

CA RAVI AGARWAL'S

AUDITPEDIA EXEMPTION CHARTS



REVISE ENTIRE AUDIT IN LESS THAN 140
PAGES (CHART FORMAT)

CA FINAL

JAN 2021



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AUDIT VOCABULARY

SHORT FORM	LONG	SHORT	LONG FORM
FS	Financial statement	IT	Information technology
MM	Material Misstatement	L&R	Laws & regulations
FRF	Financial reporting framework	G&S	Goods & Services
SA	Standards on auditing	ER	External report
AGM	Annual general meeting	IR	Internal Report
SAAE	Sufficient appropriate audit evidence	P&L / P/L	Profit or loss
COE	Code of ethics	FAP	Further audit procedure
RP	Related party	T-AB-D	Transaction Account balance & disclosure
AE	Audit evidence	PDC	Prevent detect correct
NTE	Nature, timing & extent	IP	Information processing
AP	Audit procedures	TOC	Test of control
Docs	Documents	TOD	Test of details
Info	Information	FR	Financial reporting
ROM-MS/ROMM	Risk of material misstatement	SO	Service organisation
DR	Detection risk	Org.	Organisation
AR	Audit risk	HR	Human resource
IR	Inherent risk	P&P	Policies & procedures
CR	Control risk	AR	Audit report
TCWG	Those charged with governance	OI	Other Information
Mgt.	Management	CY/PY	Current Year/ Previous year
QC	Quality control	KAM	Key Audit Matter
QCPP	Quality control policies & procedures	EOM	Emphasis of matter
ET	Engagement Team	OM	Other Matter
EP	Engagement partner	EA	External auditor
Biz	Business	IA	Internal auditor
SAP	Substantive audit procedure	GC	Going concern
EQCR	Engagement quality control reviewer	PA	Principle Auditor
WR	Written representation	OA	Other Auditor
BOD	Board of director	P & P	Preparation & presentation
RAP	Risk assessment procedure	EOAB	Events occurring after B/S date
DIM IC	Detect, implement, maintain internal control	EARD	Events occurring after reporting date
IC	Internal control	A/E	Accounting estimate
CG	Central Govt.	A/c	Accounting

SA 200- OVERALL OBJECTIVES OF INDEPENDENT AUDITOR & CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING

Overall Objectives of Independent Audit

- To obtain reasonable assurance about whether Financial Statements as a whole are free from Material Misstatement, whether due to fraud or error, thereby enabling Auditor to express an opinion on whether Financial Statements are prepared, in all material respects, in accordance with applicable financial reporting framework.
- To Report on the Financial Statement & Communicate as required by Standards on auditing.
- To Report u/s 143(2) to Members of Company on A/c examined by him & FS to be laid in AGM.
- To ensure that his opinion on Financial Statements is reflecting True & Fair view
- To State in his Report u/s 143(2) whether A/c examined by him & FS give True & Fair view
- To obtain SAAE to reduce Audit Risk to Acceptable low level & consider SA 500 as per SA 200.

Ethical Requirements
• Integrity
• Objectivity
• Professional competence & due care
• Confidentiality
• Professional behaviour

INDEPENDENCE- COE+SA200/220/260/SQC1
<ul style="list-style-type: none"> • It comprises both independence of mind & appearance. • Engagement team to be independent. • Network Firms. Circumstances & relationships that result in threats to be identified & resolved. • Declaration of firm.

Professional Skepticism ALERT!!!
-Remain Alert to conditions indicating possible misstatement due to Error or fraud
- Critical assessment of Audit Evidence
- Maintain it throughout Audit to identify fraud risk factors & evaluate Related Party transactions

PROFESSIONAL JUDGMENT

Apply relevant **Training, knowledge & experience** in particular regarding decisions. Areas requiring Professional judgement

-Materiality & audit risk
- Nature Timing & Extent of Audit Procedure used to meet requirements of SAs & gather Audit Evidence
-Evaluating whether SAAE has been obtained & whether more needs to be done
- Evaluation of management's judgments in applying Entity's Applicable FRF
- Drawing of conclusions based on Audit Evidence i.e. assessing reasonableness of Estimates made by management's in preparing Financial Statements

Maintain Attitude
-Alertness towards Info provided to him by client.
-Questionable mind being alert.
To Reduce Risks of (OOI)
-Overlooking unusual circumstances.
-Over generalizing when drawing conclusions from audit observations.
-Using Inappropriate assumptions in determining Nature Timing & Extent of Audit Procedures & evaluating results.
Being alert to
-Audit evidence that contradicts other audit evidence obtained.
-Info bringing in question reliability of docs & responses to inquiries used as evidence.
-Conditions indicating possible fraud or suggest need for Additional Audit Procedures.

SCOPE OF AUDIT

FACTORS AFFECTING SCOPE OF AUDIT-
-SA & other guidance by ICAI
-Requirements of Law
- Terms of engagement of Auditor (Terms of engagement can't override Scope decided by Legislation or SAs)
- Limitation to scope -Communicate to TCWG as per SA 260

Audit Risk: Risk that the auditor expresses an **inappropriate audit opinion** when the Financial Statements are materially misstated. (**ROMMS*DR=AR**)

SAAE & AUDIT RISK

- SA 500- Auditor to obtain SAAE & Reasonable Assurance (High but not Absolute Level of Assurance) to decrease Audit Risk to an Acceptably Low Level
Sufficiency = Measure of Quantity of Audit Evidence
Appropriateness = Measure of Quality of Audit Evidence i.e. its relevance & reliability to support conclusions on which auditor's opinion is based.
If Auditor unable to obtain SAAE- disclaimer

CONDUCT IN ACCORDANCE WITH SA

Compliance with SA: SA 200 & Section 143(9) of Co Act 2013 states that Auditor to comply with SAs. Failure to achieve modify the auditor's opinion or withdraw from engagement.

Inherent Limitations of Audit

Nature of Financial Reporting	-Involvement of management's judgment .
	A lot of issues involving different interpretation & judgment.
Nature of Audit Procedure	- Incomplete information by management.
	Audit procedures used to gather audit evidence may be ineffective against fraud detection. As Frauds may involve sophisticated & carefully organized schemes.
	Internal control systems may be planned & framed by management to manipulate & override it.
	Auditor's inability to conduct search, or investigation due to the nature of audit.
	Audit evidences obtained persuasive rather than conclusive .
Timeliness & Cost constraints	-Though not a relevant basis.
	Test checks are integral part of audit.
	Limited audit fees there is budget & cost constraint. Pressure to finish audit quickly, in least possible time.
Other Limitations	-Frauds, particularly involving senior management or collusion. (SA 240(R))
	Non-disclosure of related parties .
	Non- compliance with laws & regulation & Limitations imposed by Law.
	Going Concern SA 570(R)



SA 210- AGREEING THE TERMS OF AUDIT ENGAGEMENTS

OBJECTIVE OF AUDITOR

To accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed with the client.

AT BEGINNING OF AUDIT

Initial audit Engagement

Limitations Imposed by management

Do not accept unless required by Law

No Limitations Imposed by Management

Whether Preconditions Exist?

Exist

Accept Audit

Not Exist

Discuss matter with mgt.

✗ Do not accept audit in case of:

(a) Unacceptable FRF
OR

(b) Mgt. does not agree with its responsibilities.

Recurring Audit

Auditor to determine-

- Whether Circumstances require **Revision** in Terms of Audit Engagement

OR

- Whether there is need to **remind** Entity of **Existing terms** of Audit Engagement.
- And decide to send or not New Engagement Letter or other written agreement.

Circumstances Warranting Revision in Terms of Audit Engagement

- Change in **Financial Reporting Framework**.
- Change in **Senior management**.
- Significant change in **Nature & Size** of entity
- Significant change in **Ownership**
- **Revised/ Special Terms** of Audit Engagement
- Change in **Reporting Requirement**
- Indication that Entity **Misunderstood** Scope & Objective of Audit
- **Legal** or Regulatory Requirement.

DURING/BEFORE COMPLETION OF AUDIT

Client/Mgt. request for changes in terms

-Auditor to consider whether Proposed changed terms of engagement **affects Level of Assurance**

-If **Lower level of Assurance** then Auditor **not to agree** unless reasonable justification from mgt. is there.

If Terms Changed- Management & Auditor **both agrees-**

Record new terms of engagement in Engagement letter or other suitable form of written agreement.

-**No Reasonable Justification** by Management.

- Auditor **unable to agree** to Change & is not permitted by mgt. to continue with original Audit Engagement.

Auditor shall-

- ✚ **Withdraw** Audit Engagement where possible under Applicable Law.
- ✚ Determine whether any **obligation to report** circumstances to other parties, such as TCWG, Owners or Regulators.

Pre-conditions for an audit-Audit premises

1. Whether the Mgt. uses **acceptable FRF**.
2. Whether there is proper **Internal Control**, so that Financial Statements are free from Material Misstatement, whether due to Fraud or Error
3. To provide the auditor:
 - **Access** to all relevant information.
 - **Additional** info that auditor requests from mgt.
 - **Unrestricted access** to persons within the entity.

Audit of components-(APRIL)

- who **Appoints?**
- Degree of ownership by **Parent**
- if separate Audit **Report** issued
- Degree of **Independence** of component's Management
- Legal** requirements

Factors affecting-Suitability of FRF

Relevance+ Completeness+ Reliability+ Neutrality+ Understandability

Form & Contents of Engagement Letter

- ✚ Objective & Scope of audit of FS
- ✚ Responsibilities of Auditor & Management.
- ✚ Identification of Applicable FRF for Preparation of Financial statement
- ✚ Reference to Expected form & content of any reports to be issued by Auditor.

SA 220-QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

OBJECTIVE OF AUDITOR

To Implement **QC Policies & procedures** that provide **Reasonable Assurance** that audit complies with professional standards and audit report issued is appropriate.

ELEMENTS OF SYSTEM OF QUALITY CONTROL

Leadership responsibility

Engagement Partner (EP) shall take responsibility of **overall quality control** on each audit engagement to which that partner is assigned.

Assignment of Engagement Team

EP shall be satisfied that ET, & any auditor's experts who are not part of the ET, collectively have appropriate **competence & capabilities**.

Ethical Requirements

EP shall remain **alert**, making **inquiries** of non-compliance with ethical requirements by members of ET & If EP obtains info. leads to decline the engagement (if received earlier), **communicate** firm to take necessary action.

Compliance-Independence

EP-identify **circumstances & relationship** that create **threats to independence**. Evaluate info. on identified breaches. Take appropriate action to eliminate such threats or **reduce** them to an acceptable level or to **withdraw**.

Acceptance & Continuance of Client relationship

-**Integrity** of Mgt.
-Availability of **time /Resources**.
-**Independence**.
-**Past Experience**.

Engagement Performance

Direction, Supervision & performance

Direction includes **informing members** of ET of matters such as-
-**Responsibilities of ET** comply Ethical requirements.
-**Responsibilities of respective partners**.
-Detailed **Approach** to performance of engagement.
-**Problems** that may arise.
-**Risk**-related issues.
-**Objectives** of the work to be performed.
-**Nature** of Entity's Biz.

Reviews

Reviews-
=**Objectives** of AP achieved.
=Work done as per **professional standards/law**.
=Work supports **conclusions** reached+ properly documented.
=**SAAE** obtained.
=**Significant matters** raised for consideration.
=Appropriate **consultation**-conclusions documented.
=Revise **NTE of AP**.

Consultation

Seeking advice on technical, ethical /other matters-within / outside firm.

Engagement Quality Control Review

Applicable in case of Listed Entities.

Differences of Opinion

Follow firm's policies & procedure for dealing with & resolving disputes.

Matters to be Reviewed Timely

-Overall Audit Plan & Audit program
-Significant Risks Assessment (Modification to overall Audit plan)
-Documentation of Audit Evidence obtained from SAP & conclusions drawn there from.
-Review of Financial Statements & proposed audit report.

Communication

Firm's Quality Control Policy/ Procedure communicated to personnel

Monitoring

Provide Reasonable Assurance that its **policies and procedures** relating to **QC** are **adequate & operating effectively**.

Delegation

Sufficient **direction, supervision & review** of work at all levels.

Additional Considerations (ICD)

Audit of Listed Entities

Matters evaluated by Engagement QC Reviewer (EQCR)

-Review of Financial Statements & **Proposed Audit Report**
-Discussion of **Significant Matters** with Engagement partner.
-Review **selected Audit documentation** of Judgments & Conclusions reached.
-Evaluation of **conclusions reached** in Audit report & Proposed AR is Appropriate.

Auditor -Conclusions from Consultation
-Compliance check

EQCR- Procedure for QC Review performed & whether EQCR work done on/ before Audit Report Date.

-ET Evaluation of **Independence**.
-Appropriate **Consultation** taken & Conclusions drawn.
-Audit **D**ocuments selected for review reflect work done.

Documentation

Supervision

1. **Tracking** the **progress**.
2. Considering **Competence & Capabilities** of members of Engagement Team **whether work carried out is in accordance with planned approach**.
3. Address **significant matters**-**Modify** approach.
4. Identifying **matters** for **consultation**.



SA 230- Audit Documentation

Audit Documentation

The Record of Audit Procedures performed, test of Controls, Substantive Procedures, Relevant Audit Evidence obtained (Oral/ Visual/ Documentary) & Conclusions reached (Modified/ Unmodified)

NATURE
 Auditor may include **abstracts or copies** of the entity's **records** like significant /specific contracts & agreements as part of Audit Documentation.
 Oral explanations by Auditor not represent adequate support for work auditor performed or conclusions auditor reached, but may be used to explain or clarify info contained in Audit Documentation.
Not a substitute for entity's accounting records it is auditor's record.



No Need to Document

Draft Working papers, Oral Explanations
No Need to Separately document matters for which Audit Evidence Available-Audit Plan, Engagement letter, qualifications, professional skepticism, Direction, Supervision

Assembly of Audit File SQC 1

Assemble within **60 Days** of Completion of audit. Retain Audit file for **7 Years**

Form, content & extent of Audit documentation

Documentation Sufficient to enable an auditor to understand

- **Significant matters** arising during audit, conclusions reached & professional judgments made to get conclusions.
- **Who performed** & date such work was completed
- **Who reviewed** Audit work performed & Date & Extent of such review

Nature, timing & Extent of Audit Procedures (AP)

Comply with the **SAs** & applicable legal & regulatory requirements.

-Identifying characteristics of specific items or matters tested.

PURPOSE

- Assist Engagement Team (ET) to **plan & perform Audit**
- Assist to **Direct & Supervise**.
- Assist to **discharge review responsibilities-SA 220**
- Assisting conduct **Quality control review & inspections- SQC 1**
- Records for **Future Reference**.
- Conduct of **External Inspections** as per Legal, Regulatory FRF.

Specific Documentation

Documentation of Departure from a relevant requirement + **Reasons** for the departure. **Alternative procedures** performed.

Matters After due date of Auditor's report-If under Exceptional circumstances, Auditor performs **New or Additional Audit Procedures** / Draws new conclusions, Auditor shall document
 -The **Circumstances encountered**.
 -New or Additional **Audit Procedures** performed, **Audit Evidence obtained** & conclusions reached.
-When & by whom resulting changes to Audit documentation were made & reviewed.

Documentation of Discussions -Significant Matters Discussed with Mgt. & TCWG. **When & with whom** Discussion took place. How Auditor **address inconsistency**.

Other Significant Matters to Document

- ✚ **NTE of Audit Procedures** to comply with laws Results of Audit Procedures & Audit evidences obtained.
- ✚ **Significant matters**.
- ✚ Reasons for Discarding/ Modifying/ **Deleting working papers** after 7 years.
- ✚ Requirement of SA.
- ✚ **Conclusions reached** thereon& their effect on audit report.
- ✚ **Significant uncertainties** noticed.
- ✚ **Alternative Audit Procedures** performed to achieve SA requirement **departed** & its **reasons**.

Factors affecting Form, Contents & Extent of Audit Documentation

- Size & Complexity** of Entity.
- Identified Risk** of M-MS.
- Nature of **Audit Procedures** to be performed.
- Audit **methodology & tools** used.
- Significance of **Audit Evidence** obtained.
- NTE of **exceptions identified**
- Need to **document Conclusion**.



SA 240 -Auditor's Responsibility in relation to Fraud in Audit of FS

Intentional Act by 1 or more Individual of management, TCWG, Employees, or 3rd Parties involving use of deception to obtain an unjust or illegal advantage.

FRAUD

Auditor's Responsibilities/ Duty in relation to Fraud in an audit of Financial Statement

- Obtain **Reasonable Assurance** -Financial Statements taken- whole are free from Material Misstatement due to fraud.
- Maintaining **Professional Skepticism** throughout Audit.
- Not Expect to **detect fraud** unless suspicion arises.
- Consider **Impact** of fraud on **Financial statements**.
- Consider **Reliability of Written Representation** if mgt. fraud found
- Obtain **Written Representation**
- **Communicate** to Chairman & BODs
- if conditions are like **documents not authentic/modified** then Investigate.
- Investigate if **Inconsistent Responses** of Mgt./ TCWG.
- **Section 143(12)- Fraud reporting-** Auditor has reason to believe that an offence involving fraud is being or has been committed against company by officers /employees of company -**Immediately report matter to Audit Committee in 2 days** of knowledge (as amount < ₹1Crore) mentioning-
 - Nature of Fraud & Description
 - Approximate amount involved
 - Parties involved
- Immediately report matter to CG** in time & manner prescribed in **Rule 13** if amount > ₹1 Crore.
- Reporting responsibility in **CARO & Section 447** person committing fraud liable.

