

INDEX**CA FINAL AMENDMENTS FOR MAY 2021 EXAM**

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PROFESSIONAL ETHICS (AMENDMENTS)

MANAGEMENT CONSULTANCY SERVICES ISSUED UNDER SEC 2(2)(IV) MEMBERS DEEMED TO BE IN PRACTICE

Recent Addition

▼ Administrative Services.

Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.

Examples of administrative services include:

- Word processing services.
- Preparing administrative or statutory forms for client approval.
- Monitoring statutory filing dates and advising an audit client of those dates.
- Submitting such forms as instructed by the client.
- For example, the functions of a GST practitioner as specified under Rule 83(8) of Central Goods and Services Tax Rules, 2017

(ICAI has included what work GST practitioner does we excluded it as we think its not important)

▼ Valuation of Shares will include following:- Acting as Registered Valuer under the Companies Act, 2013 read with, The Companies (Registered Valuers and Valuation) Rules, 2017.

▼ Insolvency Professional

Acting as Insolvency Professional in terms of Insolvency and Bankruptcy Code, 2016

Please note section 7 has not been amended, but there were some important new clarifications by ICAI, we redrafted our notes on section 7 for better understanding and retention.

SECTION 7 OF CA ACT 1949

➤ Section 7 Designation That Can Be Used by Chartered Accountants

▼ PREFIX

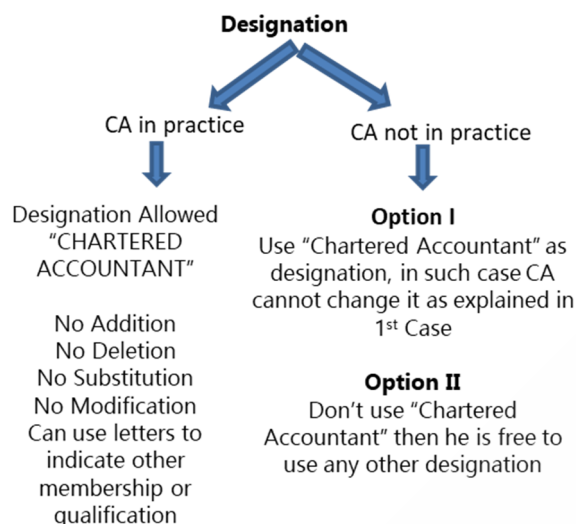
• Allowed

- **USAGE:** Person who has acquired membership of ICAI, can use prefix CA, irrespective of whether in practice or not
- **DR:** The use of "Dr" with the Prefix "CA" may be left to discretion of member (i.e. whether use "CA" First or "Dr" First or use only "Dr" only)

• Not Allowed

- **CA Students:** "A person who has passed the Final Examination of the Institute and complied with other requirements or not but has enrolled himself as a member of the Institute is not entitled to use the designation of Chartered Accountant nor the designatory letters as CA. as a prefix to his name."

▼ Designation



- **Not Allowed**

- **Modifications:** Industrial Accountant / Corporate Accountant / CA (1st Attempt) / Income-tax Consultant / Cost Accountant / Company Secretary / Cost Consultant / Management Consultant.
- **Merchant Banker:** CA or Firm can get registered in Category IV Merchant Banker to act as "Advisor to Issue" covered under MCS, details of firm can be given under caption "Advisor to Issue" (Not Merchant Banker) but it should not be prominent. So, they can denote themselves as "Advisor to issue" in prospectus but it should not be written on their letter head or visiting card. (Such Registration is not allowed from Dec 1997)

- ▼ **Other Descriptions or Letters**

- **Indicating membership of "OTHER ACCOUNTANCY BODIES" whether in india or outside only if recognized by council on this behalf**

- **Allowed**

- ◇ **CMA:** Though a member cannot designate himself as a Cost Accountant, he can use the letters A.C.M.A (Associate) or F.C.M.A (Fellow) after his name, when he is a member of that Institute.
- ◇ **Permission to mention qualifications of certain Institutions:** The members are permitted to mention membership of a foreign Institute of Accountancy, which has been recognized by the Council through a Memorandum of Understanding (MoU) / Mutual Recognition Agreement (MRA) with the said Institute.
- ◇ **DESIGNATION DUAL COP:** "Members of the Institute in practice who are otherwise eligible may also practice as Company Secretaries and/or Cost Accountants / Lawyers. Such members shall, however, not use designation/s of the aforesaid Institute/s simultaneously with the designation "Chartered Accountant".

- **Not Allowed**

- ◇ **CPA:** Further, the members are not permitted to use the initials 'CPA' (standing for Certified Public Accountant) on their visiting cards.
- ◇ **CFA:** Not allowed as per supreme court judgment as ICFAI is considered accountancy institute and it is not recognised by ICAI for members to use letters showing its qualification or membership

	<ul style="list-style-type: none"> ◇ Directors of Companies, Members of political parties, position in clubs, etc.: The members of the Institute who are also Directors in Companies, members of Political parties or Chartered Accountants Cells in the political parties, holding different positions in clubs or other organizations are not permitted to mention these positions as these would be violative of the provisions of Section 7 of the Act. • Any other qualification as he may possess (“OTHER THAN QUALIFICATIONS FROM ACCOUNTANCY BODIES”) <ul style="list-style-type: none"> ○ Allowed <ul style="list-style-type: none"> ◇ Qualifications other than accountancy bodies: LLB, BCom, MBA and other qualifications ◇ Insolvency Professional: A member in practice empanelled as Insolvency Professional can mention "Insolvency Professional" on his visiting cards, letter heads and other communication, as this is recognized by the Central Government. Mention of any other nomenclatures/designations, including membership of any Insolvency Professional Agency (Eg CS / CMA) is not permissible. ◇ Registered Valuer: Rules on insolvency provide that the Insolvency and Bankruptcy Board of India ("IBBI") should be established to be the "Authority" which will hold examinations and grant certifications of the designation of a "Registered Valuer" ▼ Designation for CA Firm CA Firm can use designation "Chartered Accountants" if all the partners of which are members of the Institute and are in practice.
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FIRST SCHEDULE PART I

CLAUSE 4 (Partnership)	
<ul style="list-style-type: none"> ➤ Multi-Disciplinary Partnerships 	<p>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.</p>
CLAUSE 6 (Soliciting work through ADVERTISEMENT ?)	
<ul style="list-style-type: none"> ➤ (Clarification on applying to tenders) 	<p style="text-align: center;">Recent Change</p> <ul style="list-style-type: none"> • EMD/Security Deposit: The Council is of the view that while interference with the practices prevailing for requirement of EMD / Deposit is not required. However, on having received complaint / instance of exorbitant EMD / Deposit, the Ethical Standards Board may look into the matter on case to case basis. • Cost Sheet Maintenance: A cost sheet be maintained by members of the Institute responding to tenders, incorporating details of the costs being incurred therein having regard to number of persons involved, hours to be spent, etc, so that the same may be called for by the Institute for perusal.
<ul style="list-style-type: none"> ➤ Clarifications issued by ICAI regarding 	<p style="text-align: center;">Recent Change</p> <ul style="list-style-type: none"> • Classified Ad: A member is also permitted to issue a classified advertisement in the journal / newsletter of the Institute intended to give

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<p>solicitation of Work ?</p>	<p>information for sharing professional work on assignment basis or for seeking partnership or salaried employment of an accountancy nature, provided it only contains the accountant's name, address or telephone number, fax number, e-mail address and address(es) of Social Networking sites of members. However, mere factual position of experience and area of specialization, relevant to seek response to the advertisement, are permissible.</p> <ul style="list-style-type: none"> • Articles & Book: It is not permissible for a member 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, he may indicate in a book, article or presentation the designation "Chartered Accountant" as well as the name of the firm.
<p>➤ Website of Chartered Accountants in Practice</p>	<ul style="list-style-type: none"> • The Firm can provide link of its page on Social Networking site. However, the members should not solicit people to visit or like their respective page(s) on such social Networking site.
<p>➤ Clause 6 Cases & Remarks</p>	<p>▼ Recent Change</p> <ul style="list-style-type: none"> • Sponsoring Activities <p>(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.</p> <p>(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.</p> • Educational Videos: While the videos of educational nature may be uploaded on the internet by members, 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. • (Already covered in notes, ICAI covered it first time) <ul style="list-style-type: none"> ○ Advertisement for Silver, Golden, Platinum or Centenary celebrations: It is not permitted to advertise the events organized by a Firm of Chartered Accountants. However, considering the need of interpersonal socialization/relationship of the members ,it may be published in newspaper or newsletter. ○ For members who are pursuing teaching activity: 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 and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule. <p>Such members are advised to abstain from advertising their association with Coaching /teaching activities through hoardings, posters, banners and by any other means, failing which they may be liable for disciplinary action.</p>

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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.

CLAUSE 8 - COMMUNICATION WITH PREVIOUS AUDITOR BEFORE ACCEPTING AUDIT

➤ Steps

Recent Change

- **Mode of Communication:** Members should communicate with a retiring auditor in such a manner as to retain in their hands positive evidence of the delivery of the communication to the addressee. In the opinion of the Council, the following would in the normal course provide such evidence:-
 - (a) Communication by a letter sent through "Registered Acknowledgement due", or
 - (b) By hand against a written acknowledgement, or
 - (c) Acknowledgement of the communication from retiring auditor's vide email address registered with the Institute or his last known official email address, or
 - (d) Unique Identification Number (UDIN) generated on UDIN portal (subject to separate guidelines to be issued by the Council in this regard)
- **Premises found Locked:** 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.
- **Firm not found at the given Registered address:** If the Communication sent by the Incoming auditor is received back with remarks "No such office exists at this address", and the address of communication is the same as registered with the Institute on the date of dispatch, 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.

CLAUSE 9 (Already covered in our notes)

➤ GUIDELINES BY ETHICAL STANDARD BOARD REGARDING REMOVAL OF AUDITOR

The following guidelines have been issued for this Committee for looking into the cases of Removal of Auditors:

- ▼ Where an **auditor resigns his appointment** as an auditor of a Company or does not offer himself for reappointment as auditor of such company, he shall send a communication, in writing, to the Board of Directors of the Company giving reasons therefore if he considers that there are professional reasons. Therefore, **if he considers that there are professional reasons connected with his resignation or not offering him for reappointment which, in his opinion should be brought to the notice of the Board, and shall send a copy of such communication to the Institute. It shall be obligatory on the incoming auditor, before accepting appointment, to obtain a 'copy of such communication, from the Board and consider the same before accepting the appointment.**
- ▼ Where an auditor, though willing for reappointment has not been reappointed, **he shall file with the Institute a copy of the statement which he may have sent to the management of the company for circulation among the shareholders. It shall be obligatory on the incoming auditor before accepting the appointment, to obtain a copy of such a communication from the company and consider it, before accepting the appointment.**
- ▼ **The Committee, on a review of the communications referred to in above paras may call for such further information as it may require from the incoming auditor, the outgoing auditor and the company and make a report to the Council in cases where it considers necessary.**
- ▼ The above procedure is also followed in the case of removal of auditors by the government and other statutory authorities.

CLAUSE 11 - BUSINESS OR OCCUPATION	
<p>➤ Recent Clarification regarding interest in family business</p>	<p>▼ Member in practice in a HUF doing business: "A member of the Institute can acquire interest in family business in any of the following manner: (i) as a proprietary firm (ii) as a partnership firm (iii) in the name and style of Hindu Undivided Family as its Karta or a member.</p> <p>▼ It would be necessary for the members to provide evidence that interest in the family business concern devolved on him as a result of inheritance /succession /partition of the family business. It is also necessary for the member to show that he was not actively engaged in carrying on the said business and that the family business concern in question was not created by himself.</p> <p>▼ To establish his case, the member should furnish a declaration in the prescribed format and the documents evidencing above for consideration to the concerned Decentralized Office."</p>

SECOND SCHEDULE PART I

CLAUSE 4	
<p>➤ Applicability to all attest functions</p>	<p>Many new areas of professional work have been added, e.g., Tax Audit, GST Audit, Concurrent Audit of Banks, Concurrent Audit of Borrowers of Financial institutions, Audit of non-corporate borrowers of Banks and Financial Institutions, Audit of Stock Exchange, Brokers, etc. The Council wishes to emphasize that the aforesaid requirement of Clause (4) are equally applicable while performing all types of attest functions by the members.</p>
<p>➤ Applicability to certification work</p>	<p>It is not permissible for a member to undertake the assignment of certification, wherein the client is relative of the member. The "relative" for this purpose would refer to the definition mentioned in Accounting Standard (AS)-18.</p>
<p>➤ Applicability to Consuntancy & Advisory</p>	<p>An accountant is expected to be no less independent in the discharge of his duties as a tax consultant or as a financial adviser than as auditor. In fact, it is necessary that he should bear the same degree of integrity and independence of mind in all spheres of his work. Unless this is done, the accounts of entities audited by Chartered Accountants or statements made by them during the course of assessment proceedings would not be relied upon as correct by the authorities.</p>
<p>➤ Guidance for cases of substantial interest</p>	<p>Some of the situations which may arise in the applicability of Clause (4) read with the definition of "Substantial Interest" (see Clause 11 of Part I of First Schedule).and other statutory prohibitions are discussed below for the guidance of members:-</p> <p>▼ For Audits of entities not being company Where the member, his firm or his partner or his relative has substantial interest in the business or enterprise (not being a company). The independence of mind is a fundamental concept of audit and/or expression of opinion on the financial statements in any form and, therefore, must always be maintained. Nothing can substitute for the essential and fundamental requirements of independence. Therefore, the Council's views are clarified in the following circumstances.</p> <ul style="list-style-type: none"> • An enterprise / concern (not being company) of which a member is either an owner or a partner The holding of interest in the business or enterprise (not being a company) by a member himself whether as sole-proprietor or partner in a firm, in the opinion of the Council, would affect his independence of mind in the performance of professional duties in conducting the audit and/or expressing an opinion on financial statements of such enterprise. Therefore, a member shall not audit financial statements of such business or enterprise.

