** shall include:

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

## REPORTING

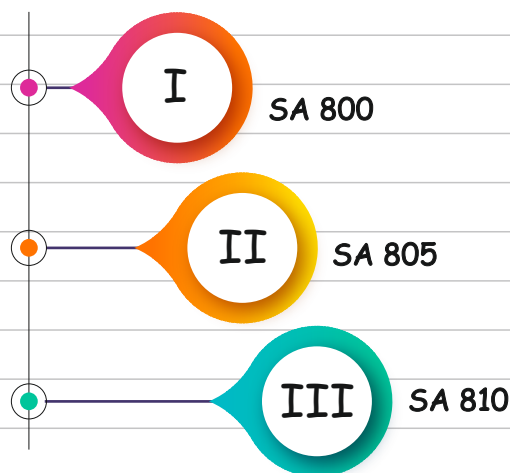
Before	After
The final phase of the audit is to assess the audit evidence obtained and determine whether it is sufficient and appropriate to reduce the <b>risks of material misstatement in the financial statements</b> to an acceptably low level.	The final phase of the audit is to assess the audit evidence obtained and determine whether it is sufficient and appropriate to reduce the <b>overall Audit Risk</b> to an acceptably low level.

## INTERNAL CONTROL ASSESSMENT & EVALUATIONS

Before	After
<b>Standard Operating Procedures (SOPs):</b> A well defined set of SOPs helps <b>define</b> role, responsibilities, process & <b>controls &amp; thus helps clearly communicate</b> the operating controls to all touch points of a process. <b>The controls are likely to be clearly understood &amp; consistently applied even during employee turnover</b>	<b>Standard Operating Procedures (SOPs):</b> A well-defined set of SOPs helps <b>outline</b> role, responsibilities, process and controls. <b>This ensures that operating controls are clearly</b> communicated to all touch points of a process. <b>SOPs promote consistent application of controls even during employee turnover, reducing the risk of disruptions.</b>

# Ch. 8 Specialised Areas

## CHAPTER OVERVIEW



### SA 800

## SPECIAL CONSIDERATIONS - AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH "SPECIAL PURPOSE FRAMEWORKS" (REVISED)

### SCOPE

SA 800 addresses **special considerations** that are relevant to: -

- The **acceptance** of the engagement
- The **planning and performance** of that engagement and
- Forming an opinion and reporting** on the financial statements.

### WHAT IS SPECIAL PURPOSE FRAMEWORK?

- SA 800 defines **special purpose framework** as a FRF **designed** to meet the financial information needs of specific users.
- The FRF may be a **fair presentation framework** or a **compliance framework**.

### EXAMPLES OF SPECIAL PURPOSE FRAMEWORKS ARE

- The **cash basis of accounting** and also **cash flow information** that an entity may be required to prepare for creditors.
- The **financial reporting provisions** established by a **regulator** to meet the requirements of the regulator.
- The **financial reporting provisions of a contract**, such as a bond indenture, a loan agreement, or a project grant

**DIFFERENCE BETWEEN SPECIAL PURPOSE FRAMEWORK & GENERAL PURPOSE FRAMEWORK**

A FRF designed to meet the common financial information **needs of a wide range of users** is known as "**General purpose framework**" whereas a FRF designed to meet the financial information **needs of specific users** is known as "**Special purpose framework**."

Reference to "financial statements" in this SA means "a complete set of special purpose financial statements" including the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.

**CONSIDERATIONS WHEN ACCEPTING SUCH ENGAGEMENT**

- 1) The financial information needs of the intended users are a **key factor** in **determining the acceptability** of the FRF applied in the preparation of the financial statements.
- 2) The applicable FRF may encompass the financial reporting standards established by an organisation that is authorised
- 3) Some laws or regulations may prescribe the FRF to be used by management in the preparation of special purpose financial statements for a certain type of entity. For Example A regulator may establish financial reporting provisions to meet the requirements of that regulator.
- 4) The applicable FRF may **encompass** the financial reporting **provisions of a contract or sources** other than those described in the preceding paras.
- 5) The **acceptability** of the FRF in the circumstances of the engagement is **determined** by considering whether the framework **exhibits attributes** normally exhibited by acceptable FRF in accordance with the requirements of **SA 210**.
- 6) In the case of a **special purpose framework**, the relative importance to a particular engagement of each of the attributes normally exhibited by **acceptable FRF** is a matter of **professional judgment**.

**CONSIDERATIONS WHEN PLANNING AND PERFORMING SUCH AUDIT**

- 1) **SA 200** requires the auditor to comply with:
  - a) **Relevant ethical requirements**, including those pertaining to independence, relating to financial statement audit engagements, and
  - b) **All SAs** relevant to the audit.
- 2) In **exceptional circumstances**, the auditor may judge it necessary **to depart** from a **relevant requirement in an SA** by performing **alternative audit procedures**.
- 3) **SA 315** requires the auditor **to obtain** an **understanding** of the **entity's selection and application of accounting policies**. In the case of financial statements prepared in accordance with the provisions of a contract, **the auditor** shall **obtain** an **understanding of any significant interpretations** of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a **material difference** in the information presented in the financial statements.

- 4) In the case of **special purpose financial statements**, such as those prepared in accordance with the requirements of a contract, **management** may **agree** with the **intended users** on a **threshold** below which **misstatements** identified during the audit will **not be corrected** or **otherwise adjusted**.
- 5) The **existence** of such a threshold does **not** relieve the **auditor** from the **requirement to determine materiality** in accordance with **SA 320** for purposes of **planning and performing the audit of the special purpose financial statements**.
- 6) **SA 260** requires the auditor **to determine** the **appropriate person(s)** within the entity's governance structure with whom to communicate.
- 7) When forming an opinion and reporting on special purpose financial statements, the **auditor shall apply** the requirements in **Revised SA 700**.

#### DESCRIPTION OF THE APPLICABLE FINANCIAL REPORTING FRAMEWORK

- 1) **Revised SA 700** (Revised) requires the **auditor** to **evaluate** whether the financial statements **adequately** refer to or describe the **applicable FRF**. In the case of financial statements prepared in accordance with the provisions of a contract, **the auditor** shall **evaluate** whether the financial statements adequately describe any **significant interpretations** of the contract on which the financial statements are based.
- 2) **Revised SA 700** deals with the **form and content** of the auditor's report **including the specific ordering of certain elements**. In the case of an auditor's report on special purpose financial statements: -
  - a) The **auditor's report** shall also describe the **purpose** for which the financial statements are **prepared** and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contain that information; and
  - b) If management has a choice of FRF in the preparation of such financial statements, the **explanation of management's responsibility** for the financial statements shall also make **reference** to its responsibility for determining that the **applicable FRF** is **acceptable** in the circumstances.
  - c) When **key audit matters** are communicated in the auditor's report on special purpose financial statements, **SA 701 applies in its entirety**.
  - d) **SA 720(Revised)** deals with the **auditor's responsibilities relating to other information**. In the context of this SA, reports containing or accompanying the special purpose financial statements: the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in special purpose financial statements - are considered to be annual reports for the purposes of SA 720(Revised).
  - e) In the case of financial statements prepared using a special purpose framework, the term **"similar stakeholders"** includes the specific users whose financial information needs are met by the design of the special purpose framework used to prepare the special purpose financial statements. When the auditor determines that the entity plans to issue such a report, the requirements of SA 720(Revised) apply to the audit of the special purpose financial statements.

