# Saransh

LAST MILE REFERENCER FOR

## FINAL COURSE

Paper 3

ADVANCED AUDITING, ASSURANCE & PROFESSIONAL ETHICS



Board of Studies (Academic)
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

### Saransh Last Mile Referencer

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# Preface

Board of Studies (Academic), the student wing of the Institute, does not leave any stone unturned in providing best-inclass services to its students. It imparts quality academic education through its value-added study materials and other educational inputs. BoS (Academic) also conducts Live Virtual Classes through eminent faculty for its students across the length and breadth of the country.

In a pursuit to provide quality academic inputs to the students to help them grasp the intricate aspects of the subjects, the Board of Studies(Academic) has been publishing crisp and concise capsules in its monthly Students' Journal "The Chartered Accountant Student", wherein the concepts are presented in attractive colours in the form of tables, diagrams and flow charts for facilitating easy retention and quick revision of topics.

To reach out to its students across the nation, the BoS (Academic) has come out with a comprehensive booklet **Saransh - Last Mile Referencer for Final Paper 3 - Advanced Auditing, Assurance and Professional Ethics.** This booklet encapsulates contents of the Study Material, by way of diagrams, flow charts, tables and pictorial representation. This one stop repository, thus, consolidates the significant concepts of Advanced Auditing, Assurance and Professional Ethics at one place, by capturing the key points. This would help the readers to understand the topics covered in the Study Material briefly for a quick reference.

However, the students are advised to refer the Study material, for thorough and comprehensive study of the subject as in no case Saransh can be considered as replacement of Study Material. Further, the students are advised to enhance their ability by working out the examples, illustrations and questions given in the Study Material, Revision Test Papers and Mock Test Papers.

This booklet with surely enable the readers in easy retention and quick revision of the subject.

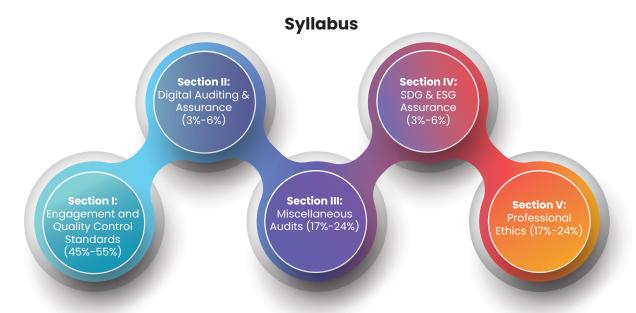
Happy Reading!

# Before We Begin

Auditing is a cornerstone of the Chartered Accountancy profession, serving as its heart and head. It intertwines with various disciplines like Financial Reporting, Law, Taxation, and more, necessitating an integrated approach for mastery. While theoretical knowledge forms the foundation, practical application is paramount for success in the CA examination and professional practice.

The synergy between the Institute's study materials and practical training from audit firms reinforces learning. Immersion in professional audit work during training enhances practical knowledge and skills essential for meeting examination standards. By involving themselves deeply in audit engagements, students can gain firsthand experience applying auditing concepts and techniques in practical scenarios.

To excel in auditing, students must thoroughly understand concepts, principles, and techniques, integrating theoretical knowledge with practical training. Understanding the weightage assigned to different sections and skills is crucial, as it guides study strategies and ensures comprehensive exam preparation.



### Section I: Engagement and Quality Control Standards (45%-55%)

Students must understand Engagement and Quality Control Standards (SQC, SAs, SAEs, SREs, and SRSs), which are crucial for accurate and efficient audits. A thorough comprehension of these standards and their practical applications is indispensable for thriving in academic examinations and professional auditing practices. Students should create concise notes or flowcharts covering key aspects like objectives, scope, procedures, roles, scenarios, and reporting. This approach supports better comprehension, retention, and quick revision. Additionally, practicing questions and writing answers helps assess preparation and strengthens understanding, leading to proficiency in auditing principles.

### Section II: Digital Auditing & Assurance (3%-6%)

To prepare for Chapter 12 on Digital Auditing and Assurance, students should first understand the distinction between Digital Audit and Auditing Digitally. Emphasis should be placed on applying SA 315 in the IT world, particularly in assessing and managing cyber risks. The chapter also covers emerging technologies like Biometrics, IoT, Blockchain, NFTs, RPA, and AI, which enhance audit efficiency by identifying data trends and anomalies. Studying this chapter helps students with the necessary skills and knowledge to thrive in the modern audit environment, meet industry demands, and provide valuable insights and services to clients. Thorough study is strongly recommended.

### Section III: Miscellaneous Audits (17%-24%)

For preparing miscellaneous chapters like Group Audit, Special Features of Audit of Banks & Non-Banking Financial Companies, Overview of Audit of Public Sector Undertakings, Internal Audit and Due Diligence, Investigation and Forensic Accounting, you are required to have thorough knowledge of statutory requirements. Ensure comprehensive coverage of the syllabus – Every topic in Audit is crucial. Skipping any chapter or topic is not advisable.

### Section IV: SDG & ESG Assurance (3%-6%)

To effectively grasp this chapter, students should start by understanding the 17 UN Sustainable Development Goals and reviewing sustainability reporting frameworks that evaluate an organisation's social and environmental impact. They should also study Integrated Reporting and its six capitals. A key area of focus is the evolution of ESG in India, which includes major guidelines such as the CSR Voluntary Guidelines 2009, NGRBC 2018, BRR, and BRSR. Special emphasis should be placed on the nine principles of BRSR, along with assurance standards like SSAE 3000, SAE 3410, and Social Audit Standards (SAS 100–1600).

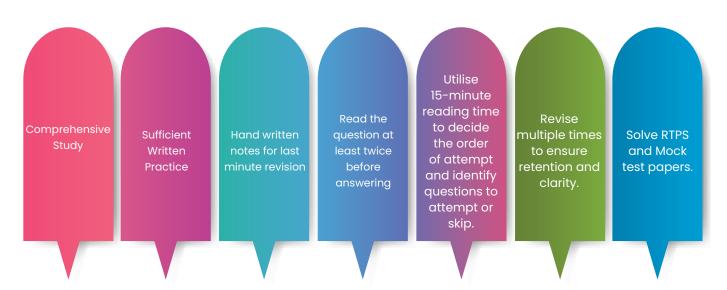
### Section V: Professional Ethics (17%-24%)

Students should understand the need for a code of ethics. The foundation of any profession, particularly CA, is its credibility. The sole purpose of the Code of Ethics is to ensure and uphold this credibility. The main ingredient of our profession is independence. Students should focus on understanding fundamental principles, threats, safeguards, clauses, Guidelines, etc., including ethical dilemmas auditors face. Further, you may write down all the clauses in the notes form for revision. A firm grasp of professional ethics can help you achieve good marks in audit.

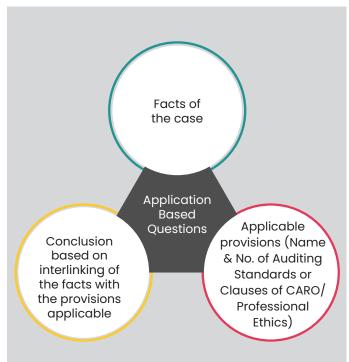


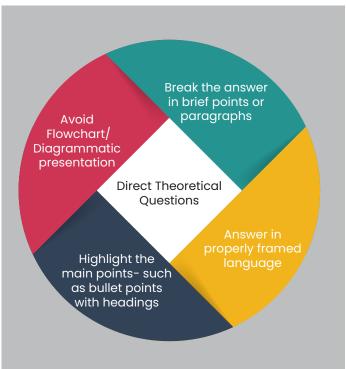


### How to avoid common mistakes



### How to present answers in the Exams





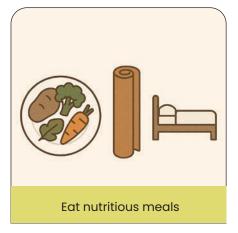


















Preparing for CA Final Audit is not just about hard work—it's also about mental wellness and effective strategy. Combine your study efforts with mindfulness and discipline to maximise performance and reduce stress.

### Words to Carry with You

Choose clarity over confusion, preparation over panic, and resilience over rush.



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### International Auditing and Assurance Standards Board (IAASB):

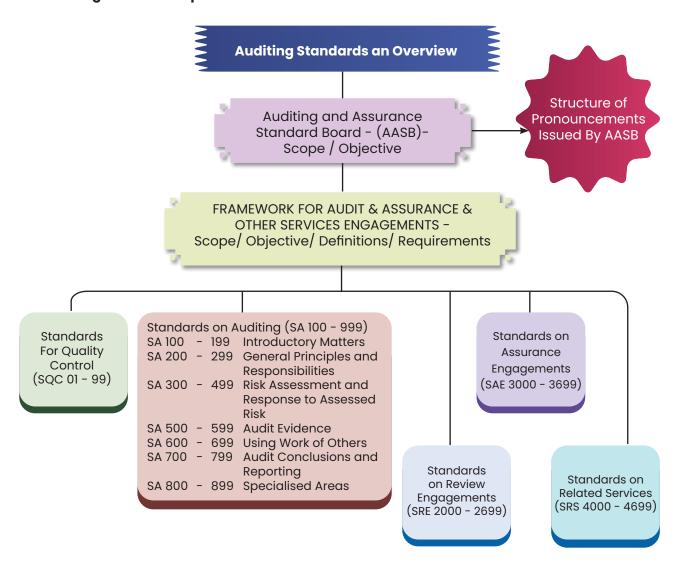
- The IFAC Board has established the IAASB to develop and issue, in the public interest and under its own authority, high quality auditing standards for use around the world.
- The IAASB functions as an independent standard setting body under the auspices of IFAC.

Engagement & Quality Control Standards

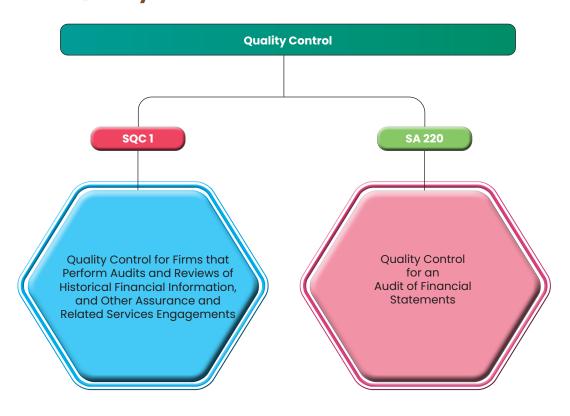
### Auditing and Assurance Standards Board (AASB):

- ICAI is a member of the IFAC and is committed to work towards the implementation of the guidelines issued by the IFAC.
- ICAI constituted the AASB to review the existing auditing practices in India and to develop Engagement and Quality Control Standards so that these may be issued by the Council of the Institute.

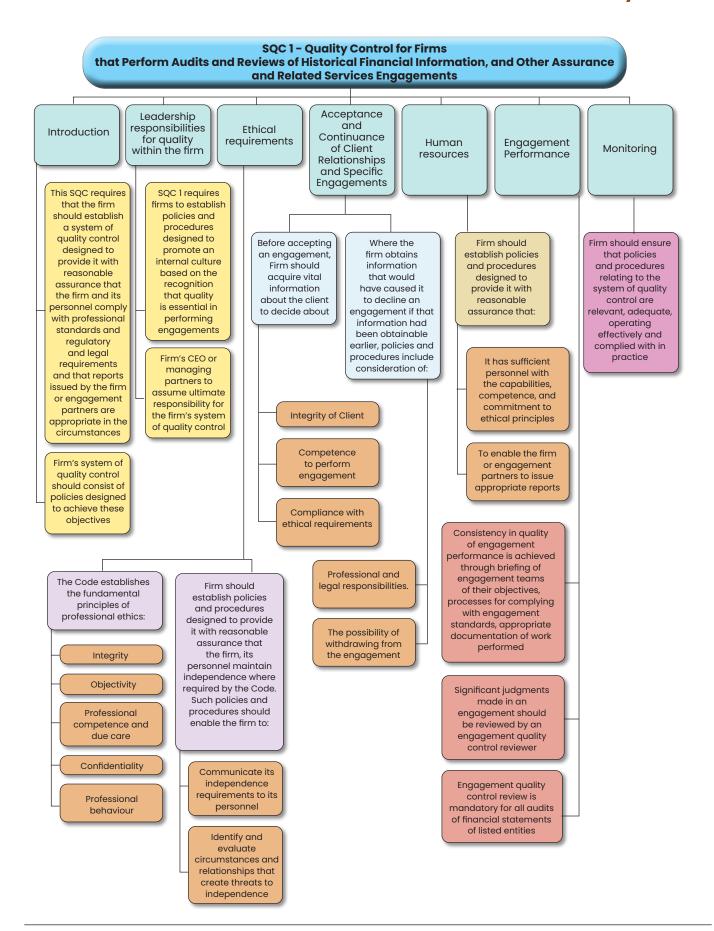
### Diagrammatic Representation of the Structure of Standards Under the New Preface

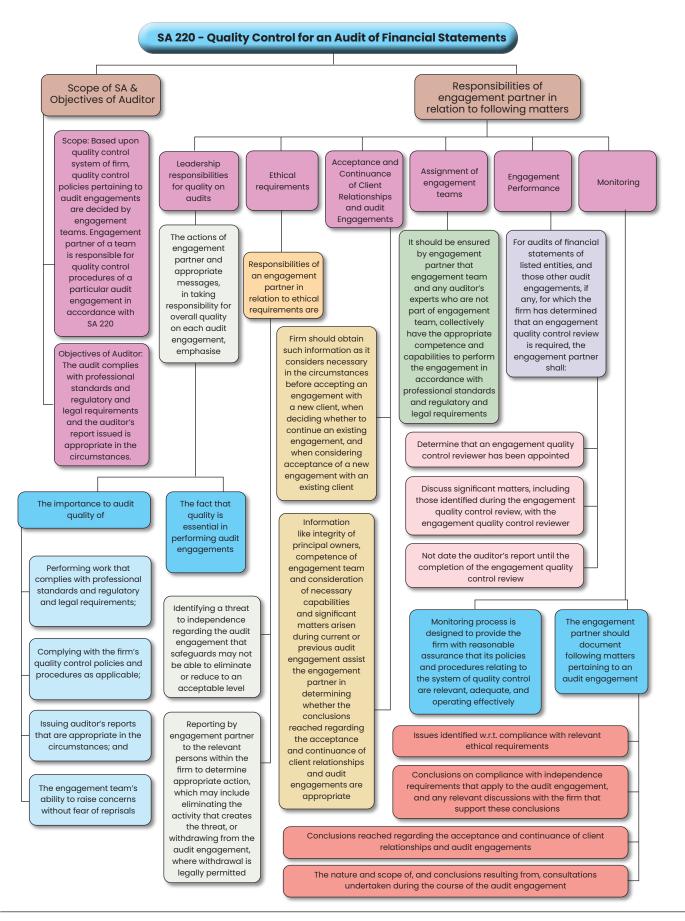


### Chapter 1 – Quality Control





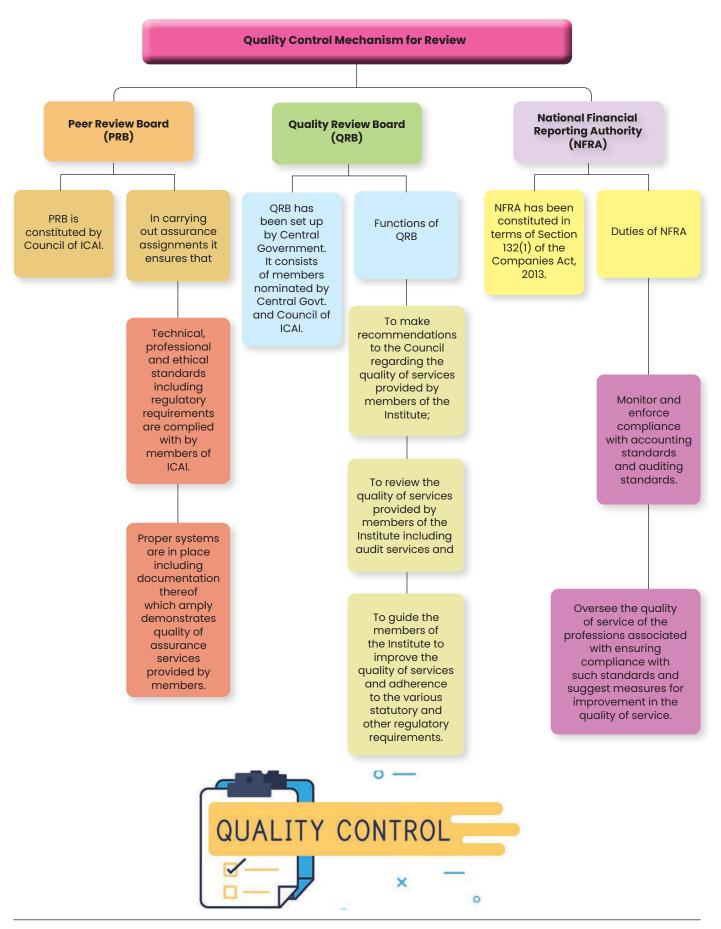


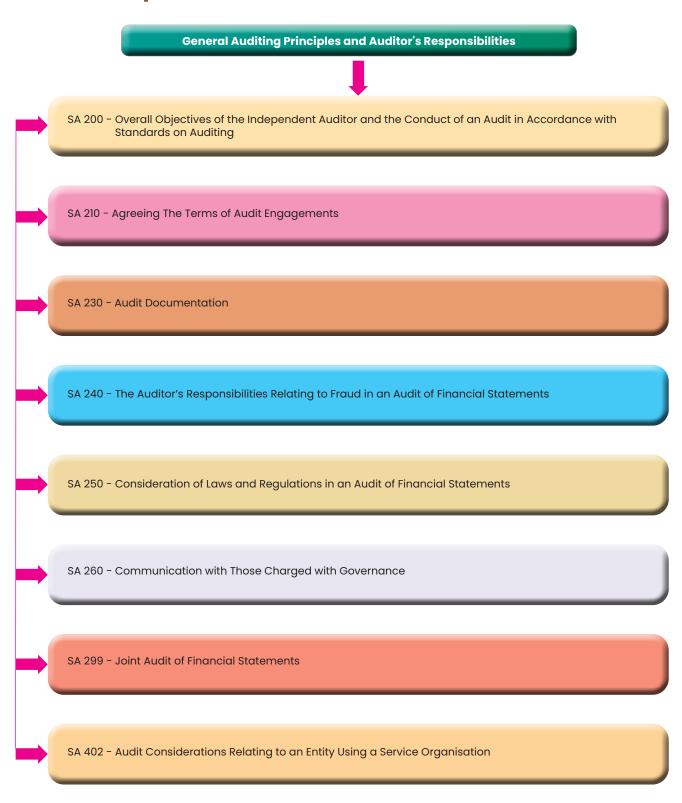


### SQC 1 Vs. SA 220- Key Differences in Nature, Scope and Applicability

S.N.	sqc1	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.	







### SA 200-299 General Principles and Responsibilities

SA

This SA establishes the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with SAs. It sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit.

Overall objectives of the Auditor

Scope of the

In conducting an audit of financial statements, the overall objectives of the auditor are:

- a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable FRF; and
- b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

Ethical requirements, professional skepticism, professional judgement and SAAE & audit risk

### The auditor shall:

- 1. comply with ethical requirements including independence.
- 2. plan & perform an audit with professional skepticism.
- 3. exercise professional judgement in planning & performing an audit of financial statements.
- 4. obtain sufficient appropriate audit evidence (SAAE) to reduce audit risk to an acceptably low level.

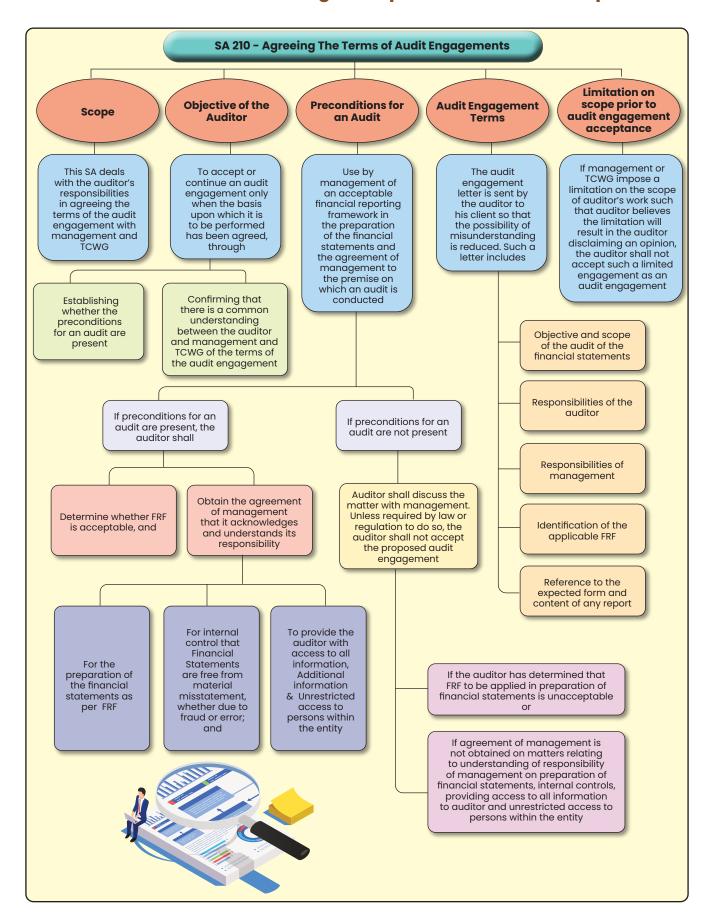
Conduct of an Audit in accordance with SAs

- A) The auditor shall:
  - 1. comply with all SAs relevant to the audit.
  - 2. have an understanding of the entire text of SA, including its application & other explanatory material.
  - not represent compliance with SAs in the auditor's report unless the auditor has complied with the requirements of this SA & all other SAs relevant to the audit.
- B) To achieve the overall objectives, the auditor shall use the objectives stated in the relevant SAs in planning & performing the audit.
- C) The auditor shall comply with each requirement of an SA unless, in the circumstances of the audit:
  - (a) The entire SA is not relevant; or
  - (b) The requirement is not relevant because it is conditional and the condition does not exist.

In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement.

D) If an objective in a relevant SA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby require the auditor to modify the opinion or withdraw from the engagement.

SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing



### **Acceptance of Change in Terms of Audit Engagement**

Entity request to change the Terms -Reasonable Justification Exists? Change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested may be considered a reasonable basis for requesting a change in the audit engagement

A change may not be considered reasonable if it appears that change relates to information that is incorrect, incomplete or otherwise unsatisfactory

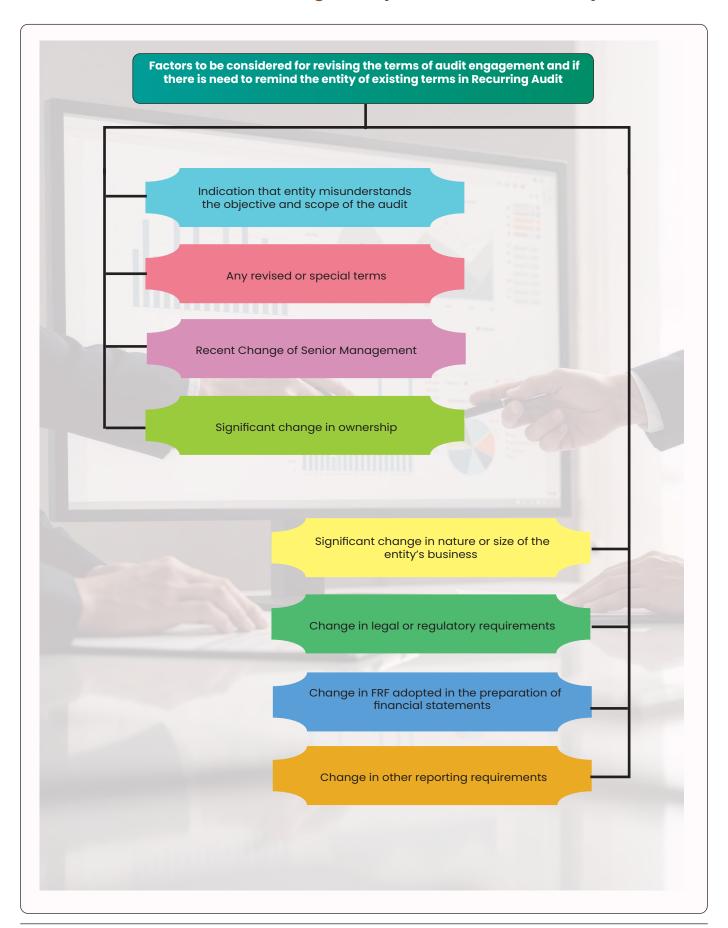
What should the auditor consider before agreeing to change the audit engagement in terms of providing lower level of assurance

Auditor shall determine whether there is reasonable justification for doing so

Recourse available to the auditor in situation of non-agreement to a change in terms of engagement and lack of permission from management to continue original audit engagement

If auditor is unable to agree to a change in terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall

Withdraw from the audit engagement, and Determine
whether there is
any obligation
to report the
circumstances
to other parties



### Scope This SA deals with auditor's responsibility to prepare audit documentation for an audit of financial statements. Scope of Objective the SA & Objective of The objective of the auditor is to prepare documentation that provides: the Auditor a) sufficient appropriate record of the basis for auditor's report. b) evidence that the audit was planned & performed in accordance with SAs & legal & regulatory requirements. Audit Documentation: The record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached. Audit File: One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement. Experienced Auditor: An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of: **Definitions** (i) Audit processes; (ii) SAs and applicable legal and regulatory requirements; (iii) The business environment in which the entity operates; and SA 230 - Audit Documentation (iv) Auditing and financial reporting issues relevant to the entity's industry. Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides: (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. Audit documentation serves a number of additional purposes, including the Assisting the engagement team to plan and perform the audit. Nature and **Purposes** Assisting members of the engagement team responsible for supervision of Audit to direct and supervise the audit work, and to discharge their review Documentation responsibilities in accordance with SA 220. Enabling the engagement team to be accountable for its work. Retaining a record of matters of continuing significance to future audits. Enabling the conduct of quality control reviews and inspections in accordance with SQC 1. Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements. The auditor shall prepare Audit Documentation on a timely basis. Preparing sufficient and appropriate Audit Documentation on a timely basis helps to enhance **Timely** the quality of the audit and facilitates the effective review and evaluation of the Preparation audit evidence obtained and conclusions reached before the auditor's report is of Audit finalised. Documentation prepared after the audit work has been performed is **Documentation** likely to be less accurate than documentation prepared at the time such work is performed.

230 - Audit Documentation contd...

AS

### **General Auditing Principles and Auditors Responsibilities**

### Form, content & extent of Audit Documentation

- 1. The auditor shall prepare Audit Documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
  - a) The nature, timing and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
  - b) The results of the audit procedures performed, and the audit evidence obtained; and
  - Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.
- 2. In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:
  - a) The identifying characteristics of the specic items or matters tested;
  - b) Who performed the audit work and the date such work was completed; and
  - Who reviewed the audit work performed and the date and extent of such review.
- 3. The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
- **4.** If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

### Matters Arising after the Date of the Auditor's Report

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

- (a) The circumstances encountered;
- (b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
- (c) When and by whom the resulting changes to audit documentation were made and reviewed.

### Assembly of Final Audit

- 1. The Auditor shall assemble the Audit Documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
- 2. After the assembly of the final audit file has been completed, the Auditor shall not delete or discard audit documentation of any nature before the end of its retention period.
- 3. Where the Auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modications or additions, document:
  - (a) The specifc reasons for making them; and
  - (b) When and by whom they were made and reviewed.



### Scope This SA deals with auditor's responsibilities relating to fraud in an audit of financial statements. It expands on how SA 315 & SA 330 are to be applied in relation to ROMM due to fraud. Scope of The objectives of the auditor are: the SA & (a)To identify and assess the risks of material misstatement in the financial Objective of statements due to fraud; the Auditor (b) To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and (c) To respond appropriately to identified or suspected fraud. SA 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements Misstatements in the financial statements can arise from either fraud or The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Although fraud is a broad legal concept, for the purposes of the SAs, the Characteristics auditor is concerned with fraud that causes a material misstatement in the of Fraud financial statements. 4. Two types of intentional misstatements are relevant to the auditormisstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred. In accordance with SA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. **Professional** Unless the auditor has reason to believe the contrary, the auditor may accept Skepticism records and documents as genuine. Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies. SA 315 requires a discussion among the engagement team members and a determination by the engagement partner of matters which are to be communicated to those team members not involved in the discussion. Discussion This discussion shall place particular emphasis on how and where the entity's Among the financial statements may be susceptible to material misstatement due to Engagement fraud, including how fraud might occur. Team The discussion shall occur notwithstanding the engagement team members beliefs that management and those charged with governance are honest and have integrity. When performing risk assessment procedures and related activities to obtain Risk an understanding of the entity and its environment, including the entity's internal control, required by SA 315, the auditor shall perform the specified **Assessment Procedures** and Related procedures to obtain information for use in identifying the risks of material misstatement due to fraud. **Activities** In accordance with SA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the Identification assertion level for classes of transactions, account balances and disclosures. & Assessment When identifying and assessing the risks of material misstatement due to of the Risks fraud, the auditor shall, based on a presumption that there are risks of fraud in of Material revenue recognition, evaluate which types of revenue, revenue transactions or Misstatement assertions give rise to such risks. due to fraud The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks.

# SA 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement contd.

Responses to the Assessed Risks of Material Misstatement Due to Fraud-Overall Responses In accordance with SA 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level.

In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:

- (a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement;
- (b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and
- (c) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.

Procedures
Responsive
to Assessed
Risks of
Material
Misstatement
Due to
Fraud at the
Assertion
Level

**Audit** 

In accordance with SA 330, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level.

Evaluation of Audit Evidence The auditor shall evaluate whether analytical procedures that are performed when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's understanding of the entity and its environment indicate a previously unrecognised risk of material misstatement due to fraud.

When the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud.

If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit.

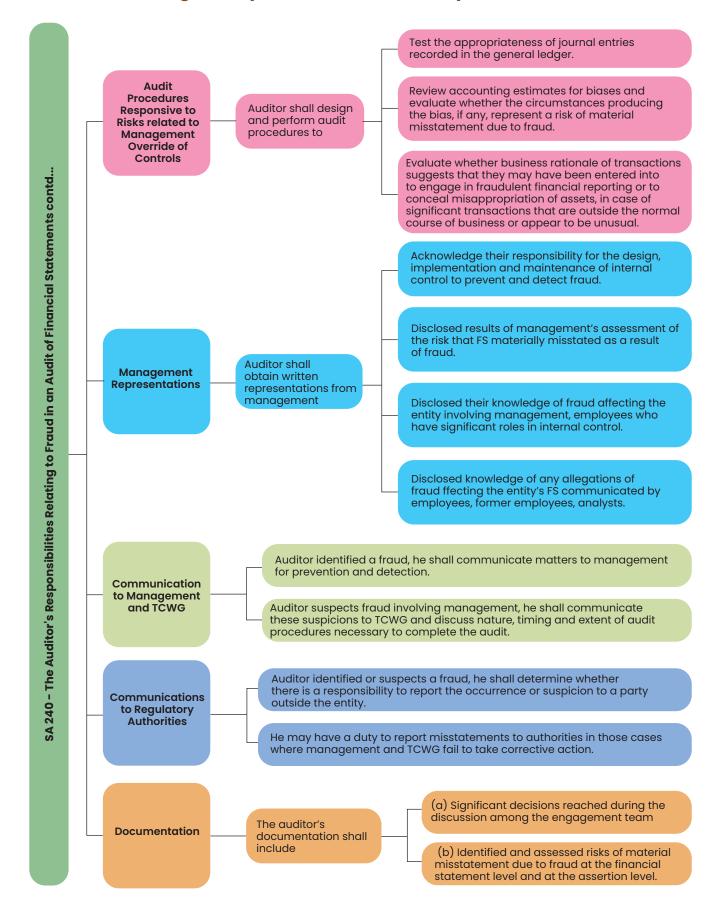
If the auditor identifies a misstatement and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall re-evaluate the assessment of the risks of material misstatement due to fraud.

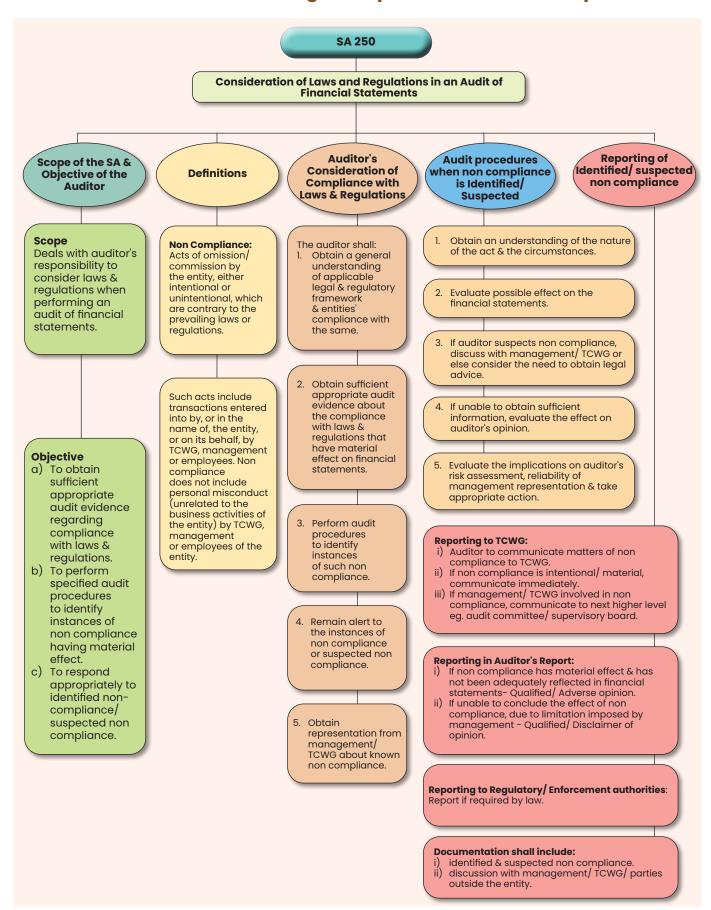
The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained.

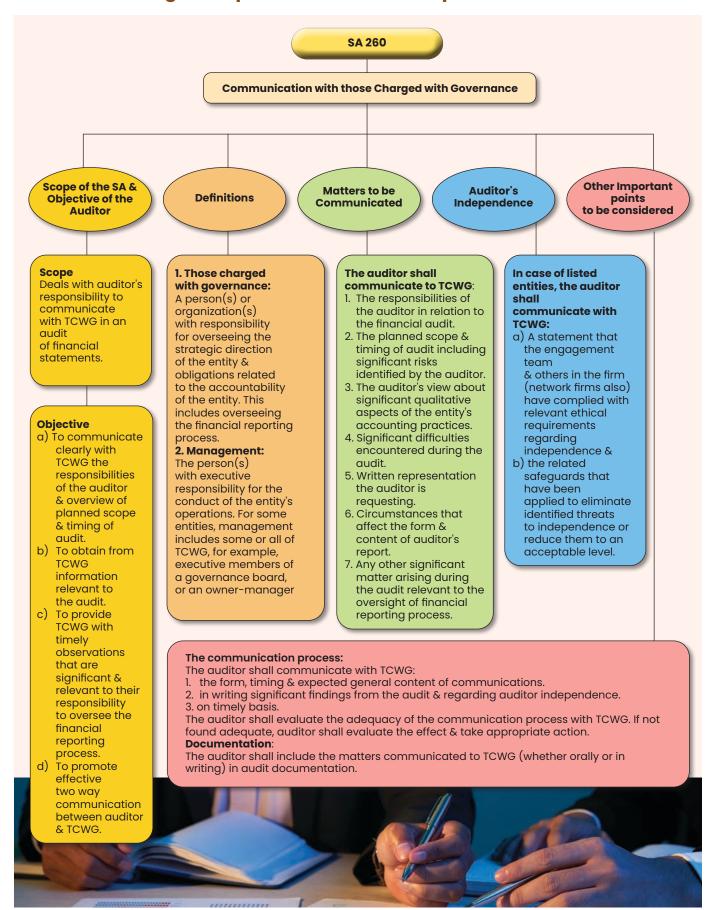
When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud, the auditor shall evaluate the implications for the audit.

Auditor Unable to Continue the Engagement If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

- (a) Determine the professional and legal responsibilities applicable in the circumstances.
- (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and
- (c) If the auditor withdraws
  - (i) Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
  - (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment.







**SA 402** Audit Considerations Relating to an Entity Using a Service Organisation Types of Reports & Requirements Reporting by the Scope of Objective of the their use by user of the SA user auditor the SA **Auditor** auditor Type I Report This SA deals The objective of The auditor shall obtain Report on the with the auditor's an understanding of the the user auditor, description & design of responsibility to when the user entity services provided by a controls at a service obtain sufficient uses the services of service organisation, organisation. appropriate audit service organisation including internal control evidence when a that relate to the services user entity uses provided by the service the services of one **Type 2 Report** organisation. or more service Report on the organisations. description, design & operating To obtain an effectiveness of If the auditor is unable understanding controls at a service to obtain sufficient of the nature & To design & organisation. understanding from significance of the perform Audit the user entity, the user service provided Procedures auditor shall obtain that by the service C) In determining the understanding by: responsive to those organisation & their suciffiency & risks a) Obtaining Type 1 effect on the user appropriateness or Type 2 report. entity's internal of audit evidence b) Contacting service control, sufficient to provided by Type 1 organisation through identify & assess the & Type 2 report, the user entity. ROMM. user auditor shall be c) Visiting the service satisfied as to: organisation (i) The service auditor's & performing professional procedures. competence. d) Using another auditor (ii) The adequacy of to perform the standards under procedures. which the Type 1 or **Definitions** Type 2 report was issued. Service auditor: An auditor who, at the 1. If the user auditor is unable to request of the service organisation, obtain sufficient appropriate provides an assurance report on the D) When the user auditor audit evidence regarding the controls of a service organisation. plans to use Type 2 services provided by the service Service Organisation: A third party report as audit evidence, organisation, the user auditor organisation that provides services the user shall modify his audit opinion. to user entities that are part of those auditor shall determine 2. The user auditor shall not refer entities' information system relevant to whether the service to the work of the service auditor financial reporting. auditor's in the user's auditor report User Auditor: An auditor who audits & report provides sufficient containing unmodified opinion. reports on the financial statements of a & appropriate audit 3. If user auditor makes reference user entity. evidence about the of the work of the service auditor User Entity: An entity that uses effectiveness of the in user auditor's report with a service organisation and whose controls to support modified opinion, the user's financial statements are being audited. the user auditor's risk auditor report shall also indicate assessment. that such reference does not diminish the user auditor's responsibility for that opinion.

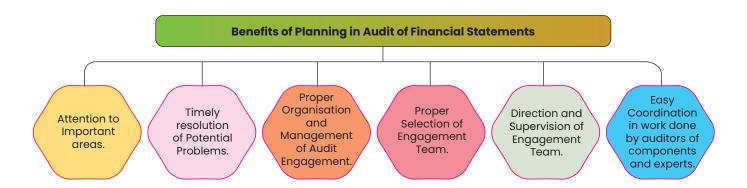
### Chapter 3 – Audit Planning, Strategy & Execution



### **Commencing an Audit**

SA 200 states
that in order to
achieve the overall
objectives of the
audit, the auditor shall use
the objectives stated in
relevant SAs in
planning and
performing the
audit.

The audit planning is necessary to conduct an effective audit, in an efficient and timely manner.



### **Nature and Extent of Planning**

Size and Complexity of the Auditee If the size & Complexity is large, then more planning activities required.

Past Experience & Expertise Engagement team members' previous experience & expertise contributes towards variation in planning activities.



This is one of the factors contributing towards variation in planning.

### Planning is a continuous process. It includes the need to consider matters such as

Analytical procedures to be applied as Risk Assessment Procedure (RAP). Obtaining a general understanding of legal and regulatory framework applicable to the entity and how the entity is complying with that framework.

Determination of materiality.

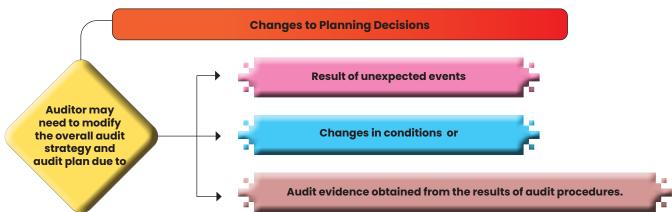
Involvement of experts.

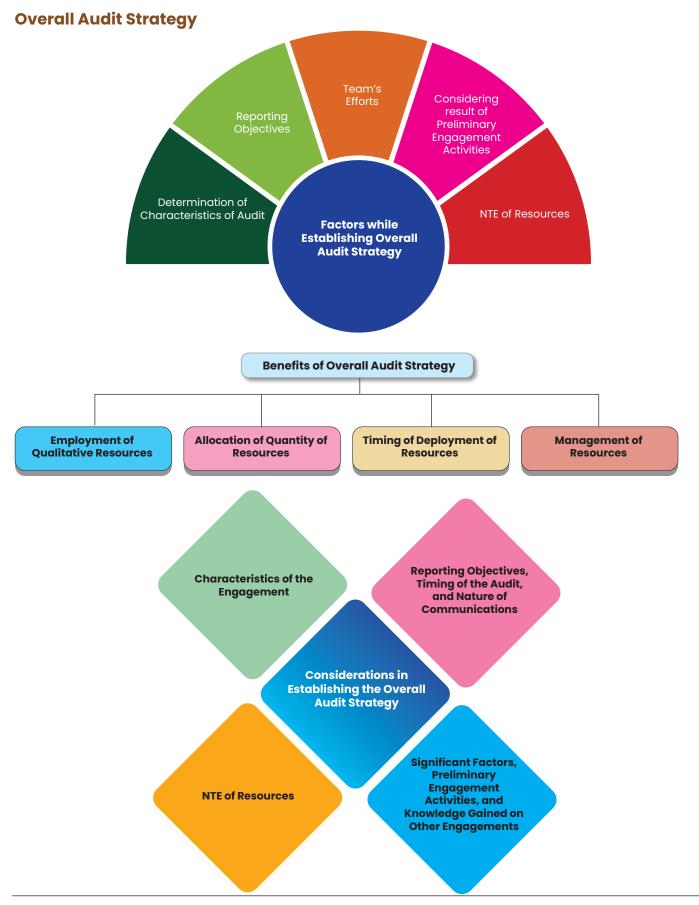
Performance of other RAP.

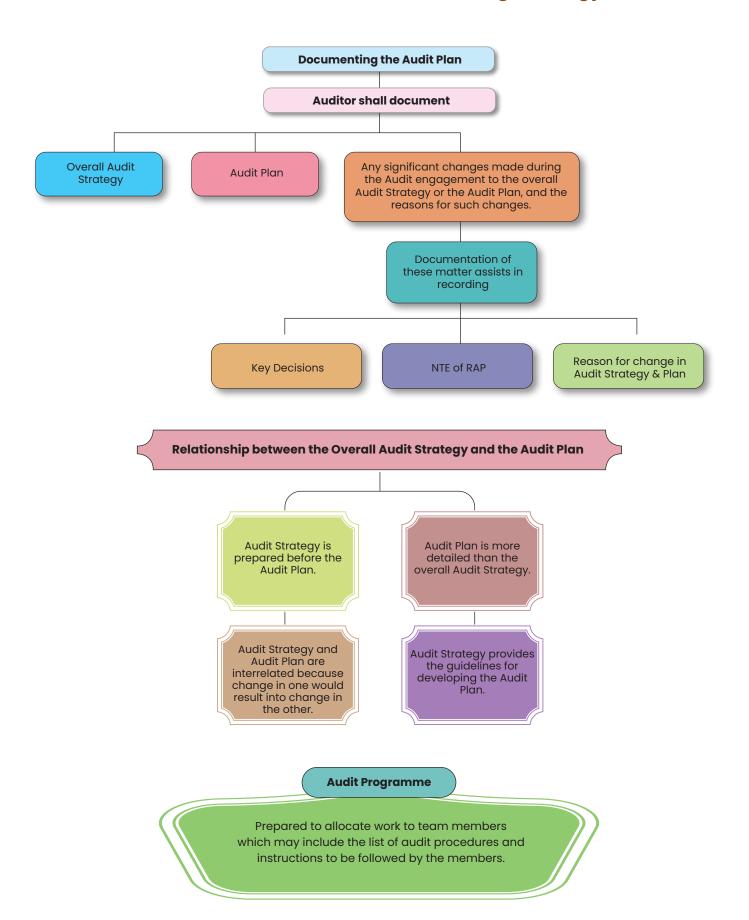
### **Contents of an Audit Plan**

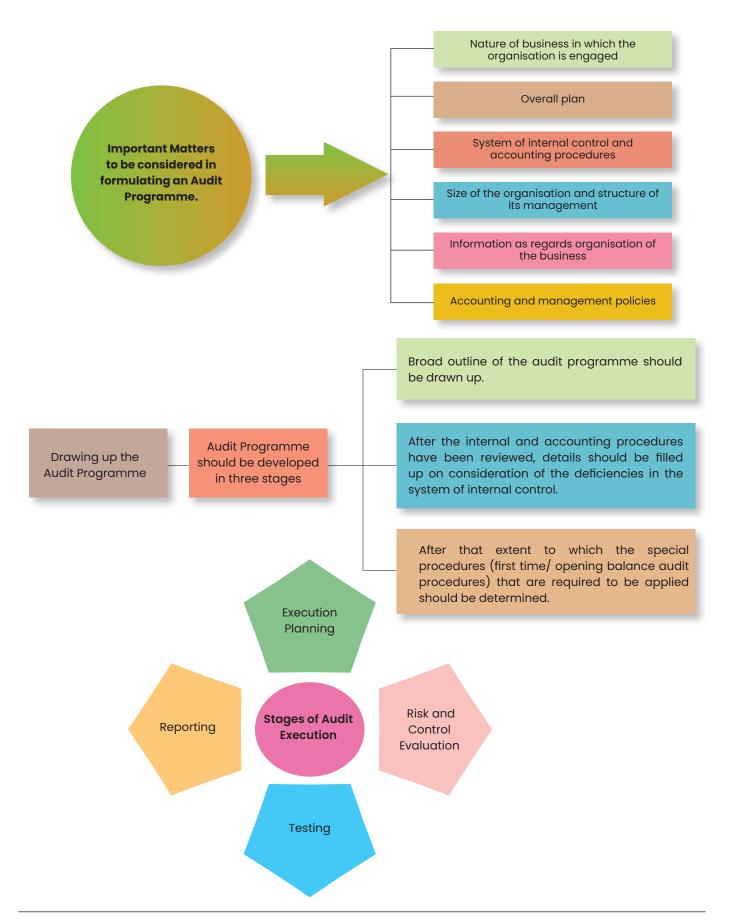
- Nature, timing and extent (NTE) of planned risk assessment procedures, as determined under SA 315.
- NTE of planned further audit procedures at the assertion level, as determined under SA 330.
- Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.













### Planning an Audit of Financial Statements

This SA deals with the auditor's responsibility to plan an audit of financial statements. This SA is framed in the context

of recurring

audits.

Scope of the SA

Objective of the Auditor Involvement of Key Engagement Team Members

Preliminary Engagement Activities

Planning Activities Other Important points to be considered

The engagement partner & other key members of the engagement team shall be involved in planning the audit, including planning & participating in the discussion among engagement team members.

The auditor shall undertake the following activities at the beginning of the current audit engagement:

- I. Performing procedures required by SA 220.
- Evaluating compliance with ethical requirements, including independence, as required by SA 220.
- Establishing an understanding of the terms of engagement, as required by SA 210.

Documentation: The auditor shall document:

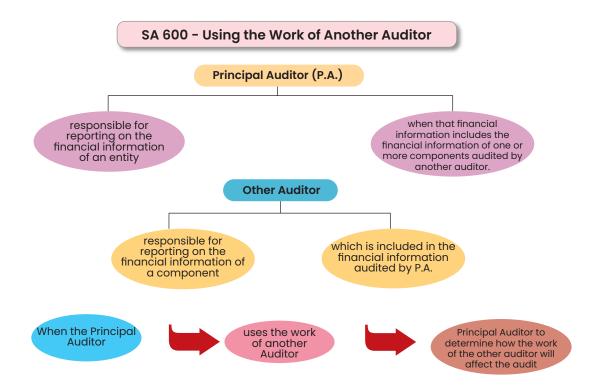
- 1. The overall audit strategy.
- 2. The audit plan and
- 3. Any significant changes made to the strategy or the audit plan along with the reasons.

The objective of the auditor is to plan the audit so that it will be performed in an effective manner.

- The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit and that guides the development of the audit plan.
- 2. In establishing the overall audit strategy, the auditor shall:
  - a) Identify characteristics of the engagement that defines its
  - b) Ascertain the reporting objectives.
  - c) Consider the factors significant in directing engagement team's efforts.
  - d) Consider the results of preliminary engagement activities.
  - e) Ascertain the resources necessary to perform the engagement.
- 3. The auditor shall develop an audit plan including description of:
  - a) The planned risk assessment procedures, as per SA 315.
  - b) The planned further audit procedures at the assertion level as per SA 330.
  - c) Other planned audit procedures.
- 4. The auditor shall update/ change overall audit strategy or plan as necessary.
- 5. The auditor shall direct & supervise the engagement team and review their work.

Additional Considerations in Initial Audit Engagements: Prior to starting an audit, the auditor shall:

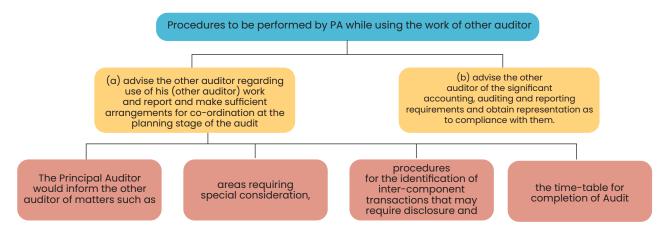
- Perform procedures required by SA 220 regarding the client relationship and the specific audit engagement.
- 2. Communicated with the predecessor auditor.



### I. Consideration by an auditor before acceptance as Principal Auditor

- a) the materiality of the portion of the financial information
- b) degree of knowledge regarding the business of the components
- c) the risk of material misstatements in the financial information of the components audited by the other auditor and
- d) the performance of additional procedures as set out in this SA regarding the components audited by other auditor resulting in the Principal Auditor having significant participation in such audit.

### II. Procedures to be followed by Principal Auditor



### Principal Auditor to review - written summary of other auditor's procedures

The Principal Auditor may also wish to visit the other auditor

NTE of procedures depend on circumstances of engagement & Materiality aspect NTE of procedures depend on Principal Auditor's knowledge of the professional competence of the other auditor.

This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

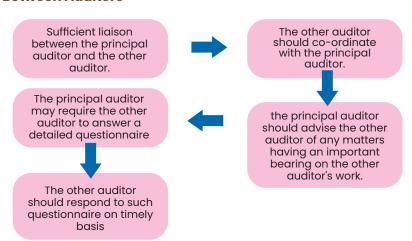
### The Principal Auditor should consider the significant findings of the other auditor.

The principal auditor may consider it appropriate to discuss with the other auditor and the management of the component, the audit findings or other matters affecting the financial information of the components.

He may also decide as to application of supplementary that supplemental tests of the records or the financial statements of the component are if necessary. Such tests may, depending upon the circumstances, be performed by the principal auditor or the other auditor.

Where the other auditor's report is other than unmodified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report.

### **III. Co-ordination Between Auditors**



## **IV** Reporting Considerations

 Principal auditor to express a qualified opinion or disclaimer of opinion in case of a limitation on the scope of audit

When the P.A concludes, based on his procedures, that the work of the other auditor cannot be used and the P.A has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the P.A should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit

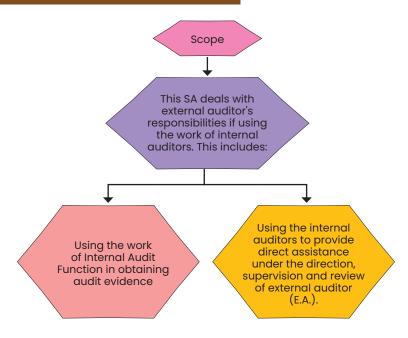
2. If the other auditor issues a Modified Report

In all circumstances, if the other auditor issues, or intends to issue, a modified auditor's report, the P.A should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the P.A. is reporting that it requires a modification of the P.A's report

#### V. Division of Responsibility

When the P.A has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors. However, if the P.A notices any material discrepancies the same has to be brought to the knowledge of other auditor. It should be incorporated in the Audit Report.

# SA 610- Using the Work of Internal Auditors



#### Objectives of E.A., where entity has an Internal Audit Function

To determine whether the work of the Internal Audit Function or direct assistance from internal auditors can be used. If using the work of the Internal Audit Function, to determine whether that work is adequate for purposes of the audit. If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.



A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

Direct Assistance The use of internal auditors to perform audit procedures under the direction, supervision and review of the E.A.

# Activities Relating to governance

The Internal Audit Function may assess the governance process in its accomplishment of objectives on:

- ethics and values, performance management and accountability.
- communicating risk and control information.

## Activities Relating to Risk Management

The Internal Audit Function may assist the entity by identifying and evaluating significant exposures to risk.

The Internal Audit Function may perform procedures to assist the entity in the detection of fraud.

#### Activities Relating to Internal Control

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

# Evaluating whether work of Internal Audit Function can be used for the purposes of audit

E.A. shall determine whether the work of the Internal Audit Function can be used for audit by evaluating

Objectivity of the internal auditors

Level of competence of the Internal Audit Function

Approach of Internal Audit Function including quality control.

E.A. shall not use the work of the Internal Audit Function if the E.A. determines that

Function's organisational status do not adequately support the objectivity of internal auditors

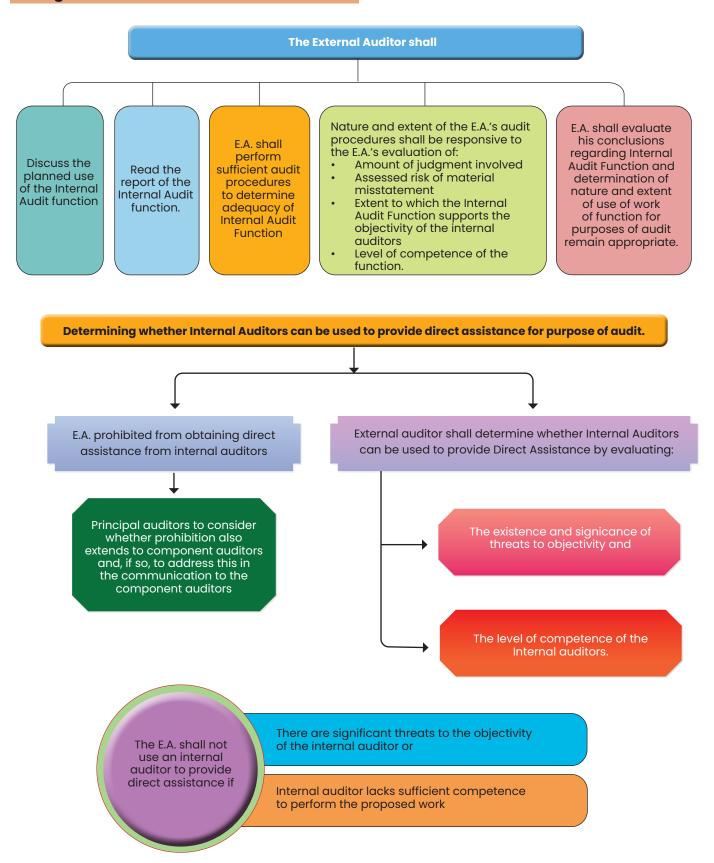
Function lacks sufficient competence

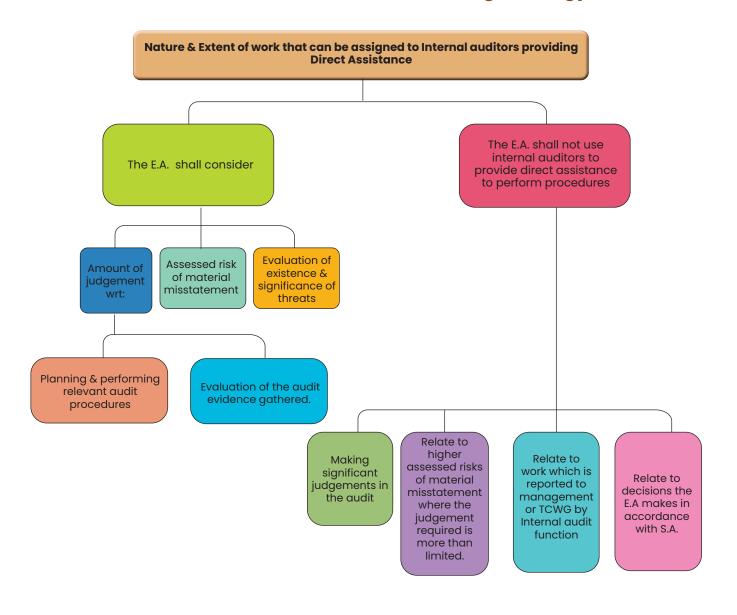
Function does not apply a systematic and disciplined approach, including quality control.

E.A. shall
determine
Nature and
Extent of work
of Internal
Audit Function
that can be
used

- · Considering the nature and scope of the work performed by Internal audit function.
- Making all significant judgments in the audit engagement.
- · Being sufficiently involved in the audit.
- · Communicating how the E.A. has planned to use the work of the Internal Audit Function.

# Using the work of Internal Audit Function





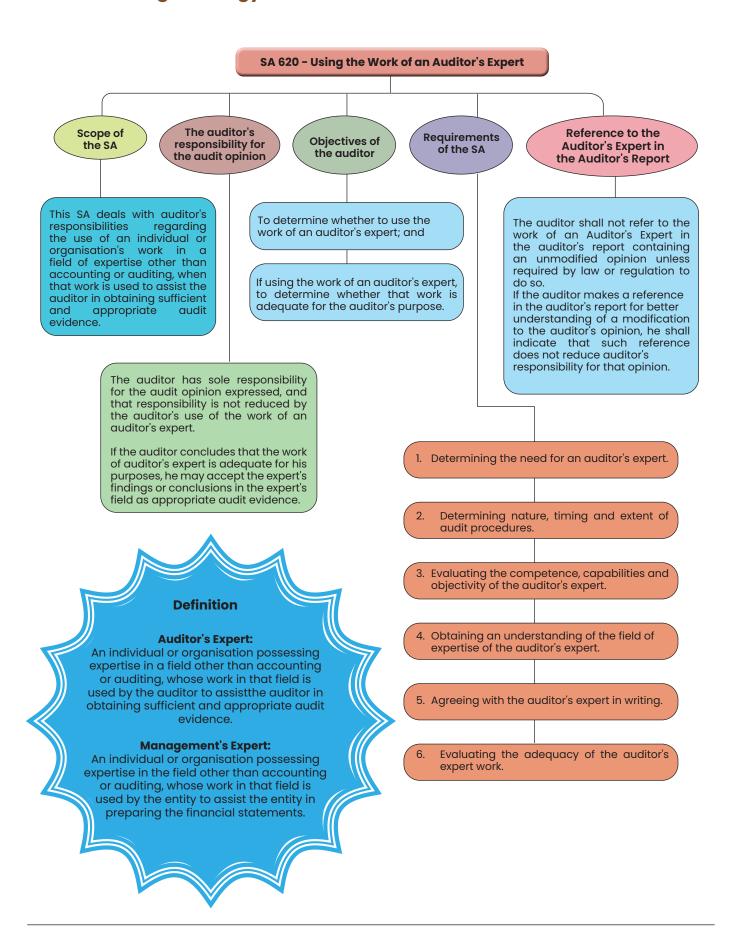
Using the Internal

Auditors to provide Direct

Assistance

# External Auditor shall

- Obtain written agreement from entity.
- Obtain written agreement from internal auditors.
- Direct, supervise and review work performed by Internal Auditors.



#### SA 540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates & Related Disclosures

Scope

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

# **Nature of 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.

The degree of estimation uncertainty varies based on

- Nature of the Accounting Estimate,
- Extent to which there is a generally accepted method used to make the Accounting Estimate.
- Subjectivity of the assumptions used to make the Accounting Estimate



- Accounting Estimates, including fair value Accounting Estimates, in the financial statements, whether recognised or disclosed, are reasonable.
- Related disclosures in the financial statements are adequate.

## **Important Definitions**

**Accounting Estimate** – An approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Where this SA addresses only accounting estimates involving measurement at fair value, the term "fair value Accounting Estimates" is used.

**Auditor's point estimate or auditor's range** – The amount, or range of amounts, respectively, derived from audit evidence for use in evaluating management's point estimate

Management Bias - A lack of neutrality by management in the preparation and presentation of information.

**Management's Point Estimate** – The amount selected by management for recognition or disclosure in the financial statements as an Accounting Estimate.

**Estimation Uncertainty** – The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.

**Outcome of an Accounting Estimate** –The actual monetary amount which results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by the Accounting Estimate.

# Management's Responsibility

 Follow an unbiased approach in preparing for accounting estimates 2 To make appropriate disclosure in FS about the assertion and estimates made.

#### **Auditor's Responsibility/ Audit Procedure** To Evaluate estimation uncertainity, the auditor shall How Obtain Evaluate management understanding reasonableness How has Perform risk of how of the management considered management assessment accounting alternative makes the procedure and identifies estimates, and Accounting assumptions related activities the need for determining Estimates. or outcome. Accounting misstatements. Whether the Estimates. significant assumptions used by management reasonable

# **Audit Reporting**

- Adequate disclosure of material matter, such as
  - The assumptions and method of estimation used.
  - Basis for selection of estimation.
  - Any changes in the method of estimation as compared to prior period.
  - Sources and implication of estimation uncertainty.
- In relation to accounting estimate having significant risk, even where disclosures are in accordance with the applicable FRF, the auditor may conclude that the disclosure of estimation uncertainty is inadequate in light of the circumstances and facts involved.

# **Written Representations**

 Auditor shall obtain written representations from management whether significant assumptions used in making accounting estimates are reasonable.