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	<ul style="list-style-type: none"> • Where the partner or relative of a member has substantial interest (not being company) The holding of substantial interest by the partner or relative of the member in the business or enterprise (not being a company) of which the audit is to be carried out and opinion is to be expressed on the financial statement, may also affect the independence of mind of the member, in the opinion of Council, in the performance of professional duties. Therefore, the member may, for the same reasons as not to compromise his independence, desist from undertaking the audit of financial statements of such business or enterprise. <p>▼ For Audits of Companies – Same as disqualifications given in Sec 141(3) of companies act</p>
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CLAUSE 10 Charging Fees on Percentage Basis	
<p>➤ ICAI issued services where percentage basis can be charged</p>	<p>▼ Regulation 192 -Restriction on fees whereby a member can charge fees on % basis</p> <p>h) any other service or audit as may be decided by the Council. [Following activities have been decided by the Council:- (i)Acting as Insolvency Professional; (ii)Non-Assurance Services to Non-Audit Clients]</p>

SECOND SCHEDULE PART II

CLAUSE 1	
<p>➤ Some Important Regulations Related To CA's</p>	<p>▼ FRN and Membership No. : The members are required to mention the Membership number and Firm registration number to all reports issued pursuant to any attestation engagements, including certificates, issued by them as proprietor of/ partner in the said firm.</p> <p>▼ Unique Document Identification Number (UDIN) : The members may note that UDIN is mandatory from 1st July, 2019 on all Corporate/ Non- Corporate Audit, Attest and Assurance Functions. Thus, a member of the Institute in practice shall generate Unique Document Identification Number (UDIN) for all kinds of the certification, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions undertaken/ signed by him.</p>

There were some important new clarifications by ICAI, so we redrafted our notes on council guidelines 2008 for better understanding and retention.

COUNCIL GENERAL GUIDELINES, 2008.	
<p>➤ Shortcut</p>	<p>C-BU³NT²LINES to remember council guidelines 2008</p>
<p>➤ Guidelines for Corporate Form of Practice</p>	<p>▼ Name Approval: 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. The guidelines alongwith the prescribed application forms for approval of name and registration, provisions of ethical compliance and other details have been issued and the same will come into force w.e.f 1.10.2006.</p> <p>▼ Object of Management Consultancy Company: The Management Consultancy Company shall engage itself only in Management Consultancy & Other Services. The Management Consultancy Company shall give an undertaking that it shall render only Management Consultancy & Other Services prescribed by the Council pursuant to powers under section 2 (2)(iv) of the Chartered Accountants Act, 1949.</p> <p>▼ One more mode of practice:The consultancy practice hitherto done in Individual or Firm Status alone is now intended to be permitted in Corporate Form also.</p> <p>▼ No Audit: On abundant caution, it may be clarified that no audit practice can be done in Corporate Form.</p>

	<ul style="list-style-type: none"> ▼ No restriction on equity: 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. ▼ Permission to become MD, WTD, Manager of Body Corporate: The Council decided to allow 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 conditions(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. 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: <ul style="list-style-type: none"> • 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: - <ul style="list-style-type: none"> ○ Prohibited Services: (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. ○ Non Audit Fees: (b) The Notification No. 1-CA(7)/60/2002 dated 8th March, 2002 (enclosed) in respect of ceiling on Non-audit fees is applicable in relation to a Management Consultancy Company. ○ Advertisement & Achievements: (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. • Undertaking: (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.
➤ Maintenance of Books of account	Same as before
➤ Appointment of an Auditor in case of non-payment of undisputed fees	<p>Don't Accept Assignment: 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:</p> <p>Exception Sick Unit: Provided that in the case of sick unit, the above prohibition of acceptance shall not apply.</p> <p>Definition of Undisputed Audit Fees: Explanation 1: 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".</p> <p>Definition of Sick Unit: Explanation 2: For this purpose, "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.</p>

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➤ Directions in case of <u>unjustified</u> removal of auditors	Same as before
➤ <u>Unique Document Identification Number (UDIN) Guidelines</u>	<p>Why UDIN ?: Whereas, to curb the malpractice of false certification / attestation by the unauthorized persons & to eradicate the practice of bogus certificates and to save various regulators, banks, stakeholders etc. from being misled, the Council of the Institute decided to implement an innovative concept to generate Unique Document Identification Number (UDIN) mandatorily for all kinds of the certificates/GST and Tax Audit Reports and other attest function in phased manner, for which members of the ICAI were notified through the various announcements published on the website of ICAI www.icaai.org at the relevant times.</p> <p>Applicability: A member of the Institute in practice shall generate Unique Document Identification Number (UDIN) for all kinds of the certification, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions undertaken/signed by him which made mandatory from the following dates through announcements published on the website of the ICAI www.icaai.org at the relevant time: -</p> <ul style="list-style-type: none"> • For all Certificates w.e.f. 1st February, 2019. • For all GST and Tax Audit Reports w.e.f. 1st April, 2019. • For all other Audit, Assurance and Attestation functions w.e.f. 1st July, 2019
➤ 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.	<ul style="list-style-type: none"> ▼ Restriction to go beyond SNA: A member of the Institute in practice shall not hold at any time appointment of more than the “specified number of audit assignments” (SNA) of Companies under Section 141 of the Companies Act 2013. ▼ SNA for FIRM: Provided that in the case of a firm of Chartered Accountants in practice, the “specified number of audit assignments” shall be construed as the specific number of audit assignments for every partner of the firm. ▼ SNA if CA is Partner in Multiple Firms: Provided further that where any partner of the firm of Chartered Accountants in practice is also a partner of any other firm or firms of Chartered Accountants in practice, the number of audit assignments which may be taken for all the firms together in relation to such partner shall not exceed the “specified number of audit assignments” in the aggregate. Provided further where any partner of a firm or firms of Chartered Accountants in practice accepts one or more audit of Companies in his individual capacity, or in the name of his proprietary firm, the total number of such assignments which may be accepted by all firms in relation to such Chartered Accountant and by him shall not exceed the “specified number of audit assignments” in the aggregate. ▼ Explanation of SNA: 1. For the above purpose, the “specified number of audit assignments” means – <ul style="list-style-type: none"> • For Individual / Proprietor: (a) in the case of a Chartered Accountant 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. • For Partnership Firm: (b) 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.

	<p>▼ Counting of SNA: 2. In computing the "specified number of audit assignments"-</p> <ul style="list-style-type: none"> • Joint Audits: (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 Chartered Accountant in practice or firm of such Chartered Accountants, shall be taken into account. • Head Office & Branch: (b) the audit of the head office and branch offices of a Company by one Chartered Accountant or firm of such Chartered Accountants in practice shall be regarded as one audit assignment. • One or more branches: (c) the audit of one or more branches of the same Company by one Chartered Accountant in practice or by firm of Chartered Accountants in practice in which he is a partner shall be construed as one audit assignment only. • Time of Counting Partners:(d) the number of partners of a firm on the date of acceptance of audit assignment shall be taken into account. <p>▼ CA in Employment: A Chartered Accountant in practice, whether in full-time or part time employment elsewhere, shall not be counted for the purpose of determination of "specified number of audit of Companies" by firms of Chartered Accountants.</p> <p>▼ CA in Part Time Practice: A Chartered Accountant being a part time practicing partner of a firm shall not be taken into account for the purpose of reckoning the audit assignments of the firm.</p> <p>▼ Record of Assignments: A Chartered Accountant in practice as well as firm of Chartered Accountants in practice shall maintain a record of the audit assignments accepted by him or by the firm of Chartered Accountants, or by any of the partners of the firm in his individual name or as a partner of any other firm, as far as possible in the prescribed format.</p>
<p>➤ Tax Audit assignments under Section 44 AB of the Income-tax Act, 1961</p>	<p>▼ Maximum number of Tax Audits: 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.</p> <p>▼ For Firm: 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.</p> <p>▼ CA partner in Multiple Firms: 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.</p> <p>▼ Exclusions from Counting: Provided also that the audits conducted under Section 44AD, 44ADA1 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"</p> <p>▼ Explanation Specified Number of Audits (SNA): For the above purpose, "the specified number of tax audit assignments" means –</p> <ul style="list-style-type: none"> • For Individual or Proprietor : in the case of a Chartered Accountant in practice or a proprietary firm of Chartered Accountant, **60 tax audit

	<p>assignments, in a financial year, whether in respect of corporate or non-corporate assesses.</p> <ul style="list-style-type: none"> • For Partnership Firm : (b) in the case of firm of Chartered Accountants in practice, **60 tax audit assignments per partner in the firm, in a financial year, whether in respect of corporate or non-corporate assesses. • Clarification on utilisation of limit of partner by other partner: According to a clarification on Tax Audit Assignments by Committee on Ethical Standards Board) of the Institute, if there are 10 partners in a firm of Chartered Accountants in practice, then all the partners of the firm can collectively sign 600 tax audit reports. This maximum limit of 600 tax audit assignments may be distributed between the partners in any manner whatsoever. For instance, 1 partner can individually sign 600 tax audit reports in case remaining 9 partners are not signing any tax audit report. • Each year as separate assignment: In computing the “specified number of tax audit assignments” each year’s audit would be taken as a separate assignment. • Joint Audits: In computing the “specified number of tax audit assignments”, the number of such assignments, which he or any partner of his firm has accepted whether singly or in combination with any other Chartered Accountant in practice or firm of such Chartered Accountants, shall be taken into account. • Head Office & Branch Office: The audit of the head office and branch offices of a concern shall be regarded as one tax audit assignment. • One or Branches: The audit of one or more branches of the same concern by one Chartered Accountant in practice shall be construed as only one tax audit assignment. • Part Time COP Holder: A Chartered Accountant being a part time practicing partner of a firm shall not be taken into account for the purpose of reckoning the tax audit assignments of the firm. • Recaord: A Chartered Accountant in practice shall maintain a record of the tax audit assignments accepted by him in each assessment year in the format as may be prescribed by the Council. • Distribution of Limit as per SQC 1: 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: Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.
➤ Guidelines on Tenders	Same as before
➤ Logo Guidelines	<p>The logo consists of letter ‘CA’ with a tick mark inside a rounded rectangle with white background. The letters CA have been put in blue, the corporate colour which not only stands out on the 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 used to symbolize the wisdom and value of the professional. The green colour in the tick mark signifies growth, prosperity, harmony and freshness.</p> <p>Members are encouraged to use the new logo, as published here as it is. Do not change the design and colours, including the white background. Refrain from rotating or tilting the logo. The correct and incorrect usage of the logo is explained as under:</p>

<p>➤ Appointment of an auditor when he is indebted to a concern</p>	<p>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 Rs 100,000/-</p>
<p>➤ Guidelines for Networking</p>	<p>Same as before</p>
<p>➤ Conduct of a Member being an Employee</p>	<p>Same as before</p>
<p>➤ Appointment as Statutory auditor</p>	<p>Same as before</p>

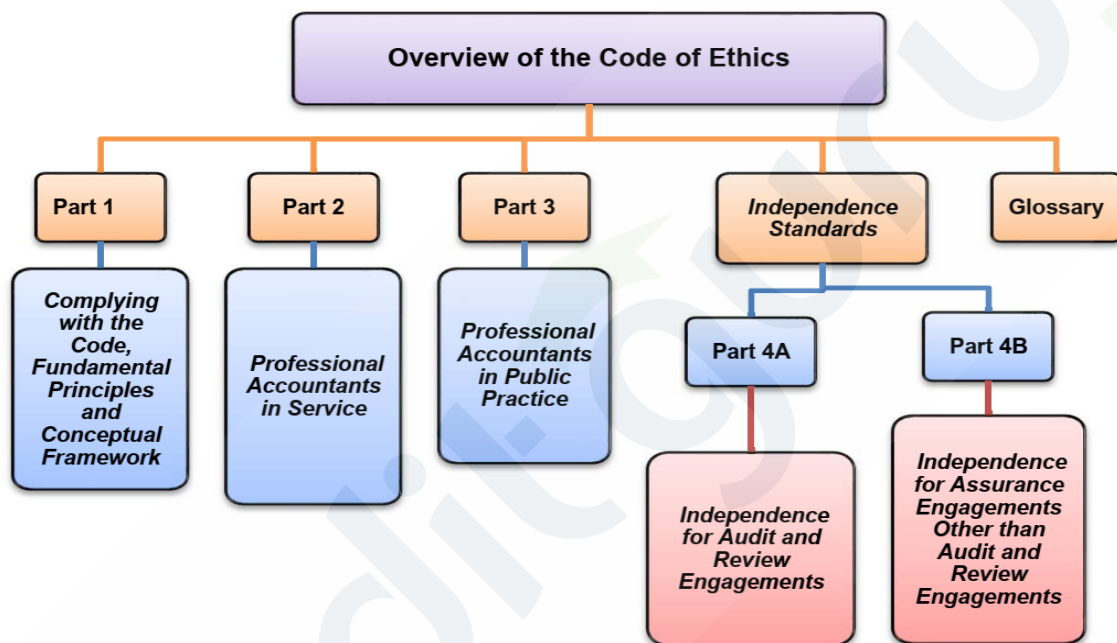
COUNCIL GUIDELINES FOR ADVERTISEMENT, 2008