- f) The auditor may deem it appropriate to refer, in an **Other Matter paragraph** in the auditor's report on the special purpose financial statements, to the auditor's report on the complete set of general-purpose financial statements or to matter(s) reported therein as per SA 706 (Revised).

**For example**, the auditor may consider it appropriate to refer in the auditor's report on the special purpose financial statements to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of general-purpose financial statements.

### ALERTING READERS THAT THE FINANCIAL STATEMENTS ARE PREPARED IN ACCORDANCE WITH A SPECIAL PURPOSE FRAMEWORK

- 1) The special purpose financial statements may be used for purposes other than those for which they were intended.

**For example**, a regulator may require certain entities to place the special purpose financial statements on public record.

- 2) To avoid misunderstandings, the auditor **alerts users of the auditor's report** by including an **Emphasis of Matter paragraph** explaining that the financial statements are prepared in accordance with a special purpose framework and, therefore, may **not be suitable** for another purpose.
- 3) **SA 706(Revised)** requires this paragraph to be included within a **separate section** of the auditor's report with an appropriate heading that includes the term **"Emphasis of Matter"**.

### RESTRICTION ON DISTRIBUTION OR USE

- 1) In addition to the alert required as discussed above, the auditor may consider it appropriate to indicate that the **auditor's report is intended solely for the specific users**.
- 2) Depending on the law or regulation applicable, this may be achieved by **restricting the distribution or use of the auditor's report**.

#### Example of Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company in complying with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Company and DEF Company Limited and should not be distributed to or used by parties other than the Company or DEF Company Limited. Our opinion is not modified in respect of this matter.

# SA 805

## SPECIAL CONSIDERATIONS-AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT (REVISED)

### SCOPE

- 1) **SA 805** deals with special considerations in the **application** of those SAs to an **audit** of a **single financial statement** or of a **specific element, account** or **item** of a **financial statement**.
- 2) The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. **If prepared** in accordance with a special purpose framework, **SA 800 also applies** to the audit.
- 3) **SA 805** does **not apply** to the **report of a component auditor** issued on the financial information of a component at the request of a group engagement team for audit of group financial statements.

### OBJECTIVES

The objective of the auditor, when applying SAs in an **audit of a single financial statement or of a specific element, account or item of a financial statement**, is to **address appropriately** the special considerations that are relevant to:

- 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.

### WHAT IS A SINGLE FINANCIAL STATEMENT?

A **single financial statement** is to be distinguished from a complete set of financial statements. **For example**, a cash flow statement is a single financial statement.

### WHAT IS THE ELEMENT OF A FINANCIAL STATEMENT?

- 1) "Element of a financial statement" or "element" means an "element, account or item of a financial statement." **For example**, trade receivables or cash and bank balances.
- 2) A single financial statement or a specific element of a financial statement **includes** the related notes ordinarily **comprising a summary of significant accounting policies** and **other explanatory information** relevant to the financial statement or to the element.

### EXAMPLES OF SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT ARE:

- 1) Accounts receivable, allowance for doubtful accounts receivable, inventory, including related notes.
- 2) A schedule of **externally managed assets** and income of a private pension plan, including related notes.
- 3) A schedule of **net tangible assets**, including related notes.
- 4) A schedule of **disbursements** in relation to a lease property, including explanatory notes.

## CONSIDERATIONS WHEN ACCEPTING SUCH ENGAGEMENT

## APPLICATION OF SA's

- 1) **SA 200** requires the auditor to **comply with all SAs relevant** to the audit. In the case of an audit of a **single financial statement or of a specific element** of a financial statement, this requirement applies **irrespective** of whether the auditor is also **engaged to audit** the entity's **complete set of financial statements**.
- 2) If the auditor is **not** also engaged to audit the entity's complete set of financial statements, the auditor shall **determine** whether the **audit** of a **single financial statement or of a specific element** of those financial statements in accordance with SAs is **practicable**.
- 3) **SA 200** requires the auditor to comply with
  - a) **Relevant ethical requirements**, including those **pertaining to independence** relating to financial statement audit engagements, and
  - b) **All SAs** relevant to the audit.
- 4) In **exceptional circumstances**, the auditor may judge it necessary **to depart** from a relevant requirement in an SA by **performing alternative audit procedures**.
- 5) Compliance with the requirements of SAs **may not be practicable** when the auditor is not also engaged to audit the entity's complete set of financial statements due to the following reasons :
  - a) In such cases, the auditor often does **not** have the same understanding of the entity and its environment, including its internal control, as an **auditor who** also **audits** the entity's **complete set of financial statements**.
  - b) The auditor also does **not** have audit evidence about the **general quality of the accounting records** or other accounting information that **would be acquired** in an **audit** of the entity's **complete set of financial statements**. Accordingly, the auditor may need further evidence **to corroborate** audit evidence acquired from the accounting records.
  - c) In the case of an **audit of a specific element of a financial statement**, certain SAs require audit work that may be **disproportionate** to the element being audited.  
**For example**, although the requirements of **SA 570** are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required.
- 6) If the **auditor concludes** that an audit of a single financial statement or of a specific element of a financial statement in accordance with SAs **may not be practicable**, the **auditor** may **discuss with management** whether another type of engagement might be more practicable.

## ACCEPTABILITY OF THE FINANCIAL REPORTING FRAMEWORK

- 1) **SA 210** requires the auditor **to determine** the **acceptability** of the FRF applied in the preparation of the financial statements.
- 2) In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall **include** whether **application of the FRF** will result in a **presentation** that provides **adequate disclosures** to **enable the intended users** to **understand the information** conveyed in the financial statement or the element, and the **effect of material transactions** and

**events** on the information conveyed in the financial statement or the element.

### CONSIDERATIONS WHEN PLANNING AND PERFORMING THE AUDIT

- 1) In **planning and performing** the audit, the auditor shall **adapt all SAs relevant** to the audit.
- 2) **The relevance of each of the SAs** requires **careful consideration**. Even when only a specific element of a financial statement is the subject of the audit, SAs such as **SA 240, SA 550 and SA 570(Revised)** are, **in principle, relevant**. This is because the **element** could be **misstated as a result of fraud**, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the **applicable financial reporting framework**.
- 3) **SA 260(Revised)** requires the auditor **to determine** the **appropriate person(s)** within the entity's governance structure **with whom to communicate**. **SA 260(Revised)** notes that, in some cases, **all of those charged with governance** are involved in managing the entity, and the application of communication requirements is **modified** to recognise this position.
- 4) When complete set of financial statements is also prepared by the entity, **those person(s) responsible** for the oversight of the preparation of the single financial statement or the element may **not be the same** as those charged with governance **responsible for the oversight** of the **preparation of the complete set of financial statements**.
- 5) When auditing **a single financial statement or a specific element of a financial statement in conjunction** with the audit of the **entity's complete set of financial statements**, the auditor may be able to **use audit evidence obtained** as part of the audit of the entity's complete set of financial statements in the **audit of the financial statement or the element**.
- 6) The individual financial statements that **comprise** a complete set of financial statements, and many of the elements of those financial statements, including their related notes, **are interrelated**.
- 7) Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may **not be able** to consider the financial statement or the element in isolation. Consequently, the auditor may **need to perform** procedures in relation to the interrelated items **to meet** the objective of the audit.
- 8) Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be **lower than the materiality** determined for the entity's complete set of financial statements; this will **affect the nature, timing and extent** of the audit procedures and the **evaluation of uncorrected misstatements**.