### **Documentation of Accounting Estimates**

- Basis for the auditor's conclusions about the reasonableness of accounting estimates.
- Indicators of possible management bias.



#### SA 520 - Analytical Procedures **Analytical procedures** Scope of the SA & Substantive Investigating results of that assist when Objective of the Analytical analytical procedures forming an overall **Procedures** auditor conclusion Scope If auditor finds fluctuations auditor shall The While designing This SA deals with auditor's or relationship that are performing substantive analytical procedures, design and perform use of analytical procedures inconsistent with other analytical procedures as substantive procedures relevant information near the end of the the auditor shall: and as procedures near the auditor shall investigate audit that assist the 1. Determine suitability of end of audit that assist the auditor when forming such differences by: analytical procedure auditor when forming an 1. Inquiring of management an overall conclusion for given assertions. overall conclusion on the as to whether the and obtaining appropriate 2. Evaluate reliability of financial statements audit evidence relevant to financial statements. Data. consistent management's responses 3. Develop an expectation with the auditor's and of recorded amounts. understanding of the 2. Performing other audit entity. 4. Determine the procedures as necessary amount of acceptable in the circumstances. **Objective** difference. 1. To obtain relevant & reliable audit evidence when using substantive analytical procedures. 2. To design and perform analytical procedures near the end of audit.

## **Definition**

Analytical Procedures means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

Analytical Procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.



#### SA 450 - Evaluation of Misstatements Identified during the Audit **Evaluating the effect of** Other important Objective of the Requirements Scope of Uncorrected points to be of the SA **Auditor** considered the SA misstatements The auditor shall accumulate This SA deals The auditor shall first The objective of the misstatements identified during with the auditor's reassess the Auditor is to evaluate: audit other than those clearly responsibility materiality determined trivial. to evaluate the in accordance with 2. The auditor shall determine effect of identied SA 320. misstatements whether the overall audit The effect of identified on the audit and strategy or audit plan need to misstatements on of uncorrected be revised. audit and misstatements, if The auditor shall 3. If at auditor's request, any, on the financial determine whether management has examined statements. The effect of uncorrected or corrected any misstatement misstatements are uncorrected that was detected, the auditor material, individually misstatement, if shall perform additional any, on the financial or in aggregate by audit procedure to determine statements. considering: whether misstatement remains. a) The size & nature of 4. The auditor shall communicate misstatements. all accumulated misstatements on timely basis at appropriate b) The effect of level of management with a uncorrected request to correct them. misstatements of prior periods. 5. If management refuses to correct them, auditor shall consider management's reasons for refusal and shall evaluate whether the financial statements as a whole are free from material misstatement. Communication with TCWG: The auditor shall communicate with TCWG a) uncorrected misstatements & their effects and request that **Definition** uncorrected misstatements be corrected. b) the effect of uncorrected misstatements related to prior periods. Misstatement: A difference between the amounts, classication, presentation or disclosure of a reported financial **Written Representation:** statement item and the amount, The auditor shall request a written representation from management/ classification, presentation or disclosure that is required for the item to be in TCWG whether they believe the effects of uncorrected misstatements accordance with the applicable FRF.

#### Misstatements can arise from error or fraud. **Uncorrected Misstatements:**

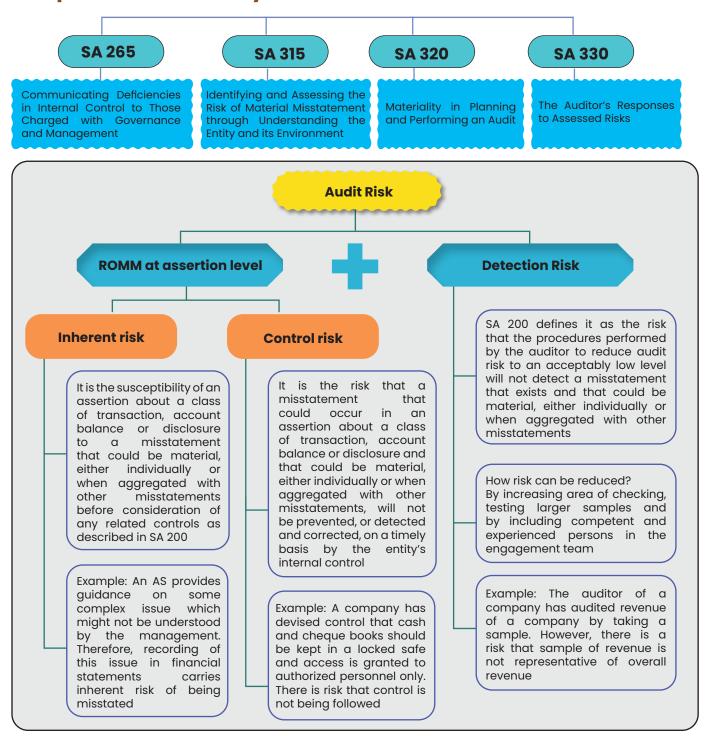
Misstatements that the auditor has accumulated during the audit and that have not been corrected.

are immaterial, individually or in aggregate, to the financial statements as a whole.

#### **Documentation:**

- The amount below which misstatements would be regarded as clearly trivial.
- All misstatements accumulated during the audit & whether they have been corrected.
- The auditor's conclusion as to whether the uncorrected misstatements are material and the basis of that conclusion.

# Chapter 4 – Materiality, Risk Assessment & Internal Control



### Assessment of risks- A matter of professional Judgment

Audit risk = Risks of material misstatement

X Detection risk

Audit risk = Inherent risk **X** Control risk **X** Detection risk

# Types of assertions used by the auditor to consider the different types of potential misstatements that may occur

Assertions about classes of transactions and events for the period under audit	(i) Occurrence—	transactions and events that have been recorded have occurred and pertain to the entity.
	(ii) Completeness-	all transactions and events that should have been recorded have been recognised in FS.
	(iii) Accuracy—	amounts and other data relating to recorded transactions and events have been recorded appropriately.
	(iv) Cut-off—	transactions and events have been recorded in the correct accounting period.
	(v) Classification—	transactions and events have been recorded in the proper accounts.
Assertions about account balances at the period end	(i) Existence—	assets, liabilities, and equity interests exist at the period end.
	(ii) Rights and obligations—	the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
	(iii) Completeness—	all assets, liabilities and equity interests that should have been recorded.
	(iv) Valuation and allocation—	assets, liabilities, and equity interests are included in the FS at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
Assertions about presentation and disclosure	(i) Occurrence and rights and obligations —	disclosed events, transactions, and other matters have occurred and pertain to the entity as right / obligation.
	(ii) Completeness—	all disclosures that should have been included in the financial statements have been included.
	(iii) Classification and understandability—	financial information is appropriately presented and described, and disclosures are clearly expressed.
	(iv) Accuracy and valuation—	financial and other information are disclosed fairly and at appropriate amounts.

# Possible potential misstatements - Indicators

#### **Completeness**

- Transactions not identified.
- Source documents not prepared.
- Source documents not captured.
- Rejected source documents not represented

#### **Existence**

- Fictitious or unauthorised transactions entered on source documents.
- Source documents overstated.
- Transactions duplicated on source documents.
- Capture of source documents duplicated.
- Invalid source documents captured on subsidiary ledgers

# Recording

- Source documents captured inaccurately.
- Processing of transactions is inaccurate.
- Inaccurate adjustments made in subsidiary ledgers

#### **Cut-Off Procedures**

 Transactions that occur in one period are recorded in another period

**SA 315** 

1

Identifying and Assessing the Risk of Material Misstatement through understanding the Entity and its Environment

#### Scope

This SA deals with the auditor's responsibility to identify and assess the risks of material misstatement (ROMM) in the financial statements, through understanding the entity and its environment, including the entity's internal control.

# **Objective of the Auditor**

To identify and assess the ROMM, whether due to fraud or error at the financial statement and assertion levels, through understanding the entity & its environment, including the entity's internal control, thereby providing a basis for designing and implementing the responses to the assessed ROMM.

# Risk Assessment procedures & related activities

Risk Assessment Procedures include the following:

- 1 Inquiries of management and of others within the entity.
- 2 Analytical procedures.
- 3 Observation and Inspection.

The auditor shall consider whether the information obtained from auditor's client acceptance or continuance process or information from other engagement or previous audits is relevant in identifying the ROMM.

The audit team to discuss the susceptibility of the entity's financial statements to material misstatements and the application of the applicable FRF to the entity's fact and circumstances.



SA 315 (Contd)

Understanding the Entity and its Environment including Internal Control

Identifying and Assessing the ROMM

# Entity & its Environment The auditor shall obtain an understanding of:

- a) Relevant Industry, Regulatory and other external factors
- b) The nature of the entity.
- c) The accounting policies including reasons for changes.
- d) Entity's Objectives & Strategies.
- e) Measurement & review of entity's financial performance.

# **Entity's Internal Control**: The auditor shall evaluate the design of the controls to

determine whether they have been implemented.

# The auditor shall obtain understanding of:

- 1. the control environment and entity's risk assessment process.
- the information system and entity's communication process.
- the control activities relevant to the audit and the major activities used by entity to monitor internal control over financial reporting.
- 4. the internal audit function and sources of information used in entity's monitoring activities.

# The auditor shall identify and assess ROMM at:

- i) financial statement level &
- ii) assertion level for classes of transactions & account balances.

#### The auditor shall:

- Identify risks throughout the process of obtaining understanding of the entity.
- 2. Assess the identified risk and evaluate whether they have pervasive effect.
- 3. Relate the identified assertions to what can go wrong at the assertion level.
- 4. Consider the likelihood of the misstatement and its magnitude.

Other important points to be considered

## **Significant Risks:**

The auditor shall obtain an understanding of the entity's control and control activities relevant to the significant risk.

### Risks for which Substantive Procedures alone do not provide sufficient appropriate audit evidence:

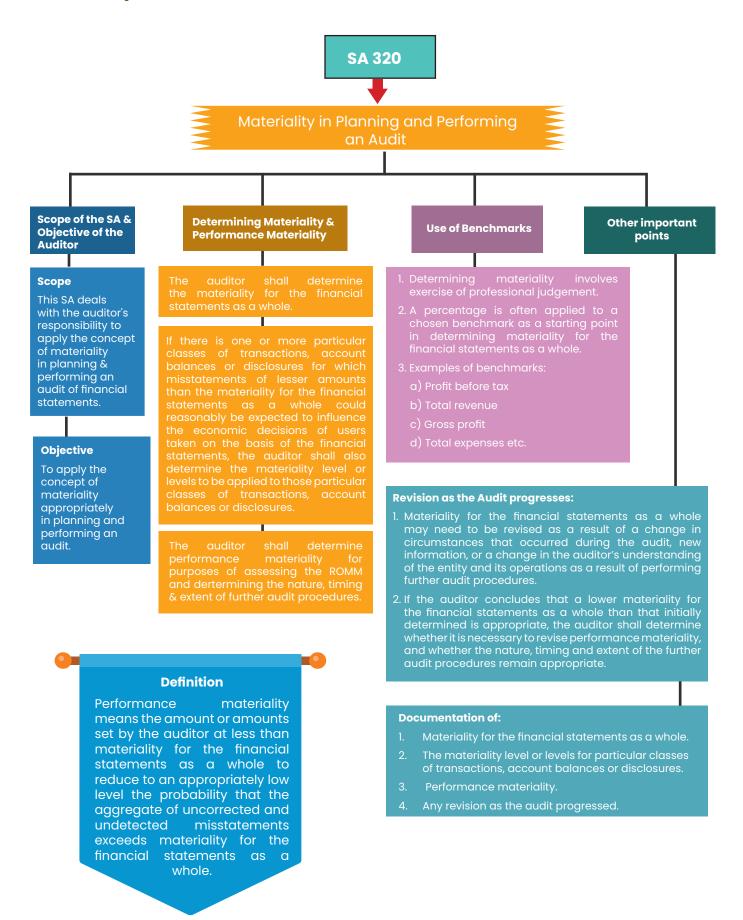
In such case the auditor shall obtain an understanding of entity's controls over such risk.

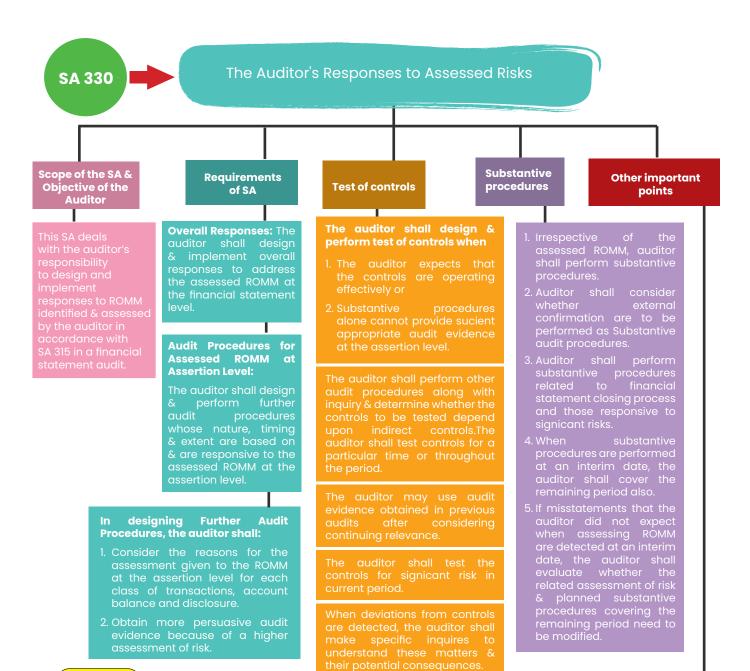
#### **Revision of Risk Assessment:**

The auditor's assessment of ROMM at the assertion level may change during the course of audit as additional audit evidence is obtained. In such case, the auditor shall revise the assessment and modify the further planned audit procedures accordingly.

#### **Auditor shall document:**

- 1. The discussion among the engagement team.
- 2. Key elements of the understanding obtained.
- 3. Identified & Assessed ROMM.
- 4. The risks identified and the related controls activities.





# **Definitions**

#### **Substantive Procedure:**

An audit procedure designed to detect material misstatements at the assertion level. It comprises of:

- Test of details (of classes of transactions, account balances, & disclosures), &
- 2. Substantive analytical procedures.

#### **Test of Controls:**

An audit procedure designed to evaluate operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

- The auditor shall perform audit procedures to evaluate the adequacy of presentation & disclosures made in the financial statements.
- The auditor shall evaluate the sufficiency & appropriateness of audit evidence.
- 3. The auditor shall document:
  - the overall responses and the nature, timing, extent of further audit procedures performed.
  - the linkage of those procedures with assessed risks at the assertion level.
  - · the results of audit procedures.

Risk-based Audit Approach Risk-based audit (RBA) is an approach to audit that analyses audit risks, sets materiality thresholds based on audit risk analysis and develops audit programmes that allocate a larger portion of audit resources to high-risk areas.

Assessing the risks of material misstatement (ROMM) in the financial statements

Designing and performing further audit procedures that respond to assessed risks and reduce the risks of material misstatements in the financial statements to an acceptably low level; and

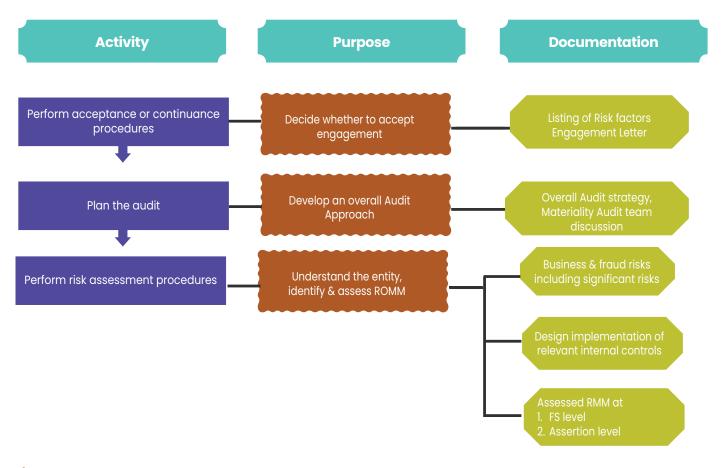
Issuing an appropriate audit report based on the audit findings

Risk assessment

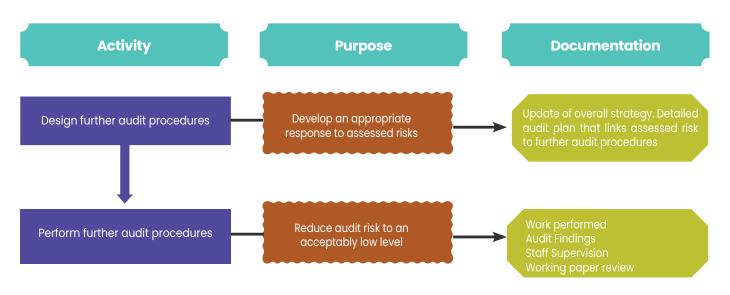
Phases of RBA

Risk response

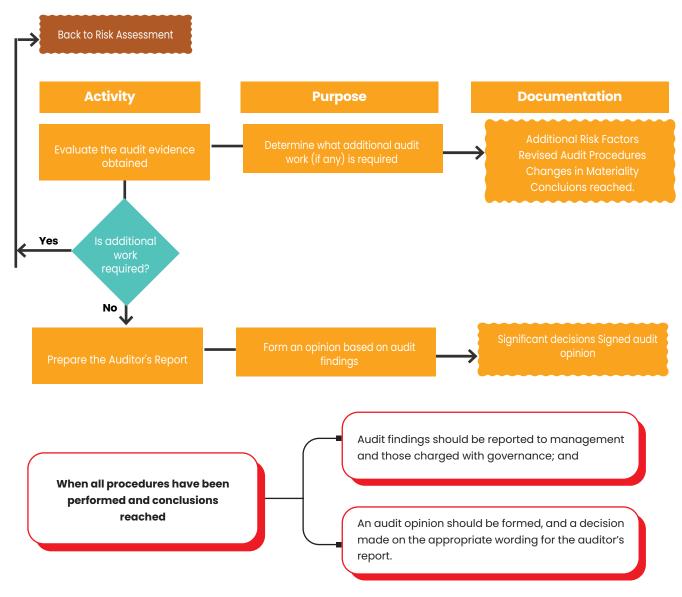
# **Risk Assessment**



# **Risk Response**



# Reporting





# **Objectives of Internal Control System**

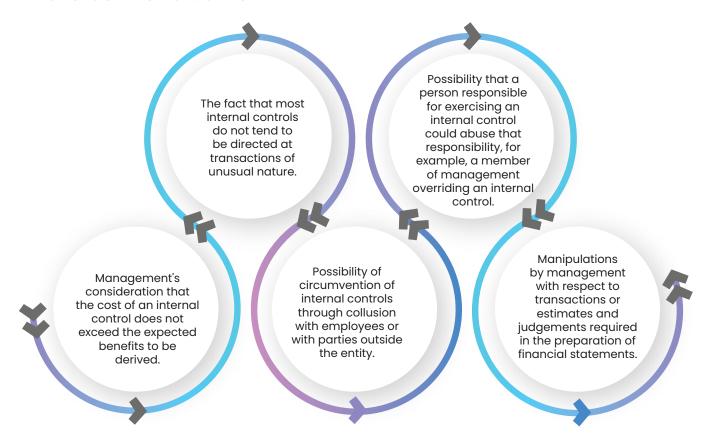
Transactions
are executed
through general
or specific
management
authorisation.

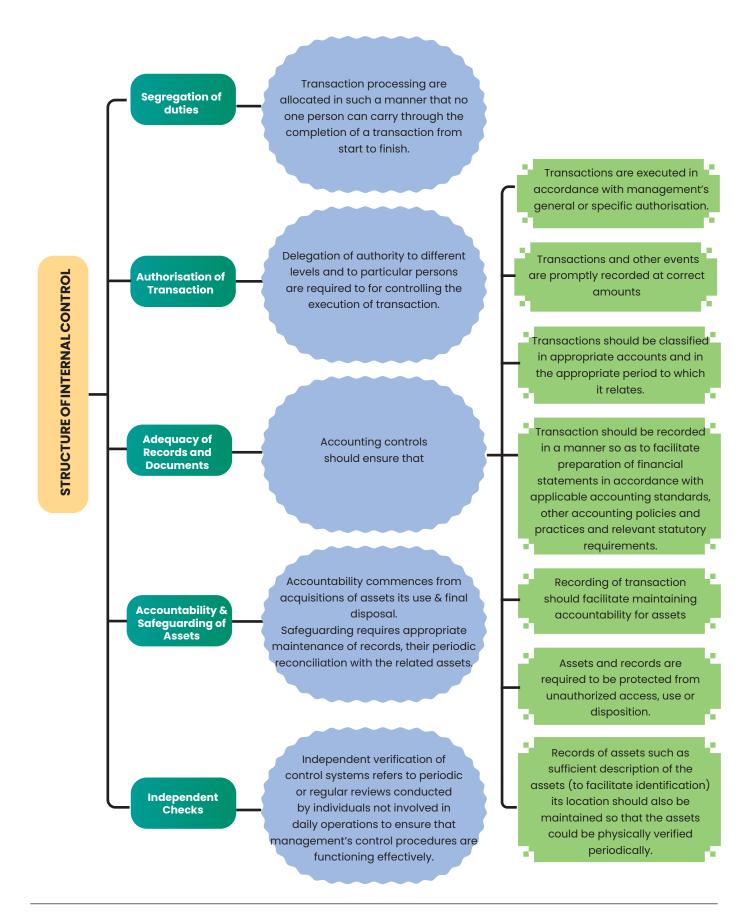
All transactions are recorded in an appropriate manner to permit the preparation of financial information and to maintain accountability of assets.

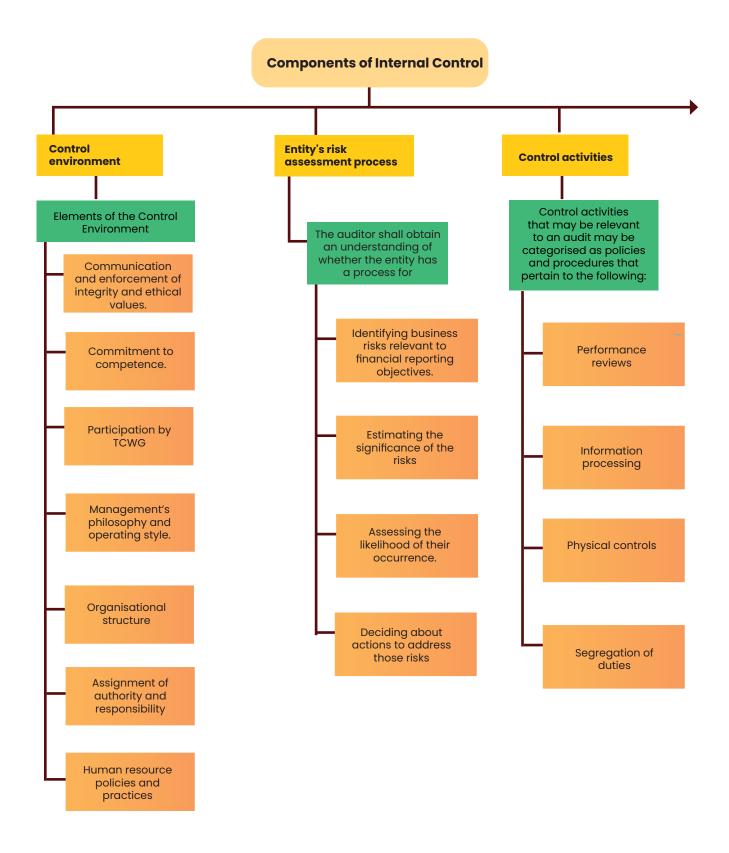
Assets and records are safeguarded from unauthorised access, use or disposition.

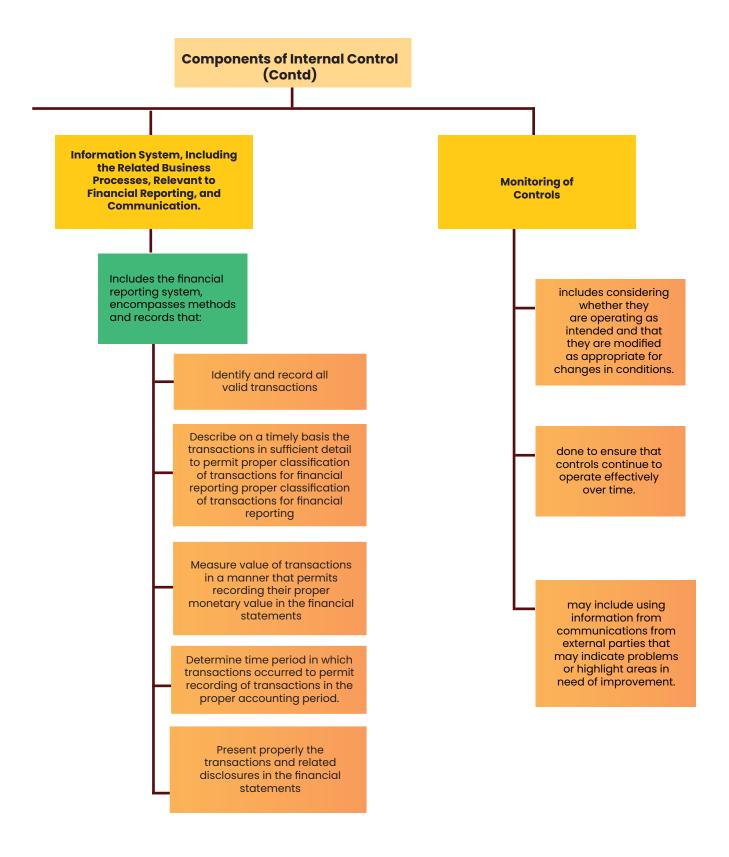
Assets are verified at reasonable intervals and appropriate action is taken with regard to the discrepancies.

# **Limitations of Internal Control**

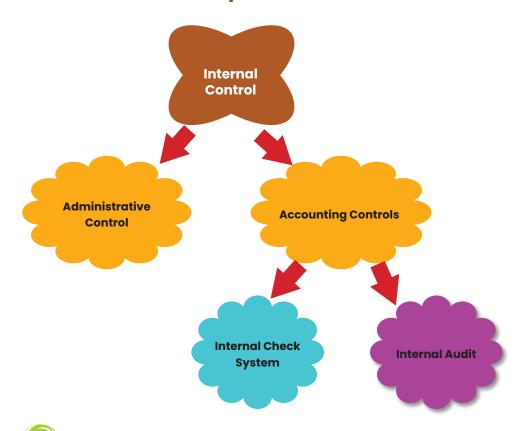






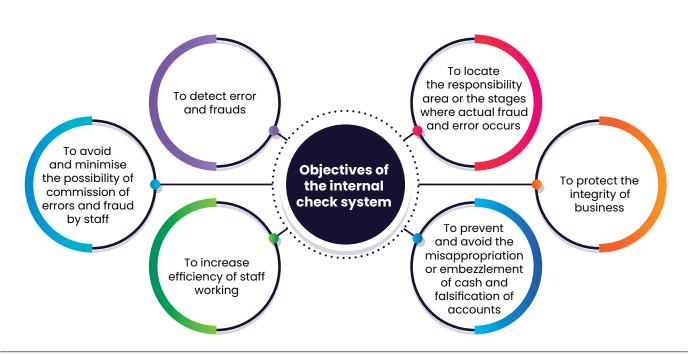


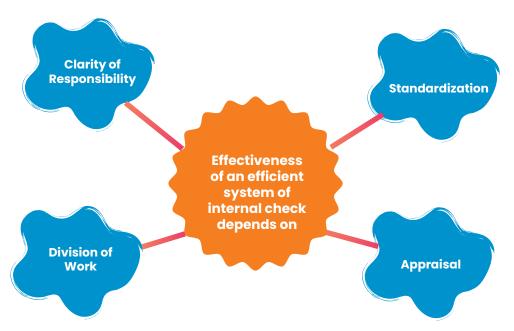
# **Materiality, Risk Assessment and Internal Control**



Internal Check System

It implies organisation of the overall system of book-keeping and arrangement of staff duties in such a way that no one person can carry through a transaction and record every aspect thereof.





No single person should have complete control over any important aspect of the business operation.

Staff duties should be rotated from time to time so that members do not perform same function for a considerable length of time.

Every member of the staff should be encouraged to go on leave at least once a year.

Persons having physical custody of assets must not be permitted to have access to the books of accounts.

There should exist an accounting control in respect of each class of assets

Mechanical devices should be used, wherever practicable to prevent loss or misappropriation of cash.

Budgetary control should be exercised and wide deviations observed should be reconciled.

For inventory taking, at the close of the year, trading activities should, if possible be suspended.

The financial and administrative powers should be distributed very judiciously among different officers

Procedures should be laid down for periodical verification and testing of different sections of accounting records to ensure that they are accurate.



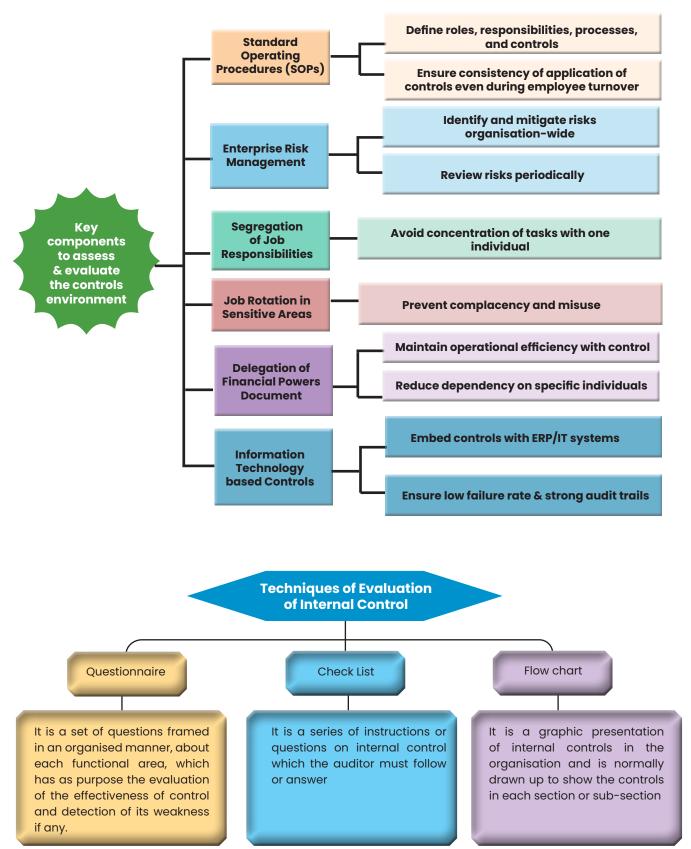
# After completing each function in the audit programme, auditor should note:

(a) Any change in the system of internal control from that record in the appropriate section of the internal control questionnaire.

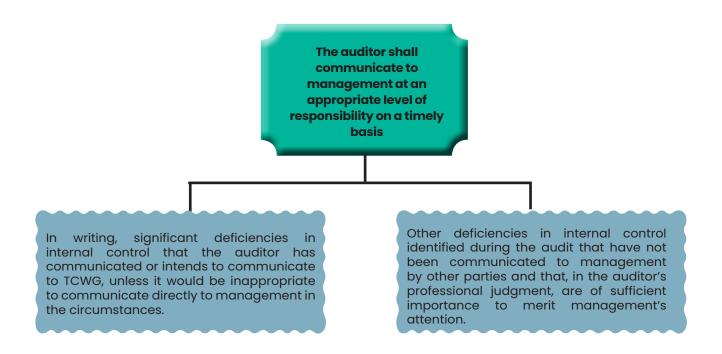
b) Any further weakness noted in the internal control.

(c) Any instance where the prescribed system or procedure has not been followed.

### **Internal Control Assessment & Evaluation**

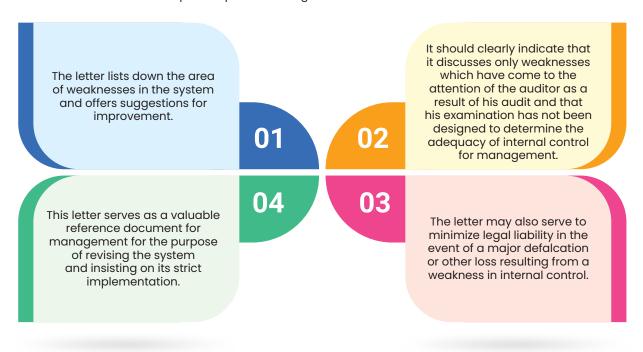


# **Reporting to Clients on Internal Control Weaknesses**

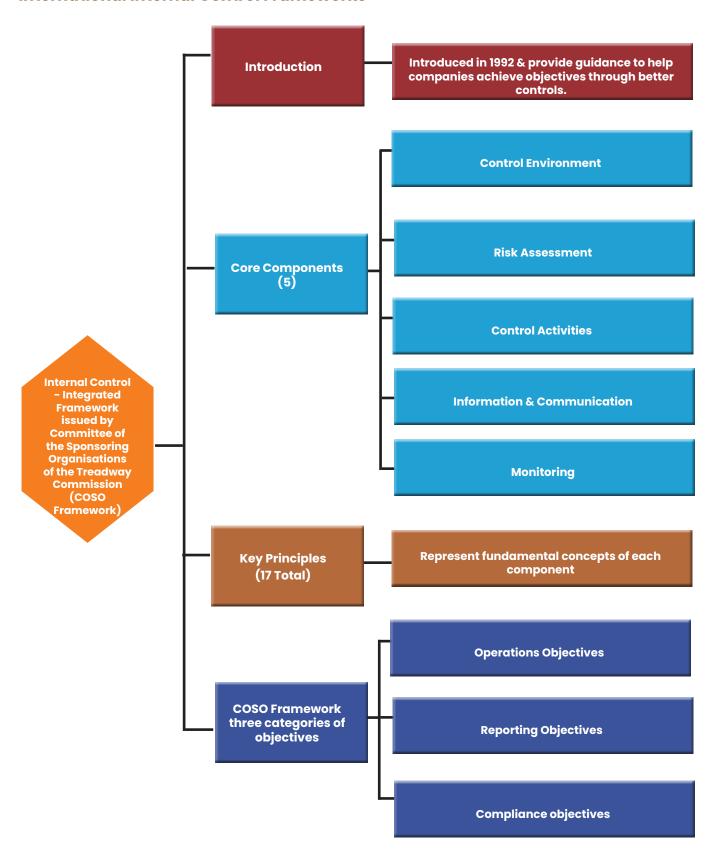


# **Letter of Weakness or Management Letter**

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

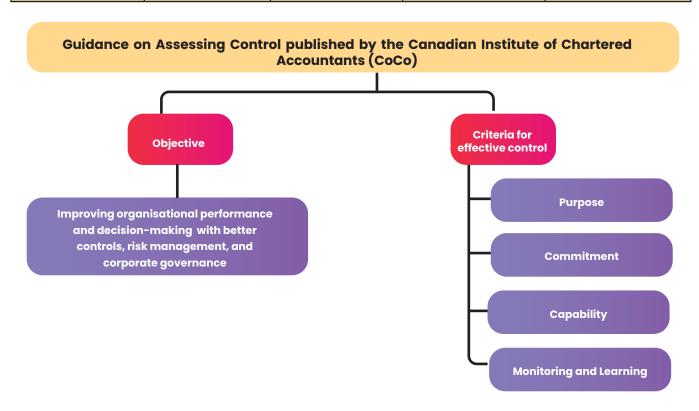


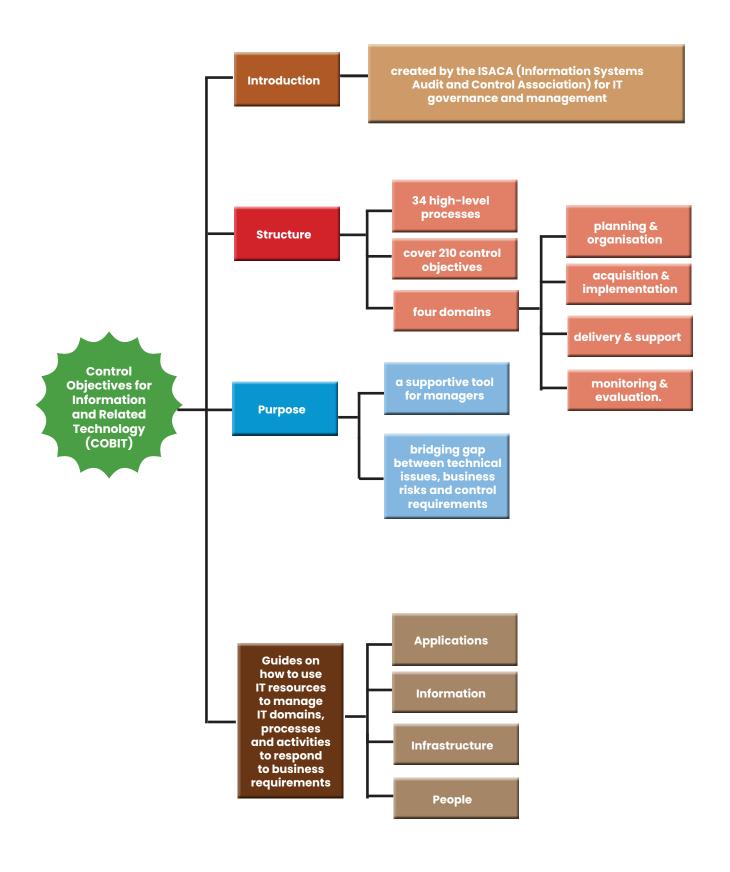
# **International Internal Control Frameworks**



# 17 Principles of Internal Control, categorized under each component of the COSO framework:

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
Demonstrates commitment to integrity and ethical values	Specifies suitable objectives	Selects and develops control activities	Uses relevant information	Conducts ongoing and/or separate evaluations
Exercises oversight responsibility	ldentifies and analyses risk	Selects and develops general controls over technology	Communicates internally	Evaluates and communicate deficiencies
Establishes structure, authority, and responsibility	Assesses fraud risk	Requires specific comments where weakness could materially affect accounts	Communicates externally	-
Demonstrates commitment to competence	Identifies and analyses significant change	Deploys through policies and procedures	-	-
Enforces accountability	-	-	-	-





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

Key principles of the Code

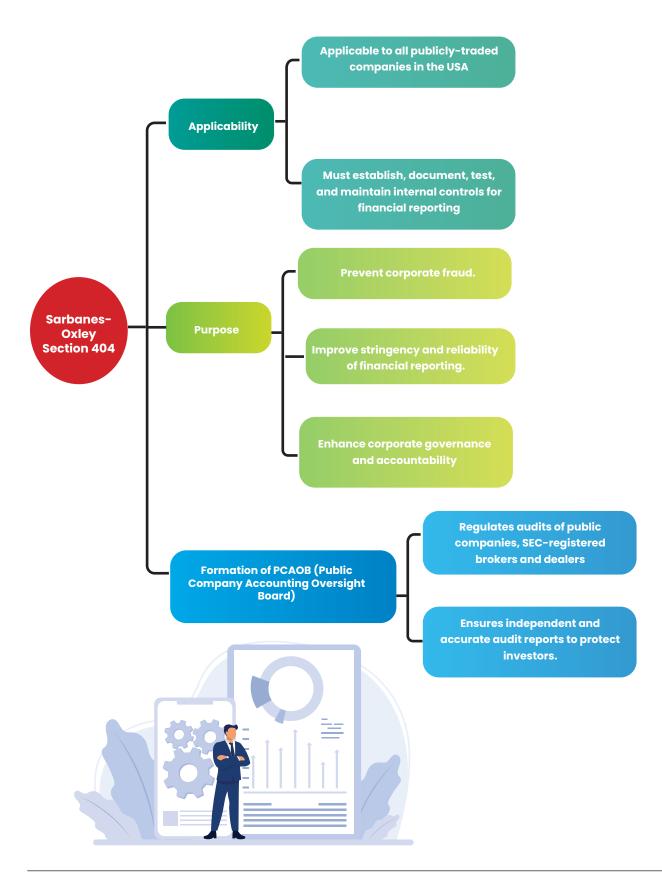
Board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.

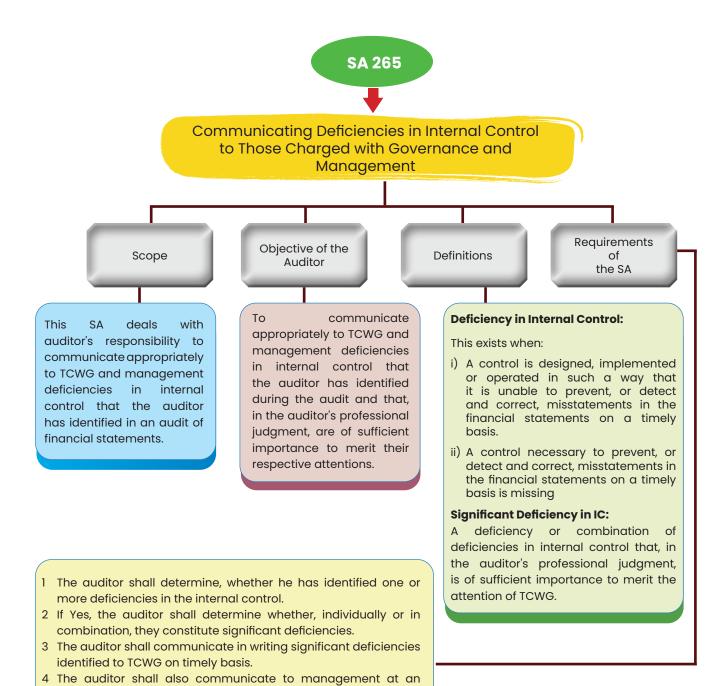
The directors should, at least annually, conduct a review of the effectiveness of the group's system of internal control and should report to shareholders that they have done so. The review should cover all controls, including financial, operational and compliance controls and risk management.

should from time to time review the need for one.

Companies which do not have an internal audit function







appropriate level of responsibility on a timely basis, in writing

i) A description of the deficiencies and explanation of their

ii) Sufficient information to enable TCWG/management to

about significant deficiencies and other deficiencies.

understand the context of the communication.

5 The written communication shall include:

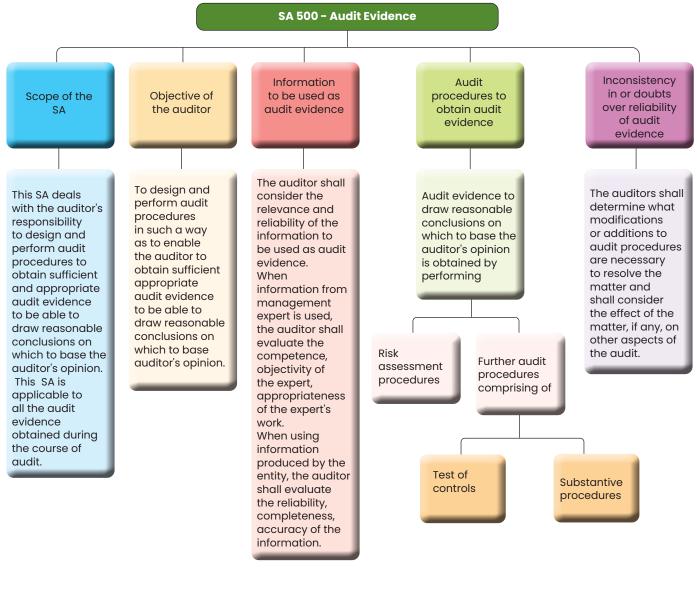
possible effects.

# Chapter 5 – Audit Evidence





SARANSH Audit Evidence





SA 501-Audit Evidence-Specific Considerations For Selected Items

### Meaning

SA 501 deals
with specific
considerations by
auditor in obtaining
SAAE with respect to certain
aspects of inventory, litigation
& claims involving the entity,
and segment information
in an audit of financial
statements

# Objective of the

### To obtain SAAE regarding:

- Existence and condition of inventory;
- Completeness of litigation and claims involving the entity; and
- Presentation and disclosure of segment information in accordance with the applicable FRF



## Inventory

When inventory is material to the financial statements

Auditor shall obtain SAAE regarding the existence and condition of inventory by:

- Attendance at physical inventory counting;
- Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results

Attendance at Physical Inventory Counting

### It involves:

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

Matters Relevant in Planning Attendance at Physical Inventory Counting

Nature of inventory

Stages of completion of work in progress

**ROMM** related to inventory

Nature of internal control related to inventory

Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting

Timing of physical inventory counting

Whether the entity maintains a perpetual inventory system

Locations at which inventory is held, including the materiality of inventory and ROMM at different locations, in deciding at which locations attendance is appropriate

Whether the assistance of an auditor's expert is needed to obtain SAAE



# Physical Inventory Counting Conducted other than at the Date of the Financial Statements

 Perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded

# Auditor unable to Attend Physical Inventory Counting due to Unforeseen Circumstances

 Auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions

# Attendance at Physical Inventory Counting becomes impractical

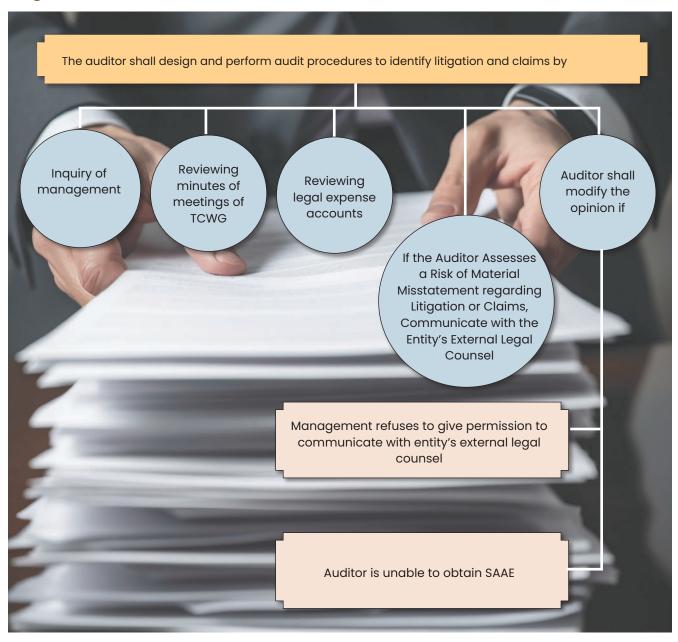
- Auditor shall perform alternative audit procedures to obtain SAAE regarding the existence and condition of inventory
- If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with SA 705

# When inventory under the custody and control of a third party- What will the auditor do?

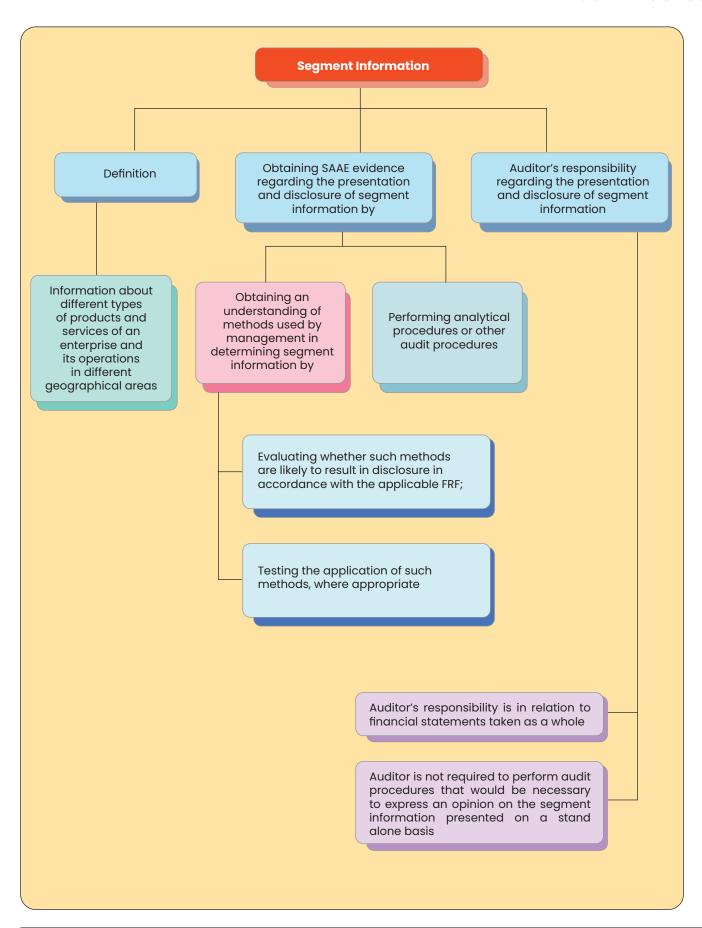
- Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity
- Perform inspection or other audit procedures appropriate in the circumstances



# **Litigation and Claims**







# **Audit Evidence**

**Definition of External Confirmation** as a direct **Audit** to the written evidence auditor obtained response **SA 505 - External Confirmations** Management's refusal to External Scope of the SA & allow the audit to send a **Confirmation Procedures** Objective of the auditor confirmation request Determining the Scope information to be This SA deals with confirmed/requested. Selecting the appropriate auditor's use of external confirmation procedures confirming party. to obtain audit evidence. Designing the confirmation requests. Sending the requests, including follow-up requests. Objective To design and perform external confirmation procedures to obtain relevant and reliable audit evidence.

- Assessed Risk of Material misstatement is low and relevant controls are effective.
- The population comprise of large number of small, homogeneous transactions.
- A very low exception rate is expected.
- The auditor is not aware of circumstances that would cause recipients of negative confirmation requests to disregard such requests.

from a third party

in paper form, or by electronic or other medium

1. Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness.

> 2. Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures, and

3. Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

If management's refusal is unreasonable, then communicate with TCWG and consider the implications on audit and auditor's opinion.

Results of the External Confirmation procedures

A) Reliablity of responses to confirmation requests:

> If auditor has doubt about reliability of response, auditor to obtain further audit evidence. If auditor determines response is not reliable, auditor to evalute the implications on the assessment of risk of material misstatement.

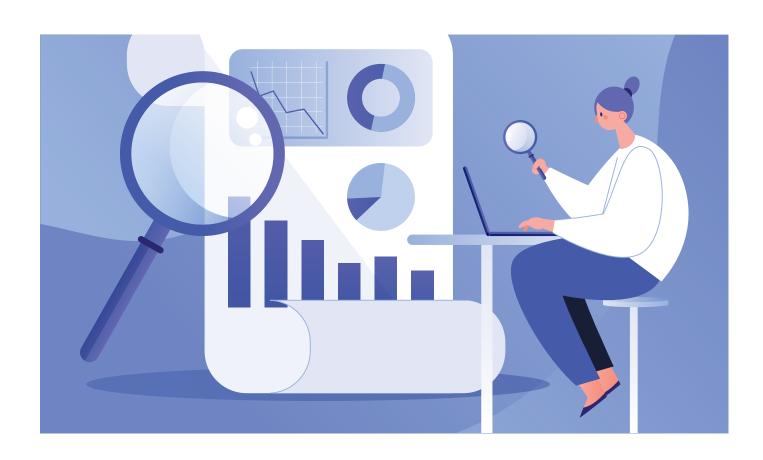
- B) Non Response: Auditor shall perform alternative audit procedures.
- C) When a response to positive confirmation is necessary and the same is not received: Determine the implications on the audit and the auditors opinion.
- D) Exception: Auditor shall investigate exceptions to determine whether or not they are indicative of misstatement.
- E) Negative Confirmation: Auditor to use negative confirmation as sole substantive audit procedure when:

**Positive confirmation request** – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees.

Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees.

## **Definitions**

Non-response – A failure of the confirming party to respond to a positive confirmation request, or a confirmation request returned undelivered. Exception – A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.



### SA 510 - Initial Audit Engagements - Opening Balances

### Scope of the SA

This SA deals with auditor's responsibilities relating to opening balances when conducting an initial audit engagement.

#### Objective of the auditor

To obtain sufficient appropriate audit evidence about

- 1. Whether opening balances contain misstatements that materially affect the current period's financial statements.
- 2. Whether appropriate accounting policies are consistently applied and any changes where to has been propertly accounted for, presented and disclosed.

### Opening Balances: The auditor shall

- 1. Read the most recent financial statements and predecessor auditor's report.
- Determine whether prior period's closing balance has been correctly brought forward.
- 3. Determine whether the opening balances reflect appropriate accounting policies.
- 4. Perform audit procedures on opening balances.
- 5. If current period financial statements are misstated due to misstatement in opening balances, communicate with management or TCWG.

### **Audit Procedures**

### **Consistency of Accounting Policies**

Obtain audit evidence as to whether the accounting policies are consistently applied and in case of any changes, whether properly accounted for, presented and disclosed.

### Relevant Information in the Predecessor's Auditor's Report:

If modification in predecessor auditor's report, evaluate the effect of the matter giving rise to such modification with respect to current period's financial statements.

### **Opening Balances**

- If auditor is unable to obtain audit evidence regarding opening balances -Qualified/disclaimer of opinion.
- If auditor concludes opening balances contain misstatement, not properly presented/disclosed - Qualified / Adverse Opinion.

# Audit Conclusion and reporting

### **Consistency of Accounting Policies**

If auditor concludes that accounting policies are not consistently applied in relation to opening balances or changes are not properly accounted for - Qualified/ Adverse Opinion.

### Modification to the opinion in the predecessor auditor's report:

If the modication is relevant and material to the current period's financial statements, auditor shall modify the current period audit report.

SARANSH Audit Evidence

### **Definitions**

# Initial audit engagement

Refers to an
engagement in which
either:
Financial statements for
the prior period were not
audited; or
Financial statements
for the prior period
were audited by a

predecessor auditor.

**Opening balances** means those account balances that exist at the beginning of the period.

### **Predecessor auditor:**

The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor.

**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

- 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

- 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

- The auditor shall investigate the nature and cause of deviation or misstatement identified and evalute its possible effect.
- 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.
- 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.

### **Definitions**

### **Audit Sampling**

The application of audit procedures to less than 100% of items within a population of audit relevance such that all the sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

# SA 550 - Related Parties



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.

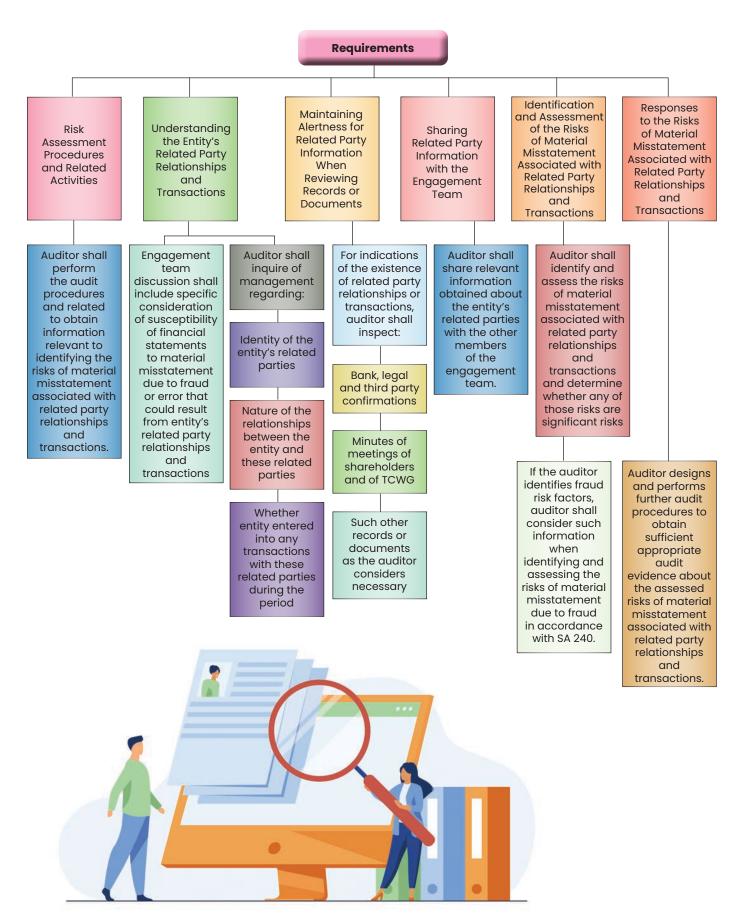
Objectives of the Auditor To obtain an understanding of the related party transactions to:

- recognize fraud risk factors arising from such transactions.
- 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.

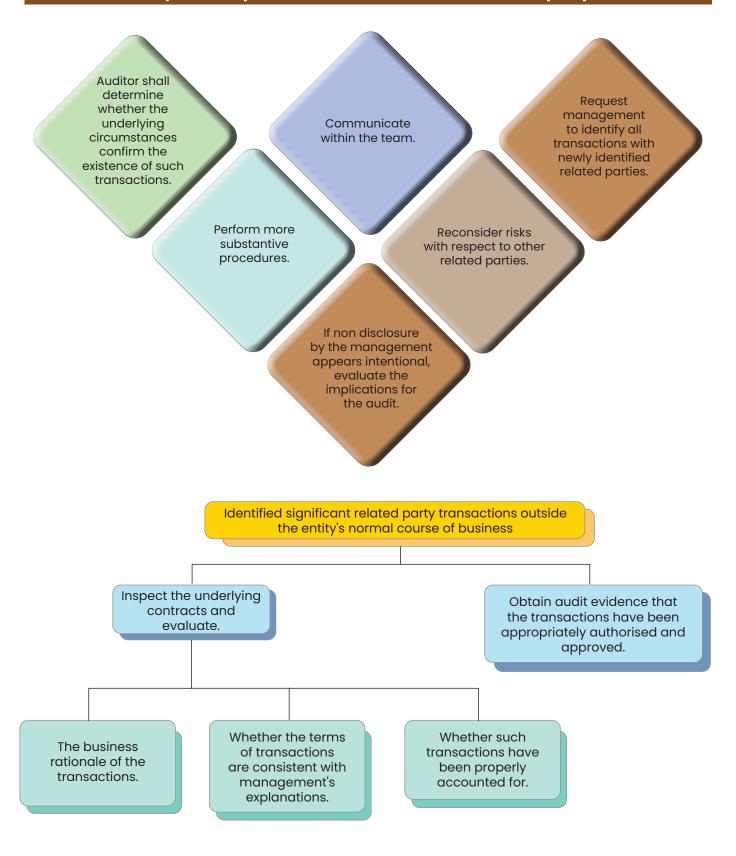
To obtain audit evidence as to whether the related party transactions are properly identified, accounted for, and disclosed in the financial statements.



SARANSH Audit Evidence



# Identification of previously unidentified or undisclosed related party transactions



### **Written Representations**

Auditor shall obtain written representations from management and, where appropriate, TCWG that:

- They have disclosed to auditor the identity of the entity's related parties and all related party relationships and transactions of which they are aware; and
- They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.

### **Communication with TCWG**

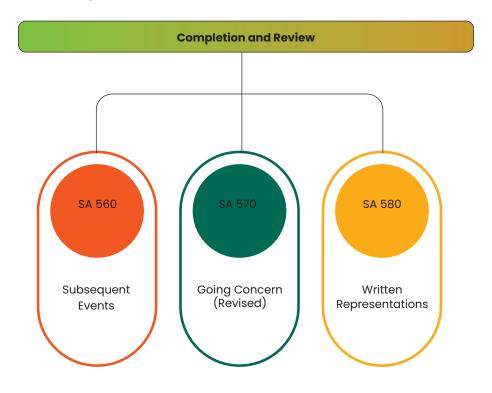
Auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties.

**Documentation** 

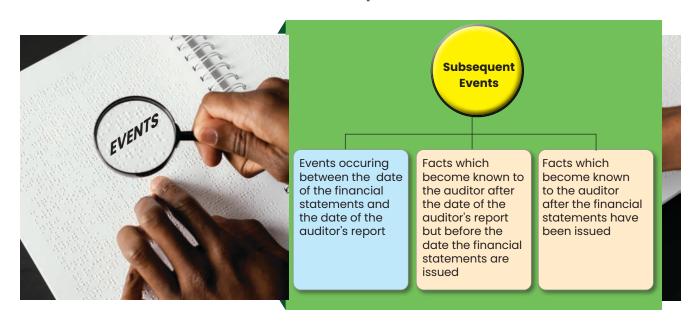
The auditor shall include in the audit documentation the names of the identified related parties and the nature of the related party relationships.



# Chapter 6 – Completion and Review



# **SA 560 - Subsequent Events**



### **Definitions**

#### Date of the financial statements-

The date of the end of the latest period covered by the financial statements.

### Date of approval of the financial statements-

The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognised authority have asserted that they have taken responsibility for those financial statements

### Date of the auditor's report-

The date the auditor dates the report on the financial statements in accordance with SA 700(Revised).

### Date the financial statements are issued-

The date that the auditor's report and audited financial statements are made available to third parties.



SA 560 deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements.