W²OATED with Advertisement Guidelines

<p>➤ Write-Up</p>	<p>▼ Covered with Clause 7, Same as before</p>
<p>➤ Website</p>	<p>▼ Covered with Clause 6, Same as before</p>
<p>➤ Online Third Party Platforms</p>	<p>A number of non-Chartered Accountants' firms, corporates including banks, finance Companies and newspapers have set up their own Websites providing advisory services on taxation and other areas where Chartered Accountants are rendering professional service. Some of such Websites may request Chartered Accountants or Chartered Accountants' firms to provide consultation and advice through their Websites. No other service, besides consultancy and advice can be rendered through such websites, This would be permitted subject to the condition that on the Website, contact address of the Chartered Accountant concerned is not provided nor such Website will contain any material which advertises professional achievements or status of such Chartered Accountant except making a statement that they are Chartered Accountants. The name of Chartered Accountants' firm with suffix "Chartered Accountants" would not be permitted.</p>
<p>➤ Publication of Name or Firm Name by Chartered Accountants in the Telephone or other Directories published by Telephone Authorities or Private Bodies</p>	<p>▼ Covered with Clause 6</p>

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➤ Specialised Directories for limited circulation	The name, description and address of member (or firm) may appear in any directory or list of members of a particular body in which the names are listed alphabetically. For a specialised directory or a publication such as a "Who's Who" (including those compiled on purely local basis), a member should use his discretion in supplying information, bearing in mind the nature and purpose of the publications. In addition to his name, description and address and those of his firm, a member may give where appropriate, directorships held and reasonable personal details and may state his outside interests. He should not, however, give the names of any of his clients.
➤ Application based Service provider Aggregators	It is not permissible for members to list themselves with online Application based service provider Aggregators, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed.
➤ Exemptions	Covered in clause 7 (News paper advertisement & article assistant clearing exams)



REVISED CODE OF ETHICS

The revised Code of Ethics contains the following material:

➤ Part 1	Complying with the Code, Fundamental Principles and Conceptual Framework, which includes the fundamental principles and the conceptual framework and is applicable to all professional accountants.
➤ Part 2	Professional Accountants in Service, which sets out additional material that applies to professional accountants in service when performing professional activities. Professional accountants in service include professional accountants employed, engaged or contracted in an executive or non-executive capacity in, for example: <ul style="list-style-type: none"> ▼ Commerce, industry or service. ▼ The public sector. ▼ Education. ▼ The not-for-profit sector. ▼ Regulatory or professional bodies. <p>Part 2 is also applicable to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm as an employee.</p>

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➤ Part 3	A number of non-Chartered Accountants' firms, corporates including banks, finance Companies and newspapers have set up their own Websites providing advisory services on taxation and other areas where Chartered Accountants are rendering professional service. Some of such Websites may request Chartered Accountants or Chartered Accountants' firms to provide consultation and advice through their Websites. No other service, besides consultancy and advice can be rendered through such websites, This would be permitted subject to the condition that on the Website, contact address of the Chartered Accountant concerned is not provided nor such Website will contain any material which advertises professional achievements or status of such Chartered Accountant except making a statement that they are Chartered Accountants. The name of Chartered Accountants' firm with suffix "Chartered Accountants" would not be permitted.
➤ Part 4	Independence Standards, which sets out additional material that applies to professional accountants in public practice when providing assurance services, as follows: <ul style="list-style-type: none"> ▼ Part 4A – Independence for Audit and Review Engagements, which applies when performing audit or review engagements. ▼ Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements, which applies when performing assurance engagements that are not audit or review engagements.
➤ Glossary	Glossary, which contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. For example, as noted in the Glossary, in Part 4A, the term "audit engagement" applies equally to both audit and review engagements. The Glossary also includes lists of abbreviations that are used in the Code and other standards to which the Code refers.

SECTIONS IN CODE

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. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
- ▼ 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.

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.

SHORT NOTES ON FUNDAMENTAL PRINCIPLES

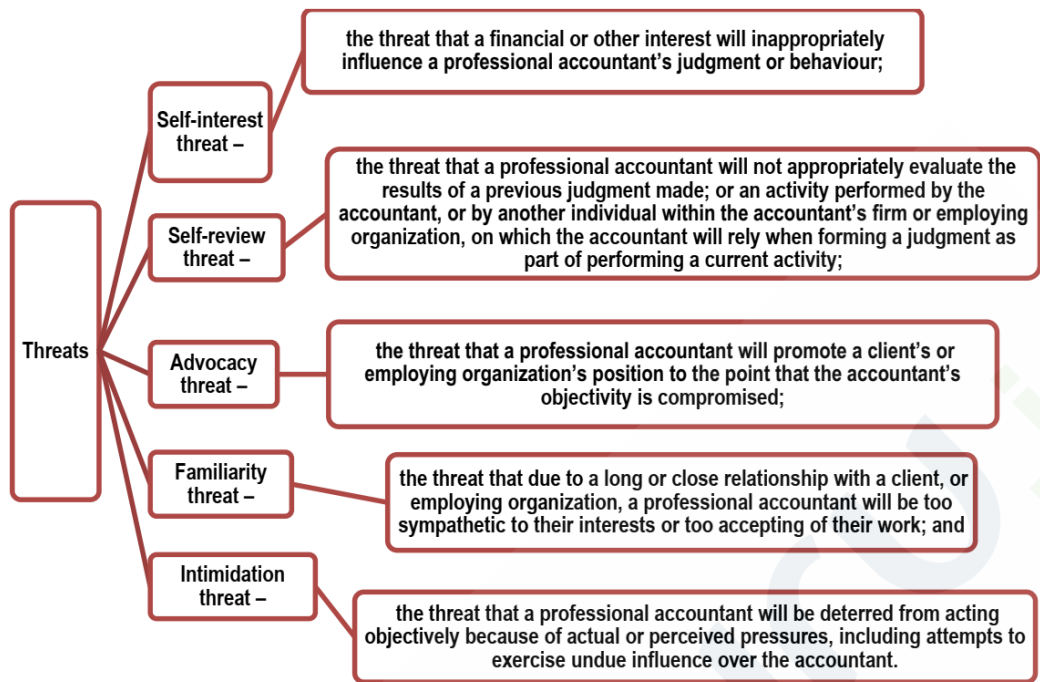
ICAI has included short notes on integrity, objectivity, professional competence, objectivity and professional ethics we sincerely feel they are not important for exams so we have skipped it. We included this note to let you know we thought about it and then decided it. Threats and how to deal with threat is a important portion, which we have covered below.

THREATS, EVALUATION OF THREATS AND SAFEGUARDS

The conceptual framework specifies an approach for a professional accountant to:

- (i) Identify threats to compliance with the fundamental principles.
- (ii) Evaluate the threats identified; and
- (iii) Address the threats by eliminating or reducing them to an acceptable level.

A. THREATS



➤ Circumstances that may create self-interest threats	▼ Same as before
➤ Circumstances that may create self-review threats	▼ Same as before
➤ Circumstances that may create advocacy threats:	▼ Same as before
➤ Circumstances that may create familiarity threats	▼ Same as before
➤ Circumstances that may create intimidation threats	▼ Same as before

Specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In either professional or business relationships, a professional accountant in public practice should always be on the alert for such circumstances and threats.

B. EVALUATION OF THREATS:

The conditions, policies and procedures described above might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.

(i) Acceptable level : An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

(ii) Reasonable and Informed Third Party : The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

C. ADDRESSING THREATS

If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

(i) Eliminating the circumstances, including interests or relationships, that are creating the threats;

(ii) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or

(iii) Declining or ending the specific professional activity.

CA Ravi Taori**Actions to Eliminate Threats:**

Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

D. SAFEGUARDS:

Safeguards are actions individually or in combination that the accountant takes that effectively reduce threats to an acceptable level. Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- ▼ Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- ▼ Having an appropriate reviewer, who was not a member of the team, review the work performed or advise as necessary might address a self-review threat.
- ▼ Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.
- ▼ Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- ▼ Separating teams when dealing with matters of a confidential nature might address a self-interest threat

PEER REVIEW AND QUALITY REVIEW (AMENDMENTS)

We recommend students to study peer review and quality review from fully revised peer review and quality review chapter files. These files are available on our "Auditguru" telegram channel.

UNIT-1: - PEER REVIEW

We have left basic definitions given by ICAI on peer review, as they are common sense based and we don't expect icai to ask them.

SIGNIFICANCE OF PEER REVIEW OF AUDITORS

➤ Significance of Peer Review	Peer review of attest function has a special significance. <ul style="list-style-type: none"> • First of all the nature of work is such that it can be easily subjected to peer review. It is possible to review the work subsequent to its completion; which means that one does not get disturbed while doing the work because of the peer review. • Secondly, the business environment is changing so fast that it is necessary for an auditor to keep improving his audit techniques and seek a stamp of approval about his competence. • And thirdly, the question of whether an auditor has performed his function satisfactorily or not is arising more frequently now. There is a considerable gap between what the society as a whole expects the auditors to do and what the auditors are actually required perform; by law and as per the terms of their engagement.
➤ Can act as defence for auditors	Therefore, if the work of any auditor is questioned, the auditor's first line of defence would be that the work has happened as per auditing practices which have been peer reviewed.
➤ Peer Review is mandatory for all auditors	It is important to note that in spite of the advantages of peer review, not many professional bodies have implemented the concept effectively. In this background, it is very creditable that ICAI has, over a period, made peer review compulsory for all auditors .

PEER REVIEW BOARD (Only changes covered here)

➤ Establishment and Appointment	<ul style="list-style-type: none"> • The Chairman and the Vice Chairman of the Board may be rotated every year by the Council of the Institute • The term of two third members shall be for three years or end of the term of the member in the Council whichever is earlier, or such other period as may be prescribed by the Council from time to time.
➤ Meetings	<ul style="list-style-type: none"> • No business shall be transacted at any meeting of the Board unless there are present at least one third members of the Board but not less than three members, including the Chairman or, in his absence, the Vice-Chairman. • In the absence of quorum within half an hour of the time fixed for the meeting, the meeting shall stand adjourned to a date, time and place fixed by the Chairman or, in this absence, the Vice-Chairman. • The Board shall meet as and when required for transaction of the business before it. However, at least one meeting shall be held in every three months.
➤ Reporting	<ul style="list-style-type: none"> • The Board shall submit a report to the Council prior to the date of every meeting of the Council

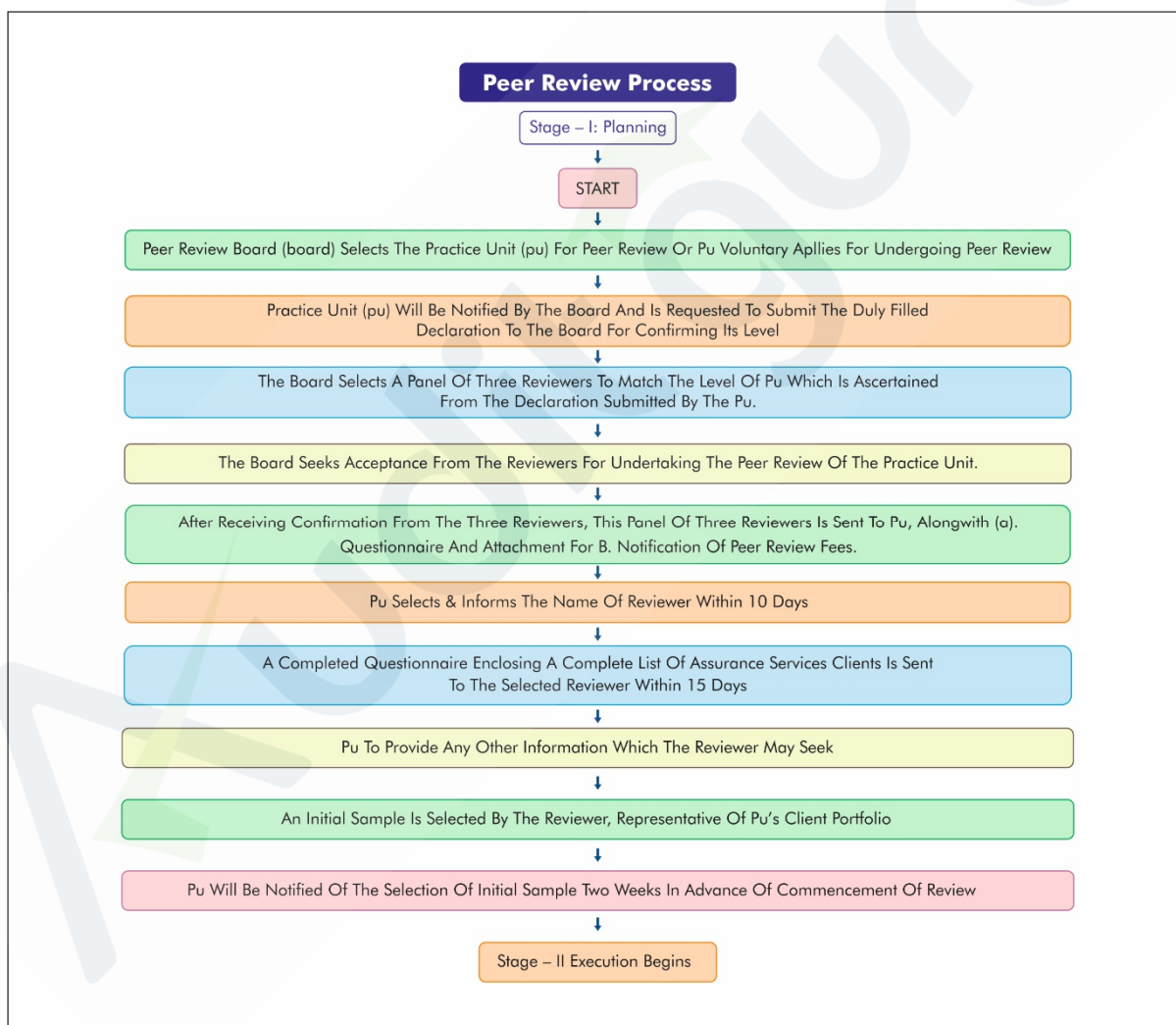
WHAT ARE TECHNICAL STANDARDS? (Only changes are covered here)