Perform Risk Assessment Procedures (RAP)-

• Enquiry of Management

• Enquiry of TCWG

• Evaluation of fraud risk factor

• Evaluation of identified unusual & unexpected relationship.

❖ If Auditor is unable to continue Engagement. Auditor to determine-

-Legal & professional responsibility of auditor to report to persons appointing him /regulatory authorities

-Whether it is appropriate to **withdraw**, where law permits

• If withdraws-
-Discuss with Mgt. & TCWG
-Give reasons for withdrawal.
-Legal & professional responsibility to report to persons appointing him /regulatory authorities

Management's Responsibility for Prevention/ Detection of Fraud

- Primarily of Mgt. & TCWG.
- Management's Responsibility - to create culture of Honesty & ethical behaviour
- Acknowledge for **Design Implementation & Maintenance of Internal Control (IC)** to Prevent Fraud & Error.
- **Disclose** results of management Fraud & Risk Assessment.
- **Disclose** knowledge of Fraud/ Suspected Fraud affecting Co by Mgt. / Employees/ Others / its Allegation.

- ❖ Due to **Inherent limitations** there is an **unavoidable risk** that some Material Misstatements (M-MS) of Financial Statements not be detected even though audit is properly planned & performed in accordance with SAs.
- ❖ Risk of undetected M-MS resulting from **fraud is higher from error**.
- ❖ Risk of M-MS due to **Management Fraud is higher than Employee Fraud** as Mgt. can easily manipulate accounting records as management is at unique position to penetrate fraud & manipulate records & prepare FS by **overriding controls**.

Risk Associated for Non-detection of M-MS

CAUSES OF MISSTATEMENT

Fraudulent Financial Reporting (FFR)

- **Manipulate**, Falsify, Alter A/c records & Supporting documents.
- **Misrepresentations** or Intentional omission
- **Intentional Misappropriation of Assets** (Fraudulent Financial Reporting involves Mgt. override of controls that may appear operating effectively)

Possible **Source** of FFR -Recording **Fictitious Assets/ Entries-**

- Engage in **Complex transactions** to **misrepresent Financial Position**
- Inappropriate **Adjust Assumptions**
- Omit, Advance, **Delay** Recognition
- Conceal or **not disclose facts** affecting FS
- **Alter Records** & terms related to **Significant Transactions**

Misappropriation of Assets

- **Embezzling** Receipts
- **Stealing** Physical Assets/ Intellectual Property
- Using Entity's assets for **Personal use**.
- Causing Entity to **Pay for** Goods & Services **not actually received**.

Circumstances that Indicate possibility of fraud or Error (On Evaluation of audit evidences)

Discrepancies in Accounting Records	Others	Conflicting or Missing Evidences	Unusual relation in Auditor & management
<ol style="list-style-type: none"> 1. Due to improper Recording. 2. Unauthorized transactions. 3. Last minute adjustments. 4. Employee access to systems. 5. Tips or complaints about alleged fraud. 	<ol style="list-style-type: none"> 1. Unwillingness by mgt. to permit auditor to meet TCWG. 2. Variations in accounting policies. 3. Frequent changes in A/c estimates 4. Tolerance of violation of entity's code of conduct. 	<ol style="list-style-type: none"> 1. Missing. 2. Altered docs. 3. Non-Availability of Originals. 4. Unexplained items. 5. Unusual B/S changes. 6. Missing inventory/ Physical Assets. 7. Fewer responses to confirmations. 8. Missing electronic evidences. 	<ol style="list-style-type: none"> 1. Undue Time pressure. 2. Unusual delay in providing Info. 3. Unwilling to address Internal Control weakness. 4. Denial of access to records/ IT operations.

Characteristics of Fraud/ Fraud Risk Factors related to Misstatement & Misappropriation

Incentive or Pressure to Commit Fraud	<ol style="list-style-type: none"> 1. Personal Financial Obligation may put <u>pressure</u> on employees or Mgt. having access of Cash/ Assets to misappropriate it. 2. <u>Adverse Relationship</u> in Company & Employees due to <ol style="list-style-type: none"> a. Pressure to achieve Unrealistic target. b. Known or anticipated future employee lay off. c. Recent unfavourable Changes in Promotion & Benefit Plan.
Rationalization OR Attitude	<ol style="list-style-type: none"> 1. Disregard check on Internal Control System Deficiency & timely remedial actions. 2. Disregard need for monitoring /reducing risk for Assets Misappropriation. 3. Behaviour or Unjust Treatment with Employees. 4. Individuals possess Attitude, Character or Set of ethical values that allow them knowingly & intentionally to commit a dishonest act.
Perceived opportunity	<ol style="list-style-type: none"> 1. Inadequate Internal Control System. 2. Individual knows <u>Internal Control System is weak</u> or can be Forbidden or if Individual in Trust Position. 3. Easily convertible/marketable assets & lacks ownership observance. 4. Inventory item of small in Size with High value/ demand. 5. Inadequate independent check, Investigation & Duty Segregation.





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SA 250 -Consideration of Laws & Regulations in an Audit of FS

Auditor's Objective

- To **obtain SAAE** regarding compliance with the provisions of those Laws & Regulations (L&R)-having **direct effect** on **determination of material amounts and disclosures** in FS
- To perform **specified audit procedures** to help identify **instances of non-compliance with other laws**-having material effect on FS.
- To **respond appropriately** to non-compliance or suspected non-compliance with L&R identified during audit.

Management's responsibility for compliance with L&R

Ensure **entity's operations** are **conducted** as per **provisions of L&R** that determine reported amounts & disclosures in an entity's FS such as-

1. **Monitoring legal requirements** & ensuring that **operating procedures designed** to meet these requirements.
2. **Instituting & Operating** appropriate system of **Internal Control**.
3. **Developing, Publicising & Following a Code of conduct**.
4. **Ensuring Employees are properly Trained & Understand** of Code of conduct.
5. **Monitoring compliance** with code & Discipline employees who fail to comply it.
6. **Engaging Legal Advisors** to assist in monitoring legal requirements.
7. **Maintaining Register** of significant L&R which entity to comply in its particular industry & a record of complaints.

Possible Indicators to verify compliance with L&R

1. **Investigation** by Regulatory organization or Government departments.
2. **Excess** Sales commission/ Agents fees or Purchase Prices significantly > Market Price
3. **Payments of Unusual Type-**
 - Unusual payments in **cash**, purchase by bearer Cheque
 - Unusual payments towards **legal & retainer ship fees** (litigation claims indicated)
 - **Unauthorized Transactions** or improperly recorded transactions.
4. **Payments-**
 - Of **finances**, additional taxes or penalties.
 - For **unspecified services** or loans to **consultants** or to related parties, employees or government employees.
 - For Goods & Services made **other than to country** from which **G & S originated**.
 - **Without** proper **exchange control** documentation

Responsibilities of Auditor

- Auditor **not responsible** for **preventing** non compliances & cannot be expected to **detect**. Hence only consider use of L&R in Audit.
- **Remain Alert** to possibility suspected of non-compliance with L&R.
- To **Disclose** whether co. has made **provisions** for fines & litigations due to non-compliance
- To **Obtain a general understanding**
 - ✓ L&R Framework Applicable to The Entity &
 - ✓ How entity is complying with that framework. (Not required to obtain expert understanding of other laws)
- **Obtain SAAE** regarding compliance with L&R having **Direct Effect** on the determination of **material amounts and disclosures** in F.S.
- **Obtain SAAE & WR** for actual/ suspected non- compliances.
- **Perform Audit procedures** to help identify **instances of non-compliance** which have material effect on FS by-
 - ✓ Inquiring of Management/TCWG.
 - ✓ Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.

Reporting Responsibility on Non-Compliance of L&R

To Regulatory & Enforcement Authorities

Auditor should determine whether auditor has **responsibility to report** identified/suspected non-compliance to outside Parties.

To Users in Auditor's Report

If Auditor concludes **non-compliance has material effect on FS** & not adequately reflected in FS i.e. not reflecting True & fair view. **SA 200 & Sec 143(2)** Modify as per **SA 705** -Restriction by Mgt. / TCWG from **obtaining SAAE** to evaluate non-compliance. auditor to express Qualified opinion or Disclaim an opinion.

If Auditor **unable to determine** if non-compliance occurred due to limitations imposed by circumstances rather than by mgt./TCWG auditor to **evaluate effect on Auditor's opinion**.

Reporting to TCWG

- ✚ Auditor to **communicate with Those Charged with Governance (TCWG)** matters involving **non-compliance with Laws & Regulations** that come to Auditor's attention during course of audit ***unless all of TCWG are involved in mgt. of entity.***
- ✚ If in Auditor's professional judgment **non-compliance is intentional & material**, auditor should **communicate matter to TCWG as early as possible.**
- ✚ If Management/TCWG **involved** in non-compliance- **communicate to Next higher level of authority** at entity (Audit Committee or Supervisory board).
- ✚ If **no higher authority/** auditor believes **communication may not be acted** upon or is unsure as to person to **whom to report-** **obtain legal advice.**





SA 260(R) -Communicating with TCWG

Management

Personnel responsible to **perform day to day functions** of business & having executive functions like responsibility for making FS. (Executive members of Governance board i.e. Executive Board)

Those charged with governance

Personnel who **supervise performance** of mgt. & responsible for approving FS like Audit Committee

- Personnel having **Responsibilities-**
 - Overseeing **Strategic Directions** of Entity
 - Obligations related to **Accountability** of Entity

Documentation

Oral Communication Matters- When, To Whom & What + Minutes Copy	Written Communication Matter- Copy retained of documents
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	<u>Communication to TCWG</u>	<u>Communication to Shareholders</u>
Apply	SA 260	SA 700,705, 706 & Section 143
Focus	NTE & Scope of Audit	True & Fair View of FS
Public	IR not on Public Domain	ER on Public Domain

Significant Difficulties encountered in Audit Communication to TCWG

1. **Unreasonably brief time** in which to complete Audit.
2. **Significant delays** in management providing information.
3. **Extensive unexpected effort** required to obtain SAAE .
4. **Unwillingness** by mgt to provide info necessary for Auditor to perform Auditor's Procedures.
5. **Unavailability** of Entity Personnel or Expected Info .
6. Mgt **unwillingness** to make/ **extend** its Assessment of entity's ability to continue as Going Concern if requested
7. **Restrictions** imposed on Auditor by mgt

Auditor's Responsibility in Relation to Audit of FS

- To **form & express opinion** on FS prepared by mgt. with Oversight of TCWG.
- (Audit not Relieve Mgt or TCWG of their responsibilities)
- Auditor is required to **communicate certain matters to TCWG.**
- (Due to Low size or Structure, entity **may not have Separate committee** for approval of FS & thereby Mgt. is responsible for same. In that case auditor communicate to Mgt.)

Planned NTE & Scope of Audit
 Auditor to communicate **Overview of Planned Scope & Nature Timing & Extent, approach to Internal Control, application of materiality, extent to which he uses work of internal audit**

Factors affecting Mode of Communication

Size, Operating structure, Control environment & Legal structure of entity.
Whether Discussion of matter will be included in Auditor's report.
Resolution of Matter-satisfactory.
Whether Significant changes in membership of Governing body.
Whether Mgt. has previously communicated matter.
If Audit of Special Purpose FS whether Auditor also audits entity's General-Purpose FS.
Expectations of TCWG & arrangements for periodic meeting or communications with auditor.
Ongoing contact & dialogue auditor has with TCWG.

Auditors Independence

- In Case of **Listed entities** communication required
- A **statement** that ET/network firm have complied -relevant **ethical requirements** regarding **Independence.**
- All relationships & other matters** in Auditor's **professional judgment** may reasonably be thought to bear on Independence.
- Related safeguards** applied to **eliminate identified threats to independence** or reduce them to acceptable level.

Significant Finding

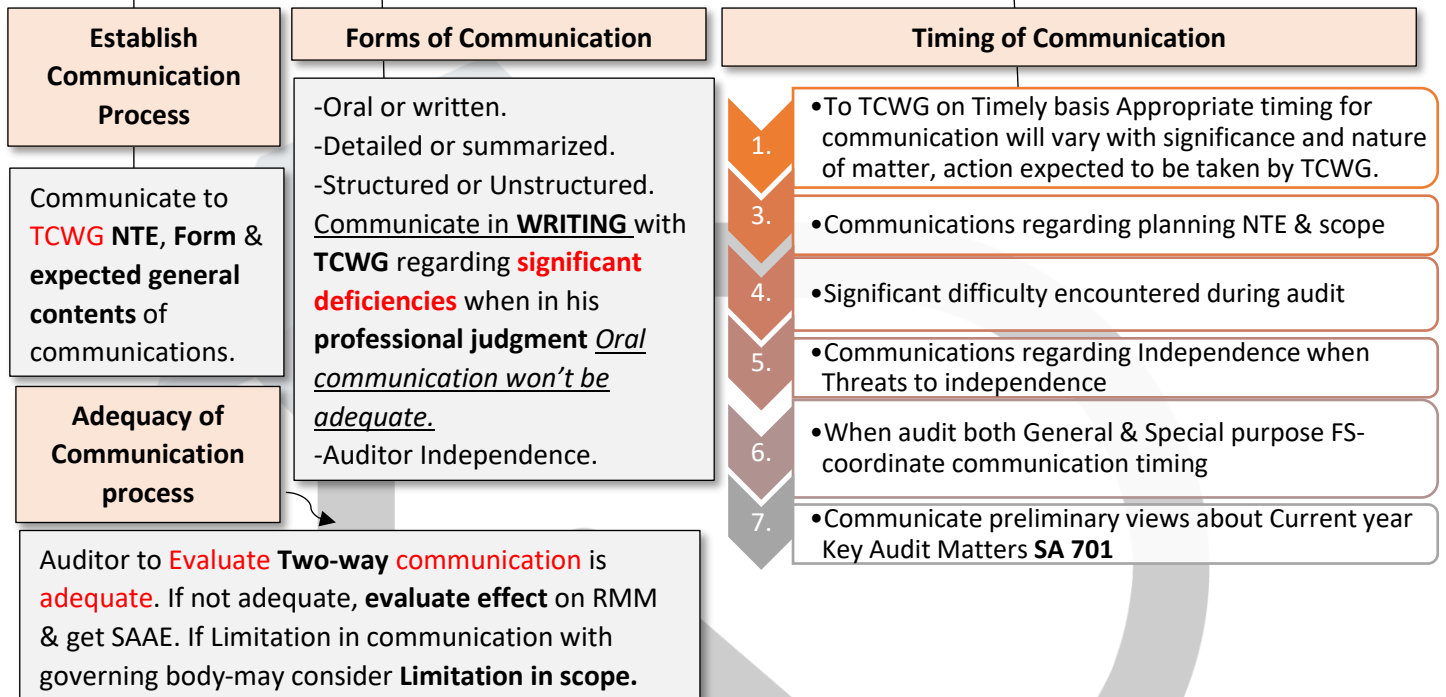
- Auditor view on **Qualitative aspects** of Entity Accounting practices, policies, estimates & disclosures.
- Significant difficulties, encountered.**
- Significant matters** that were discussed/ subject to correspondence with Management.

MATTERS TO BE COMMUNICATED

OTHERS

- ✚ Other **Significant matters** that in Auditor's **professional judgment** are significant to Oversight of Financial Reporting process.
- ✚ **Material weaknesses** in **Design Implementation & Maintenance of Internal Control** come across Auditor's Attention & duly **communicated** to management.
- ✚ Cases that Affect **Form & content** of Auditor's report.
- ✚ **Written representations** Auditor is Requesting.

COMMUNICATION PROCESS



SA 265 -Communicating Deficiencies in Internal Control to TCWG

Auditor's Objective

To communicate appropriately to TCWG and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions.

Deficiency in Internal Control

-A control is **designed, implemented or operated** in such a way that it is **unable to prevent, detect and correct**, misstatements in Financial statements on timely basis. **OR**
 -When **internal control system does not Exist**.

Identification of deficiencies in Internal Control

Significant deficiencies either Individually / combined to judgment of Auditor should be **communicated** to TCWG & **Letter of Weakness** describing such weakness communicated in writing to Management.

To determine whether on the basis of work done **any deficiency** in internal control is **identified**?



Auditor to communicate in Writing on Timely basis

To TCWG

Significant deficiencies in internal control identified

To Management

Significant & Other deficiencies that in auditor's professional judgment are of sufficient importance for **Management's attention**.