### FORMING AN OPINION AND REPORTING CONSIDERATIONS

- 1) When **forming an opinion and reporting** on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in **Revised SA 700**, and, when applicable, SA 800(Revised) adapted as necessary in the circumstances of the engagement.
- 2) **Revised SA 700** requires the auditor, in forming an opinion, **to evaluate** whether the financial statements **provide adequate disclosures** to enable the **intended users** to **understand the effect of material transactions** and **events** on the information conveyed in the financial statements.

**3) GOING CONCERN**

- a) Depending on the **applicable financial reporting framework** used in the preparation of the single financial statement or the specific element of a financial statement, the **description in the auditor's report of management's responsibilities** relating to going concern may **need to be adapted**, as necessary.
- b) The **description in the auditor's report of the auditor's responsibilities** may also **need to be adapted** as necessary depending on how **SA 570(Revised)** applies in the circumstances of the engagement.

**4) KEY AUDIT MATTERS**

**SA 700(Revised)** requires the auditor to **communicate key audit matters** in accordance with SA 701 for audits of complete sets of general-purpose financial statements of listed entities.

**5) OTHER INFORMATION**

- a) **SA 720(Revised)** deals with the **auditor's responsibilities relating to other information**. In the context of this SA, reports **containing or accompanying** the single financial statement or specific element of a financial statement - **the purpose** of which is to provide owners (or similar stakeholders) with information on matters presented in the single financial statement or the specific element of a financial statement - are **considered** to be annual reports for the purposes of **SA 720(Revised)**.
- b) When the auditor **determines** that the entity **plans to issue** such a report, the requirements of SA 720(Revised) apply to the audit of the single financial statement or the element.

**6) SIGNATURE OF THE AUDITOR**

- a) **The auditor's report** shall be **signed**. The report is **signed by the auditor** (i.e. the engagement partner) in his personal name.
  - b) 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**.
  - c) The **partner/proprietor** signing the auditor's report also needs to **mention the membership number** assigned by the Institute of Chartered Accountants of India.
  - d) They also **include the registration number of the firm**, wherever applicable, as allotted by ICAI, in the auditor's reports signed by them.
- 7) **This SA requires** the auditor to **consider the implications**, if any, of certain matters included in the auditor's report on the **complete set of financial statements** for the audit of the single financial statement or the specific element of a financial statement and for the auditor's report thereon.

**Factors that may be relevant in considering those implications include:**

- a) **The nature of the matter(s)** being described in the auditor's report on the complete set of financial statements and **the extent** to which it **relates** to what is included in the single financial statement or a specific element of a financial statement.
- b) **The pervasiveness of the matter(s)** described in the auditor's report on the complete set of financial statements.
- c) **The nature and extent of the differences** between the **applicable financial reporting frameworks**.

- d) **The extent of the difference** between the **period(s) covered** by the complete set of the financial statements **compared to the period(s) or dates** of the single financial statement or the element of a financial statement.
  - e) **The time elapsed** since the date of the auditor's report on the complete set of the financial statements.
- 8) **For example**, in the case when there is a qualification of the auditor's opinion in relation to accounts receivable in the auditor's report on the complete set of financial statements, and the single financial statement includes accounts receivable, or the specific element of a financial statement relates to accounts receivable, it is likely that there would be implications for the audit. On the other hand, if the qualification of the auditor's opinion on the complete set of financial statements relates to classification of long-term debt, then it is less likely that there would be implications for an audit of the single financial statement that is the Statement of Profit and Loss, or if the specific element of the financial statement relates to accounts receivable.

#### 9) INCLUSION OF A REFERENCE TO THE AUDITOR'S REPORT ON THE COMPLETE SET OF FINANCIAL STATEMENTS

- a) Even when **certain matters included** in the **auditor's report** on the **complete set of financial statements** do **not have implications** for the audit of, or for the auditor's report on, the single financial statement or the specific element of a financial statement, the auditor may **deem it appropriate** to refer to the **matter(s)** in an **Other Matter paragraph** in an auditor's report on the **single financial statement or on the specific element of a financial statement as per SA 706(Revised)**.
  - b) **For example**, the auditor may consider it appropriate to refer in the auditor's report on the single financial statement or a specific element of the financial statement to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of financial statements.
- 10) If the auditor **undertakes** an engagement **to report** on a single financial statement or on a specific element of a financial statement **in conjunction with an engagement** to audit the entity's complete set of financial statements, **the auditor shall express a separate opinion for each engagement**.
- 11) The **audited single financial statement or the audited specific element of a financial statement** may be **published together** with the **entity's audited complete set of financial statements**.
- 12) If **the auditor concludes** that the presentation of the single financial statement or of the specific element of a financial statement **does not differentiate** it sufficiently from the complete set of financial statements, **the auditor shall ask management to rectify** the situation.
- 13) The auditor shall also **differentiate** the **opinion** on the single financial statement or on the specific element of a financial statement **from the opinion** on the **complete set of financial statements**.
- 14) The auditor shall **not** issue the **auditor's report** containing the opinion on the single financial statement or on the specific element of a financial statement **until satisfied with the differentiation**.

**CONSIDERING THE IMPLICATIONS OF CERTAIN MATTERS INCLUDED IN THE AUDITOR'S REPORT ON THE ENTITY'S COMPLETE SET OF FINANCIAL STATEMENTS FOR THE AUDIT OF THE SINGLE FINANCIAL STATEMENT OR THE SPECIFIC ELEMENT OF A FINANCIAL STATEMENT AND FOR THE AUDITOR'S REPORT THEREON**

If the auditor's report on an entity's complete set of financial statements includes:

- a) A **modified opinion** in accordance with **SA 705(Revised)**;
- b) An **Emphasis of Matter paragraph** or an **Other Matter paragraph** in accordance with **SA 706(Revised)**;
- c) A **Material Uncertainty Related to Going Concern section** in accordance with **SA 570(Revised)**; or
- d) A **statement** that describes an **uncorrected material misstatement** of the **other information** in accordance with **SA 720(Revised)**.

the auditor shall **consider the implications**, if any, that these matters, may have for the audit of the single financial statement or of the specific element of a financial statement and for the auditor's report thereon.