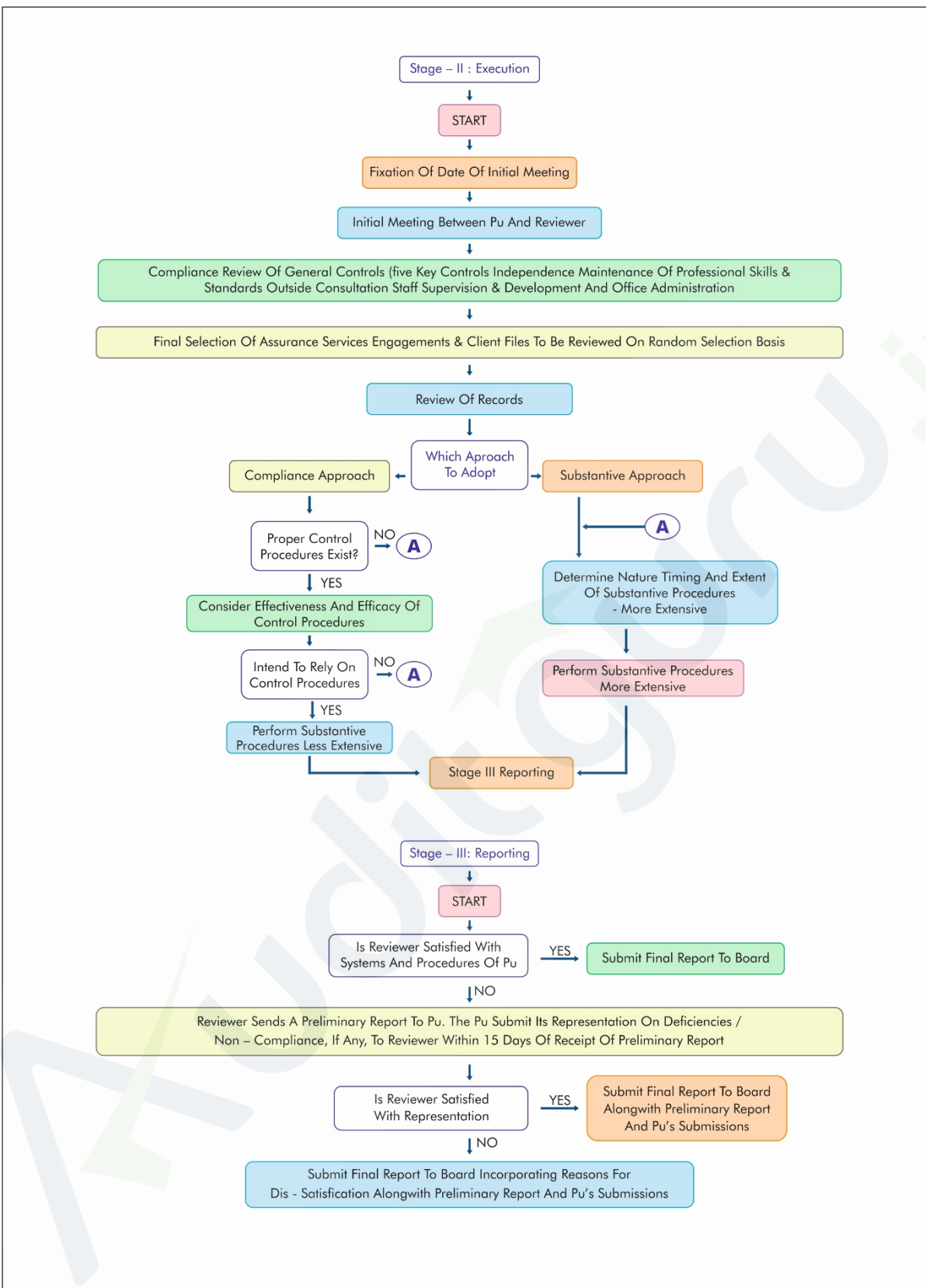
As per the Statement, Technical, Professional and Ethical Standards - means

- **Accounting Standards 3**
 - Accounting Standards issued by ICAI that are applicable for entities other than companies under the Companies Act, 2013.
 - Accounting Standards prescribed under section 133 of the Companies Act; 2013 by the Central Government based on the recommendation of ICAI and in consultation with the National Financial Reporting Authority (NFRA) and notified as Accounting Standards Rules 2006, as amended from time to time
 - Indian Accounting Standards prescribed under section 133 of the Companies Act 2013 by the Central Government based on the recommendation of ICAI and in consultation with NFRA and notified as Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time
- **Framework** for the preparation and presentation of financial statements, Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Framework for Assurance engagements;

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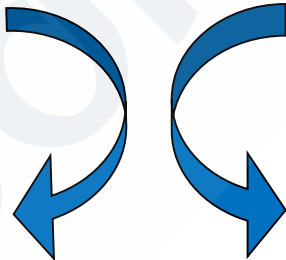
Peer Review Process (Revise Chart)





PEER REVIEW PROCESS (SOME CHANGES IN TEXT)	
➤ Selection of Practice Unit & appointment of Reviewer	<ul style="list-style-type: none"> A declaration in the form approved by the Board shall be submitted by the Practice Unit within seven days from the date the Practice Unit (PU) has been notified by the Board so that Reviewer to be allotted from the Panel of three reviewers can be identified by the Board as per Level submitted by Practice Unit, in the declaration form.
➤ Planning	<ul style="list-style-type: none"> Information to be furnished by Peer Review Board: The Peer Review Board shall call for relevant information from the UDIN Directorate and share the concerned details with Peer Reviewer which shall form part of Peer Review.
➤ Execution	<ul style="list-style-type: none"> Peer Review visits will be conducted at the Practice Unit's head office or /and branch(es) or any other locations. This on-site Review should not extend beyond seven to fifteen working days based on the size of the Practice Unit <ul style="list-style-type: none"> Fees charged / received / gst paid 6 (All range of assignments)

QUALIFIED ASSISTANT
<ul style="list-style-type: none"> The reviewer may take the help of a qualified assistant while carrying out peer review. In this context, the Board decided to clarify that a reviewer is permitted to take the assistance of only one assistant who shall be a chartered accountant and a person who does not attract any of the dis-qualifications prescribed under Section 8 or Section 21 of the Chartered Accountants Act, 1949 The name of the qualified assistant which the reviewer would like to assist him shall be identified and intimated to the Board as well as the practice unit before the commencement of the peer review Such a qualified assistant shall also have to sign the declaration of confidentiality as annexed to the Statement He shall have no direct interface either with the practice unit or the Board. Further the person chosen for assisting the reviewer shall be from the firm of the reviewer as a partner or paid assistant as per the records of ICAI

APPLICABILITY	
<p>PRACTICE UNITS SUBJECT TO REVIEW</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>Level – I Practice Units Once in 3 Years</p>  </div> <div style="text-align: center;"> <p>Level – II Practice Units Once in 4 Years</p> </div> </div>	
➤ LEVEL I (FB- P ² LAIN ²)	<p>A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review shall be treated a Level I entity:</p> <ul style="list-style-type: none"> F - Public Financial Institutions; B - Central Statutory Audit of Public Sector Banks, Private Sector Banks, Foreign Banks, Cooperative Banks, Regional Rural Banks P - Central Statutory Audit of Central or State Public Sector Undertakings and Central Cooperative Societies which has paid up capital of over Rs. 5 crores and an annual turnover of more than Rs. 50 crores. (Big PSUs & Co-Operatives) P - Statutory audit of any body corporate including trusts which are covered under public interest entities. L - Statutory Audit of enterprises whose equity or debt securities are listed in India or abroad A - Statutory Audit of asset management companies or mutual funds; I - Central Statutory Audit of Insurance Companies;

	<ul style="list-style-type: none"> • N - Statutory Audit of entities having Net Worth of more than Rs. 250 Crores at any time during the period under Review.; • N -Statutory Audit of Non – Banking Financial Companies (NBFCs) as may be defined by the Board <p>50 Crore Club</p> <ul style="list-style-type: none"> • Statutory Audit of Entities which have raised funds from public or banks or financial institutions of over Rs. Fifty Crores during the period under Review. • Statutory Audit of Entities which have raised donations and / or contributions over Rs. Fifty Crores during the period under Review. • Statutory Audit of entities which have been funded by Central and / or State Government(s) schemes of over Rs. Fifty Cores during the period under Review. <p>Statutory Audit of parent, subsidiary, associate, and joint venture of the above entities.</p>
➤ LEVEL II	<p>A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review:</p> <ul style="list-style-type: none"> • Statutory / Internal / Concurrent / Systems / Tax audit and / or Departmental Review of Branches / Offices of; <ul style="list-style-type: none"> • Public Sector undertaking • Public Sector or Private Sector and / or Foreign Banks; • Co-operative Banks • Regional Rural Banks, • Insurance Companies • Statutory Audit of Non – Banking Financial Companies (NBFCs) as may be defined by the Board. • Statutory Audit of entities having Net Worth of over Rs. 5 Crores or an annual turnover of more than Rs. 50 Crores during the period under Review.; • Statutory Audit of entities which have raised funds from public or banks or financial institutions of more than 25 Crores rupees but less than 50 Crores rupees during the period under review • UDIN's generated by the Practice Units more than the specified number determined by the Board from time to time. • Any other Practice Unit providing assurance or other services not covered under (i) (ii), (iii), (iv) and (v) hereinabove.
➤ Peer Review on Instructions or Request	<ul style="list-style-type: none"> • Special case review : The Board, based on specific information received from Secretary, ICAI or any other Committee of the Institute including Disciplinary directorate or any other Regulator , which in the opinion of the Board requires a special review of the Practice Unit, may conduct a special review of the Practice Unit. • Any Practice Unit not selected for Peer Review, may Suo motto apply to the Board for the conduct of its Peer Review. The Board shall act upon the same within 30 days from the date of receipt of such request. • An Auditee (Client) may request the Board for the conduct of Peer Review of its auditor (Practice Unit). The Board shall act upon the same within 30 days from the date of receipt of such request. • The Board may with the approval of the Council, modify any of the above criteria.

PEER REVIEW CERTIFICATE

- **Issue of Peer Review Report**

On receipt of the Peer Review Report, the Board shall within three months:

(a) Issue a Peer Review Certificate to the Practice Unit mentioning the next due date for review.

(b) Inform the Practice Unit that a Peer Review certificate cannot be issued along with the reasons therefor as well inform the Practice Unit about the due date for conducting a follow on review.

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- **Validity of Peer Review Certificate**

A Practice Unit cannot continue with the existing certificate, whose validity has expired. All documents signed by the Practice Unit during the intervening period (i.e. expiry of previous certificate and issuance of new certificate) will be invalid. Therefore, it is the responsibility of the Practice Unit to complete the Peer Review of the firm and submit all necessary documents at least one month before the date of expiry of the previous certificate.