It Depends on Occurrence of **Misstatement** & also on **Likelihood to occur** Misstatement (such as-non disclosure of Related Party Transactions or Assets are overstated & Liabilities are understated)

Auditor to determine whether **individually** or in **aggregate**, they constitute **Significant deficiencies**.

Indicators of Significant Deficiencies

- Evidence of **Ineffective Control Environment**- Eg. Mgt. Fraud
- Absence/ Evidence of Ineffective **Risk assessment process** in Entity
- Evidence of **Ineffective response to Significant Identified Risk**
- Evidence of **mgt. inability to Oversee** Preparation of FS
- Misstatements detected** by Auditor not prevented, detected & corrected by Internal Control
- Disclosure of MM due to error or fraud as **prior period items** in current years Statement of P/L.

Content of Written Communication of Significant Deficiencies

Description of deficiencies & Explanation of their potential **effects**.

Sufficient information to enable TCWG & management to **understand Context of communication**.

Auditor to explain- **Purpose** of audit to express an **opinion** on FS

Audit include **consideration of internal control** relevant to **preparation of FS** to design **audit procedures** appropriate in circumstances **BUT not** to express an opinion on **effectiveness of Internal control**.

Matters being reported are **limited** to those **deficiencies** that auditor identified during audit & that Auditor has concluded are of **sufficient importance** to merit being **reported to TCWG**.



SA 299(R) -Responsibility of Joint Auditors

Applicable when > 1 Auditor is appointed to conduct Audit of Large Entity.

Requirements of SA 299

EP & key members of engagement team from each of joint auditors to be **involved** in planning audit.

Joint auditors to **Jointly establish overall audit strategy** that sets Scope, Time & direction of audit.

Identification of **ROM-MS** (Risk of Material Misstatements)

Development of **Audit Plan. SA-300** Apply!

Allocation of work

Division of Work

Joint auditors **divide** the audit work among themselves by **mutual discussion**.

On basis of **Identifiable units or specified areas**.
Such as a- Components of FS i.e. Assets & Liabilities/ Income/ Expense/particular period.

Certain areas of work, due to **importance/nature of the work** involved, would often **not be divided** and would be covered by all the joint auditor.

Division **adequately documented** & **Communicated** to entity.

Coordination

- Auditor **comes across matters** which are **relevant** to the **areas of responsibility** of **Other Joint Auditor**.

-**Communicate** the same to all the other joint auditor **In Writing AND Prior** to the **finalisation of the audit/ Audit Report**.

Responsibility of Joint Auditors

Individual Responsibilities

Determine **NTE of Audit Procedure** to be applied in relation to **areas of work allocated to him**.

Determine appropriateness of **using test checks/sampling**.

Exercise **Professional Judgment** with regards to visit branches/divisions

Study & evaluate **Internal Control** system prevailing & Audit Reports of work allocated to him.

Obtaining Information & explanation.

Joint Auditors Jointly & Severally responsible /Liable for

Work **not divided** & to be carried out together.

Decisions taken by All Auditor's with respect to **NTE of AP**.

Examine that the **FS comply** with **disclosure requirement of Relevant statute**.

Matter brought to **notice** of joint auditor.

Ensure Audit Report **comply** to Laws, Regulations & Statutory **requirements**.

Reporting Responsibility

Normally able to arrive at Single Agreed Report.

In case of **Disagreement**-Each Joint auditor to express his opinion by **Separate Report**.

If Joint Auditor Disagree to Majority Joint Auditors such Joint Auditor is **not bound** by the **views of majority** & can **issue Separate Report**.

To **assume** that other joint auditors have carried out work as per **Generally Accepted Auditing Procedures** so **not necessary** for a Joint Auditor to **review the work of another Joint Auditor**.

ADVANTAGES OF JOINT AUDIT

Pooling & **sharing** of resources.

Everyone has **expertise** in different area.

Advantage of **mutual discussion**.

Better quality & Low Costs of work performance.

Improved services to Client Company.

DISADVANTAGES OF JOINT AUDIT

Fees Sharing.

Lack of clear definition in case of joint responsibility.

Lack of Co-ordination.

Areas of **common concern** being neglected.

Problems when **firms of different standing** are associated.

Rights of Joint Auditors



SA 300- Planning an Audit of Financial Statements

Audit Plan Includes

- ✚ NTE of planned Risk Assessment Procedure, as explained in SA-315.
- ✚ NTE of planned Further Audit Procedure as determined under SA-330.
- ✚ Other planned AP to be carried so that engagement complies with SAs.
- ✚ NTE of direction & supervision of ET members & review of their work.

Features of Audit Planning

- ✚ **Planning as continuous process-** *Planning is **Not a Discrete** Phase but rather a continual & iterative process.*
- ✚ Begins after previous audit completion & end on current Audit Planning.
- ✚ Planning includes considering prior to Auditor's identification & assessment of RMM misstatement matters: Perform
 1. Risk assessment procedures (RAP).
 2. Analytical Procedure.
 3. Determine Materiality.
 4. Obtain Good Understanding of Legal & Regulatory framework.
 5. Involve Experts.

AUDIT PLANNING INCLUDES:

Audit Program

Audit Plan

Audit Strategy

Audit Procedure

(Audit Planning essential to plan in advance to complete audit in timely & efficient manner)

Involvement of Key ET Members

Senior Partner, ET leader of Audit ET & other Key members.

Preliminary Engagement Activities (ETC)

- ✚ **E** = Evaluating compliance with ethical requirements, including Independence **SA 220**.
- ✚ **T** = Understanding of Terms of Engagements as required by **SA 210**.
- ✚ **C** = Perform procedures in **SA 220** regarding continuance of client relationship & specific audit engagement.

Establish Overall Audit Strategy

- ✚ Identify Characteristics of Engagement
- ✚ Ascertain Reporting Objectives, Timing of Audit & Nature of required communication.
- ✚ Factors that are significant in direction of team.
- ✚ Consider result of Preliminary Engagement Activities.
- ✚ Ascertain NTE of resources.

Audit Strategy is Backbone of "Audit Planning".
Process/Steps Involved in formulation of Audit Strategy

- ✚ Obtaining Understanding of entity's business **SA 315,330**
- ✚ Performing Analytical Procedures.
- ✚ Evaluating Inherent Risk.
- ✚ Evaluating Internal Control.

BENEFITS OF AUDIT PLANNING

- FOCUS**-To devote appropriate attention to important areas.
- PRE-EMPT PROBLEMS**-Identify & resolve potential problems.
- EFFECTIVENESS & EFFICIENCY**-Properly Manage & Organize Audit
- TEAM SELECTION**-Selection of capable Engagement Team.
- DIRECTION, SUPERVISION & REVIEW**-to Engagement Team.
- WORK OF OTHERS**- Coordination of Work.

Planning Activities

Establish Overall Audit Strategy

Development of Audit Plan

- ✚ Terms of Engagement.
- ✚ Professional Responsibility.
- ✚ Legal & Statutory Requirements & Reporting Responsibility & Objectives.
- ✚ Degree of reliance on accounting system & IC.
- ✚ Possible rotation of emphasis on specific audit areas.
- ✚ Coordination in Staff Needs & allocation of Work.
- ✚ Work of Internal Auditor & Existence of Reliance.
- ✚ Significant Matters & areas requiring Special Attention.
- ✚ How Fix Assets shall be verified?
- ✚ Methods of Physical verification of Cash & Investment.
- ✚ Identify benchmarks in relation to which Actual results of Activities, Time Spent & Cost incurred to be measured.
- ✚ Effect of New Accounting Pronouncements.
- ✚ Accounting Policies adopted & changes.
- ✚ Nature, Mode & Time of Communication.
- ✚ Setting Materiality Level.
- ✚ NTE of audit evidence to be obtained.
- ✚ Involvement of other auditors & Experts.
- ✚ How Inventory will be witnessed?
- ✚ Manner of Verifying Scrap records.

Relationship in Overall Audit Strategy & Audit Plan

- Audit strategy provides **guidelines** for developing audit plan. Establishes Scope & conduct of Audit Procedure, works as basis for developing a detailed audit plan.
- Audit plan would include **Nature Timing & Extent of Audit Procedure to obtain SAAE**.
- Audit strategy is prepared before Audit Plan**.
- Audit plan contains **more details** than overall Audit Strategy.
- Audit strategy & audit plan are **inter-related** as change in one would result into change in other.

CHANGES TO PLANNING DECISION



- Update changes.
- Auditor may change audit plan/ strategy during performance of Audit engagement due to
 - Unexpected events** or Change in conditions
 - New Audit Evidence obtained** from result of Additional /Alternative Audit Procedure.
- Based on **Revised/ Modified Assessment of Risks** due to Modified Strategy & Plan, auditor to change Nature Timing & Extent of Audit Procedures.
- Documentation** -Audit Plan + Audit Strategy + Changes + Reasons for changes.

General Factors to be considered in formulating Audit Strategy of Company

- Engagement **objectives**.
- Identified **inherent risks** considering risk of fraud.
- Results** of business review.
- Broad **Nature Timing & Extent of substantive tests**.
- Degree** to which Team should carry out **further assessment** of controls to reduce substantive testing.
- Planning & controlling** Audit /comments on Adequacy of existing arrangements.

Specific Factors

FACTORS IN RELATION TO AUDIT STRATEGY FORMULATION

- Nature** of Transactions significant to Financial Statements (FS).
- Procedures in both Information Technology & Manual systems by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in Financial statements.
- System by which **Info system captures events & conditions** (other than transactions significant to Financial statements).
- Controls used to **record non-recurring, unusual transactions or adjustments**.





SA 315 – IDENTIFYING & ASSESSING RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

Auditors Responsibility

- Identify & assess Risk of Material Misstatement due to Fraud or Error at FS & Assertion Levels.
- Understand entity & its environment & Understand entity Internal control.
- Design & implement responses to assesses Risk of Material Misstatement (ROM-MS)

IDENTIFYING & ASSESSING ROM-MS

AT FINANCIAL STATEMENTS LEVEL

ROMM AT ASSERTION LEVEL

- Risk relate **pervasively to FS as a whole** & potentially affect many assertions.
- Risk may derive in particular from **deficient control environment** i.e. deficiencies such as lack of Mgt. competence may have a more pervasive effect on FS.
- Auditors **understanding** of Internal Control may raise doubt over audit of FS-
 - Concern about **Integrity** of Entity's management.
 - Concern about **condition & reliability** of Entity's Records.

ROM-MS at Assertion level for classes of T-AB-D need to be considered as it **directly assists** in determining **NTE of FAP** to obtain SAAE.

Required Understanding of Entity & its Environment

- Industry, regulatory, economic & other **external factors**.
- Applicable **FRF & Internal Control System**.
- Nature** of entity- helps in understanding-
 - Business operations.
 - Ownership & related parties and governance structures.
 - Investments activities-Entity makes & plans of investment in special-purpose entities.
 - Way entity structured & how financing done to enable auditor understand transactions, account balances & disclosures (T-AB-D) to be expected in FS.
- Entity's **selection and application of accounting policies** & reasons to change them.
- Entity's **objectives & strategies** & **business risks** that may result in ROM-MS.
- Measurement and review of the entity's **financial performance**.

RAP in Assessing ROM-MS due to Fraud

- Understanding Entities business.
- Enquiries- Mgt.
- Enquiries with Internal Auditor.
- Result of Auditor's Analytical Procedures.

AUDIT DOCUMENTATION

- Discussion in ET &** significant decision reached
- Key **elements** of understanding obtained on aspects of entity & its environment **sources** of info from which understanding was obtained & RAP.
- Identified & assessed ROMM** at FS level & Assertion level.
- Risks identified & related controls** about which auditor obtained understanding.

TRANSACTIONS

- **Occurrence**.
- **Completeness**.
- **Accuracy**-precise.
- **Cut off** -recorded in correct period.
- **Classification**- transactions properly classified to Capital & Revenue.

ASSERTIONS

- **ACCOUNT BALANCE**
 - **Existence**- A&L shown in B/S actually exists
 - **Right & obligations**- Rights shown as Assets & obligations as Liability
 - **Completeness**
 - **Valuation & Allocation**- A&L in FS at correct value.

PRESENTATION & DISCLOSURES

- **Occurrence**
- **Rights & Obligations**
- **Completeness**
- **Disclosures** in FS completely
- **Classification & Understandability** -FS presented/disclosures appropriately
- **Accuracy & Valuation**.

INTERNAL CONTROL

Process **Designed, Implemented & Maintained** by management & TCWG to provide **Reasonable Assurance** about achievement of entity's objective of:

- **Reliability** of financial reporting.
- **Effectiveness & Efficiency** of operation.
- **Safeguarding** of Assets.
- **Compliance** with laws and regulation.

OBJECTIVES OF IC

- Properly **authorized** transactions.
- Reliable **financial reporting**.
- **Assets safeguarded** against unauthorized use/ disposal or access.
- Framework Based Application of Accounting **Policies & Practices**.
- Recorded **assets tally to physical existence** at Regular intervals & action on differences.

LIMITATIONS OF INTERNAL CONTROL

- ✚ **Cost** of Internal Control not > Expected benefits to be derived.
- ✚ Judgment as to **nature** & extent of risk assumed.
- ✚ **Faulty human judgment**-error by carelessness, distraction, mistakes & misunderstand instructions.
- ✚ **Collusion** among employees or with parties outside entity.
- ✚ Person responsible to exercise Internal Control **abuse responsibility**.
- ✚ Mgt. **override of control**.

Specific Risk to Entity's Internal Control posed by IT System

- ✚ **Unauthorized access to data** resulting in destruction of data or improper changes to data.
- ✚ **Possibility of Information Technology personnel gaining access beyond those necessary** to perform their assigned duties thereby breaking down segregation of duties.
- ✚ **Unauthorized changes** to data in Master files.
- ✚ Inappropriate **manual intervention**.
- ✚ **Failure** to make necessary changes to systems/ programs.
- ✚ **Unauthorized change to system/ program**.
- ✚ **Reliance on systems/ programs inaccurately processing data** or processing **inaccurate** data.
- ✚ **Unauthorized** or non-existent **transactions/** inaccurate recording of transactions.
- ✚ **Potential loss of data** or inability to access data as required.

Internal Control objectives for Accounting Control System

- ✚ Whether all transactions are -
- ✚ **RECORDED.**
- ✚ **REAL.**
- ✚ **PROPERLY VALUED**
- ✚ **RECORDED TIMELY.**
- ✚ **PROPERLY POSTED.**
- ✚ **PROPERLY CLASSIFIED AND DISCLOSED.**
- ✚ **PROPERLY SUMMARIZED.**

Areas Examined for deficiencies & Risk Identification in CIS Environment (Causes of ROM-MS at CIS Environment)

- ✚ Program developed & maintenance has some **defect** since inception.
- ✚ System **software** support is **improper**.
- ✚ Operations including **processing** of data are **not regulated** and ungoverned.
- ✚ Physical CIS security may be lacking.
- ✚ Control over access to specialized utility program is improper. *(These deficiencies would tend to have negative impact on all application systems processed through computer)*

Controls objectives for Internal Control not in use throughout Audit period covered

- ✚ Adherence to company's **policies**.
- ✚ **Safeguarding** of its assets.
- ✚ **Prevent Detect & Correct** frauds and errors & Risk Assessment Procedure.
- ✚ **Timely preparation** financial info.
- ✚ Supervisory and **Physical controls**.
- ✚ **Compliance** with applicable Laws & Regulations.
- ✚ Ensure **segregation of duties**.
- ✚ **Effectiveness and efficiency** of its operation.
- ✚ **Authorised** transactions.
- ✚ **Monitoring** of accounting/financial controls.
- ✚ **Systematic Information Processing**.
- ✚ **Accuracy & completeness** of the accounting records.
- ✚ **Changes occurred** in the accounting & Internal Control systems.
- ✚ **NTE of Substantive Audit Procedures**.
- ✚ **Nature & amount** of the transactions & other events & the balance involved.

CAUSES OF RISKS

- ✚ **Changes** in operating environment.
- ✚ New **personnel**.
- ✚ New **technology**.
- ✚ New or revamped **Information Technology**.
- ✚ Rapid **growth** of operations.
- ✚ New **business models**, products, or activities.
- ✚ Corporate **restructurings**.
- ✚ **Expanded foreign operations** like additional changed risks from foreign currency transaction.
- ✚ **Adopting New/** Changing accounting principles.



Components of Internal Control

Control Activities-obtain understanding-

1. **Authorization**.
2. Performance **reviews**.
3. Information **processing**.
4. Safeguarding & **Asset** accountability.
5. **Segregation** of duties.

Monitoring of Controls-

To **assess** the **effectiveness** of **controls** on a timely basis & taking **necessary remedial actions**. (SA-220)

Control Environment (CE)-*Understanding CE, whether mgt. with TCWG has created & maintained **Culture of honesty & ethical behaviour***. Elements-

1. **Communication** and enforcement of **integrity & ethical values**.
2. **Commitment** to **Competence** & Skills to accomplish tasks defining individual's job.
3. **Participation** by TCWG.
4. **Management's philosophy** and **operating style**.
5. Organizational **structure**.
6. Assignment of **authority and responsibility**.
7. **Human resource** policies and practices.