- Obtain SAAE about whether subsequent events that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements.
- Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

# Audit procedures relating to events occurring between the date of the financial statements and the date of the auditor's report

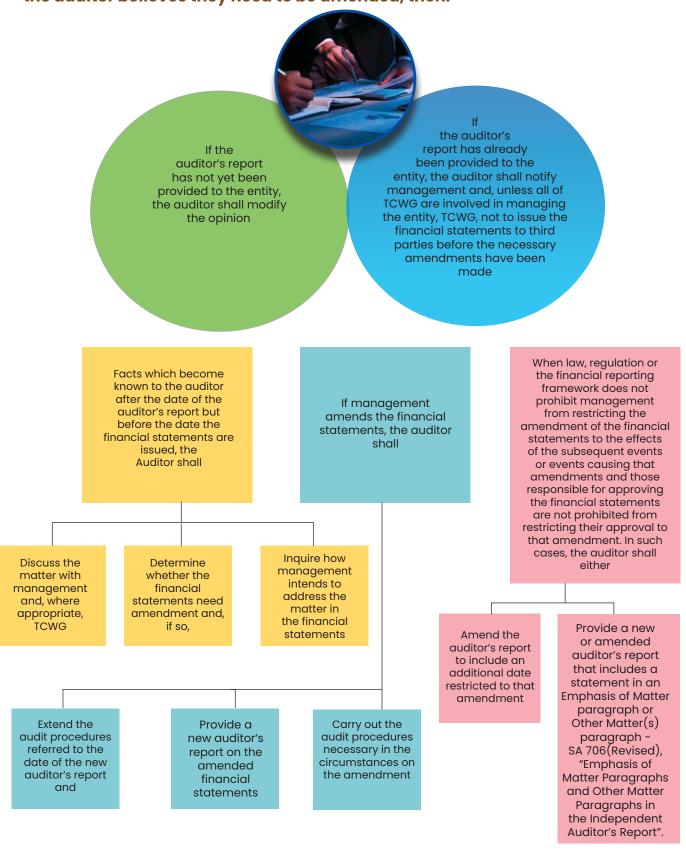
Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified

Inquiring of management and, where appropriate, TCWG as to whether any subsequent events have occurred which might affect the financial statements

Reading minutes of meetings, of the entity's owners, management and TCWG, that have been held after the date of the financial statements and inquiring about matters discussed at such meetings for which minutes are not yet available

Reading the entity's latest subsequent interim financial statements

Management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then:



# SA 570 - Going Concern

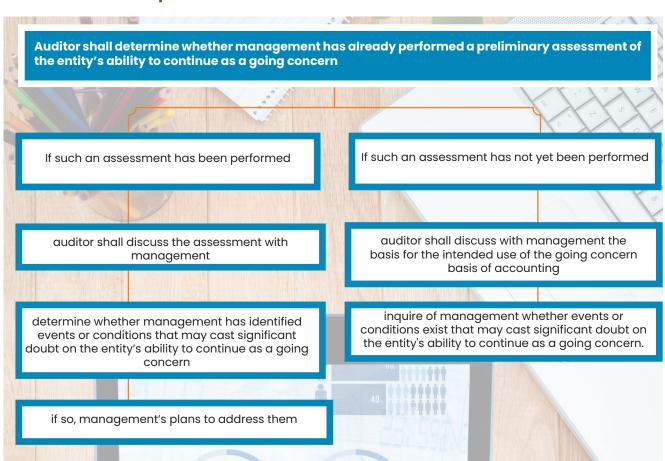
**SCOPE OF SA** 

This SA deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report

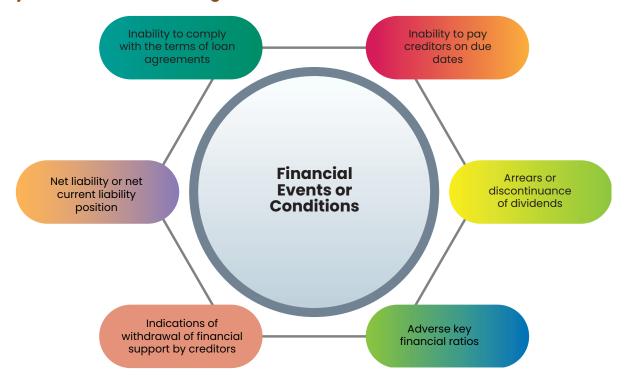
- To obtain SAAE regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.
- To conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- To report in accordance with this SA.

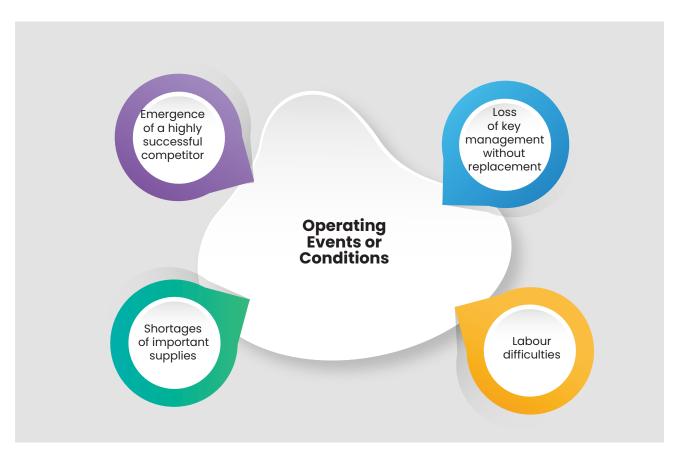
OBJECTIVES OF AUDITOR

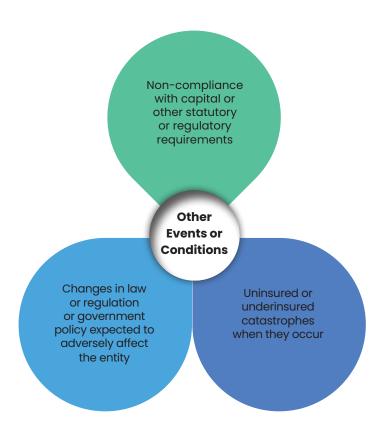
# Risk assessment procedures and related activities



# Examples of Events or Conditions that may cast significant doubt on the Entity's Ability to continues as a Going Concern







### When Events or Conditions Are Identified

Requesting management to make its assessment relating to entity's ability to continue as a going concern

Evaluating management's plans for future actions

Analyse the cash flow forecast of entity.

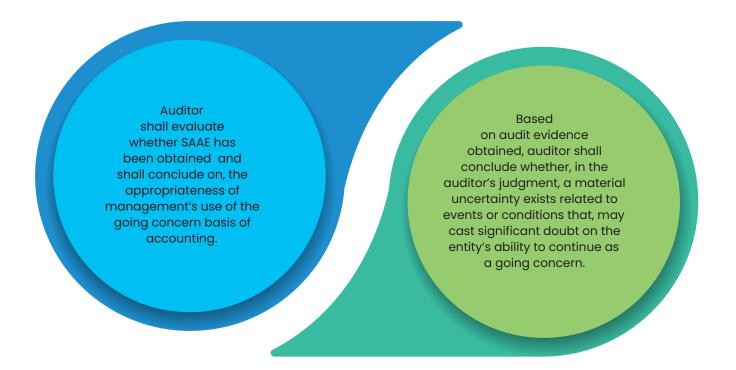
Considering additional facts or information available

Requesting written representations from management regarding their plans for future actions and the feasibility of these plans.

# Additional audit procedures when events or conditions are identified

Reading the terms Analysing and **Analysing &** of debentures and discussing cash discussing loan agreements flow, profit and other the entity's and determining relevant forecasts latest available whether any have with management interim financial been breached statements Reading minutes of the meetings Evaluating Confirming the Determining the of shareholders, the entity's existence, terms Obtaining and adequacy of those charged plans to deal and adequacy reviewing reports of support for any with governance with unfilled of borrowing regulatory actions planned disposals and relevant customer orders facilities of assets committees for reference to financing difficulties

### **Auditor's conclusions**



Adequacy of disclosures when events or conditions have been identified and a material uncertainty exists

Adequately disclose the principal events or conditions that may cast significant doubt on entity's ability to continue as a going concern and management's plans to deal with these events or conditions

Adequacy of disclosures when events or conditions have been identified but no material uncertainty exists

Auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework(FRF), the financial statements provide adequate disclosures about these events or conditions

# **Implications for Auditor's Report**

# If use of Going concern basis of accounting is inappropriate

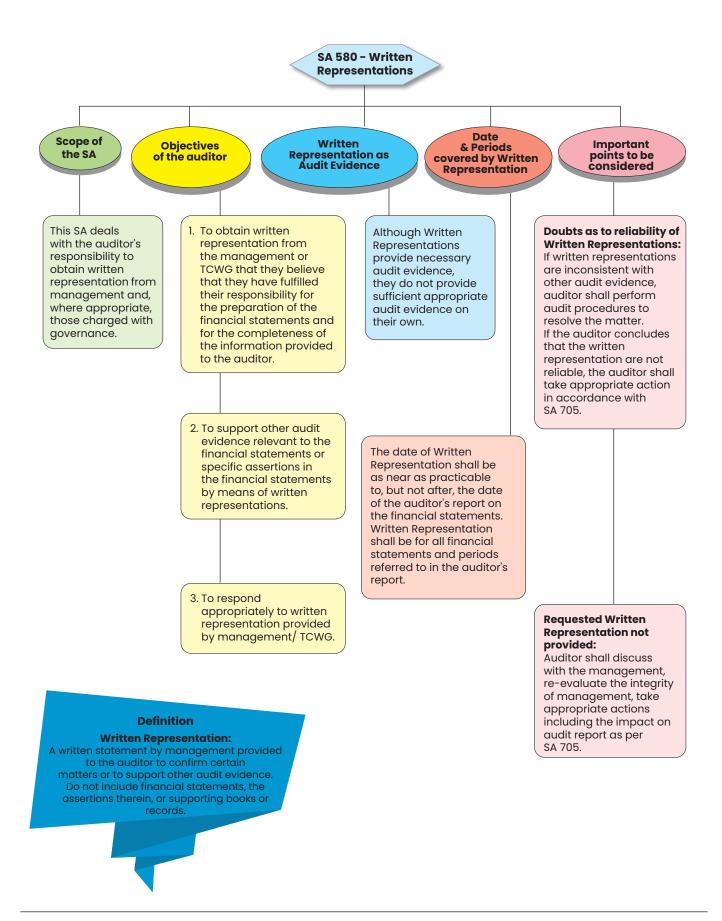
If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an **adverse opinion**.

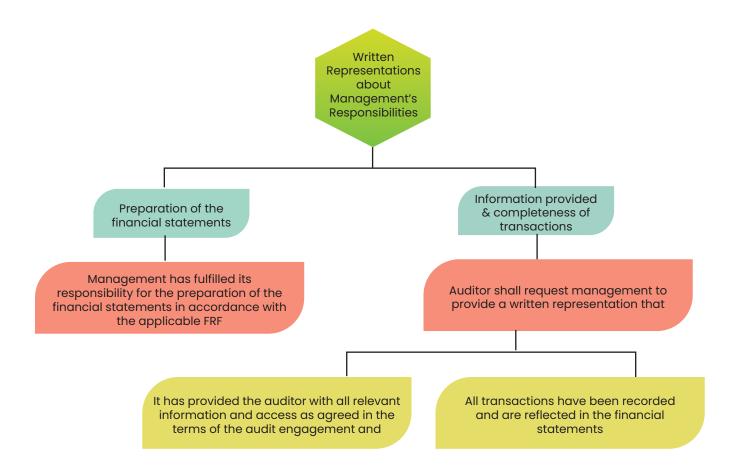
### If use of going concern basis of accounting is appropriate but a material uncertainty exists

- Adequate Disclosure of a Material Uncertainty is made in the Financial Statements.
  - Auditor shall express an unmodified opinion
- 2 Adequate Disclosure of a Material Uncertainty is Not Made in the Financial Statements
  - Express a qualified opinion or adverse opinion

# Management unwilling to make or extend its assessment

**Qualified opinion** or a **disclaimer of opinion** in the auditor's report may be appropriate







# **Chapter 7 - Reporting**

### SA-700

Forming an Opinion and Reporting on Financial Statements

### SA-701

Communicating Key Audit Matters in the Independent Auditor's Report

### **SA-705**

Modifications to the Opinion in the Independent Auditor's Report

### SA-706

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

### SA-710

Comparative Information-Corresponding Figures and Comparative Financial Statements

#### SA-720

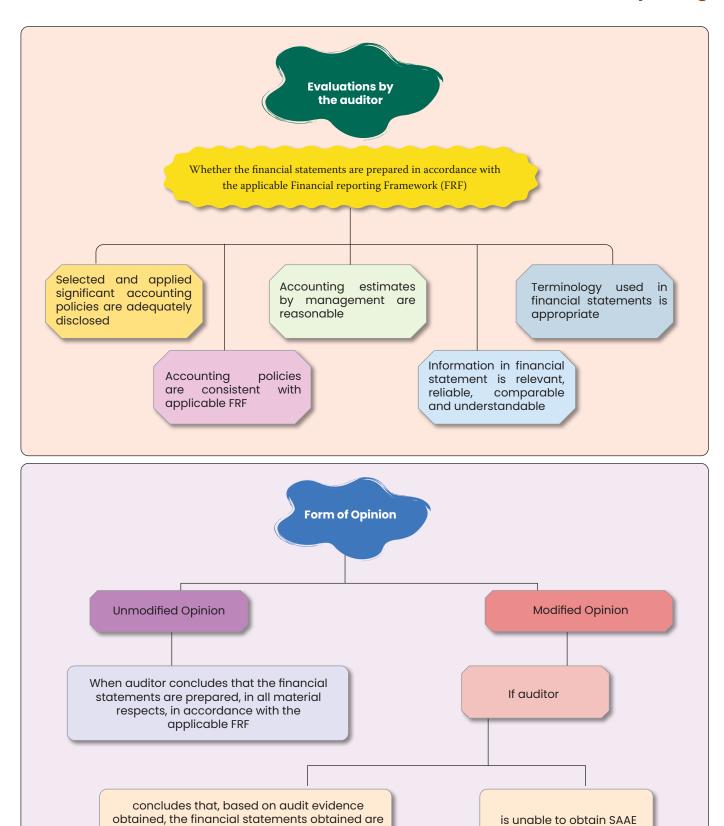
The Auditor's Responsibilities Relating to Other Information

# SA 700 - Forming an Opinion and Reporting on Financial Statements



To Form Opinion – Auditor to Obtain Reasonable Assurance & Consider that

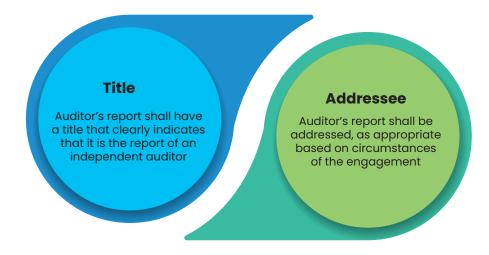




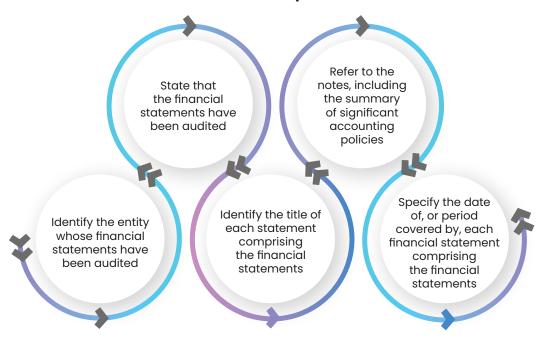
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not free from material misstatements

## **Auditor's Report**

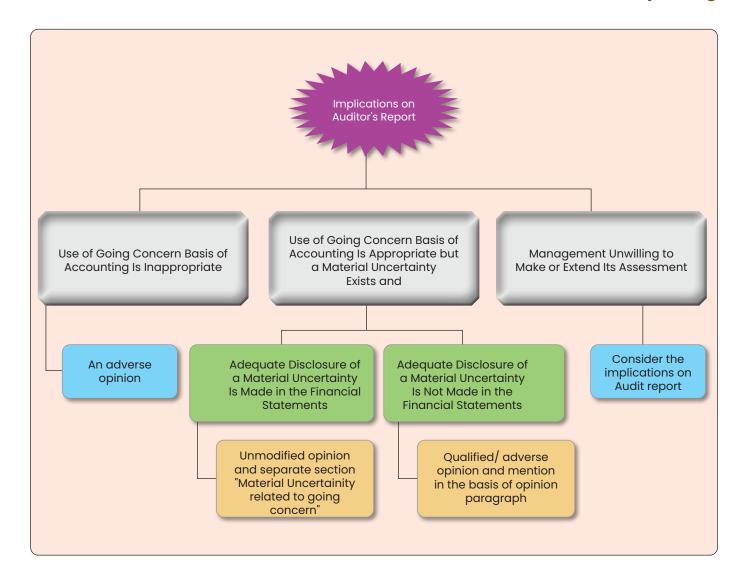


## **Auditor's Opinion**



Basis for Opinion

- · States that audit was conducted in accordance with SAs
- Refers to section of auditor's report that describes auditor's responsibilities under the SAs
- Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements
- States whether the auditor believes that audit is sufficient and appropriate to provide a basis for the auditor's opinion



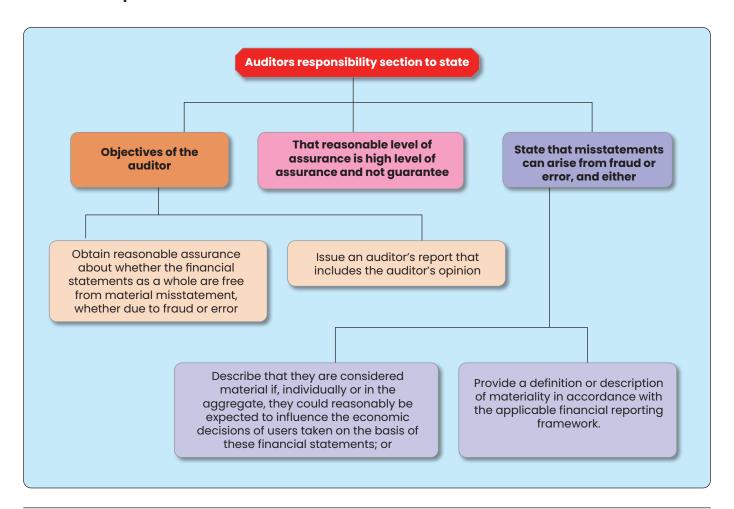


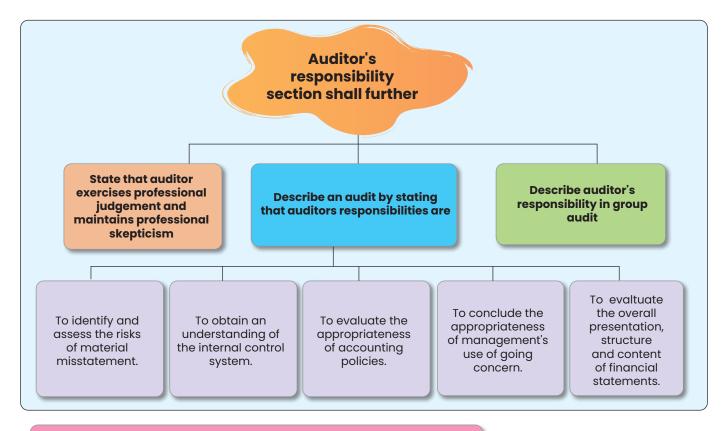
### **Responsibilities For The Financial Statements**

This section of the auditor's report shall describe management's responsibility for:

Preparing the financial statements in accordance Assessing the entity's ability with the applicable FRF, and to continue as a going for such internal control as concern and whether the use management determines of the going concern basis is necessary to enable the of accounting is appropriate preparation of financial as well as disclosing, if statements that are free from applicable, matters relating to material misstatement, whether going concern due to fraud or error

### Auditor's Responsibilities for the Audit of the Financial Statements





# Location of the description of the auditor's responsibilities for the audit of the financial statements

Within the body of the auditor's report

Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix or

By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so

# Other Reporting Responsibilities

If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section

If other reporting responsibilities are included in the same section as SA-related elements, the auditor must clearly distinguish them from SA-mandated reporting

If other reporting responsibilities are presented in a separate section, the auditor's report should first include a section titled "Report on the Audit of the Financial Statements", followed by "Report on Other Legal and Regulatory Requirements.

### Signature of the Auditor

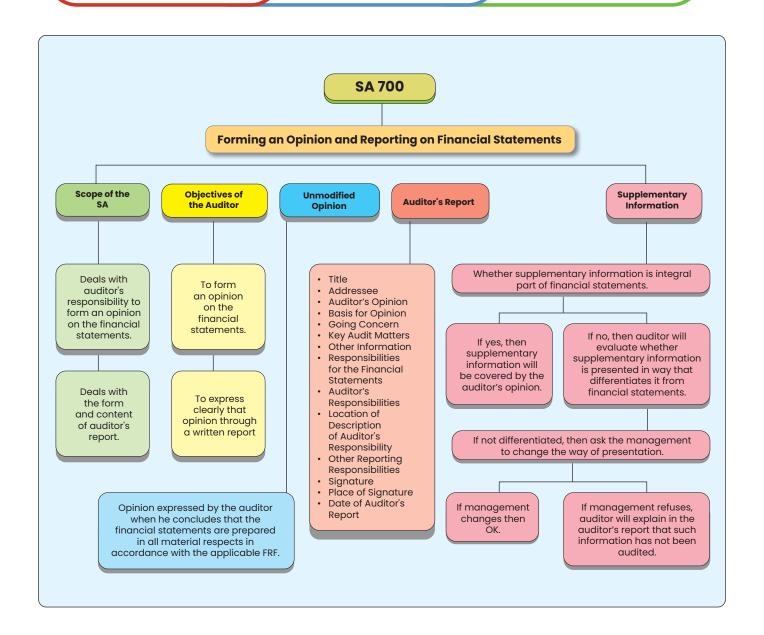
The audit report is signed by the auditor (i.e. the engagement partner) in his personal name

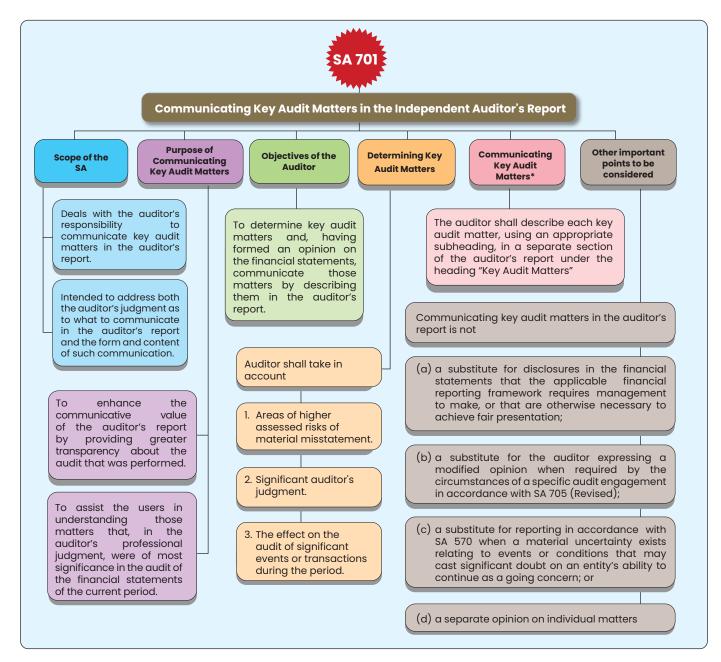
### **Place of Signature**

The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed

### **Date of the Auditor's Report**

Auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements







# **Applicability of SA 701**

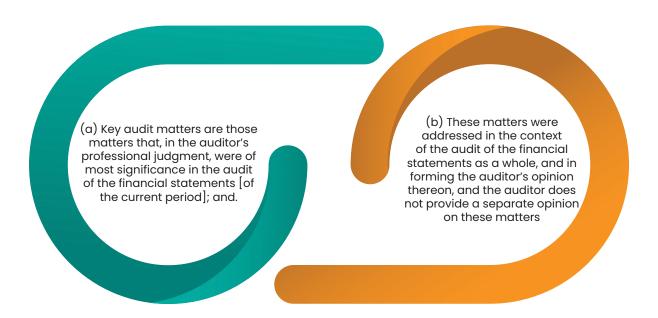
### This SA applies to audits of complete sets of general purpose financial statements of



However, SA 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation

# \*Communicating Key Audit Matters

The introductory language in this section of the auditor's report shall state that:



In case there are no Key Audit Matter to communicate, the auditors' report must specifically mention that by carrying a Key Audit Matter Paragraph and under which they shall mention that there are no Key Audit matters to communicate.

# SA 705 - Modifications to the Opinion in the Independent Auditor's Report

Scope

SA deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary

Objectives of Auditor

To express clearly an appropriately modified opinion on the Financial Statements.

# Circumstances When a Modification to the Auditor's opinion is Required

The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement

## **Types of Modified Opinion**



# **Qualified Opinion**

The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, are material, but not pervasive or

Auditor is unable to obtain SAAE on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive



# **Adverse Opinion**

The auditor shall express an adverse opinion when the auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements

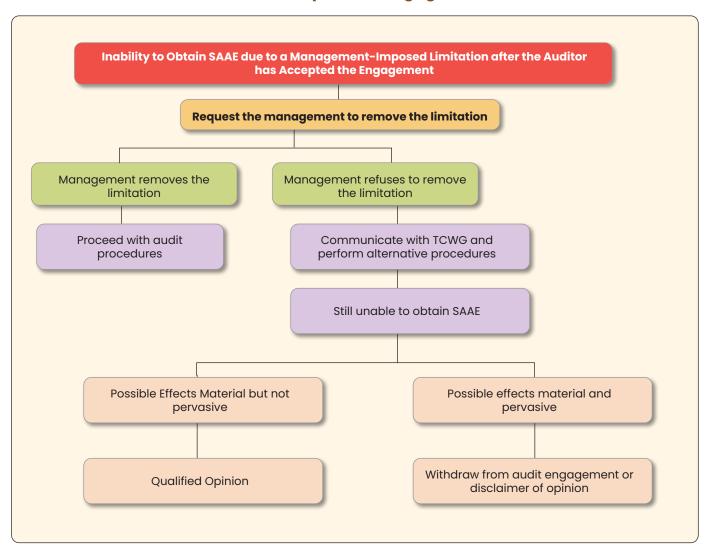


# **Disclaimer of Opinion**

The auditor shall disclaim an opinion when he is unable to obtain SAAE on which to base the opinion, and he concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive

Which type of opinion is	Nature of Matter Giving Rise to the Modification?	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
		Material but not Pervasive	Material and Pervasive
ippropriate?	Financial statements are materially misstated	Qualified opinion	Adverse opinion
	Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

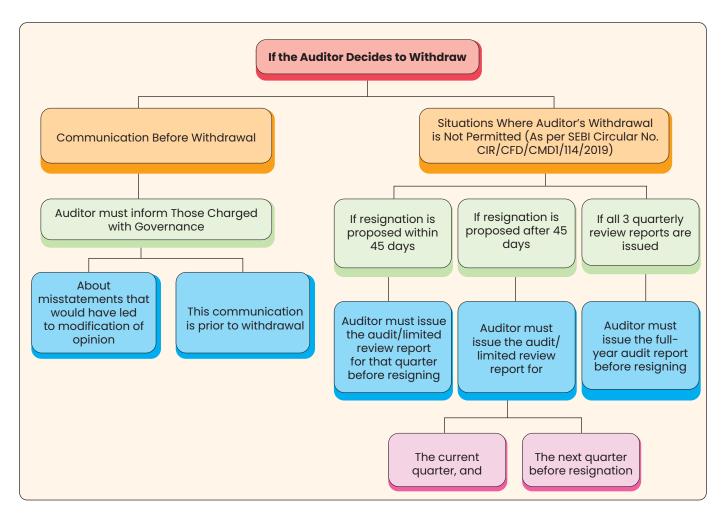
# Consequence of an Inability to Obtain SAAE due to a Management-Imposed Limitation after the Auditor has Accepted the Engagement



# Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements

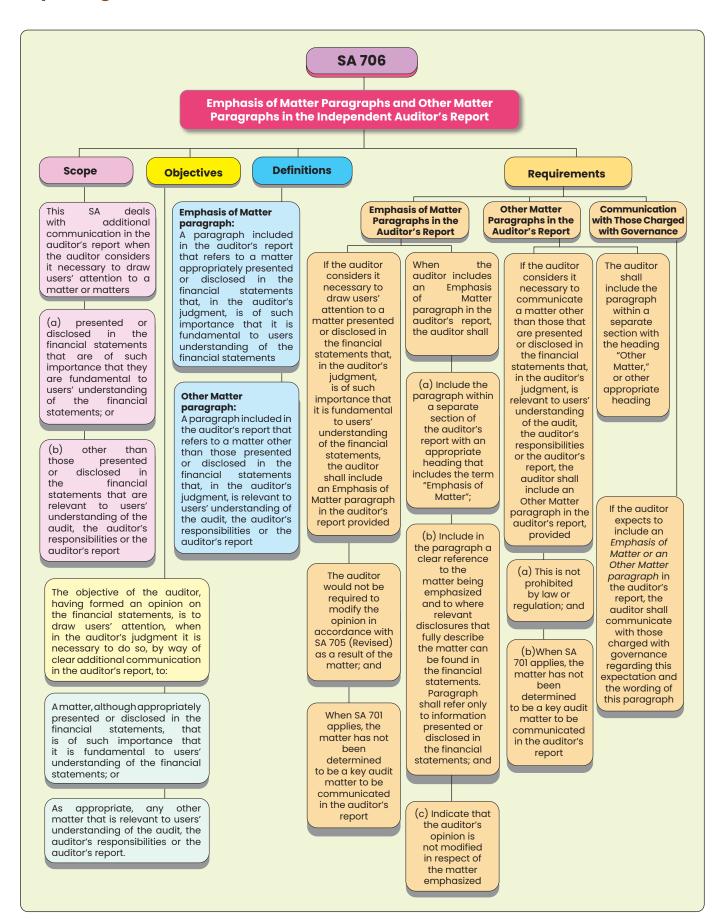
Statement that auditor's responsibility is to conduct an audit in accordance with SA and to issue an auditor's report

Statement that, auditor was not able to obtain SAAE to provide a basis for an audit opinion on the financial statements Statement about auditor independence and other ethical responsibilities required by SA 700 (Revised)



# Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion





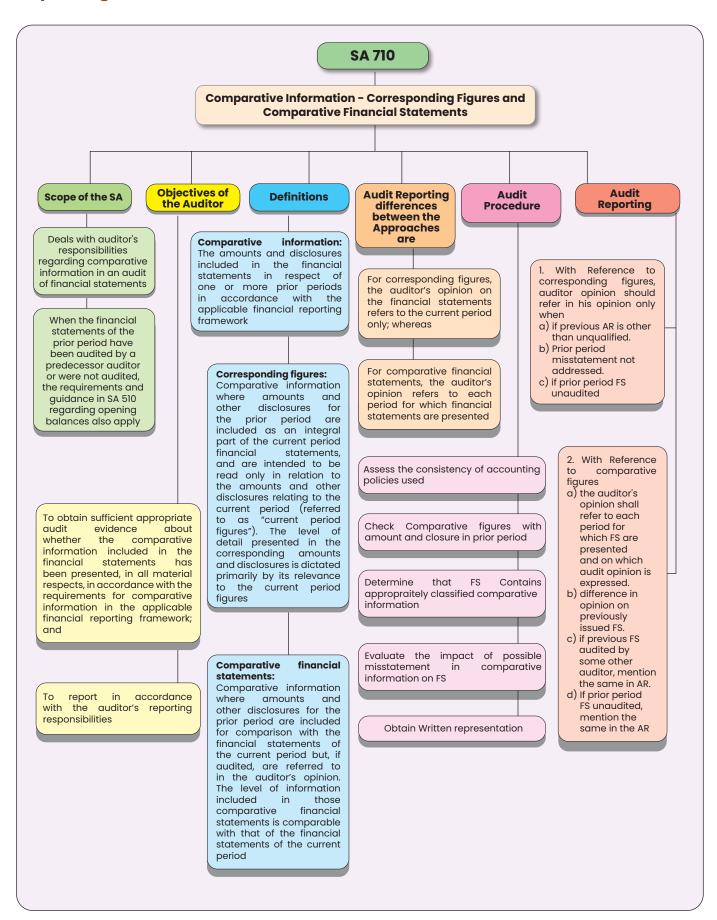
A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position. An uncertainty relating to the future outcome of exceptional litigation or regulatory action.

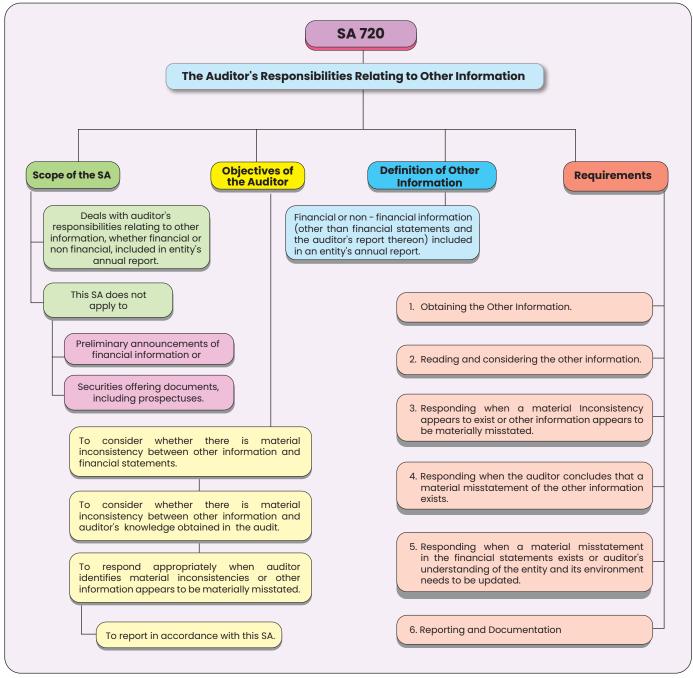
Circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are

Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.

A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.









## **Obtaining the Other Information**

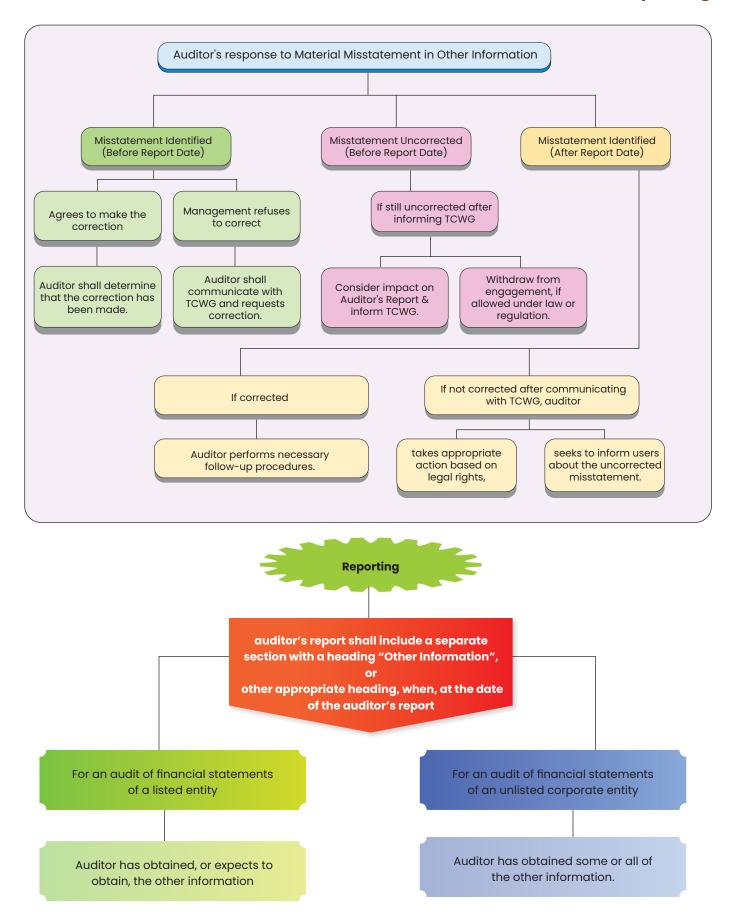
#### The auditor shall (c) When some or all of the (a) Determine, through (b) Make appropriate document(s) determined in (a) discussion with arrangements with not available til after the date management, which management to obtain of the auditor's report, request document(s) comprises in a timely manner and, if management to provide WR the annual report, and the possible, prior to the date that the final version of the entity's planned manner of the auditor's report, document(s) will be provided to and timing of the issuance the final version of the the auditor when available, and of such document(s); document(s) comprising prior to its issuance by the entity, the annual report; and such that the auditor can complete the procedures required by this SA.

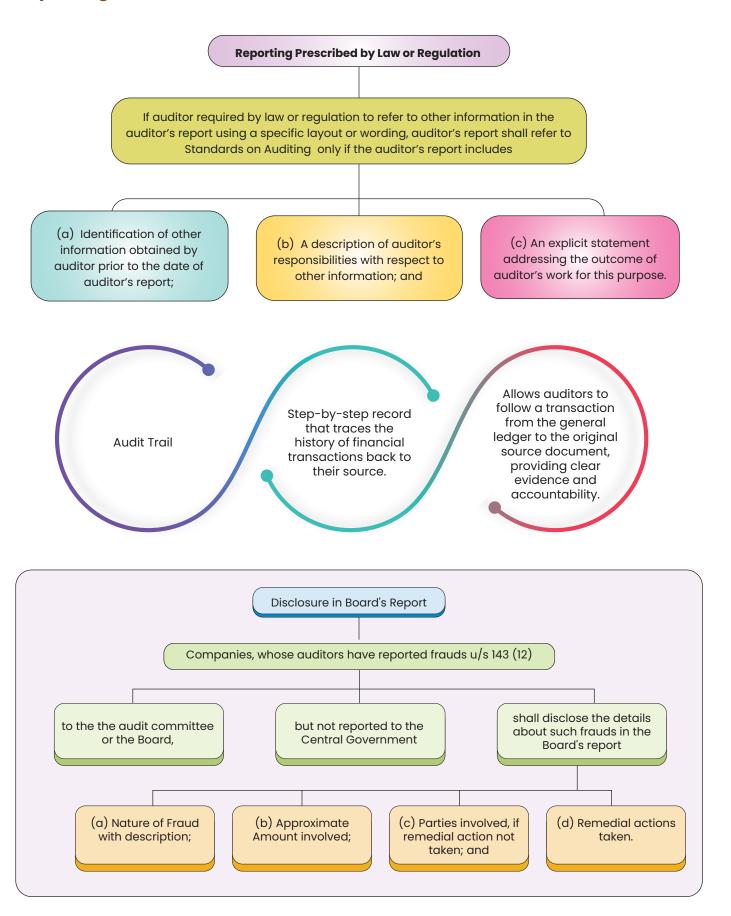
Consider whether there is a material inconsistency between the other information and the financial statements. Consider whether there is a material inconsistency **Reading and** between the other information and the auditor's The auditor shall knowledge obtained in the audit, in the context of audit Considering read the other evidence obtained and conclusions reached in the audit. information and, in the Other doing so shall **Information** While reading the other information, the auditor shall remain alert for indications that the other information not related to the financial statements.

# Responding When a Material Inconsistency Appears to Exist or Other Information Appears to be Materially Misstated

Auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether







# Reporting Requirement Relating to Matters Stated in Section 143(1)

Under section 143(1), auditor shall inquire into following matters:

Whether loans and advances made by company on basis of security have been properly secured and whether terms on which they have been made are prejudicial to interests of company or its members

Whether
transactions of
company which
are represented
merely by book
entries are
prejudicial to the
interests of the
company

Whether loans and advances made by company have been shown as deposits Where company not being an investment company or banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less purchase price by company

Whether personal expenses have been charged to revenue account

# Reporting on accounts examined [Section 143(3)]

Whether he has sought and obtained all information and explanations which to the best of his knowledge and belief

Whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with books of account and returns

Whether, in his opinion, financial statements comply with the accounting standards

Observations or comments of auditors on financial transactions or matters which have any adverse effect on functioning of the company

Whether any director is disqualified from being appointed as a director under sub-section (2) of the section 164

Any qualification, reservation or adverse remark relating to maintenance of accounts and other matters connected therewith

Whether the company has adequate internal financial controls (IFC) with reference to financial statements in place and the operating effectiveness of such controls

Reporting requirement on adequacy of IFC with reference to financial statements shall not be applicable to a private company which is a One person company; or

Small company; or

Company having turnover less than ₹50 crore and having aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less than ₹25 crore

## Reporting on Any Other Matter Specified By Central Government

Central Government may, in consultation with the NFRA, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein

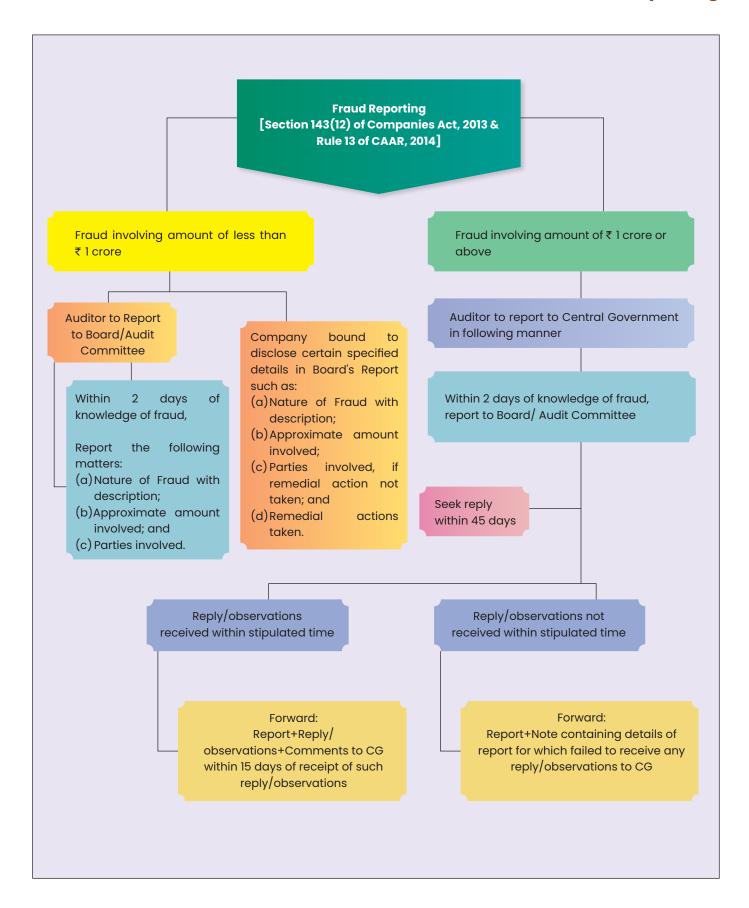
## **Reporting on frauds**

#### **Reporting to Central Government**

If an auditor has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ₹1 crore or above, is being or has been committed in company by its officers or employees, auditor shall report the matter to Central Government within such time and in such manner as prescribed

# Reporting to Audit Committee or Board

In case of a fraud involving lesser than ₹ 1 crore, auditor shall report the matter to audit committee constituted under section 177 or to Board in other cases within such time and in such manner as prescribed



REPORTING UNDER COMPANIES AUDITOR'S REPORT ORDER, 2020 (CARO, 2020)

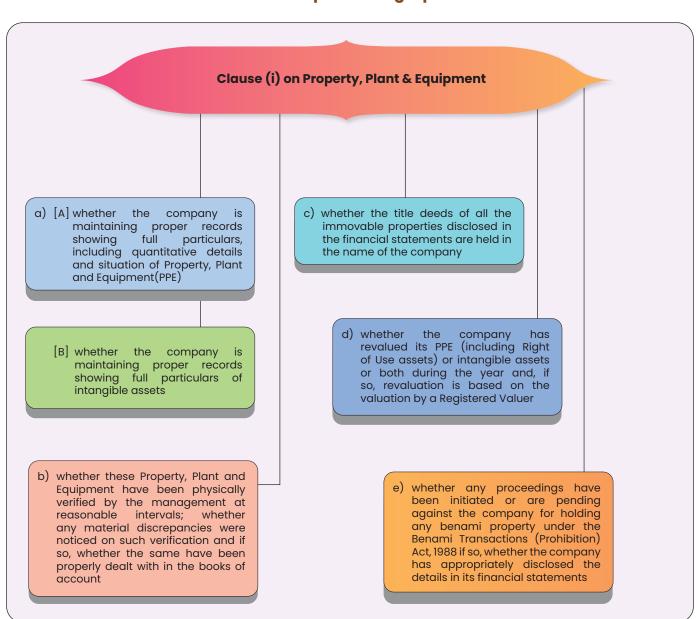
#### **Applicability**

- Apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013, except:
  - ▶ Banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949
  - Insurance company as defined under the Insurance Act,1938
  - ▶ Company licensed to operate under section 8 of the Companies Act
  - One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act
  - \*Private limited company, not being a subsidiary or holding company of a public company, having
    - > paid up capital and reserves and surplus not more than 1 crore rupees as on the balance sheet date and
    - > does not have total borrowings exceeding I crore rupees from any bank or financial institution at any point of time during the financial year and
    - > does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding 10 crore rupees during the financial year as per the financial statements





### Matters to be included in Auditor's Report: Paragraph 3 of the CARO 2020



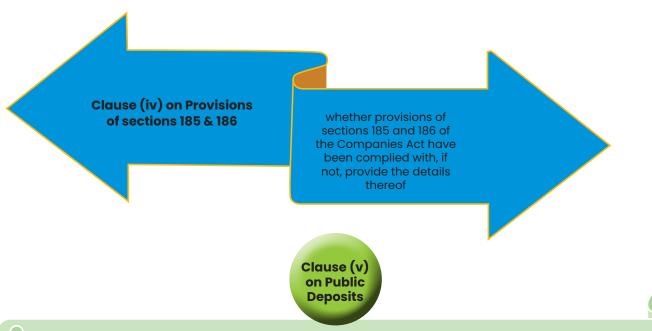
#### Clause (ii) on Inventory

 a) Whether physical verification of inventory has been conducted at reasonable intervals. Whether 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 b) Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets. Whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details

#### Clause (iii) on Investments, Guarantee/Security, Loans or Advances

Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so,-

- (a) whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity if so, indicate:
  - (A) aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates
  - (B) aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates
- (b) whether investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest
- (c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular
- (d) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest
- (e) whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, 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) whether the company has granted any loans or advances in the nature of loans either 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 as defined in clause (76) of section 2 of the Companies Act, 2013



in respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions be stated; if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not;

Clause (vi) on Cost Records Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained

### Clause (vii) on Statutory Dues

- (a) whether the company is regular in depositing undisputed statutory dues including GST, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and ) if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated
- (b) where statutory dues referred to in subclause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute)

Clause (viii) on Unrecorded Income whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Incometax Act, 1961 (43 of 1961), if so, Whether the previously unrecorded income has been properly recorded in the books of account during the year

#### Clause (ix) on Repayment of Dues

 a) whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported b) whether the company is a declared wilful defaulter by any bank or financial institution or other lender;

whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported; d) whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;

e) whether the company has taken any funds from any entity or person on account of or 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) whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised

# Clause (x) on Application of Money raised by public issue and preferential allotment

- a) Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported
- b) whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non compliance

#### Clause (xi) on Fraud

a) Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated b) whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government

c) whether the auditor has considered whistle-blower complaints, if any, received during the year by the company

#### Clause (xii) on Nidhi Company

(a) whether the Nidhi
Company has complied
with the Net Owned Funds to
Deposits in the ratio of 1:20
to meet out the liability

(b) whether the Nidhi
Company is maintaining ten
per cent. unencumbered
term deposits as specified in
the 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

Clause (xiii) on Transactions with related Parties whether all transactions with the related parties are in compliance with sections 177 and 188 of the Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards



 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

Clause (xv)
on Non - cash
transactions
with directors

Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of the Companies Act have been complied with

Clause (xvi) on Registration with RBI

- a) whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained
- b) 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) 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
- d) 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

# Clause (xvii) on 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

### Clause (xviii) on Resignation of statutory auditors

whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors

#### Clause (xix) on Existence of Material uncertainty-company's ability to meet its liabilities

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.

Clause (xx) on Transfer of unspent CSR amount

- a) whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act
- b) whether any amount remaining unspent under sub-section (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of sub-section (6) of section 135 of the said Act

Clause (xxi) on Qualifications or adverse remarks in CARO Reports of Group Companies

whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks

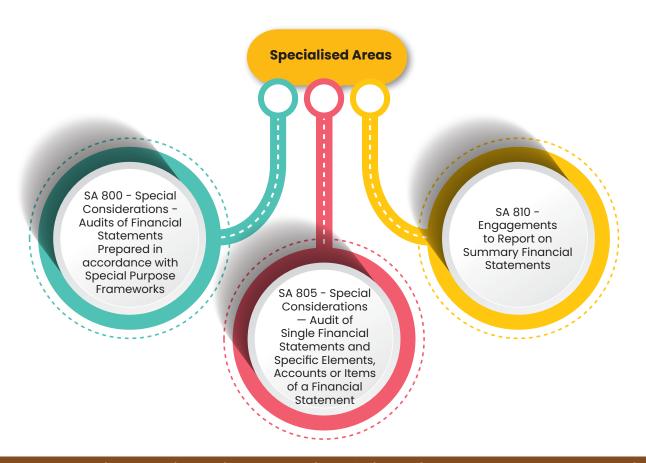
Paragraph 4.
Reasons to
be stated for
unfavourable or
qualified answers

Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be

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



# Chapter 8 – Specialised Areas



SA 800 - Special Considerations - Audits of Financial Statements Prepared in accordance with Special Purpose Frameworks (Revised)

Scope

This SA deals with special considerations in the application of SAs in 100-700 series to an audit of financial statements prepared in accordance with special purpose framework (SPF).



When applying SAs in an audit of financial statements (FS) prepared in accordance with SPF is to address special considerations relevant to:

- · Acceptance of engagement.
- · Planning and performance of engagement.
- Forming an opinion and reporting on the financial statements.



Considerations when Accepting the Engagement

#### In an audit of SPFS, obtain understanding of:

- Purpose for which FS are prepared
- Intended users
- Steps taken by management to determine that applicable FRF is acceptable in the circumstances

Considerations when Planning and Performing the Audit

Determine whether application of SAs requires special considerations in circumstances Obtain an understanding of the entity's selection and application of accounting policies used in the preparation of financial statements prepared in accordance with special purpose framework



Auditor's Report on SPFS (SA 700 Revised) Report should describe the **purpose** of financial statements and **intended users**, or refer to a note disclosing it.

Auditor's report should state that management is responsible for **choosing an appropriate financial reporting framework**.

When key audit matters are communicated in the auditor's report on SPFS, SA 701 applies in its entirety.

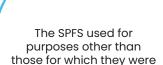
SPFS may or may not be preparaed in accordance with a FRF for which the going concern basis of accounting is relevant. SA 720 be applied when SPFS are included in a report to stakeholders, e.g. annual report.

The auditor's report shall be signed by the auditor (i.e. engagement partner) in his personal name.

#### Reference to Other Audit Reports - SA 706

Auditor may use Other Matter paragraph to refer to reports like a Material Uncertainty Related to Going Concern in GPFS.

#### Alerting Readers that the FS are Prepared in Accordance with a SPF



intended.

To avoid
misunderstandings,
auditor alerts users
of auditor's report by
including an EOM para
explaining that FS are
prepared in accordance
with a SPF

SA 706(Revised) requires this para to be included within a separate section of the auditor's report with an appropriate heading that includes the term "EOM".

SA 805-Special Considerations — Audit of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement (Revised)

#### **Scope of SA**

This SA deals with special considerations in the application of SAs in 100-700 series to an audit of a single financial statement or of a specific element, account or item of a FS.

#### **Objective of the Auditor**

When applying SAs in an audit of a single FS or of a specific element, account or item of a FS, is to address special considerations relevant to:

- Acceptance of engagement
- Planning and performance of engagement
- Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a FS

#### SINGLE FINANCIAL STATEMENT

It is to be distinguished from a complete set of financial statements.

**Definitions** 

**ELEMENT OF A FINANCIAL STATEMENT** 

EoFS or "element" means an "element, account or item of a financial statement."

For example, a cash flow statement is a single financial statement.

For example, trade receivables or cash and bank balances

#### Considerations when Accepting the Engagement

- If auditor is not engaged to audit entity's complete set of financial statements, determine if such an engagement in accordance with SAs is practicable
- · Whether application of FRF will result in presentation providing adequate disclosures for intended users
- Consider whether expected form of opinion is appropriate in circumstances

#### **Considerations when Planning and Performing Audit**

Adapt all SAs as necessary in circumstances of engagement

For example, materiality determined for a single financial statement or for a specific element of a FS may be lower than materiality determined for entity's complete set of FS affecting NTE of audit procedures and evaluation of uncorrected misstatements

Requirements of SA 700 (Revised) SA 570, SA 701 and SA 720 apply and necessary in circumstances of engagement

If auditor is also auditing entity's complete set of FS, express separate opinion for each engagement

If audited single FS or an audited specific element of FS is published together with entity's audited complete set of FS, ensure differentiation



Forming an
Opinion and
Reporting
Considerations

If opinion in auditor's report on entity's complete set of FS is modified or that report includes EOM or OM para, a material uncertainty related to going concern as per SA 570 or a statement that describe an uncorrected misstatement of other information as per SA 720, determine its effect on auditor's report on a single FS or on a specific element of those FS

If auditor concludes to express an adverse opinion or disclaim an opinion on the entity's complete set of FS as a whole, SA 705(Revised) does not permit the auditor to include in the same auditor's report an unmodified opinion on a single FS that forms part of those FS

If auditor concludes to express an adverse opinion or disclaim an opinion on entity's complete set of FS as a whole but, in the context of a separate audit of a specific element of those FS, auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

Auditor shall not express unmodified opinion on a single FS of a complete set of FS if he has expressed adverse opinion or disclaimer of opinion on complete set of FS.

Auditor is not prohibited by law or regulation from doing so

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

The element does not constitute a major portion of the entity's complete set of FS.

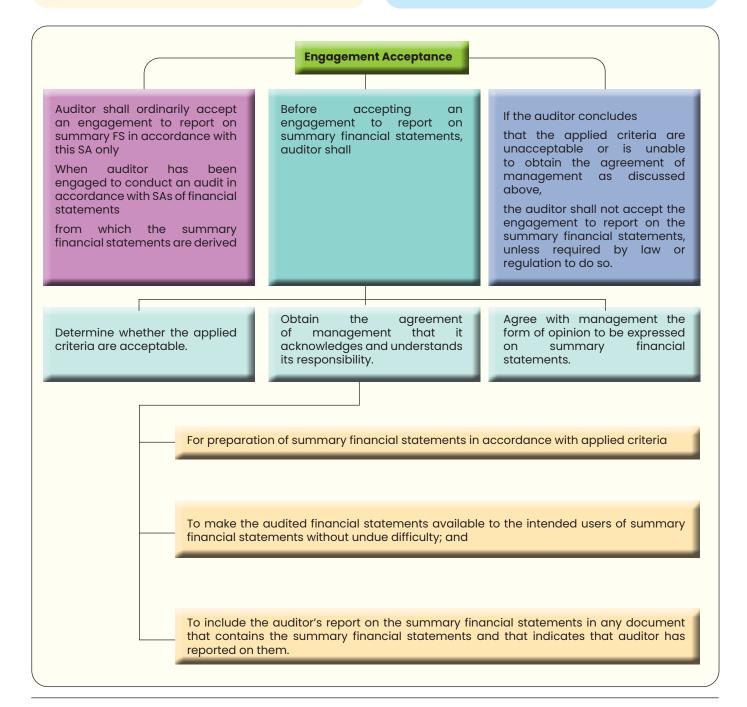
## SA 810 - Engagements to Report on Summary Financial Statements (Revised)

#### Scope of SA

This SA deals with 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

#### **Objective of the Auditor**

- To determine whether it is appropriate to accept the engagement to report on summary FS; and
- · If engaged to report on summary FS:
  - To form an opinion on the summary FS based on an evaluation of the conclusions drawn from the evidence obtained; and
  - To express clearly that opinion through a written report that also describes the basis for that opinion



## Nature of Procedures for Evaluating Summary Financial Statements (SFS)

Evaluate whether SFS adequately disclose their summarised nature and identify audited financial statements.

If SFS are not accompanied by audited FS, evaluate from whom or where audited FS are available.

Evaluate whether SFS adequately disclose applied criteria.

Compare SFS with related information in audited FS.

Evaluate whether SFS are prepared in accordance with applied criteria. Assess whether SFS contains the necessary information an is adequate and suitably aggregated, based on the purpose of the FS.

Evaluate audited FS are available to intended users without undue difficulty.

#### Form of Opinion On Summary Financial Statements

When an Unmodified Opinion is Appropriate

The auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases

Accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria; or

Accompanying summary financial statements are a fair summary of audited financial statements, in accordance with the applied criteria.

If law or regulation prescribes different wording, the auditor shall

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

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.

## **Auditor's Report on Summary Financial Statements**

Identification of the summary financial statements on which Title clearly indicating the auditor is reporting, including the title of each it as the report of an Addressee independent auditor statement, included in the summary financial statements A statement indicating that the summary financial statements Identification of the A clear expression of do not contain all the audited financial an opinion disclosures required by FRF statements applied in the preparation of the audited financial statements If required, then a statement that the Reference to the summary financial statements and the auditor's report on Description of management's the audited financial audited financial statements, the date statements do not reflect of that report, and the responsibility for the the effects of events that fact that an unmodified summary financial occurred subsequent to opinion is expressed on statements the date of the auditor's the audited financial report on the audited statements financial statements Statement that auditor is Auditor's signature along with the firm registration responsible for expressing an opinion, based on number, wherever Date of the auditor's auditor's procedures applicable, and the report conducted in accordance membership number assigned by the ICAI with this SA Place of signature

# **Specialised Areas**

Modifications to the Opinion, Emphasis of Matter Paragraph or other Matter Paragraph in the Auditor's Report on the Audited Financial Statements

#### When the auditor's report on the audited financial statements includes:

Auditor shall discuss the matter with management; and An Emphasis of Matter paragraph, or an Other Matter paragraph in accordance with SA 706(Revised); A Material Uncertainty Related to Going Concern section in accordance with SA 570(Revised);

Communication of key audit matters in accordance with SA 701; or A statement that describes an uncorrected material misstatement of the other information in accordance with SA 720(Revised);



Auditor is satisfied that the summary financial statements are consistent, the auditor's report on the summary financial statements shall:



State that the auditor's report on the audited financial statements includes a qualified opinion, an EOMP, an OM 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



#### **Describe**

The basis for the qualified opinion on the audited financial statements and the effect thereof, if any, on the summary financial statements;

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

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.

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, in addition to the elements

State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;

Describe the basis for that adverse opinion or disclaimer of opinion; and

State that, as a result of the adverse opinion or disclaimer of opinion on the audited financial statements, it is inappropriate to express an opinion on the summary financial statements.

# **Modified Opinion on the Summary FS**

If summary financial statements are not consistent

or are not a fair summary of the audited FS, in accordance with the applied criteria management does not agree to make the necessary changes auditor shall express an adverse opinion on the summary FS

# **Comparatives**

If audited FS contain comparatives

but summary FS determine whether such omission is reasonable

reasonable

Auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary FS

## **Unaudited Supplementary Information Presented with Summary FS**

Auditor shall evaluate whether any unaudited supplementary information presented with summary financial statements is clearly differentiated from summary financial statements

If the auditor concludes it is not clearly differentiated

Auditor shall ask management to change presentation of unaudited supplementary information

If management refuses to do so

Auditor shall explain in the auditor's report on the summary financial statements that such information is not covered by that report



# Information in Documents Containing Summary FS

Auditor shall read information included in a document containing summary FS and auditor's report thereon and consider whether there is a material inconsistency b/w that information and the summary FS.

#### If auditor identifies a material inconsistency

Auditor shall discuss the matter with management; and

determine whether summary FS or information included in document containing summary FS and auditor's report thereon needs to be revised

If auditor determines that information needs to be revised and management refuses to revise information

Auditor shall take appropriate action in circumstances, including considering implications for auditor's report on summary FS

#### **Auditor's Association**

Entity plans to publish summary financial statements without including auditor's report

Auditor must request management to include the auditor's report

If management refuses, auditor must take appropriate actions to avoid improper association.

Entity refers to auditor in a document with summary financials, but auditor was not engaged for those.

- (a) Reference to auditor is made in context of auditor's report on audited financial statements; and
- (b) Statement does not give impression that the auditor has reported on summary financial statements

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.



# Chapter 9 – Related Services



SRS 4400 - Engagements to Perform Agreed-upon Procedures Regarding Financial Information

Purpose

To establish standards and provide guidance on

- Auditor's responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken
- · Form and content of the report that the auditor issues in connection with such an engagement.

Objective of the Auditor

To carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings

Audit Vs. Agreed-upon Procedures

- An audit expresses an opinion and provides assurance to users.
- In an agreed-procedures engagement, only a report of the factual findings of agreed-upon procedures is provided. No assurance is given to users. Instead, users draw their own conclusions based on factual findings stated in the report.



# General Principles of an Agreed-upon Procedures Engagement

Comply with ethical principles of integrity, objectivity, professional competence and due care, confidentiality, professional conduct and compliance with technical standards

Independence is not a requirement in such type of engagement. Give a statement to this effect in report of factual findings

Conduct engagement in accordance with SRS and terms of engagements which should be defined

# Matters to be agreed include the following

Nature of engagement including the fact that procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed.

Stated purpose for the engagement.

Identification of financial information to which agreed-upon procedures will be applied.

Nature, timing and extent of the specific procedures to be applied.

Limitations on distribution of the report of factual findings.

Matters that would be included in the engagement letter include

A listing of the procedures to be performed as agreed-upon between the parties.

A statement that the distribution of the report of factual findings would be restricted to the specified parties who have agreed to the procedures to be performed.

Example

Engagement to perform agreed-upon procedures may include:

Agreed upon procedures concerning individual items of financial data like accounts payable, accounts receivable, sales of a segment of entity.

A financial statement or complete set of FS.

Auditor's signature

#### **Planning and Performing the Engagement**

Plan work for effective engagement performance

Document matters which are important in providing evidence to support report of factual findings, performance of engagement in accordance with SRS and terms of engagement.

#### Reporting

Report should describe purpose and agreed-upon procedures of engagement. It should clearly mention that no audit or review has been performed. It should contain: Title Addressee Identification of specific information to which agreed-upon procedures applied Statement that procedures performed were those agreed upon with the recipient Statement that the engagement was performed in accordance with this SRS Identification of purpose of performance of agreed-upon procedures A listing of the specific procedures performed Description of the auditor's factual findings Statement that procedures performed do not constitute either an audit or a review and no assurance is provided Statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light Statement that the report is restricted to those parties that have agreed to procedures to be performed Statement (when applicable) that the report relates only to the elements, accounts, items or financial and nonfinancial information specified and that it does not extend to the entity's financial statements taken as a whole Date of Report Place of Signature

#### **Documentation**

Auditor should document matters which are important in providing evidence to support the report of factual findings, and evidence that the engagement was carried out in accordance with this SRS and the terms of the engagement.

## **SRS 4410 Compilation Engagements**



This SRS deals with practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information, and to report on engagement in accordance with this SRS.