**ADVERSE OPINION OR DISCLAIMER OF OPINION IN THE AUDITOR'S REPORT ON THE ENTITY'S COMPLETE SET OF FINANCIAL STATEMENTS**

- 1) If the auditor **concludes** that it is necessary to **express an adverse opinion** or **disclaim an opinion** on the entity's complete set of financial statements as a whole, Revised SA 705 **does not** permit the auditor to include in the **same auditor's report an unmodified opinion** on a **single financial statement** that forms part of those financial statements or on a **specific element** that forms part of those financial statements. This is because such an **unmodified opinion** would **contradict** the **adverse opinion or disclaimer of opinion** on the entity's **complete set of financial statements** as a whole.
- 2) If the auditor **concludes** that it is **necessary** to express an **adverse opinion** or **disclaim an opinion** on the entity's **complete set of financial statements** as a whole **but**, in the context of a **separate audit** of a **specific element** that is included in those financial statements, the auditor nevertheless considers it **appropriate to express an unmodified opinion** on that element, the auditor shall **only do so if**:
  - a) The auditor is **not prohibited** by law or regulation from doing so;
  - b) That **opinion is expressed** in an auditor's report that is **not published together** with the auditor's report containing the adverse opinion or disclaimer of opinion; and
  - c) The specific element does **not constitute** a major portion of the entity's complete set of financial statements.
- 3) The auditor shall **not express an unmodified opinion** on a single financial statement of a complete set of financial statements if the auditor has **expressed an adverse opinion or disclaimed an opinion** on the **complete set** of financial statements as a whole. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.

- 4) In the auditor's report on an entity's complete set of financial statements, the **expression of a disclaimer of opinion** regarding the results of operations and cash flows, where relevant, and **an unmodified opinion** regarding the state of affairs **is permitted** since the disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the financial statements as a whole.

### FORM OF OPINION

- 1) **SA 210** requires that the agreed terms of the audit engagement **include** the **expected form** of any reports to be issued by the auditor. In the case of an **audit of a single financial statement or of a specific element** of a financial statement, **the auditor** shall consider whether the **expected form of opinion is appropriate** in the circumstances.
- 2) The **form of opinion** to be expressed by the auditor **depends** on the **applicable financial reporting framework** and any **applicable laws or regulations**.
- 3) The **auditor's decision** as to the expected form of opinion is a **matter of professional judgment**.

## SA 810

### ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS (REVISED)

#### SCOPE

**SA 810** deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

#### WHAT DO SUMMARY FINANCIAL STATEMENTS REFLECT?

Summary financial statements **reflect historical financial information** that is **derived** from financial statements, but that contains **less detail** than the financial statements while still providing a **structured representation** consistent with that provided by the financial statements.

Different laws and regulations may use different terminology to describe such historical financial information.

#### ENGAGEMENT ACCEPTANCE

- 1) The **auditor** shall, ordinarily, **accept** an engagement to report on summary financial statements **only** when the **auditor** has been **engaged** to **conduct** an audit in accordance with SAs of financial statement from which the **summary financial statements** are **derived**.
- 2) If the auditor has **not** also audited the financial statements from which the summary financial statements are derived, **the auditor** shall **not** have the **necessary knowledge to discharge his responsibilities**.

## BEFORE ACCEPTING AN ENGAGEMENT TO REPORT ON SUMMARY FINANCIAL STATEMENTS, THE AUDITOR SHALL

### A) DETERMINE WHETHER THE APPLIED CRITERIA ARE ACCEPTABLE

#### 1) Applied criteria

- a) It refers to the criteria **applied by management** in the preparation of the summary financial statements.
- b) **The preparation** of summary financial statements requires management to **determine** the information that **needs to be reflected** in the summary financial statements so that they are **consistent**, in all material respects, with or **represent a fair summary** of the audited financial statements.
- c) Because summary financial statements by their nature contain **aggregated information and limited disclosure**, there is an **increased risk** that they may **not contain** the information necessary so as **not to be misleading** in the circumstances.
- d) This **risk increases** when **established criteria** for the preparation of summary financial statements **do not exist**.

#### 2) **Factors affecting** the auditor's determination of the acceptability of the applied criteria:

- a) The **nature** of the entity
- b) The **purpose** of the summary financial statements
- c) The **information needs** of the intended users of the summary financial statements and
- d) Whether the **applied criteria** will result in summary financial statements that are **not** misleading in the circumstances.

#### 3) The **criteria** for the preparation of summary financial statements may be established by an authorised or recognised standards setting organisation or by law or regulation.

#### 4) Where **established criteria** for the preparation of summary financial statements **do not exist**, criteria may be developed by management, for example, based on practice in a particular industry.

#### 5) If the auditor **concludes** that the applied criteria are **unacceptable or is unable** to obtain the agreement of management as discussed above, the auditor shall **not accept** the engagement to report on the summary financial statements, **unless required by law or regulation** to do so.

#### 6) Adequate disclosure of the summarised nature of the summary financial statements and the identity of the audited financial statements, may, for example, be provided by a title such as "Summary financial statements prepared from the audited financial statements for the year ended March 31, 20XX"

### B) OBTAIN THE AGREEMENT OF MANAGEMENT THAT IT ACKNOWLEDGES AND UNDERSTANDS ITS RESPONSIBILITY

- 1) For the **preparation of the summary financial statements** in accordance with the applied criteria.
- 2) **To make the audited financial statements available** to the **intended users** of the summary financial statements without undue difficulty unless Laws & regulations provides that Financial Statements need not be made available to the intended users.

Following factors may help auditor determining whether intended users can access audited FS without undue difficulty

- a) Summary FS clearly describes from whom or where audited FS are available.
- b) FS are available on public record
- c) Management has established process by which intended users can obtain access to the audited FS.

- 3) To include **the auditor's report** on the **summary financial statements** in any **document** that contains the **summary financial statements** and that indicates that the auditor has reported on them

### **C) AGREE WITH MANAGEMENT ON THE FORM OF OPINION TO BE EXPRESSED ON THE SUMMARY FINANCIAL STATEMENTS.**

#### **NATURE OF PROCEDURES TO BE PERFORMED BY AUDITOR**

- 1) **Evaluate** whether the summary financial statements **adequately disclose** their summarised nature and identify the audited financial statements.
- 2) When summary financial statements are **not accompanied** by the audited financial statements, evaluate whether they **describe clearly**:
  - a) From **whom** or **where** the audited financial statements are available; or
  - b) The **law or regulation** that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and **establishes the criteria** for the preparation of the summary financial statements.
- 3) **Evaluate** whether the summary financial statements **adequately disclose** the **applied criteria**.
- 4) **Compare** the summary financial statements with the related information in the audited financial statements **to determine** whether the summary financial statements agree with or can be recalculated from the related information in the audited financial statements.
- 5) **Evaluate** whether the summary financial statements are **prepared** in accordance with the **applied criteria**.
- 6) **Evaluate**, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an **appropriate level of aggregation**, so as not to be misleading in the circumstances.
- 7) Evaluate whether the **audited financial statements** are available to the **intended users** of the summary financial statements without **undue difficulty**, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements as discussed already.