ELIGIBILITY TO BE A REVIEWER**(CNO-653.01)****A Peer Reviewer shall:**

- Experience 2
 - Shall be a member in practice with at least **10 years of experience for Level I entities and 7 years of experience for Level II entities**;
 - In case a member has **moved from industry to practice** and is currently in practice he should have at least **15 years of experience in industry and at least 5 years' experience in practice for Level I entities and an experience of at least 10 years in industry and at least 3 years' experience in practice, for Level II entities**
 - Should have conducted audit of **Level I Entities for at least 7 years or got his entity audited for at least 7 years which should be a Level I entity** to be eligible for conducting Peer Review of Level I Entities.
- A Reviewer shall **not accept any professional assignment** from the Practice Unit **for a period two years from the date of appointment**. Further, he **should not have accepted any professional assignment** from the Practice Unit for a period of **two years before the date of appointment** as reviewer of that Practice Unit. **6**

DIFFERENCE BETWEEN PEER REVIEW AND QUALITY REVIEW

- Peer review is a review of the systems and procedures of an audit firm. Although sample audit files are inspected by the peer reviewer, it is done for the purpose of testing the effectiveness of the systems and procedures. The intention is to not to find faults but to help the firm develop effective systems. It is a kind of mentoring process. Peer review is a part of the activities of ICAI aimed at improving the quality of service.
- In contrast, a quality review is supposed to act as a deterrent. Quality Review Board (QRB) is constituted by the Central Government and is independent of ICAI. As per Section 28A of the Chartered Accountant's Act, the Central Government has the authority to constitute a Quality Review Board. QRB carries out supervisory and disciplinary functions. A quality review normally pertains to one particular audit conducted by an audit firm. The main objective quality review is to find errors or inadequacies, if any, committed by the auditor while conducting the audit. Serious errors detected in quality review lead to disciplinary action against the member.

UNIT-2: - QUALITY REVIEW**EXAMPLE OF IMPORTANT AREAS AS PER QUALITY REVIEW REPORT**

- (1) Whether the audit firm establishes and implements policies and procedure on **all the element of system of quality control**
- (2) Whether the **engagement quality control reviewer review** at an appropriate time for the planning of an audit, significant audit judgement, and expressions of an audit opinion.
- (3) Whether the audit firm assigns as the **person responsible for the monitoring of the system of quality control** a person with appropriate experience for the role, vest the assigned person with sufficient and appropriate authority.
- (4) Whether the audit firm obtain, at least **annually, a confirmation letter concerning compliance** with policies and procedure for the maintenance of independence from all person required to maintain independence.
- (5) Whether the audit firm perform the **independence confirmation procedure** set forth in its internal rules before

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acceptance and continuance of an audit engagement, and when issuing the auditor's report appropriately confirms that there was no change in the status of independence.

(6) Whether the audit **firm develop and provides education/ training program** that fully take into account the knowledge, experience, competence and capabilities of the professional staff

CONSTITUTION AND COMPOSITION OF QUALITY REVIEW BOARD

➤ CA Act	<ul style="list-style-type: none"> The Quality Review Board (hereinafter "QRB"/ "the Board") has been set up by the Central Government under section 28A of the Chartered Accountants Act, 1949 (hereinafter "the Act"). The first Quality Review Board was constituted by the Central Government, in exercise of the powers conferred by section 28A of the Chartered Accountants Act, 1949, vide Notification GSR.448 (E) dated 28th June, 2007.
➤ Constitution	<ul style="list-style-type: none"> In terms of section 28A of the Chartered Accountants Act, 1949, the Board comprises of a Chairperson and ten other members. Central Government nominates the Chairperson and 5 members. Remaining 5 members are nominated by the Council of the ICAI. 6 out of 11 Members of the Board, including Chairperson, are nominated by the Central Government. Members are nominated from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy

FUNCTIONS OF QUALITY REVIEW BOARD

➤ Assess Quality of work of practitioner	<p>A quality review carried by the QRB is directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements. It involves inspection and assessment of the work of the practitioner while carrying out their audit function so as to enable QRB to assess:</p> <ul style="list-style-type: none"> the quality of compliance with the accounting standards and disclosure requirements followed by the entity on which the audit report is issued. the quality of audit and reporting by the practitioner; and the quality control framework adopted by the practitioner/audit firms in conducting audit.
➤ Section 28B	<p>Section 28B of the Chartered Accountants Act, 1949 provides that: "The Board shall perform the following functions, namely: -</p> <p>(a) to make recommendations to the Council with regard to the quality of services provided by the members of Institute.</p> <p>(b) to review the quality of services provided by the members of the Institute including audit services; and</p> <p>(c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements."</p>
➤ Companies / Body Corporates covered in Rule 3 of NFRA	<p>However, the Ministry of Corporate Affairs, vide letter F.No.7/1/2019-CL-1 dated 30th January, 2019, has clarified to the Quality Review Board that in view of Sec.132 (2) of the Companies Act, 2013 r/w Rule 9(4) of NFRA Rules, 2018, the issue of QRB reviewing audits of the companies/bodies corporate specified under Rule 3 of the NFRA Rules, 2018 will only arise in case a reference is so made to QRB by NFRA, and not otherwise.</p>
➤ Rule 3 of NFRA Rules	<p>See NFRA notes</p>
➤ Rule 4 of NFRA Rules	<p>Rule 9(4) of NFRA Rules, 2018 provides that the Authority (read NFRA) may refer cases with regard to overseeing the quality of service of auditors of companies or bodies corporate referred to in rule 3 to the Quality Review Board constituted under the Chartered Accountants Act, 1949 (38 of 1949) or call for any report or information in respect of such auditors or companies or bodies corporate from such Board as it may deem appropriate.</p>
➤ Conclusion	<p>Accordingly, QRB would now be able to initiate reviews of quality of audit services provided by members of the Institute only in respect of entities other than those specified under Rule 3(1) of NFRA Rules, 2018, namely, private limited companies, unlisted public companies below the thresholds specified under Rule 3(1) of NFRA Rules, 2018 and other entities not specified under Rule 3(1) of NFRA Rules, 2018; and those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018. However, in the meanwhile, QRB has also been completing its on-going reviews of top</p>

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	listed and other public interest entities which were in process.
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COVERAGE OF SERVICES FOR QUALITY REVIEW

➤ Procedure for Quality Review of Audit Services of Audit Firms	Pursuant to above discussed Rule 6, the Board issued the 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure') providing for various matters, adopting best practices, in laying down the necessary system for conducting recurring quality reviews of audit firms in India. It is felt that the broad contours and requirements of review and the manner in which such review would be carried out, should not only be made known to users, stakeholders and service providers, in advance, but should also be transparent.
➤ Covered by QRB	Quality Review in terms of the provisions under the Chartered Accountants Act, 1949 is directed towards review of audit quality and adherence to various statutory and other regulatory requirements. Accordingly, the Quality Review would involve assessment of the work of statutory auditors while carrying out statutory audit so that the Board is able to assess: - (a) Quality of statutory audit and reporting by statutory auditors; and (b) Quality control framework adopted by the AFUR in conducting statutory audit.
➤ Not covered by QRB	Exclusions: This Procedure would not extend to: (i) Review of internal audit, tax audit, GST audit and other such special purpose audits conducted by the members of the Institute which may be covered by the Board at a later stage or unless otherwise specified; and (ii) Review of services provided by the members of the Institute in employment

SELECTION OF AUDIT FIRMS

The quality review has been introduced in stages, with firms selected from different classes or types of audit firms being subjected to review at each stage. The Board may decide the audit firms to be included in the selection during each stage. Such selection of audit firms for review may be made on the basis of one or more of the following criteria:

➤ Criteria based on Entities Audited:	<p>(i) The entities other than those specified under Rule 3(1) of NFRA Rules, 2018 may be selected on the basis of one or more of the following: -</p> <ul style="list-style-type: none"> • risk based selection including regulatory concerns pointing towards stakeholder risks. • on account of being part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports. • reported fraud or likelihood of fraud. • serious accounting irregularities in the financial statements highlighted by the media and other reports. • major non-compliances under relevant statutes highlighted in past reviews. <p>(ii) In case of joint audits, if required, all joint auditors may be reviewed, as may be decided by the Board on case-to-case basis.</p> <p>(iii) The Board may also review the quality of the statutory audit services of AFUR with a view to assessing the quality of statutory audit and reporting by the statutory auditors and their quality control framework on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs, National Financial Reporting Authority (NFRA) under Rule 9(4) of NFRA Rules, 2018 etc.</p> <p>(iv) The Board shall not consider cases of complaints received from individuals, firms, companies, other entities and their partners, directors and other officers etc. which shall be continued to be dealt with in accordance with the mechanism available under the Chartered Accountants Act, 1949. Cases of complaints from only regulatory bodies and other media reports involving serious accounting irregularities shall be considered by the Board for the purpose of initiating the review.</p> <p>(v) The selection for suo moto quality reviews may, however, be done using methods such as random sampling, selection of particular class or classes of entities/audit firms, in the manner as specified at (i) above.</p> <p>(vi) The QRB secretariat should place the details of the entities and audit firms, which may be selected for quality review before the Board for its consideration. The Board, at this stage, may consider whether the case warrants a quality review by a TR and may refer the cases selected for quality review to the relevant TRs. The Board will obtain the Annual Report of the entity concerned in terms of the 'Chartered Accountants Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board Rules, 2006'</p>
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➤ Criteria based on Audit Firms:	Selection of audit firms should also be made for quality review of their statutory audit work on random basis, the volume of work handled by them represented by the number and nature of clients, sectors that may be identified as facing high risk, or on account of fraud or likelihood of fraud.
➤ Quality Review Cycle:	<p>(i) The following quality review cycle of Audit firms may be followed generally or as may be decided by the Board:</p> <ul style="list-style-type: none"> • Once in 3 years for Audit firms having 20 or more Partners • Once in 4 years for Audit firms having 10 or more but less than 20 Partners • Once in 5 years for Audit firms having less than 10 Partners. <p>(ii) Upto 3 audit engagements of an AFUR may be selected by the Board, as may be considered appropriate, during a particular quality review cycle covering entities of varied industries, size, geographical spread and regulatory concerns. However, in the absence of any adverse finding in a past review, not more than one audit engagement of the same engagement partner/ proprietor of an AFUR may be selected for quality review by the Board during a particular quality review cycle</p> <p>(iii) However, in case of any adverse findings in past review/s or in any other situation, QRB may conduct quality review of any particular audit firm or of a particular engagement partner at more frequent interval and/or select more than 3 audit engagements.</p>

EMANELMENT OF TECHNICAL REVIEWERS

The Board has specified the following basic minimum criteria for empanelment of Technical Reviewers with the Board, applications in respect whereof are invited through an on-line empanelment process at the website of QRB:

➤ Criteria for empanelment	<ul style="list-style-type: none"> • Reviewer should have minimum fifteen years of post-qualification experience as a chartered accountant and be currently active in the practice of accounting and auditing. • Reviewer should have handled as a signing partner/proprietor at least three statutory audit assignments as a Central Statutory Auditor of Banks/Public Limited Companies/Government Companies/Private Limited Companies having annual turnover of rupees fifty crores and above during the last ten financial years; • Provided that out of the aforesaid three statutory audit assignments, at least one must be in respect of entities other than Private Limited Companies. • Reviewer should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against you during last three financial years and/or thereafter. • Reviewer should not currently be a Member of the QRB or ICAI's Central Council/Regional Council/Branch level Management Committee.
➤ Power of QRB to change criteria	The Board may specify any other criteria, from time to time, apart from the aforesaid basic minimum criteria for empanelment of TRs with the Board. The Board reserves the right to reject any application for empanelment as TR without assigning any reason whatsoever.
➤ Tenure of Empanelment	<p>The empanelment of TRs, so made, shall be for the on-going block period of three years subject to obtaining annual declarations from each of the empanelled TR for continuing to meet the basic criteria of empanelment. However, it may be noted that empanelment as a TR with the Quality Review Board does not, in any way, guarantee allotment of quality review work to TR which shall be at the sole discretion of the Quality Review Board.</p> <p>After completion of the initial block period of empanelment, the Board may decide to offer renewal of empanelment to TR, subject to his consent, for another block period and so on based upon assessment of the quality of review work performed by the TR during the period, if any, his meeting the basic minimum criteria for empanelment, participation in training workshops and other such factors as may be considered appropriate by the Board.</p>
➤ Training to TR	TRs shall be required to undergo training on emerging areas such as Ind-AS, Amendments in Companies Act, other technical standards, Valuation Standards, other relevant laws and regulations etc. TRs shall regularly participate in training workshops/programmes organized by various POU's on the aforesaid areas and will update their knowledge. Further, they shall submit 6 annual declarations along with relevant evidence, to the QRB regarding their

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	participation in such training workshops/programmes.
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INDEPENDENCE AND QUALIFICATIONS OF TECHNICAL REVIEWERS (Only Additional Point Covered Here)

- He does **not belong to the city/region** of head office of the AFUR. 5

THE QUALITY REVIEW PROCESS (TECHNICAL REVIEW)

➤ Composition of the Review Team	The composition of the review team would depend on the size of the AFUR/entity/(ies) under review. The composition of the team, mandatorily headed by a TR empaneled with the Quality Review Board, may also include up to 5 Assistants engaged by the TR, as may be fixed by the Board in each case on need basis. However, no firm of Chartered Accountants may be included as a member of the review team.
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CONSIDERATION OF THE REPORTS OF THE QUALITY REVIEW GROUPS

For PSUs	The Quality Review Group's Report on the quality of audit by the auditor of a Public Sector Undertaking (PSU) should be furnished to the Office of Comptroller and Auditor General of India (C&AG), on case-to-case basis, and the C&AG's views, if any, shall be put-up before the Board along with the recommendations of the QRG. In all other cases, the QRG's recommendations along with the decision of the Board on the quality of audit by the auditor of a PSU shall be furnished to the Office of the C&AG for information
For Others	The recommendations of the QRG on the quality of statutory audits by the auditors of entities (other than those covered above) shall be placed before the Board for its consideration directly. The Board may, after due consideration of the recommendations and comments of Office of the C&AG, wherever applicable, decide whether the recommendation made by the QRG should be accepted or otherwise. The Board may, suo moto, take such further action, as it may deem appropriate. If the Board decides against the recommendations made by the QRG in its report, the Board shall record the reasons for doing so.