Information System-

1. Initiate, Record, Process & Report Entity Transactions. (IPR)
2. **Resolve** Incorrect Processing of Transactions.
3. Process & A/c **system overrides** or **bypasses** to **controls**.
4. Captures **info.** relevant to **Financial Reporting (FR)**.
5. **Transfer info.** from **transaction Processing System** to **general ledger**.
6. Ensure **info.** required to be **disclosed** by **applicable FRF**.
7. Captures **info.** relevant to **FR**.

Entity Risk Assessment Procedure & Process-AP performed to **understand Entity & its environment & Internal Control** to identify & assess **ROM-MS** due to **Fraud/ Error** at **Financial Statements & Assertion Levels**.

Risk Assessment Process-

1. **Identify Risks**.
2. Assess & **Evaluate** Identified **Risks**.
3. Relate identified **risks** to what **can go wrong at Assertion Level**-consider relevant controls & relate them to assertions.
4. **Likelihood** of **Misstatement** & magnitude.

Components of Risk Assessment Procedures-

1. **Enquiries of management** & TCWG who can assist in identifying ROM-MS.
2. **Observation and Inspection**.
3. **Enquiry of others**.
4. **Analytical Procedures** (SA-520)

Risks that require Special Audit Consideration-

1. Risk of **Fraud**.
2. Risk of **economic**, accounting/**other changes**.
3. Risk involved in **complex transactions**.
4. Significant transactions with **related parties**.
5. Risk involved **significant unusual transaction**.





SA 320- Materiality in Planning & Performing an Audit

MATERIALITY

- ✚ Auditor considers materiality from point of view of Overall financial info. & individual a/c balances.
- ✚ Concept of Materiality is applied in-
 - ❖ Planning & performing an audit. **SA-300**
 - ❖ Evaluation of Audit Evidence.
 - ❖ Reporting while drawing conclusions.

Auditors Assessment of Materiality- Consider Aggregate of all Uncorrected Misstatements & Estimates

Requirement of Standard

1. While establishing Overall Audit Strategy to consider **Materiality for Financial Statements as a whole**.
2. If **Effect of Aggregate UNCORRECTED misstatements** on Financial Info. is **MATERIAL**.
3. **Qualitative considerations** also influence Auditor to reach conclusion whether misstatements are material.

Aggregate of Uncorrected Misstatements

1. Specific Misstatements identified by Auditor including net effect of **UNCORRECTED MISSTATEMENT** identified during audit of **previous periods**.
2. Auditor's best estimate of **other misstatement** which can't be specifically identified i.e. Projected errors.
 - a) **Analytical procedures** employed by Auditor may give him some indication of existence of misstatements, which can be **further substantiated** by him through estimates process.
 - b) When Auditor uses audit sampling to test an Account Balance-Transaction, he projects amount of known misstatements identified by him in his sample which are **Projected misstatement**.

Impact of Misstatements

1. If Aggregate of **UNCORRECTED MATERIAL MISTATEMENT** that auditor identified approaches materiality level /causes financial info to be **materially misstated** then Consider **Requesting Mgt.** to adjust financial info /extending his audit procedures.
2. Mgt. may Adjust Financial Info for known misstatements.
3. **Mgt. refuses** to adjust Financial info & results of extended audit procedures **do not enable auditor to conclude UNCORRECTED MATERIAL MISTATEMENT is not material** the Auditor shall express a **Qualified or Adverse opinion**.

PERFORMANCE MATERIALITY

- ✚ The amount set by the auditor **at less than materiality** for Financial Statements as a whole.
- ✚ To **reduce** to an appropriately **low level** the probability.
- ✚ Aggregate of **uncorrected** and **undetected** misstatements **< materiality** for the Financial Statements as a whole.

Revision/ Re-evaluation of Materiality Levels

- ✚ Auditor can **revise** materiality level based on **progress of Audit**.
- ✚ If misstatements **found- reduce materiality level** to cover more items.
- ✚ whether **Nature Timing & Extent of Further Audit Procedures** will remain **appropriate**.
- ✚ If Auditor gets additional info.
- ✚ Like-New requirement under Law/ Regulations/ FRF / Entity has made major decision to dispose of major part of entity's business.
- ✚ If **materiality is more**, auditor to perform **more Audit Procedures** & reduce overall Audit risk.
- ✚ Auditor may decide to **evaluate misstatements** even if it is **less than materiality level set by him**.

Factors affecting Identification of Benchmark in Determining Materiality for FS as a Whole (FAVEee)

- ✚ **Elements of the Financial Statements**. Like Asset, Liability, Income or Expense.
- ✚ Whether there are items on which **Attention of users** of particular entity's Financial Statements tends to be focused (For evaluating financial performance users may focus on profit, revenue/net assets).
- ✚ Relative **volatility of benchmark**.
- ✚ **Entity's Ownership Structure** & way it is financed (Like if entity is financed solely by debt rather than equity, users may put emphasis on Assets & claims on them rather entity's earnings).
- ✚ **Nature of Entity**, Life cycle and industry & **Economic environment** in which entity operates.



SA 330 – The Auditor’s Responses to Assessed Risks

Overall Responses to address the Assessed ROMM At F.S. Level

- ✚ Emphasizing to maintain **Professional Skepticism**.
- ✚ Assigning more **experienced staff**
- ✚ Providing more **supervision**.
- ✚ Incorporating additional elements of **unpredictability** in the selection of Further audit procedures.
- ✚ Making **changes** to **NTE** of audit procedures.

Overall response to address the Assessed Risk of ineffective control environment

- ✚ Conducting more **Audit procedures at Year End**.
- ✚ Obtaining **more extensive audit evidence** from substantive audit procedures.
- ✚ Increasing the **no. of locations** to be included in audit scope.

Audit Procedures Responsive to assessed ROM-MS-at Assertion Level

- ❖ Auditor shall **design and perform Further Audit Procedures** whose Nature Timing & Extent are based on & are responsive to the assessed ROMM at the assertion level.
- ❖ In **designing Further Audit Procedure(FAP)** to be performed, auditor shall-
 - ✓ Consider **reasons** for assessment given to ROM-MS at assertion level for each T-AB-D.
 - ✓ Obtain **more persuasive audit evidence** the higher auditor’s assessment of risk.

SUBSTANTIVE PROCEDURES

- Auditor procedure designed to detect material misstatements at assertion level which includes-
 - ❖ **Tests of details** (of classes of transactions, account balances & disclosures).
 - ❖ Substantive **Analytical Procedures**.
 - ❖ Financial Statements **Closing Process**
 - ✓ Financial Statements with **underlying accounting records**
 - ✓ **Examining material journal entries & other adjustments** made during preparing Financial Statements.
 - ❖ Specifically **responsive** to Significant Risks.
 - ❖ External **Confirmations**.
- Irrespective of assessed risk of Misstatement, he shall design & perform substantive procedures for each material class of Transactions-Account Balance & Disclosures.
- When substantive audit procedures are applied for **interim period**, auditor shall cover remaining period by appropriate procedures.

EVALUATING THE SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE

- ✓ Whether **Sufficient & Appropriate Audit Evidence** -obtained?
- ✓ If **not obtained Sufficient & Appropriate Audit Evidence** as to a material Financial statements assertion, he shall attempt to obtain further audit evidence.
- ✓ **Unable** to obtain **Sufficient & Appropriate Audit Evidence** -Express a **Qualified/Disclaimer** of opinion.

FACTORS THAT MAY RE- WARRANT TEST OF CONTROLS

- ✚ Deficient other elements of internal control, including the **control environment**.
- ✚ Deficient **Monitoring of control**.
- ✚ Significant **Manual Element** to relevant Controls
- ✚ **Changing circumstances** that indicate need for change in controls
- ✚ **Personnel** changes.
- ✚ Deficient **General Information Technology controls**.

TEST OF CONTROLS (TOC)

- Perform **TOC** when
 - ❖ Auditor’s assessment includes expectation that controls are **operating effectively**.
 - ❖ **Substantive procedures** alone **cannot provide Sufficient & Appropriate Audit Evidence**
- ✚ Nature & Extent of TOC-
 - ❖ Perform **other Audit Procedures** in combination with inquiry to obtain **Audit Evidence** about the operating effectiveness of the controls which includes-
 - ✓ How the controls were applied at relevant times
 - ✓ Consistency with which they were applied
 - ✓ By whom or by what means.
- ✚ Timing-particular time, or throughout the period.
- ✚ If **control risk is high**, perform **more TOC**.
- ✚ Communicate material weakness in Internal Control to TCWG.

Substantive Procedures Performed to Assess Risk of Material Misstatement

Test of Details (TOD)

- ✓ **Nature** of risk & assertion is relevant to design of Test of details.
- ✓ Test of details for **Existence/Occurrence assertion** may involve selecting from **items contained in Financial Statements** amount & obtaining relevant Audit Evidence.
- ✓ Test of details related to **completeness assertion** may involve selecting from **items that are expected to be included in relevant Financial Statements** amount & investigating whether they are included.
- ✓ In designing Test of details, extent of testing is ordinarily thought of in terms of **sample size**.

Substantive Analytical Procedure (SAP)

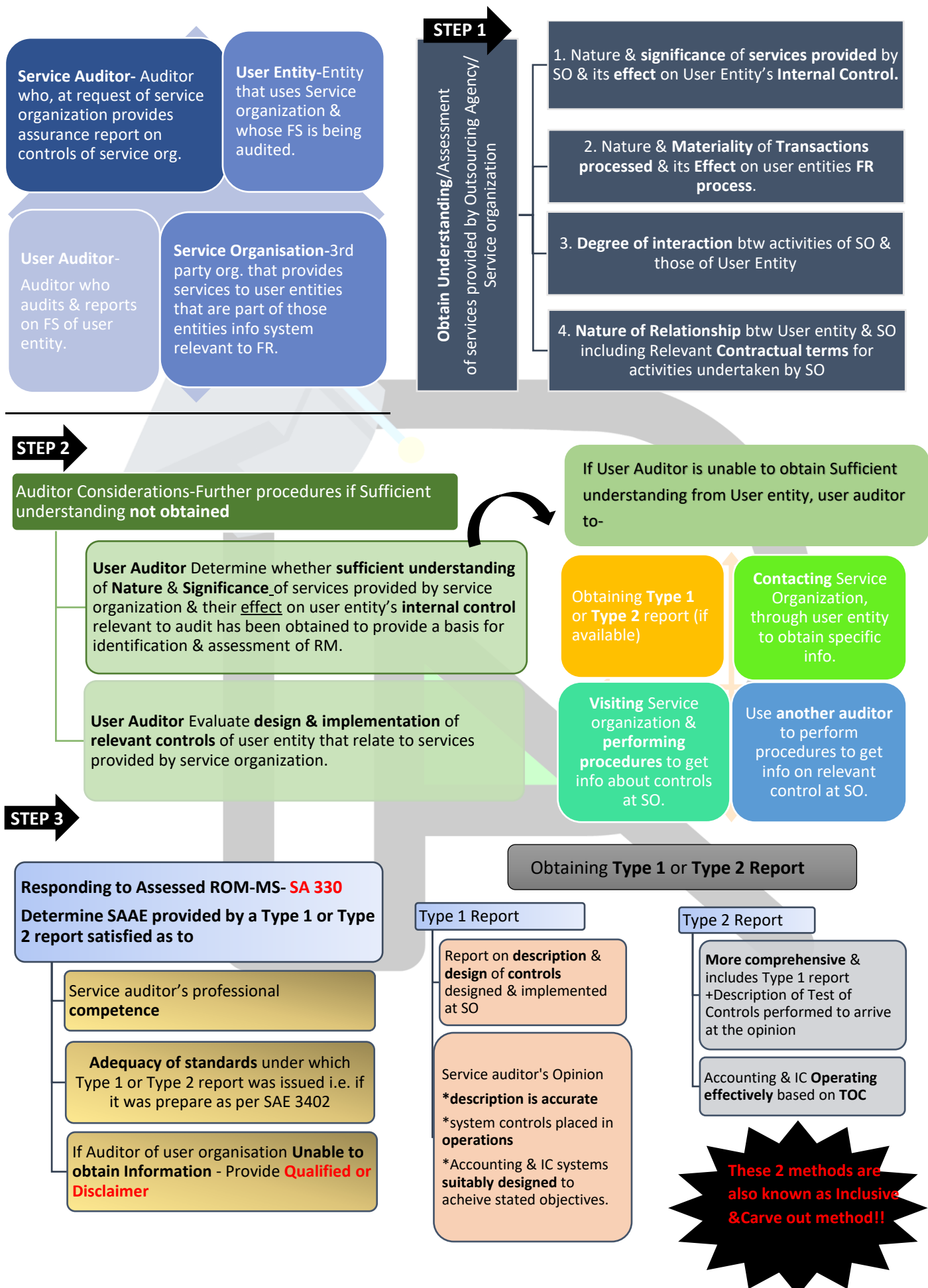
- ✓ Applies to **Large Volumes of transactions** that are predictable over time.
- ✓ Planned analytical procedure's application is **based on expectation that relationships among data exist** & continue in absence of known conditions to contrary.
- ✓ Suitability of particular analytical procedure **depends** on Auditor's assessment of how effective it will be in **detecting misstatement** that, individually / aggregated with other misstatements may cause Financial Statements to be Materially Misstated.
- ✓ **Trade ratios** like Profit margins-used effectively in substantive analytical procedures to provide evidence to **support reasonableness** of recorded amount.

In Certain circumstances Auditor to Determine

- ✓ Whether only substantive analytical procedures will be **sufficient** to reduce Audit Risk to acceptably low level, **OR**
- ✓ Only Test of details are appropriate, **OR**
- ✓ **Combination** of substantive analytical procedures & Test of details is Responsive to Assessed risks.



SA 402(R) - Audit considerations relating to Entity using Service Organization



Obtain Information on Controls at Sub-Service Organization

1. If Service org. uses Sub-SO, **service auditor's report** may either **include or exclude** subservice org. relevant **control objectives & related controls** in SO's description of its system & in scope of service auditor's engagement.
2. If **Type 1 or Type 2 report excludes control at Sub service organization** & services provided by sub- service organization are **relevant** to audit of user entity's FS, User auditor is required to apply requirements of **SA 402** for sub- service org.
3. **NTE** of work performed by User auditor of services provided by sub-service organization depend on **nature & significance** of services to user entity & **relevance** of services to audit.

STEP 4

Reporting by the User Auditor

The user auditor shall modify the opinion if

Reference to the work of SO

The user auditor is **unable** to **obtain SAAE** regarding the services provided by SO **relevant** to the audit of the user entity's F.S.

1. The user auditor shall not refer to the work of a SO in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so.
2. Reference does not diminish the user auditor's responsibility for the audit opinion.
3. If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, such reference does not diminish the user auditor's responsibility for that opinion.





SA 450 -Evaluation of Misstatements identified during Audit

Auditors objective

Misstatement

To evaluate-The effect of **identified misstatements** on the audit, &
-The effect of **uncorrected misstatements**, if anv, on the FS.

It is difference between

- The amounts, classification, presentation or disclosure of a reported F.S.
 - The Amounts, classification, presentation or disclosure that is required for the item to be reported in accordance with the applicable FRF.
- Misstatement can arise from error or fraud.

SOURCES OF MISSTATEMENT (COPE)

1. **Inaccuracy** in Collecting/ processing data from which FS are prepared.
2. **Omission** of Amount or Disclosure
3. **Selection & application of accounting Policies** that Auditor considers **inappropriate**.
4. Accounting Estimates-
-**Judgments** of mgt. concerning accounting estimates that Auditor considers **unreasonable**.
-**Incorrect accounting Estimate** arising from overlooking/ clear misinterpretation of facts.

STEP 1

Accumulation of identified Material misstatement before communication To Mgt.

1. Auditor to collect Material misstatement **other than clearly trivial** (absolutely immaterial).
2. Distinguish Between-
 - Factual** misstatement- No Doubt
 - judgmental** misstatement- inappropriate estimates/judgments
 - projected** misstatement- identified in sample.

STEP 2

Evaluating effect of identified MMS on Audit

Is there need to revise **OVERALL AUDIT STRATEGY & AUDIT PLAN** if-

- ✚ The Aggregate misstatements accumulated approaches materiality level as per **SA- 320**.
- ✚ Aggregated misstatements accumulated during the audit with **UNDETECTED** misstatement could be **MATERIAL**.

Request from Management-

- ✚ **Examine** a class of Transaction-Account Balance-Disclosure to **understand** cause of **MISSTATEMENT identified** &
- ✚ **Perform procedures** to determine-**ACTUAL MISSTATEMENT**.
- ✚ Make **appropriate assumptions** to the Financial Statement.

STEP 3

Communication & correction of Misstatement

1. Communicate on Timely basis- ALL MS with appropriate level of Mgt.
2. Auditor shall **request mgt. to correct**.

If Management Corrects MS

YES

Perform additional procedures to determine if other MMS remains.