#### **FORM OF OPINION**

- 1) When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use 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**.
- 3) If, the **auditor concludes** that additional explanation in the auditor's report on the summary financial statements **cannot mitigate** possible misunderstanding, the auditor shall not accept the engagement, **unless required by law or regulation to do so**.
- 4) An engagement conducted in accordance with such law or regulation does **not comply** with this SA. Accordingly, the auditor's report on the summary financial statements shall **not indicate** that the as conducted in accordance with this SA.

## AUDITOR'S REPORT ON SUMMARY FINANCIAL STATEMENTS

### ELEMENTS OF THE AUDITOR'S REPORT

The auditor's report on summary financial statements shall include the following elements: -

- 1) **A title** clearly indicating it as the report of an independent auditor
- 2) **An addressee:**
- 3) **Identification of the summary financial statements** on which the auditor is reporting, including the title of each statement, included in the summary financial statements -  
When the auditor is aware that the summary financial statements will be included in a document that contains **information other than the summary financial statements** and the auditor's report thereon, the auditor may consider, if the **form of presentation** allows, **identifying the page numbers** on which the **summary financial statements** are **presented**. This helps readers identify the summary financial statements to which the auditor's report relates.
- 4) **Identification** of the audited financial statements.
- 5) A **clear expression** of an opinion.
- 6) **A statement** indicating that the **summary financial statements** do **not contain** all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements and that **reading** the summary financial statements and the auditor's report thereon is **not a substitute** for reading the audited financial statements and the auditor's report thereon.
- 7) If required, then **a statement** that the summary financial statements and the audited financial statements do **not reflect** the **effects of events** that occurred subsequent to the date of the auditor's report on the audited financial statements.

- 8) **Reference to the auditor's report** on the audited financial statements, **the date** of that report, and **the fact** that an unmodified opinion is expressed on the audited financial statements.
- 9) **A description of management's responsibility** for the summary financial statements, explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria.
- 10) **A statement** that the **auditor is responsible for expressing an opinion**, based on the auditor's procedures conducted in accordance with this SA, on whether the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements.
- 11) The **auditor's signature** along with the **firm registration number**, wherever applicable, and the **membership number** assigned by the Institute of Chartered Accountants of India. Besides, **UDIN** is required to be stated.
- 12) **The date of the auditor's report**- The auditor shall **date the auditor's report on the summary financial statements no earlier than**:
  - a) The **date** on which the auditor has obtained **sufficient appropriate evidence** on which to base the opinion.
  - b) The **date of the auditor's report** on the audited financial statements.
- 13) **The place of signature.**

#### **MODIFICATIONS TO THE OPINION, EMPHASIS OF MATTER PARAGRAPH OR OTHER**

#### **MATTER PARAGRAPH IN THE AUDITOR'S REPORT ON THE AUDITED FINANCIAL STATEMENTS**

- 1) **Reference to the Auditor's Report on the Audited Financial Statements: When the auditor's report on the audited financial statements includes:**
  - a) **A qualified opinion** in accordance with **SA 705(Revised)**;
  - b) **An Emphasis of Matter paragraph, or an Other Matter paragraph** in accordance with **SA 706(Revised)**;
  - c) **A Material Uncertainty Related to Going Concern section** in accordance with **SA 570(Revised)**;
  - d) **Communication of key audit matters** in accordance with **SA 701**; or
  - e) **A statement** that describes an **uncorrected material misstatement** of the **other information** in accordance with **SA 720(Revised)**;

and the auditor is **satisfied** that the summary financial statements are **consistent, in all material respects**, with or are a fair summary of the audited financial statements, in **accordance with the applied criteria**, the auditor's report on the summary financial statements shall, in addition to the elements discussed above:

  - a) **State** that the auditor's report on the audited financial statements **includes a qualified opinion, an Emphasis of Matter paragraph, an Other Matter paragraph, a Material Uncertainty Related to Going Concern section, communication of key audit matters, or a statement that describes an uncorrected material misstatement of the other information; and**
  - b) **Describe**:
    - i) The **basis for the qualified opinion** on the audited financial statements and the **effect** thereof, if any, on the summary financial statements;

- ii) **The matter** referred to in the **Emphasis of Matter** paragraph or the **Other Matter** paragraph or the **Material Uncertainty Related to Going Concern** section in the auditor's report on the audited financial statements; and **the effect(s)** thereof, if any, on the summary financial statements; or
- iii) The **uncorrected material misstatement of the other information** and the **effect(s)** thereof, if any, on the information included in a document containing the summary financial statements and the auditor's report thereon.

2) When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, additionally: -

- a) **State** that the auditor's report on the audited financial statements contains an **adverse opinion or disclaimer of opinion**;
- b) **Describe** the **basis for that adverse opinion or disclaimer of opinion**; and
- c) **State** that, as a result of the adverse opinion or disclaimer of opinion, it is **inappropriate to express an opinion** on the summary financial statements

#### MODIFIED OPINION ON THE SUMMARY FINANCIAL STATEMENTS

If the summary financial statements are **not consistent**, in all material respects, with or are not a fair summary in accordance with the applied criteria, and **management does not agree** to make the **necessary changes**, the auditor shall **express an adverse opinion** on the summary financial statements.

#### RESTRICTION ON DISTRIBUTION OR USE OR ALERTING READERS TO THE BASIS OF ACCOUNTING

When **distribution or use** of the auditor's report on the audited financial statements is **restricted**, or the **auditor's report** on the audited financial statements **alerts readers** that the audited financial statements are **prepared** in accordance with a **special purpose framework**, the auditor shall include a **similar restriction or alert** in the auditor's report on the summary financial statements.

#### COMPARATIVES

- 1) If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the **effect of an unreasonable omission** on the auditor's report on the summary financial statements.
- 2) If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that **SA 710** requires the auditor to include in the auditor's report on the audited financial statements.

### UNAUDITED SUPPLEMENTARY INFORMATION PRESENTED WITH SUMMARY FINANCIAL STATEMENTS

- 1) The auditor shall **evaluate** whether any **unaudited supplementary information** presented with the summary financial statements is clearly differentiated from the summary financial statements.
- 2) If the auditor **concludes** that the entity's presentation of the unaudited supplementary information is **not clearly differentiated** from the summary financial statements, the auditor shall **ask management to change** the presentation of the unaudited supplementary information.
- 3) **If management refuses** to do so, the **auditor** shall **explain** in the auditor's report on the summary financial statements that such information is **not covered** by that report.