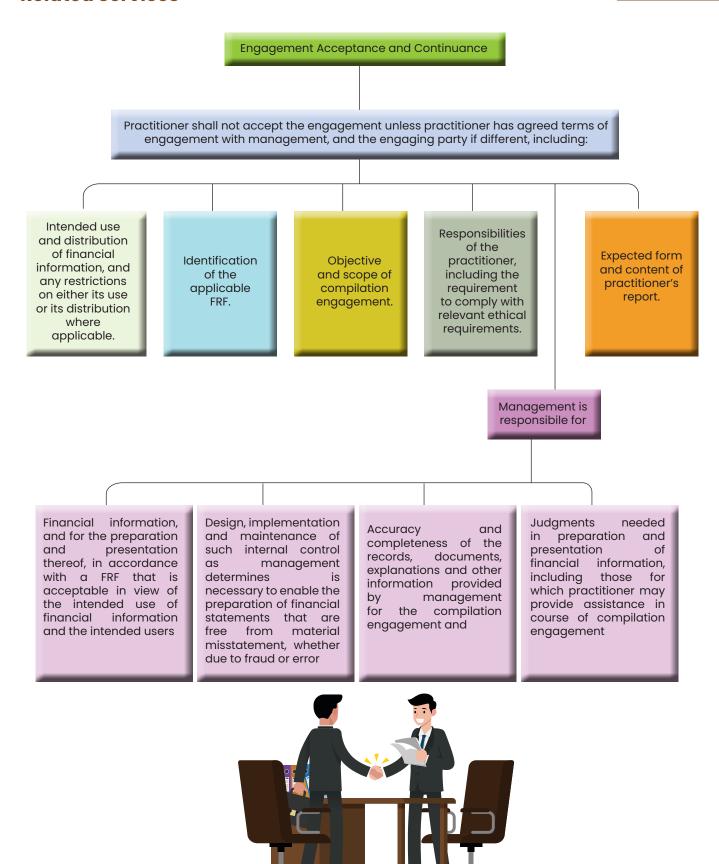
Objective of the Practitioner Apply accounting and financial reporting expertise to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework (FRF) based on information provided by management and report in accordance with requirement of this SRS.

What is a Compilation engagement?

An engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable FRF and issues a report.

## Requirements

- Comply with relevant ethical requirements
- In complying with the Code of Ethics, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.
- Independence does not apply to compilation engagements
- Exercise professional judgement in conducting a compilation engagement
- Take responsibility for engagement level quality control. SQC 1 applies to compilation engagements
- Accept engagement after agreeing terms of engagement with management
- Communicate with management and those changed with governance on a timely basis



Obtain an understanding of entity's business and operations and applicable FRF

Compile financial information using records, documents, explanations and other information including significant judgements provided by management

Prior to completion, read compiled financial information in light of understanding of entity's business and of applicable FRF

In case records, documents, information, explanations, etc. are incomplete, inaccurate or otherwise unsatisfactory, bring that to the attention of management

In case of failure by management to provide records, documents, explanation or other information, withdraw from engagement:  In case of becoming aware that compiled information does not adequately refer to applicable FRF,

- Amendments are required for financial information not to be materially misstated or
- if it is otherwise misleading, amendments shall be proposed
- If management declines, withdraw from engagement

If withdrawal not possible, determine professional and legal responsibilities in the circumstances

Obtain acknowledgment from management of responsibility of final version of compiled financial information

Include in engagement documentation significant matters, record of how compiled financial information reconciles with records and acknowledged copy of final compiled financial information and practitioner's report







Practitioner shall communicate with management or TCWG, as appropriate, on a timely basis during the course of the compilation engagement,

all matters concerning the compilation engagement that, in the practitioner's professional judgment,

are of sufficient importance to merit the attention of management or TCWG, as appropriate.

#### **Practitioner's Report**

The report title

#### The addressee

A statement regarding compilation of financial information based on information provided by management

A description of the responsibilities of management in relation to compilation engagement and in relation to financial information

Identification of the applicable FRF

Identification of the financial information

A description of practitioner's responsibilities

A description of what a compilation engagement entails in accordance with SRS

#### Explanations that-

- It is not an assurance engagement, verification of accuracy or completions of information provided by management is not required
- · Audit opinion or review conclusion is not expressed

In case financial information is prepared using a special purpose reporting framework, an explanatory para that

- Describes the purpose for which financial information is prepared or contains a reference to note in financial statement that discloses this information and
- Draws attention of readers to the fact that financial information is prepared in accordance with a SPF and may not be suitable for other purposes

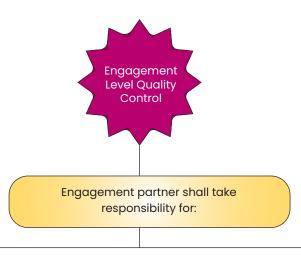
The date of practitioner's report

The practitioner's signature

The place of signature

SARANSH

## **Related Services**



Overall quality of each compilation engagement to which that partner is assigned; and

Engagement being performed in accordance with the firm's quality control policies and procedures.



Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner Record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management and Copy of the final version of the compiled financial information for which management or TCWG, as appropriate, has acknowledged their responsibility, and the practitioner's report.

# Chapter 10 – Review of Financial Information





SRE 2400-Engagements to Review Historical Financial Statements. SRE 2410-Review of Interim Financial Information Performed by the Independent Auditor of the Entity.



Review is a limited assurance

## SRE 2400 - Engagements to Review Historical Financial Statements

#### Scope

#### This SRE deals with

- Practitioner's responsibilities when engaged to perform a review of historical financial statements when he is not auditor of entity's FS
- · Form and content of practitioner's report on FS

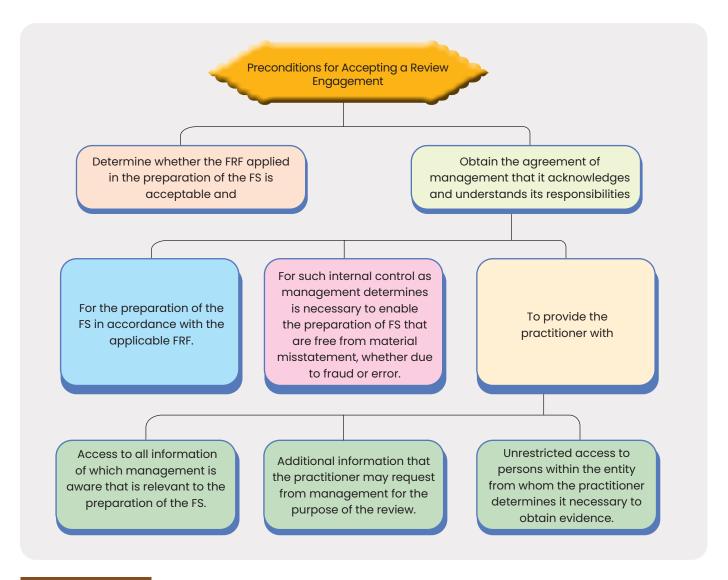
#### **Objective of Auditor**

- To obtain limited assurance primarily by inquiry and analytical procedures about whether FS as a whole are free from material misstatement enabling practitioner to express a conclusion that FS are not prepared as per applicable FRF.
- To report on FS as a whole and communicate as required by this SRE

## Compliance with Ethical Requirements and Engagement Level Quality Control

Unless required
by law or
regulation, the
practitioner shall
not accept a review
engagement if

- Practitioner is not satisfied that there is a rational purpose for the engagement and that a review engagement would be appropriate in the circumstances.
- Practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied.
- Practitioner's preliminary understanding of engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable.
- Practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review or
- Management or TCWG impose a limitation on the scope of practitioner's work in terms of a proposed review engagement such that practitioner believes that limitation will result in practitioner disclaiming a conclusion on the financial statements.



## Requirements

Determine materiality for FS as a whole and apply it in designing procedures and in evaluating results.

Obtain an understanding of entity.

Design and perform inquiry and analytical procedures.

Remain alert for existence of related partly relationships or transactions not identified or disclosed by management.

In case of indication of fraud or non-compliance with laws or regulations or such suspicion, communicate to management, request management's assessment of effects on FS, consider such effect on practitioner's conclusion and determine whether there is a responsibility to report such acts to a party outside the entity.

Consider management's assessment of entity's ability to continue as going concern.

Obtain evidence that FS agree to entity's underlying accounting records.

Perform additional procedures in case practitioner becomes aware of matter due to which FS may be materially misstated.

If subsequent events require adjustment or disclosure, request management to make corrections.

Request management to provide written representations.

Evaluate evidence obtained from procedures performed.

Evaluate effect on practitioner's report.

## Forming of Conclusion on Financial Statements

Express an **unmodified conclusion** when limited assurance has been obtained to conclude that nothing has come to attention that causes to believe that FS are not prepared, in all material respects, in accordance with applicable FRF.

Express a **modified conclusion** when it is determined that FS are materially misstated or sufficient appropriate evidence cannot be obtained in relation to one or more items in FS that are material in relation to FS as a whole.

If it is determined that FS are materially misstated express qualified conclusion when effects of matter giving rise to modification are material but not pervasive to FS.

When matters giving rise to modification are both material and pervasive to FS, express adverse conclusion.

If a conclusion on FS cannot be formed due to inability to obtain sufficient appropriate evidence, express qualified conclusion or disclaim conclusion, as appropriate.

Withdraw from engagement in case of limitation on scope and inability to obtain evidence to form conclusion, possible effects are material and pervasive & it is permissible under law or regulation.

## Practitioner's Report shall contain following elements

- · Title indicating report of an independent practitioner for a review engagement.
- Addressee.
- Introductory paragraph identifying FS reviewed, reference to summary of significant accounting policies and other explanatory information and statement that FS have been reviewed.
- Description of responsibility of management.
- In case of special purpose financial statements, description of purpose of FS and in case of a choice of FRF, management responsibility including reference for determining that applicable FRF is acceptable in circumstances.
- Description of practitioner's responsibility to express conclusion on FS including reference to SRE 2400 and, where relevant, applicable law or regulation.
- · Description of review of FS and its limitations stating that: -
  - \* A review engagement under SRE 2400 is a limited assurance engagement.
  - \* Procedures primarily consisting of inquiry of management and others within entity and analytical procedures are performed and obtained evidence is evaluated.
  - \* Procedures performed in a review are substantially less than those performed in an audit and audit opinion is not expressed on FS.
- Paragraph under heading "conclusion" that contains conclusion on FS as a whole and a reference to applicable FRF used to prepare FS.
- In case conclusion is modified, a paragraph that contains modified conclusion and that provides description of matter giving rise to the modification.
- A reference to comply with ethical requirements.
- · Date of practitioner's report.
- Place of signature.

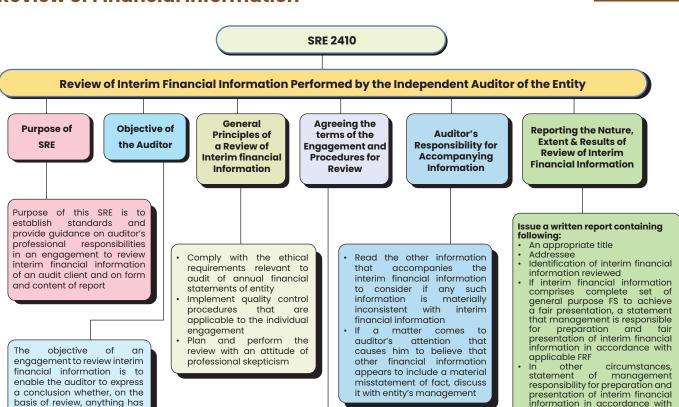
#### **Documentation**

Practitioner shall document

- Nature, timing, and extent of the procedures performed to comply with this SRE and applicable legal and regulatory requirements
- Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results
- Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions

## **Audit Vs. Review**

Audit	Review
Audit is a type of reasonable assurance engagement providing reasonable level of assurance.	Review is a type of limited assurance engagement providing a lower level of assurance than reasonable assurance engagement.
It performs elaborate and extensive procedures including tests of controls and substantive procedures.	It performs fewer procedures primarily focusing on inquiry and analytical procedures.
It draws reasonable conclusions on the basis of sufficient appropriate evidence.	It draws limited conclusions on the basis of sufficient appropriate evidence.
It provides an assurance opinion. The language of assurance opinion is positively worded.	It provides an assurance conclusion. The language of assurance conclusion is negatively worded.



#### **Important**

come to auditors' attention

that causes the auditor to believe that interim financial information is not prepared,

in all material respects,

accordance with

applicable FRF

an

- Express qualified adverse conclusion when a matter has come to auditor's attention that causes auditor to believe that a material adjustment should be made to interim financial information for it to be prepared, in all material respects, in accordance with applicable FRF
- When auditor is unable to complete the review due to limitation on scope, communicate in writing to management as to why review cannot be completed and consider whether it is appropriate to issue a report

- Agree with client on terms of engagement
- Have an understanding of entity and its environment including its internal control as it relates to both annual and interim financial information
- Select inquiries, analytical and other review procedures
- Review ordinarily does not require tests of accounting records through inspection, observation or confirmation. Examples of review procedures include:
- Reading minutes of meeting of shareholders, those charged with
- governance and other appropriate committees Considering effect of matters giving rise to a modification of audit or review report, accounting adjustments or unadjusted misstatements at time of previous audit or reviews
- Communicating with other auditors who are performing a review of interim financial information of reporting entity's significant components
- Inquiries of members of management responsible for financial, accounting and other matters like whether interim financial information prepared and presented in accordance with applicable FRF, changes in accounting principles, any known uncorrected misstatements in interim financial information, disclosure of related party transactions etc
- Apply analytical procedures to interim financial information to identify relationships and individual items that appear to be
- Reading interim financial information and considering whether anything has come to auditor's attention that causes auditor to believe that interim financial information is not prepared in all material respects in accordance with applicable FRF
- Obtain evidence that interim financial information agrees or reconciles with underlying accounting records
- Inquire whether management has identified all events up to date of review report requiring adjustment or disclosure in interim financial information
- Inquire whether management has changed its assessment of entity's ability to continue as going concern.
- Make additional inquiries or perform other procedures when a matter comes to auditor's attention that leads auditor to question whether material adjustment should be made for interim financial information to be prepared, in all material respects, in according with
- Evaluate individually and in aggregate whether uncorrected misstatements are material to interim financial information
- Obtain written representations from management

- presentation of interim financial information in accordance with applicable FRF
- A statement that auditor is responsible for expressing a conclusion on interim financial
- information based on the review Statement that review of interim financial information was conducted in accordance with SRE 2410 and it consists of making inquiries, primarily of person responsible for financial and accounting matters and applying analytical and other
- review procedures
  Statement that a review is
  substantially less in scope
  than an audit conducted in
  accordance with SAs and does not enable auditor to obtain assurance that auditor would become aware of all significant matters that might be identified in an audit and accordingly no audit opinion is expressed
- dual opinion is expressed

  If interim financial information

  comprises complete set of

  general purpose financial

  statements prepared in

  accordance with FRF designed to achieve a fair presentation, a conclusion as to whether anything has come to auditor's attention causing him to believe that interim financial information does not give a true and fair view or does not present fairly in all material respects in accordance with applicable financial financial reporting framework
- In other circumstances, a conclusion as to whether anything has come to auditor's attention that causes him to believe that interim financial information is not prepared in all material respects in accordance applicable financial reporting framework
- Date of report
- Place of signature
- Signature and membership no. FRN

## Chapter 11 – Prospective Financial Information and Other **Assurance Services**

Standards on **Assurance Engagement** 



#### **SAE 3400**

The Examination of Prospective Financial Information

#### **SAE 3402**

Assurance Reports on Controls at a Service Organisation

#### **SAE 3420**

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

**SAE 3400** 

#### The Examination of Prospective Financial Information

**Purpose** of SAE

Objective of the Auditor

**Auditor's** Assurance **Regarding PFI** 

Acceptance of **Engagement and Other Matters** 

**Examination Procedures** 

Presentation and Disclosure

Report on **Examination** of PFI

The purpose of this SAE is to establish standards and provide guidance on engagements to xamine and report on prospective financial information (PFI) including examination procedures for bestestimate and hypothetical assumptions

#### obtain sufficient appropriate evidence regarding:

- Management's estimate assumptions are not unreasonable and in case of hypothetical assumptions such assumptions consistent with purpose of information
- Proper preparation of PFI presentation Proper of PFI with adequate
  - disclosure of all material assumptions
- Preparation of PFI on consistent historical financial statements using appropriate accounting principles

PFI relates to events and actions that have not yet occurred and might not occur. However, evidence may be available to support the assumptions on which PFI is based

- Such evidence is generally future oriented, and auditor is not in a position to express opinion whether results shown in PFI will be achieved
- When reporting accordance with SAE 3400 reasonableness management's assumptions, provides only moderate level of assurance
- Agree on engagement terms Before accepting engagement, consider things like intended use of information, nature of assumptions, elements to be included in information and period covered
- Refuse or withdraw when assumptions are clearly unrealistic or when auditor believes that PFI will be inappropriate for intended use
- Obtain sufficient knowledge of business for evaluating all significant assumptions required for a preparation of such information
- Consider the extent to which reliance on entity's historical financial information is justified

While assessing presentation and disclosure, consider:

- Presentation of PFI informative and not misleading
- Accounting policies are clearly disclosed
- Assumptions are clearly disclosed in notes
- Date as of which the PFI was prepared is disclosed
- Basis of establishing points in a range is clearly indicated
- Whether there is change in the accounting policy of the entity from that disclosed in the most recent historical financial statements, reason for the change and the effect of such change

#### Consider Matters such as:

- Knowledge from any previous engagements
- Management's competence for preparation of such information
- Likelihood of material misstatement
- Extent to which such information is affected by management's judgment
- Sources of information considered by management to support assumptions
- Stability of entity's business
- Engagement team's experience of relevant business and industry
- Assess source and reliability of evidence supporting management's best-estimate assumptions
- Where hypothetical assumptions are used, consider all significant implications.
- Consider areas particularly sensitive to variation
- Obtain written representations

#### **DEFINITIONS**

"Prospective Financial Information" means financial information based on assumptions about events that may occur in future and possible action by an entity. It can be in form of a forecast, a projection, or a combination of both

"Forecast" means prospective financial information prepared on basis of assumptions as to future events which management expects to take place and actions management expects to take as of the date information is prepared (best-estimate assumptions)

"Projection" means prospective financial information prepared on the basis of hypothetical assumptions about future events and anagement actions which are not necessarily expected to take place or a mixture of best-estimate and hypothetical assumptions

#### Such report should contain:

- Addressee
- Identification of PFI Reference to the
- Standards Auditing applicable to the examination of PFI
- Statement that management is responsible for preparing the PFI
- including the underlying assumptions When applicable, a reference to purpose and/or restricted distribution of the such information
- Statement that the examination procedures included examination, on a test basis, of evidence supporting

- the assumptions, amounts and other disclosures in the forecast or projection
- Statement of negative assurance as to whether assumptions provide reasonable basis information
- Opinion whether such information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework
- Appropriate caveats concerning the achievability of the results
- Date of report
- Place of signature and
- Signature

Service Auditor's

**Assurance Report** 

Requirements

# **SAE 3402** Assurance Reports on Controls at a Service Organisation Objectives of the Type I Report &

This SAE deals with assurance engagements undertaken by a professional accountant to provide a report for use by user entities and their auditors on the controls at a service organisation that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting

Scope of SAE

#### To obtain reasonable assurance, whether in all material respects, based on suitable criteria:

**Service Auditor** 

- Service organisation's description of its system fairly presents the system as designed and implemented throughout specified Period (or in case of type 1 report as at a specified date)
- Controls related to control objectives stated in service organisation's description of its system were suitably designed throughout specified period (or in case of type I report as at a specified date)
- Where included in the scope of engagement, the controls operated effectively to provide reasonable assurance that control objectives stated in service organisation's description of its system were achieved throughout the specified period and to report on the matters stated above in accordance with service auditor's findings

#### Type I Report: It is a report on description and design of controls at a service organisation. It comprises:

Service organisation's description of its system

Type 2 Report

- Written assertion by service organisation that in all material respects and based on suitable criteria, description fairly presents service organisation's system at the specific date and controls related to control objectives stated in service organisation's description of
- its system were suitably designed as at specific date and Service auditor's assurance report that conveys reasonable assurance about above written assertions

Type 2 Report: It is a report on description, design and operating effectiveness of controls at a service organization.

#### It comprises:

- Service Organisations description of its system
- Written assertion by service organisation that in all material respects and based on suitable criteria, the description fairly presents service organisation's system designed and implemented throughout the period, controls related to control objectives stated in service organisation's description of its system were suitably designed throughout the specified period and such controls operated effectively throughout the specified period and
- Service auditor's assurance report that conveys assurance relating to above written assertions and includes a description of tests of control and results

- Comply with relevant ethical requirements including those pertaining to independence
- Before agreeing to accept or continue, determine whether service auditor has capabilities and competence to perform engagement, criteria to be applied by service organisation to prepare description of its
- system and scope of engagement Obtain agreement of service organisation regarding its responsibilities
- Assess whether service organisation has used suitable criteria in preparing description of its system, in evaluating whether controls are suitably designed and in case of type 2 report whether controls are operating effectively
- · Consider materiality with respect to fair presentation of description, suitability of design of controls and in case of type 2 report, operating effectiveness of controls
- understanding service organisation's system
- Obtain evidence regarding description of system of service organisation and design of
- Obtain evidence regarding operating effectiveness of controls while providing a type 2 report
- Apply appropriate procedure when using sampling
- Obtain understanding and relevance of internal audit function to engagement if service organization has such a function and perform procedures
- Obtain written representations from service organisation
- Consider effect of subsequent events on service auditor's assurance report

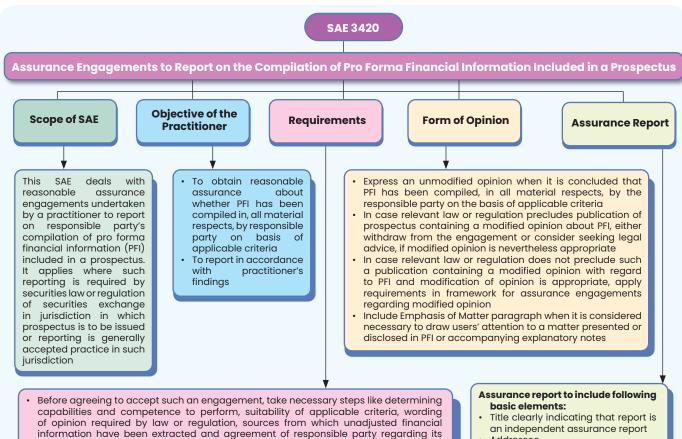
#### Service Auditor's Report to include following elements: -

- Title indicating that it is independent service auditor's assurance report
- Identification of service organisation's description of its system and service organisation's assertions as stated for type 1 report and type 2 report, identification of those parts of service organisation's description of its system not covered by service auditor's opinion, in case of description referring to need for complementary user entity controls, a statement of non-evaluation of design or operating effectiveness of complementary user entity controls and related matters, in case of performance of service by sub-service organisation, use of inclusive method or carve out method
- Identification of criteria and party specifying control objectives
- Statement that report and in case of type 2 report, description of tests of controls are intended only for user entities and their auditors
- Statement regarding responsibility of service organisation
- Statement regarding service auditor's responsibility to express an opinion on matters already described
- Statement of performance of engagement in accordance with SAE 3402
- Summary of service auditor's procedures
- Statement of limitations of controls & in case of type 2 report, of risk of projecting to future periods, any evaluation of operating effectiveness of controls
- Service auditor's opinion expressed in positive form for matters already described in case of type I report and type 2 report Date of service auditor's assurance report
- Practitioner's Signature
- Place of Signature

#### Modified Opinion- If service auditor concludes that:

- Service organisation's description does not fairly present in, all material respects, system as designed and implemented
- Controls related to control objectives were not suitably designed in all material respects
- In case of type 2 report, controls tested did not operate effectively in all material respects or
- Service auditor is unable to obtain sufficient appropriate evidence modify opinion and give reasons for modification

## **Prospective Financial Information and Other Assurance Services**



- responsibilities Assess suitability of applicable criteria
- Consider materiality
- · Obtain evidence about calculations within PFI
- Obtain understanding regarding compilation of such information.
- Obtain evidence about appropriateness of pro forma adjustments
- Evaluate presentation of PFI
- Obtain written representations
- Conclude whether sufficient appropriate evidence about whether compilation of PFI is free from material omissions or inappropriate use or application of pro forma adjustment has been obtained
- Form an opinion on whether PFI has been complied, in all material respects, by responsible party on the basis of applicable criteria

#### **DEFINITIONS**

#### **Unadjusted Financial Information**

Financial information of entity to which pro forma adjustments are applied by responsible

#### **Applicable Criteria**

Criteria used by responsible party when compiling proforma financial information **Pro forma Adjustments** 

In relation to unadjusted financial information, these include:

- Adjustments to unadjusted financial information that illustrate impact of a significant event or transaction as if the event had occurred or transaction has been undertaken at an earlier date selected for the purpose of illustration and
- ii) Adjustments to unadjusted financial information that are necessary for PFI to be compiled on a basis consistent with applicable financial reporting framework of reporting entity and its accounting policies under that framework

It also includes relevant financial information of a business that has been or is to be acquired or a business that has been or is to be divested

#### Pro forma Financial Information (PFI)

Financial information shown together with adjustments to illustrate impact of event or transaction on unadjusted financial information as if event had occurred or transaction had been undertaken at an earlier date selected for purposes of the illustration

- an independent assurance report
- Addressee
- Introductory para
- Statement that responsible party is responsible for compiling PFI on the basis of applicable criteria
- Description of practitioner's responsibilities
- Statement that engagement was performed in accordance with SAE 3420
- Statements that such engagement provides a reasonable basis for presenting significant effects directly attributable to event or transaction and to obtain sufficient appropriate evidence about whether related proforma adjustments give appropriate effect to those criteria and PFI reflects proper application of those adjustments to unadjusted financial information. Statements should also include that procedures selected depend on practitioner's judgment and engagement also involves evaluating the overall presentation of PFI
- Unless otherwise required by law or regulation, practitioner's opinion shall use one of the following phrases:
  - → The PFI has been compiled in, all material respects, on basis of applicable criteria or
  - → The PFI has been properly compiled on the basis stated
- Practitioner's signature
- Date of report
- Place of signature

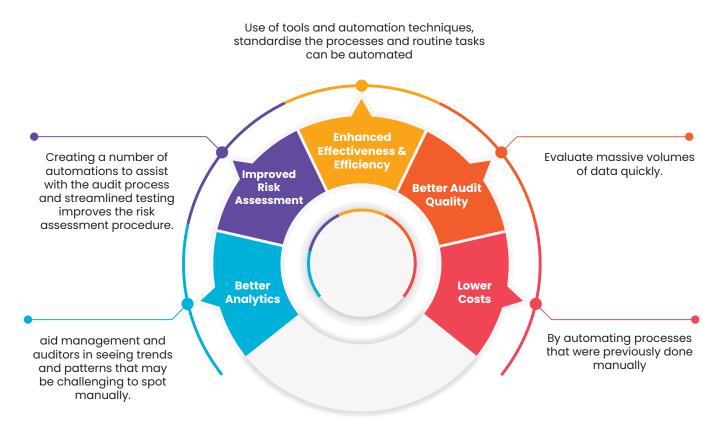
# Chapter 12- Digital Auditing and Assurance



## Key Features of a Digital Audit



## **Advantages of Digital Audit**



## Consideration and challenges of Digital Audit

Understand business goals - Know what the organization wants to achieve with automation.

People first - Don't underestimate the impact of change on people

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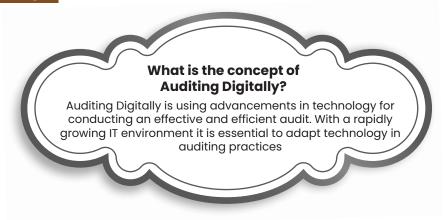
Target the right processes - Focus on automating repetitive tasks

Standardization - Ensure processes are standardized before automation.

Holistic approach - Automation should be part of a broader digitalization strategy.

Governance & security - Don't forget about data security and governance when implementing automation.

## **Auditing Digitally**



## Key Features & Advantages of Auditing Digitally

#### **Improved Quality of Audits**

Automation and data analytics enhance audit quality by enabling full transaction reviews.

#### **Increased Transparency**

Advanced ERPs and tools provide comprehensive audit trails for thorough transaction tracking.

#### **Automation and Ease**

Automated tasks like data extraction and sampling enhance audit quality and reduce manual errors.

## **Improved Efficiency**

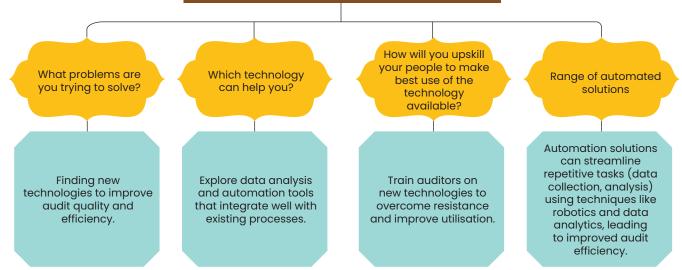
Digital upskilling and simple training increase efficiency and reduce errors, improving talent retention and confidence.

## **Better Risk Assessment**

Auditor may focus on the real challenges and assess the potential risk precisely



## **Considerations in Auditing Digitally**



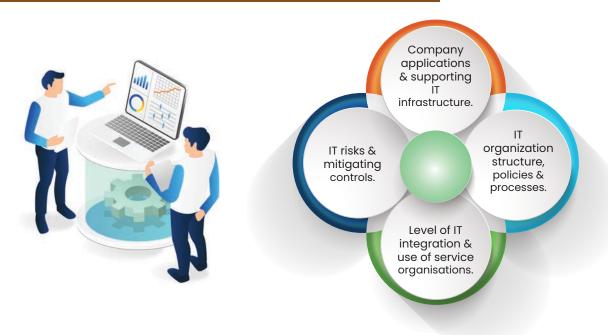
## **Understand the IT Environment**

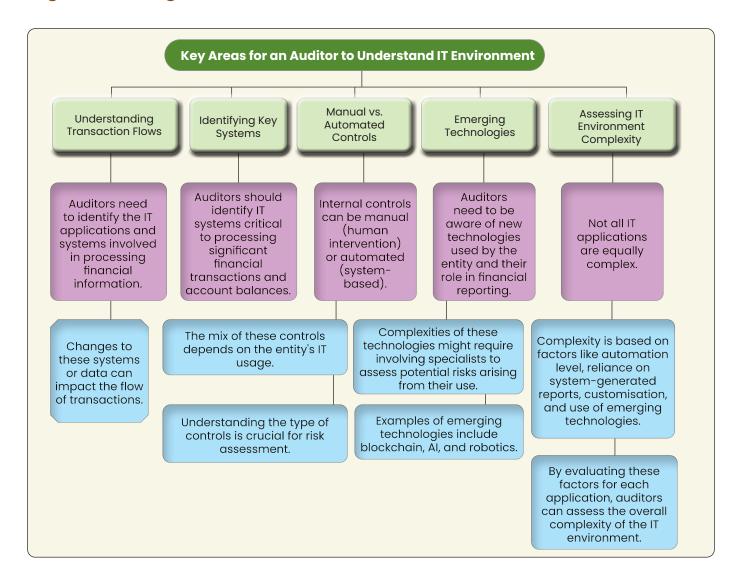
Gain insight into how IT supports the business and potential risk areas

Controls over IT processes are identified based on how IT is used.

IT environment complexity determines the need for involving IT specialists in the audit in compliance SA 315.

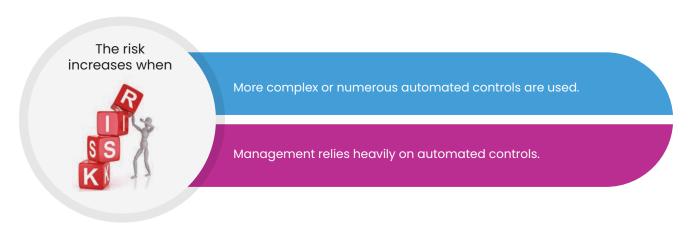
## Auditor's Understanding of the Automated Environment



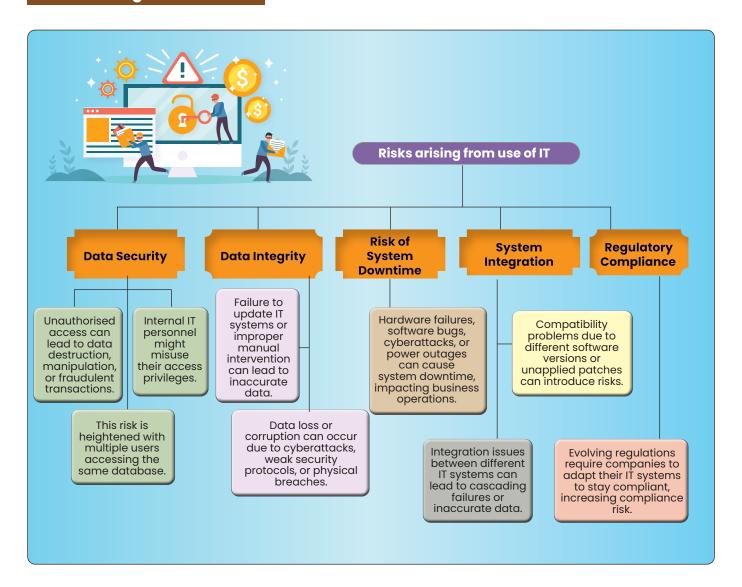


## Identifying the risks arising from usage of IT

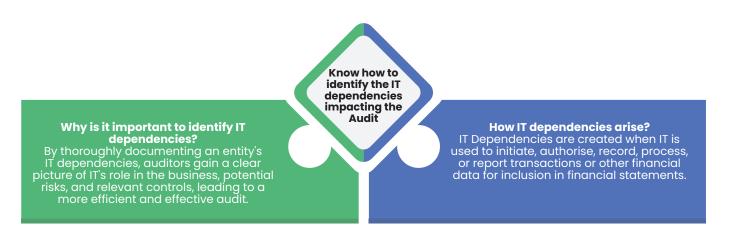
IT audit risks rise with complex applications, heavy reliance on controls, and cybersecurity concerns



## Risks arising from use of IT



## Know how to identify the IT dependencies impacting the Audit



## There are five types of IT dependencies

Automated Controls	Enforce business rules within the IT environment (e.g., purchase order approval workflows, data format checks).
Reports	System-generated information used for various purposes (e.g., business reviews, audit testing). Examples include vendor master reports and customer aging reports.
Calculations	Accounting procedures performed automatically by IT systems (e.g., depreciation calculations, invoice calculations).
Security	IT-enabled controls that restrict access to information and segregate duties (e.g., preventing unauthorized transactions or fraud).
Interfaces	Programmed logic that transfers data between different IT systems (e.g., payroll data to general ledger).

# Understanding and responding to risks arising from IT dependencies

When auditors identify IT dependencies that are relevant to the entity's flow of transactions and processing of financial information, they need to understand how management responds to the associated risks that may arise from them.

Management may implement information technology general controls (ITGCs) to address risks related to IT dependencies.



#### An overview of the Control Objectives and controls for each area of General IT Controls:

Access Security
Objective
To ensure that access to programs
and data is authenticated and
authorised to meet financial
reporting 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.

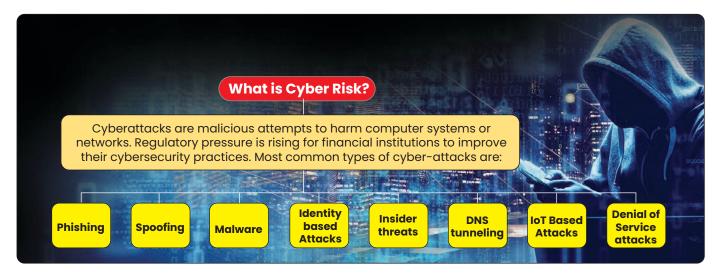
Program Change
Objective
To ensure modified systems
continue to meet financial
reporting objectives.

- 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 maintained between developer and implementor.

Data Centre and
network operations
Objective
To ensure production systems are
appropriately backed up to meet
financial reporting objectives.

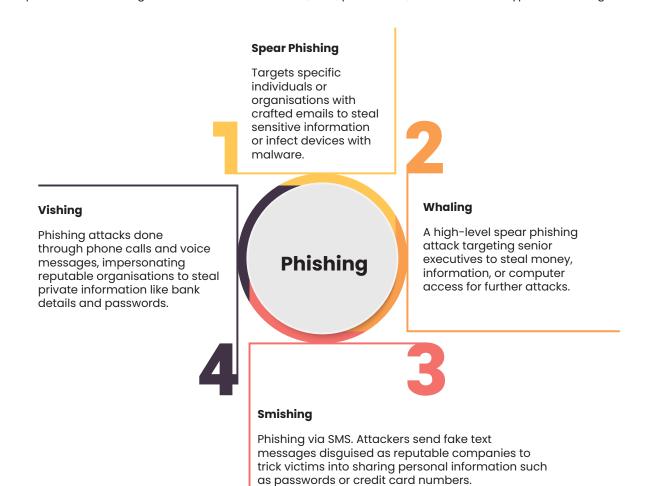
- Policies and procedures for data back and recovery is maintained.
- Data is appropriately backed up and recoverable.
- Restoration testing is perfored.
- Monitoring and complaince of service level agreements.
- Batch job scheduled are monitored for failures and access is restricted.

## Assessing Cyber Risks (Including Remote Audit)



## **Phishing**

This social engineering attack deceives victims into sharing personal information or downloading malware. Phishing attempts can come through various channels like email, SMS, phone calls, or social media. Types Of Phishing:



## **Digital Auditing and Assurance**

#### Two spoofing techniques

**Domain Spoofing:** Attackers create fake websites or email domains that closely resemble legitimate ones, tricking victims into trusting them. These often involve subtle differences in spelling or extensions.

www

Two spoofing techniques

**Email Spoofing:** Fraudulent emails are sent with forged sender addresses to appear legitimate. This increases the likelihood of recipients opening the mail and potentially clicking malicious links or attachments.



**Malware:** It is a program or code that is created with the intent to do harm to a computer, network or server. Malware is the most common type of cyberattack, its subsets are ransomware, fileless Malware trojans, viruses etc.

- Ransomware: Holds your data hostage by encrypting it, demanding a ransom for decryption. Spreads through phishing emails, vulnerabilities, and misconfigurations.
- Fileless Malware: Launches cyberattacks using legitimate tools already on your device, making detection difficult. No additional files are installed.

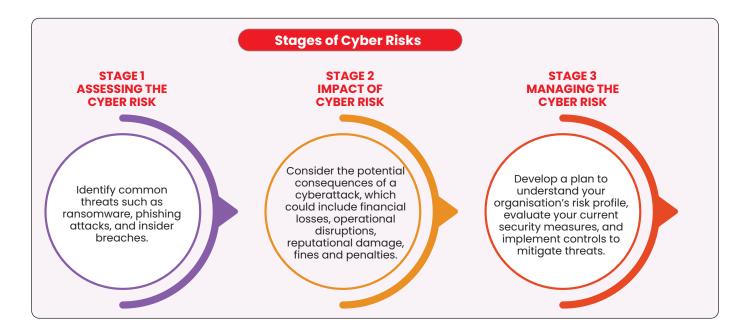
**Identity-Based Attacks:** When a valid user's credentials have been compromised and an adversary is pretend to be that user. For e.g., people often use the same user ID and password across multiple accounts.

**Insider Threats:** When current or former employees that pose danger to an organisation because they have direct access to the company network, sensitive data, and intellectual property (IP), as well as knowledge of business processes, company policies or other information that would help carry out such an attack.

**DNS Tunneling:** It hides malicious data within DNS requests, creating a secret path for attackers to sneak malware, steal information, or access a network.

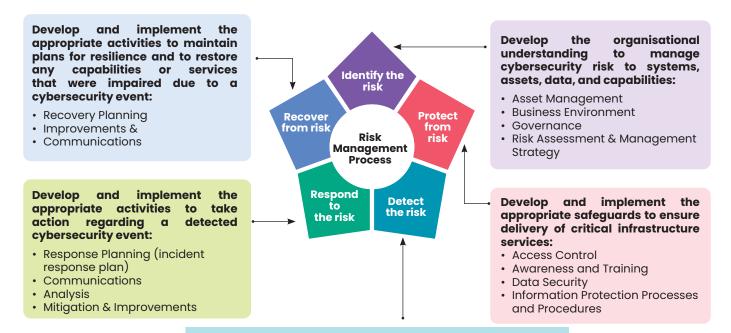
**IoT-Based Attacks:** It is a cyberattack that targets an Internet of Things (IoT) device or network. Once compromised, the hacker can assume control of the device, steal data, or join a group of infected devices.

**Denial-of-Service (DoS) Attacks:** These attacks overwhelm a network with fake traffic, preventing legitimate users from accessing services. DoS attacks can disrupt business operations and cost time and money to resolve, but typically don't steal data.



## **Cyber Security Framework**

Cybersecurity framework includes how management is identifying the risk, protecting and safeguarding its assets (including electronic assets) from the risk. Management preparedness to detect the attacks, anomalies and responsiveness to the adverse event.

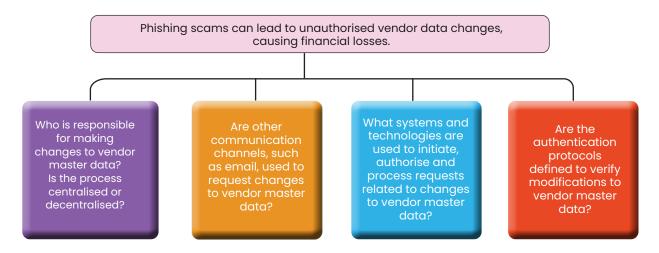


Develop and implement the appropriate activities to identify the occurrence of a cybersecurity event:

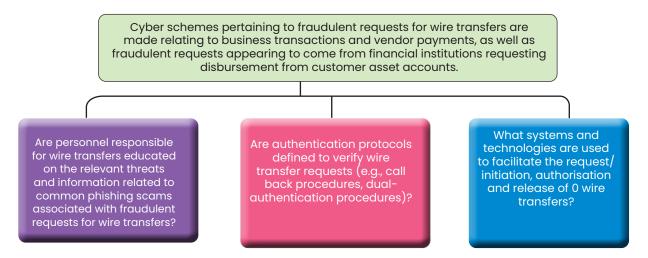
- Anomalies and Events
- Security Continuous Monitoring &
- Detection Processes

## Control considerations for Cyber Risks

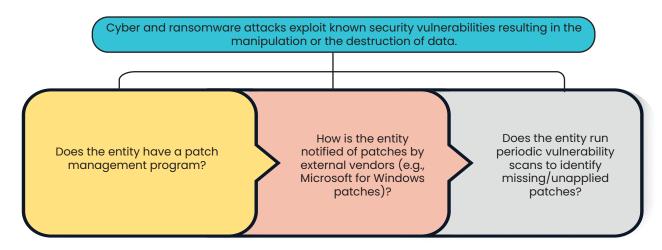
#### 1. Controls around vendor setup and modifications



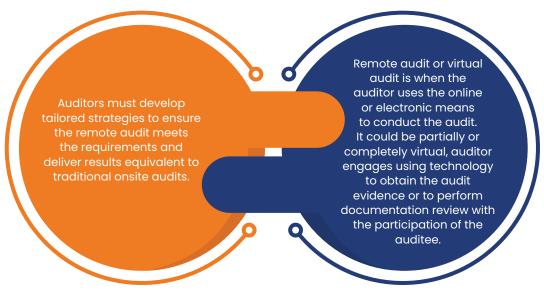
#### 2. Controls ground electronic transfer of funds

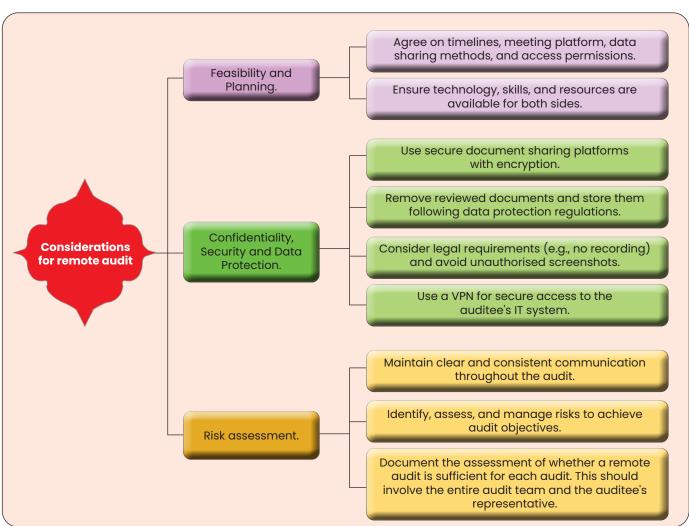


#### 3. Controls around patch management



## **Remote Audit**





## Advantages and Disadvantages of remote audit

ADVANTAGES	DISADVANTAGES
No travel time or expenses for the audit team.	Network problems can disrupt interviews and meetings.
Auditors can work from a comfortable home environment.	Auditors can't observe company culture or body language. Time zone differences can affect efficiency.
Evidence gathering can be spread out over time, minimizing disruption for the auditee.	Doctored documents and omitted information are harder to detect. More planning and procedures may be needed.
Auditors may have direct access to the auditee's IT systems for evidence.	Data breaches can occur with remote access. Security protocols for remote access and privacy need to be assessed.
Audits can leverage a global network of expert auditors.	Auditors may face cultural challenges and lack local laws and regulations knowledge.

## **Emerging Technologies in Audit**

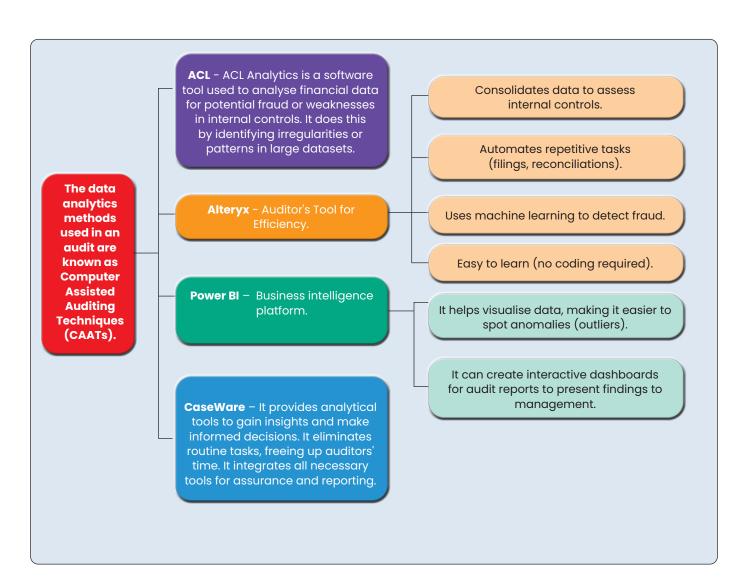
Emerging technologies like data analytics, AI, robotic process automation, and blockchain are rapidly changing how businesses operate and report financials.



## **Data Analytic Techniques**

Data analytics, also known as audit analytics, is the process of using tools and techniques to analyse large sets of financial data to identify trends, draw conclusions, and make informed decisions.





## **Digital Auditing and Assurance**

## **Automated Tools in Audit**

Internet of things

The increased use of automation technologies like RPA and AI requires auditors to examine more systems that contribute to financial data.

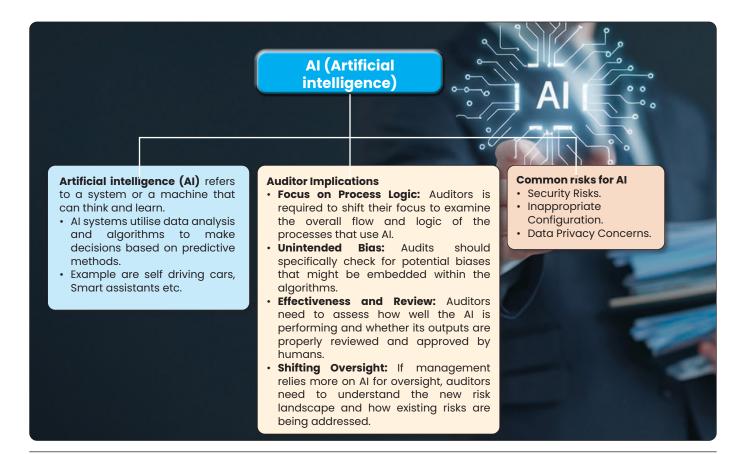
• IoT is the concept of connecting any device to the internet.

- · Key components of IoT are data collection, analytics, connectivity, and people and process.
- IoT not only changes the business model, but also affects the strategic objectives of the organization.

## Audit Implications

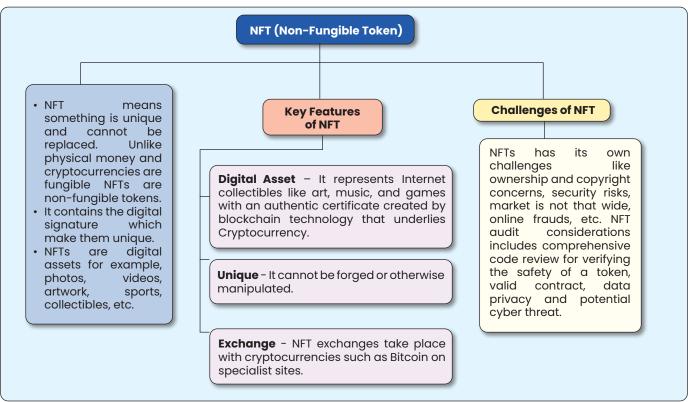
- Manual controls aren't enough: Traditional methods might not suffice.
- Auditing new systems: Connected devices and systems need to be included in the audit scope.
- Upskilling auditors: They need training to evaluate automated controls in these systems.
- Consumer tools introduce risks: New ways consumers interact with businesses create:
  - → Disruptions in transaction flow (e.g., mobile payments).
  - → Reliance on third-party service providers (e.g., payment processors).
  - → Increased focus on controls for high-volume transactions.

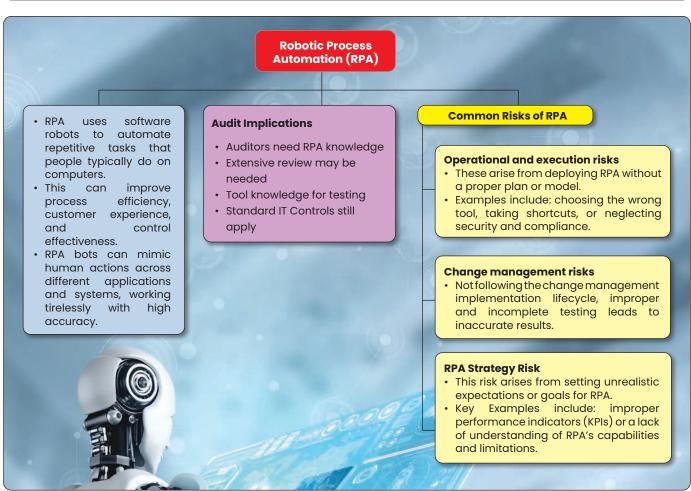
**Common risks of IoT:** The key risks associated with IoT, including, device hijacking, data siphoning, denial of service attacks, data breaches and device theft.



**Blockchain Common risks for** Audit What is Blockchain? **Implications** blockchain technology Lost access: Strict security Blockchain is based on measures can lead to lockouts if proper protocols a decentralised and Governance **Security:** and distributed ledger that Auditors need to assess the and contingencies are not in is secured through controls around how transactions place. encryption. are governed and secured on the • Each transaction blockchain. is validated by the blockchain participants, creating a block of information Network vulnerabilities: that is replicated **Beyond Cryptography:** While Operating through network and distributed to all blockchain itself is secure, risks nodes exposes the system to participants. arise when it interacts with cyberattacks. blocks All are external systems. sequenced so that any modification or deletion of a block disqualifies the information. Data Privacy: Audits Examples includeconsider data confidentiality and blockchain Bitcoin, privacy, especially when data smart contracts, etc. crosses borders. Compliance Risks: Auditors need to ensure data stored on the blockchain doesn't violate any data privacy laws or regulations.







## **Control Considerations**

Bringing in Considering the Understanding specialists the industry's unique risks of or upskilling current IT new technologies the team to environment to compared address complex evaluate how to traditional technology and its transactions are systems. impact on controls. processed.

Potential loss of data Unauthorised or inability to access access to data. data as required. **Examples of** technology Risks introduced when Unauthorised or risks requiring using third-party erroneous changes to auditors to test service providers. data in master files. relevant controls for reliable digital systems include: Unauthorised changes Cybersecurity risks. to systems or programs.

Understand the direct and indirect Maintain sufficient professional effects of new technology and reviewing skepticism when determine how its use by the entity management's risk assessment for impacts the auditor's overall risk new systems. assessment. **Key Steps for Auditors in** a Changing Technology **Environment** Understand how the technologies impact the flow of transactions, Assess the appropriateness of management's processes to select, assess the completeness of the indevelop, operate, and maintain controls related to the organisation's scope ICFR systems, and design a sufficient and appropriate audit technology based on the extent the technology is used. response.

## **Next Generation Audit**

The Next Generation Audit is human-led, tech-powered and data-driven. It is based on combining emerging technologies to redefine how audits are performed.

**Augmented reality:** The technology allows users to view the real-world environment with augmented elements, generated by digital devices.

One famous example was Pokémon Go, a game for mobile devices in which players chase imaginary digital creatures around physical locations.

**Virtual reality:** Simulated environment, created through digitally generated images, sounds, and even touch and smell.

Using special equipment, such as a custom headset, the user can explore a simulated world or simulate experiences such as flying or skydiving.



## Examples of AR/VR

## Architecture/ Engineering

AR/VR allows architects to visualize building plans before construction, improving efficiency.

#### **Business**

These technologies enable product previews and customisation, leading to better marketing and productivity.

#### **Healthcare**

AR can provide surgeons with realtime patient data (heart rate, X-rays) during surgery, potentially leading to improved outcomes.



## **Chapter 13 - Group Audits**

AS 21 and Ind AS 110 'Consolidated Financial Statements' (hereinafter referred as CFS) lay down principles and procedures for preparation and presentation of consolidated financial statements under AS and Ind AS respectively.

#### **Consolidated Financial Statements includes**

consolidated consolidated consolidated consolidated any balance sheet statement of cash flow statement explanatory profit and loss statement of change notes in equity (if annexed to, applicable) or forming and part thereof

- CFS are presented, to the extent possible, in the same format as adopted by the parent for its separate financial statements.
- The formats for preparation of balance sheet, statement of profit and loss and a statement of change in equity (if applicable) are prescribed under the Schedule III of the Companies Act, 2013.



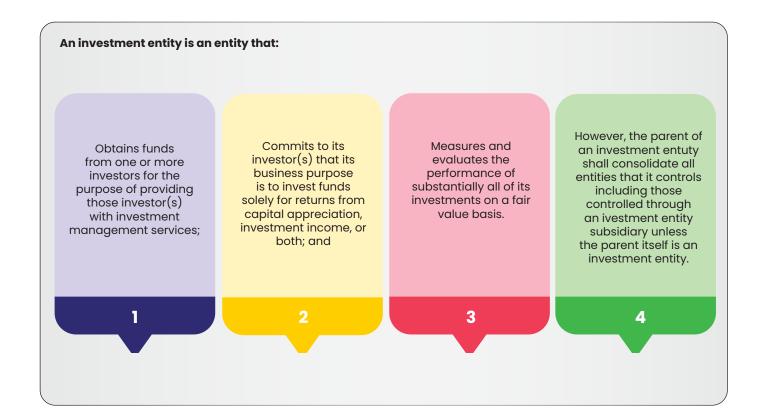
- CFS- Mandatory under Companies Act, 2013
- Section 129(3) provides where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a CFS of the company and of all the subsidiaries in the same form and manner as that of its own.
- Section 129(4) provides that the provisions applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, also apply to the CFS.
- The CFS shall also be approved by the Board of Directors before they are signed on behalf of the Board, along with its own financial statements and shall also be laid before the AGM of the company along with the laying of its own financial statement.
- The company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in Form AOC-1.
- CFS shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards

## **Group Audits**

The requirement related to preparation of consolidated financial statements shall not apply to a company if it meets the following conditions:

- i) it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting CFS
- ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; and
- iii) its ultimate or any intermediate holding company files CFS with the Registrar which are in compliance with the applicable Accounting Standards.

As per section 129(6) of the Companies Act, 2013, the Central Government may exempt any class or classes of companies from complying with any of the requirements of section 129 or the rules made thereunder the Companies Act, 2013.



#### **RESPONSIBILITY OF PARENT**

The responsibility for the preparation and presentation of CFS, among other things, is that of the management of the parent. This includes

- (a) identifying components, and including the financial information of the components to be included in the consolidated financial statements;
- (b) where appropriate, identifying reportable segments for segmental reporting;
- (c) identifying related parties and related party transactions for reporting;
- (d) obtaining accurate and complete financial information from components;
- (e) making appropriate consolidation adjustments;
- (f) harmonisation of accounting policies and accounting framework; and
- (g) GAAP conversion, where applicable.

Further, the parent ordinarily issues instructions to the management of the component specifying the parent's requirements relating to financial information of the components to be included in the CFS. The instructions ordinarily cover the accounting policies to be applied, statutory and other disclosure requirements applicable to the parent, including the identification of and reporting on reportable segments, and related parties and related party transactions, and a reporting timetable.

#### The auditor's objectives in an audit of CFS are

 (a) to satisfy himself that the CFS have been prepared in accordance with the requirements of applicable FRF;

(b) to enable himself to express an opinion on the true and fair view presented by the CFS;

(c) to enquire into the matters as specified in section 143(1) of the Companies Act, 2013; and

(d) to report on the matters given in the clauses (a) to (i) of section 143(3) of the Companies Act, 2013 for other matters under section 143(3) (j) read with rule 11 of the Companies (Audit and Auditors) Rules, 2014, to comment on the matters specified in sub-rule (a),(b), (c), (d), (e), (f) and (g) to the extent applicable;

(e) to validate the requirement of preparation of CFS for the company as per applicable financial reporting framework.

While conducting the audit of CFS the auditors should

(a) plan their work to enable them to conduct an effective audit in an efficient and timely manner;

(b) obtain an understanding of the accounting and internal control systems including IT system like consolidation tool, sufficient to plan the audit and determine the nature, timing and extent of his audit procedures for an effective audit approach.

(c) use professional judgement to assess audit risk and to design audit procedures to ensure that the risk is reduced to an acceptable level, etc.

#### Audit Consideration Procedures

CFS are prepared on the basis of separate financial statements of the parent and its components, using the consolidation procedures prescribed by Accounting Standards under applicable FRF

The auditor of the CFS may use the work of other auditors as per requirement of SA unless the auditor of CFS is also the auditor of the other components of the group.

- When an auditor accepts the audit of CFS, the auditor should assess whether based on his work alone he would be able to express an opinion on the true and fair view presented by the CFS. If the auditor is of the view that his own participation may not be enough or sufficient, he should consider using the work of 'other auditors'.
- Such 'other auditors' might be the statutory auditors
  of the separate financial statements of one or
  more of the components or the auditors appointed
  specifically for assisting the auditor of the CFS (the
  principal auditor).
- Where the statutory auditors of one or more of the components of the parent are also requested to assist the principal auditor, the work to be performed by such statutory auditors for use by the principal auditor would constitute an assignment separate from the assignment to conduct the statutory audit of the respective component.



**Standard on Auditing (SA) 600, 'Using the Work of Another Auditor'** In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of CFS, the auditor should consider the following:

Compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.

Use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable.

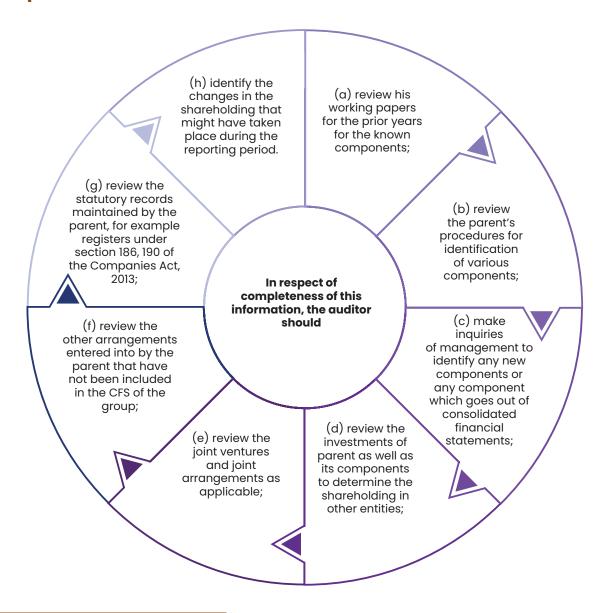
Computes materiality for each component and communicates to the component auditor, if he believes is required for true and fair view on CFS.

Obtains certain confirmations from component auditor like independence, code of ethics, certain information required for consolidation and disclosure requirements etc. The principal auditor also obtains certain confirmations from component auditor like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.

However, while considering the observations (for instance modification and /or EOM/OM in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the Parent Auditor should comply with SA 600.

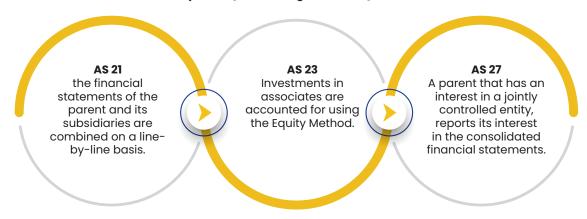
Before commencing an audit of consolidated financial statements, the auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner.

- (a) Understanding of the group structure and group-wide controls including assessment of Information Technology (IT) system and related general and applications IT related controls (manual and automated) for consolidation process;
- (b) Understanding of accounting policies of the parent and its components as well as of the consolidation process including the process of translation of financial statements of foreign components;
- (c) Determining and programming the nature, timing, and extent of the audit procedures to be performed based on the assessment of the risk of material misstatement in consolidation process;
- (d) Determining the extent of use of other auditor's work in the audit; and
- (e) Coordinating the work to be performed.



## **Auditing The Consolidation**

# In preparing consolidated financial statements in accordance with the Companies (Accounting Standards) Rules, 2006,



# For consolidation of subsidiaries in accordance with the Companies (Indian Accounting Standards) Rules, 2015

Ind AS 110

- the financial statements of the parent and its subsidiaries are combined on a lineby-line basis.
- adjustments like elimination of intra-group transactions, balances, unrealised profits and deferred tax etc. are made.

Ind AS 103

- related goodwill/ capital reserve (or gain on bargain purchase) and non-controlling interest is determined as per Ind AS 103
- business combinations involving entities or businesses under common control shall be accounted for using the pooling of interest method
- in a business combination achieved in stages, the acquirer shall remeasure its
  previously held equity interest in the acquiree at its acquisition-date fair value and
  recognise the resulting gain or loss, if any, in profit or loss or other comprehensive
  income, as appropriate

Ind AS 28

• investments in associates and joint ventures are accounted for using the Equity Method as prescribed in Indian Accounting Standard (Ind AS) 28, "Investments in Associates and Joint Ventures".