NO

Consider reasons & effect on Audit Report

Evaluating the Effect of Uncorrected Misstatement

- ✚ Reassess materiality as per **SA-320**.
- ✚ Evaluate **UNCORRECTED MISSTATEMENT** are **MATERIAL** (Individually/Aggregated) considering-
 - Size & nature** of misstatement to particular Transaction-Account Balance-Disclosure, whole & particular cases of occurrence.
 - Effect** of Uncorrected misstatement in **prior periods**.
 - Communicate TCWG** & request to correct.

Circumstances leading the auditor to evaluate misstatement are MATERIAL even they are lower than Materiality Level

- ✚ **Affects compliance** with regulatory requirements.
- ✚ Compliance with **debt covenant**.
- ✚ Change in earning or trends.
- ✚ **Incorrect selection** of accounting policies.
- ✚ Affects Ratios.
- ✚ Increasing MGT compensation.
- ✚ Related party transactions.

Written Representation from Mgt./TCWG where appropriate-

- ✚ Believing that effect of **uncorrected misstatements are immaterial**
- ✚ **Summary** of such items.
- ✚ Disputes.



SA 500 -AUDIT EVIDENCE

Info. used by auditor to arrive at conclusions to base opinion & includes-

- + Info. contained in accounting records underlying FS.
- + Other Info. (Auditor should obtain SAAE as per SA 200 read with SA 500.)

AUDIT PROCEDURE TO OBTAIN SAAE

- + Risk Assessment Procedure (SA 315)
- + Further Audit Procedure (SA 330)-
 - Test of controls (Compliance procedures) (TOC)
 - Substantive procedures (SAP)-
 - ❖ Test of details.
 - ❖ Substantive analytical procedures

Sufficiency- The Measure of **Quantity** of AE affected by-

- + Assessment of ROMM &
- + by **quality** of AE.

Appropriateness- The measure of **Quality** of AE i.e.,

- + **Relevance & reliability** in providing conclusions to base opinion.

Reliability of AE

- + **Independent Sources-** Obtained from outside the entity.
- + **Directly obtained-** more reliable than obtained indirectly.
- + **Effective Internal control** system is there in entity.
- + **Original documents-**more reliable than mere photocopies.
- + **Written documents-** more reliable than Oral.

Test of Controls

Substantive Procedures

- + Whether **internal control system** *designed & operating effectively.*
- + Evaluate operating effectiveness of internal controls *at assertion level.*
- + Performs AP to obtain AE regarding **adequacy of IC.**
- + After performing TOC, if auditor finds controls are Inadequate/ absent communicate same to TCWG (SA-265).

- + Designed to **detect MMs** at assertion level.
- + Includes- TOD & Substantive analytical procedures (SA-520).
- + Substantive Tests conducted in **areas not subject to internal controls** & hence includes judgments.

- + **Inspection-**
 - ❖ **Examine** records or doc (Internal / External) in Paper/ E-form/another media/ **physical Examine** Asset.
 - ❖ **Provide AE** of varying degrees of reliability depending on nature, source & Effectiveness of controls over their production.
 - ❖ **Example** of Inspection used as a **TOC** is Inspection of records for evidence of **authorization.**
 - Some **docs** represent **direct AE of existence of Asset** like a doc constituting FI like Stock /Bond.
 - Inspection of such **doc** may **not necessarily provide AE about ownership / value.**
 - Inspecting **executed contract** may provide AE relevant to entity's **application of a/c policies**, such as revenue recognition.
 - Inspection of **Tangible assets** may provide reliable AE with respect to their **existence** not necessarily about entity's R&O / Valuation.
 - Inspection of **Individual Inventory** items to accompany **observation** of inventory count.

METHODS TO OBTAIN AUDIT EVIDENCE- RAP IN2 RECO

- + **Recalculation –**
 - ❖ Checking the **arithmetical accuracy** of documents or records.
 - ❖ May be performed manually or electronically.
- + **Analytical Procedure-**
 - ❖ **Evaluations of financial info** made by **Study** of plausible **relationships** in financial & non- financial data.
 - ❖ **Encompass Investigation** of identified fluctuations & relationships inconsistent with other relevant info /deviate significantly from predicted amounts.
- + **Inquiry-**
 - ❖ **Seeking info** of knowledgeable persons of
 - Financial & non- financial.
 - within or outside entity.
 - ❖ Used **extensively** in addition to other Audit Procedures.
 - ❖ May range from formal **written inquiries** to informal **oral inquiries.**
 - ❖ **Evaluating responses** to inquiries is an integral part of Inquiry process.
- + **Inspection**
- + **Reperformance-** Auditor's Independent **execution of procedures** originally performed as part of entity's Internal Control.
- + **External Confirmation-** Audit Evidence obtained by auditor as written **response** from 3rd party.
- + **Observation-**
 - ❖ **Looking at Process or Procedure** being performed by others (auditor's observation of inventory counting by entity's personnel / performance of control activities).
 - ❖ Provides Audit Evidence about performance of process /procedure, but **limited to point of time** at which observation takes place.
 - ❖ It may affect how process / procedure is performed.

Evaluate Work of Mgt. / Outside Expert

Obtain Understanding of Work of Expert

Evaluate CCO of Expert

- ❖ **C = Competence** -Nature & level of Expertise
- ❖ **C = Capability**-Ability to exercise competence
- ❖ **O = Objectivity**-Personal effect of not being biased & no conflict of interest

SOURCES OF INFO REAGRNDING CCO & OBJECTIVITY OF MGT. EXPERT

- ✚ **Personal experience** with previous work of that expert.
- ✚ **Discussions** with that expert.
- ✚ **Discussions** with others who are familiar with that expert's work.
- ✚ **Knowledge** of expert's qualifications.
- ✚ **Published papers**/ books written by Expert.
- ✚ **Auditor's expert** if any who assist auditor.

Aspects of Mgt. expert's field relevant to auditor's understanding may include -

- ❖ Whether any **PROFESSIONAL & OTHER STANDARDS** apply.
- ❖ Whether that expert's field has **AREA OF SPECIALITY** that are relevant to audit.
- ❖ What **ASSUMPTIONS & METHODS** are used by Mgt. expert & whether they are generally *accepted* in that expert's field & *appropriate* for Financial Repeating purposes.
- ❖ **NATURE** of Internal & External **SOURCE DATA** he uses.

Evaluate Appropriateness of Expert's work

- ❖ **SOURCES**- If expert's work involves *significant use of source data*, relevance, completeness & accuracy of that source data.
- ❖ **ASSUMPTIONS**- If expert's work involves *use of significant assumptions* & methods, relevance & reasonableness of such methods.
- ❖ **FINDINGS**- *Relevance & reasonableness* of that *expert's findings* or conclusions, their consistency with other Audit Evidence & whether they have been appropriately reflected in FS.





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

INVENTORY

Auditor to obtain SAAE of existence & condition of inventory when inventory is material to FS.

Attending Physical inventory Count

AP on Final Inventory Records

ATTENDING PHYSICAL COUNT NOT PRACTICABLE/ IMPOSSIBLE

- Obtain SAAE as to **EXISTENCE & CONDITION** by-
- ATTEND Physical INVENTORY COUNTING-
 - ✚ Evaluate Mgt. instructions & procedures for recording & controlling results of entity's physical counting.
 - ✚ Observe performance of Mgt. count procedures.
 - ✚ Inspect Inventory.
 - ✚ Perform Test Counts.

- ✚ **CROSS CHECK** - Comparing entity's final inventory records with actual inventory counts & whether they are accurate.
- ✚ **Inspecting inventory** when attending physical inventory counting assists auditor in
 - Ascertaining **EXISTENCE** of Inventory not its ownership &
 - **Identifying obsolete, damaged/ageing** inventory.

Impracticable-due to factors such as Nature & Location of Inventory like Inventory held in location that may pose threats to safety of Auditor.

- ✚ Perform **Alternative audit procedures** -like Inspection of documentation of subsequent sale of specific inventory items acquired/ purchased prior to physical inventory count To obtain Sufficient Appropriate Audit Evidence regarding existence & condition of inventory.

- ✚ **Not possible** to perform audit procedures -**MODIFY OPINION-** *If by performing alternative AP no Sufficient Appropriate Audit Evidence obtained regarding existence & condition of Inventory (SA 705).* (DUE TO LIMITATION)

Unable to attend- due to unforeseen circumstances.

- ✚ **Perform physical counts** on **ALTERNATE DATE** & Perform **Alternate audit procedures** including:
 - Reconcile changes in inventory between date of physical count & period end date.
 - Observe treatment given for discrepancies observed.
 - Ensure appropriate cut off procedures followed or not.
 - Obtain Written Representation.

Inventory under custody and control of Third Party

- ✚ **Obtain SAAE** by performing the following:
 - (a) **Request confirmation** from third party.
 - (b) **Perform Inspection**/other audit procedure.

LITIGATIONS & CLAIMS

- ✚ **Design & perform Audit Procedures-** To identify Litigations & claims by obtaining SAAE of its existence by:
 1. **Inquiry from Mgt.**
 2. **Review minutes** of meeting of TCWG & correspondence in entity & external counsel.
 3. **Review legal expense** account.

Includes: Obtain WR that all litigations & claims presented in FS & disclosed to auditor.
- ✚ **Seek direct communication with entity's external legal counsel-**
 1. Through **Letter of inquiry** prepared by Mgt. & send by auditor requesting to communicate.
- ✚ If **Law prohibits**- perform additional procedures.
- ✚ If **Mgt. refuses** to give permission to auditor to communicate with external legal counsel or **counsel refuses** & auditor is **unable to obtain SAAE- MODIFY** Report.

SEGMENT REPORTING

- ✚ **Obtain SAAE** regarding presentation & disclosure of segment information in accordance with the applicable Financial Reporting Framework by:
 - ✚ **Obtaining an understanding** of the methods used by management in determining segment information, and
 - Evaluate whether such methods are likely to result in disclosure in accordance with the applicable Financial Reporting Framework; and
 - Where appropriate, testing the application of such methods
 - ✚ **Performing analytical procedures** or other audit procedures appropriate in the circumstances.

SA 505- External Confirmations

Process of External Confirmation

MEANING

Audit evidence obtained as written response to auditor from 3rd Party on certain assertions by mgt. in FS.

Factors affecting Auditor in Determining use of External Confirmations

- **Willingness** of Confirming party to Respond or Ability.
- **Knowledge** of confirming party about Subject matter.
- **Objectivity** of Intended Confirming Party.

SITUATIONS WHERE EXTERNAL CONFIRMATIONS CAN BE USED

- Account receivable balances.
- Inventories held by 3rd parties.
- Bank balance from bankers.
- Property title deeds held by 3rd parties.
- Account payable balances.
- Investments purchased but delivery not taken.
- Long outstanding share application money.
- Loan from lenders.

MGT. REFUSAL TO ALLOW AUDITOR TO SEND CONFIRMATION REQUEST

- ✚ **INQUIRE-**
 - Mgt. **reasons** for refusal, &
 - seek Audit Evidence to their **validity & reasonableness.**
- ✚ **EVALUATE IMPLICATIONS** of mgt. refusal on Auditor's assessment of relevant **ROM-MS** including risk of fraud & on NTE of other Audit Procedure.
- ✚ Ask mgt. to submit its request in written form giving in details reason for such request.
- ✚ If auditor agrees to mgt. request, document reasons for acceding to mgt. request.
- ✚ **PERFORM ALTERNATIVE AUDIT PROCEDURES** - designed to obtain relevant & reliable Audit Evidence.
- ✚ **If auditor Concludes** mgt. refusal is unreasonable/ can't obtain SAAE then auditor to **communicate with TCWG** & determine its **implication** for audit & his opinion.

- Determining the information to be confirmed or requested
- Selecting the appropriate confirming party
- Designing the confirmation request
- Communicating confirmation request to appropriate third party.
- Obtaining response from third party.
- Evaluating Information.

Factors considered while Designing Confirmation Request

- ✚ **Ability** of Confirming Party to provide/confirm requested information.
- ✚ **Assertions** being addressed.
- ✚ **Layout** & presentation of confirmation request.
- ✚ Prior **experience.**
- ✚ Mgt. authorisation to confirming parties to respond to auditor. Confirming **parties may only be willing to respond** to confirmation request containing **Mgt. authorization.**
- ✚ Specific identified **ROMM** including fraud risk.
- ✚ **Method** of communication.

TYPES OF CONFIRMATION REQUEST

Positive confirmation

- ✚ Response **MANDATORY IN EVERY CASE.**
- ✚ **USED WHERE-**
 - ✓ Risk/materiality level is **high.**
 - ✓ Internal Control system is **not so sound.**
 - ✓ Exception rate is **high.**
- ✚ Response- **not received** in reasonable time, **send additional** request.
- ✚ Regarded as a **better mode** of confirmation request.

Negative confirmation

- ✚ Response from external party is required **ONLY IN CASE OF DISAGREEMENT.**
- ✚ **LIMITED USE-**
 - ✓ Risk or materiality level is **low.**
 - ✓ Internal Control system is **sound & effective.**
 - ✓ Exception rate is **low.**
 - ✓ Population of Large Number of **Homogeneous** & Small Account balances or transactions.

EFFECTS OF USING POSITIVE EXTERNAL CONFIRMATION REQUEST:

- ✚ Asks confirming party to reply to auditor in all cases.
- ✚ Response by either by indicating Confirming party's agreement with given information or by asking confirming party to provide information.
- ✚ Response to Positive confirmation request is expected to provide reliable audit evidence.
- ✚ Risk that confirming party may reply to confirmation request without verifying information.
- ✚ Auditor may reduce this risk by using positive confirmation requests that do not state amount /other information. on confirmation request & ask confirming party to fill.

EFFECTS OF USING NEGATIVE EXTERNAL CONFIRMATION REQUEST:

- ✚ Confirming party respond directly to auditor only if party disagrees with info in request.
- ✚ Provide less persuasive Audit Evidence than positive confirmations.
- ✚ Failure to receive response to Negative confirmation request not indicates receipt by intended confirming party of confirmation request or verification of accuracy of information in request.
- ✚ Failure of confirming party to respond to negative confirmation request provides less persuasive audit evidence than response to positive confirmation request.
- ✚ Confirming parties also may be more likely to respond indicating their disagreement with confirmation request when info in request not in their favour & less likely to respond otherwise.



SA 510-Initial Audit Engagements - Opening Balances

Initial Audit Engagement

Engagement in which either FS for prior period were **not audited** OR FS for prior period **audited** by **Predecessor auditor**.

Opening Balances

Predecessor Auditor

Balances existing at Beginning of year

Another Audit firm who audited FS in Prior period

Applies to-
 Opening Balance Present
 Previous year Audit not audited OR Audited by another auditor

AUDITOR'S OBJECTIVE & PROCEDURES

1. Auditor to **READ** the most recent Financial Statement
2. **OBTAIN SAAE**
 - a) Closing balances of preceding year are **correctly brought forward** in current period & any **adjustments** have been **disclosed as prior period items**.
 - b) **Appropriate accounting policies** reflected & **consistently** applied & **changes** properly accounted for & adequately presented & disclosed.
 - c) **PERFORM-**
 - ✚ **If Previous year audited- by Other Auditor** then in current year auditor **not required** to **re-audit** previous Financial Statement, but **obtain SAAE**.
 - ✚ **Not audited- not required to re-audit** previous Financial Statement, but to **disclose this fact** in his audit report in Other Matters Para plus read most recent Financial Statement.
3. To obtain SAAE that opening balance **contain Misstatement** which is **materially effecting** Financial Statement of current period & perform **ADDITIONAL AUDIT PROCEDURES**.
4. Misstatement exists in current year **COMMUNICATE TO TCWG. (SA-450)**

REPORTING REQUIREMENT

Audit Evidence Regarding Opening Balance

- Available & MM can be corrected
- Available & MM can't be corrected/ accounting policies not consistent/ not disclosed
- Not Available & MM cannot be corrected

Reporting Responsibility

- Issue Unqualified report
- Issue Qualify or Adverse report
- Issue Qualified or Disclaimer report

Financial Statements Audited for preceding period by predecessor Auditor

1. If prior period's Financial Statement are audited by Predecessor Auditor, auditor may be **able to obtain SAAE** regarding opening balances by **perusing copies of Financial Statement** including other relevant documents relating to prior period Financial Statement such as supporting schedules to audited Financial Statement.
2. Current Auditor **can place reliance** on closing balances in Financial Statement for preceding period, **except** when performing of Audit Procedures for current period **possibility of misstatements in opening balances is indicated**.

Financial Statements of Previous year not audited

1. Auditor to **perform auditing procedures** to obtain SAAE.
2. Since Opening balance represent effect of transaction & events of preceding period & accounting policies applied in preceding period, auditor need to obtain Audit Evidence having regard to **nature of opening balances & materiality** of opening balances.
3. Since it will **not be possible** for auditor to **perform** certain procedures, e.g., observing physical verification of inventories, etc. auditor may obtain confirmation, etc. & perform suitable procedures in respect of fixed assets, investments, etc.
4. Auditor can obtain **Mgt. Written Representation** for Opening balances.