ACTIONS THAT MAY BE RECOMMENDED BY THE QUALITY REVIEW BOARD

➤ In Sequence of Severity of Action, Easy to Remember	<p>The actions that may be recommended by the Board include one or more of the following:</p> <ul style="list-style-type: none"> • Inform the details of the non-compliance to the regulatory bod(y)/ies relevant to the entity as may be decided by the Board. • In case of review arising out of a reference received from a regulatory body, inform the results of review and the details of action taken to the concerned regulatory body. • Make recommendations to the Council of ICAI u/s 28B(a) of Chartered Accountants Act, 1949 referring the case to the Director (Discipline) of the Institute for consideration and necessary action under the Chartered Accountants Act, 1949. • Intimate the AFUR as to the findings of the Report as well as action initiated as above. • Issue advisory and guidance to the AFUR u/s 28B(c) of Chartered Accountants Act, 1949 for improvement in the quality of services and adherence to various statutory and other regulatory requirements. A copy of such advisory may also be sent to the ICAI for information. • Consider the matter complete and inform the AFUR accordingly
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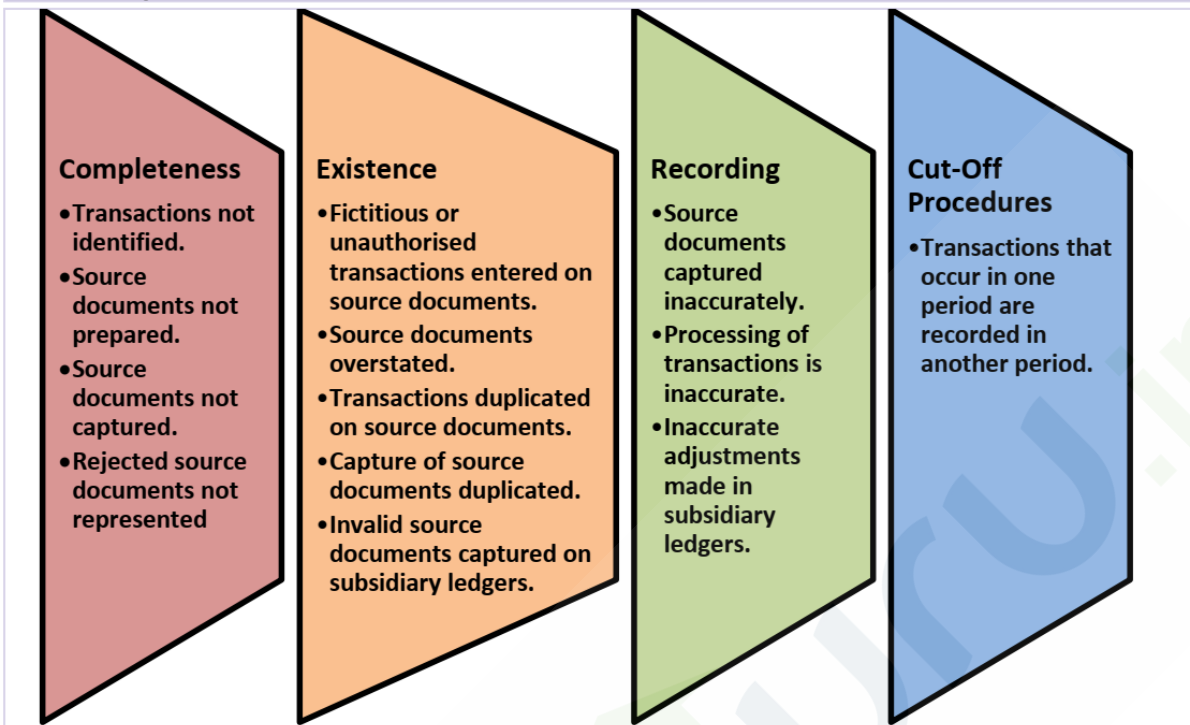
OTHER CHAPTERS

RISK ASSESSMENT AND INTERNAL CONTROL

STEPS FOR RISK IDENTIFICATION	
➤ Inherent Risks	<ul style="list-style-type: none"> ▼ Consider the existence of any particular characteristics (inherent risks) in the class of transactions, account balance or disclosure that need to be addressed in designing further audit procedures. Consider any unique characteristics of the risk. ▼ Examples could include high value inventory, complex contractual agreements, absence of a paper trail on certain transaction streams or a large percentage of sales coming from a single customer.
➤ Nature of Controls	<ul style="list-style-type: none"> ▼ Consider the nature of the internal control system in place and its possible effectiveness in mitigating the risks involved. <ul style="list-style-type: none"> • Ensure the controls : <ul style="list-style-type: none"> ○ Routine in nature (occur daily) or periodic such as monthly. ○ Designed to prevent or detect and correct errors. ○ Manual or automated.
➤ Impact on Assertions	<ul style="list-style-type: none"> ▼ Consider the impact of the risk on each of the assertions (completeness, existence, accuracy, validity, valuation and presentation) relevant to the account balance, class of transactions, or disclosure.
➤ Likelihood of Risk	<ul style="list-style-type: none"> ▼ Determine the likelihood for assessed risk to occur and its impact on our auditing procedures.
➤ Significance of Risk	<ul style="list-style-type: none"> ▼ Assess the significance of the assessed risk, impact of its occurrence and also revise the materiality accordingly for the specific account balance.
➤ Degree of significant risks that required separate attention	<ul style="list-style-type: none"> ▼ Identify the degree of Significant risks that would require separate attention and response by the auditor. Planned audit procedures should directly address these risks.
➤ Document	<ul style="list-style-type: none"> ▼ Document the assertions that are effected.
➤ Management's Response	<ul style="list-style-type: none"> ▼ Enquire and document the management's response.

POSSIBLE POTENTIAL MISSTATEMENTS - INDICATORS

Possible potential misstatements - Indicators



➤ **Illustration 1**

- ▼ **Background:** During the process of extracting the exception reports, the auditors noted numerous purchase entries without valid purchase orders.
- ▼ **Analysis:** In terms of percentage, about 40% of purchases were made without valid purchase orders and also few purchase orders were validated after the actual purchase. Also, there was no reconciliation between the goods received and the goods ordered.
- ▼ **Assertions:** Validity of purchases
- ▼ **Pervasive/Account Balance Level:** Account Balance level
- ▼ **Account Balance(s) affected :** (i) Purchases, (ii) Account Payable
- ▼ **Audit Procedures:** The following procedures may address the validity of the account balance:
 - Make a **selection of the purchases**, review correspondence with the vendors, purchase requisitions (internal document) and reconciliations of their accounts.
 - **Review Vendor listing** along with the ageing details. Follow up the material amounts paid before the normal credit period and analyse the reasons for exceptions.
 - **Meet with the company's Purchase officer** and obtain responses to our inquiries regarding the purchases made without purchase orders.
 - Discuss the summary of such issues with the client.

GENERAL STEPS IN THE CONDUCT OF RISK BASED AUDIT (RBA)

➤ **Concept of RBA**

- ▼ **Auditor's Objective**
The auditor's objective in a risk-based audit is to obtain reasonable assurance that no material misstatements whether caused by fraud or errors exist in the financial statements.
- ▼ **3 Key Steps**
This involves the following three key steps:
 - **Assessing the risks of material misstatement** in the financial statements

	<ul style="list-style-type: none"> • 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. <p>▼ 3 Phases The risk-based audit process is presented in three distinct phases:</p> <ul style="list-style-type: none"> • Risk assessment. • Risk response; and • Reporting.
<p>➤ Risk Assessment</p>	<p>The risk assessment phase of the audit involves the following steps:</p> <p>▼ Acceptance or Continuance Performing client acceptance or continuance procedures.</p> <p>▼ Planning Planning the overall engagement.</p> <p>▼ Understanding Business Performing risk assessment procedures to understand the business and identify inherent and control risks.</p> <p>▼ Relevant Controls Identifying relevant internal control procedures and assessing their design and implementation (those controls that would prevent material misstatements from occurring or detect and correct misstatements after they have occurred).</p> <p>▼ Financial Statement Level Vs Assertion Level Assessing the risks of material misstatement in the financial statements. Making an informed assessment of the risks of material misstatement at the financial statement level and at the assertion level.</p> <p>▼ Significant Risk Identifying the significant risks that require special audit consideration and those risks for which substantive procedures alone are not sufficient.</p> <p>▼ Communication Communicating any material weaknesses in the design and implementation of internal control to management and those charged with governance; and</p>
<p>➤ Risk Response</p>	<p>This phase of the audit is to design and perform further audit procedures that respond to the assessed risks of material misstatement and will provide the evidence necessary to support the audit opinion</p> <p>Some of the matters the auditor should consider when planning the audit procedures include:</p> <p>▼ Audit procedures designed to address the assessed risks could include a mixture of:</p> <ul style="list-style-type: none"> • Tests of the operational effectiveness of internal control; and • Substantive procedures such as tests of details and analytical procedures. <p>▼ The need to perform further audit procedures to address the potential for management override of controls or other fraud scenarios.</p> <p>▼ Existence of internal control that, if tested, could reduce the need / scope for other substantive procedures.</p> <p>▼ The potential for substantive analytical procedures that would reduce the need/scope for other types of procedures.</p> <p>▼ Assertions that cannot be addressed by substantive procedures alone. This can occur where there is highly automated processing of transactions with little or no manual intervention.</p> <p>▼ The need to perform specific procedures to address “significant risks” that have been identified.</p> <p>▼ The need to incorporate an element of unpredictability in procedures performed.</p>

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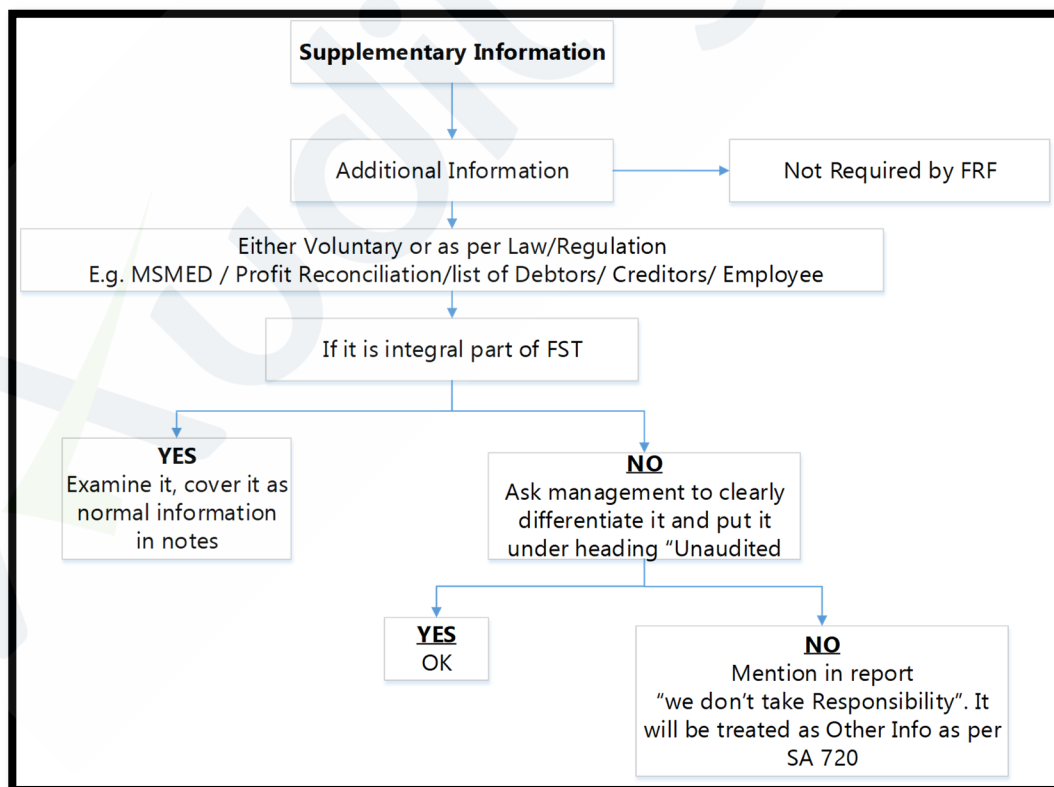
<p>➤ Reporting</p>	<p>The final phase of the audit is to assess the audit evidence obtained and determine whether it is sufficient and appropriate to reduce the risks of material misstatement in the financial statements to an acceptably low level.</p> <p>It is important at this stage to determine:</p> <ul style="list-style-type: none"> ▼ If there had been a change in the assessed level of risk; ▼ Whether conclusions drawn from work performed are appropriate; and ▼ If any suspicious circumstances have been encountered. ▼ Any additional risks should be appropriately assessed, and further audit procedures performed as required. ▼ When all procedures have been performed and conclusions reached: ▼ Audit findings should be reported to management and those charged with governance; and ▼ An audit opinion should be formed, and a decision made on the appropriate wording for the auditor's report.
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CARO 2020

MCA issued CARO 2020 as per powers given under Sec 143 (11) on 25th Feb 20 to be applied from FY 19-20. But on 24th Mar 20 MCA deferred its applicability to FY 20-21, but on 19th Dec 20 they further deferred it to FY 21-22. As applicability is deferred it is expected that ICAI will also defer applicability in academics. So there is good probability it wont be applicable but lets wait and watch what ICAI does.