### OTHER INFORMATION IN DOCUMENTS CONTAINING SUMMARY FINANCIAL STATEMENTS

- 1) The auditor shall **read the information** included in a document containing the summary financial statements and the auditor's report thereon and **consider** whether there is a **material inconsistency** between **that information and the summary financial statements**.
- 2) If the auditor **identifies a material inconsistency**, the auditor shall **discuss the matter with management** and **determine** whether the summary financial statements or the **information** included in the document containing the summary financial statements and the auditor's report thereon **needs to be revised**.
- 3) If the auditor **determines** that the information **needs to be revised** and **management refuses** to revise the information as necessary, **the auditor** shall take **appropriate action** in the circumstances, including **considering the implications** for the **auditor's report on the summary financial statements**.

### AUDITOR ASSOCIATION

- 1) If the **auditor becomes aware** that the **entity plans** to state that the auditor has **reported** on summary financial statements in a document containing the summary financial statements, but **does not plan to include** the related auditor's report, the auditor shall **request management to include the auditor's report** in the document.
- 2) If **management does not do so**, the auditor shall **determine and carry out** other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document.
- 3) The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:
  - a) **The reference** to the auditor is made in the context of the auditor's report on the audited financial statements; and
  - b) The statement **does not** give the impression that the auditor has reported on the summary

financial statements.

- 4) If **a) or b)** are not met, the auditor shall **request management** to change the statement to meet them, or not to refer to the auditor in the document.
- 5) If **management does not** change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor **disagrees** with the reference to the auditor, and the **auditor** shall **determine** and carry out other appropriate actions designed **to prevent** management from **inappropriately** referring to the auditor.

#### TIMING OF WORK AND EVENTS SUBSEQUENT TO THE DATE OF THE AUDITOR'S REPORT ON THE AUDITED FINANCIAL STATEMENTS

- 1) The auditor's report on the summary financial statements may be **dated later than the date of the auditor's report** on the audited financial statements. In such cases, the auditor's report on the summary financial statements shall **state** that the summary financial statements and the audited financial statements **do not reflect the effects of events** that **occurred subsequent to the date of the auditor's report** on the audited financial statements.
- 2) **The auditor** may **become aware of facts** that **existed** at the date of the auditor's report on the audited financial statements but of which the auditor **previously was unaware**. In such cases, the auditor shall **not issue the auditor's report** on the summary financial statements **until** the **auditor's consideration of such facts** in relation to the audited financial statements in accordance with **SA 560** has been **completed**.
- 3) When the **auditor reports** on the **summary financial statements after the completion of the audit of the financial statements**, the auditor is **not required** to obtain **additional audit evidence** on the audited financial statements, or **report on the effects of events** that occurred **subsequent** to the date of the auditor's report on the audited financial statements since the **summary financial statements are derived from the audited financial statements**.

## What is Cyber Risk

Under Phishing one example is added

Mr. Rajan, the CEO of a mid-sized company, has received an email requesting him to urgently update his account details due to a supposed security breach. The said email, appears to be received from the Company's bank accounts, looks official due to use of bank's logo and branding. Such email also includes a link to a website that resembles the bank's login page.

Concerned about the security of the company's finances, Mr. Rajan clicks on the link and enters his login credentials. Later, the company's IT department detects unauthorized access to the company's financial accounts and identifies that the CEO's credentials were compromised. The type of cyberattack that Mr. Rajan fell victim to is Spear Fishing.

# Ch. 14 Audit of Bank

## COMPLIANCE WITH CRR AND SLR REQUIREMENTS

### 1) Cash Reserve Ratio (CRR)

- a) **Cash Reserve Ratio (CRR)** is a specified **minimum fraction** of the **total deposits of customers**, which commercial banks have **to hold** as reserves either in **cash or as deposits with the central bank**.
- b) One of the important determinants of cash balances to be maintained by banking companies and other scheduled banks is the requirement for **maintenance of a certain minimum cash reserve**.
- c) The RBI, from time to time, **reviews** the **evolving liquidity situation** and accordingly decides the **rate of CRR** required to be maintained by scheduled commercial banks. Therefore, the auditor needs to refer to the master circular issued from time to time in this regard to ensure the compliance of CRR requirements.

### 2) Statutory Liquidity Ratio (SLR) Requirements

- a) SLR is the requirement that **every scheduled commercial bank** in India is required to **maintain in the form of certain liquid assets** such as **gold, cash and government approved securities** before providing credit to the customers.
- b) The Reserve Bank of India requires statutory central auditors of banks **to verify** the compliance with SLR requirements of **12 odd dates** in different months of a fiscal year not being Fridays.
- c) The objective of maintaining SLR is to have an amount in the form of liquid assets which can be used to handle a sudden increase in demand for the amount from the depositors.
- d) The resultant report is to be sent to the **top management** of the bank and to the Reserve Bank

### 3) Important Aspects:

- a) **Correctness of the compilation of DTL (Demand and Time Liabilities) position; and**
- b) **Maintenance of liquid assets as prescribed**

## AUDIT APPROACH AND PROCEDURE

- 1) **Obtain an understanding** of the relevant circumstances of the RBI, particularly regarding composition of items of DTL.
- 2) Request the branch auditors to send their **weekly trial balance** as on Friday and these are consolidated at the head office. Based on this consolidation, the DTL position is determined for every reporting Friday.
- 3) The statutory central auditor should request the branch auditors **to verify the correctness of the trial balances** relevant to the dates selected by him/her. The branch auditors should also be specifically requested to examine the cash balance at the branch on the selected dates.
- 4) **Examine**, on a test basis, the consolidations regarding **DTL position** prepared by the bank with reference to the related returns received from branches. The auditor should examine whether

the valuation of securities done by the bank is in accordance with the guidelines prescribed by **the RBI**.

- 5) While examining the computation of DTL, specifically examine that items have been excluded from liabilities as per RBI guidelines. Some of these items are:
- Paid up capital, reserve, any credit balance in Profit and Loss Account** of the bank, amount of any loan taken from the RBI and amount of refinance taken from EXIM Bank, NHB, NABARD, SIDBI.
  - Bills discounted** by a bank with eligible financial institutions as **approved by the RBI**.
  - Net Income tax provision**.
  - Amount received from DICGC** towards claims held by banks pending adjustments thereof.
  - Amount received from ECGC** by invoking the guarantee.
  - Amount received from insurance companies** for ad hoc settlement of claims pending judgement of court.
  - Amount received from court receiver**.
  - Net unrealized gain/loss** arising from **derivatives transactions** under trading portfolio.
  - Income flows **received in advance** such as annual fees and other charges which are not refundable.
  - Liabilities arising on account of utilisation of limit under **'Bankers' Acceptance Facility' (BAF)**.
  - Part amounts of recoveries from the borrowers in respect of **debts considered bad and doubtful of recovery**.
  - Amounts received in Indian currency **against import bills** and **held in sundry deposits** pending receipt of final rates.
  - Un-adjusted deposits/balances** lying in link branches for agency business like dividend warrants, interest warrants, refund of application money, etc., in respect shares/debentures to the extent of payments made by other branches but not adjusted by the link branches.
  - Margins held and kept** in sundry deposits for funded facilities.
- 6) Similarly, specifically examine that the following items have been **included in liabilities as per RBI guidelines**. Some of these items are :
- Net credit balance in branch adjustment accounts. The credit entries in branch adjustment account which are **outstanding for more than 5 years** are required to be considered at gross.
  - Interest accrued on deposits should be **calculated** on each **reporting fortnight** (as per the interest calculation method applicable to various types of accounts), whether or not such interest is accounted for in books of accounts, so that the bank's liability in this regard is fairly reflected in the total NDTL of the same fortnightly return. Cash collaterals received under collateralized derivative transactions as these are in the nature of 'outside liabilities.
  - Borrowings from abroad** by banks in India needs to be considered as 'liabilities to other' & thus, needs to be considered at **gross level** . Thus, **adverse balances in Nostro Mirror**

**Account** needs to be considered as '**Liabilities to other**'

- d) **Reconciliation of Nostro accounts** (with Nostro Mirror Accounts) needs to be scrutinized carefully to analyze and ascertain if any inwards remittances are received on behalf of customers/constituents of bank and have remained unaccounted and/or any other debit (inward) entries have remained unaccounted & are pertaining to any liabilities for the bank.