SA 520- Analytical Procedures

AUDITOR'S OBJECTIVE

- ✚ To obtain **relevant & reliable Audit Evidence** when using substantive audit procedure (SAP).
- ✚ To **design & perform substantive audit procedure** near end of audit.
- ✚ If there are unusual fluctuations, then make **enquiry of Mgt. & perform** extended **procedures** (further investigation, obtain more explanations, more evidence)

MEANING

- ✚ Evaluation of Financial Info through analysis of **plausible relationships** in Financial & Non- Financial data.
- ✚ It involves comparison with-
 - ❖ **Prior period information.**
 - ❖ **Anticipated results** i.e. Budgets &
 - ❖ **Similar industry information.**
- ✚ Refers to comparisons & ratio analysis (i.e. analysis of significant ratios & trends. Purpose is to assist auditor in-
 - ❖ Planning **Nature Timing & Extent** of other audit procedures.
 - ❖ **Investigating** unusual fluctuations.
 - ❖ **Analysis** of significant ratios & trends.
 - ❖ Used as **substantive procedures** more effectively than Test of details in reducing detection risk.

Extent Reliance on Analytical Procedures

- ✚ Depending on **materiality** of items involved:
 - ❖ If **more materiality level**- Perform analytical procedure +other Substantive Audit Procedures.
 - ❖ If **less material**- May rely solely on Analytical procedures.
- ✚ Depending on other **inherent risk & control risk**.
 - ❖ **More risk**- more reliance on comprehensive Test of details & not solely on analytical procedures.
- ✚ **Accuracy** of results of analytical procedures.
- ✚ **Other** Audit Procedures **directed** towards same objective.

FACTORS CONSIDERED WHILE PERFORMING ANALYTICAL PROCEDURES

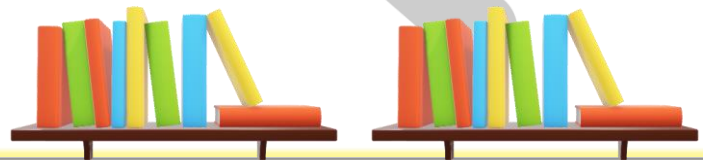
SUITABILITY- Determine suitability of particular **substantive Analytical Review Procedure** for given assertion taking account of **assessed Risk of material misstatement & Tests of details** if any for these assertions. (Example: - In case of predictable relationships, analytical procedures

EXPECTATION- To develop an expectation of recorded amount & **evaluate** whether expectation is **sufficiently precise** to identify misstatement.

INTERPRETING DIFFERENCE- Difference of recorded amount from expected values i.e. **acceptable without further investigation**.

RELIABILITY- To Evaluate whether data is reliable for purpose of designing Substantive Audit Procedures following are relevant-

- ✚ **Source** of information available
- ✚ **Comparability** of information available.
- ✚ **Nature & relevance** of information available.
- ✚ **Controls** over Preparation of information.



INVESTIGATING RESULTS OF ANALYTICAL PROCEDURES

- ❖ If analytical procedures performed as per SA, **identify fluctuations or relationships inconsistent with other** relevant info or that differ from expected values by significant amount,
- ❖ Auditor to **Investigate** such differences as result of Analytical Procedures by:
 - ✚ **Inquiring** Mgt. & obtaining Sufficient & Appropriate Audit Evidence relevant to Mgt. responses.
 - ✚ **Performing other audit procedures** as necessary in circumstances.

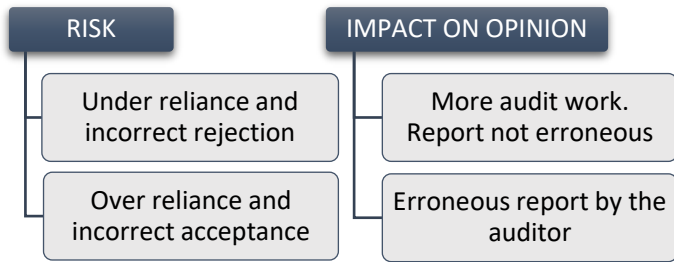


SA 530 – Audit Sampling

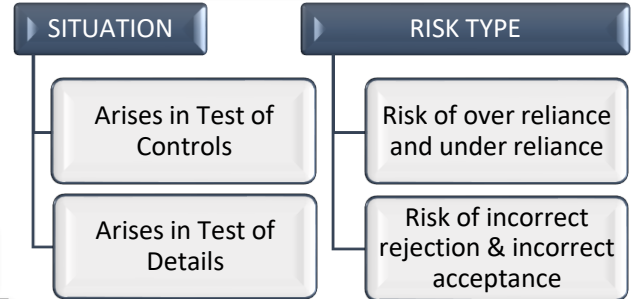
AUDIT SAMPLING

Refers to application of Audit Procedures to less than 100% of FS.

SAMPLING RISK- Risk that *auditor's conclusion based on sample is different from conclusion if entire population were subjected to same Audit Procedures.*



TYPES OF SAMPLING RISK



Risk factors Kept in mind to apply Sampling Techniques

Sampling risk can lead to two types of erroneous conclusions

If Test of Control

That **controls are more effective** than they actually are or in case of Test of Details.

That **controls are less effective** than they actually are or in case of Test of Details.

If Test of Details

That material misstatement **not exist** when in fact it does.

That material misstatement **exists** when in fact it does not.

Effect of this erroneous

This affects **audit effectiveness** and is more likely to lead to an inappropriate audit opinion.

This affects **audit efficiency** as it would usually lead to additional work to establish that initial conclusions were.

METHODS OF SELECTION OF SAMPLE SIZE

Random selection/ Non – Statistical

- Every item would have **EQUAL CHANCE** of selection or de-selection.
- Sample size selected on **PROFESSIONAL JUDGMENT**, personal experience & knowledge of auditor.
- Commonly used for many years due to its **SIMPLICITY** in operation.
- Auditor on basis of his **PERSONAL EXPERIENCE** will determine size of sample & express it in terms that no. of pages or personal accounts in purchases or sales ledger to be checked.

Systematic Selection/ Statistical

- Sample size select on basis of **PERMUTATIONS & COMBINATIONS**, Simulation models & Probability
- MORE SCIENTIFIC** than testing only on auditor's own judgment as it involves use of math laws
- Reasonably wide application where population tested consists of **LARGE NO. OF SIMILAR ITEMS.**
- Helpful in transactions involving *compliance testing, trade receivables' confirmation, payroll checking, vouching of invoices and petty cash vouchers.*

Monetary Unit Sampling

VALUE-WEIGHTED SELECTION in which sample size, selection & evaluation **results in conclusion in monetary amount.**

Block Selection

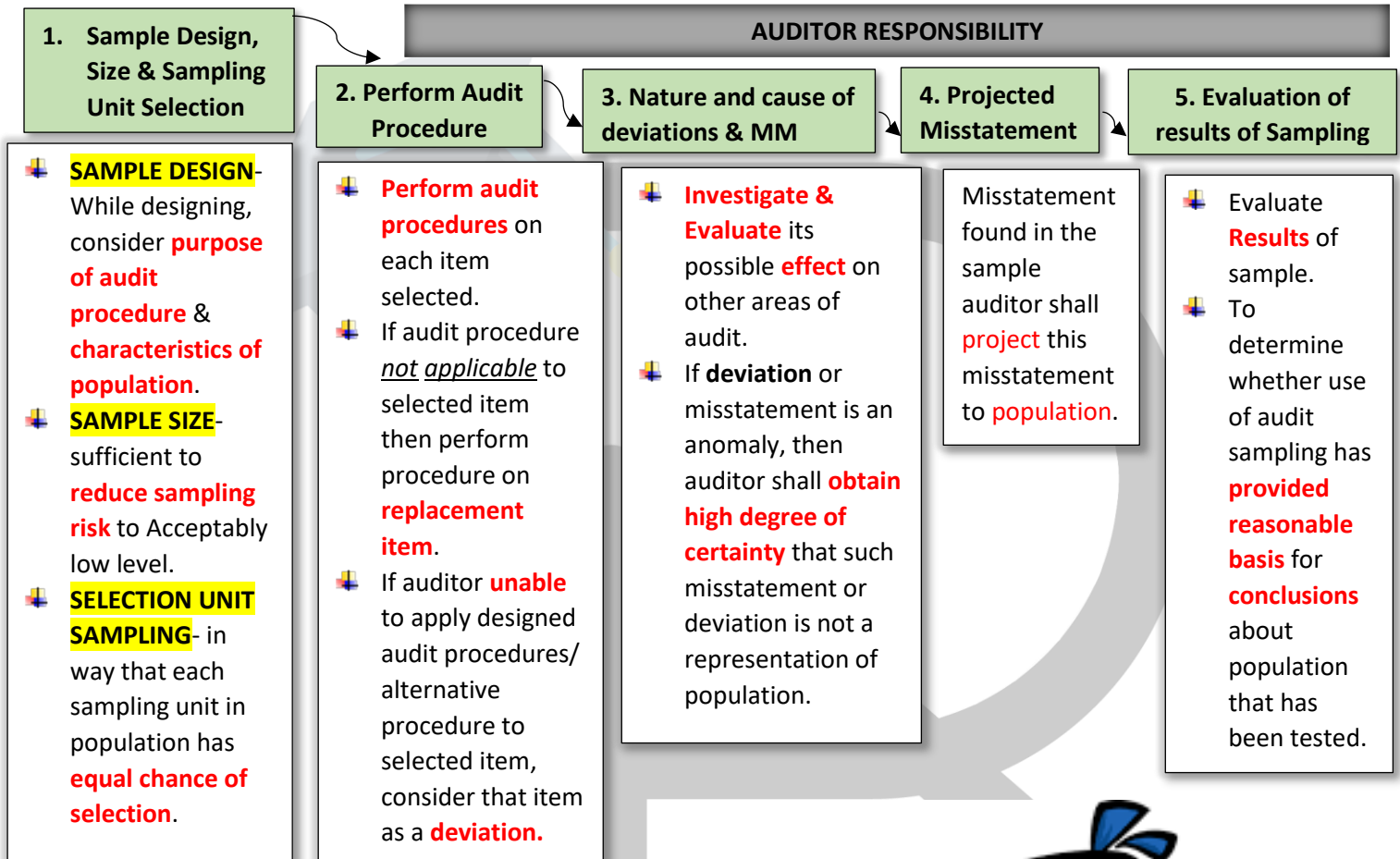
- Selection of a block(s) of **CONTIGUOUS ITEMS** from within population.
- Block selection **cannot ordinarily be used in audit sampling** because **most populations are structured** such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from elsewhere in population.

Haphazard Selection

- Adopted by auditor in cases where **SAMPLE DOES NOT FOLLOW A STRUCTURED SAMPLING**
- Haphazard selection is **NOT APPROPRIATE** when using **statistical** sampling.
- All items in a population should get a **chance** of being selected

Tolerable Misstatement

- Tolerable error is **amount of error** that is **acceptable** to auditor in making a sample choice.
- While designing Sample, auditor determines tolerable misstatement to *address risk that MMs may cause FSs to be materially misstated to provide a margin for possible undetected misstatements.*
- Tolerable misstatement is application of **PERFORMANCE MATERIALITY**, to a particular sampling procedure.
- Tolerable misstatement may be **same amount**/an amount **lower** than performance materiality.



SA 540 -Auditing Accounting Estimate including Fair Value Accounting Estimates & Related Disclosure

ACCOUNTING ESTIMATES

- **Approximation of monetary amount** in absence of precise means of measurement
- Used for amount measured at **Fair Value** where there is estimation uncertainty as well as for other amount that require estimation.
- **Degree of estimation uncertainty affects ROMM** of accounting estimates.
- **Difference** in outcome of accounting estimate & amount originally recognized in FS **not necessarily represent MM**. This is particularly case for Fair Value Accounting Estimate.

FAIR VALUE ACCOUNTING ESTIMATES

- Estimates where **current transaction cost basis** is used or based on condition prevailing in market.
- Examples where Fair Value Accounting Estimates required: -
 - ✚ **Share-based** payments.
 - ✚ Asset held for **disposal**.
 - ✚ **Complex financial instruments**, which are not traded in an active & open market.
 - ✚ Assets/Liabilities acquired in **business combination** including goodwill & intangible assets.
 - ✚ **Exchange** of assets/liabilities between independent parties without monetary consideration.
(Ex: non-monetary exchange of plant facilities in different Biz lines)

EXAMPLES OF A/C ESTIMATES

- ✚ Allowance for doubtful accounts.
- ✚ Depreciation method or asset useful life.
- ✚ Inventory obsolescence.
- ✚ Warranty obligations.
- ✚ Provision against carrying amount of Investment where there is uncertainty of its recoverability.
- ✚ Outcome of long-term contracts.
- ✚ Financial Obligations / Costs arising from litigation settlements and judgments.

INDICATORS OF POSSIBLE MGT BIAS TO ACCOUNTING ESTIMATES-

- ✚ **Selection of a point estimate** that may indicate a pattern of **optimism or pessimism**.
- ✚ **Changes in accounting estimate** or method for making it where mgt. has made **subjective assessment**.
- ✚ **Use of entity's own assumptions** for Fair Value A/c estimates **inconsistent** with market assumptions.

REPORTING-

- If there is difference between auditor's range & estimate by mgt. -
- ✚ Ask mgt. to adjust OR
 - ✚ If mgt. refuses -Qualified Adverse Opinion.

FACTORS THAT MAY INFLUENCE THE DEGREE OF ESTIMATION UNCERTAINTY

1. A/E is based on observable or unobservable inputs
2. The sensitivity of A/E or changes in assumptions.
3. The existence of recognized measurement techniques
4. The length of forecast period
5. The availability of reliable data.

A/C ESTIMATES WITH LOW ESTIMATION UNCERTAINTY/ ROMM	A/C ESTIMATES WITH HIGH ESTIMATION UNCERTAINTY
A/c estimates in business activities that aren't complex	A/c Estimates highly dependent on Judgment (Outcome of pending litigation)
A/c estimates frequently made & updated as routine transactions .	A/E for derivative financial instruments not publicly traded.
A/c estimates derived from readily available data such as published interest rate data or share exchange-traded prices	Where Auditor's review of similar A/c estimates made in prior period FS indicate substantial differ in original A/c estimates & actual outcome.
Where method of measurement prescribed by Applicable FRF is simple & applied easily .	Use of highly specialized entity developed model for fair value accounting estimate, for which assumptions laid down cannot be observed in marketplace.
Where model used to measure is well-known /generally accepted provided that assumptions or inputs to model are observable .	A/c Estimates not calculated using recognized measurement techniques .

RISK AUDIT PROCEDURES- DUTIES OF AUDITOR

STEP 1

RISK ASSESSMENT PROCEDURES & RELATED ACTIVITIES

1. •Obtain understanding Nature of entity business & significance of use of estimate.
2. •Requirements of applicable FRF relevant to A/c Estimates, including related disclosures to be recognized or disclosed in FS.
3. •Mgt. procedures to identify events, transactions & conditions giving rise to need for a/c estimates & to enquire for same.
4. •Make Inquiries of mgt about changes in circumstances giving rise to new or revision of existing a/c estimates.
5. •Evaluate process used by mgt. to make estimate & assumptions used
6. •Confirm from mgt, how they ensure reliability of data used in estimates & method & assumptions used

Auditor should **obtain sufficient & appropriate accounting estimate** that all estimates by mgt. used in preparation & presentation of FS are

- + **Reasonable** &
- + **Disclosed** properly as per FRF.

Estimation making process adopted by Mgt. includes: MCACA

1. **M**ethod where applicable model used in making A/c estimates.
2. Relevant **C**ontrols.
3. Whether management has used an **e**xpert?
4. **A**ssumption underlying the accounting estimates.
5. Whether **C**hange from prior period in methods for making accounting estimates & if so why?
6. How mgt. **A**ssessed effect of **e**stimation uncertainty.

STEP 2

FURTHER ASSESSMENT PROCEDURES

1. •Auditor may apply his **own audit procedures** to get his point estimate & should compare with Management Point Estimate.
2. •Evaluate whether mgt. has used **Mgt Expert** under SA 500. Auditor may also use Expert under SA 620
3. •Consider **consistency** of estimation procedures applied by mgt. If changed, whether change is justified.
4. •**Evaluate reasonableness** of accounting estimates, disclosures.
5. •obtain **Written Representation**





SA 550 – RELATED PARTIES



- ✚ A person or entity having **control or significant influence** over reporting entity,
- ✚ Reporting entity having **control or significant influence** over another entity.
- ✚ Another entity that is under **common control** with reporting entity through having.
 - ✚ Common **controlling ownership**.
 - ✚ Owners who are close **family members**.
 - ✚ Common **key management**.

Entities under common control by State i.e., National, Regional or Local Government not related unless they engage in significant transactions/ share resources to significant extent with 1 another. IND-AS-24/ AS-18.