[SA 700 Revised] FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION PRESENTED WITH THE FINANCIAL STATEMENTS



If supplementary information that is not required by the applicable financial reporting framework is:

- ▼ presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements

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due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor’s opinion.

- ▼ not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor’s report that such supplementary information has not been audited.

▼ **For Example**

When the notes to the financial statements include an explanation or the reconciliation of the extent to which the financial statements comply with another financial reporting framework, the auditor may consider this to be supplementary information that cannot be clearly differentiated from the financial statements. The auditor’s opinion would also cover notes or supplementary schedules that are cross referenced from the financial statements.

When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule included as an appendix to the financial statements, the auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements.

[SA 706] EMPHASIS OF MATTER PARAGRAPHS & OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR’S REPORT

DIFFERENCE BETWEEN KEY AUDIT MATTER AND EMPHASIS OF MATTER PARAGRAPH

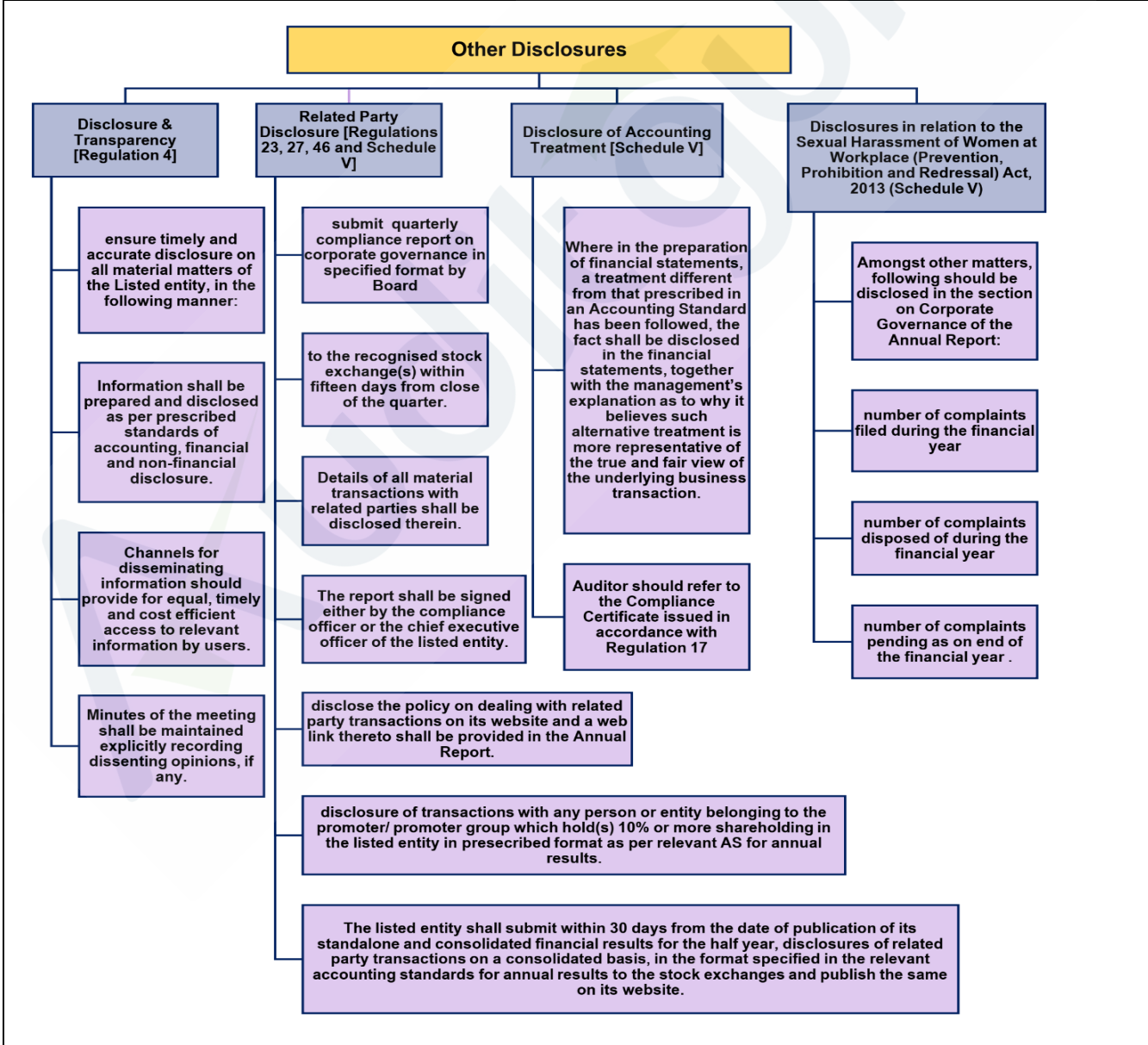
<ul style="list-style-type: none"> ▼ Key audit matters— Those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. [SA 701] 	<ul style="list-style-type: none"> ▼ Emphasis of Matter paragraph – A paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements. [SA 706]
<ul style="list-style-type: none"> ▼ Common Matter Matters that are determined to be key audit matters in accordance with SA 701 may also be, in the auditor’s judgment, fundamental to users’ understanding of the financial statements. In such cases, in communicating the matter as a key audit matter in accordance with SA 701, the auditor may wish to highlight or draw further attention to its relative importance. ▼ Provides Additional Information Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor’s professional judgment, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgment in the audited financial statements. 	<ul style="list-style-type: none"> ▼ Should not be a KAM There may be a matter that is not determined to be a key audit matter in accordance with SA 701 (i.e., because it did not require significant auditor attention), but which, in the auditor’s judgment, is fundamental to users’ understanding of the financial statements (e.g., a subsequent event). If the auditor considers it necessary to draw users’ attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor’s report in accordance with this SA. ▼ Effect of Widespread A widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor’s communication about such matters. ▼ Not a substitute Use of Emphasis of Matter paragraphs is not a substitute for a description of individual key audit matters where SA 701 is applicable.
<ul style="list-style-type: none"> ▼ Further Basis to Engage with Management The communication of key audit matters in the auditor’s report may also provide intended users a basis to further engage with management and those charged with 	<ul style="list-style-type: none"> ▼ More prominent than KAM The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of

governance about certain matters relating to the entity, the audited financial statements, or the audit that was performed.	the key audit matter to indicate the importance of the matter to users' understanding of the financial statements.
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AUDIT COMMITTEE AND CORPORATE GOVERNANCE

DISCLOSURE OF EVENTS OR INFORMATION [REGULATION 30(1), (5) (3)]

- ▼ **Disclosure of Material Events or Information**
 Every listed entity shall make disclosures of any events or information which, in the opinion of the board of directors of the listed company, is material.
- ▼ **Authorising KMP**
 Board of directors of the listed entity shall authorize one or more Key Managerial Personnel for the purpose of determining materiality of an event or information and for the purpose of making disclosures to stock exchange(s) under this regulation and the contact details of such personnel shall be also disclosed to the stock exchange(s) and as well as on the listed entity's website.
- ▼ **Website Hosting of Material Events or Information**
 Such disclosures shall be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website.



AUDIT OF BANKS

STRESS TESTING

RBI has required that all commercial banks (excluding RRBs and LABs) shall put in place a Board approved 'Stress Testing framework' to suit their individual requirements which would integrate into their risk management systems. Stress tests are designed to understand whether a bank has enough capital to survive plausible adverse economic conditions and to maintain enough buffer to stay afloat under extreme scenarios.

BASEL III FRAMEWORK

Basel III norms relate to the Capital Adequacy requirement compliance which the Bank has to achieve as contained in the BASEL III accord. Basel capital adequacy norms are meant for the protection of depositors and shareholders by prescriptive rules for measuring capital adequacy, thereby evolving methods of determining regulatory capital and ensuring efficient use of capital.

Basel III accord strengthens the regulation, supervision and risk management of the banking sector. It is global regulatory standard on capital adequacy of banks, stress testing as well as market liquidity risk.

The Basel III accord, aims at:

- (a) improving the banking sector's ability to absorb shocks arising from financial and economic stress, irrespective of reasons thereof;
- (b) improving risk management and governance practices; and
- (c) strengthening banks' transparency and disclosure standards.

AUDIT OF INSURANCE

TYPES OF INSURANCE CONTRACTS

Insurance contracts are of two types i.e. indemnity and benefit. Indemnity contract is a re-imbursalment of the actual loss incurred by the insured. Generally non-life insurance contracts are reimbursement contracts. Examples are loss by fire or repair cost of a motor vehicle. The actual cost/value of loss incurred is reimbursed/indemnified to the policyholder.

An benefit contract is not an actual re-imbursalment of the cost/value of loss incurred but is a lumpsum amount which can be construed to be equal to the cost/value of loss incurred.

REQUIREMENTS AS TO THE MINIMUM PAID-UP CAPITAL

Insurance companies are required to maintain a minimum solvency ratio of 150%. Solvency Ratio is the excess of assets over liabilities of an Insurance Company. There is a detailed working provided by IRDAI on the manner of computing Solvency Margin.

AUDIT OF NBFC

We have not included CARO 20 related points as it is not yet applicable for ICAI exams.

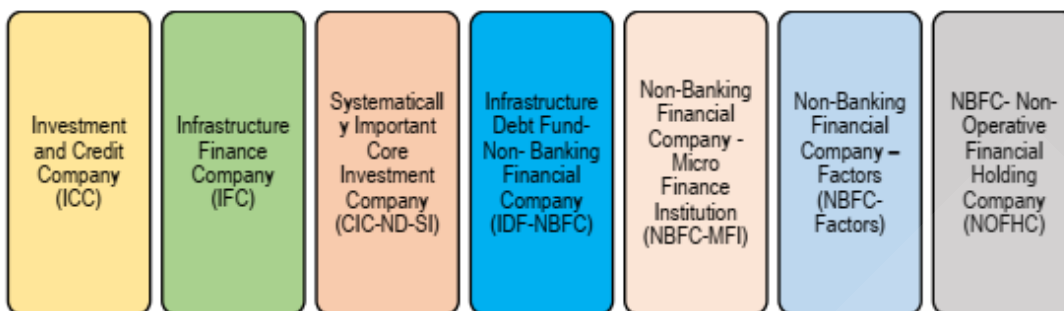
NBFCs MANDATED TO REGISTER UNDER RBI

NBFCs registered with RBI are categorized as follows:

- ▼ **Depending on Deposit Acceptance**
 - a) in terms deposit acceptance or otherwise into Deposit and Non-Deposit accepting NBFCs;
- ▼ **Further classification for NBFC not accepting deposits**
 - b) non deposit taking NBFCs by their size into systemically important and non-systemically important (NBFC-NDSI and NBFC-ND); and
- ▼ **Depending on Kind of Activities**
 - c) by the kind of activities, they conduct.

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Within the categorization mentioned in (c) above, (i.e. by the kind of activity they conduct) the different types of NBFCs are as follows:



COMPANIES EXEMPTED FROM REGISTRATION UNDER RBI

Companies that do financial business but are regulated by other regulators are given specific exemption by the Reserve Bank from its regulatory requirements for avoiding duality of regulation.

Following NBFCs have been exempted from the requirement of registration under Section 45 -IA of the RBI Act, 1934 subject to certain conditions

- Housing Finance Institutions (regulated by National Housing Bank);
- Merchant Banking Companies (regulated by Securities and Exchange Board of India);
- Stock Exchanges (regulated by Securities and Exchange Board of India);
- Companies engaged in the business of stock-broking/sub-broking (regulated by Securities and Exchange Board of India);
- Venture Capital Fund Companies (regulated by Securities and Exchange Board of India);
- Nidhi Companies (regulated by Ministry of Corporate Affairs, Government of India);
- Insurance companies (regulated by Insurance Regulatory and Development Authority); and
- Chit Companies (as defined in clause (b) of section 2 of the Chit Funds Act, 1982 (Act 40 of 1982)).
- Micro Finance Companies
- Securitisation and Reconstruction Companies
- Mutual Benefit Companies
- Mortgage Guarantee Companies
- Core Investment Companies i.e. a non-banking financial company being a Core Investment Company referred to in the Core Investment Companies (Reserve Bank) Directions, 2016, which is not a Systemically Important Core Investment Company, as defined in subparagraph (xxv) of paragraph 3 of the Core Investment Companies (Reserve Bank) Directions, 2016.
- Alternative Investment Fund (AIF) Companies

It may also be mentioned that Mortgage Guarantee Companies have been notified as Non-Banking Financial Companies under Section 45 I(f)(iii) of the RBI Act, 1934.