Ind AS 111

• Interests in assets, liabilities, revenues and expenses in a joint operation are accounted for as part of separate financial statements of the entity

## **Special Consideration**

#### **Permanent Consolidation Adjustments**

Adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated.

#### These are:

- Determination of Goodwill or capital reserve as per applicable accounting standard.
- Determination of amount of equity attributable to minority/ noncontrolling interests.

#### **Current Period Consolidation Adjustments**

Adjustments that are made in the accounting period for which the consolidation of financial statements is done.

These relate to elimination of intragroup transactions and account balances.

## Permanent Consolidation Adjustments: Audit Procedures

Verify that the calculations are made appropriately.

Verify the preacquisition reserves and its allocation between the parent and the minority interest of the subsidiary

Verify the changes in such adjustments on account of subsequent acquisition or disposal in the subsequent years.

In case the parent company has net off the capital reserve and goodwill arising in case of different subsidiaries, the auditor should verify the gross amount of goodwill and capital reserve arising on acquisition of various subsidiaries has been disclosed in the notes to the consolidated financial statements.

# Current period adjustments relates to elimination of intra- group transactions including:

- Intra group interest paid and received,
- Unrealised intra- group profits on assets acquired/ transferred;
- Record deferred taxes on unrealised intercompany profits elimination in accordance with Ind AS 12;
- Intra group indebtedness
- Adjustments relating to harmonising the accounting policies of group companies;
- Adjustments to the financial statements for recognised subsequent events or transactions that occur between balance sheet date and date of the auditor's report;



Events or transactions that provide additional evidence about conditions that existed at the date of the financial statements (Adjusting Event)



Events or transactions that did not exist at the date of the financial statements but arose subsequent to that date (Non-adjusting Event)

- Adjustments for the effects of significant transactions or other events that occur between the date of the components balance sheet and the date of auditor's report when the financial statements of the component are not drawn upto the same balance sheet date as that of the parent;
- In case of a foreign component, adjustments to convert component's audited financial statements from local GAAP to the GAAP under which the consolidated financial statements are prepared;
- · Determination of movement in equity attributable to the minorities interest since the date of acquisition.

#### **Current Period Consolidation Adjustments: Audit Procedures**

Verify that the intra group transactions and account balances have been eliminated.

Verify that the CFS have been prepared using uniform accounting policies. In case of application of different accounting policies, verify that adequate disclosure has been made.

Verify the adjustments made to harmonise the different accounting policies.

Verify the calculation of minorities/ non- controlling interest.

Verify the adjustments relating to deferred tax on account of temporary differences arising out of elimination of profit and losses resulting from intergroup transactions.

Verify that income and expenses of subsidiary are included from the date it gains control until the date when entity ceases to control the subsidiary.

Verify the procedures followed by the management to make such adjustments.

In case any impairment loss has been determined, verify the fairness of such amount and the procedures followed to arrive at such amount. In case such loss is determined in foreign currency, verify if any loss in local currency is to be adjusted from currency translation reserve.

In case where the minority interests' share of losses exceeds its share of equity, verify if it has been accounted for in accordance with the relevant accounting standards.

If there is a difference in the date to which component's financial statements and parent's financial statements are prepared, such difference should not be more than 6 months in case of AS and 3 months in case of Ind AS. The auditor should verify that all material events or transactions occurring between such dates should be properly treated in consolidated financial statements and appropriate disclosures have been given.

### **Disclosure Requirements**

- Appropriate notes required by the applicable standards for presenting a true and fair view have been included in the consolidated financial statements.
- The additional statutory information having a bearing on the true and fair view of the consolidated financial statements have also been disclosed.
- In case of consolidation adjustments, these are either disclosed as a single line item separately or adjusted in the information disclosed for the parent and its each component.
- Following information is also required to be disclosed in the consolidated financial statements separately for the parent and each of its components:
- Amount of net assets and net assets as a percentage of consolidated net assets;
- Amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss;
- Amount in other comprehensive income and the percentage of OCI as a percentage of consolidated OCI.



### Consolidated Financial Statement- Disclosures not required

- Source from which bonus shares are issued
- All unutilised monies out of the issue indicating the investment of such funds
- Disclosures required under MSME Act, 2006
- · Value of imports calculated on C.I.F for raw materials, components and capital goods
- Expenditure in foreign currency for royalty, know- how, professional fees, interest
- Value of imported raw materials, spare parts and components and the percentage of each to total consumption
- Foreign Currency remitted for dividend with the no. of non- resident shareholders and shares, and the year of dividend
- Earnings in foreign exchange export, royalty, know-how, professional fees, interest, dividend and other income
- Statement of investments classifying trade and other investments, showing the names of body
  corporate in whose shares and debentures investments have been made and the nature and extent
  of such investment.

### **Management Representations**

SA 580, "Written Representations" requires the auditor to obtain written representations from management and if required, those charged with governance.



The auditor has to obtain evidence that the management acknowledges its responsibility for a true and fair presentation of the consolidated financial statements in accordance with the financial reporting framework applicable to the parent.

Verify that parent management has approved the consolidated financial statements.

Obtain the written representations from parent management on matters material to CFS.

### **Examples of such representations**

Completeness of the components included in consolidated financial statements

Identification of reportable segments for segmental reporting.

Identification of related parties and related party transactions for reporting.

Appropriateness and completeness of permanent and current period consolidation adjustments, including the elimination of intra- group transactions.



# Reporting

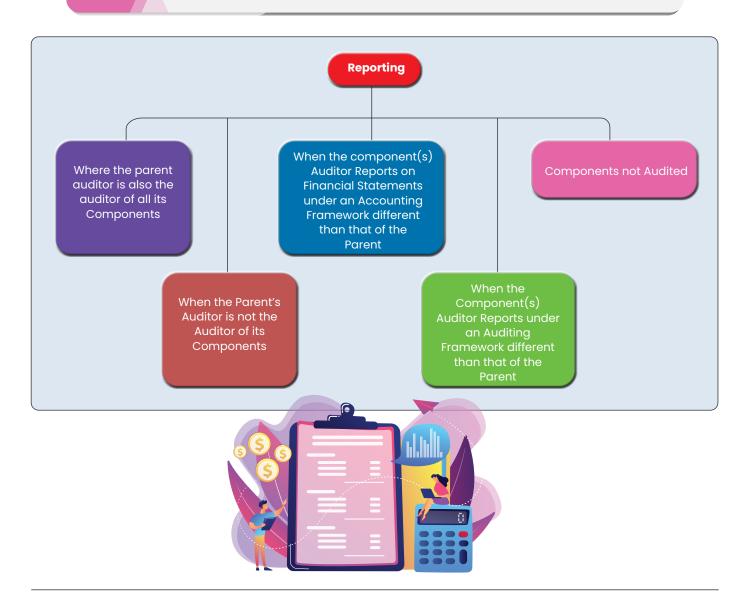
The auditor while preparing the report should consider the requirements of following Standards of Auditing

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

SA 705 - Modifications to the Opinion in the Independent Auditor's Report.

SA 706 - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.

SA 600 - Using the Work of Another Auditor.



### **Audit Procedures**

### 1. Whether the Parent's Auditor is also the Auditor of all its Components

Whether principles and procedures for preparation and presentation of Consolidated Financial Statements as laid down in the relevant accounting standards have been followed.

In case of any deviation, give appropriate disclosures.

Auditor should issue an audit report expressing opinion whether the Consolidated Financial Statements give a true and fair view of the state of affairs of the Group.

Where Cash flow statement also forms a part of Consolidated Financial Statements, auditor should also give his opinion on the true and fair view of the cash flows.

# 2. Whether the Parent's Auditor is not the Auditor of all its Components

The Auditor's report should disclose clearly the magnitude of the portion of the financial statements audited by the other auditor(s). This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows.

The Auditor may give reference of work done by other Auditors. As per SA 706, such reference should not be construed as a qualification of the opinion but rather as indication of the divided responsibility between the auditors of the parent and its subsidiaries.



3. When the Component(s) Audior Reports on Financial Statements under an Accounting Framework Different than that of the Parent

The parent
management perform
a conversion of the
components' audited
financial statements
to a framework under
which the consolidated
financial statements are
prepared.

The Conversion
adjustments are audited
by the principal auditor
to ensure the financial
information is suitable
and appropriate for
consolidation.

In case the component has prepared financial statements on the basis of group accounting policy, the local component auditor can then audit and issue an audit report on the components financial statements.

The parent company auditor can then decide whether or not to rely on such audit report issued by the components' auditor.

4. When the Component(s) Audior Reports under an Auditing Framework Different than that of the parent: in such a case, he components' financial statements should also be audited under a framework that corresponds to Indian GAAS

5. Components not Audited: When Financial Statements of one or more components continue to remain unaudited.

the auditor should consider the unaudited components in evaluating a possible modification to his report.

In such cases, the auditor should evaluate both qualitative and quantitative factors on the possible effect of such amounts remaining unaudited when reporting on the consolidated financial statements.

This evaluation is necessary since the auditor has not been able to obtain sufficient appropriate audit evidence.



# Chapter 14 - Unit 1 Special Features of Audit of Banks

# Introduction

The banking industry is the pivot of any economy and its financial system. Banks are one of the foremost agents of financial intermediation in an economy like India and, therefore, development of a strong and resilient banking system is of utmost importance.

### Legal Framework for Banks in India



# **Conducting An Audit**

### Initial Considerations

- Acceptance & Continuance
- Declaration of Indebtedness
- Internal
   Assignments
   in Banks by
   Statutory
   Auditors
- Terms of Audit Engagements
- Communication with Previous Auditor
- Establish
   Engagement
   Team
- Planning

### **Understanding**

- Understanding the Bank and Its Environment including Internal Control
- Understand the Bank's Accounting Process
- Understanding the Risk Management Process

### **Risk Assessment**

- Identifying and Assessing the Risks of Material Misstatements
- Assess the Risk of Fraud including Money Laundering
- Assess Specific Risks
- Risk Associated with Outsourcing of Activities

### **Execution**

- Engagement Team Discussions
- Prepare response to the Assessed Risks
- Establish the Overall Audit Strategy
- Audit Planning Memorandum
- Determine Audit Materiality
- Consider Going Concern

### Reporting

- Independent Auditor's Report
- Long Form Audit Report
- Report any other matters to Bank, Regulator or Government

# **Special Considerations in IT Environment**

Bank should share detailed information with auditors like

Overall IT policy, structure, and environment of Bank's IT system.

Data processing and data interface.

Data integrity and data security.

BCP and DCP.

Accounting manual and critical accounting entries, their processes and involvement of IT systems.

Controls over key aspects, use of various account heads, expense booking, overdue identification etc.

Controls on recording of various e-banking and internet banking products and channels.

MIS reports being generated and their periodicity.

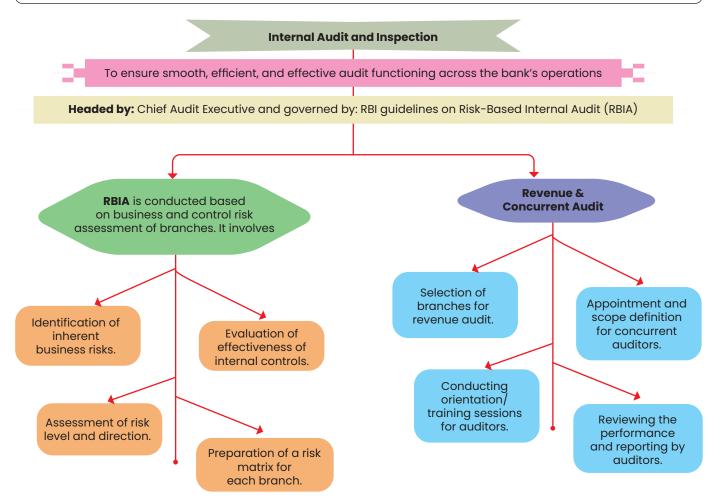
Major exception reports and process of generation including embedded logic.

Process of generating information related to various disclosures in FS and involvement of IT systems.

The branch auditors generally do not have access to IT policy and processes implemented by the bank.



### The key security control aspects that an auditor needs to address when undertaking audit in a computerised bank include Ensure in case of interruption due to Ensure that authorised, power, mechanical or Ensure that the system Ensure that access and accurate and complete processing failure the prevents unauthorised authorisation rights data is made available given to employees are system restarts without amendments to the for processing. distorting the completion appropriate. programmes. of the entries and records. Verify that all the general Verify that exceptional Verify that changes transaction reports are ledger accounts codes Verify that segregation of made in the parameters being authorised and authorised by Head duties is ensured. or user levels are verified daily by the Office are in existence in authenticated. concerned officials. the system.



between the two years.

### **Internal Control in Selected Areas of Banks** Regular rotation of staff without prior Controlled access to important documents notice to prevent familiarity risks. like signature books and telegraphic codes. Maker-checker system: Work of one Insurance coverage against operational employee verified by another. risks like fire, theft, and fraud. General Controls Daily independent verification of book Defined financial powers across hierarchy. balances and arithmetical accuracy. Sensitive stationery (e.g., cheque books, DDs) Surprise inspections by the internal audit to be issued and verified under officer custody. department. **Cash Management** Н Ь Cash to be Daily test Cashiers Counterfoil of **Payments** Independent **Excess** kept in joint checks and should not cash receipt only after verification cash to be proper full cash access vouchers to be of cash remitted to custody of two counting by customers' signed by an authorization scrolls and currency independent officer in cash responsible ledgers or and entries Day Book chest per officers. officers Day Books. department in customer balances. branch occasionally. apart from accounts. limits. receiving officer. **Bills Purchased Bills for Collection** Clearings All the documents of title are properly assigned to Bank at Use of RBI's Cheque Proper the time of purchase of bills. Truncation System (CTS) for recording in digital processing. register and Maintain sufficient margin dispatch Credit to to cover risk. of bills with customer or Mandatory customer complete principals intimation either calls or documents by If a bill remains uncollected only after e-mail for cheques of a responsible on the due date, the bank collection ₹5 lakh and above. officer. should promptly initiate confirmation. recovery from the drawer using the available security. Verification of drawer signatures before passing instruments. Report irregular/outstanding Avoid duplication of internal accounts to Head Office. bills i.e., bills sent by one branch for collection to another branch Timely return or intimation If bills purchased of the bank are not taken in the of unpaid cheques outstanding at the close bills for collection twice in the received in outward of the year the discount amalgamated balance sheet clearing to customers. received thereon should of the bank. be properly apportioned

### **Loans & Advances**

Sanctions only after satisfying borrower creditworthiness and proper authority approval.

Execute all required legal and security documents before disbursement.

Sufficient margin on securities to be kept as per RBI norms.

Joint custody of two such officer and registration of securities where required.

All accounts should be kept within both the drawing power and the sanctioned limit as per prescribed norms. Additional temporary limit may be sanctioned, for a maximum of 20% of existing limit and 90 days maximum tenure.

Accounts must stay within sanctioned/drawing limits.

Irregular accounts to be escalated to management/Head office promptly.

Operations to be reviewed at least once every year.

### **Demand Drafts**

Signatures on DDs to be matched with the signature book.

Issue advice to the paying branch immediately after DD issuance.

Follow up if confirmation or credit isn't received by the paying branch.

### **Inter Branch Accounts**

The accounts should be adjusted only on the basis of advice (received from other branches,

Prompt action should be taken, preferably by central authority, if any entries (particularly debit entries) are not responded to by any branch within a reasonable time.

### **Credit Card Operations**

Applications screened with reasonably good credit assessment systems.

To have strict control over storage and issue of cards.

Merchant should confirms the status of unutilised limit of a credit-card holder from the bank before accepting the settlement, in case the amount to be settled exceeds a specified percentage of the total limit of the card holder.

There should be a system of prompt reporting by the merchants of all settlements accepted by them through credit cards.

Reimbursement to merchants should be made only after verification of the validity of merchant's acceptance of cards.

All the reimbursement (gross of commission) should be immediately charged to the customer's account.

Ensure that statements are sent regularly and promptly to the customer.

There should be a system to monitor and follow-up customers' payments.

Payments overdue beyond a reasonable period should be identified and attended to carefully.

There should be a system of periodic review of credit card holders' accounts. On this basis, the limits of customers may be revised, if necessary.

### Compliance with CRR and SLR requirements

Cash Reserve Ratio (CRR)

It is a specified minimum fraction of total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank. Statutory Liquidity Ratio (SLR) Requirements

It 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.

### **Audit Approach and Procedure**

- Obtain an understanding of RBI circulars/instructions on composition of DTL items.
- Request branch auditors to send weekly trial balances as of Friday for consolidation at head office. Determine DTL
  position every reporting Friday. Statutory auditor should ask branch auditors to verify trial balances and examine
  branch cash balances on selected dates.
- Test examine DTL consolidations prepared by the bank using branch returns. Verify valuation of securities complies with RBI guidelines.
- While examining DTL computation, ensure exclusion of items per RBI guidelines such as: paid-up capital, reserves, loans from RBI and refinance agencies, bills discounted with approved institutions, net tax provision, amounts from DICGC, ECGC, insurance claims, court receivers, unrealized derivative gains/losses, advance income, BAF liabilities, partial recoveries on bad debts, import bill deposits, unadjusted agency deposits, and margins in sundry deposits.
- Examine inclusion of items in liabilities as per RBI guidelines, such as:
  - Net credit balance in branch adjustment accounts (outstanding over 5 years considered gross).
  - Interest accrued on deposits calculated each reporting fortnight, regardless of accounting in books.
  - · Cash collaterals under collateralized derivative transactions (outside liabilities).
  - Foreign borrowings treated as 'liabilities to others' at gross, unlike liabilities towards Indian banking system which can be netted off.
  - Careful scrutiny of Nostro account reconciliations to identify unaccounted inward remittances or debit entries related to bank liabilities.

- · While examining DTL computation, auditor should specifically check details of exempted items:
  - Minimum Eligible Credit and outstanding Long-Term Bonds for infrastructure and affordable housing as per RBI.
  - Eligible incremental FCNR(B) and NRE deposits (3 years+ maturity), verifying related loans and inter-bank foreign currency deposits for Form A reporting.
  - Foreign exchange assets/liabilities converted to INR using RBI reference rates for USD, GBP, JPY, Euro. New York rate used for other currencies.
  - Reference rates from FBIL used for foreign currency asset/liability conversion. If unavailable, New York closing rates may be used.
- · Examine whether bank consolidations include relevant information of all branches.
- Check if balances in Branch Adjustment Accounts of foreign branches are included in the net Branch Adjustment Accounts.
- Verify the correctness of data in Form A return (CRR) and Form VIII return (SLR) on a sample basis.
- Since much SLR compliance data comes from branches, it is suggested to consolidate this at the regional level.
   The regional auditor should verify and report, with the regional manager counter-signing the statement.
- The central auditor should apply audit procedures to the bank-wide consolidation and describe the procedure in the report.
- While reporting on SLR compliance, specify unaudited branches and mention reliance on their returns. With automayed data flow introduction for CRR & SLR reporting, auditors should develop appropriate audit procedures.



# **Verification of Assets**

### Cash

- Carry out physical verification of cash (including foreign currency, ATM cash, and cash at deposit machines) as close to the balance sheet date as possible.
- Ensure the physically verified cash balance agrees with the balance shown in the cash register or CRS

### **Balances with RBI**

### **Verify:**

- Ledger balances in each account
- Reconciliation statements, Give special attention to
  - Cash transactions remaining unresponded;
  - Revenue items requiring adjustments/ write-offs;
  - Unresponded credit and debit entries >15 days.

# Balances with other banks

### **Examine:**

- No debit for charges or credit for interest is outstanding
- No cheque sent or received in clearing is outstanding.
- Bills/outstation cheques sent for collection and outstanding on closing date have been credited subsequently.
- Large transactions in inter-bank accounts to ensure no transactions have been put through for window-dressing.

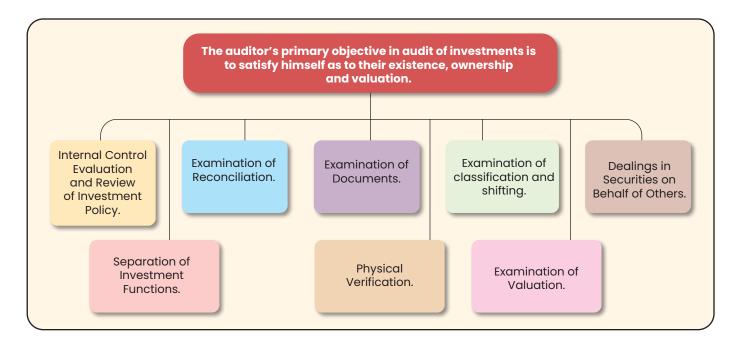
# Money at call and short notice

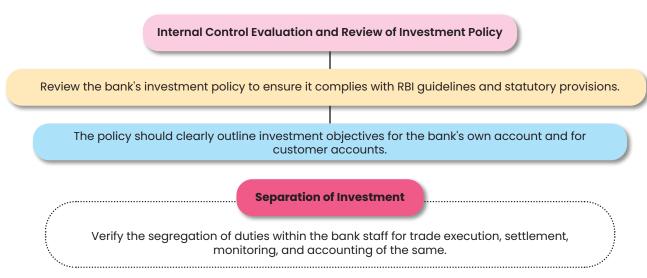
### **Examine:**

- Proper system of authorisation for lending of the money
- Verify call loans with the certificates of the borrowers
- Aggregate balances tally with the control accounts as per GL
- Examine subsequent repayments received
- Interest properly accrued and accounted for.

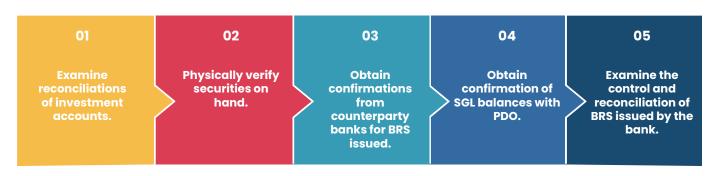


# Area of focus and suggested audit procedure of investment





### **Examination of Reconciliation**





### **Physical Verification**

Verify investment scrips physically at the close of business on the balance sheet date. Verify investments held with Public debt office of RBI, custodians and depositories with statements of holdings.

Examine confirmation of counterparty banks about such BRS.

Examine whether there are proper transfer deed signed by the holder.

Examination of Classification and Shifting. Ensure the investment portfolio is classified into HTM, HFT, and AFS categories.

Verify shifting of securities complies with regulatory norms and bank policy. Confirm Board of Directors approval for shifting investments from 'available for sale' to 'held to maturity'.

### **Examination of Valuation**

Review accounting method for investments and year-end valuation is appropriate.

Verify investment classification (based on intention at acquisition - Board approval etc.).

Ensure compliance with RBI guidelines for valuation.

Check proper NPI classification (NPI where interest/principal unpaid > 90 days).

Verify income recognition from investments, especially for electronic receipts.

Confirm disclosure of any changes in investment valuation methods.

Ensure proper calculation and accounting of profit/loss on investment sales.

Verify system for recording and maintaining TDS certificates.

### Dealings in securities on Behalf of Others

Check for prior approvals for such dealings.

Verify recording and fair presentation of income from these activities. Assess material undisclosed liabilities due to breach of fiduciary duties includes safekeeping of assets.

### **Advances**

1

Nature of advance (cash credit, overdrafts, term loan, bill purchased or discounted etc.)

# .

Nature and extent of security (secured by tangible assets or covered by government guarantee.

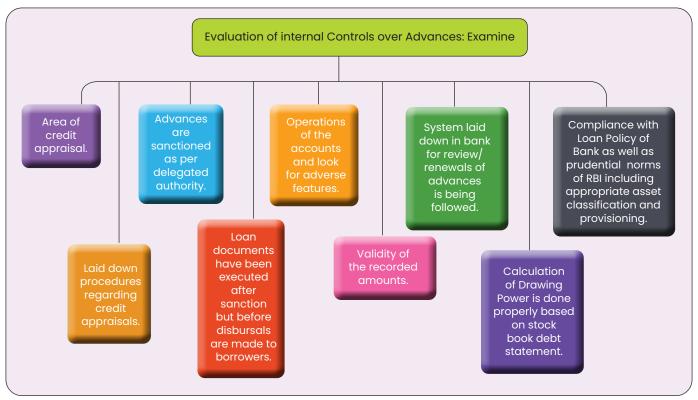
Classifications of Advances Place of making advance (In India or outside India).

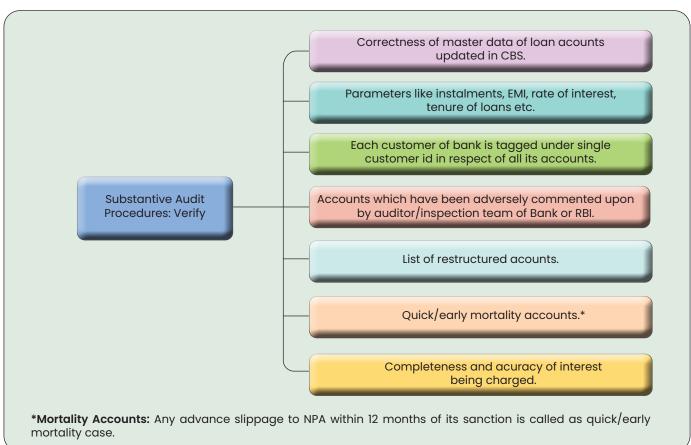
Classification of advances on sectoral basis

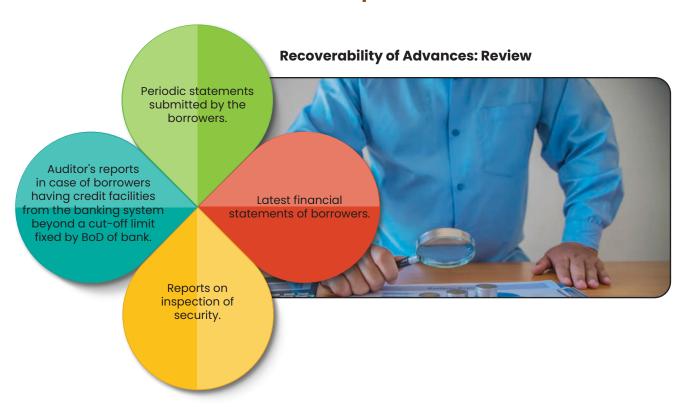
Priority Sector

Public Sector

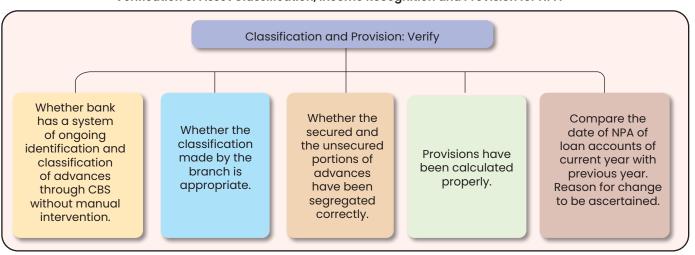
### Area of focus and suggested Audit procedure to obtain evidence







### Verification of Asset Classification, Income Recognition and Provision for NPA



### Accounts regularised near Balance sheet date



### Drawing Power (DP) Calculation The stock audit Ensure that the DP is The DP needs to be including audit of book calculated carefully calculated as per the debts should be carried guidelines formulated in case of working out by the bank for by BOD of the capital advances to all accounts having respective bank. companies engaged in funded exposure of construction business. more than stipulated limit.

# **Accounts with temporary deficiencies**



Government Guaranteed Advances If becomes NPA, then interest on such advance should not be taken to income unless interest is realised. facility backed by CG Guarantee can be treated as NPA only when CG repudiates its guarantee, when invoked. This exception is not applicable for SG Guaranteed advances, where advance is to be considered NPA if it remains overdue for more than 90 days.

Ensure that NPA norms have been applied in accordance with the crop season determined by the State Level Bankers' Committee in each State.



In respect of agricultural loans, ensure that identification of NPAs has been done on the same basis as non-agricultural advances.

### **Restructured Advances**

Restructuring is an act in which a lender, for economic or legal reasons relating to borrower's financial difficulty, arants concessions to the borrower.

RBI has given revised guidelines for treatment of restructured accounts by its circular. The auditor should verify compliance with the requirements of the circular issued in this regard.

### **Upgradation of Account**

Examine all accounts upgraded from NPA to standard category during the year, to ensure that the upgrading of each account is strictly in terms of RBI guidelines.

# Sale/Purchase of NPAs

The auditor should examine:

01

Policy laid down by the BOD in this regard relating to procedures, valuation and delegation of powers. 02

Only such NPA has been sold which has remained NPA in the books of the bank for at least 2 years. 03

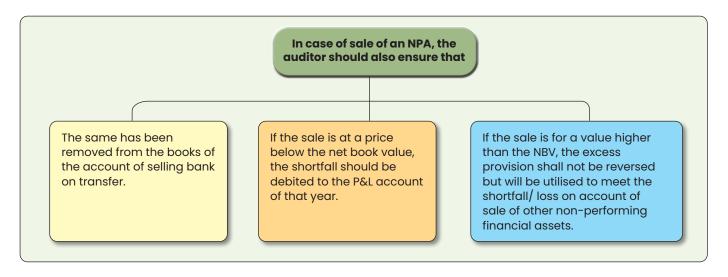
Assets have been sold/ purchased "without recourse" only i.e the entire credit risk associated with the NPA should be transferred to the purchasing bank.

04

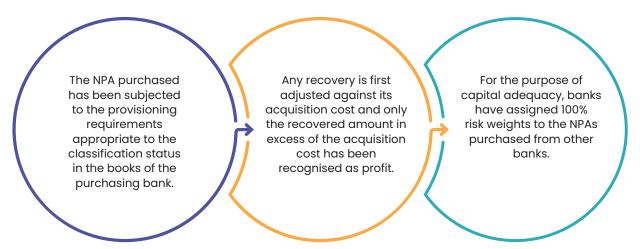
The NPA has been sold at cash basis only.

05

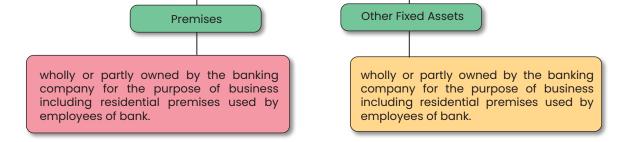
The bank has not purchased an NPA which it had originally sold.



### In case of purchase of NPAs, the auditor should verify that:



# Fixed Assets (As per the third Schedule to the Banking Regulation Act, 1949)



Section 9 of the Banking Regulation Act, 1949: A bank cannot holding any immovable property (except for its own use) for more than **seven years**, regardless of how it was acquired—either as a repayment of loans or otherwise.

### **Internal Controls**

- Control over expenditures incurred on FA acquired or self-Constructed.
- · Accountability and utilisation controls.
- Information controls for ensuring availability of reliable information.
- Whether the accounts in respect of FA are maintained at the branch or centrally.
- Location of documents of title or other documents evidencing ownership.
- Examine whether acquisitions, disposals, etc. effected at the branch during the year have been properly communicated to the head office.

### **Premises: Verify**

- Opening balance with schedule of fixed assets, ledger or FAR.
- Acquisition of new premises with reference to authorisation, title deeds, record of payment, etc.
- Self-constructed fixed assets with reference to authorisation and documents.
- Balances as per the FAR with those as per the ledger and the final statements.
- In the case of leasehold premises, capitalisation and amortisation of lease premium.
- Premises that are under construction, shown under a separate heading, e.g., 'premises under construction'.
- Advances/ payments to contractors for such assets should be shown under a separate item under the head
  "fixed assets".
- Appropriateness of the basis of revaluation, where the premises are re-valued.
  - If title deeds are held at the Head Office, the branch auditor should:
    - Obtain written representation from branch management,
    - · Inform the central statutory auditor in their report, and
    - Report the same in the Long Form Audit Report (LFAR).
- Immovable properties meant for the bank's own use only (including staff residences) are included in fixed assets.

### **Other Fixed Assets: Verify**

- · The system of recording the movements as well as other controls over moveable fixed assets.
- Whether discrepancies have been properly dealt with in the books of account and adequate provision in respect of any damaged assets has been made with appropriate approvals.
- · Accumulated depreciation is also transferred in respect of transfer from one branch to another.
- · Whether the guidelines given by RBI and requirements of AS 26 have been followed in
- Whether fixed assets have been properly classified.
- Whether any expenditure incurred on a fixed asset after it has been brought to its working condition for its intended use, has been dealt with properly.
- If the consolidated fixed assets schedule matches in all respects and all the transfers in/out are tallied by the auditor at head office level.

### Sale of Fixed Assets

- · Verify the copy of sale deed and receipt of the sale value, in respect of fixed assets sold during the year.
- Ensure that the profit/loss on sale of assets has been properly accounted for.

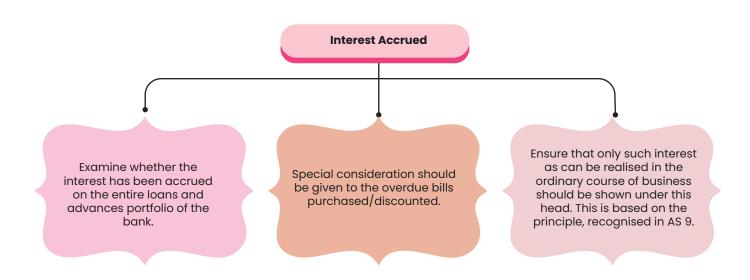
### Leased Assets

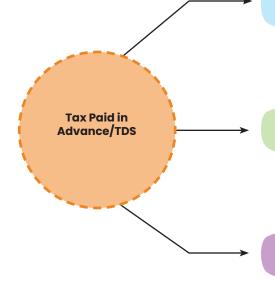
- Verify accounting and provisioning norms to be followed by banks undertaking leasing activity in accordance with RBI circulars and guidelines.
- The auditor, in respect of leased assets, should also have regard to the requirements of AS 19, "Leases".

### **Impairment of Assets**

Verify whether the guidelines given by RBI's circular on compliance with AS, and AS 28 have been followed.

# **Other Assets** Report on the year-end Indicate the number status of inter-branch and amount of accounts indicating the outstanding entries dates up to which all in the inter branch or any segments of the accounts. accounts have been reconciled. Inter-Office **Adjustments** Examine whether Ensure that any Inter-branch accounts discrepancies found in are reconciled at the inter-branch accounts central level. have been properly dealt with. Obtain the relevant information primarily from branch audit reports.





Ensure that the certificates for such TDS are collected by the branch and the original copy is sent to the HO along with the transfer of such TDS amount to HO on a periodic basis as defined.

TDS Certificates / credits in the Form
26AS and claim of the same in Income Tax
returns filed should be checked to ensure the
justification of the claim towards
such certificates.

At the Head Office level, verify that all TDS certificates or credits reflected in Form 26AS have been appropriately claimed in the filed ITRs to ensure the validity of such claims.

Only exceptional stationery expenses (e.g., bulk purchase of security paper) should be included under "Stationery and Stamps" and valued at cost; routine stationery is expensed in the P&L and usually supplied by the Head Office.

Ensure proper accounting treatment of stationery and stamp expenses as per the Head Office's policies and that they are correctly charged to the P&L. Stationery and Stamps

Evaluate the existence, effectiveness and continuity of internal controls over these items in the normal course of audit. Branch auditor is required to specifically comment on the adequacy of the relevant internal controls in the LFAR.

Physical verification of year-end stock, especially security items, is necessary, and any shortages should be investigated.

### Non-Banking Assets Acquired in Satisfaction of Claims: Examine

Heading includes those immovable properties/ tangible assets which the bank has acquired in satisfaction of debts due or its other claims and these are being held with intention of being disposed off.

Assets with reference to the relevant documentary evidence, e.g order of the Court, terms of settlement etc.

Ownership of the property is legally vested with the bank. In case of dispute, examine whether a provision for liability or disclosure of a contingent liability is appropriate, keeping in view the requirements of AS 29 "Provisions, Contingent Liabilities and Contingent Assets".

Whether the recording of the asset is appropriate or not, if there is any dispute or other claim.

Compliance with Section 9 of Banking Regulation Act, on holding period of such assets.

That as at date of acquisition, the assets should be recorded at lower of NBV of advance or NRV of asset acquired.

### **Others**

"Others" is a residual category used to include items not covered under specific sub-heads. This may consist of unreceived claims, debit items indicating asset additions or liability reductions pending adjustment, government business receivables, prepaid expenses, and accrued income (excluding interest), such as declared but unpaid dividend.

Miscellaneous Debit Balances on Government Account.

Non-Interest-Bearing Staff Advances.

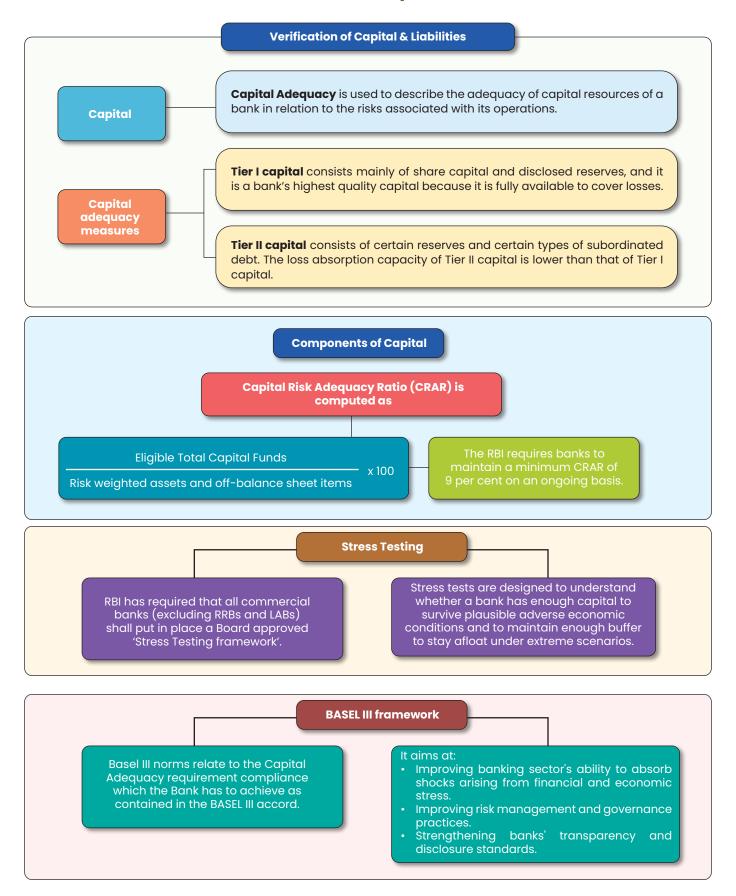
Prepaid Expenses.

**Area of focus** 

Loans and Advances to Officials and Relatives.

Suspense Account.

Security Deposits.

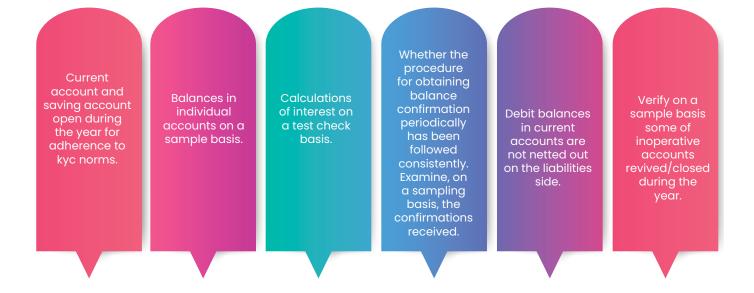


# **Reserves and Surplus: Verify**

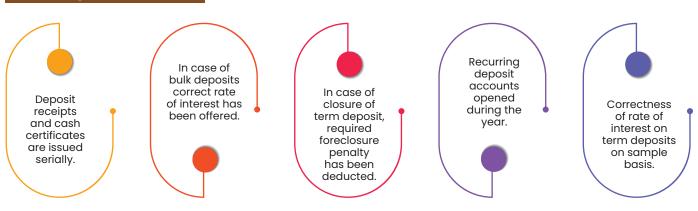


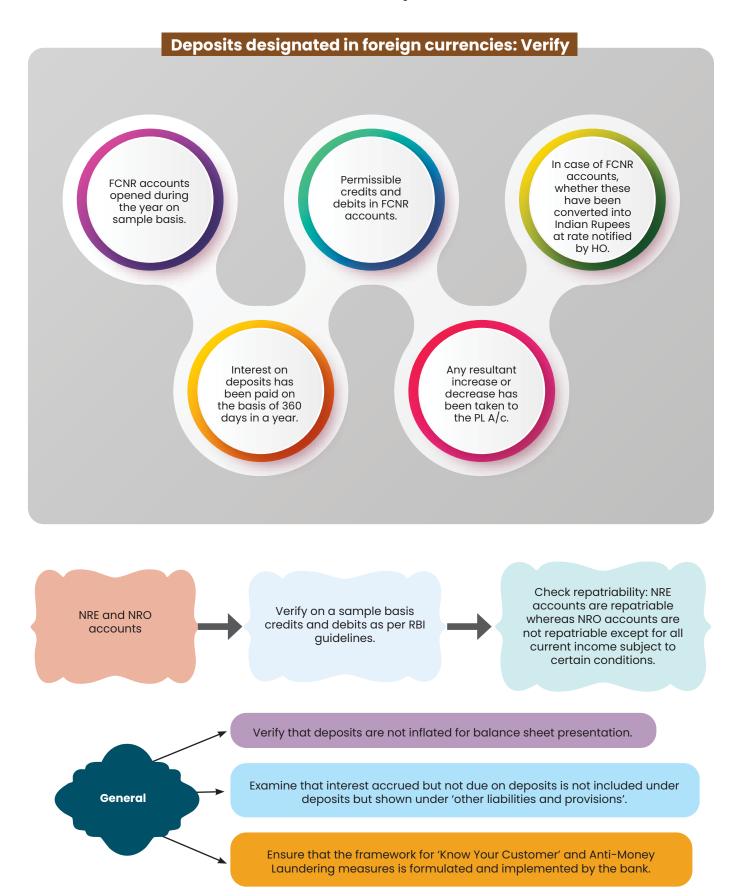
# **Deposits**

### **Current and saving accounts: Verify**



# Term deposit: Examine





# **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

### **Examine**

Confirmation certificates and other supporting documents such as, agreements, correspondence, etc.

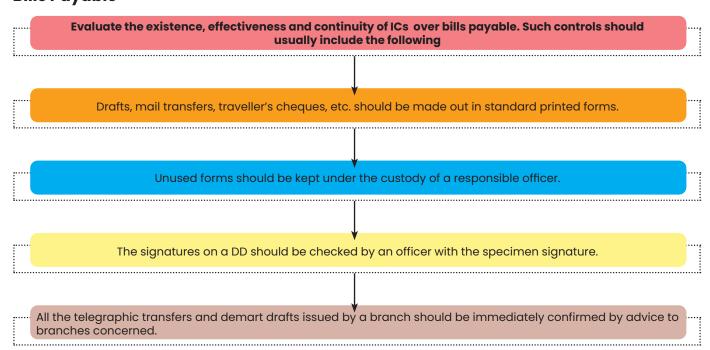
External confirmations.

Distinction has been made between 'rediscount' and 'refinance' for disclosure.

Borrowings of money at call and short notice are properly authorised.

# Other Liabilities and Provisions

# **Bills Payable**



### Inter-office Adjustments

The balance in inter-office adjustments account, if in credit, is to be shown under this head.

### **Interest Accrued**

Examine interest accrued with reference to terms of various types of deposits and borrowings. Ensure such interest is not clubbed with the figures shown under the head 'Deposits and Borrowings'.

# Others (Including Provisions)

It may be noted that the figure of advances and investments in the balance sheet of a bank excludes provisions made to the satisfaction of auditors. The auditor should examine other provisions and items of liabilities as in the case of other entities.

# **Contingent Liabilities**

### **Audit Approach**

### Auditor should obtain a representation from management that:

All off-balance sheet transactions have been accounted in the books of accounts as and when such transaction has taken place.

All off balance sheet transactions have been entered into after following due procedure laid down.

All off balance sheet transactions are supported by the underlying documents.

All year end contingent liabilities have been disclosed.

The estimated amounts of financial effect of the contingent liabilities are based on the best estimates in terms of Accounting Standard 29, including consideration of the possibility of any reimbursement.

Disclosed contingent liabilities do not include any crystallised liabilities which require provision/adjustment in the financial statements.

In case of guarantees issued on behalf of the bank's directors, bank has taken appropriate steps and there is no violation of section 20 of the Banking Regulation Act, 1949.

Contingent liabilities not disclosed due to remote possibility of outcome including management's justification for such decision.

### **Audit Procedures**

1

Adequate internal controls to ensure that transactions giving rise to contingent liabilities are executed only by persons authorised.

2

Verify in case of LCs for import of goods, the payment to the overseas suppliers is made based on shipping documents and after ensuring that the said documents are in strict conformity with the terms of LCs.

3

Ascertain whether the accounting system of the bank provides for maintenance of adequate records in respect of such obligations.

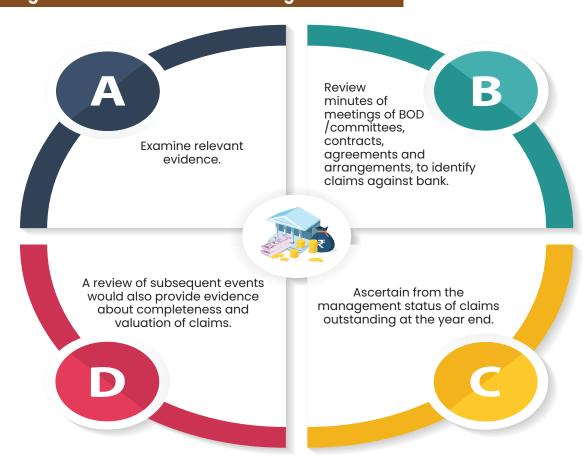
4

Test the completeness of the recorded obligations.

5

Review whether comfort letters issued by the bank has been considered for disclosure of contingent liabilities.

# Claims Against the Bank Not Acknowledged as Debts



Liability on Account of Outstanding Forward Exchange Contracts & derivative contracts

- Verify outstanding forward exchange contracts with the statement generated from the bank's computerised system or manual register. Physically verify underlying documents, including confirmations from merchants, to test existence.
- Verify outstanding derivative contracts like options, interest rate swaps, etc., with relevant reports.

### **Guarantees Given on Behalf of Constituents: Examine**

Adequate IC over issuance of guarantees.

Adequate controls over unused guarantee forms.

Guarantee register.

Expired guarantees are not included in this head. If a claim has arisen, the auditor should consider whether a provision is required in terms of the requirements of AS 29, "Provisions, Contingent Liabilities and Contingent Assets".

### **Acceptances, Endorsements and Other Obligations**

- Evaluate the adequacy of internal controls over issuance of letters of credit and custody of unused LC forms, similar to guarantees.
- Verify the balance of letters of credit from the register maintained by the bank, which shows amounts and payments made.
- Examine whether the bank has incurred a potential financial obligation under letters of comfort, and if so, ensure the amount is disclosed under contingent liability.

Other Items for which the Bank is Contingently Liable

Determine and verify any other items under this head as required. For example, outstanding underwriting contracts, bills rediscounting, disputed tax demands.

### Bills for Collection: Examine/Verify Outward bills Collections Procedure for collection for crediting Adequate made with reference the party on internal subsequent to the to the date of whose behalf controls corresponding a bill has been the balance exists. register collected. sheet. maintained.

# Sales Percent 6,000 6,000 6,000 7,000 1,000 7,000 1,000 7,000 1

# **Auditor's Report**

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.

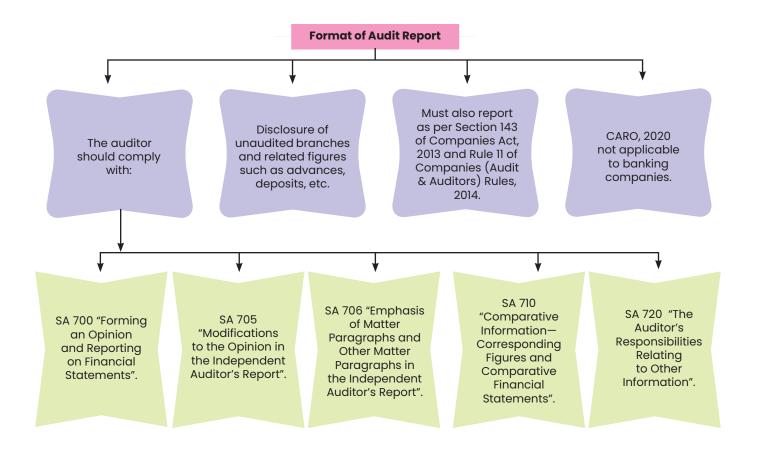
In case the auditor had called for any explanation or information, whether it has been given and whether it is satisfactory.

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.



Long Form Audit Report The long form audit report is to be given by statutory branch auditors as well as statutory central auditors.

The LFAR for branch auditors is in form of quesionnaire.

# Consolidated LFAR:

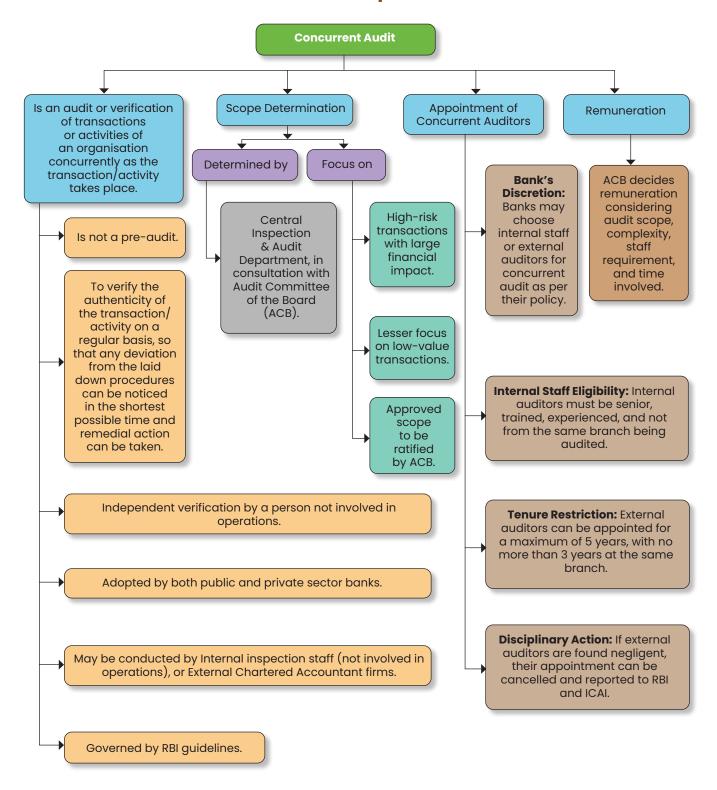
Submitted to Audit Committee of the Board (ACB), then to RBI within 60 days.

ACB to examine action taken for irregularities.

Other Reporting Requirements

- Based on RBI Circular on legal aspects of bank fraud.
- SA 250: "Consideration of Laws and Regulations in an Audit of Financial Statements".
- SA 240: "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements".
- Section 143(12) of the Companies Act, 2013: Report fraud to Central Government.
- Also report serious fraud to RBI and CMD/CEO of the bank.

Report on adequacy and operating effectiveness of Internal financial Controls over Financial Reporting in case of banks. Long form audit report. Report on compliance with SLR requirements. Report on whether the treasury operations of the bank have been conducted in accordance with the instructions issued by the RBI from time to time. Certificate on reconciliation of securities by the bank (both on its own investment account as well as PMS Banks' account). Certificate on compliance by the bank in key areas of prudential and other guidelines relating to such transactions issued by the RBI. (investment transactions). Report on whether the income recognition, asset classification and provisioning have been made as per the guidelines issued by the RBI from time to time. Report on whether any serious irregularity was noticed in the working of the **Reports and** bank which requires immediate attention (in accordance with sec 143(12) of the **Certificates** Companies Act, 2013). Certificate in respect of custody of unused Bank Receipt forms and their utilisation. Authentication of capital adequacy ratio, including disclosure requirements and other ratios reported in the notes to accounts. Report on status of the compliance by the bank with regard to the implementation of recommendations of the Ghosh Committee relating to frauds and malpractices and of the recommendations of Jilani Committee on internal control and inspection/ credit system. Report on instances of adverse credit-deposit ratio in the rural areas. Asset liability management. Certificate on Corporate Governance in case of banks listed on Stock Exchange. In some banks this certification may not be got done by the central auditors. Certification on claim of various interest subsidies and interest subvention.



# **Special Features of Audit of Banks**

# Cash

- Check daily cash transactions, especially abnormal/high-value items.
- Verify accounting of inward and outward cash remittances.
- Ensure proper recording and reporting of currency chest transactions.
- Review high-value expenses paid in cash.

# Investments

#### It should be ensured that:

- Branch has acted within its delegated power having regard to its Head Office instructions for purchase or sale of securities.
- · Securities held in the books of the branch are physically held by it.
- Branch is complying with the RBI/head Office guidelines regarding BRs, SGL forms, delivery of scrips, documentation and accounting.
- Sale or purchase transactions are done at rates beneficial to the bank.

# Deposits

- Verify the transactions about deposit receipts and repayments.
- % of Interest paid on deposits to be checked including interest calculations on large deposits.
- Scrutinize newly opened accounts, especially current accounts.
- Monitor initial operations in new accounts for unusual operations.



- · Loans and advances have been sanctioned properly in accordance with delegated authority.
- Securities and documents have been received and properly charged/registered.
- Post disbursement supervision & follow-up is proper.
- · Misutilisation of the loans and instances indicative of diversion of funds to be verified.
- Check whether the letters of credit issued by the branch are within the delegated power & are for genuine trade transactions.
- Check the bank guarantees issued are properly worded and recorded in bank register & have been promptly renewed on the due dates.
- Proper follow-up of overdue bills of exchange.
- · Classification of advances are as per RBI guidelines.
- Timely submission of claims to DICGC and ECGC.
- Reporting of instances of exceeding delegated powers to controlling/Head Office by the branch and confirmed or ratified at the required level.



- · Verify foreign bills negotiated under letters of credit.
- · Check FCNR and other non-resident accounts whether the debits and credits are permissible under rules.
- Check accounting for inward/outward remittance.
- Examine extension and cancellation of forward contracts for purchase and sale of foreign currency. Ensure that they are duly authorised and necessary charges have been recovered.
- Ensure that balances in Nostro accounts are within the prescribed limit.
- Ensure reasonableness of overbought/oversold position maintained in different currencies.
- Ensure adherence to the dealing room operations guidelines issued by RBI/HO.
- Ensure verification/reconciliation of Nostro and Vostro account transactions/balances



- · Ensure that the maintenance and balancing of accounts, ledgers and registers is proper.
- Early reconciliation of entries outstanding in the inter-branch and inter-bank accounts, Suspense Account, Sundry Deposits Account, DDRR Account, Drafts Account, etc.
- · Ensure timely adjustment of large value entries.
- · Carry out a percentage check of calculations of interest, discount, commission and exchange.
- · Check whether debits in income account have been permitted by the competent authorities.
- · Check the transactions of staff accounts.
- Examine the day book to verify as to how the differences in clearing have been adjusted.
- Detection & prevention of revenue leakages through close examination of income and expenditure accounts.
- · Verify cheques returned/bills returned register and look into reasons for return of those instruments.
- Checking of inward and outward remittances (DDs, MTs & TTs).



- Audit government transactions for compliance with RBI/Govt./HO norms.
- Ensure the compliance to internal audit reports/inspection observations.
- · Ensure customer complaints are properly dealt with.
- Confirm timely submission of statements, returns etc to RBI/HO.

#### **Reporting Systems**

Audit reports must follow a structured format highlighting significant findings.

Major deficiencies must be separately noted and reported to the branch and controlling office immediately.

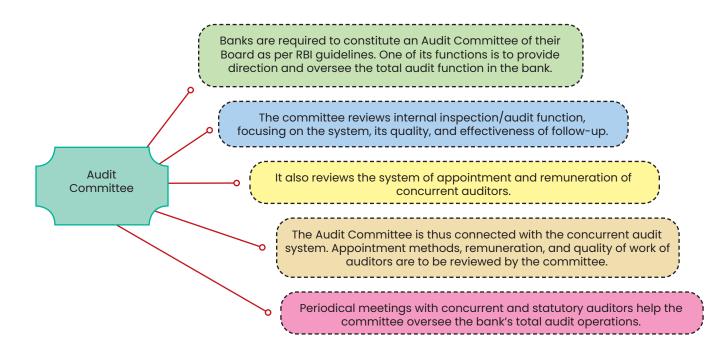
Summary of key audit findings to be reported quarterly and annually to the ACB.

Auditors should discuss key issues with branch officials before finalizing the report.

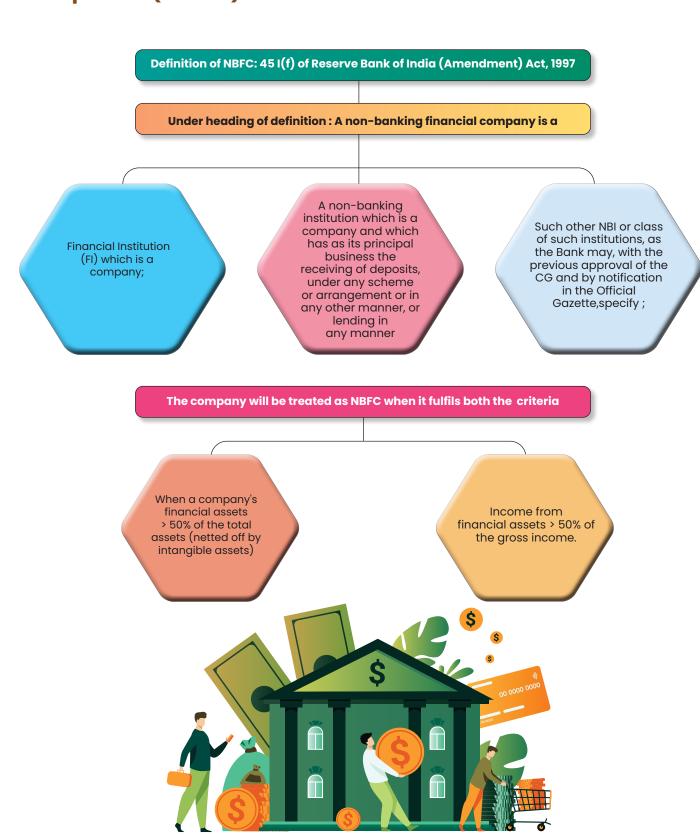
Minor issues must be promptly corrected, while serious ones should be escalated.

Fraudulent activities must be immediately reported to Head Office, CVO, and relevant managers.

Audit departments and controlling offices must ensure prompt corrective action on audit findings.



# Unit 2- Special Features of Audit of Non-Banking Financial Companies (NBFCs)



# **Registration and Regulation of NBFC**

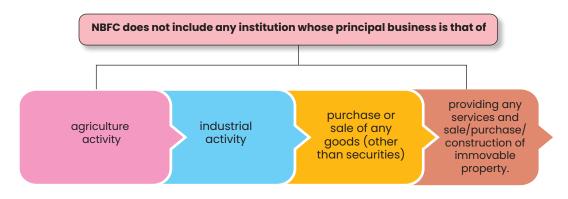
Under Section 45–IA of the RBI Act, 1934, no NBFC is allowed to commence business without

obtaining a Certification of Registration(CoR) issued by the RBI net owned fund of ₹ 25 lakh or such other amount, not exceeding ₹100 crore

Provided that the bank may notify different amount of net owned fund [NOF] for different categories of NBFC.

- RBI has notified different amounts of NOF for different categories of NBFCs including ₹2 crore for certain categories of NBFCs.
- For certain categories companies currently applying for registration as an NBFC, the minimum net owned fund requirement is ₹ 10 crore (previously it was ₹ 2 crore)
- Minimum NOF amount may be higher depending on specific type of NBFC.
- RBI has prescribed a timeline to meet NOF amount of ₹ 10 crore in a phased manner for certain categories of existing NBFCs by 31st March 2027.
- For NBFC-P2P, NBFC-AA, and NBFCs with no public funds and no customer interface, the NOF shall continue to be ₹ 2 crore.
- For NBFC-IFC and IDFNBFC, the NOF shall be ₹300 crore.

# Types of NBFCs—Compliance and Regulatory Perspective

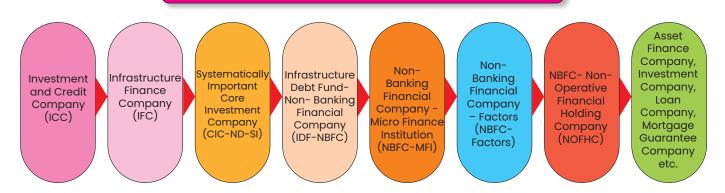


Non-Banking Institution which is a company and has principal business of receiving deposits, is also an NBFC (Residuary non-banking financial company).

#### NBFCs registered with RBI are categorised as

- (a) in terms deposit acceptance or otherwise into Deposit and Non-Deposit accepting NBFCs;
- (b) non-deposit taking NBFCs by their size into systemically important and non-systemically important (NBFC-NDSI and NBFC-ND); and
- (c) by the kind of activities, they conduct.

#### Types of NBFCs on the basis of Kinds of Activities they conduct



# A. Companies exempted from registration under RBI

Companies that do financial business but are regulated by other regulators

- Housing Finance Institutions (regulated by National Housing Bank)
- Merchant Banking Companies (SEBI)
- Stock Exchanges (SEBI)
- Companies engaged in the business of stock-broking/sub-broking (SEBI)
- Venture Capital Fund Companies (SEBI)
- Nidhi Companies (MCA, GOI)
- Insurance companies (IRDA)
- Chit Companies
- Specified Micro Finance Companies
- Securitisation and Reconstruction Companies
- Mutual Benefit Companies
- Core Investment Companies\*
- Alternative Investment Fund (AIF) Companies

\*Core Investment Companies with asset size of less than ₹100 crore, and those with asset size of ₹100 crore and above but not accessing public funds are exempted from registration with the RBI.