- ✚ Holding, Subsidiary & Co-Subsidiary, Associates, Joint Venture & Co-Venture
- ✚ Individuals having control or significant influence over entity.
- ✚ Key Mgt. personnel & their relatives.
- ✚ Enterprises over which above have significant influence.

AUDITOR DUTIES/ OBJECTIVES IN RELATION TO RELATED PARTIES

SPECIFIC (FRF establish accounting & Disclosure for RP Relationship & Transactions)

- GENERAL**
- ✚ Obtain Understanding of RP Relation & Transactions:
 - To recognize **Fraud Risk factors**.
 - To conclude whether F.S. in so far as that are affected by those relations & transactions achieve:
 - ✓ **True & Fair** presentation &
 - ✓ **Not misleading**.

- ✚ Perform **Audit Procedure** to identify, assess & respond to ROMM.
- ✚ Evaluate whether identified RP relationships & Transactions **appropriately accounted & disclosed** as per FRF.
- ✚ Obtain **WR** from Mgt. / TCWG for:
 - **Disclosure** to auditor identity of RP they are aware.
 - **Appropriate accounting & disclosure** as per FRF.

RISK ASSESMENT PROCEDURE & RELATED ACTIVITIES

Understanding Entity's RP Relationships & Transactions

- Inquiry of details of Related Party (RP) regarding-**
- ✚ **Identity of Related Party** and changes from prior period.
 - ✚ **Nature of relationship** between entity and RP.
 - ✚ **Types and purpose of transaction** with RP during the year.

- Inquiry of Internal control of Related Party regarding:**
- ✚ **Established controls** to identify, account for & disclose RP relationships & transactions as per applicable FRF.
 - ✚ **Authorize & approve** signification transaction with **Related Party** (i.e. in normal course of business with Related Party at arm's length price)
 - ✚ **Authorize & approve** significant transactions & arrangements **outside normal course of business**.

Maintaining Alertness for Related Party information when reviewing records (Professional skepticism)

- Auditor shall **remain alert** while Inspecting records so that auditor may **come across information** indicating existence of Related Party relationships or transaction **not previously identified** or disclosed by Mgt.
- Identify **significant transaction outside entity's normal business** is identified auditor shall **Inquire Mgt.** of:
 - ✓ **Nature** of these transactions.
 - ✓ Whether Related parties could be **involved**.

Possible Sources for identification of RP Information

- ✚ Bank, legal & 3rd Party confirmations.
- ✚ Minutes of shareholders meeting & minutes of TCWG
- ✚ Income Tax Returns
- ✚ Information by regulatory authority
- ✚ Shareholders register
- ✚ Statements of conflict of interest from Mgt. & TCWG
- ✚ Records of investment
- ✚ Prospectus etc.
- ✚ Contracts and agreement with key Mgt. / TCWG
- ✚ Significant contracts and agreements not in entity's ordinary course of business
- ✚ Invoice and correspondence with professional advisors
- ✚ Life insurance policies acquired by entity
- ✚ Contracts re-negotiated
- ✚ Internal auditors report

Identifying Fraud Risk Factors

Domination of Mgt. by single person or small group of persons without compensating controls is fraud risk factor.

Indicators of dominant influence exerted by a related party include:

- ✚ Related party vested significant business **decisions taken by Mgt.** or TCWG.
- ✚ Significant transactions referred to related party for **final approval.**
- ✚ **No debate** among Mgt. & TCWG regarding business proposals initiated by related party.
- ✚ Transactions involving Related Party rarely **independently reviewed & approved.**

AUDITOR'S RESPONSIBILITY

- ✓ Obtain **WR** on all RPT's.
- ✓ Obtain **understanding** of entity's Related Party's Transaction
- ✓ Have Attitude of **professional skepticism.**
- ✓ Ensure **compliance** of Financial Reporting Framework & Co's Act as far as related to RP.
- ✓ **Perform Audit Procedures** to identify, assess & respond to Risk of MMS.
- ✓ **Evaluate fraud risk factors** in relation to related parties.
- ✓ **Communicate to TCWG** all significant matters arising in audit in relation to RPT's.

RESPONSE TO ASSESSED RISK

Auditor's duties if identifies RP/RPT that mgt. not previously disclosed

1. Identification of previously unidentified or undisclosed Related Party

Auditor shall-

- ✚ **Communicate** information to other members of Engagement team.
- ✚ **Perform appropriate substantive audit procedures** relating to such newly Related Party info.
- ✚ **Reconsider risk** & perform additional audit procedures as necessary
- ✚ Where applicable **Financial Reporting Framework establishes related party requirements:**
 1. **Request** mgt. to **identify** all transactions with newly identified Related Party.
 2. **Inquire** as to **why** entity's controls over Related Party relationships & transactions failed to enable identification or disclosure of that Related Party
- ✚ If **non-disclosure** by management is **intentional** (i.e. indicative of Risk of material misstatement due to fraud), evaluate the **implications** for the audit.

2. Related Party transactions outside the entity's normal course of business

- **Inspect** underlying contracts to evaluate **business rationale.**
- **Examine** the **terms** on which transactions takes place.
- Transactions **appropriately accounted for & disclosed** as per applicable Financial Reporting Framework. Also-
 1. Whether it indicates **fraudulent financial reporting.**
 2. Whether **terms** are **consistent** with management's explanations.
 3. Whether transactions are **appropriately accounted for and disclosed** as per applicable Financial Reporting Framework.
- **Obtains audit evidence** that the transactions have been appropriately authorised and approved.
- Inspect **Fraud Risk Factors.**
- If found **unreasonable** then Auditor to **modify** audit report as per SA705.

Related Party transactions at arm's length price

Auditor shall **obtain Sufficient & Appropriate Audit Evidence** about assertion.

Documentation by Auditor as per SA-230 &

- Name of Related Party identified.
- Nature of Relationship.
- Amount involved.





SA 560 -Subsequent Events

Events occurring between Date of FS (Date of end of latest period covered by FS) & Date of Auditor's report & Facts that become known to auditor after Date of Auditor's report (Date auditor dates report on FS by SA-700)

AUDIT PROCEDURES ON SUBSEQUENT EVENTS

STEP 1- IDENTIFY EVENTS- Perform audit procedures designed to obtain SAAE that all EARD & AR that require adjustment of/disclosure in FS have been identified.

STEP 2- RISK ASSESSMENT IN DETERMINING NTE OF SUCH AP to include AP for **identifying subsequent events**-

- ✚ Obtaining **Understanding of procedures** Mgt. established to ensure subsequent events are identified.
 - ✚ **Inquiring Mgt.** & TCWG whether any subsequent events have occurred which might affect Financial statements.
 - ✚ **Reading minutes** of meetings of entity's Owners (GM), Mgt. (BODs) & TCWG (Executive committees) **held after date of FS** & inquiring matters discussed at such meetings for which minutes not available
 - ✚ Reading entity's latest **Interim Financial Statements.**
- Additional Audit Procedures-**
- ✚ **Collect info** from other sources like Budgets/ Estimates, Cash Flows, Forecasts, Interim Financial statements etc
 - ✚ **Make enquiries** and hold discussions with Top Mgt.
 - ✚ Details from entity's **legal counsel** for any Litigation matter.

STEP 3- ADJUSTMENT OF OR DISCLOSURE IN FS -auditor shall determine whether each such event is appropriately reflected in FS.

STEP 4- WRITTEN REPRESENTATION-Request Mgt.-Written Representation that all Events After Reporting Date requiring adjustments/disclosures have been adjusted /disclosed.

Matters Arising After Date of Auditor's Report

1. Auditor has **no obligation**.
2. In case of significant matter-
 - ✚ **Discuss** with Management.
 - ✚ **Determine** need to amend Financial statements.
 - ✚ **Inquire** how Mgt. intends to address the matter in F.S.
3. If **Mgt. amend** the Financial statements Auditor shall-
 - ✚ Carry out **procedures** on amended Financial statements
 - ✚ **Review** the steps taken by Mgt. to ensure that recipient of Financial statements are informed of the situation.
 - ✚ **Provide** a new auditor report on amended Financial statements
 - ✚ **OR amend** Audit Report to include an add. date restricted to that amendment & include an Emphasis of Matter/Other Matter Paragraph.
4. If **Mgt. refuses** to amend the Financial statements.
 - ✚ Notify to Mgt. and TCWG, that the auditor will seek to prevent reliance on Audit Report.
 - ✚ If Mgt./TCWG does not take necessary steps, take appropriate action to prevent reliance on Audit Report.

OBJECTIVE

- Obtain **SAAE** about whether Events occurring after B/S Date & Audit Report date that require **adjustment of, or disclosure** in, Financial statements are **appropriately reflected in** Financial statements. &
- **Respond appropriately** to **facts** that become known to auditor after date of Audit Report, that, had they been known to auditor at that date, may have caused the auditor to amend Audit Report.

AUDITOR'S RESPONSIBILITY REGARDING SUBSEQUENT EVENTS

Auditor to consider-

- ✚ **IND-AS-10 "Events after reporting period"** requires adjusting events to be adjusted in the Financial statements & non-adjusting events to be disclosed in Financial statements.
- ✚ **AS-4 "Contingencies & Events Occurring after Balance Sheet Date"** deals with significant events, both favourable & unfavourable, that occurs between B/S date & date on which Financial statements are approved.
 - ✓ It requires adjusting events to be accounted for & non-adjusting events to be neither accounted nor disclosed.
- Exceptions-
 - When **Going Concern is affected**.
 - **Proposed dividend.** (Proposed Dividend not requires any adjustment under Revised Schedule III).
- ✚ To confirm certain assertions in Financial statements **more detailed checking** required for subsequent events (like payment made by debtors after close of accounting period confirms outstanding debtors on B/S date have been realized).
- ✚ At the time of preparing **audit plan** auditor should consider **checking Subsequent Events** irrespective of level of test checks employed for checking of transactions during year.

If in exceptional circumstances, *auditor performs new or additional Audit Procedures or draws new conclusions* after date of Audit Report, auditor shall **document**:

- ✚ Circumstances encountered.
- ✚ New/ Additional **Audit Procedures performed**, **Sufficient Appropriate Audit Evidence** obtained & **conclusions** reached & their **effect** on Audit Report.
- ✚ **When & by whom** resulting changes to audit documentation were **made & reviewed**.

MATTERS WHERE SPECIFIC INQUIRY FROM MANAGEMENT

WHETHER-

- ✚ Any **Assets** have been **appropriated by government or destroyed**, for example, by fire or flood
- ✚ **Increases in capital or issuance of debt instruments**, such as issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- ✚ **New commitments**, borrowings or guarantees have been entered into.
- ✚ **Sales or acquisitions of assets** have occurred or are planned.
- ✚ There have been any developments regarding **contingencies**.
- ✚ Any **Unusual accounting adjustments** have been made or are contemplated.
- ✚ Events have occurred or are likely to occur, **questioning appropriateness of Accounting policies** used in Financial Statement.
- ✚ Any Events have occurred calling into question **Validity of Going Concern assumption**.
- ✚ Any events have occurred that are relevant to measurement of estimates or provisions made in Financial Statement.
- ✚ Any events have occurred that are relevant to **Recoverability of Assets**.





SA 570- GOING CONCERN

AUDITOR'S RESPONSIBILITY



Auditor to consider *appropriateness of Going Concern Assumption* underlying preparation of FS while planning & performing audit procedure & in evaluating results.

- ✚ Obtain SAAE & conclude on **APPROPRIATENESS OF MGT USE** of Going Concern assumption in P& P of FS.
- ✚ Conclude based on SAAE, **WHETHER MATERIAL UNCERTAINTY EXISTS** about ability to continue as Going Concern.
- ✚ **IDENTIFY** events, conditions that may cast significant doubt on going concern.
- ✚ Determine whether **MGT. PERFORMED ASSESSMENT** of entity available to consider as Going Concern.
- ✚ These **responsibilities exist** even if FRF used in Preparation of FS *does not include Explicit requirement for Mgt.* to make Specific assessment of Entity's ability to continue as Going concern.
- ✚ **Absence** of any reference to material uncertainty about Entity's ability to continue as Going concern in auditor's report *cannot be viewed as Guarantee* as to Entity's ability to continue as Going concern.
- ✚ Maintain **PROFESSIONAL SKEPTICISM**.
- ✚ **REVIEW** latest interim FS, Subsequent Events after B/S Date, Review BODs minutes & Budgeted Cash flow.
- ✚ **COMMUNICATE TO TCWG** events/conditions that may cast significant doubt on entity's ability on Going Concern.
- ✚ *If Material Uncertainty exists & Mitigating Factors present* then auditor may include matter in **EOM Para + Unmodified Report** & as per Revised SA 570 also include matter in **"Material Uncertainty Relating to Going Concern Basis of Accounting"**.

MANAGEMENT'S RESPONSIBILITY

1. To **ASSESS** Entity's ability to continue as Going concern even if FRF not include an explicit requirement to do so.
2. Mgt. assessment of entity's ability to continue as Going Concern involves making a **judgment**, at particular Point of time about inherently **uncertain future outcomes** of events or conditions.
Following factors are relevant to that judgment:
 - ✚ **Degree of uncertainty** associated with the outcome of Event or Condition.
 - ✚ **Size, complexity, nature & condition** of business & degree to which it's affected by external factors.

EVENTS/CONDITIONS THAT MAY CAST DOUBT ON GOING CONCERN A.

- | | FINANCIAL INDICATORS |
|-----------|---|
| 1. | • Net liability or net current liability position |
| 2. | • Change from credit to cash-on-delivery transactions with suppliers. |
| 3. | • Withdrawal of financial support by trade payables |
| 4. | • Negative operating cash flows in historical or prospective FS |
| 5. | • Adverse key financial ratios. |
| 6. | • Substantial operating losses or significant deterioration in the value of assets used to generate cash flows |
| 7. | • Arrears or discontinued of dividends |
| 8. | • Inability to pay Trade Payables on due dates |
| 9. | • Inability to comply with the terms of loan agreements |
| 10. | • Inability to obtain financing for essential new product development or other essential investments. |
| OPERATING | |
| 1. | • Management intentions to liquidate the entity or to cease operations |
| 2. | • Labour difficulties. |
| 3. | • Emergence of a highly successful competitor |
| 4. | • Loss of key mgt without replacement |
| 5. | • Loss of a major market, key customer, franchise, license, principal supplier(s). |
| 6. | • Shortages of important supplies . |

OTHERS

1. • **Non-compliance** with capital or other statutory requirements.
2. • **Pending legal or regulatory proceedings** against the entity that may, if successful, result in claims that entity is unlikely to be able to satisfy.
3. • **Changes in law or regulation** or government policy expected to adversely affect the entity.
4. • **Uninsured or underinsured catastrophes** when they occur.

Additional Audit Procedures when identified E&C

Auditor to obtain SAAE to determine whether or not material uncertainty exists by performing **Additional Audit Procedures** including consideration of mitigating factors. These procedures include-

1. Management's Assessment of Ability to Continue as Going concern

- Request mgt. to make its **assessment**
- Evaluate management **plans** for future.
- Consider the **reliability** of cash flow forecast.
- Considering **availability** of additional facts or information
- Requesting **WR** from Mgt. regarding their plans for future action

- ✚ Determining the **adequacy** of support for any planned disposals of assets.
- ✚ Analysing & discussing cash flow, profit & other relevant forecasts with mgt. by
 1. **Evaluating Reliability** of underlying data generated to prepare forecast
 2. Determine if **adequate support for assumptions** underlying forecast.

2. Subsequent Events

- Analyzing & discussing entity's latest available interim FS.
- Performing **audit procedures** regarding subsequent events to identify those that either mitigate or otherwise affect entity's ability to continue as GC.

- ✚ **Confirming existence**, legality and enforceability of **arrangements** to provide/maintain financial support with related & 3rd parties & assessing financial ability of such parties to provide additional funds.

3. Others

- Read **minutes of meetings** of shareholders, TCWG & committees for financing difficulties
- Inquire of entity's legal counsel** on existence of litigation & claims & reasonableness of mgt. assessments of their outcome & estimate of their financial implications.
- Read terms of **debentures & loan** agreements & determine whether any breaches
- Evaluate entity's plans to deal with **unfilled customer orders**.
- Obtain & review reports of **regulatory actions**

REPORTING RESPONSIBILITY

Going Concern Assumption	Auditor's Opinion
Appropriate	Unmodified Opinion.
Uncertainty relating to GC disclosed by Mgt.	Unmodified Opinion but disclose in Material Uncertainty Relating to Going Concern Para.
Uncertainty relating to GC not disclosed by Mgt.	Qualified Opinion.
Inappropriate	Adverse Opinion.