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.

AUDIT UNDER FISCAL LAWS-TAX AUDIT UNDER SECTION 44AB

CONDITIONAL INCREASE IN TO LIMIT

With effect from assessment year 2020-21, the threshold limit, for a person carrying on business, has been increased from Rs 1 crore to Rs 5 crores in case when cash receipts and payments made during the year does not exceed 5% of total receipt or payment, as the case may be. In other words, 95% or more of the business transactions should be done through banking channels.

CHANGES IN CLAUSES	
➤ CLAUSE 8A	<p>▼ Clause Clause (8A), The new clause inserted in part A of the form 3CD requires the assessee to state whether the assessee has opted for taxation under any of the sections 115BA, 115BAA and 115BAB.</p> <p>It may be noted that all the above sections i.e.115BA, 115BAA and 115BAB are applicable to the company assesses only. The reply to the above clause can either be a “yes” or “no”.</p> <ul style="list-style-type: none"> • If Answer is No If the assessee has not opted for any concessional rates as provided under the sections 115BA, 115BAA and 115BAB, of the Act, then, the tax auditor is not required to take any further steps and no further audit procedure is required to be followed. The answer to such question as per the clause in such case can be given as “No” only. • If Answer is Yes However, if the assessee informs that it has opted for the concessional rate of taxation as per the provisions of sections 115BA, 115BAA and 115BAB of the Act, then the audit approach is required to be modified. <p>▼ Audit checklist for practical understanding:</p> <ul style="list-style-type: none"> • Check whether the assessee is a company. • If yes, whether the company has opted for taxation regime under section 115BA/ 115BAA/ 115BAB and report accordingly? • If yes, whether the copy of Form 10-IB / 10-IC /10-ID filed online has been obtained from the assessee?
➤ CLAUSE 18	In depreciation schedule, also specify adjustment on account of Sec 115BAA separately.
➤ CLAUSE 30C	Note: Reporting under Clause 30C has been kept in abeyance till 31 March 2021 (Circular No. 10/2020 of the Central Board of Direct Taxes dated 24 April 2020).
➤ CLAUSE 36A	Note: Since DDT is not applicable w.e.f. AY 2021-22, hence reporting under this required would not be relevant

GST AUDIT

GST illustrations are covered in our question bank.

AUDIT BY THE TAX AUTHORITIES UNDER SECTION 65		
▼ Definition		
Section	Description	Remarks
Section 65	Audit by tax authorities	Audit under section 65 is a routine audit by the tax office at the place of business of registered person or in tax office.
▼ Notice for audit by Tax Authorities: The registered person shall be informed by way of a notice not less than 15 working days prior to the conduct of audit in such manner as may be prescribed. [Rule 101, FORM GST ADT-01]		
▼ Commencement of Audit In this regard, “commencement of audit” shall mean the date on which the records and other documents, called for by the tax authorities, are made available by the registered person or the actual institution of audit, whichever is later.		

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▼ **Conducted by Commissioner or Officer Authorised by Him**

In case of audit by the tax authorities the Commissioner or any officer authorised by him, can undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed. [Section 65 read with rule 101].

▼ **Co-operation with Proper Office for Timely Completion of Audit:** During the course of audit, the authorised officer may require the registered person, to afford him the necessary facility to verify the books of account or other documents as he may require and to furnish such information and render assistance for timely completion of the audit.

▼ **Completion period of audit:** The audit by tax authorities shall be completed within a period of 3 months from the date of commencement of the audit, and such period is further extendable for a period of 6 months by Commissioner for the reasons to be recorded in writing.

▼ **Findings to be Communicated to Registered Person:** On conclusion of audit, the proper officer shall, within 30 days, inform the registered person, whose records are audited, about the findings, his rights and obligations and the reasons for such findings in such manner as may be prescribed. [Rule 101, FORM GST ADT-02]

AUDIT OF ACCOUNTS [SECTION 35(5) READ WITH SECTION 44(2) AND RULE 80]

▼ **Turnover Limits**

Every registered person whose aggregate turnover during the financial years 2018-2019 and 2019-20 exceeds **5 crore rupees** shall get his accounts audited as specified under subsection (5) of section 35 and he shall furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in FORM GSTR-9C for the financial years 2018-2019 and 2019-20, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.

Table-1 (Aggregate Turnover)

Financial Year (FY)	Aggregate Turnover (in ₹)
2017-18	2 crore
2018-19	5 crore (NN-16/2020)
2019-20	5 crore (NN-79/2020)

▼ **Multiple Branches**

Note: Where a taxpayer has multiple branches registered under GST in different States/ Union Territories, the total aggregate turnover of all such branches is considered while calculating the threshold limit. So, if the cumulative turnover of all the branches exceed threshold limit, then the GST audit is applicable to each of these branches, irrespective of whether the turnover of a particular branch is less than the threshold.

▼ **Joint Audit**

It is possible for a registered person to appoint two or more chartered accountants as joint auditors under the GST Laws in which case the audit report would have to be signed by all the joint auditors. In case of disagreement, they can give their report separately. In this regard, attention is invited to SA 299 — Responsibility of the Joint Auditors. The responsibility of Joint Auditors under the GST Laws would be the same as in the case of other audits, such as e.g., audit under the Companies Act or the Income- tax Act.

▼ **PAN Based Audit**

While Rule 80(3) of the CGST Rules speaks of the prescribed threshold limit at exceeding ` 5 Crore which is attributed to the 'aggregate turnover', the relevant section speaks of the turnover in the State / turnover attributable to a GSTIN. Therefore, if a registered person is liable to get his accounts audited under Section 35, all the registrations obtained under the same PAN will also be liable for such audit, regardless of the turnover in each State in which the other registrations have been obtained.

Examples: if the aggregate turnover (PAN based) is at ` 5.50 crores and the registered person is carrying on business in two different States having a turnover of ` 4.75 crores and 0.75 crores respectively, the law mandates that audit is required to be carried out in both the States.

▼ **Audit of Agent**

The audit of the transactions undertaken under the GST regime will cover the entire gamut of transactions of a particular GSTIN. For instance, if the audit is undertaken for a registered person being an agent for supply of goods, it must be understood that the agent would be recording all the good received on behalf of the Principal as inward supply of goods, as also the goods dispatched on behalf of the Principal as outward supply of goods. On the other hand, the income / revenue that would be reflected in his books of account under any other statute would only be limited to the commission income. Accordingly, for the purpose of the GST Laws, the agent would be regarded as a person engaged in effecting outward supply of goods and would therefore be required to maintain all the stock records that are to be maintained by a trader.

INTERNAL AUDIT, MANAGEMENT AUDIT AND OPERATIONAL AUDIT

CORE PRINCIPLES FUNDAMENTAL TO INTERNAL AUDIT FUNCTION -- INTEGRITY, OBJECTIVITY, AND INDEPENDENCE OF INTERNAL AUDITOR

➤ Basic Principles / Core Principles	There is a set of core principles fundamental to the internal audit function and activities. These basic principles of internal audit are critical to achieving the desired objectives as set out in the definition of Internal Audit. The Basic Principles of Internal Audit are a set of core principles fundamental to the function and activity of internal audit.
➤ Independence	1. The Internal Auditor shall be free from any undue influences which force him to deviate from the truth. This independence shall be not only in mind but also in appearance. Also, the internal auditor shall resist any undue pressure or interference in establishing the scope of the assignments or the manner in which these are conducted and reported, in case these deviate from set objectives. The independence of the internal audit function as a whole, and the Internal Auditor within the organisation, plays a large part in establishing the independence of the Internal Auditor. The overall organisation structure of key personnel, the position and reporting of the Chief Internal Auditor within this structure, along with the powers and authority which is derived from superiors further establishes the independence of the Internal Auditor.
➤ Integrity	2. The Internal Auditor shall be honest, truthful and be a person of high integrity. He shall operate in a highly professional manner and seen to be fair in all his dealings. He shall avoid all conflicts of interest and not seek to derive any undue personal benefit or advantage from his position.
➤ Objectivity	3. The Internal Auditor shall conduct his work in a highly objective manner, especially in gathering and evaluation of facts and evidence. He shall not allow prejudice or bias to override his objectivity, especially in arriving at conclusions or reporting his opinion.

INTERNAL AUDIT REPORT

➤ Review & Assess Conclusions / Report Findings / Suggest Remedial Action	The internal auditor should carefully review and assess the conclusions drawn from the audit evidence obtained, as the basis for his findings contained in his report and suggest remedial action. However, in case the internal auditor comes across any actual or suspected fraud or any other misappropriation of assets, it would be more appropriate for him to bring the same immediately to the attention of the management.
➤ Stages of Reporting In Internal Audit	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.

- **Scope of SIA 370** 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.

KEY ELEMENTS OF INTERNAL AUDIT REPORT

- **Key Elements** On the basis of the internal audit work completed, the Internal Auditor shall issue a clear, well documented Internal Audit Report which includes the following key elements:

(a) An overview of the objectives, scope and approach of the audit assignments;

(b) The fact that an internal audit has been conducted in accordance the Standards of Internal Audit;

(c) An executive summary of key observations covering all important aspects, and specific to the scope of the assignment;

(d) A summary of the corrective actions required (or agreed by management) for each observation; and

(e) Nature of assurance, if any, which can be derived from the observations.

- **Consultation with Auditee & Reporting within Reasonable Time** The content and form of the Internal Audit Report are to be established by the Internal Auditor based on his best professional judgement, in consultation with the auditee and, if necessary, with inputs from other key stakeholders. No internal audit report shall be issued in final form unless a written draft of the report has previously been shared with the auditee.
The internal audit report shall be issued within a reasonable time frame from the completion of the internal audit work.

FURTHER EXPLANATION ON PREPARING INTERNAL AUDIT REPORT

- ▼ **Basis of Internal Audit Report:** Each internal audit 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. Controls operating effectively have their

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own importance and should be acknowledged, while the risk and significance of observations noted have a role to play in prioritising the matters to be reported.

- ▼ **Conducted in Accordance with SIAs:** Where the internal audit is conducted in compliance with the Standards of Internal Audit, (within the Framework governing Internal Audits), and the internal auditor can substantiate the same with supporting evidence and documentation, the internal audit report shall include a statement confirming that “the internal audit was conducted in accordance with the Standards of Internal Audit issued by the Institute of Chartered Accountants of India”.
- ▼ **Content and Format of Internal Audit Report:** The manner in which the internal audit report is drafted and presented is a matter of professional judgment and choice and could be influenced by the preferences of the recipients. The SIA does not mandate any particular format or list of contents since the Internal Auditor is expected to exercise his best professional judgement on matters regarding how and what to report. Where some level of assurance is being provided, the form and content of the report shall be as per SIA 380, “Issuing Assurance Reports”.
- ▼ **Documentation:** To confirm compliance of audit procedures with this SIA, the list of documents required is as follows:

(a) Copies of draft and final internal audit reports to be maintained, appropriately cross referenced to specific observations.

(b) If appropriate, management action plans may be counter signed by respective management personnel.

FOLLOW-UP BY INTERNAL AUDITOR

As per SIA 390 Monitoring and Reporting of Prior Audit Issues, the Chief Internal Auditor is responsible for continuously monitoring the closure of prior audit issues through timely implementation of action plans included in past audits. This shall be done with a formal monitoring process, elements of which are pre-agreed with management and those charged with governance. The responsibility to implement the action plans remains with the management.

In monitoring and reporting of prior audit issues, the responsibility of the Internal Auditor is usually in the form of an “Action Taken Report (ATR) of previous audits”.

The term “Monitoring and Reporting” used in this Standard refers to the periodic tracking of issues raised during prior audits and evaluation of the corrective actions undertaken by the auditee to resolve them and to report any open and pending matters to the management and those charged with governance (e.g., the Audit Committee).

The internal auditor should review whether follow-up action is taken by the management on the basis of his report. If no action is taken within a reasonable time, he should draw the management’s attention to it. Where the management has not acted upon his suggestions or not implemented his recommendations, the internal auditor should ascertain the reasons thereof.

Where the management has accepted his recommendations and initiated the necessary action, the internal auditor should periodically review the manner and the extent of implementation of the recommendations and report to the management highlighting the recommendations which have not been implemented fully or partly.

DIVIDEND**DIVIDEND NOTE ADDED REGARDING AS 4/IND-AS 10**

- ▼ **Treatment of Proposed Dividend as per AS 4 / Ind-AS-10**
As per Accounting Standards (AS) 4 (amended)- Contingencies and Events Occurring After the Balance Sheet Date and Ind AS 10- Events after the Reporting Period, if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognised as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes.
- ▼ **Audit Procedure to check compliance of AS 4 /IND-AS 10**
If dividends are declared after the balance sheet date but before the financial statements are approved for issue, check that the dividends have not been recognized as a liability as per Accounting Standard (AS) 4 (amended)- Contingencies and Events Occurring After the Balance Sheet Date and Ind AS 10- Events after the Reporting Period, but whether a disclosure of the same has been made in the notes.