#### **Layers of NBFCs Middle Layer Base Layer Upper Layer Top Layer** The Middle Layer shall The Base Layer shall The Top Layer will The Upper Layer comprise of non-deposit consist of ideally remain shall comprise of (a) all deposit taking taking NBFCs below the those NBFCs which empty. asset size of ₹ 1000 crore NBFCs (NBFC-Ds) are specifically This layer can get and NBFCs undertaking (b) non-deposit populated if the RBI identified by the the following activitiestaking NBFCs with is of the opinion that **RBI** as warranting (i) NBFC-P2P (ii) NBFC-AA asset size of ₹1000 there is a substantial enhanced regulatory crore and above increase in the requirement. (iii) NOFHC and (c) NBFCs undertaking potential systemic (iv) NBFCs not availing the following risk from specific public funds and not activities: NBFCs in the Upper having any customer (i) SPDs interface. Layer. (ii) IDF-NBFCs Such NBFCs shall (iii) CICs move to the Top Layer from the Upper (iv) HFCs and Layer. (v) NBFC-IFCs.

#### Categorisation of NBFCs carrying out specific activity

NBFC-P2P, NBFC-AA, NOFHC and NBFCs without public funds and customer interface will always remain in the Base Layer of the regulatory structure.

NBFC-D, CIC, IFC and HFC will be included in Middle Layer or the Upper Layer (and not in the Base layer), as the case may be. SPD and IDF-NBFC will always remain in the Middle Layer.

The remaining NBFCs, viz. NBFC-ICC, NBFC-MFI, NBFC-MGC could lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.

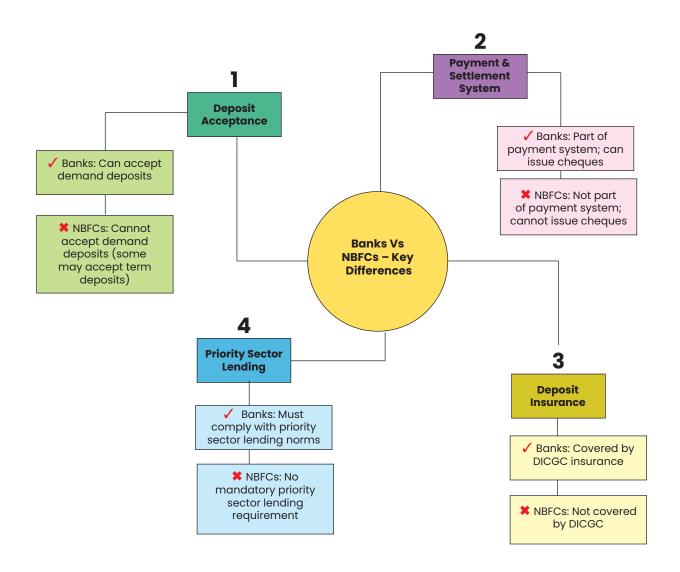
Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be. They will not be placed in the Upper Layer.

#### References to NBFC-ND, NBFC-ND-SI & NBFC-D-From October 01, 2022:

NBFC-ND	Shall mean NBFC-BL.		
NBFC-D and NBFC-ND-SI	Shall mean NBFC-ML or NBFC-UL, as applicable.		
Existing NBFC-ND-SIs	With asset size between ₹500 Crore and below ₹1000 crore (excluding those in Middle Layer) shall mean NBFC-BL.		

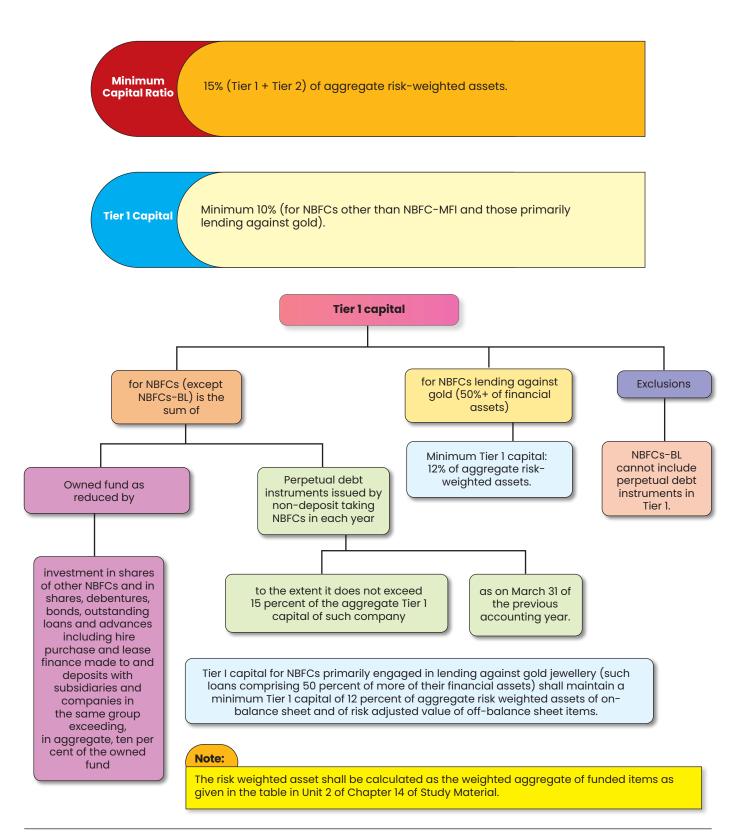
# Glide path is provided for the existing NBFCs, viz., NBFC-ICC, NBFC-MFI5 and NBFC-Factor to achieve the NOF of ₹ 10 crore:

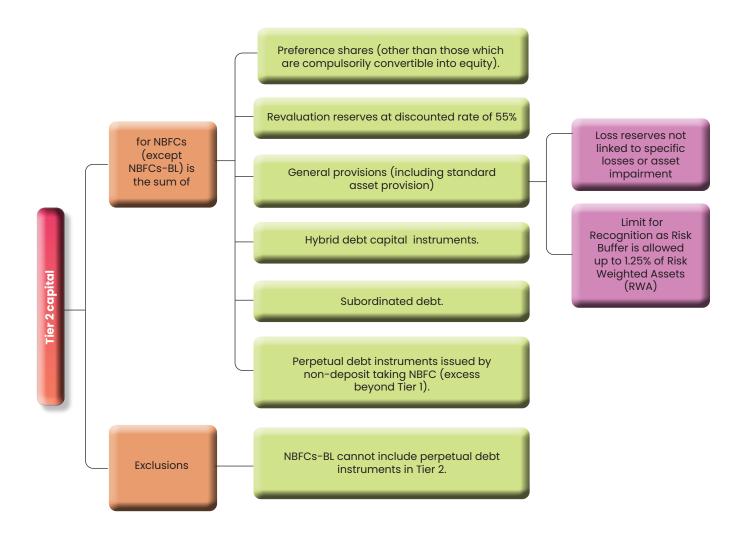
NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	₹2 crore	₹ 5 crore	₹10 crore
NBFC-MFI	₹ 5 crore (₹ 2 crore in NE Region)	₹7 crore (₹5 crore in NE Region)	₹10 crore
NBFC-Factor	₹5 crore	₹7 crore	₹10 crore



#### **Prudential Norms**

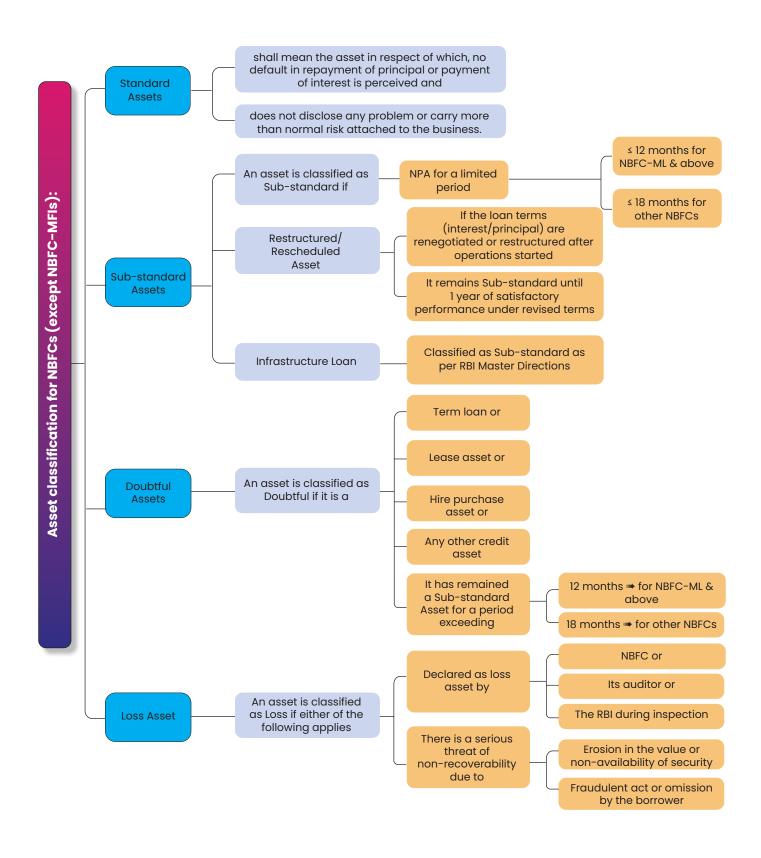
# **Capital Requirements**





# **Income Recognition**

# Yes Recognise income (interest, lease rent, etc.) as per accounting principles. No (NPA) Do not recognise income unless actually realised Reverse any income accrued before NPA status if still unrealised



# **Non-Performing Asset**

An asset is classified as NPA if any of the following are overdue for more than 180 days

- Interest on any asset remains unpaid.
- Term loan instalment or interest is overdue.
- Demand or call loan is not paid from the date it was demanded.
- A bill remains unpaid.
- Interest or income on short-term loans or advances (shown under 'Other Current Assets') is not received.
- Dues from sale of assets, services rendered, or expenses reimbursed remain unpaid.
- Lease rentals or hire purchase instalments are overdue.
- If any one credit facility becomes NPA, then all facilities to the borrower are also treated as NPA.
- Exception: In lease and hire purchase, classification is based on actual recovery record.

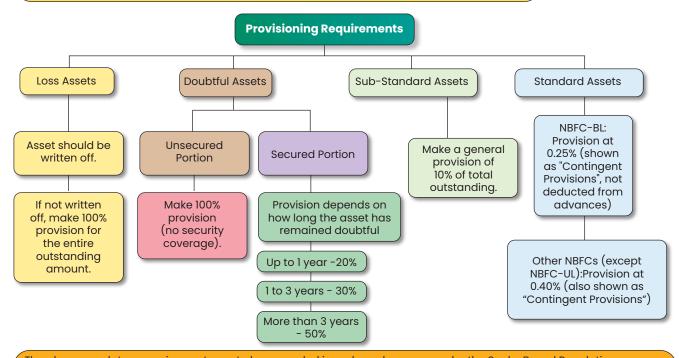
Note:

The period of more than 180 days for NPA classification as mentioned above shall be adjusted as per glide path outlined as under:

#### NPA Glide Path (Transition to 90 Days)

Overdue Threshold	Applicable Till	
>150 days	31 March 2024	
>120 days	31 March 2025	
>90 days	31 March 2026	

Note: Glide path not applicable to NBFCs already following the 90-day norm.



The above regulatory requirements are to be amended in a phased manner under the Scale-Based Regulation prescribed by RBI for NBFCs.

# **Special Features of Audit of NBFCs**

## **Audit Procedures**

0

Ascertaining the Business of the Company 2

Evaluation of Internal Control System 3

Registration with the RBI

4

NBFC Acceptance
of Public Deposit
Directions
(Non-Banking
Financial
Companies
Acceptance of
Public Deposits
(Reserve Bank)
Directions, 2016)

5

NBFC Prudential Norms

# Classification of Frauds by NBFC

Misappropriation and criminal breach of trust.

Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.

Unauthorised credit facilities extended for reward or for illegal gratification.

Negligence and cash shortages.

Cheating and forgery

Irregularities in foreign exchange transactions.

Any other type of fraud not coming under the specific heads as above.

**Fraud Cases Without Proven Intent** 

Cash shortages exceeding ₹ 10,000

Cash shortages exceeding ₹ 5,000 when detected by management/auditor/inspecting officer and not reported by the person handling cash at the time of occurrence.

#### **Illustrative Audit Checklist**

Physically verify all the shares and securities held by a NBFC.

Verify whether the NBFC has not advanced any loans against the security of its own shares.

Verify that dividend income wherever declared by a company, has been duly received by an NBFC and interest wherever due has been duly accounted for.

Test check bills/contract notes received from brokers.

Verify the board minutes for purchase and sale of investments

Obtain a list of subsidiary/group companies from the management and verify the investments made in subsidiary/ group companies during the year.

Ascertain whether the requirements of IND AS / AS 13 have been duly complied with.

Verify charges received or paid in respect of securities lend/borrowed.

Obtain a confirmation from the approved intermediary regarding securities deposited.

An auditor should examine whether each loan or advance has been properly sanctioned. Verify the conditions attached to the sanction of each loan.

Obtain balance confirmations from the concerned parties.

Check whether 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.

Verify whether the NBFC has an adequate system of proper appraisal and follow up of loans and advances.

Check the classification of loans and advances made by an NBFC into Standard Assets, Sub-Standard Assets, Doubtful Assets and Loss Assets and the adequacy of provision for bad and doubtful debts as required by NBFC Prudential



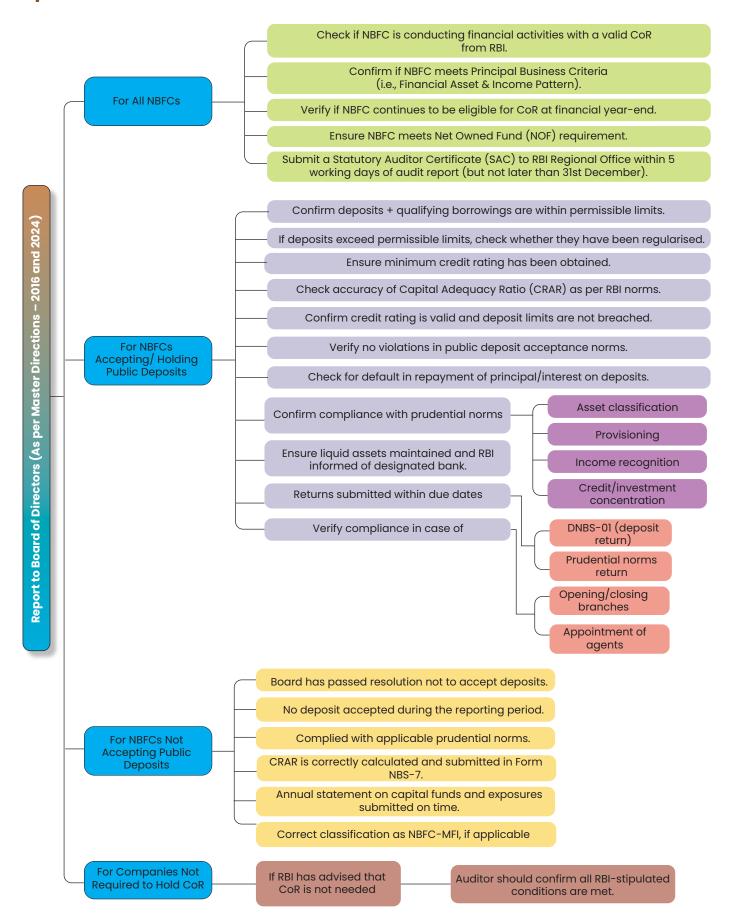
# I. Compliance with NBFC Auditor's Report - RBI Directions

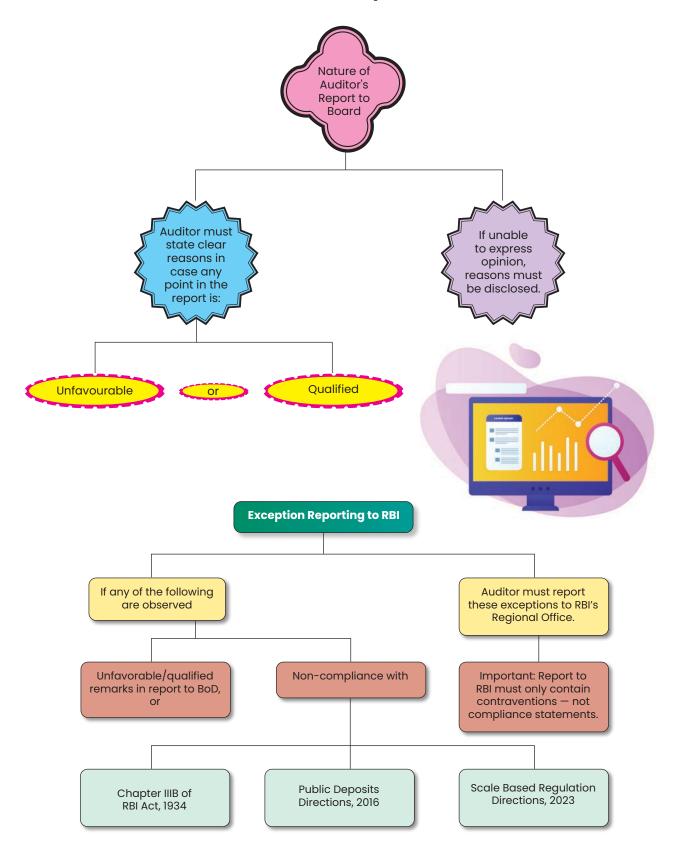
**Auditor's General** Responsibilities

Additional role beyond audit report under the Companies Act, 2013 (Section 143).

**Must report to** 

- Board of Directors (BoD) on specific RBI-mandated matters.
- RBI, if any non-compliance or adverse remarks are observed.





#### II. Compliance with CARO 2020

#### As per CARO 2020, the auditor is required to report that –

- As per Paragraph 3(iii), whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, If so,
- (a) whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;
- (b) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
- (c) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;
- (d) whether the company has granted any loans or advances in the nature of loans either 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 as defined in clause (76) of section 2 of the Companies Act, 2013;

#### (II) As per Paragraph 3(xvi)

- (a) Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.
- (b) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid CoR from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;
- (c) 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;
- (d) 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;

# Difference between Division II (Ind- AS- Other than NBFCs) and Division III (Ind- AS- NBFCs) of Schedule III

The presentation requirements under Division III for NBFCs are similar to Division II (Non NBFC) to a large extent except for the following:

Order of Presentation NBFCs can present balance sheet items in order of liquidity; Division II requires a fixed format.

Disclosure of Other Income/ Expense

NBFCs must disclose items >1% of total income; Division II requires >1% of revenue from operations or ₹10 lakhs, whichever is higher.

Receivables from LLPs

NBFCs must disclose debts due from LLPs where directors are partners/members.

Income Disclosure in P&L NBFCs must show 'Revenue from operations' and 'Other Comprehensive Income' on the face of P&L, not just in notes.

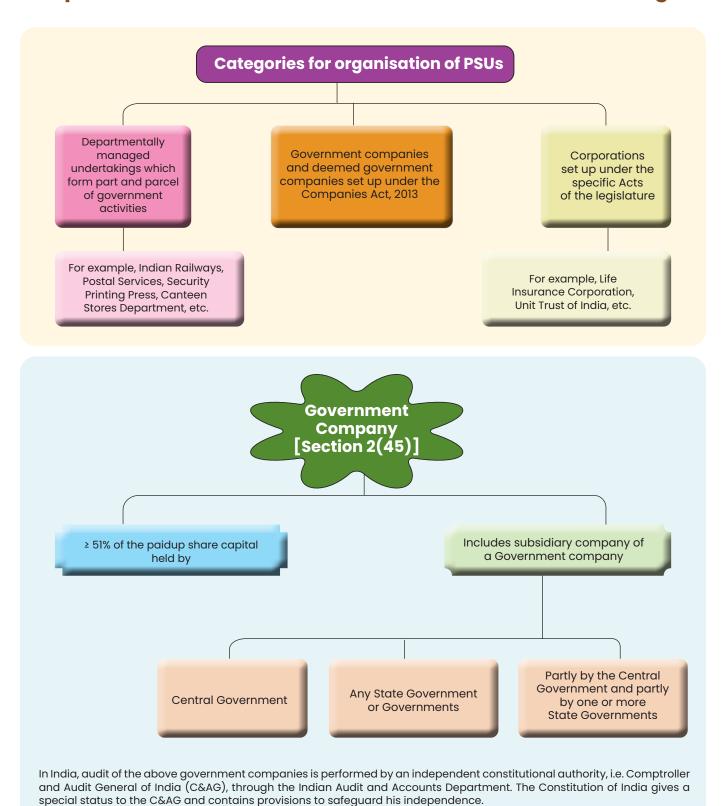
Trade Receivables Credit Risk

NBFCs must separately disclose receivables with significant credit risk or credit impaired.

Statutory Reserve Restrictions

NBFCs must disclose conditions/restrictions on distribution of statutory reserves in the notes.

# Chapter 15 – Overview of Audit of Public Sector Undertakings



# Article 148 to 151 of the Constitution prescribes the role of C&AG as follows

#### Article 148

- Appointment of C&AG by the President.
- Special procedure for removal of C&AG, only on the ground of proven misbehaviours 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 States shall be kept.

#### **Article 151**

 Audit reports of the C&AG relating to the accounts of the Central/ State Government should be submitted to the President/Governor of the State who shall cause them to be laid before Parliament/ State Legislative Assemblies.

C&AG's Role – The Comptroller & Auditor General of India plays a key role in the functioning of the financial committees of Parliament and the State Legislatures. He has come to be recognised as a 'friend, philosopher and guide' of the Committees.

His Reports generally form the basis of the Committees' working, although they are not precluded from examining issues not brought out in his Reports;

The Financial Committees present their Report to the Parliament/ State Legislature with their observations and recommendations.

He scrutinises the notes which the Ministries submit to the Committees and helps the Committees to check the correctness of submissions to the Committees and facts and figures in their draft reports;

The various Ministries / Department of the Government are required to inform the Committees of the action taken by them on the recommendations of the Committees (which are generally accepted) and the Committees present Action Taken Reports to Parliament / Legislature;

In respect of those Audit Reports, which could not be discussed in detail by the Committees, written answers are obtained from the Department / Ministry concerned and are sometimes incorporated in the Reports presented to the Parliament / State Legislature.

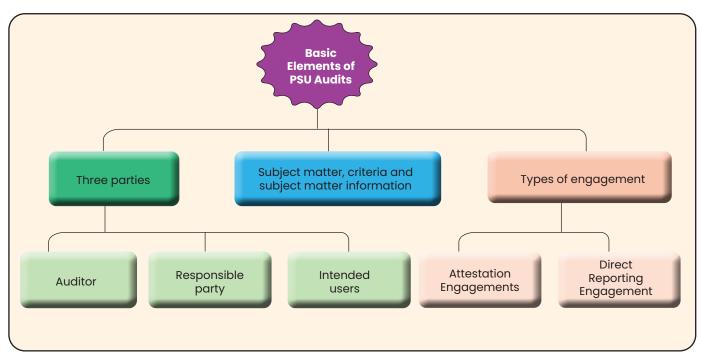
This ensures that the Audit Reports are not taken lightly by the Government, even if the entire report is not deliberated upon by the Committee.

# **Audit Conducted by C&AG**



#### **Elements of PSU Audits**

Public sector auditing augments the confidence of the intended users by providing relevant information and independent and objective assessments concerning deviations from accepted standards or principles of good governance.



# **Overview of Audit of Public Sector Undertakings**

(a) The Three parties - Auditor, Responsible Party and Intended Users.

#### **Auditor:**

The role of auditor is fulfilled by Supreme Audit Institution (SAI), India and by its personnel delegated with the duty of conducting audits.

#### **Responsible Party:**

The relevant responsibilities are determined by constitutional or legislative arrangement.

#### **Intended Users:**

Intended users are the individuals, organizations or classes thereof for whom the auditor prepares the audit report.

(b) 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.

(c) Types of engagement - Attestation Engagements and Direct Reporting 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.

Financial audits are always attestation engagements, as they are based on financial information presented by the responsible party. Performance audits and compliance audits are generally direct reporting engagements.



The principles of PSU Audits constitute the general standards that apply to SAI India's personnel as auditors and are fundamental to the conduct of all types of PSU Audits. The principles are categorised into two distinct groups as below:

I. General Principles

II. Principles related to the Audit Process

#### **General Principles**



#### **Principles related to the Audit Process**

#### **Planning the Audit**

- Establish the terms of the audit.
- Obtain understanding of the entity.
- Conduct Risk assessment of problem analysis.
- Identify risks of fraud.
- Develop an audit plan.

#### **Conducting the Audit**

- Perfom the planned audit procedures to obtain audit evidence.
- Evaluate audit evidence and draw conclusions.

#### Reporting & Follow-up

- Prepare a report based on the conclusions reached.
- Follow-up on reported matters as relevant.

# **Financial Audit**

#### Financial audit is primarily conducted to:

- express an audit opinion on the financial statements; and
- enhance the degree of confidence of intended users in the financial statements.

The C&AG shall express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

# **Compliance Audit**

Compliance audit is the independent assessment of whether a given subject matter is in compliance with the applicable authorities identified as criteria. Compliance audit is concerned with

**Regularity**- adherence of the subject matter to the formal criteria emanating from relevant laws, regulations and agreements applicable to the entity.

**Propriety**- observance of the general principles governing sound financial management and the ethical conduct of public officials.

#### **Perspective of Compliance Audit**

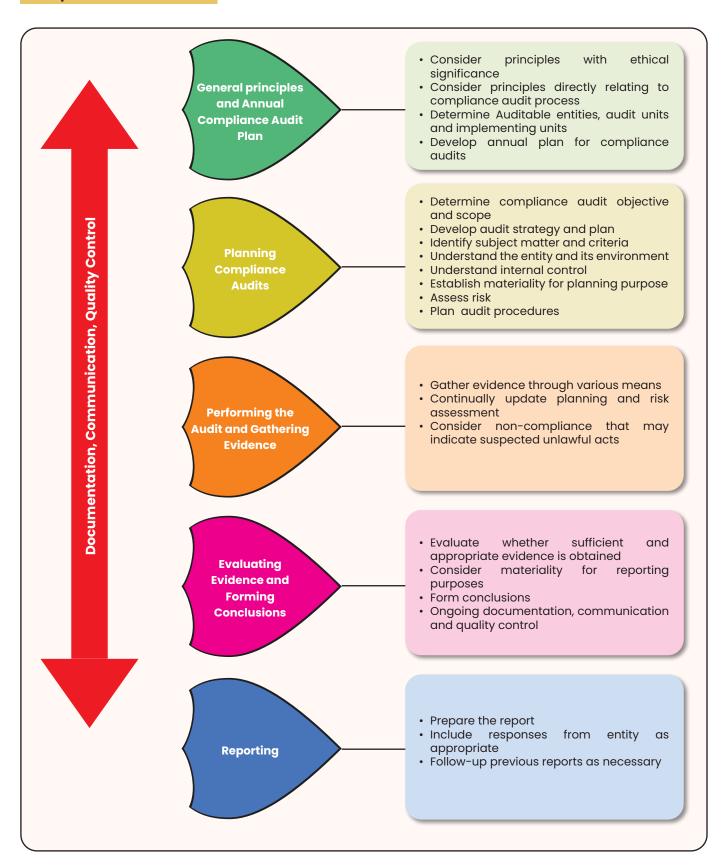
# Compliance Auditing is generally conducted either

audit of financial statements, or

separately as individual compliance audits, or in combination with performance auditing.



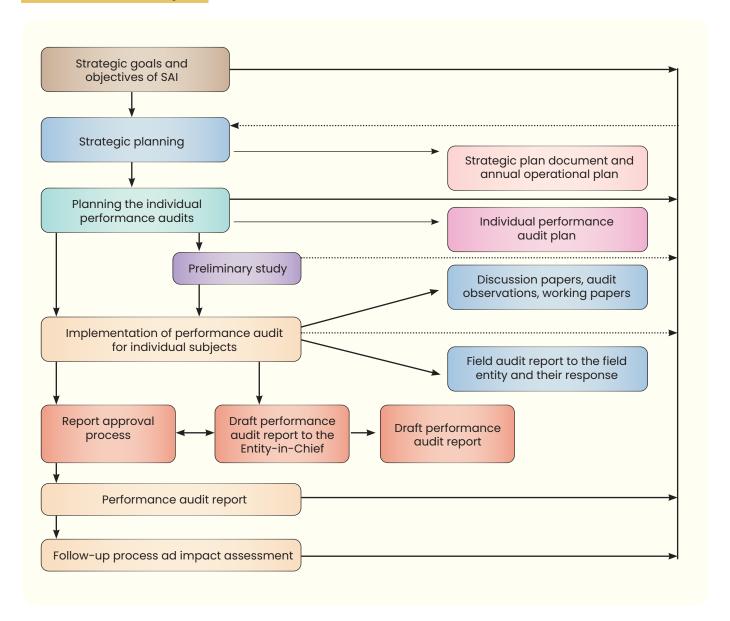
#### **Compliance Audit Process**



# **Performance Audit**

A performance audit is an objective and systematic examination of evidence for the purpose of providing an ndependent assessment of the performance of a government organisation, programme, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

#### **Performance Audit Cycle**



#### Performance Audits usually address the issues of:

#### **ECONOMY**

It is minimising the cost of resources used for an activity, having regard to appropriate quantity, quality and at the best price.

#### **EFFICIENCY**

It is the input-output
ratio. In the case of public
spending, efficiency is
achieved when output
is maximised at the
minimum of inputs, or input
is minimised for any given
quantity and quality of
output

#### **EFFECTIVENESS**

It is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.

#### Planning for Performance Audit

Understanding the entity/programme

Defining the objectives and the scope of audit

Determining audit criteria

Deciding audit approach

Developing audit questions

Assessing audit team skills and whether outside expertise required

Preparing Audit
Design Matrix

Establishing time table and resources Intimation of Audit programme to audit entities



# **Overview of Audit of Public Sector Undertakings**

#### **Comprehensive Audit**

#### Some of the issues examined in comprehensive audit are:

- (a) How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?
- (b) Have the accepted production or operational outputs been achieved? Has there been under-utilisation of installed capacity or shortfall in performance and, if so, what has caused it?
- (c) Has the planned rate of return been achieved?
- (d) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost?
- (e) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?
- (f) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?
- (g) Does the enterprise have research and development programmes? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?
- (h) If the enterprise has an adequate system of repairs and maintenance?
- (i) Are procedures effective and economical?
- (j) Is there any poor or insufficient or inefficient project planning?

# **Overview of Audit of Public Sector Undertakings**

# **Propriety Audit**

E. L. Kohler has defined the term propriety as "that which meets the tests of public interest, commonly accepted customs, and standards of conduct, and particularly as applied to professional performance, requirements of law, Government regulations and professional codes".

#### Functions of Auditor in the context of Propriety Audit are to





#### **Principles of Propriety Audit**

that the expenditure is not prima facie more than the occasion demands and that every official exercises the same degree of vigilance in respect of expenditure as a person of ordinary prudence would exercise in respect of his own money;

that the authority
exercises its power
of sanctioning
expenditure
to pass an order which
will not directly or
indirectly accrue to
its own advantage;

that funds are not utilised for the benefit of a particular person or group of persons and that, apart from the agreed remuneration or reward, no other avenue is kept open to indirectly benefit the management personnel, employees and others.

It may be stated that it is the responsibility of the executive departments to enforce economy in public expenditure. The function of audit is to bring to the notice of the proper authorities of wastefulness in public administration and cases of improper, avoidable and infructuous expenditure.

# Audit Report of the Comptroller and Auditor General

To facilitate a proper consideration, the reports of the C&AG on the audit of PSUs are presented to the Parliament in several parts consisting of the following

Introduction containing a general review of the working results of Government companies, deemed Government companies and corporations;

Results of comprehensive appraisals of selected undertakings conducted by the Audit Board; Resume of the company auditors' reports submitted by them under the directions issued by the C&AG and that of comments on the accounts of the Government companies; and

Significant
results of audit of
the undertakings not
taken up for appraisal
by the Audit Board.

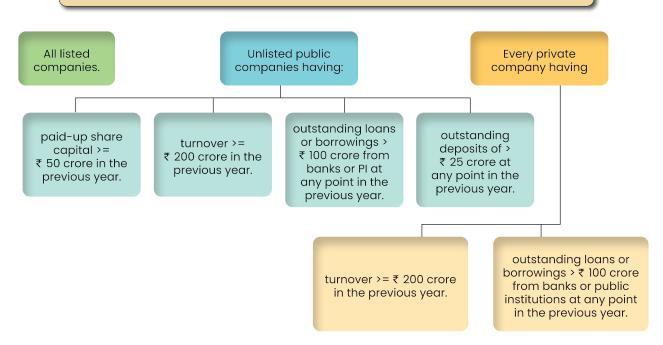
# Chapter 16 - Internal Audit

"Internal Audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives."





As per Section 138 of the Companies Act, 2013, Certain companies to have an internal auditor. This applies to:



Student may note existing company gets covered under any of the above criteria shall comply with the requirements within Six months of commencement of such applicability.

#### Who can be Appointed as an Internal Auditor?

As per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company.

The internal auditor may or may not be an employee of the company.



#### **Internal Audit**

According to Standard on Internal Audit (SIA) 210 Managing the Internal Audit Function, the Internal Audit Function undertakes various activities to fulfill its objectives as specified in its Charter (or Terms of Engagement). Some of these activities include:



With respect to the accounting function and financial records of the organisation, the responsibilities of an Internal Auditor include:

To continuously assess the adequacy of a company's internal control system by examining accounting procedures, receipts and disbursements.	To provide safeguards against the misappropriation of assets.	To operate independently of the accounting staff and not have any conflicting responsibilities.	Not to involve in performance of executive functions.
To report on observed facts and situations to relevant authorities who may not be aware of them.	To critically appraise management policies and identify deficiencies that need correction.	To maintain a close association with management to stay informed about important business developments and policy changes.	Internal Auditor must have independent status.

# **Management Functions and Scope of Internal Auditing**

For companies covered under section 138, the Audit Committee or Board, along with management and the Chief of Internal Audit, defines internal audit objectives.

For other organisations, those appointing the Internal Auditor (owners, promoters, Board of Trustees) define the objectives.

The internal audit plan should encompass all business processes, including financial and operational activities.

# The scope of internal auditor's work should include a review of-



#### **Review of Internal Control System and Procedures**

- involves assessing the design and operational efficiency and effectiveness of the internal control system
- to strengthen the overall internal control environment.
- minimise residual risk by suggesting the appropriate controls to reduce the inherent risk.
- Example: Review of three-way matching internal control
- consider the limitations of internal controls, i.e., cost-benefit comparison, human errors, collusion, and abuse by process owners.
- should be in use throughout the period of intended reliance

# Review of Custodianship and Safeguarding of Assets

Existence of assets.

Segregation of duties is in place.

Control systems to ensure that all assets are accounted for fully. Review of means used for safeguarding assets against losses E.g: fire, improper or negligent activity, theft and illegal acts, etc.

Control systems for intangible.

#### Review of Compliance with Policies, Plans, Procedures and Regulations

Ensure various functional segments comply with relevant policies, plans, procedures, laws, and regulations.

Examine the system for regular review of existing policies.

Focus on changes in methods and nature of operations.

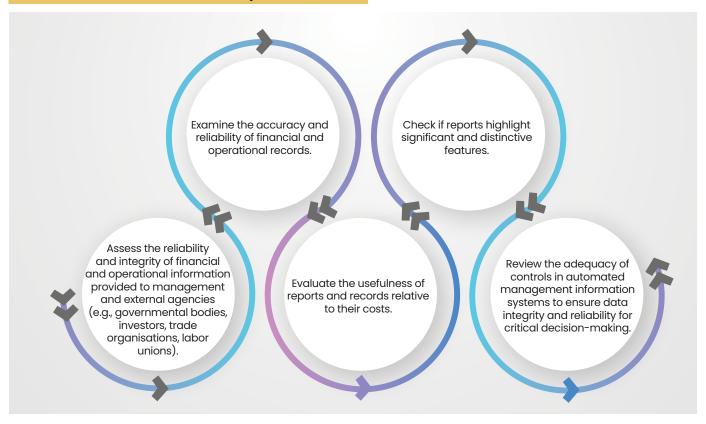
Combine review results of system adequacy with compliance test results.

Evaluate the effectiveness of the internal control systems.

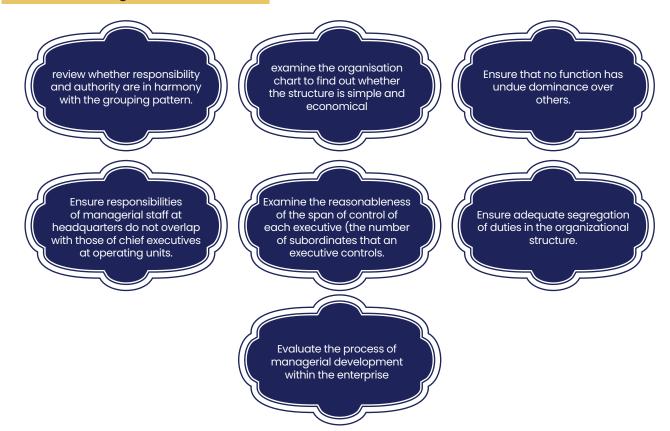
Point out specific weaknesses in the system.

Suggest remedial actions to address these weaknesses.

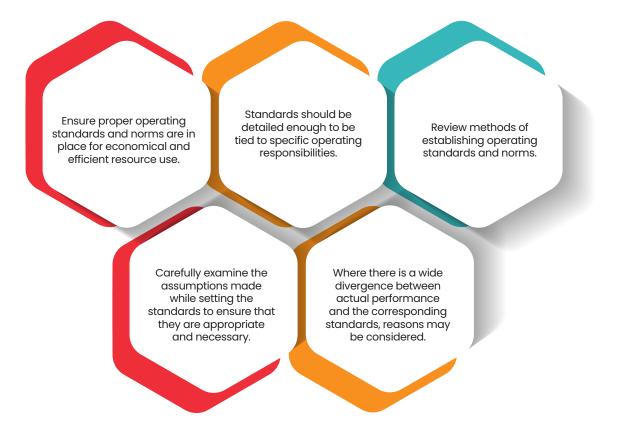
#### Review of Relevance and Reliability of Information



#### **Review of the Organisation Structure**



#### **Review of Utilisation of Resources**



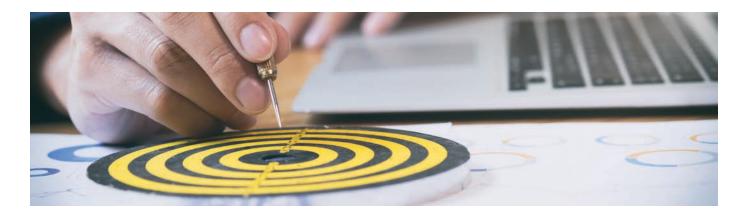
#### **Review of Accomplishment of Goals and Objectives**

Ensure the overall objectives of the enterprise are clearly stated and attainable.

Check if objectives are expressed in precise, quantifiable terms (monetary and non-monetary) to aid detailed planning.

Emphasise
budgeting as a crucial
part of planning to
anticipate problem
areas.

Ensure plans are flexible enough to allow improvements in implementation for the enterprise's benefit.



# Integrity, Objectivity and Independence of Internal Auditor (IA)



#### Independence

The IA must be free from undue influences and pressures, ensuring independence in both mind and appearance.

Independence should be maintained in defining the scope and conducting/reporting assignments.

The organisational structure, reporting position, and authority of the Chief Internal Auditor establishes this independence.



#### Integrity

The IA must be honest, truthful, and possess high integrity.

IA should avoid conflicts of interest and shall not seek personal benefits.



#### Objectivity

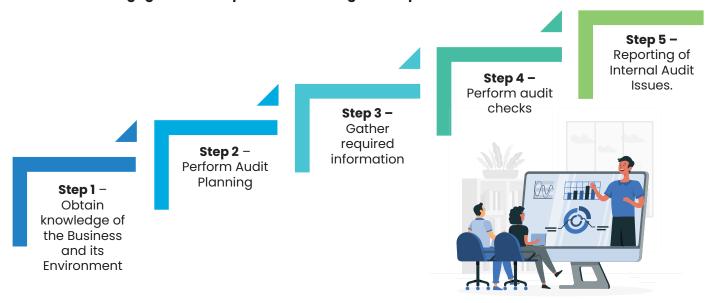
Conduct work objectively, particularly in gathering and evaluating facts and evidence.

Shall not be prejudice or bias in reaching conclusions and reporting opinions.



#### **Performing Internal Audit Engagement**

Internal audit engagement comprises of following five steps



#### **Internal Audit Report**

As per Standard on Internal Audit (SIA) 370 Reporting Results, reporting of internal audit results is generally undertaken in two stages

At the end of a particular audit assignment, an "Internal Audit Report" covering a specific area, function or part of the entity is prepared by the Internal Auditor highlighting key observations arising from those assignments. This report is generally issued with details of the manner in which the assignment was conducted and the key findings from the audit procedures undertaken. This report is issued to the auditee, with copies shared with local and executive management, as agreed during the planning phase.

On a periodic basis, at the close of a plan period, a comprehensive report of all the internal audit activities covering the entity and the plan period is prepared by the Chief Internal Auditor (or the Engagement Partner, in case of external service provider). Such reporting is normally done on a quarterly basis and submitted to the highest governing authority responsible for internal audits, generally the Audit Committee. Some part of the aforementioned Internal Audit Reports may form part of the periodic (e.g. Quarterly) report shared with the Audit Committee.

# This Standard on Internal Audit (SIA) deals with the internal auditor's responsibility to issue only the first type of reports, the Internal Audit Report pertaining to specific audit assignments and not to the periodic (e.g. Quarterly) reporting for the whole entity as per the Annual/Quarterly audit plan.

#### Internal Audit Report includes the following key elements

A summary of Nature of An overview of An executive The fact the corrective assurance, the objectives, summary that an actions if any, scope and of key internal audit which can required (or approach observations has been be derived agreed by of the audit covering all conducted in management) from the assignments; important accordance for each observations. the Standards aspects, and observation; of Internal specific to the and scope of the Audit; assignment;

The internal audit report shall be issued within a reasonable time frame from the completion of the internal audit work.

#### 1 Basis of Internal Audit Report:

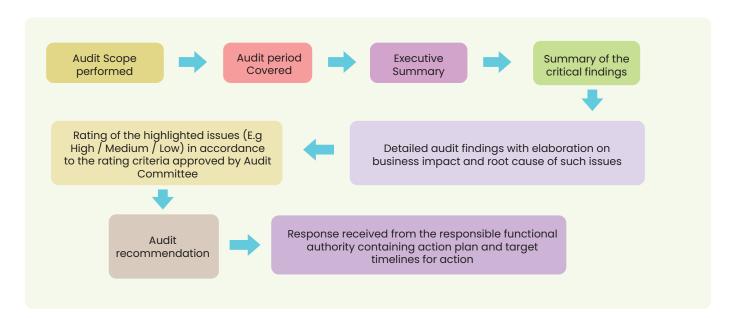
Report is prepared on the basis of the audit procedures conducted and the analysis of the audit evidence gathered. Conclusions reached shall be based on all the findings rather than on a few deviations or issues noted.

Both effective controls and significant observations are reported.

#### 2. Conducted in Accordance with SIAs:



**3. Content and Format of Internal Audit Report:** Internal audit report should include (As per SIA 380, "Issuing Assurance Reports")



#### 4. Documentation:

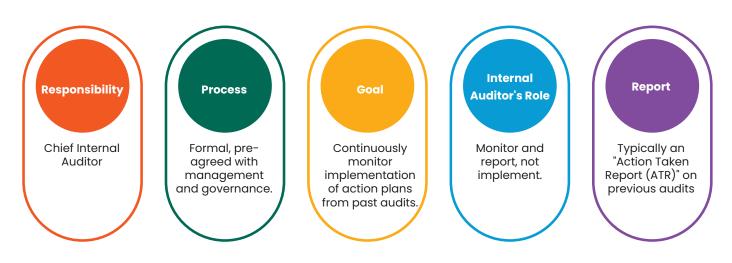
To confirm compliance of audit procedures with this SIA, the list of documents required is as follows:

Copies of draft and final internal audit reports to be maintained, appropriately cross referenced to specific observations.

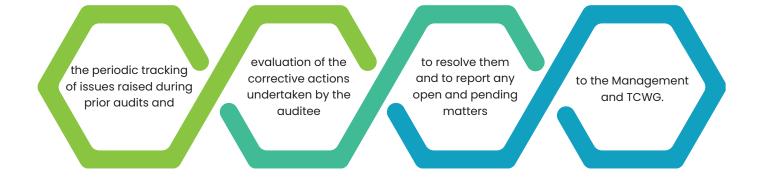
If appropriate, management action plans may be counter signed by respective management personnel.

## Follow-up

#### Monitoring and Reporting of Prior Audit Issues (SIA 390)



#### The term "Monitoring and Reporting" used in this Standard refers to



Responsibility	Description	
Review Management Action	The auditor should assess whether management has taken follow-up action based on the audit report.	
Timely Follow-up	If no action is taken within a reasonable timeframe, the auditor should bring it to management's attention.	
Understand Reasons in case of no action	If management doesn't implement recommendations, the auditor should seek to understand the reasons behind it.	
Monitor Implemented Actions	For recommendations where management has taken action, the auditor should periodically review the progress and report on it.	
Highlight Outstanding Issues	The auditor should specifically report on any recommendations that haven't been fully or partially implemented.	

# Relationship Between Internal and External Auditors

Internal Audit

Scope and objectives depend on the organisation's size, structure, and management needs.

Reviews accounting systems, internal controls, financial/operational information, and asset management.

Overlap exists with external audit work.

External Audit

Work is impacted by internal audit findings (controls, financial information, assets).

Examines the scope, effectiveness, and independence of the interna

Uses internal audit results to determine the extent of their own procedures.

Relationship

Internal audit findings can help external auditors be more efficient

External auditors rely on internal audit work to some extent, but not entirely.



#### Difference Between Internal & External Auditors

Basis For Comparison	Internal Audit	External Audit
1. Performed by	Independent internal auditing function within the organisation or by external body.	Independent body which is not a part of the organization.
2. Examines	Adequacy of operational controls of the organisation.	Accuracy and Validity of Financial Statements.
3. Appointment	Internal auditor is appointed by the Audit Committee or Board of Directors.	External auditor is appointed by the Members.
4. Users of Report	Top Management and referred by statutory auditor.	Stakeholders.
6. Reporting	Internal Audit Report provides weakness in internal controls and effectiveness of the operational activities.	The opinion is provided on the truthfulness and fairness of the financial statement of the company.
7. Status of Auditor	Can be an employee of the company.	Is mandatorily not an employee of the company.

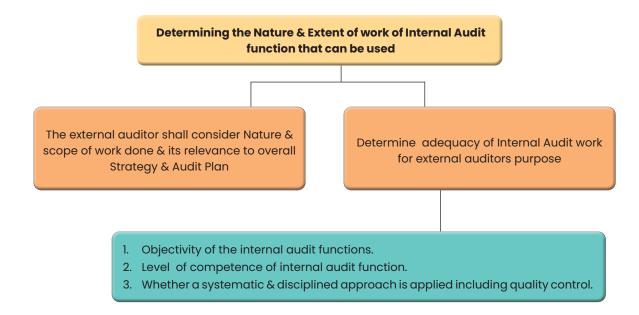
SA~610, "Using~the~work~of~an~Internal~Auditor"~deals~with~certain~aspects~of~relations hip~between~internal~auditors.

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

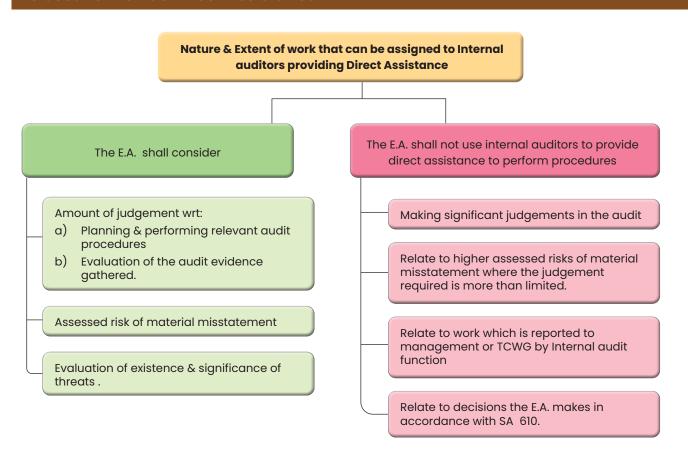
#### **Evaluating the Internal Audit Function:**



#### Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used



Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance



# If the External Auditor uses Internal Auditors to Provide Direct Assistance on the Audit, the External Auditor shall include in the Audit Documentation

of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance:

The basis for the decision regarding the nature and extent of the work performed by the internal auditors; Who reviewed the work performed and the date and extent of that review in accordance with SA 230 Audit

The written agreements obtained from an authorized representative of the entity and the internal auditors; and

The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

#### Internal Audit as a Management Function

As per the revised definition of the term 'Internal Audit' as per para 3 of the ICAl's Framework Governing Internal Audits, "Internal audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives

Internal Audit is an important element of management controlling function.



Provides independent assessment of internal controls.

Advises management on improving controls and managing risks. Identifies
weaknesses in
internal controls
and suggests
solutions.

Strengthens the overall internal control environment. Ultimately helps management achieve organizational goals more effectively.

#### **Audit Trail**

Audit Trail (or Edit Log) is a visible trail of evidence enabling one to trace information contained in statements or reports back to the original input source.

Audit trails are a chronological record of the changes that have been made to the data.

Any change to data including creating new data, updating or deleting data that must be recorded

Records maintained as audit trail may include the following information:

- when changes were made i.e., date and time (timestamp)
- who made the change i.e., User Id
- what data was changed i.e., data/transaction reference; success/failure

To ensure the audit trail's functionality, companies need specific internal controls, mostly related to IT. These controls aim to:

- Prevent disabling the audit trail feature.
- · Assign unique user IDs and prevent sharing.
- Require authorisation for audit trail configuration changes and keep logs.
- Limit access to the trail and backups, logging all access attempts.
- Regularly back up and archive the trail according to legal requirements.



# Chapter 17 - Due Diligence, Investigation & Forensic Accounting

# **Due Diligence**

#### **Audit**

Due diligence refers to an examination of a potential investment to confirms all material facts of the prospective business opportunity. It involves review of financial and non-financial records as deemed relevant and material.

Vs.

An audit is an independent examination and evaluation of the financial statements of an organisation with a view to express an opinion thereon.

#### Importance of Due-Diligence

- · To confirm that the business is what it appears to be;
- · To identify potential 'deal killer' defects in the target and avoid a bad business transaction;
- To gain information that will be useful for valuing assets, defining representations and warranties, and/or negotiating price concessions; and
- · To verify that the transaction complies with investment or acquisition criteria.

# **Classification of Due-Diligence**

Commercial or Operational Due Diligence	Financial Due Diligence	Tax Due Diligence	Legal Due Diligence	Environmental Due Diligence	Personnel Due Diligence	Information System Due Diligence
Performed by the concerned acquire enterprise involving an evaluation from commercial, strategic and operational perspectives.	Perform after completion of commercial due diligence.  Analyse the books of accounts and other information pertaining to financial matters of the entity.	Pertains to all taxation and related matters of the entity.	This may be required where legal aspects of functioning of the entity are reviewed.	To study the entity's environment, its flexibility and adaptiveness to the acquirer entity.	To ascertain that entity's personnel policies are in line or can be changed to suit the requirements of the restructuring.	Pertains to all computer systems and related matter of entity.

#### Key Objectives of Financial Due Diligence

Brief description of the history of business

The background & standing of promoters

Accounting policies and practices followed by organisation

Management information systems

Details of management structure

Trading results, both past and the recent past

Assets and liabilities as per latest balance sheet

Current status of Income-tax assessments including appeals pending against tax liabilities assessed by tax authority

Cash flow patterns

The projection of future profitability

Brief Desciption of commercial and/or other activities carried out by organisation

The objective of the Due
Diligence exercise will be to
look specifically for any hidden
liabilities or over-valued assets.



#### **EXAMPLES OF HIDDEN LIABILITIES**

The company may not show The company may have The Company may have any show cause notices given "Letters of Comfort" sold some subsidiaries/ which have not matured to banks and financial businesses and may have into demands, as contingent institutions. Since these are agreed to take over and not "guarantees", these indemnify all liabilities and liabilities. These may be material and important. may not be disclosed in the contingent liabilities of the same, prior to the date of Balance sheet of the target company. transfer. These may not be reflected in the books of accounts of the company. Product and other liability Tax liabilities under direct Long pending sales tax claims; warranty liabilities; and indirect taxes. assessments. Product returns/discounts; Liquidated damages for late deliveries etc., and all litigation. Pending final assessments Agreement to buy back Future lease liabilities. of customs duty where shares sold at a stated price. provisional assessment only has been completed. Environmental problems/ Unfunded gratuity/ Huge labour claims claims/third party claims. superannuation/leave salary under negotiation liabilities; incorrect gratuity when the labour wage valuations. agreement has already expired. Unresolved labour litigation

#### **EXAMPLES OF OVER-VALUED ASSETS**

Uncollected/uncollectable receivables.

Obsolete, slow non-moving inventories or inventories valued above NRV; huge inventories of packing materials etc., with name of company.

Underused or obsolete Plant and Machinery and their spares; asset values which have been impaired due to sudden fall in market value etc.

Assets carried
at much more than
current market value due to
capitalisation of expenditure/
foreign exchange fluctuation, or
capitalisation of
expenditure mainly in
the nature of revenue.

Litigated assets and property.

Investments carried at cost though realisable value is much lower.

Investments carrying a very low rate of income / return.

Infructuous project expenditure/deferred revenue expenditure etc.

Group Company balances under reconciliation etc.

Intangible assets of no value.



#### Work Approach to Due Diligence

The purchase of business in many instances is the largest and most expensive assets purchase in life time and therefore some caution should be exercised through the due diligence process. Therefore, assessing the businesses fair value passes through.

Reviewing and reporting on the financials submitted by the target company.

Assessing the business first hand by a site visit (if applicable). Working through
the due diligence
process with the
acquisitioning company
or investor by defining
the key areas.

Helping prepare an offer based on completion of due diligence.

## **How to Conduct Due Diligence**

Start with an open mind.

Get the best team of people.

Talk to customers, suppliers, business partners, and employees are great resources. Talk to customers, suppliers, business partners, and employees are great resources.

Get help in all areas like finance, tax accounting, legal, marketing, technology, and any others relevant to the assignment.

Take a risk management approach.

Prepare a comprehensive report detailing the compliances and substantive risks/issues.

# **Due Diligence, Investigation & Forensic Accounting**

# Contents of A Due Diligence Report

be executed to cover unforeseen and

undetected contingent liabilities

The contents of a due diligence report will always vary with individual circumstances.

#### Example of Headings of a Due Diligence Report (these headings are illustrative)

**Executive Summary** Introduction Background of Target Terms of reference and Objective of due Brief history of the scope of verification diligence company Observations on the Assessment of Share holding pattern review management structure Comments on properties, Assessment of Assessment of terms of leases, lien and financial liabilities valuation of assets encumbrances Assessment of possible liabilities Assessment of taxation Assessment of on account of litigation and legal operating results and statutory liabilities proceedings against the company Interlocking investments and financial obligations with Assessment of net worth group / associates companies, amounts receivables subject to litigation, any other likely liability which is not provided for in the books of account Status of charges, liens, Comments on future mortgages, assets and **SWOT Analysis** projections properties of the company Suggestion on ways and means Suggestions on various aspects to including affidavits, indemnities, to be taken care of before and after the

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proposed merger/acquisition.

# Investigation

# Investigation Vs. Audit

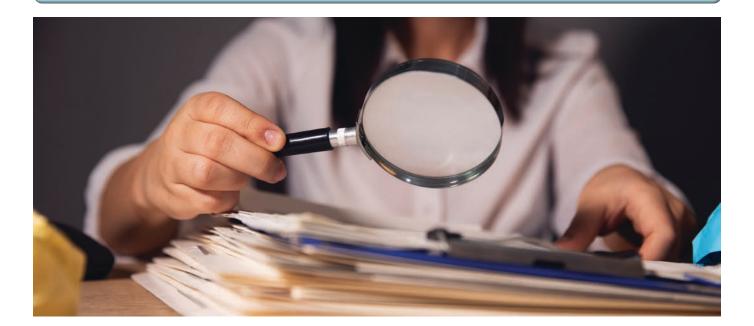
Basis of Difference	Investigation	Audit
Objective	An investigation aims at establishing a fact or a happening or at assessing a particular situation.	The main objective of an audit is to verify whether the financial statements display a true and fair view of the state of affairs and the working results of an entity.
Scope	The scope of investigation may be governed by statute or it may be nonstatutory.	The scope of audit is wide and in case of statutory audit the scope of work is determined by the provisions of relevant law.
Periodicity	The work is not limited by rigid time frame. It may cover several years, as the outcome of the same is not certain.	The audit is carried either quarterly, halfyearly or yearly.
Nature Requires a detailed study and examination of facts and figures. Voluntary in nature.		Involves tests checking or sample technique to draw evidences for forming a judgement and expression of opinion. Mandatory in nature.
Inherent Limitations No inherent limitation owing to its nature of engagement.		Audit suffers from inherent limitation.
Evidence	It seeks conclusive evidence.	Audit is mainly concerned with <i>primafacie</i> evidence.
Observance of Accounting Principles  It is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts.		Is governed by compliance with generally accepted accounting principles, audit procedures and disclosure requirements.
Appointing Agency Third party can appoint investigator.		Auditor appointed by owner/share holder of company/enterprise.
Reporting	The outcome is reported to the person(s) on whose behalf investigation is carried out.	The outcome is reported to the owners of the business entity.

# Steps in Investigation

Determination		Examination		
of objectives	Formulation	and study of	Analysis,	Preparation
and	of the	various records	processing and	of report and
establishment	investigation	by reference	interpretation	drawing up of
of scope of	programme.	to appropriate	of findings.	conclusions.
investigation.		evidence.		

#### Important Issues to be Kept in Mind by the Investigator while Preparing Report

- i) The report should not contain anything which is not relevant either to highlight the nature of the investigation or the final outcome thereof.
- ii) Every word or expression used should be properly considered so that the possibility of arriving at a different meaning or interpretation other than the one intended by the investigator can be minimised.
- iii) Relevant facts and conclusions should be properly linked.
- iv) Bases and assumptions made should be explicitly stated.
- v) The report should clearly spell out the nature and objective of the assignment accepted its scope and limitations, if any.
- vi) The report should be made in paragraph form with headings for the paragraphs. Any detailed data and figures supporting any finding may be given in Annexures.
- vii) Report should state restrictions or limitations, if any, imposed on the instructions given by the client.
- viii) The opinion of the investigator should appear in the final paragraph of the report.

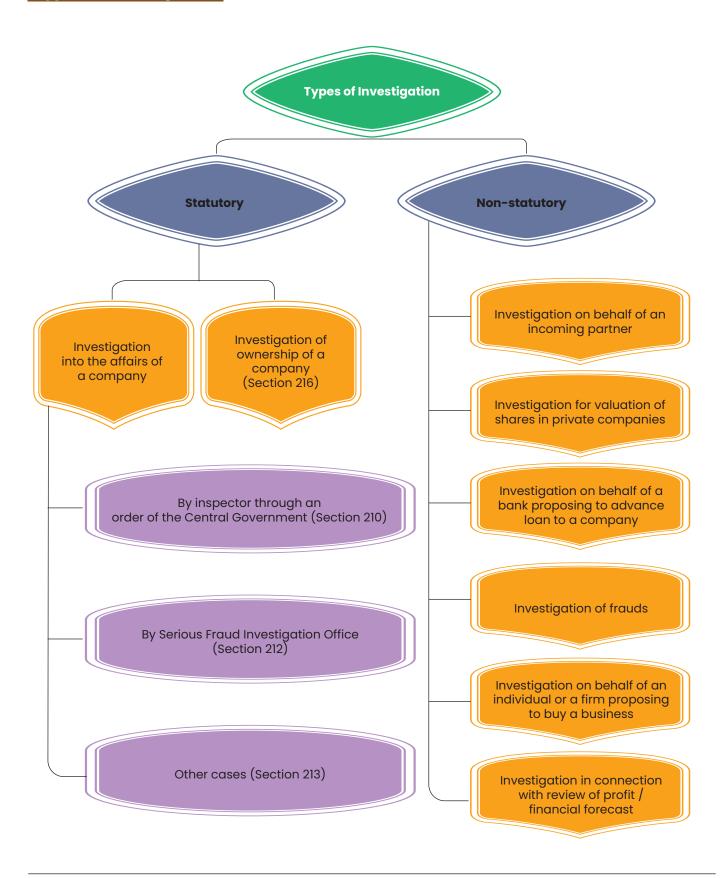


# **Special issues in Investigations**



Study the Statement of Profit and Loss such as: Turnover Studying the overall picture of the Wage structure position of the business. Depreciation Managerial remuneration Exceptional and non-recurring items Unusual year Repair and maintenance Factors to be considered while carrying out investigation Balance Sheet items such as: Fixed assets Investments Interpretation of figures of Inventories · Fixed assets Trade receivables Turnover Other liquid assets Working Capital Idle assets Liabilities Taxation Capital

# Types of Investigation



#### **Investigation for Valuation of Shares in Private Companies**

Review the firm's history and growth.

Examine the partnership deed for provisions relating to partner composition, capital contributions, profit-sharing, retirements, and governance mechanisms.

Analyse historical profitability with necessary adjustments, focusing on the appropriateness of partner remuneration in relation to business performance and partner credentials.

Assess the firm's asset and liability position, including valuation of intangibles and identification of contingent and pending tax liabilities.

Examine the order book and base quality and range of the existing clientele.

Review the structure, terms, and strategic implications of existing or absent loan finance.

Assess the competency and continuity risk associated with key managerial and technical personnel.

Identify significant contractual and statutory obligations, including employee benefit commitments, and assess their financial implications.

Establish the rationale for admitting a new partner and whether it coincides with the retirement of a key partner.

Appraisal of records of capital employed and return on investment, benchmarking against alternative investment opportunities and potential changes in capital structure.

Identify any areas of specialisation of the firm.

Examine the methodology for valuation and treatment of goodwill upon admission or retirement of partners.

Review any special clauses permitting admissions of new partner on specified or concessional terms.

Assess whether incomplete contracts transferred to the reconstituted firm will be a liability or a loss.