While examining the computation of DTL, the auditor may specifically examine the details of exempted categories of the following items:

- i) Minimum Eligible Credit (EC) and outstanding Long-Term Bonds (LB) to finance Infrastructure loans and affordable housing loan, as per RBI Circular.
- ii) The eligible amount of incremental FCNR(B) and NRE deposits of maturities of three years and above. The auditor should also verify loans out of FCNR(B) deposits and inter- bank Foreign Currency (IBFC) deposits for reporting in Form A return. Banks should convert their foreign exchange assets/liabilities (including borrowings) in USD, GBP, JPY and Euro into INR at RBI reference rate. For other currencies consider the New York rate for conversion into USD.
- iii) As per RBI Circular on "Maintenance of CRR/SLR on Foreign Currency Assets/Liabilities - Reference rate for INR/USD and exchange rate of other major currencies", for conversion of foreign Currency Assets/ Liabilities reference rate from FBIL should be taken. If reference rate is not available from FBIL, banks may continue to use New York closing rate for conversion of such currency into USD.

- 7) **Examine** whether the consolidations prepared by the bank include the relevant information in respect of all the branches.
- 8) The auditor should also, **particularly, examine** whether the balances in Branch Adjustment Accounts of foreign branches have been **taken into account** in arriving at the net balance in Branch Adjustment Accounts.
- 9) The auditor should **examine the correctness** of data in **Form A return for CRR** and **Return in Form VIII for SLR purposes** on sample basis.
- 10) As stated in the preceding paragraphs, a **considerable part of the information** required by the **SCA for reporting on compliance with the SLR requirements** will **flow** from the branches. It is suggested that the relevant information pertaining to the branches within a region may be **consolidated at the regional level**.
- 11) The auditor of the region concerned should verify the same in the manner described in the above paragraphs and report on the same. The consolidated statement should also be **counter-signed by the regional manager**. The **auditor at the central level** should **apply** the audit procedures listed in the above paragraphs to the overall consolidation prepared for the bank as a whole. Where such a procedure is followed, the **SCA should adequately describe the same in his certificate**.
- 12) The auditor at the central level should **apply the audit procedures** listed above to the **overall consolidation** prepared for the bank as a whole. Where such procedure is followed, the **central auditor** should **adequately describe** the same in the report.

- 13) While reporting on compliance with SLR requirements, the auditor should **specify** the **number of unaudited branches** and **state** that **he/she** has **relied** on the **returns** received from the **unaudited branches in forming an opinion**. Recently, there has been introduction of **Automated Data Flow (ADF) for CRR & SLR reporting** and the auditors should develop necessary audit procedures around this.

## Ch. 14 Audit of Non-Banking Financial Companies

### REGISTRATION AND REGULATION OF NBFC

- 3) **RBI** has prescribed a timeline to meet NOF amount of INR 10 Crore in a phased manner **for existing NBFCs by 31st March 2027**. However, for NBFC-P2P, NBFC-AA, and NBFCs with no public funds and no customer interface, the NOF shall continue to be **INR 2 Crore**.

**For NBFC-IFC and IDFNBF, the NOF shall be ₹300 crore.**

### NBFCs MANDATED TO REGISTER UNDER RBI

- 1) **NBFCs registered with RBI are categorized as follows:**
- In terms deposit acceptance or otherwise into Deposit and Non-Deposit accepting NBFCs;
  - Non deposit taking NBFCs by their size into **Base Layer, Middle Layer, Upper Layer and Top Layer**; and
  - By the kind of activities, they conduct.

### CATEGORISATION OF NBFCs CARRYING OUT SPECIFIC ACTIVITY

The following glide path is provided for the existing NBFCs, viz., NBFC-ICC, NBFC-MFI5 and NBFC-Factor to achieve the NOF of ₹ 10 crore:

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	₹ 2 crore	₹ 5 crore	₹ 10 crore
NBFC-MFI	₹ 5 crore (₹ 2 crore in NE Region)	₹ 7 crore (₹ 5 crore in NE Region)	₹ 10 crore
NBFC-Factor	₹ 5 crore	₹ 7 crore	₹ 10 crore

## PRUDENTIAL NORMS

## CAPITAL REQUIREMENTS

- 1) Every applicable NBFC as defined in the Master Direction - Reserve Bank of India (**Non- Banking Financial Company - Scale Based Regulation**) Directions, 2023 shall maintain a minimum capital ratio consisting of Tier 1 and Tier 2 capital which shall **not be less than 15%** of its aggregate risk weighted assets on balance sheet and of risk adjusted value of off-balance sheet items.
  - 2) **Tier 1 capital** in respect of NBFC (except NBFC-MFI and NBFC primarily engaged in lending against gold jewellery, at any point of time, shall **not be less than 10%**.
  - 3) **"Tier 1 capital"** for NBFCs (except NBFCs-BL) is the **sum of**
    - a) **Owned fund as reduced** by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, **10% of the owned fund**; and
    - b) Perpetual debt instruments issued by a **non-deposit taking NBFCs** in each year to the extent it does **not exceed 15%** of the **aggregate Tier 1 capital** of such company as on **March 31 of the previous accounting year**.
- Note - NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 1 capital.
- 4) **Tier I capital** for NBFCs **primarily engaged** in lending against gold jewellery (such loans comprising **50%** of more of their financial assets) shall **maintain a minimum Tier 1 capital of 12%** of aggregate risk weighted assets of on-balance sheet and of risk adjusted value of off-balance sheet items.
  - 5) **"Tier 2 capital"** for NBFCs (except NBFCs-BL) is the **sum of**
    - a) **Preference shares** other than those which are compulsorily convertible into equity;
    - b) **Revaluation reserves** at discounted rate of **55%**;
    - c) **General provisions** (including that for Standard Assets) and **loss reserves** to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;
    - d) **Hybrid debt capital instruments**;
    - e) **Subordinated debt**; and
    - f) **Perpetual debt instruments** issued by a non-deposit taking NBFC which is in excess of what qualifies for Tier 1 capital; to the extent the aggregate does not exceed Tier 1 capital.