Investigation for Valuation of Shares in Private Companies Valuation of shares in private companies is essential due to the restricted transferability of shares, as required under the Companies Act, 2013, and the absence of a free market for price discovery.

#### **Key Valuation Methods:**

Net Worth Method Yield Method

# **Due Diligence, Investigation & Forensic Accounting**

# Investigation on Behalf of A Bank/ Financial Institution Proposing to Advance/Loan to A Company

Understand the purpose of the loan and how the borrower plans to invest it.

Review the loan repayment schedule and assumptions about profits and cash availability to ensure they are reasonable.

Assess the financial standing and business integrity of the company's directors and officers.

Check if the company's Memorandum or Articles of Association authorize borrowing for the intended purpose.

Review the company's growth, development, and performance over the past 5 years.

Evaluate how economic, political, and social changes might affect the company's position during the loan period.

Determine if the company applied for loans from other banks or financial institutions and understand reasons for any rejections.

# **Investigation of Frauds**

In the Companies Act, 2013 meaning of fraud has been considered in two specific sections viz. Section 143(10), where the SAs specified by the ICAI are deemed to be the auditing standards for purposes of the Act, which, inter alia, define fraud, and in section 447, where punishment for fraud has been prescribed.

Fraud has been defined in paragraph 11(a) of SA 240, "The

Auditor's responsibilities Relating to Fraud in an Audit of Financial

Statements", as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or

illegal advantage.'

In the context of stating the provisions for punishment for fraud, section 447 of the Act has explained the term 'fraud' as "fraud in relation to affairs of a company or any body corporate, includes any act, omission, concealment of fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss."

#### **TYPES OF FRAUDS**

Fraudulent Financial Reporting	Mis-appropriation of Assets	Corruption
<ul> <li>Alteration or falsification of records &amp; documents</li> <li>Misrepresentation in or intentional omission of events, transactions or information</li> <li>Intentional misapplication of accounting principles</li> <li>Fictitious Journal Entries</li> <li>Adjusting assumptions and changing Judgments</li> <li>Omitting, advancing or delaying the recognition of events or transactions.</li> <li>Abnormal Year End Transactions.</li> <li>Improper Asset Valuation</li> <li>Overstatement of Revenue or Understatement of Liabilities</li> </ul>	<ul> <li>Embezzlement of receipts in respect of written-off accounts – Skimming or Cash Larceny</li> <li>Stealing physical assets or intellectual properties</li> <li>Introduction of fictitious vendors</li> <li>Payroll Schemes – Ghost Employees, Falsified Wages, &amp; Commission Schemes</li> <li>Reimbursement Schemes – Mischaracterised Expenses, Multiple Reimbursement, &amp; Fictitious Expenses</li> <li>Using entities assets for personal use.</li> </ul>	<ul> <li>Conflict of Interest</li> <li>Bribery</li> <li>Illegal Gratuities</li> <li>Money Laundering</li> </ul>

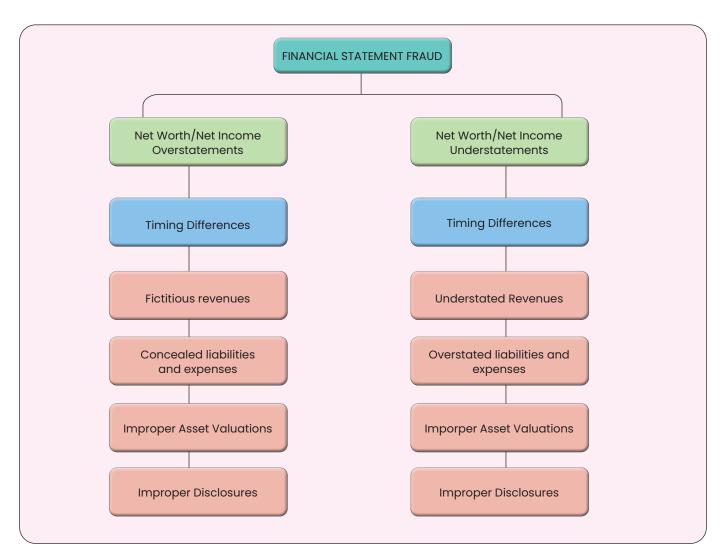
Fraudulent Entries	Sales Frauds	Collection Frauds	Expenses Frauds
Late entry     No entry     Part entry     Inserting wrong entries to divert attention	<ul> <li>Price enhancement</li> <li>Omission to make receipt of sale of scrap.</li> <li>Billing and sales reversals in amusement parks.</li> <li>Food production yield ratio in hotels and suppression of Revenue.</li> <li>Using or hiring assets of the company in lean period.</li> <li>Omission in preparation of dispatch note for sale.</li> <li>Sale of Assets recorded as Income.</li> <li>Cash sale adjusted as credit sale.</li> <li>Writing off a good debt as bad and irrecoverable.</li> </ul>	Defalcation of contributions to charity funds     Crediting donation to loan accounts     Rental collected in but not recorded     Rental collected in cash but not recorded.	Entering ineligible discount     Overcharging expenses     Falsification of documents     Untimely payment     Introduction of fictitious vendor     Unnecessary/huge provisioning of expenses

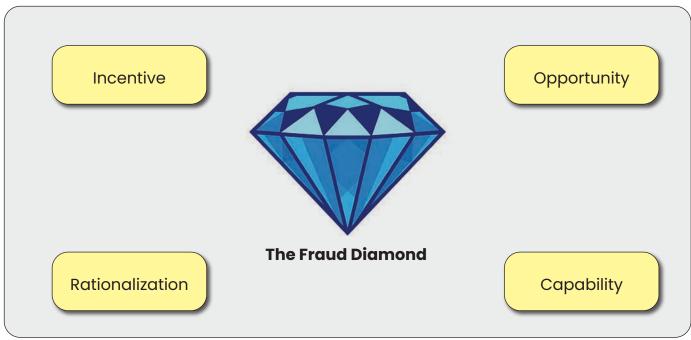
# Due Diligence, Investigation & Forensic Accounting

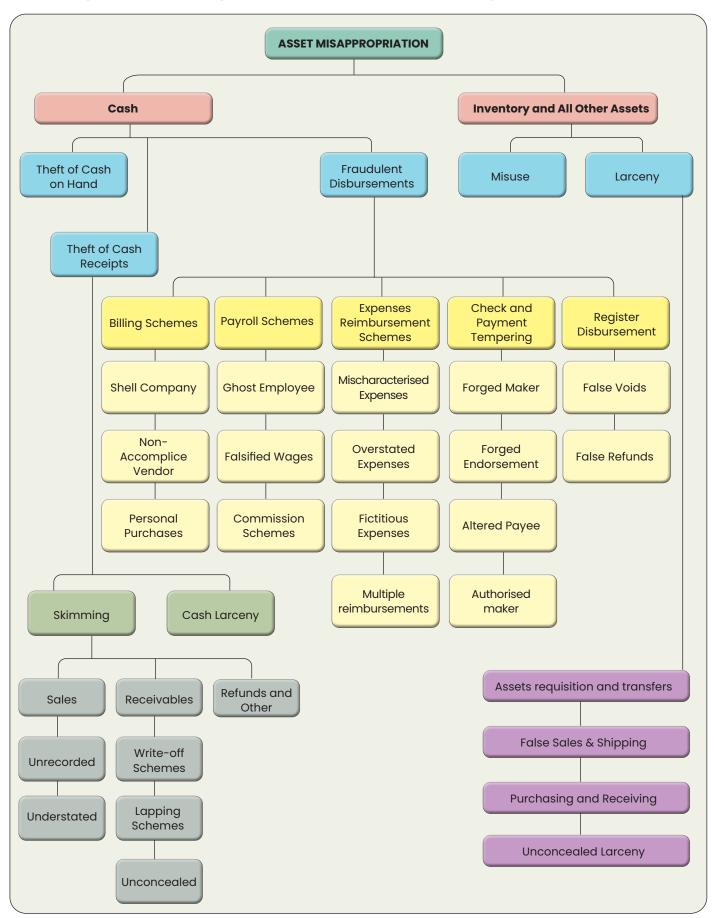
Payroll Frauds	Data Frauds
Extra number of employees	Change in computer data
Extra hours	Destroy, suppress or insert records
Calculation of net pay by transferring rounding off	Using open fields in computerised accounting system
amount to personal account	
Not deactivating the retired employees' IDs	
Fictitious employees/workers paid salary	

Technology related Frauds	Banking related Frauds	Others
Employing hostile software	Forged Signatures	Teaming and Lading
programs or malware	Cheque Frauds - Alteration in amounts,	Process houses mixing inferior
attacks	alteration in accounts titles, Kite flying	quality material to sale good
Phishing mails	Cash lending during working hours	quality material
Vishing – Voice Mail	Missing notes in bundles	Pilferage and theft in super
Smishing - Text messages	Use of same notes bundles by two branches	markets
Whaling - Targeted	Wrong posting in other accounts	Selling classified information,
phishing on high net worth	Misuse of sensitive stationery	Withholding information from
individuals	ATM transaction misuse	customer about free product
Card duplications	Using PINs of debit card/credit card holder	schemes, discount and
Stealing confidential data	Advances - Inflated stock statements, inflated	concession
	projections, forged/duplicate land documents,	Enhancement of performance
	L/Cs	Taking advantage of disaster
		or natural calamity
		Trust FDs
		Fictitious journal entries to
		inflate expenses or income









#### **INDICATORS OF FRAUD**

Discrepancies in Accounting Records including non recording or partial recording or incorrect recording or delayed recording of amounts, misclassifications, etc. Conflicting or missing evidence including missing documents, altered documents, significant unexplained items in reconciliations, discrepancies between entity's records and confirmations received etc.

Unacceptable management responses such as - denial of access to records/facilities/ employees, undue time pressure to resolve complex issues, unusual delays in providing requested information, denial for use of Computer Assisted Audit Techniques, unwillingness to address identified deficiencies in internal control etc.

Other indications such as – Accounting Policies in variance with Industry Norms, Frequent changes in accounting estimates etc.

#### **Responses to Fraud**

SA 330 states the auditor's responses to assessed risks. Response to the risks related to management override of controls includes testing the appropriateness of journal entries and other adjustments made in preparation of the Financial Statements, review of accounting estimates for biases and also review the significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.

Auditor needs to assess fraud risk factors for material misstatement or misappropriation of assets due to fraud, such as incentive / pressures, opportunities and attitudes / rationalisations.

The responses to fraud will include communications to management and those charged with governance, communication to regulatory and enforcement authorities and appropriate documentation on his assessment of the risks of material misstatement.

#### **AUDITOR'S ABILITY TO DETECT FRAUD DEPENDS ON FACTORS SUCH AS**

the skillfulness of the perpetrator the frequency & extent of manipulation the degree of collusion involved the relative size of individual amounts manipulated; and

the seniority of those individuals involved

Detection of Fraud depends upon effectiveness of Audit Procedure. Detection risk, however, can only be reduced, not eliminated.



# **Forensic Accounting**

"Forensic" means "suitable for use in the court of law". Bologna said that it is the application of financial skills and investigative mentality to unresolved issues, conducted within the context of the rules of evidence. As an emerging discipline, it encompasses financial expertise, fraud knowledge and a sound knowledge and understanding of business reality and the working of legal system.

## **Important Definitions**

Forensic: The word forensic comes from the Latin word forensis, meaning "of or before the forum." It is

Relating to, used in, or appropriate for courts of law or for public discussion or argumentation.

Relating to the use of science or technology in the investigation and establishment of facts or evidence in a court of law.

# **Due Diligence, Investigation & Forensic Accounting**

**Forensic Accounting:** The integration of accounting, auditing and investigative skills yields the speciality known as Forensic Accounting. It is the study and interpretation of accounting evidence. It is the application of accounting methods to the tracking and collection of forensic evidence, usually for investigation and prosecution of criminal acts such as embezzlement or fraud.

Forensic Accounting can sometimes be referred to as Forensic Auditing.

**Red Flag:** Red flags are sign or warning of any impending danger or inappropriate behavior. Red flags do not necessarily indicate the existence of fraud however are indicators that, caution needs to be exercised while investigating the situations. Red flags are classified in categories such as financial performance red flag, accounting system red flags, operational red flags and behavioural red flags.

Forensic audit can be conducted in order to prosecute a party for fraud, embezzlement or other financial claims. In addition, an audit may be conducted to determine negligence in addition, an audit may be conducted to determine negligence

#### HOW IS A FORENSIC ACCOUNTING ANALYSIS DIFFERENT FROM AN AUDIT?

#### **STATUTORY AUDIT**

- IT'S A LEGAL MANDATE
- CONDUCTED ONLY BY A
   CHARTERED ACCOUNTANT
- EXPRESSION OF AN INDEPENDENT OPINION
- ON FINANCIAL STATEMENTS
- AS PER ICAI AUDITING STANDARDS

Objective: True and Fair Picture

**Focus:** Very General – An Overall Review of The Books of Account

**Approach:** Control Tests of Transactions and Substantive Tests of Balances

**Target:** Identify Material Mis – Statements In Financial Statements

**Skills:** Testing & Checking, Analysis, Inquiry & Observation

**Presumption:** Professional Skepticism, Due Professional Care

Outcome: Audit Report opinion (Qualifications subject to /except for)

# KEY ELEMENTS OF FORENSIC ACCOUNTING

- TO SUPPORT LEGAL CASES
- NON-CAS PERMITTED
- REPORT FINDINGS OF EVIDENCE DISCOVERED
- PRIMARLY FINANCIALS
- ICAI STANDARDS

**OBJECTIVE: DISCOVER FACTS AND EVIDENCE** 

**FOCUS: NARROW - VALIDATE TRANSACTIONS AND BALANCES** 

APPROACH: FOCUSED TESTING TO CONFIRM SUSPICION / ALLEGATION

TARGET: IDENTIFY / CONFIRM NATURE OF VIOLATION

**SKILLS: SCRUTINY & ANALYSIS, FACT - FINDING, INTERVIEWS** 

**PRESUMPTION: NEUTRALITY** 

**OUTCOME:** Present evidence to a court of law - They shall judge

#### **AUDIT Vs. FORENSIC ACCOUNTING**

A forensic accountant will often look for indications of fraud that are not subject to the scope of a financial statement audit.

#### **Audit**

- Mandatory
- Measures compliance with reporting standards
- Obtain reasonable assurance that financial statements are free of material misstatement.
   In practice, there are differences in mind set between forensic accounting and audit.
- "Investigative mentality" vs. "professional scepticism". A forensic accountant will often require more extensive corroboration.
- A forensic accountant may focus more on seemingly immaterial transactions.

#### **Forensic Accounting**

- · In response to an event
- Financial investigation
- Finding used as evidence in court or to resolve disputes

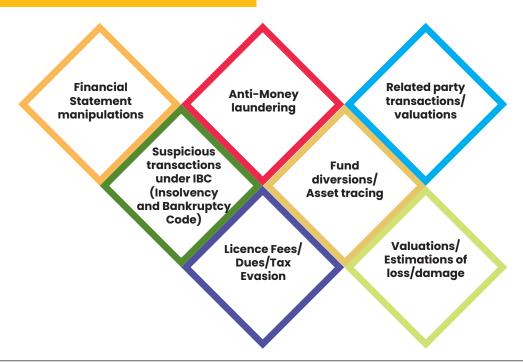
# **Due Diligence, Investigation & Forensic Accounting**

Sr. No.	Particulars	Other Audits	Forensic Accounting
1	Objectives	Express an opinion as to 'True & Fair' presentation	Whether fraud has taken place in books
2	Techniques	Substantive & Compliance. Sample based	Investigative, substantive or in depth checking
3	Period	Normally for a particular accounting period	No such limitations
4	Verification of stock, Estimation realisable value of assets, provisions, liability etc.	Relies on the management certificate/ Management Representation.	Independent/verification of suspected/ selected items where misappropriation is suspected
5	Off balance sheet items (like contracts etc.)	Used to vouch the arithmetic accuracy & compliance with procedures.	Regulatory & propriety of these transactions/ contracts are examined.
6	Adverse findings if any	Negative opinion or qualified opinion expressed with/without quantification.	Legal determination of fraud impact and identification of perpetrators depending on scope.

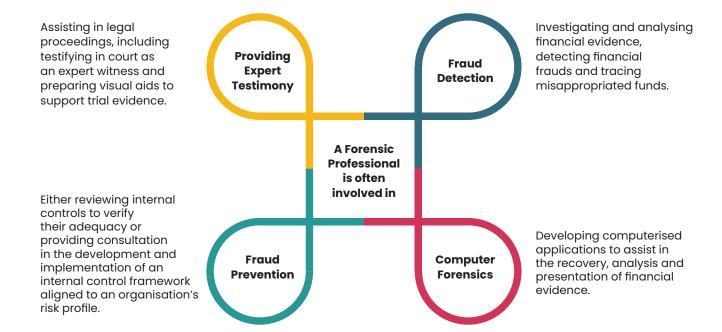
#### **Forensic Professional**

A Forensic Professional is often retained to analyse, interpret, summarise and present complex financial and business related issues in a manner which is both understandable and properly supported. Forensic Professionals are trained to look beyond the numbers and deal with the business reality of the situation.

#### **FORENSIC ACCOUNTING SERVICES**



# **Due Diligence, Investigation & Forensic Accounting**



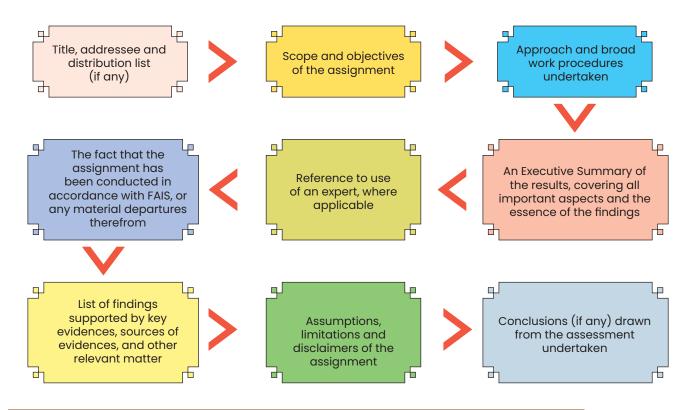
In order to properly perform these services, a Forensic Professional must be familiar with legal concepts and procedures and have expertise in the use of IT tools and techniques that facilitate data recovery and analysis. In addition, a Forensic Auditor must be able to identify substance over form when dealing with an issue.

#### **Process of Forensic Accounting**

Each Forensic Accounting assignment is unique. Accordingly, the actual approach adopted and the procedures performed will be specific to it. However, in general, many Forensic Accounting assignments will include the steps detailed below.



#### Key Elements of Forensic Accounting and Investigation Report



# Overview of Forensic Accounting and Investigation Standards (FAIS)

ICAI has mandated the responsibility of "Ensuring Standards of Performance of its members".



In line with this, ICAI has issued the Forensic Accounting and Investigation Standards (FAIS) to ensure high-quality output in forensic accounting and investigations.



The Framework Governing Forensic Accounting and Investigations (the "Framework") outlines principles and boundaries to enhance the quality of practice for ICAI members in this field.

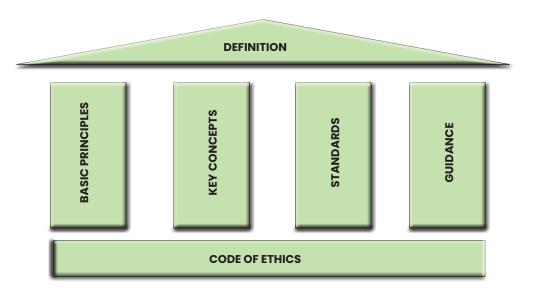


The main objectives of the Framework are to

Provide an overall understanding of Forensic Accounting and Investigations and its key components; Outline the manner in which these components come together in an inter-related cohesive manner when providing such services;

Maintain and improve the quality of forensic accounting and investigation services.

# THE FOUR KEY COMPONENTS (FORMING THE PILLARS) OF THE FRAMEWORK



#### **FAIS AT A BROAD LEVEL SEEK TO PROVIDE**

(a) The Professionals
with the minimum
standards for undertaking
forensic accounting
and investigation (FAI)
assignments;

(b) The Users of FAI services with an indication of the quality of service that can be expected from such engagements;

(c) The Regulators and
Governmental agencies
with an appreciation of
what can be expected from
FAI services; and

(d) To everyone, guidance on matters of implementation and related practical issues.

# **Due Diligence, Investigation & Forensic Accounting**



The Standards are intended to be principle-based, rather than rule based,

2

If, for any reason, a member is unable to comply with any of the requirements of the FAIS, or if there is a conflict between the Standards and other mandates, such as a statutory or regulatory requirement, the FAI report (or such similar communication) should draw attention to the material departures therefrom along with appropriate explanation.

## Forensic Accounting and Investigation Standards (FAIS)

100 Series: Standards on Key Concepts

- FAIS 110 : Nature of Engagement
- FAIS 120 : Fraud Risk
- FAIS 130: Laws and Regulations
- FAIS 140: Applying Hypotheses

200 Series: Standards on Engagement Management

- FAIS 210: Engagement Objectives
- FAIS 220 : Engagement Acceptance and Appointment
- FAIS 230: Using the Work of An Expert
- FAIS 240 : Engaging with Agencies
- FAIS 250: Communication with Stakeholders

300 Series: Standards on Executing Assignments

- · FAIS 310: Planning the Assignment
- FAIS 320 : Evidence and Documentation
- FAIS 330: Conducting Work Procedures
- FAIS 340 : Conducting Interviews
- FAIS 350: Review and Supervision
- · FAIS 360: Testifying Before a Competent Authority

400 Series: Standards on Specialised Areas

- FAIS 410 : Applying Data Analysis
- FAIS 420 : Evidence Gathering in Digital Domain
- FAIS 430 : Loans Or Borrowings

500 Series: Standards on Reporting

• FAIS 510: Reporting Results

600 Series: Standards on Quality Control

• FAIS 610 : Quality Control

# Chapter 18 – Sustainable Development Goals & Environment, Social & Governance Assurance

### Introduction

"Sustainable development is development that strives to meet the needs of developing countries seeking to achieve a more sustainable world. Sustainable development addresses the needs of the present moment without compromising current and future generations to meet their own sustainable lifestyles."

### **Three Pillars of Sustainability**



### **Environment (E)**

Environmental stands for corporate climate policies, energy use, waste, pollutions, natural resource conservation, and treatment of animals



### Social (S)

It addresses the relationships the entity has and the reputation it fosters with people and institutions in the communities where you do business and the value chain involved.



### Governance (G)

It is the internal system of practices, controls, and procedures entity adopts in order to govern itself, make effective investment decisions, comply with the law, and meet the needs of all stakeholders.





### **ENVIRONMENT**

### **Climate Change:**

- · Carbon Emissions
- Product Carbon FootPrints
- Financing Enviornmental 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

### **Enviornment 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



Qualitative reports: describe a company's strategy or policy.



Quantitative approach: includes metrics, and key performance indicators
(KPIs) against goals and report on achievements.



Environmental, Social and Governance (ESG) Reporting i.e. disclosure of information, data, metrics of value addition.

### Sustainable Development Goals

### There are 17 SDGs

1 NO POVERTY	No Poverty	Clean Water & Sanitization	6 CLEAN WATER AND SANITATION
2 ZERO HUNGER	Zero Hunger	Affordable & Clean Energy	7 AFFORDABLE AND CLEAN ENERGY
3 GOOD HEALTH AND WELL-BEING	Good Health & Well Being	Decent Work & Economic Growth	8 DECENT WORK AND ECONOMIC GROWTH
4 QUALITY EDUCATION	Quality Education	Industry Innovation & Infrastructure	9 AND INFRASTRUCTURE
5 EQUALITY	Gender Equality	Reduced Inequalitites	10 REDUCED INEQUALITIES





### Global Trends In Sustainable Reporting

The mandatory reporting requirements are mostly associated with the public sector or government-run companies, large corporations, multinational business conglomerates, and listed companies in the stock exchanges.

The most widely used framework in the world is the Global Reporting Initiative (GRI) Sustainability Reporting Standards having 93% of the world's largest 250 corporations report on their sustainability performance through GRI.



# Global Reporting Initiative (GRI)

Helps organisations to report on economic, environmental, and social impacts.

This report is addressed to all the stakeholders.



# Carbon Disclosure Project (CDP)

Captures the environmental performance data which is related to GHG emissions, water, forests, and supply chain.

This report is addressed to all the investors, buyers, and other stakeholders of the entity.

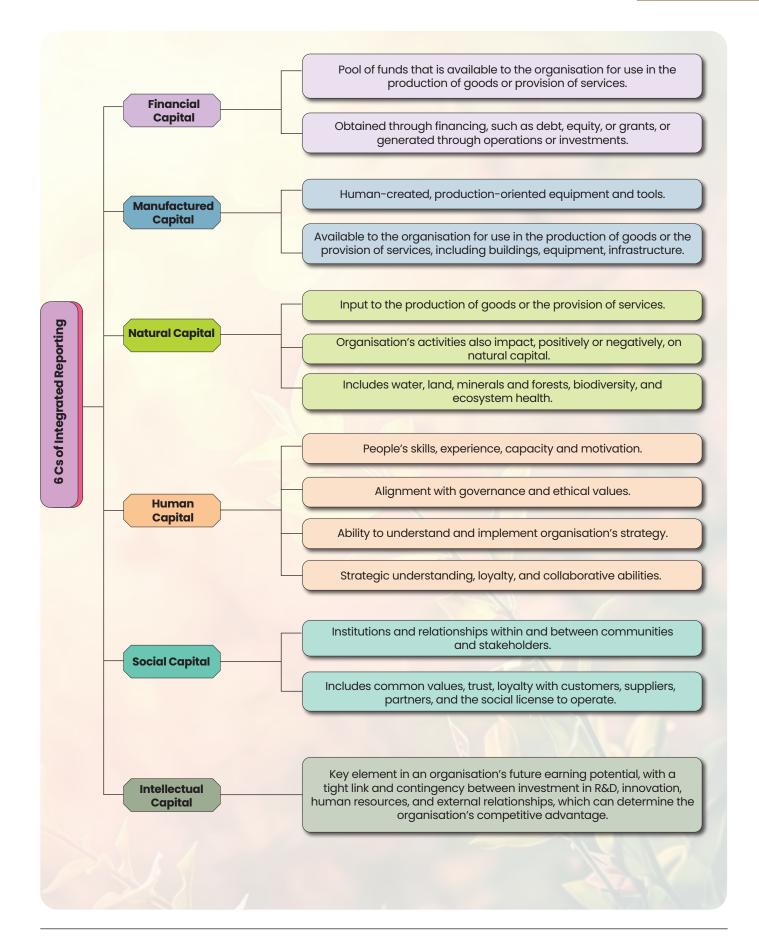


### International Integrated Reporting Framework (IIRC)

Has established guiding principles and content elements in order to allow the companies to produce integrated reports.

This report consists of Organisational overview, Governance structure, Business model, risks and opportunities, strategy, performance, outlook etc.





# **Evolution of ESG in India**

# 2009

National Voluntary Guidelines (NVGs) (MCA issued NVGs on corporate social responsibility)

# 2014

Corporate social responsibility (CSR) is mandated and CSR rules come into force

# 2017

Integrated Reporting (IR) may be adopted on a voluntary basis from FY 2017-18 by the top 500 companies which are required to prepare BRR

# 2021

**Business** Responsibility and Sustainability Report (BRSR) Introduction of BRSR in May 2021













**Business Responsibility** Report (BRR) the top 100 listed companies file BRR based on NVGs along with their annual reports

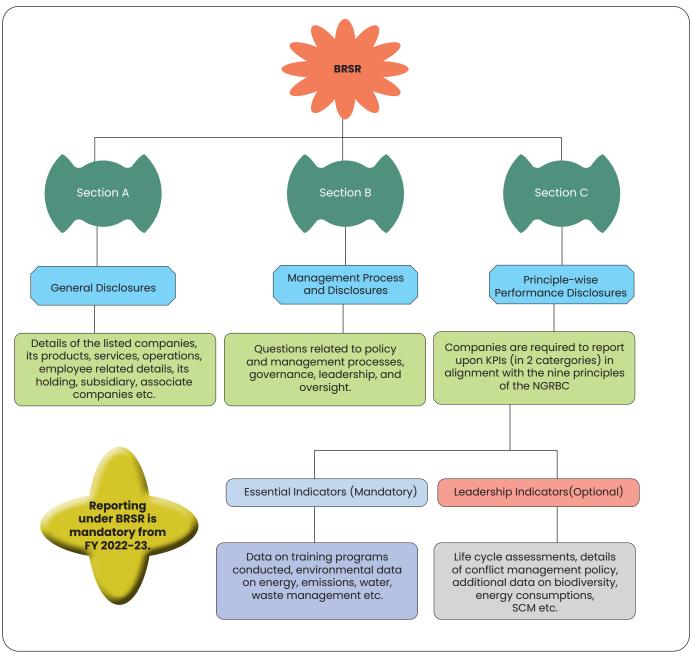
# 2015

Extension to top 500 listed companies for filing BRR

National Guidelines on Responsible Business Conduct (NGRBC) released Extension to the top 1,000 listed companies for filling BRR

Mandatory reporting of top 1,000 listed companies to file BRSR along with the annual reports







### **Nine Principles of BRSR**

The nine principles in BRSR are categorized into the ESG components of Environment, Social and Governance with **two of the nine in Environment**, **three in social** and **four in Governance**. Even though they are separate, they are interlinked to each other in some way.

### Principle 1 – Ethics, Transparency and Accountability

Business decisions in an organisation should be open to disclosure and accessible to the relevant interested parties.

The essence of the core elements associated with the first principle are



### Principle 2 – Safe and Sustainable Goods and Service

Entities should make sure that their goods, services, and operations result in better life for the consumers and end-users.

The essence of the core elements associated with the second principle is

When a product is designed by the entity, the production methods and technologies have to be devised in such a way so as to minimise the resource usage to make it sustainable.

The entities are also responsible to educate and make aware their consumers and clients about their rights.

The entities should take measures that reduce the over exploitation of the nature's resources by consuming sustainably and encourage methods for reduce, reuse and recycling of the resources.

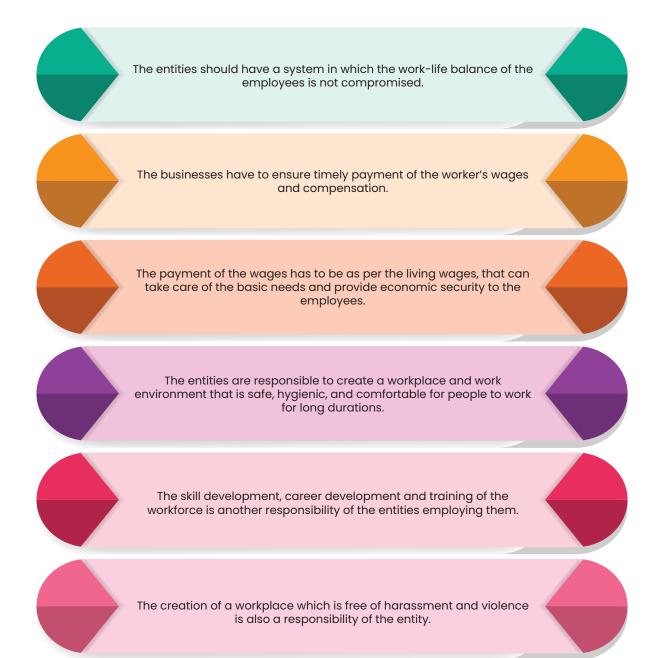
### Principle 3 – Promote well-being of all Employees including those in the Value Chain

The third principle relates to all the initiatives an entity has to take for the benefit of its employees from the point of view of their dignity, health, well-being.

The essence of the core elements associated with the principle is

The entities are to respect the dignity of employee as a human being and should not restrict their freedom of associations, unions, and other participatory mechanism for collective bargaining of their rights and redressal of issues they face at the workplace.

The entities should prevent all kinds of child labour, bonded labour, and any other forms of involuntary labour.





### Principle 4 - Respect for Stakeholders' Interests and Responsiveness

The concept of interested party or stakeholders to a business has been a point of discussion in all the regulatory and voluntary systems that relate to the management system of any organisation, be it related to the quality, environment or the occupational health and safety of the workers.

The essence of the core elements associated with the principle is

The entities have to be transparent and communicate with the stakeholders about the impacts of their operations and business decisions on the people and the nature. The policies, decisions, and the impact of the operations of the organisation to the stakeholders have to be disclosed transparently with no ambiguity on the extent of the issues.

The entities have to systematically determine the context of their operation and identify their interested parties.

The entities should fairly share the benefits to the stakeholders or give an opportunity to them to benefit from the operations in an equitable manner.

### Principle 5 - Respect and Promote Human Rights

The concept of human rights is a vast topic that covers a wide variety of violence and belligerent abusive issues faced by people. It refers to the human rights issues that happen directly or indirectly due to the operation of the business.

The essence of the core elements associated with the principle are

The entities should have a clear understanding of the human rights and various ways by which human rights can be violated from the perspective of the Constitution of India, national laws and policies and the content of International Bill of Human Rights.

The entities when developing their management systems, should integrate the human rights element into their policies, procedures, and practices.

Businesses should recognize and respect the human rights of all relevant stakeholders and groups within and beyond the workplace, including that of communities, consumers, and vulnerable and marginalised groups.

### Principle 6 – Protection and Restoration of Environment

The sixth principle looks at the environmental responsibility as a basic requirement for the economic prosperity and sustainability

The core elements associated with the principle are

The entities should have policies, procedures, and practices in place to assess and rectify impacts to the environment. This should cover the whole life cycle of the product.

The entities have to make use of natural and manmade resources in an optimum manner to ensure their sustainability by taking feedback from the stakeholders.

The entities have to measure their performance relating to the prevention of pollution, destruction of forests, waste generation, energy use, land use, etc.

The entities have to contribute towards climate change resilience in line with India's commitment to various international mechanisms such as, Paris Agreement and National Action Plans for Climate Change.

The entities should explore the comparison of its activities with industry best practices to reduce, reuse and recycle/recover materials, resources.

The companies have to look out for avenues by which they can improve their performance towards various environmental responsibilities.

### Principle 7 – Influence on Public and Regulatory Policy

The seventh principle of influencing the policy formulation positively recognises that the businesses operate within the framework of statutory and legislative policies of the governing authority.

The core elements of BRSR are to have met holistically when the organisation go ahead with their contributions to policy formulation and policy advocacy.

The collective associations such as, the trade groups and industry chambers have to be utilised when moving ahead with the policy advocacy and formulation.

The role in policy advocacy by the organisation should be in such a way that it encourages fair competition and prevents human rights abuses.

### Principle 8 – Promote Inclusive Growth and Equitable Development

This can work only with close participation and collaboration amongst the entities, authorities, the civil associations contributing to one another for a better livelihood, and assistance to the marginalized communities.

The core elements of the eighth principle are

The entities should have systems in place to identify and address impacts of their activities on the social, cultural, and economic aspects of the people. This includes business created issues like, land acquisition and use and construction activities for new facilities.

The entities should review, measure, and track the adverse impacts of their activities on the society and environment and make action plans to mitigate them adequately.

The entities should make efforts to bring up creative products, technologies, and business concerns that help the marginalized communities to have well-being and a better quality of life.

Entities when designing their CSR activities should review the local and regional development priorities to help the marginalised groups and communities.

The entities should take care to ensure that business induced displacement or relocation of communities does not happen, and in unavoidable cases, should make sure to have mutually agreed, participative, and informed negotiations to provide fair compensation to the affected people.

All forms of intellectual property and traditional knowledge should get the deserved respect from the organisation, and efforts should be made to ensure that benefits derived from their knowledge are shared equitably.



### Principle 9 – Provide value to the consumers in a responsible manner

The primary purpose of any business is to create or provide useful products and services to the customer in exchange of reasonable profits.

The core elements associated with the principle are

Entities should put in their efforts to reduce the negative impacts of their products and services on consumers, natural environment, and society at large.

When conceptualizing, designing, and marketing their products, the organisation should not in any manner prevent the freedom of choice and fair competition.

The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.

When handling customer data, the right to privacy of the customer needs to be maintained.

Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate overconsumption. When advertising about their products, the organisations should ensure that misleading and confusing information is not exposed to the customers about their products or its usage.

Business enterprises should make available transparent and accessible grievance redressal and feedback management system for their customers to raise their voices or to seek clarifications.

Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.

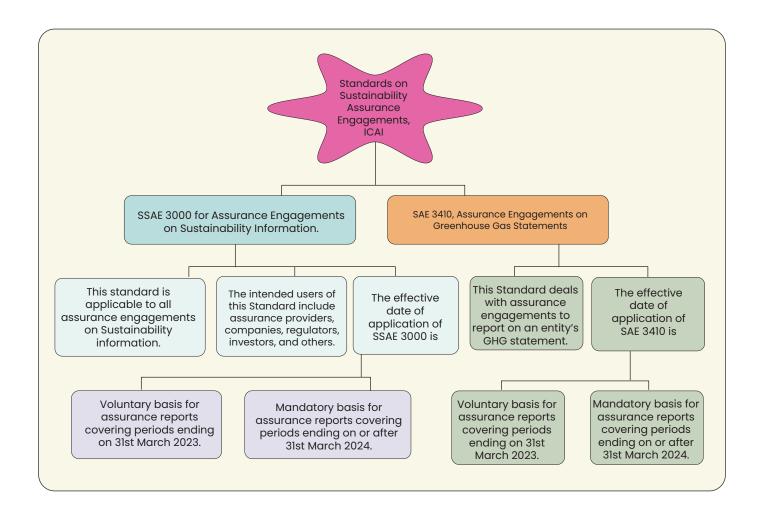


Principles/ SDGs	Pl	P 2	P 3	P 4	P 5	Р6	P 7	P 8	P 9
SDG 1			✓	<b>⋖</b>				✓	
SDG 2		<b>⋖</b>				<b>⋖</b>	✓	✓	<b>⋖</b>
SDG 3			✓					✓	
SDG 4			<b>⋖</b>					<b>⋖</b>	<b>⋖</b>
SDG 5			✓	<b>⋖</b>	✓			<b>⋖</b>	
SDG 6		<b>⋖</b>				<b>⋖</b>		<b>⋖</b>	
SDG 7		<b>⋖</b>				<b>⋖</b>	<b>⋖</b>		
SDG 8		<b>⋖</b>	<b>⋖</b>		<b>⋖</b>			<b>⋖</b>	
SDG 9		<b>⋖</b>					<b>⋖</b>		
SDG 10		<b>⋖</b>					<b>⋖</b>		
SDG 11			<b>⋖</b>	<b>⋖</b>			<b>⋖</b>	<b>⋖</b>	
SDG 12		<b>⋖</b>				<b>⋖</b>			<b>⋖</b>
SDG 13		<b>⋖</b>				<b>⋖</b>	<b>⋖</b>	<b>⋖</b>	
SDG 14		<b>⋖</b>				<b>⋖</b>	<b>⋖</b>	<b>⋖</b>	<b>⋖</b>
SDG 15		<b>⋖</b>				<b>⋖</b>	<b>⋖</b>	<b>⋖</b>	<b>⋖</b>
SDG 16	<b>✓</b>		<b>⋖</b>	<b>⋖</b>	<b>⋖</b>			<b>⋖</b>	
SDG 17	<b>⋖</b>						<b>⋖</b>	<b>⋖</b>	

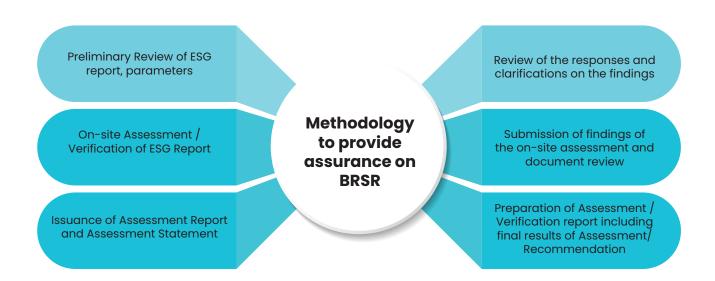
### **Assurance in BRSR**

SEBI has currently started with the top 1,000 listed companies & expected to become mandatory for all listed companies. BRSR is expected to be used as a single means for disclosing sustainability related information in India and would be the main document which the stakeholders, investors would review and do industry analysis.

ESG audit help the companies assess environmental and social risks. It helps businesses look at their supply-chain risks, risk management capabilities and transparency with shareholders.

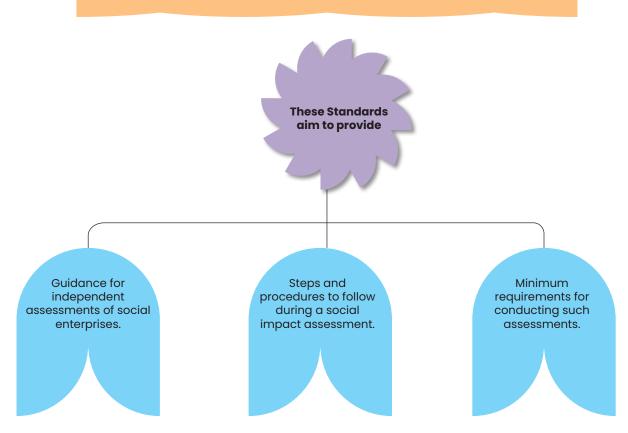


# Methodology to provide assurance on BRSR



# **Social Audit Standards**

The Sustainability Reporting Standards Board (SRSB) of the ICAI has recently issued Social Audit Standards (SAS 100 to 1600).



# **Social Audit Standards**



# Role of Auditor in Considering Climate Related Risks in Audit of Financial Statements

The role of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement.

Auditor is required to report whether the financial statements are prepared and presented fairly, in all material respects, in accordance with the applicable FRF.

Auditor should include the consideration of climate-related risks and how these risks may be relevant to the audits.

Auditor should determine whether the entity has appropriately disclosed relevant climate-related information in the financial statements in accordance with the applicable FRF.

Auditor's reports must follow the requirements of applicable auditing standards.

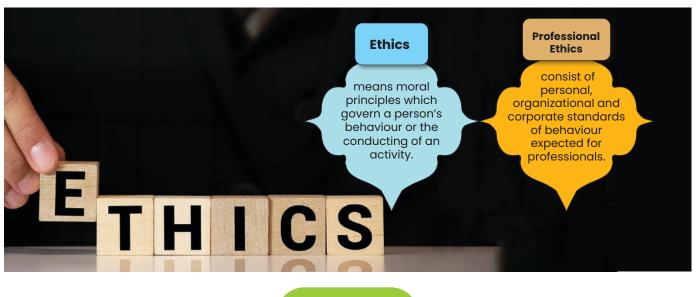
Auditor's report provides information about auditor's responsibilities and, an understanding of the matters of most significance in an audit and how they were addressed.

Auditor's report may include Emphasis of Patter Paragraph to draw attention to disclosures that are of fundamental importance to users' understanding of the financial statements.

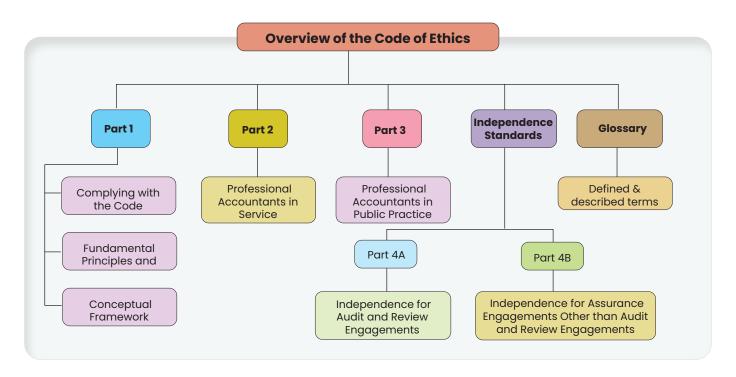
The auditor should read the other information for consistency with information disclosed in the financial statements and information that may be publicly communicated to stakeholders outside the financial statements as required under ISA 720 and SA 720, The Auditor's Responsibilities Relating to Other Information.



# Chapter 19 – Professional Ethics and Liabilities of Auditors







### **Professional Ethics and Liabilities of Auditors**

The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics. Each section of the Code is structured, where appropriate, as follows:



### Introduction

Sets out the subject matter addressed within the section and introduces the requirements and application material in the context of the conceptual framework.



### Requirements

Establish general and specific obligations with respect to the subject matter addressed.



### **Application Material**

Provides context, explanations, suggestions for actions or matters to consider illustrations and other guidance to assist in complying with the requirements.

Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.

A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.

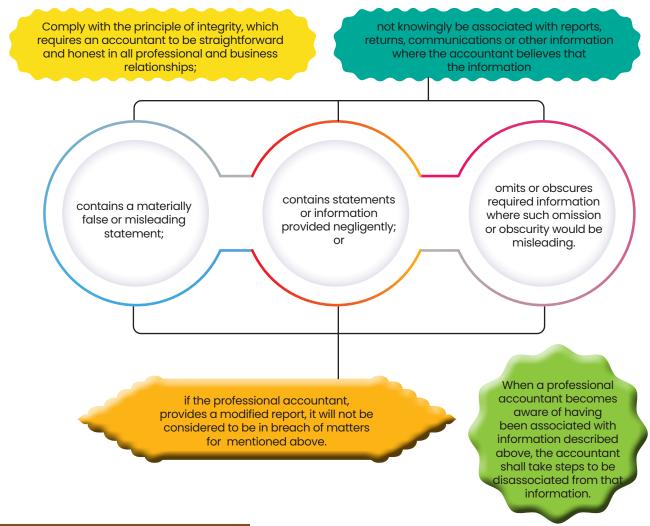
# Fundamental Principles

In order to achieve the objectives of the Accountancy profession, professional accountants have to observe a number of prerequisites or fundamental principles.



# Integrity - Subsection 111

### A professional accountant shall



# **Objectivity- Subsection 112**

### A professional accountant shall

comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others.

not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

### Professional Competence and Due Care – Subsection 113

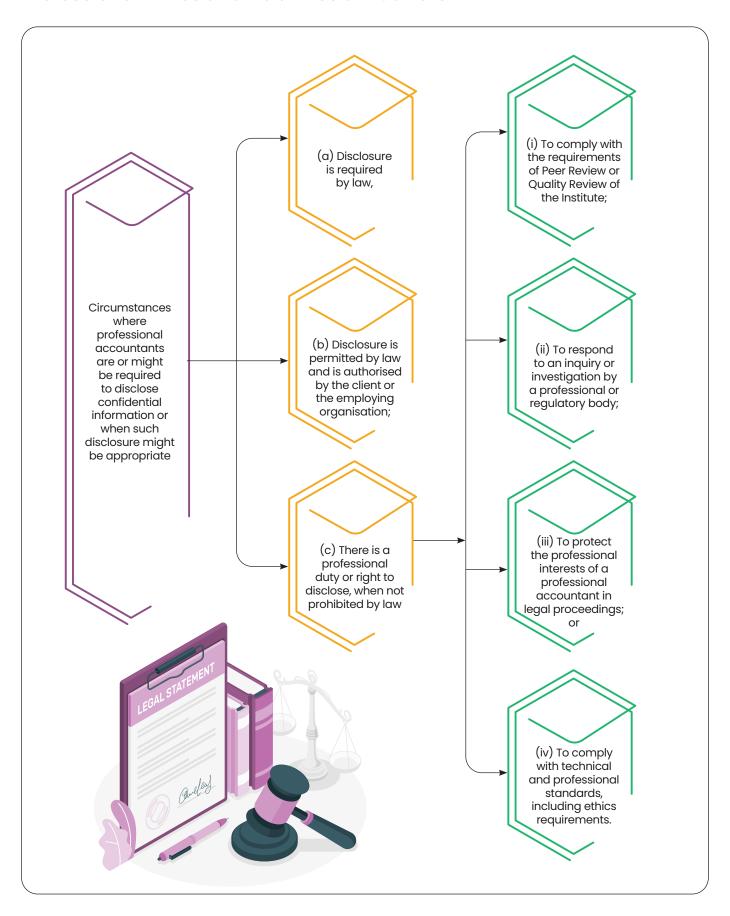
A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:



### **Confidentiality-Subsection 114**

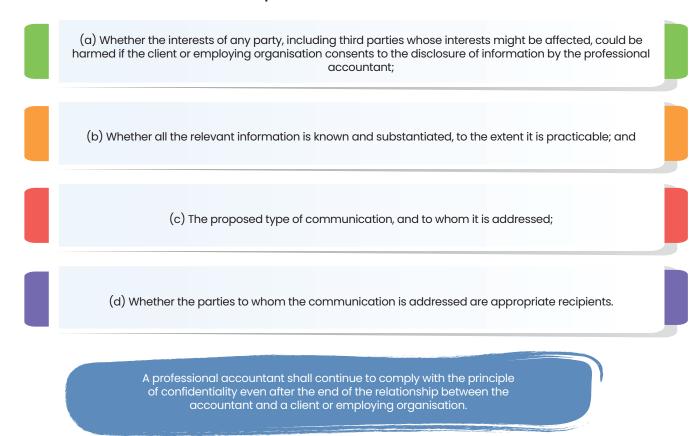
A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and employment relationships. An Accountant shall:

Not disclose confidential Not use information Take Be alert to the confidential acquired as reasonable Not use or possibility of a result of disclose any steps to ensure inadvertent professional acquired as confidential that personnel and a result of disclosure, Maintain under the information, including employment professional Maintain confidentiality either accountant's in a social relationships and confidentiality of information acquired or control, and environment, outside the employment of information disclosed by individuals received as and firm relationships a prospective within the firm a result of a from whom or employing particularly to for the professional or advice and or employing a close organisation personal organisation; employing employment assistance advantage business without proper relationship, organisation; are obtained, associate or an and specific of the after that respect the immediate or authority, accountant relationship accountant's a close family unless there or for the has ended; duty of is a legal or advantage of a member; confidentiality. professional third party; duty or right to disclose;



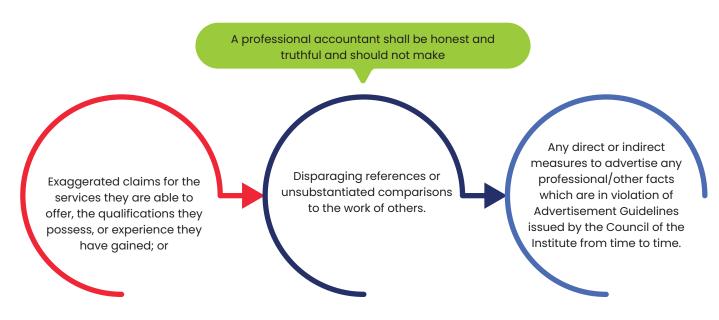
### **Professional Ethics and Liabilities of Auditors**

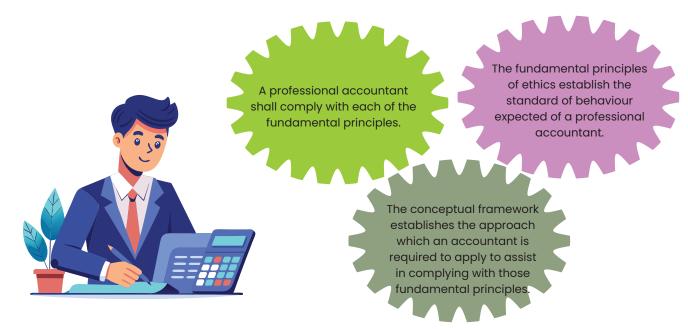
### Whether to disclose confidential information, professional accountants should consider



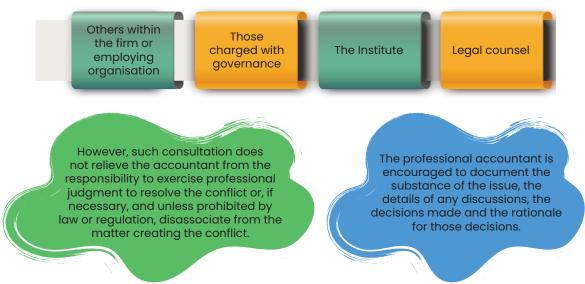
### V. Professional Behaviour-Subsection 115

A professional accountant shall comply with the principle of professional behaviour, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that accountant knows or should know might discredit the profession.





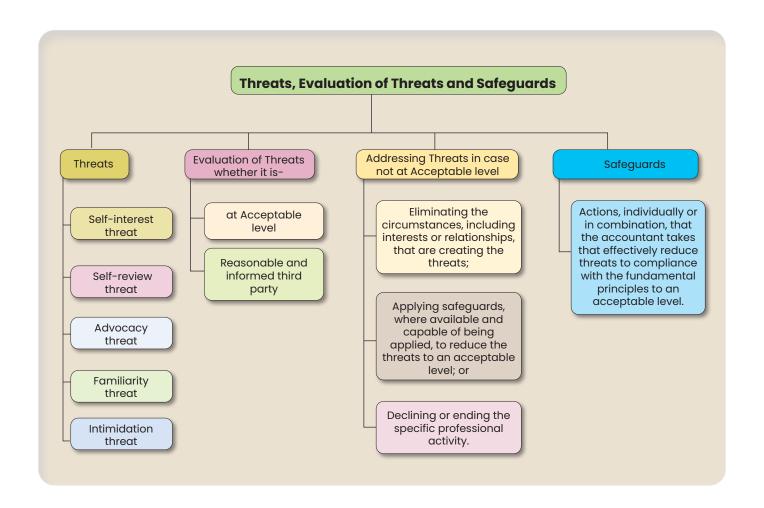
A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, with



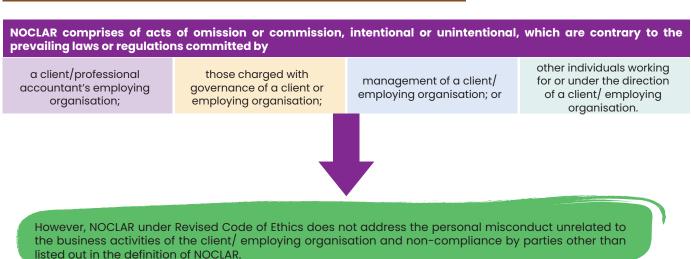
### Threats, Evaluation of Threats and Safeguards

The conceptual framework specifies an approach for a professional accountant to:



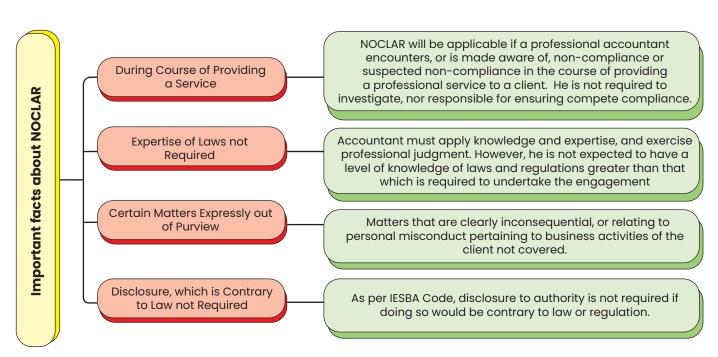


# Non-Compliance with Laws and Regulations (NOCLAR)



### **Examples of NOCLAR as per IESBA**





# **Applicability of NOCLAR in India**

Responding to Non-Compliance with Laws and Regulations (NOCLAR) applicable to Professional Accountants in service (Section 260)

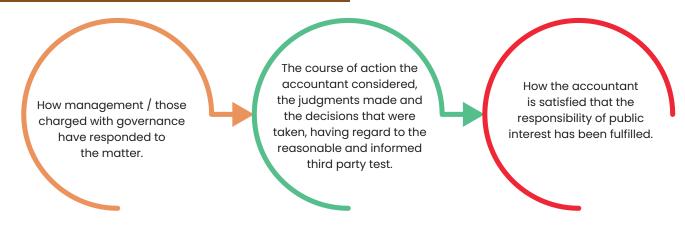
Applicable to Senior Professional Accountants in service, being employees of listed entities. Responding to Non-Compliance with Laws and Regulations (NOCLAR) applicable to Professional Accountants in public practice (Section 360)

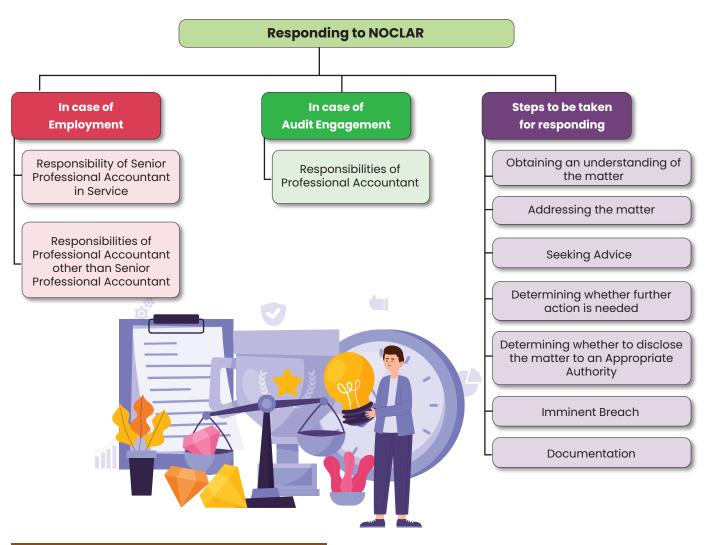
Applicable to Audit engagements of entities the shares of which are listed on recognized stock exchange(s) in India and have net worth of ₹250 crores or more.

### **NOCLAR vs. SA 250**

	SA 250	NOCLAR	
Applicability	Applicable only to audit engagements.	Applicable to all professional accountants – both in service and in practice, regardless of audit involvement.	
Scope of Non-compliance	Covers laws directly affecting amounts/disclosures (e.g., tax laws) and other laws fundamental to operations.	Goes beyond SA 250 to include non-compliance causing substantial harm, with serious financial or non-financial consequences.	
Stakeholders	Does not define stakeholders.	Explicitly considers stakeholders such as investoreditors, employees, and the general public whe evaluating impact of non-compliance.	
Disclosure in Exceptional Circumstances	No provision for disclosure without entity's consent, even in urgent or harmful scenarios.	Permits disclosure to appropriate authority without consent in exceptional cases to prevent/mitigate substantial harm from imminent breach. Requires use of professional judgment.	

# **Documentation Requirements in NOCLAR**





### Members - deemed to be in Practice

As Section 2(2) of the Act, "A member of the Institute shall be deemed to be in practice" when individually or in partnership with Chartered Accountants in practice, or in partnership with members of such other recognised professions as may be prescribed, he, in consideration of remuneration received or to be received.

engages himself in the practice of accountancy; or

offers to perform or performs service involving the auditing or verification of financial transactions, books, accounts or records, or the preparation, verification or certification of financial accounting and related statements or holds himself out to the public as an accountant; or

renders professional services or assistance in or about matters of principle or detail relating to accounting procedure or the recording, presentation or certification of financial facts or data; or

renders such
other services as,
in the opinion of
the Council, are or
may be rendered
by a Chartered
Accountant in
practice

# Member in Practice Prohibited from Using a Designation other than Chartered Accountant

The member of the Institute are now permitted to use the word 'CA' as prefix before their name irrespective of the fact that they are in practice or not.

Under section 7 of the Chartered Accountants Act, 1949 a member in practice cannot use any designation other than that of a Chartered Accountant, nor can he use any other description, whether in addition thereto or in substitution therefore, but a member who is not in practice and does not use the designation of a Chartered Accountant may use any other description. Nevertheless a member in practice may use any other letters or description indicating shall be deemed to prohibit any such person from adding any other description or letters to his name, if entitled thereto, to membership of such other Institute of accountancy, whether in India or elsewhere, as may be recognised in this behalf by the Council, or any other qualification that he may possess, or to prohibit a firm, all the partners of which are members of the Institute and in practice, from being known by its firm name as Chartered Accountants.

For example, though a member cannot designate himself as a Cost Accountant, he can use the letters ACMA or FCMA after his name, when he is a member of that Institute.

### Maintenance of Branch Offices

Maintenance of Branch Offices In terms of section 27 of the Act, if a Chartered Accountant in practice or a Firm of Chartered Accountants has more than one office in India, each one of such offices should be in the separate charge of a member of the Institute. However, exemption has been given to members practicing in hill areas subject to certain conditions. The conditions are:

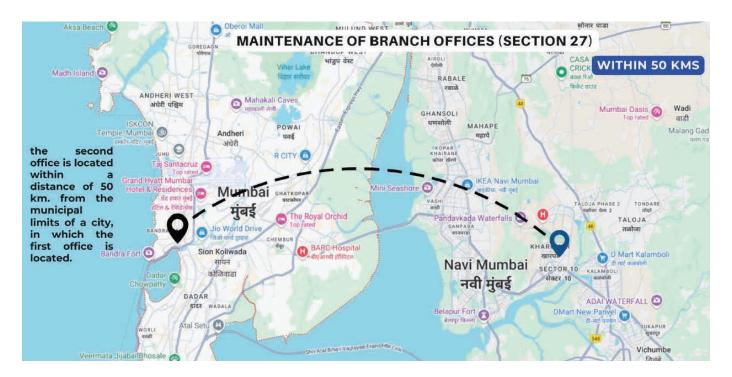
Temporary offices in a city in the plains for a limited period not exceeding 3 months in a year. The regular office need not be closed during this period and all correspondence can continue to be made at the regular office.

The name board of the firm in the temporary office should not be displayed at times other than the period such office is permitted to function as above.

The temporary office should not be mentioned in the letterheads, visiting cards or any other documents as a place of business of the member/firm.

**Before** commencement of every winter it shall be obligatory on the member/ firm to inform the Institute that he/ it is opening the temporary office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to the office of the Institute by registered post.

### **Professional Ethics and Liabilities of Auditors**



It is necessary to mention that the Chartered Accountant incharge of the branch of another firm should be associated with him or with the firm either as a partner or as a paid assistant. If he is a paid assistant, he must be in whole time employment with him. However, a member can be in-charge of two offices if they are located in one and the same Accommodation. In this context some of the Council's decisions are as follows:

- (1) With regard to the use of the name-board, there will be no bar on putting up of a name-board in the place of residence of a member with the designation of Chartered Accountant, provided it is a name-plate or a name-board of an individual member and not of the firm.
- (2) The exemption may be granted to a member or a firm of Chartered Accountants in practice to have a second office without such second office being under the separate charge of a member of the Institute, provided-
  - (a) the second office is located in the same premises, in which the first office is located or,
  - (b) the second office is located in the same city, in which the first office is located or,
  - (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.

A member having two offices of the type referred to above shall have to declare, which of the two offices is his main office, which would constitute his professional address.

KYC Norms for CA in Practice: The financial services industry globally is required to obtain information of their clients and comply with Know Your Client Norms (KYC Norms). In light of this background, the Council of ICAI approved the following KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attest functions.

# Where Client is an Individual/Proprietor

### **General Information**



### **Engagement Information**



# Where Client is a Corporate Entity

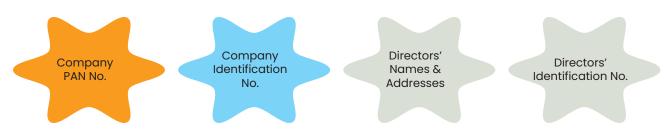
### **General Information**



### **Engagement Information**



### **Regulatory Information**



# Where Client is a Non-Corporate Entity

### **General Information**

Name and Address of the Entity Copy of PAN No.

Business Description Partner's Names & Addresses (with their PAN/ Aadhar Card/DIN No.)

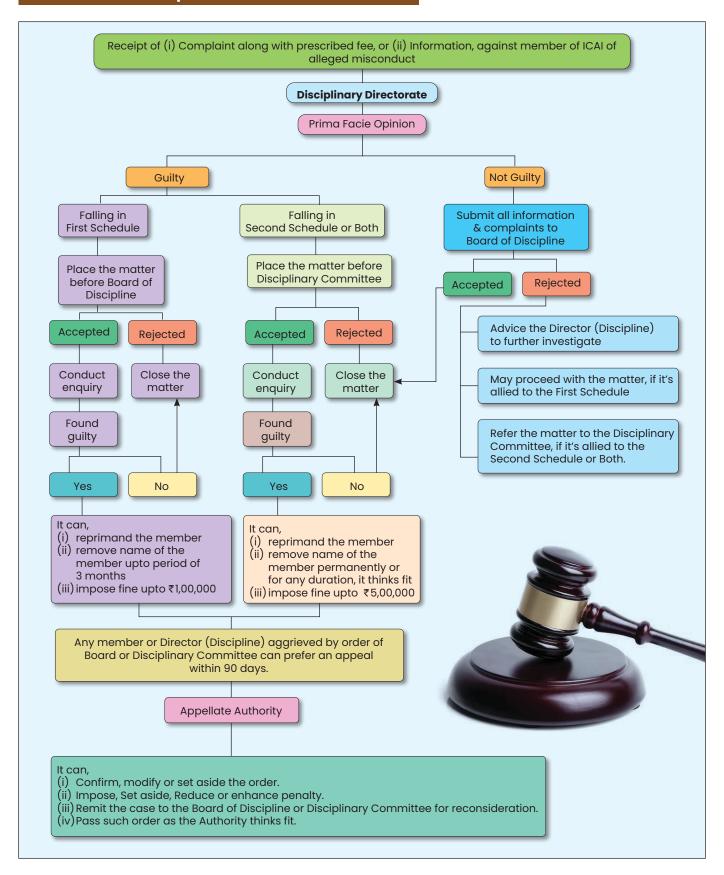
Copy of last Audited Financial Statement

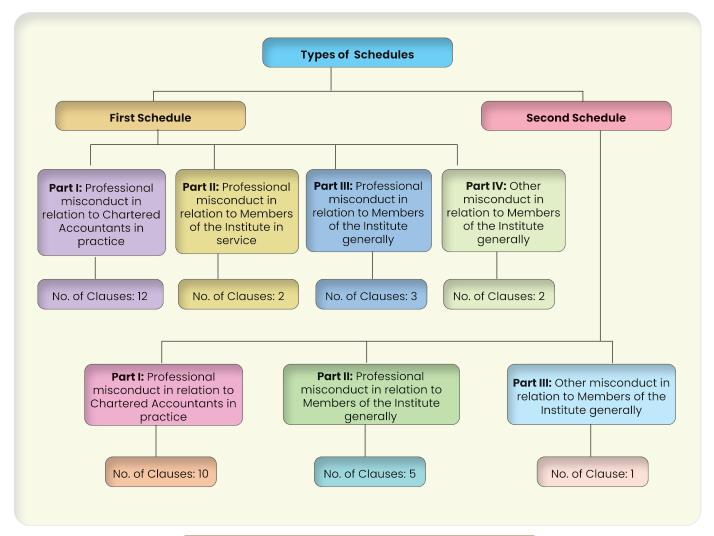
### **Engagement Information**

Type of Engagement



### Flow Chart of Discipline Procedure Mechanism







# **The First Schedule**



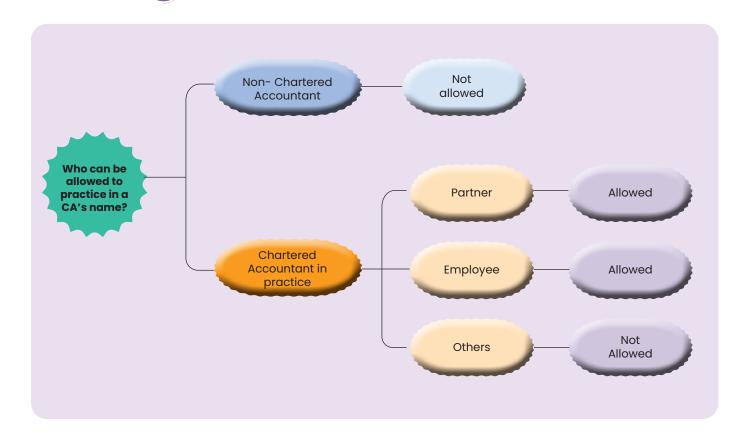
Where the Director (Discipline)
is of the opinion that member is guilty of any
professional or other misconduct mentioned in the
First Schedule; he shall place the matter before the
Board of Discipline.

# PART I - Professional misconduct in relation to Chartered Accountants in practice

A Chartered Accountant in practice is deemed to be guilty of professional misconduct if he

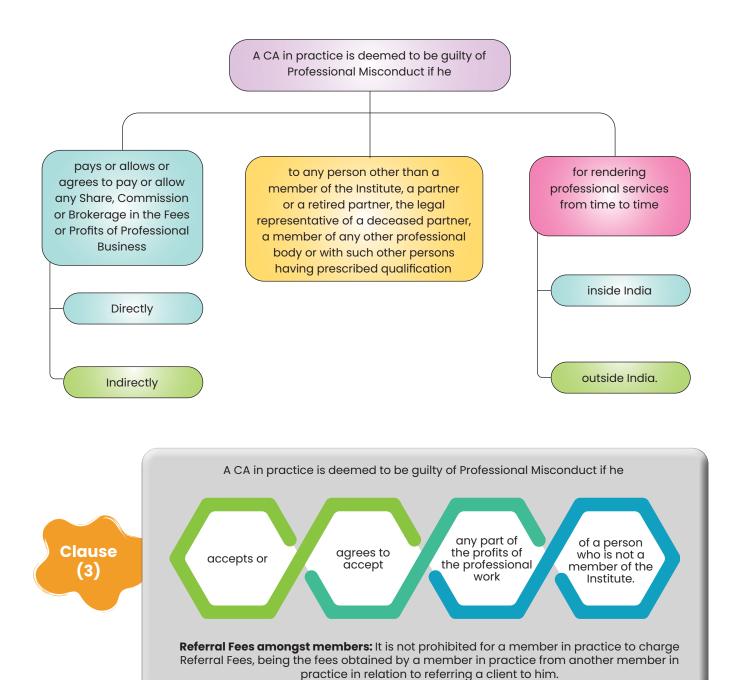
Clause (1)

Allows any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him.





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





Enters into partnership, in or outside India, with any person other than Chartered Accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (v) of sub-section (1) of section 4 or whose qualifications are recognised by the Central Government or the Council for the purpose of permitting such partnerships.

A Chartered Accountant in practice is not permitted to enter into partnership with any person other than a Chartered Accountant in practice or such other persons as may be prescribed by the Council from time to time. The members may, however, take note of the fact that they cannot form Multi-Disciplinary partnerships till such time that Regulators of such other professionals also permit partnership with chartered accountants, and guidelines in this regard are issued by the Council.



Clause (5)

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

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

It may further be noted that the acts of partners and employees of the firm towards securing professional work are subject to the provisions of Clauses (6) and (7) of Part-I of First Schedule of the Chartered Accountants Act, 1949.

Solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

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



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

Further, keeping in view the broad purview of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, an advertisement of Coaching/teaching activities by a member in practice may amount to indirect solicitation, as well as solicitation by any other means, and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

#### Some forms of soliciting work which the Council has prohibited are discussed below

Advertisement and note in the press – The exceptions to the above rule are

Member may request another Chartered Accountant in practice for professional work. Member may advertise changes in partnerships or dissolution of a firm, or of any change in address of practice and telephone numbers.

Member is permitted to issue a classified advertisement in the journal/newsletter of the Institute intended to give information for sharing professional work on assignment basis or for seeking partnership or salaried employment of an accountancy nature

Announcements should be limited to a bare statement of facts & consideration given to the appropriateness of the area of distribution of the newspaper/magazine & number of insertions.

Provided it only contains the accountant's name, address or telephone number, fax number, e-mail address and address(es) of social Networking sites of members.

Mere factual position of experience and area of specialisation, relevant to seek response to the advertisement, are permissible.

Application for empanelment for allotment of audit and other professional work-to make roving enquiries by applying to any such organisation for having his name included in any such panel is prohibited. It is permissible to quote fees on enquiries being received from such bodies, which maintain such panel.

**Responding to Tenders, Advertisements and Circulars:** The Council has issued Guidelines which stipulate that a member of the Institute in practice shall not respond to any tender issued by an organisation or user of professional services in areas of services which are exclusively reserved for Chartered Accountants, such as audit and attestation services.

However, such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants. The 'minimum fee' for this purpose should be such that it commensurates with size, value, volume, manpower requirement and nature of work.

**Publication of Books, Articles or Presentation:** It is **not permissible** to mention in a book or an article published by him, or a presentation made by him, **any professional attainment(s)**, whether of the member or the firm of chartered accountants, with which he is associated. However, **designation**'Chartered Accountant' as well as the name of the firm may be indicated in the same.

**Issue of Greeting Cards or Invitations:** The Council is of the view that the designation 'Chartered Accountant' as well as the name of the firm may be used in greeting cards, invitations for marriages and religious ceremonies and any invitations for opening or inauguration of office of the members, change in office premises and change in telephone numbers, provided that such greeting cards or invitations etc. are sent only to clients, relatives and friends of the members concerned.

Advertisement for Silver, Golden, Platinum or Centenary celebrations is not permitted. However, considering the need of interpersonal socialisation/relationship of the members through such get-together occasions, the advertisement for Silver, Golden, Diamond, Platinum or Centenary celebrations of the Chartered Accountants Firms may be published in newspaper or newsletter.

#### **Sponsoring Activities**

BUSINE

GOAL

- (a) A member in practice or a Firm of Chartered Accountants is not permitted to sponsor an event. However, such member or Firm may sponsor an event conducted by a Programme Organizing Unit (PoU) of the ICAI, provided such event has the prior approval of Continuing Professional Education (CPE) Directorate of the ICAI.
- (b) Members sponsoring activities relating to Corporate Social Responsibility may mention their individual name with the prefix "CA". However, the mention of Firm name or CA Logo is not permitted.

Advertisement of Teaching/Coaching activities by members: The members engaged in teaching /coaching activities, while advertising such teaching /coaching activities, shall comply with the Regulation 190A of the Chartered Accountants Regulations, 1988. An advertisement of Coaching/teaching activities by a member in practice may amount to indirect solicitation, as well as solicitation by any other means, and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

However, such members may put, outside their Coaching/teaching premises, sign board mentioning the name of Coaching/teaching Institute, contact details and subjects taught therein only. As regards the size and type of sign board, the Council Guidelines as applicable to Firms of Chartered Accountants would apply.

Sharing Firm Profile with prospective Client is not permitted unless it is in response to a proposed client's specific query, and otherwise not prohibited to be used by the client.

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While sharing name of the member or Firm of Chartered Accountants for inclusion in Television or Movie Credits, it must be taken care of that exhibition of name is not made differently as compared to other entries in the credits.

Soliciting professional work by making roving enquiries is not permissible.

The issue of an advertisement or a circular by a Chartered Accountant, **seeking work from professional colleagues** on any basis whatsoever except as provided above would be in violation of this clause.

Scope of representation which an auditor is entitled to make under Section 225(3) of the Companies Act, 1956 (Section 140(4) of the Companies Act, 2013). The wording of his representation should be such that, apart from the opportunity not being abused to secure needless publicity, it does not tantamount directly or indirectly to canvassing or soliciting for his continuance as an auditor.

The letter should merely set out in a dignified manner, how he has been acting independently and conscientiously through the term of office and may, in addition, indicate if he so chooses, his willingness to continue as auditor if reappointed by the shareholders.

The Council has decided that a member should not accept the original professional work emanating from a client introduced to him by another member. If any professional work of such client comes to him directly, it should be his duty to ask the client that he should come through the other member dealing generally with his original work.

The members should ensure that giving public interviews, should not result in publicity, highlighting their professional attainments.

Members and/or firms who publish advertisements under Box numbers: Members/
Firms are prohibited from inserting advertisements for soliciting clients or professional work under box numbers in the newspapers. This practice is in violation of this clause.

**Educational Videos** may be uploaded on the internet by members, and no reference should be made to the Chartered Accountants Firm wherein the member is a partner/proprietor. Further, it should not contain any contact details or website address.

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

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



A member empanelled as
Insolvency Professional or
Registered Valuer can mention
'Insolvency Professional' or
'Registered Valuer' respectively on
his visiting card and letter
head.

Date of setting-up practice by a member or the date of establishment of the firm on the letter heads and other professional documents etc. should not be mentioned.

**Practice as Advocate:** Members of the Institute in practice who are otherwise eligible may practise as advocates subject to the permission of the Bar Council but in such case, they should not use designation 'Chartered Accountant' in respect of the matters involving the practice as an advocate.

In respect of other matters they should use the designation 'Chartered Accountant' but they should not use the designation 'Chartered Accountant' and 'Advocate' simultaneously.

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# Practice as Company Secretary/Cost Management Accountant: Members of the Institute in practice who are otherwise eligible may also practice as Company Secretaries and/or Cost Management Accountants. Such members shall, however, not use designation/s of the aforesaid Institute/s simultaneously with the designation 'Chartered Accountant'.

It is clarified that in the event of the permission being granted to a member in practice to also hold COP of sister Institute(s)/ Bar Council, such a member be treated as a member in fulltime practice.

Mention of Firm name except on Professional Documents: It is not proper for a Firm of Chartered Accountants to use the designation 'Chartered Accountant' except on professional documents, visiting cards, letter heads or sign boards and under the circumstances clarified under Clause (6). However, an individual member may use the prefix "CA" with his name.

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**Notice in the Press relating to the Success in an Examination:** An individual candidate, should not contain any element of undesirable publicity either in relation to the articled/audit assistant or an employee or the member or the firm with whom he was served.

## Other Designation

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Chartered Accountant in practice not to state on his professional documents that he is an Income-tax Consultant, Cost Accountant, Company Secretary, Cost Consultant or a Management Consultant.

Members are allowed to appear before the various authorities including Company Law Board, Income Tax Appellate Tribunal, Sales Tax Tribunal where the law has permitted the same, a Chartered Accountant in practice is not entitled to use the designation 'Corporate Lawyer'.

Members are permitted to mention a title on their visiting cards to indicate membership of a foreign Institute of Accountancy, which has been recognised by the Council e.g. South African Institute of Chartered Accountants (SAICA), Institute of Certified Public Accountants (CPA Ireland) and Institute of Chartered Accountants in England and Wales (ICAEW).

A member must not use the designation such as 'Member of Parliament', 'Municipal Councilor' nor any other functionary in addition to that of Chartered Accountant.



Reports and certificates issued by a Chartered Accountant bring him to the notice of the public in a greater or lesser degree. It is therefore incumbent upon him to ensure that the extent and manner of publication of certificates are limited to what is necessary to enable the report or certificate to serve its proper purpose.

The members, may, however note that they should use letterhead of their Firm for issuing reports and certificates.

Appearance of Chartered Accountants on Electronic Media (including Internet)

Members may appear on television, films and Internet and agree to broadcast in the Radio or give lectures at forums and may give their names and describe themselves as Chartered Accountants.

Special qualifications or specialised knowledge directly relevant to the subject matter of the programme may also be given.

Firm name may also be mentioned, however, any exaggerated claim or any kind of comparison is not permissible.

What he may say or write must not be promotional of him or his firm but must be an objective professional view of the topic under consideration.

However, reference to the professional firm of the member should not be given.

Organising
Training
Courses,
Seminars etc.
for his staff

CA in practice holding training courses may also invite the staff of other Chartered Accountants and clients to attend the same. However, undue prominence should not be given to the name of the Chartered Accountant in any booklet or document issued in connection therewith.



Members writing articles or letters to the Press on subjects connected with the profession may give their names and use the description Chartered Accountants.



With regard to the size of signboard for his office that a member can put up, it is a matter in which the members should exercise their own discretion and good taste while keeping in mind the appropriate visibility and illumination (limited to the sake of visibility).

However, use of glow signs or lights on large-sized boards as is used by traders or shop-keepers is not permissible.

A member can have a name board at the place of his residence with the designation of a Chartered Accountant, provided it is a name plate or name board of an individual member and not of the firm.

#### **Public Announcements with details of Directors**

It is advisable for a member that as soon as he is appointed as a director on the Board of a Company, he should specifically invite the attention of the management of the Company to the aforesaid provisions and should request that before any such prospectus or public announcements or public communication mentioning the name of the member concerned, is issued, the material pertaining to the member concerned should, as far as practicable be got approved by him. The use of the expression 'Chartered Accountant' is permissible.

However, the member must ensure that descriptions about his expertise, specialisation and knowledge in any particular field or other appellations or adjectives are not published with his name. Particulars about directorships held by the member in other Companies can, however, be given, but the name of the firm of Chartered Accountants in which the member is a partner, should not be given.

**Network Firms and Networking Guidelines :** The Council has permitted Network amongst the Firms registered with the Institute. A member of the Network may advertise to the extent permitted by the Advertisement Guidelines issued by Institute.



For use of logos by Members on letter heads, visiting cards, etc. the Council had decided that the logos unconnected with the first letter of the name of the firm or its partners or proprietors would not be permitted.

The members/firms by themselves or through engineered name had been seeking to obtain firm name approval based on the name of the partner/s selected in the manner that logo of the firm would be identical to the firm name which would have not otherwise been permissible as firm name under Regulation 190.

In order to ensure compliance with the Regulations, the Council decided that the use of logo/monogram of any kind/ form/ style/ design/ colour etc. whatsoever on any display material or media e.g. paper stationery, documents, visiting cards, magnetic devices, internet, sign board, by the members in practice and/or the firm of Chartered Accountants, be prohibited. Use/printing of member/ firm name in any other manner tantamounting to logo/monogram was also prohibited.



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.

- There should be no alteration of the font (colour, bold/unbold, size). Moreover, there should be no change in spacing and dimensions.
- Do not change the design and colours including the white background.
- · Refrain from rotating or tilting the logo clockwise and anti-clockwise.
- The logo should not be shrunk or distorted changing the original proportion.

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

The professional reasons for not accepting an audit would be

Clause (8)

Non-compliance of the provisions of Sections 139 and 140 of the Companies Act, 2013 as mentioned in Clause (9) of the Part - I of First Schedule to The Chartered Accountants Act, 1949; and

Non-payment of undisputed Audit Fees by auditees other than in case of Sick Units for carrying out the Statutory Audit under the Companies Act, 2013 or various other statutes; and

Issuance of a qualified report.

Positive evidence of the delivery of the communication to the addressee in the normal course provide such evidence

Communication by a letter sent through 'Registered Acknowledgement due', or

By hand against a written acknowledgement, or Acknowledgement of the communication from retiring auditor's vide email address registered with the Institute or his last known official email address, or

Unique Identification Number (UDIN) generated on UDIN portal (subject to separate guidelines to be issued by the Council in this regard)





Firm not found at the given Registered address and the address of communication is the same as registered with the Institute on the date of dispatch

Special Audit under Income Tax Act, 1961

The communication received back by the Incoming Auditor with 'Office found Locked' written on the Acknowledgement Due shall be deemed as having been delivered to the retiring auditor.

The letter will be deemed to be delivered, unless the retiring auditor proves that it was not really served and that he was not responsible for such non-service.

It would be a healthy practice if a Tax
Auditor appointed for conducting special audit under Income Tax Act communicates with the member who has conducted the Statutory Audit.

Communication required for all kinds of audit such as Statutory Audit, Tax Audit, Internal Audit, Concurrent Audit or any other kind of audit.

#### Communication in case of Assignments done by other professionals

A Communication is mandatorily required for all types of Audit/
Report where the previous auditor is a Chartered Accountant.

It would also be a healthy practice to communicate in case of assignments done by other professionals not being Chartered Accountants.



Lack of time in acceptance of Government Audits

In case of audit of government Companies/banks or their branches, if

the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit.

In case the time schedule given for the assignment is such that **there is no time to wait for the reply** from the outgoing auditor, the incoming auditor

May give a conditional acceptance and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause.

In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.

Clause (9)

Accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 [or sections 139 to 141 of the Companies Act, 2013 or any other law pertaining to appointment of auditors for the time being in force] in respect of such appointment have been duly complied with

In other words, Clause (9) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 and 140 of the Companies Act, 2013, in respect of such appointment have been duly complied with.

Under this clause it is obligatory on the incoming auditor to ascertain from the Company that the appropriate procedure in the matter of his appointment has been duly complied with so that no shareholder or retiring auditor may, at a later date, challenge the validity of such appointment.

Clause (10) Charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act.

The Council of the Institute has, however, framed Regulation 192 which exempts members from the operation of this clause in certain professional services. The said Regulation 192 is reproduced -

**Regulation 192 Restriction on fees** - No Chartered Accountant in practice shall charge or offer to charge, accept or offer to accept, in respect of any professional work, fees which are based on a percentage of profits, or which are contingent upon the findings or results of such work, provided that

In the case of a receiver or a liquidator, the fees may be based on a percentage of the realisation or disbursement of the assets; In case of an auditor of a co-operative society, the fees may be based on a percentage of the paid up capital or the working capital or the gross or net income or profits;

In case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of property valued;

In the case of certain management consultancy services as may be decided by the resolution of the Council from time to time, the fees may be based on percentage basis which may be contingent upon the findings, or results of such work;

In case of certain fund raising services, the fees may be based on a percentage of the fund raised; In case of debt recovery services, the fees may be based on a percentage of the debt recovered;

In case of services related to cost optimisation, the fees may be based on percentage of the benefit derived.

Any other service or audit as may be decided by the Council including

- (i) Acting as Insolvency Professional;
- (ii) Non-Assurance Services to Non-Audit Clients



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

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

The Council, on a very careful consideration of the matter, has formulated Regulation, 190A and 191 which are reproduced below, specifying the activities with which a member in practice can associate himself with or without the permission of the Council.

Regulation 190A Chartered Accountant in practice not to engage in any other business or occupation

A chartered accountant in practice not to engage in any other business or occupation other than the profession of accountancy except with the permission granted in accordance with a resolution of the Council.

Regulation 191 Part-time employment a Chartered

Accountant in practice may accept

Notwithstanding anything contained in Regulation 190A but subject to the control of the Council, a Chartered Accountant in practice may act as a liquidator, trustee, executor, administrator, arbitrator, receiver, adviser or representative for costing, financial or taxation matter, or may take up an appointment that may be made by the Central Government or a State Government or a court of law or any other legal authority or may act as a Secretary in his professional capacity, provided his employment is not on a salary-cum-full-time basis.



General
Resolution
(generally
permitted to
engage-no specific
permission from
the Council would
be necessary)

Specific
Resolution
(may engage after
obtaining the
specific and prior
approval of the
Council)

Employment under Chartered Accountants in practice or firms of such chartered accountants.

Private tutorship.

Authorship of books and articles.

Holding of Life Insurance Agency License for the limited purpose of getting renewal commission.

Attending classes and appearing for any examination.

Holding of public elective offices such as M.P., M.L.A. and M.L.C.

Honorary office leadership of charitable-educational or other non-commercial organisations.

Acting as Notary Public, Justice of the Peace, Special Executive Magistrate and the like.

Part-time tutorship under the coaching organisation of the Institute.

Valuation of papers, acting as paper-setter, headexaminer or a moderator, for any examination.

Editorship of professional journals.

Acting as Surveyor and Loss Assessor under the Insurance Act, 1938 provided they are otherwise eligible.

Acting as recovery consultant in the banking sector.

Owning agricultural land and carrying out agricultural activity.

Full-time or part-time employment in business concerns provided that the member and/or his relatives do not hold "substantial interest" in such concerns.

Full-time or part-time employment in nonbusiness concern.

Office of managing director or a whole-time director of a body corporate within the meaning of the Companies Act, provided that the member and/or any of his relatives do not hold substantial interest in such concern.

Interest in family business concerns (including such interest devolving on the members as a result of inheritance / succession / partition of the family business) or concerns in which interest has been acquired as a result of relationships and in the management of which no active part is taken.

Interest in an educational institution.

Part-time or full-time lectureship for courses other than those relating to the Institute's examinations conducted under the auspices of the Institute or the Regional councils or their branches.

Part-time or full-time tutorship under any educational institution other than the coaching organisation of the Institute.

Editorship of journals other than professional journals.

Any other business or occupation for which the Executive Committee considers that permission may be granted.



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

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the following instances and such delegation will not attract provisions of this clause



It is also clarified that where the authority to sign documents given above is delegated by a chartered accountant or by a firm of chartered accountants the fact that the documents have not been signed by a chartered accountant is not a defence to him or to the firm in an enquiry relating to professional misconduct.

However, the Council has decided that where a Chartered Accountant while signing a report or, a financial statement or any other document is statutorily required to disclose his name, the member should disclose his name while appending his signature on the report or document. Where there is no such statutory requirement, the member may sign in the name of the firm.

It may be noted that the revised SA 700 mandates mentioning of Membership No. and Firm Registration No. Members' attention is also drawn towards UDIN Guidelines of the Institute in 2018.

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

A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person:

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

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

[Note: A member in the foregoing circumstances would be guilty of misconduct regardless of the fact that he was in whole-time or part-time employment or that he was holding Certificate of Practice along with his employment.]



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

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he:

Clause (1) not being a fellow of the Institute, acts as a fellow of the Institute. Clause (2) does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority.

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

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

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he:

ause (1

Is held guilty by any civil or criminal of court for an offence which is punishable with imprisonment for a term not exceeding six months.

In the opinion of the Council, brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work.

lause (2)

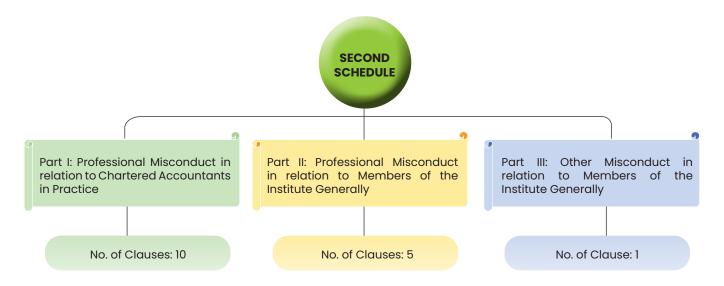
Clause (1) & (2) are self explanatory and any of the member of the Institute is found guilty by any civil or criminal court and prosecuted for an imprisonment in an offence involving moral turpitude or his acts bring disrepute to the profession or the Institute, irrespective of the fact whether such acts are related to profession or not, such member will be deemed to be guilty of other misconduct in Part IV of Schedule I.

The important point to note is that if imprisonment tenure exceeds six months, this case will be covered in the clause of Part III of Second Schedule.

## The Second Schedule

Where the Director (Discipline) is of the opinion that a member is guilty of any professional or other misconduct mentioned in the Second Schedule or in both the Schedule, he shall place the matter before the Disciplinary Committee.





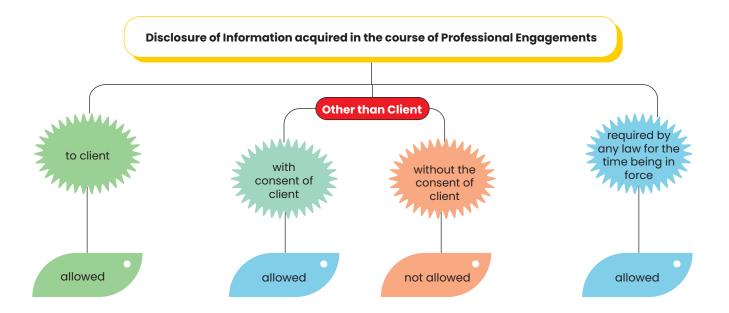
## Part I - Professional Misconduct in Relation to Chartered Accountants in Practice

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he-



Discloses information acquired in the course of his professional engagement to any person other than his client so engaging him without the consent of his client or otherwise than as required by any law for the time being in force.

There is a difference between sharing of working papers and sharing of information. So far as the information is concerned, he can provide the same to the client or to a Regulatory Body after obtaining the consent of the client.





Certifies or submits in his name or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice.

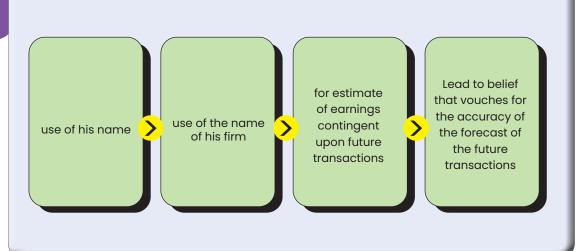
This clause restrains a member from subscribing to the report on a FS so long as it has not been examined by him or by a partner or an employee of his firm or by another CA in practice. It has been introduced to ensure that the work entrusted to him has been carried out by the member either directly or under his supervision before he renders his report.

An exception however has been made in respect of an examination carried out by another CA in practice. This enables two or more members to accept a joint assignment or enables a member also to carry out the examination of financial statements (FS) by or with the assistance of another CA in practice.

Where the joint auditors are appointed, the work is normally divided among themselves in terms of identifiable units or areas, or with reference to the items of liabilities, or income or expenditure or to the period of time etc. Such division should be adequately documented and communicated to the auditee.

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

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he permits:





Expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

If the opinions of auditors are to command respect and the confidence of the public, it is essential that it must be free of any interest that is likely to affect their independence.

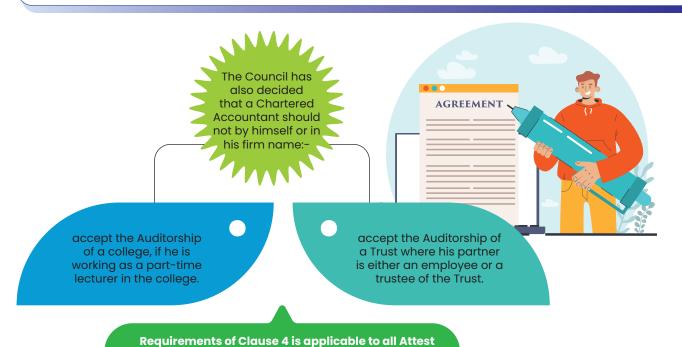
- As per this clause, an auditor should not express his opinion on FS of any business or enterprise wherein he has a substantial interest.
- This is intended to assure the public as regards the faith and confidence that could be reposed on the independent opinion expressed by the auditors.

The words "financial statements" used in this clause would cover both reports and certificates usually given after an examination of the accounts or the financial statement or any attest function under any statutory enactment or for purposes of income-tax assessments.

This would not apply to cases where such statements are prepared by members in employment purely for the information of their respective employers in the normal course of their duties and not meant to be submitted to any outside authority.

Members must take care to see that they do not land themselves in situations where there could be a conflict of interest and duty.

CA in employment is not permitted to certify the FS of the concern in which he is employed, or of a concern under the same management as the concern in which he is employed, even though he holds COP and such certification can be done by any Chartered Accountant in practice. This restriction would not, however, apply where the certification is permitted by any law



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Functions by the members.

nember, his firm or his partner or his relative has substantial interest in the business or enterprise (not peing a company The independence of mind is a fundamental concept of audit Nothing can substitute for the and/or expression of opinion essential and fundamental on financial statements in requirements of independence. any form and, therefore, must always be maintained. An enterprise/concern of Where the partner or relative which a member is either an of a member has substantial interest owner or a partner holding of substantial interest by the partner or holding of interest in the business or enterprise by a member himself whether as sole-proprietor or relative of the member in the business or enterprise partner in a firm would affect his independence of of which the audit is to be carried out and opinion is to be expressed on the financial statement, mind in the performance of professional duties in conducting the audit and/ or expressing an may also affect the independence of mind of the opinion on financial statements of such enterprise. member, in the performance of professional duties. Member may desist Member shall not audit from undertaking the audit of financial financial statements statements of such of such business or business or enterprise enterprise. if his independence is compromised.

Where the member is holding a position in the Section 141(3)(b) of the Companies Company as Director, officer or employee Act, 2013 Where the member or his partner or relative is a director or in the employment of an Officer or an Employee of the Company. Where the member is not holding a position in the Section 141(3) (d)(i) of the Companies Company, but holding any security or interest Act, 2013 Section 141(3) (c) of the Companies Where the partner of the member is an officer or employee of a company Act, 2013 Section 141(3) (d)(i) of the Companies Where the partner of the member is holding any security or interest in the Company Act, 2013 Where the relative of the member is a director Section 141(3) (f) of the Companies or is in the employment of the Company as a Act, 2013 director or key managerial personnel Section 141(3) (d)(i) of the Companies Where the relative of the member is holding Act, 2013 read with Rule 10 of Companies any security or interest in the Company (Audit and Auditors) Rules, 2014 An accountant is expected to be no less It is not permissible for a member to independent in the discharge of his duties as a undertake the assignment of certification, tax consultant or as a financial adviser wherein the client is relative (as defined in than as an auditor (should bear the same AS 18) of the member. degree of integrity and independence of mind in all spheres of his work). Members not Statutory auditor Internal auditor Internal Auditor to write Books not to be the not to be the not to be the of Account for Internal Auditor Tax auditor **GST Auditor** auditee clients simultaneously simultaneously simultaneously Cooling off period after completion of tenure as Director: A member shall

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not accept the assignment of audit of a Company for a period of two years from the date of completion of his tenure as Director or resignation as

Director of the said Company.

Members to satisfy whether appointment is as per the statute governing the entity

In case Entity is constituted under a trust deed/instrument

member should ensure that his appointment is valid as per instrument constituting the entity and rules and regulations made thereunder.

#### In case appointment is to be authorised by the Regulatory Authorities

## In case of Co-operative Societies, trusts etc.:

Member must satisfy whether such regulatory authorities have authorised the managing committee of the society/trust for appointment of the auditors.

#### In case entity is managed by Managing Committee or Board of Trustees or Board of Governors:

Member should ensure that his appointment is duly made by a resolution passed by such Managing Committee or Board of Trustees or Board of Governors.

#### In case of Partnership or sole Proprietary Concerns:

Member must ensure that a letter of appointment/ engagement is given by the firm/sole proprietor before he accepts the appointment/ engagement.

Fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity.

Clause (5)

Before a member could be held guilty of misconduct, materiality has to be established as per SA 320, "Materiality in Planning and Performing an Audit".

Care should be taken to ensure that aspect of materiality should be judged in relation to both Balance Sheet and P&L Account.

Fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity.

Clause (6)

failure on the part of a member to point out in his report a material misstatement appearing in a financial statement and he has knowledge of the same.

before a member could be held guilty of misconduct, materiality has to be established and the observations made under the preceding Clause (5), in this connection, will equally apply to this clause.

Clause (7)

does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

It is a vital clause which unusually gets attracted whenever it is necessary to judge whether the accountant has honestly and reasonably discharged his duties. The expression negligence covers a wide field and extends from the frontiers of fraud to collateral minor negligence.

It is the duty of an auditor to carry out the work with skill, care and caution which a reasonably competent, careful, and cautious auditor would use.

What is reasonable skill, care and caution must depend on the particular circumstances of each case.

An auditor is not bound to be a detective, or to approach his work with suspicion or with a foregone conclusion that there is something wrong.

He is a watchdog but not a bloodhound.





Fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion.

It is expected of a
Chartered Accountant
to express his opinion
on the truth and
fairness of statements
of accounts after
examining their
authenticity with
reference to
information and
explanations given
to him.

A Chartered
Accountant must
determine the extent
of information which
should be obtained
by him before he
expresses an opinion
on the financial
statements submitted
to him for report.

The chartered accountant should not express an opinion before obtaining the required data and information.

Where due to inadequacy of information or data the report has to be circumscribed to an extent that it would cease to be of any expression of a categorical opinion, the auditor should clearly express his disclaimer in no uncertain terms in accordance with SA 705.

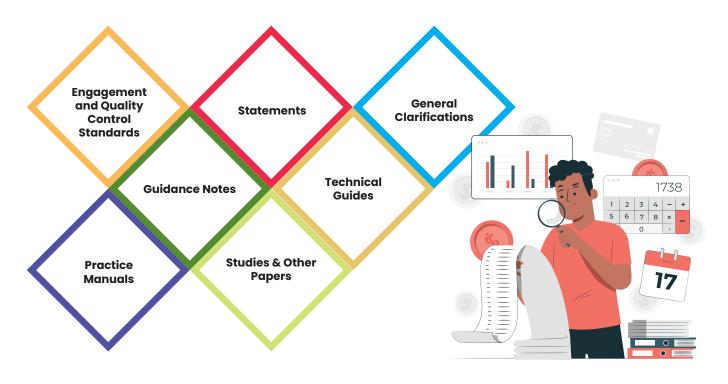
Fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

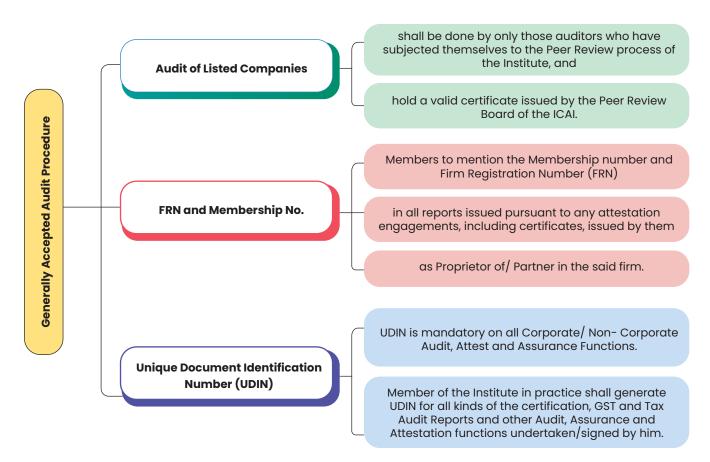
Clause (9)

audit should be performed in accordance with "generally accepted procedure of audit applicable to the circumstances" if for any reason the auditor has not been able to perform the audit in accordance with such procedure, his report should draw attention to the material departures from such procedures.

a statutory duty in the manner required is not excused merely by giving a qualification or reservation in auditor's report.

"Generally Accepted Audit Procedure" may be construed from the various pronouncements of the Institute is issued by way of:





It is not possible to exhaustively deal with instances or accepted procedures of audit applicable to special cases. Two instances of an audit requiring a special procedure are given below:

Certifying figures of circulation of Newspapers, magazines etc. by their clients on behalf of the Audit Bureau of Circulations Ltd.

(ABC): Members are normally supplied by the ABC with the rules and regulations under which the certification of circulation is to be carried out.

Members are also asked to give their acceptance in writing that they will observe the rules or procedure envisaged to report upon any lapse of such special requirements, even of an insignificant nature.

#### Verification on behalf of

**Banks:** the rules or procedure for conducting such audit are different from the normal rules applicable to audits under the Companies Act.

Members are required to be very familiar with the special procedure required in these matters and act accordingly.

Clause (10)

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

In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client. If he should receive such funds, it would be his duty to:

deposit them in a separate banking account, and

utilize such funds only in accordance with the instructions of the client or for the purposes intended by the client.

An advance received by a CA against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule. Moneys received for expenses to be incurred, for example, payment of prescribed statutory fees, purchase of stamp paper etc., which are intended to be spent within a reasonably short time need not be put in a separate bank account.

Moneys received for expenses to be incurred which are not intended to be spent within a reasonably short time as aforesaid, should be put in a separate bank account immediately.

Moneys received by a CA in his capacity as trustee, executor, liquidator, etc. must be put in a separate bank account immediately.

## Part II - Professional Misconduct in Relation to Members of the Institute Generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he-



Contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council.

This clause requires every member of the Institute to act within the framework of the Chartered Accountants Act and the Regulations and Guidelines made by Council thereunder.

Any violation either of these Guidelines or the Act or the Regulations by a member would amount to misconduct under this part.

#### **Regulation 43 Regulation 67 Engagement of Articled Assistant** Complaint against the Principal **Regulation 46** Regulation 68 to 80 Registration of Articled Assistant **Audit Assistant Regulation 47 Regulations under Regulation 190** which cases of Premium from Articled Assistant Register of offices and firms contravention have generally come to the notice of the **Regulation 48 Regulation 190A** Council are the CA in practice not to engage in following: Stipend to Articled Assistant any other business or occupation **Regulation 56** Regulation 191 Termination or assignment Part time employments a CA in of Articles practice may accept **Regulation 192 Regulation 65** Articled Assistant not to engage in Restriction on fees any other occupation



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



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

Clause (4)

Defalcates or embezzles money received in his professional capacity.



Acts as an auditor of the company in contravention of the provisions of the Companies Act, 2013

## Part III - Other Misconduct in Relation to Members of the Institute Generally



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

Imprisonment awarded for a term exceeding six months in any civil/criminal matter treated as a major offence under 'other misconduct' is included in this Schedule.



#### **Council General Guidelines**

The relevant extracts of the Council General Guidelines, 2008 (issued under Clause (1) of Part-II of Second Schedule to the Chartered Accountants Act, 1949) are given below:

## Chapter I - Preliminary

These Guidelines have been issued by the Council of the ICAI under the provisions of the Chartered Accountants Act, 1949, as amended by the Chartered Accountants (Amendment) Act 2006, known as 'Council General Guidelines, 2008'

These guidelines shall be applicable to all the Members of the Institute whether in practice or not wherever the context so requires.

## Chapter II: Conduct of a Member Being an Employee

A 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 V: Maintenance of Books of Account**

A member of the Institute in practice or the firm of Chartered Accountants of which he is a partner, shall maintain and keep in respect of his / its professional practice, proper books of account including the following-



#### Chapter VI: Tax Audit Assignments under Section 44 AB of the Income-Tax Act, 1961

A member of the Institute in practice shall not accept, in a financial year, more than the "specified number of tax audit assignments" under Section 44AB of the Income-tax Act, 1961.

Provided that in the case of a firm of Chartered Accountants in practice, the "specified number of tax audit assignments" shall be construed as the specified number of tax audit assignments for every partner of the firm.

Provided further that where any partner of the firm is also a partner of any other firm or firms of Chartered Accountants in practice, the number of tax audit assignments which may be taken for all the firms together in relation to such partner shall not exceed the "specified number of tax audit assignments" in the aggregate.

Provided further that where any partner of a firm of Chartered Accountants in practice accepts one or more tax audit assignments in his individual capacity, the total number of such assignments which may be accepted by him shall not exceed the "specified number of tax audit assignments" in the aggregate.

Provided also that the audits conducted under Section 44AD, 44ADA and 44AE of the Income Tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".

# "the specified number of tax audit assignments" means -

- in the case of a CA in practice or a proprietary firm of CA, 60 tax audit assignments, in a FY, whether in respect of corporate or non-corporate assesses.
- in the case of firm of CA in practice, 60 tax audit assignments per partner in the firm, in a FY, whether in respect of corporate or non-corporate assesses

It may be noted that the audits conducted under Section 44AD, 44ADA and 44AE of the Income Tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".

The limit on number of tax audit assignments per partner in a CA Firm may be distributed between the partners in any manner whatsoever. However, it should be in accordance with the Standard on Quality Control (SQC) 1.

## Chapter VII: Appointment of an Auditor in Case of Non-Payment of Undisputed Fees

A member of the Institute in practice 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.

It may be noted that for sick unit, the above prohibition of acceptance shall not apply.

"sick unit" shall mean a unit registered for not less than five years, which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

For this purpose, the provision for audit fee in accounts signed by both - the auditee and the auditor along with other expenses, if any, incurred by the auditor in connection with the audit, shall be considered as "undisputed audit fees".

## Chapter VIII: Specified Number of Audit Assignments

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 141 of the Companies Act 2013.

In the case of a CA in practice or a Proprietary firm of Chartered Accountant, 30 audit assignments whether in respect of private Companies or other Companies, with the exception of one person Companies and dormant companies.

SPECIFIED NUMBER OF AUDIT ASSIGNMENTS MEANS In the case of Chartered Accountants in practice, 30 audit assignments per partner in the firm, whether in respect of private Companies or other Companies, with the exception of One person Companies and dormant companies.

#### "SPECIFIED NUMBER OF AUDIT ASSIGNMENTS" MEANS

(a) The number of audit of such Companies, which he or any partner of his firm has accepted whether singly or in combination with any other CA in practice or firm of such Chartered Accountants, shall be taken into account.

(b) The audit of the H.O. and branch offices of a Company by one Chartered Accountant or firm of such CAs in practice shall be regarded as one audit assignment

(c) The audit of one or more branches of the same Company by one CA in practice or by firm of CAs in practice in which he is a partner shall be construed as one audit assignment only.

(d) The number of partners of a firm on the date of acceptance of audit assignment shall be taken into account.

## Chapter IX: Appointment as Statutory Auditor

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

Provided that in case appointing authority(ies)/ regulatory body(ies) specify(ies) more stringent condition(s)/ restriction(s), the same shall apply instead of the conditions/ restrictions specified under these Guidelines.

The above restrictions shall apply in respect of fees for other work(s) or service(s) or assignment(s) payable to the statutory auditors and their associate concern(s) put together.

#### For the above purpose,

- (i) the term "other work(s)" or "service(s)" or "assignment(s)" shall include Managem Consultancy and all other professional services permitted by the Council pursuant to Sec 2(2)(iv) of the Chartered Accountants Act, 1949 but shall not include:-
  - (a) audit under any other statute;
  - (b) certification work required to be done by the statutory auditors; and
  - (c) any representation before an authority;

#### Chapter X: Appointment of an Auditor when he is indebted to a Concern

A member of the Institute in practice or a partner of a firm in practice or a firm or a relative of such member or partner shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in other cases for amount exceeding ₹ 100,000/-.

## Chapter XI: Directions In Case of Unjustified Removal of Auditors

A member of the Institute in practice shall follow the direction given, by the Council or an appropriate Committee or on behalf of any of them, to him being 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**

A member of the Institute in practice shall not respond to any tender issued by an organisation or user of professional services in areas of services which are exclusively reserved for chartered accountants, such as audit and attestation services.

Such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the CAs.

## Chapter XIV: Unique Document Identification Number (UDIN) Guidelines

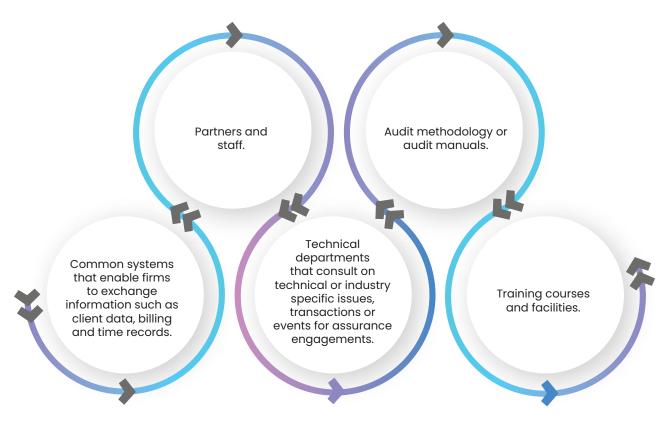


## Chapter XV: Guidelines for Networking

To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct.

where the large structure is aimed at the co-operation and the entities within the structure share a significant part of professional resources, it is deemed to be a network.

#### **Professional Resources include:**



A network can be constituted as a mutual entity which will act as a facilitator for the constituents of the Network. In such a case the Network itself will not carry out any professional practice.

A network can be constituted as a partnership firm subject to the condition that the total number of partners does not exceed twenty.

A network can be constituted as a Limited Liability Partnership subject to the provision of the Chartered Accountants Act and Rules and such other laws as may be applicable.

A network can be constituted as a company subject to the guidelines prescribed by Institute for corporate form of practice and formation of management consultancy services company.

Network Firms shall consist of sole Practitioner/proprietor, partnership or any such entity of professional accountants as may be permitted by the Act.

A firm is allowed to join only one network.

Firms having common partners shall join only one Network.

FORMS OF THE NETWORK

#### **ETHICAL COMPLIANCE**

If one firm of the network is the statutory auditor of an entity then the associate [including the networked firm(s)] or the said firm directly/indirectly shall not accept the internal audit or book-keeping or such other professional assignments which are prohibited for the statutory auditor firm.

The guidelines of ceiling on Non-audit fees is applicable in relation to a Network as follows:-

For a Network firm who is doing statutory audit (including its associate concern and/or firm(s) having common partnership), it shall be the same as mentioned in the said notification; and

For other firms of the same Network collectively, it shall be 3 times of the fee payable for carrying out the statutory audit of the same undertaking /company. In those cases where rotation of firms is prescribed by any regulatory authority, no member firm of the network can accept appointment as an auditor in place of any member firm of the network which is retiring.

The Network
may advertise the
Network to the
extent permitted
by the
Advertisement
Guidelines issued
by Institute. The
firms constituting
the network are
permitted to
use the words
"Network Firms" on
their professional
stationery.

The constituent member firms of a network and the network shall comply with all the ethical standards prescribed from time to time

#### Framework of Internal Bye-laws of Network:





- (i) Appointment of a Managing Committee, from among the managing partners of the member firms of the network and the terms and conditions under which it should function. The minimum and maximum number of members of the Managing Committee shall also be agreed upon
- (ii) Administration of the network
- (iii) Contribution of membership fees to meet the cost of the administration of the network
- (iv) Identifying a partner of any of the member firms of the network to be responsible for the assignment (engagement partner)
- (v) Dispute settlement procedures through arbitration and conciliation
- (vi) Development of training materials for members of the network
- (vii) Issue of News-letters for staff and clients
- (viii) Development of software for different types of assignments
- (ix) Development and maintenance of data bases relevant for different types of assignments
- (x) Library
- (xi) Appointment of a technical director to whom references can be made
- (xii) Determining the methodology for drawing resources from each member firm
- (xiii) Determining compensation to member firms for resources to be drawn from them
- (xiv) Peer review of the member firms

## Chapter XVI: Logo Guidelines

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.

Do not change the design and colors including the white background

There should be no alteration of the font (colour, bold/unbold, size). Moreover, there should be no change in spacing and dimensions.

Refrain from rotating or tilting the logo clockwise and anti-clockwise.

The logo should not be shrunk or distorted changing the original proportion.

Correct Logo





# #F37920 C0 M62 Y91 K0 #145886 C93 M61 Y24 K9 #55B848 C67 M0 Y88 K0

## Chapter XVII: Guidelines for Corporate Form of Practice

Members in practice to hold the office of Managing Director, Whole-time Director or Manager of a body corporate within the meaning of the Companies Act provided that the body corporate is engaged exclusively in rendering Management Consultancy and Other Services permitted by the Council in pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 and complies with the condition(s) as specified by the Council from time to time in this regard.

The members can retain full time Certificate of Practice besides being the Managing Director, Whole-time Director or Manager of such Management Consultancy Company.

No audit practice can be done in Corporate Form. The consultancy practice hitherto done in Individual or Firm Status alone is now intended to be permitted in Corporate Form also.

There will be no restriction on the quantum of the equity holding of the members, either individually and/ or along with the relatives, in such Company.

The name of the
Management Consultancy
Company is required
to be approved by the
Institute and such Company
has to be registered
with the Institute.

Such members shall be regarded as being in full-time practice and therefore can continue to do attest function either in individual capacity or in Proprietorship/Partnership firm in which capacity they practice and wherein they are also entitled to train articled/audit assistants.

## **Ethical Compliance:**

- (i) Once the Management Consultancy Company is Registered with the Institute as per the Guidelines, it will be necessary for such a Company to comply with the following requirements: -
  - (a) If the individual practitioner/sole-proprietorship firm/partnership firm is the statutory auditor of an entity then the Management Consultancy Company should not accept the internal audit or book-keeping or such other professional assignments, which are prohibited for the statutory auditor firm.
  - (b) The Notification No. 1-CA(7)/60/2002 dated 8th March, 2002 in respect of ceiling on Non-audit fees is applicable in relation to a Management Consultancy Company.
  - (c) The Management Consultancy Company shall comply with clauses (6) & (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 and such other directives as may be issued by the Institute from time to time.
- (ii) The Management Consultancy Company shall give an undertaking that it shall comply with clauses (6) & (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 and such other directives as may be issued by the Institute from time to time.

#### **Council Guidelines For Advertisement, 2008**

#### Write-Up

The Members may advertise through a write up setting out their particulars or of their firms and services provided by them subject to the following Guidelines and must be presented in such a manner as to maintain the profession's good reputation, dignity and its ability to serve the public interest.

The Member(s)/Firm(s) should ensure that the contents of the Write up are true to the best of their knowledge and belief and are in conformity with these Guidelines and be aware that the Institute of Chartered Accountants of India will neither approve a propose write-up, nor owns any responsibility whatsoever for such contents or claims by the writer Member(s)/Firm(s).

The write-up shall comply with the following conditions:-

- It shall be honest and truthful.
- There shall be no exaggerated claims for the services offered by the member or the Firm, or the qualifications or experience of the member or any of the partners or any other person associated with the Firm.
- It must not make any disparaging references or unsubstantiated comparisons to the work of others.
- It should not be of a nature that may bring the profession into disrepute.
- It should not contain testimonials or endorsements concerning Member(s) or names of clients (both the past and present) or the fees charged.
- It should not contain any information about achievements /awards (except the awards given by the Central or State Governments or Regulatory bodies) or any other position held, or accreditation(s) granted by any organisation.
- Monogram of any kind or use of any kind of catch words is not permissible.
- The Membership No./FRN (as may be applicable) is mandatory to be mentioned in the write-up.
- It should not be of font size exceeding 14.
- It must not be violative of any provisions of the Chartered Accountants Act, 1949, the Chartered Accountants Regulations, 1988, Code of Ethics, 2020 or any Guideline of the Council

The Institute of Chartered Accountants of India may issue a reasoned directive for removal or withdrawal of the whole write-up or of any part(s) thereof.

#### Recent Decisions of Ethical Standards Board

- It is not permissible for member in practice being a statutory auditor to prepare Business Responsibility & Sustainability Reporting (BRSR) study to Audit Clients. However, he may provide advisory services on the same.
   It is permissible for member in practice being a statutory auditor to be "Assurance provider of BRSR core" (Ref. SEBI circular dt. 12.07.2023) for the same client.
- 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 in practice to engage in the services assessment/performance audit of the centres of skill development council of Government of India as these are permissible under Management Consultancy and other services issued under section 2(2)(iv) of Chartered Accountants Act, 1949.
- 4. It is permissible 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. There should be no violation of clause (6) and Clause (7) of Part-I of First Schedule to the Chartered Accountants Act, 1949 in doing so.
- 6. It is permissible 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.
- A firm is not permitted to publish its vision or mission statement on letter head, visiting card or stationery etc.
   The vision and mission statement may be printed on the firm profile and may be provided in response to a specific request.
- 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. He can accept either of the Assignments at one time.
- 11. A member in practice cannot be appointed as an Internal Auditor and Procurement officer simultaneously in an organization.
- 12. It is permissible for members in practice to charge fees on a percentage of utilization amount of an educational Institute for certifying the amount (utilization) spent by an educational Institute out of grant.
- 13. It is not permissible for a member in practice to accept the appointment of statutory audit of the society wherein immediate family member i.e., spouse or dependent, of member hold honorary position of one of the managing committee of the institutes governed by the society.
- 14. There is no conflict of interest in a Chartered Accountant, who is a member of a Trust, being the auditor of the said trust. It is subject to the exception where a particular statute governing a Trust prescribes prohibition on the member of the Trust to be its Auditor or otherwise where there is conflict of interest as per the provisions of Code of Ethics.
- 15. It is not permissible for a member to use Messaging Applications to send messages to make people aware about his practice, and mention the services provided therein.

## **SARANSH**

## **Professional Ethics and Liabilities of Auditors**

- 16. It is permissible for a practicing Chartered Accountant holding Certificate of Practice to become a member of the 'Board of Management' in Primary (Urban) Co-operative Banks.
  - The Ethical Standards Board noted that the position of a member of 'Board of Management' in Primary (Urban) Co-operative banks (UCBs) and the role attached to that position is similar to that of a Director-Simiplicitor; where there is no involvement of a member in the day-to-day functioning/operations and not signatory etc. and only sitting fees for the services rendered are provided.
- 17. Member in practice cannot act as Trademark or Patent Attorney. However, Professional advice in relation to Intellectual Property Rights (IPR) is a routine professional work for a Chartered Accountants in practice and same is permissible under the provisions of the Chartered Accountants Act, 1949.
- 18. There is no prohibition for internal auditor of a company to acquire/purchase shares of the said Company.
- 19. A CA Firm may register itself on Udyog Aadhar, a web portal of Ministry Micro, Small and Medium Enterprises.
- 20. A chartered accountant in practice can provide services through kiosk only if the services provided are professional activities of a practicing chartered accountant, permitted under the Act.
- 21. It is permissible for two or more Chartered Accountants in practice collectively to have joint training session for their clients on GST, and share the fees collected from the clients thereof.
- 22. A Member in practice may be a Non-executive/independent director in a Co-operative Bank, provided he is not involved into day to day activity of the organization, nor he or any of his partners are interested in the Bank as an auditor.
- 23. A Chartered Accountant in practice being Director Simplicitor in a Company cannot sign ROC Forms of the Company as it is a direct conflict of role.
- 24. A Chartered Accountant in practice can act as Authorized Representative of a Foreign Company, provided he is not the auditor of the said Company.
- 25. A Chartered Accountant in service is allowed to take e-return registration if it does not conflict with employment obligation. However, he cannot certify the return.
- 26. In case where Chartered Accountant in practice is a non-executive director in a company, he or a Firm in which he is a partner, should not accept the appointment as a statutory auditor of a Company which is a joint venture of the original Company, as it would impact independence.
- 27. A Chartered Accountant in practice may be an equity research adviser, but he cannot publish retail report, as it would amount to other business or occupation.
- 28. A Chartered Accountant in practice may engage himself as Registration Authority (RA) for obtaining digital signatures for clients.
- 29. A Chartered accountant can hold the credit card of a bank when he is also the auditor of the bank, provided the outstanding balance on the said card does not exceed Rs 100,000\* beyond the prescribed credit period limit on credit card given to him. (\*As per the limit of indebtedness existing as on date.)
- 30. A Chartered Accountant in practice can act as mediator in Court, since acting as a "mediator" would be deemed to be covered within the meaning of "arbitrator"; which is inter-alia permitted to members in practice as per Regulation 191 of the Chartered Accountants Regulations, 1988.
- 31. A Chartered Accountant in practice is not permitted to accept audit assignment of a bank in case he has taken loan against a Fixed Deposit held by him in that bank.

- 32. The Ethical Standards Board in 2013 generally apply the stipulations contained in the then amended Rule 11U of Income Tax generally, wherein statutory auditor /tax auditor cannot be the valuer of unquoted equity shares of the same entity. The Board has at its recent Meeting (January, 2017) has reviewed the above, and decided that where law prohibits for instance in the Income Tax Act and the rules framed thereunder, such prohibition on statutory auditor/tax auditor to be the valuer will continue, but where there is no specific restriction under any law, the said eventuality will be permissible, subject to compliance with the provisions, as contained in the Code of Ethics relating to independence.
- 33. The Ethical Standards Board had in 2011 decided that it is not permissible for a member who has been Director of a Company, upon resignation from the Company to be appointed as an auditor of the said Company, and the cooling period for the same may be 2 years.
  The Board has at its recent Meeting (January, 2017) has reviewed the above, and noted that the Section 141 of the Companies Act, 2013 on disqualification of auditors does not mention such prohibition; though threats pertaining to the said eventuality have been mentioned in Code of Ethics. Further, the Board was of the view that a member may take decision in such situation based on the provisions of the Companies Act, 2013 and provisions of Code of Ethics.
- 34. A chartered accountant in practice cannot become Financial Advisors and receive fees/commission from Financial Institutions such as Mutual Funds, Insurance Companies, NBFCs etc.
- 35. A chartered accountant cannot exercise lien over the client documents/records for non-payment of his fees.
- 36. It is not permissible for CA Firm to print its vision and values behind the visiting cards, as it would result in solicitation and therefore would be violative of the provisions of Clause (6) of Part-I of First Schedule to the Chartered Accountants Act, 1949.
- 37. It is not permissible for chartered accountants in practice to take agencies of UTI, GIC or NSDL.
- 38. It is permissible for a member in practice to be a settlor of a trust.
- 39. A member in practice cannot hold Customs Brokers Licence under section 146 of the Customs Act, 1962 read with Customs Brokers Licensing Regulations, 2013 in terms of the provisions of Code of Ethics.
- 40. A Chartered accountant in service may appear as tax representative before tax authorities on behalf of his employer, but not on behalf of other employees of the employer.
- 41. A chartered accountant who is the statutory auditor of a bank cannot for the same financial year accept stock audit/inspection Audit of the same branch of the bank or any of the branches of the same bank or sister concern of the bank, for the same financial year.
- 42. A CA Firm which has been appointed as the internal auditor of a PF Trust by a Government Company cannot be appointed as its Statutory Auditor.
- 43. A concurrent auditor of a bank 'X' cannot be appointed as statutory auditor of bank 'Y', which is sponsored by 'X'.
- 44. A CA/CA Firm can act as the internal auditor of a company & statutory auditor of its employees PF Fund under the new Companies Act (2013).
- 45. The Ethical Standards Board while noting that there is requirement for a Director u/s 149(3) of the Companies Act, 2013 to reside in India for a minimum period of 182 days in the previous calendar year, decided that such a Director would be within the scope of Director Simplicitor (which is generally permitted as per ICAI norms), if he is non –executive director, required in the Board Meetings only, and not paid any remuneration except for attending such Board Meetings.