Note - NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 2 capital.

The risk weighted asset shall be calculated as the weighted aggregate of funded items as detailed hereunder:

(iii)	<b>Current assets:</b>	
	a) Stock on hire (net book value)	100
	b) Intercompany 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
	(i) 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%
	(ii) Credit Card Receivables	125%
	[Except at (vi) below]	
	f) Bills purchased / discounted	100
	g) Others (To be specified)	100

## INCOME RECOGNITION

### ASSET CLASSIFICATION

2) a) Standard asset shall mean the asset in respect of which, **no default in repayment of principal or payment of interest is perceived** and which **does not disclose any problem or carry more than normal risk** attached to the business;

b) **"Sub-Standard Asset"** shall mean:

i) An asset which has been classified as **non-performing asset** for a period **not exceeding 18 months except for NBFC-ML and above**;

Further, an asset which has been classified as non-performing asset for a period **not exceeding 12 months for NBFC-ML and above** will be considered as Sub-Standard Asset;

ii) An asset, where the terms of the agreement regarding interest and/or principal have been **renegotiated or rescheduled or restructured** after commencement of operations, until the expiry of **one year** of satisfactory performance under the renegotiated or rescheduled or restructured terms.

Provided that the classification of infrastructure loan as a sub-standard asset shall be in accordance with the provisions of paragraph 17 of these Master Direction.

c) **Doubtful Asset** shall mean:

(i) a term loan, or

(ii) a lease asset, or

(iii) a hire purchase asset, or

(iv) any other asset,

Which remains a sub-standard asset for a period '**exceeding 18 months**' except for NBFC-ML and above.

Which remains a sub-standard asset for a period '**exceeding 12 months**' for NBFC-ML and above)

e) **Non-Performing Asset** (referred as "NPA") shall mean:

Only change in this point is replacement of word "6 months or more" to "more than 180 days"

#### **Non-Performing Asset (referred as "NPA") Glide Path:**

The extant NPA classification norm stands changed to the overdue period of **more than 90 days** for applicable NBFCs. A glide path is provided to applicable NBFCs to adhere to the 90 days NPA norm as under:

NPA Norms	Timeline
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
>90 days	By March 31, 2026

**Note:** The glide path will not be applicable to NBFCs which are already required to follow the 90-day NPA norm.

### PROVISIONING REQUIREMENTS

4) **Standard asset provisioning:** NBFC-BL shall make provision for standard assets at **0.25%** of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need **not be netted** from gross advances but shall be **shown separately** as '**Contingent Provisions against Standard Assets**' in the balance sheet.

Standard asset provisioning (**Not applicable for NBFC-UL**) NBFC shall make provisions for standard assets at **0.40%** of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need **not be netted** from gross advances but shall be **shown separately** as '**Contingent Provisions against Standard Assets**' in the balance sheet.

**REPORT TO BOARD OF DIRECTORS UNDER RBI DIRECTIONS  
[AS PER MASTER DIRECTION NO. DNBS. PPD.03/66.15.001/2016-17 DATED  
SEPTEMBER 29, 2016]**

**(A) IN THE CASE OF ALL NON-BANKING FINANCIAL COMPANIES:**

**Note:**

- a) Every non-banking financial company shall submit a Certificate from its Statutory Auditor that it is engaged in the business of non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act and is eligible to hold it.
- b) A certificate from the Statutory Auditor in this regard with reference to the position of the company as at end of the financial year ended March 31st may be submitted to the Regional Office of the Department of Non- Banking Supervision under whose jurisdiction the non-banking financial company is registered, **within 5 working days from the date of signing of the Auditor's report in terms of section 134 of the Companies Act, 2013, but not later than December 31st of same year, in any case.**

**B) IN THE CASE OF A NON-BANKING FINANCIAL COMPANIES ACCEPTING /HOLDING PUBLIC DEPOSITS**

- j) Whether the company has furnished to the RBI within the stipulated period the **return on deposits** as specified in the **"DNBS 01"**

# Ch. 16 Internal Audit

## NEW SIA's ADDED

SIA	NAME
SIA 130	Risk Management
SIA 140	Governance
SIA 150	Compliance with Laws and Regulations
SIA 250	Communication with Those Charged with Governance
SIA 520	Internal Auditing in an Information Technology Environment
SIA 530	Third Party Service Provider

# Ch. 19 PROFESSIONAL ETHICS AND LIABILITIES OF AUDITORS

**Clause (7)** Advertises his professional attainments or services, or uses any designation or expressions other than the CA on professional documents, visiting cards, letter heads or sign boards unless it be A degree of a University established by law in India or Recognized by the Central Government or A title indicating membership of the ICAI or Of any other institution that has been recognized by the Central Government or may be recognized by the Council.

## 16) COMMON CA LOGO

- To promote the brand of CA profession** and responding to the long felt need to have a symbol of CA Profession in India, ICAI came up with a **unique logo** which could be used by all members, whether in practice or not. Encapsulating the current beliefs, attitudes and values of the profession, the CA Logo seeks to enhance the identity of the members.
- Guidelines issued in 2023** for using the **new CA India logo** for CA members prescribes that the logo consists of the **letters 'CA' in blue colour with a tri colour tick mark (upside down) with white background**.
- The blue colour not only stands out on any background but also denotes **creativity, innovativeness, knowledge, integrity, trust, truth, stability, and depth**.
- The **upside-down tick mark**, typically used by Chartered Accountants, has been included to **symbolise the wisdom and value of the professional**.
- '**India**' is also added in the logo, as it **epitomizes** the Institute's connection to India **First approach and commitment to the serve the Indian economy** in public interest.

## COUNCIL GUIDELINES

## Chapter XVI - Logo Guidelines

- 1) **Guidelines issued in 2023** for using the new CA India logo for CA members prescribes that the logo consists of the letters 'CA' in blue colour with a tri colour tick mark (upside down) with white background.
- 2) The blue colour not only stands out on any background but also denotes creativity, innovativeness, knowledge, integrity, trust, truth, stability, and depth. The upside down tick mark, typically used by Chartered Accountants, has been included to symbolise the wisdom and value of the professional.
- 3) 'India' is also added in the logo, as it epitomizes the Institute's connection to India First approach and commitment to the serve the Indian economy in public interest.
  - a) There should be **no alteration of the font** (colour, bold/unbold, size). Moreover, there should be **no change in spacing and dimensions**.
  - b) The colour palette is
  - c) Do **not change** the design and colours including the white background.
  - d) **Refrain** from rotating or tilting the logo clockwise and anti-clockwise.
  - e) The logo should **not be shrunk or distorted** changing the original proportion.

**Note:** While members are encouraged to use the new CA India Logo as published on letterheads, visiting cards, website etc, a transition time of one year has been provided to use existing stationary/signage replacement etc.



Do not change background



Do not change the colours



Do not Rotate



Do not Rotate



Do not crop



Do not shrink, shear or distort