Material Uncertainty exists & When auditor concludes that use of **Going Concern assumption is appropriate** in circumstance, Auditor shall determine whether FS:

- ✚ **Adequately describe** principal events or conditions that may cast significant doubt on Going Concern.
- ✚ **Include mgt. plans** to deal with these events or conditions.
- ✚ **Disclose** clearly that **material uncertainty exists** that may cast significant doubt GC & so that it may be unable to realize its assets & discharge its liabilities in normal course of business. (IND-AS-1 + SA 570)
- ✚ **Mgt. Fails to adequately disclose**- **Modify** opinion & include in report.
- ✚ **In-appropriate assumption** used in FS is **material & pervasive** as to make FS misleading-**Adverse** opinion.
- ✚ **Adequate disclosure** is made FS-**Unmodified** opinion & include matter in **EOM Para** & also as "**Material Uncertainty Relating to Going Concern Basis of Accounting**" as new heading in AR to: Highlight & Draw attention.



SA 580- Written Representations

MEANING

A written statement by Mgt. provided to auditor to **confirm certain matters** or to **support** other audit evidence. (FS, supporting books records & assertions do not constitute written representation)

- As per **Section 143 of Co. Act 2013**, Auditors are required to report as to whether they have **obtained Info & explanation** as may be necessary for purpose of audit evidence & written representation is one of ways of obtaining such Information.
- Written representation **not relieve Auditor of Reporting Responsibility**. Auditor will have to **perform Substantive Audit Procedures** irrespective of fact that written representation has been received.

BASIC ELEMENTS OF MGT. REPRESENTATION

- Auditor to request Mgt. to provide written representation, that it **fulfilled responsibility to prepare Financial Statement** as per applicable **Financial Reporting Framework**.
- Written representation shall be for **all Financial Statement & periods** referred to in Audit Report.
- NOT SUBSTITUTE** for other audit evidence, that auditor could reasonably expect to be available.
- NOT SAAE**- written representation provides **necessary Audit Evidence** for purpose of SA 500 **but not provide Sufficient Appropriate Audit Evidence**.
- Auditor **cannot form his opinion solely** on written representation.

RESPONSIBILITIES OF AUDITOR IF MGT. NOT PROVIDE WRITTEN REPRESENTATION

- Discussion** matter with Mgt.
- Evaluation of Integrity** of Mgt. & Evaluate its Potential effect.
- If doubt about Mgt. integrity/ written representation not provided take possible **actions**.
- Also consider **effect** on auditor opinion in **Audit report**.
- Also **not providing of written representation will be regarded as Limitations on auditor scope**. Auditor hence to communicate same to TCWG as per SA 260.
Its Professional Judgment of Auditor to obtain written representation but some SAs requires mandatory obtaining written representation. (SA 250, SA 501, SA505, SA 540, SA 550, SA 560 & SA 570)

EXTENT OF RELIANCE ON WRITTEN REPRESENTATION BY AUDITOR

- AUDITOR HAS CONCERNS ABOUT COMPETENCE, INTEGRITY, ETHICAL VALUES OR DILIGENCE OF MGT.** -Auditor shall determine effect that such concerns may have on-
 - Reliability of representations (Oral or Written).
 - Audit Evidence in general.
- WRITTEN REPRESENTATION IS INCONSISTENT WITH OTHER AUDIT EVIDENCES OBTAINED**- Perform
 - Additional audit procedures** to resolve it.
 - If matter remains **unsolved**, reconsider assessment of **integrity of Mgt. & reliability** of Written Representation.
Example: - Mgt. provides Written Representation that no frauds in organization but other evidences indicate existence of it.
- IF AUDITOR CONCLUDES THAT WRITTEN REPRESENTATION ARE NOT RELIABLE:**
 - Re-Evaluate Integrity of Mgt.** & Evaluate its Potential effect.
 - If doubt about Mgt. integrity / Written Representation not provided - Take appropriate possible **actions**.
 - Also consider **effect** on auditor's opinion in Audit report.

WRITTEN REPRESENTATION ABOUT MGT.'S RESPONSIBILITY

- Mgt. fulfilled its responsibility for the **preparation and presentation of Financial Statements** in accordance with applicable Financial Reporting Framework.
- Information provided & completeness of transactions** to auditor as agreed in terms of engagement.
- Description of management Responsibilities**-In the manner as described in terms of engagement.



SA 600 -Using the work of Another Auditor

ANOTHER AUDITOR

SA does not deal with **Joint auditors** /Auditor's relationship with **Predecessor Auditor** **OR** Principal auditor thinks that financial info. of a **component is immaterial**.

- Person **other than principal auditor** of company like branch auditor/auditor of subsidiary.
- If **Other auditor** is person **other than a professionally qualified auditor** like where component is situated in a foreign country & applicable laws permit a person other than a professionally qualified auditor to audit FS of such component. In such cases, procedures outlined assume added importance.



Considerations by Principal Auditor

Relevance of SA 600 while Auditing Consolidation of FS

Principal Auditor use work of Subsidiary, Associates & Joint ventures

Considerations by Principal Auditor + **Reporting** + **Division of Responsibility** + **Documentation**

- Principal Auditor to **evaluate competence** of another auditor. *Principal auditor is not required to evaluate professional competence if another auditor is a member of ICAI.*
- PA should **perform procedures to obtain SAAE**, that the work of the other auditor is adequate for PA's purposes.
- PA normally entitled to **rely on work** of such auditor **unless special circumstances** make it essential to visit component or to examine BOA & other records of said component.
- Advice/ give directions** in **writing** to other auditor regarding specific procedures/ observations to be done.
- Consider **significant findings** of another auditor.
- Review Written Summary** of other Auditors AP & ask AA to furnish **questionnaire** & perform **supplementary test**.
- May **discuss** with other auditor & Mgt. of component **audit findings** or other matters affecting financial information.
- If there is **modification** in another's AR then Principal auditor to consider whether modification in his report is required.
- Advise & Obtain representation** from other auditor that accounting, auditing & reporting requirements complied.
- If Principal auditor **uses work** of another auditor, Principal auditor to determine how work of other auditor will **affect Audit**. **SA-705**-Principal auditor to *modify report if he can't use work of other auditor or perform sufficient add. AP.*

Principal Auditor

COORDINATION IN PRINCIPAL AUDITOR & OTHER AUDITOR

Other Auditor

- There should be **Sufficient Liaison** between PA & OA.
- For this purpose, Principal auditor may find it necessary to issue Written Communication to another auditor.
- Principal Auditor should **advise** other auditor of any matters that come to his attention that he thinks may have important bearing on other auditor's work.

- Adhering to Time Table.**
- Bringing to attention of Principal Auditor any Significant **Finding**.
- Compliance** with relevant Statuary Requirements.
- Respond** to detailed Questionnaire.

Role of Principal Auditor (Auditor of Parent Company)

- Necessary** to issue **Written Communication(s)** as Principal auditor to another auditor.
- Principal auditor may require other auditor to **answer Detailed Questionnaire** regarding matters on which principal auditor requires Info to discharge his duties.

Role of Other Auditor (Auditor of Subsidiary Company)

- On knowing context in which his work is to be used by PA another auditor **should co-ordinate** with PA.
- Ensure **compliance** with relevant statutory requirements.
- Respond** timely to Questionnaire sent by PA.

Considerations in accepting position as Principal Auditor

- Materiality** of Assertion in financial information in which he audits.
- Principal auditor's **degree of knowledge** regarding business of components.
- ROMM** in financial information of components audited by Other Auditor.
- Performance of additional procedures** regarding components audited by Other Auditor resulting in Principal Auditor having significant participation in such audit.

DOCUMENTATION

Principal Auditor to document in his working papers-

- ✚ Components whose financial info. was **audited by Other Auditor**.
- ✚ Their **significance** to financial info of entity as a **whole**.
- ✚ **Names** of the Other Auditor.
- ✚ Any **conclusions** reached that individual components are not material.
- ✚ **Procedures performed & conclusions** reached.
- ✚ **Manner of dealing with Modified Report** of Other Auditor while finalizing Principal Auditor's Report. *Like- Principal Auditor would document results of discussions with Other Auditor & Review of Written Summary of Other auditor's procedures.*

Access to Subsidiary's Auditor working papers by Auditor of Holding Co.

- ✚ Principal Auditor **not have right to access** to audit working papers of Branch auditors.
- ✚ Audit **documentation** property of Auditor & may at his discretion, make it available **(SA 230 & SQC 1)**.
- ✚ Confidentiality requirement under **Clause 1 of Part 1 of Second Schedule & SA 200**.
- ✚ ICAI clarification: - Auditor not required providing client or other auditor access to working papers.
- ✚ Auditor can rely on work of Other Auditor **without right of access to working papers** if due diligence exercised. Holding Co. Auditor can't access Working Papers of Subsidiary Co. but can ask Questions & seek clarifications. **(SA-600)**

Reporting Considerations

- ✚ Principal Auditor to express Qualified opinion or **Disclaimer of opinion** due to Limitation on Scope of audit when-
 - ✓ Principal Auditor concludes, based on his procedures, that the work of the Other Auditor cannot be used
 - ✓ Principal Auditor **unable** to perform Sufficient Additional procedures regarding financial info of component audited by Other Auditor.

*If Other Auditor issues or intends to issue modified auditor's report, Principal Auditor should consider whether subject of **modification is of such nature & significance** in relation to Financial info. of Entity on which Principal Auditor is reporting that it requires modification of Principal Auditor 's report.*

Division of Responsibility

- ✚ Principal Auditor (PA) is **not responsible for work carried** out by Other Auditor **unless** there are **circumstances**, which should have **aroused suspicion about Reliability** of work performed by Other Auditor.
- ✚ When Principal Auditor has to base his opinion on financial information of entity as whole **relying on statements & reports of Other Auditor** his **report** should state clearly **Division of Responsibility** for Financial info of entity.
- ✚ It should indicate **extent** to which financial information of components audited by the Other Auditor have been **included** in financial information of Entity.



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THIS ATTEMPT
TOGETHER !

**MENTORING
for SUCCESS**

CA RAVI AGARWAL

FOUNDER OF MENTORING PROGRAM
ACROSS THE GLOBE FOR CA CS CMA
STUDENTS.





SA 610- Using the Work of Internal Auditors

APPLICABILITY

- ✚ N/A if entity **does not** have **Internal Audit Function**.
- ✚ SA **not** deal when Individual Internal Auditors **provide Direct Assistance** to External Auditor in carrying Audit.
- ✚ If entity has Internal audit function, requirements of SA relating to using work of that function **do not** apply if:
 - ❖ **Responsibilities & activities** of function are **not relevant** to audit.
 - ❖ Based on auditor's preliminary understanding of function obtained as result of procedures performed under **SA 315**, External auditor **not** expect to use work of function in obtaining audit evidence.
- ✚ Requirements in SA relating to direct assistance **not apply** if **EA do not plan to use IA to provide direct assistance**.

Internal Audit Function	USING THE WORK OF INTERNAL AUDIT FUNCTION	External Auditor				
Function of Entity that performs Assurance & Consulting Activities designed to <u>evaluate & improve effectiveness of entity's governance</u> , risk mgt. & IC processes.	<table border="1"> <tr> <td style="background-color: #ffff00;">DISCUSSION</td> <td style="background-color: #ffff00;">INTERNAL AUDIT REPORT</td> </tr> <tr> <td>EA shall discuss planned use of IA's work with function as a <u>basis for coordinating</u> their respective activities.</td> <td>EA shall read reports & findings of IA function relating to work that EA plans to use to <u>understand NTE of audit procedures</u> performed.</td> </tr> </table>	DISCUSSION	INTERNAL AUDIT REPORT	EA shall discuss planned use of IA's work with function as a <u>basis for coordinating</u> their respective activities.	EA shall read reports & findings of IA function relating to work that EA plans to use to <u>understand NTE of audit procedures</u> performed.	Solely responsible for opinion expressed & responsibility not reduced by use of IA work or Direct assistance. SA-200 IA Function & IAs are both independent of entity.
DISCUSSION	INTERNAL AUDIT REPORT					
EA shall discuss planned use of IA's work with function as a <u>basis for coordinating</u> their respective activities.	EA shall read reports & findings of IA function relating to work that EA plans to use to <u>understand NTE of audit procedures</u> performed.					

- ### EVALUATING ADEQUACY OF WORK OF INTERNAL AUDITOR
1. **Objectivity** of Internal Audit Function.
 2. **Technical competence** of IA.
 3. Whether work of IA is likely to be carried out with **due professional care**.
 4. Whether there is likely to be **effective communication** in both.

- ### Adequacy of Specific work performed by Internal Auditors for External Auditor
5. Work-performed by IA having **adequate technical training & proficiency**.
 6. Work-**properly supervised, reviewed and documented** with due professional care
 7. **Adequate audit evidence** obtained to enable the IA to draw reasonable conclusions.
 8. **Conclusions** reached are **appropriate** in circumstances & any reports prepared by Internal Auditors are consistent with results of work performed.
 9. **Exceptions/ unusual matters** disclosed by IA are **properly resolved**.
 - ❖ EA to Test Check few items & observe procedures performed by IA.
 - ❖ He can rely on report if satisfied about Appropriateness of work but if he finds that it's not in order then decide otherwise.
 - ❖ Final responsibility to express opinion on FS remains with External Auditor.

- ### SCOPE OF INTERNAL AUDIT FUNCTION
1. **Activities Relating to Governance**- Assess governance process in its accomplishment of objectives on ethics & values, performance mgt. & accountability, communicating risk to appropriate areas of organization.
 2. **Activities relating to Risk Management**- Assist entity by identifying & evaluating significant exposures to risk & contributing to improvement of risk mgt. & IC (including effectiveness of FR process).
 3. **Activities relating to Internal Control**-
 - ✚ **Evaluation of Internal control**- specific responsibility for reviewing controls, evaluating their operation & recommending improvements thereto.
 - ✚ **Examination of Financial and operating information**- Assigned to review means used to identify, recognize, measure, classify & report financial & operating info. & to make specific inquiry into individual items, including detailed testing of transactions, balances & procedures.
 - ✚ **Review of Operating Activities**- Assigned to review economy, efficiency & effectiveness of operating activities, including non-financial activities of an entity.
 - ✚ **Review of Compliance with L&R**- Review compliance with L&R or other external requirements & with mgt. policies & directives and other internal requirements.

External Auditor shall evaluate whether his conclusions regarding **Internal Audit function & determination of Nature Timing Extent of use of work of Internal Audit function** remain appropriate.

Nature Timing Extent of **External Auditors Audit Procedure** shall be **responsive** to his evaluation of-

- Amount of **judgment involved** & **Assessed Risk of Material Misstatement**.
- Extent to which Internal Audit function **organizational status** & relevant **policies** & **procedures** support objectivity of Internal Audit.
- Level of **competence** of function & include reperformance of some of work.

Examples of work of Internal Audit function that can be used by External Auditor.

- Testing of the operating effectiveness of controls.
- Substantive procedures involving limited judgment.
- Observations of inventory counts.
- Tracing transactions through the information system relevant to Financial Reporting.
- Testing of compliance with regulatory requirements.
- Audits or Reviews of financial info of subsidiaries that are not significant components to group

DIRECT ASSISTANCE- ADVISABLE

Statutory Auditor will **determine** **Nature Timing Extent on which direct assistance can be taken** & to determine whether **direct assistance can be used** i.e. to use work of Internal auditor under his direction, supervision & review. It can be taken when-

- Not prohibited by law or regulation.
- There should be **no significant threats to objectivity** of Internal auditor.
- Internal auditor should be **competent** & **capable**.

DIRECT ASSISTANCE- NOT ADVISABLE

- Matters involving **Significant Judgments** in Audit i.e.
 - Assessing **Risk of Material Misstatement**.
 - Evaluate Sufficiency** of Tests performed & accounting estimates.
 - Evaluate Appropriateness** of mgt. use of Going Concern assumption.
 - Evaluating Adequacy** of disclosures in Financial Statement & other matters affecting Audit Report.
- Matters on which **Risk of Material Misstatement is high**.
- Matters in which Internal auditor is **already involved**.
- When Internal auditor **not objective, competent & capable**.

DIRECT ASSISTANCE

- Use of Internal Auditor to perform audit procedures under direction, supervision & review of External Auditor.
- External Auditor may be prohibited by Laws & Regulations from **obtaining**

PRECAUTIONS TAKEN WHILE TAKING DIRECT ASSISTANCE:

- External Auditor **shall not use** internal auditors to provide direct assistance to perform procedures that **prior to using** internal auditors to provide direct assistance for purposes of audit.
- External Auditor to **Direct, Supervise & Review** work of Internal auditor on engagement as per **SA 220**.
- External Auditor to **maintain control on external confirmation requests** & evaluate result of external confirmation procedure but **not to assign this responsibility to** Internal Auditor. (*Internal Auditors may assist in assembling info. for External auditor to resolve exceptions in confirmation responses*). **SA 505**





SA 620 -Using work of Auditor's Expert

SCOPE

- SA deals with **Auditor's Responsibilities** regarding **use of Individual/organization's work in field of expertise other than accounting or auditing**, when that work is used to **assist auditor in obtaining SAAE**.
- It does **not** deal with:
 - Situations where **ET includes member with expertise in specialized accounting/ auditing**.
 - Auditor's **use of Individual/organization's work** possessing **expertise in field other than accounting or auditing**, whose work in that field is used by entity to **assist entity in preparing Financial Statement (Mgt.'s Expert)**.
- Auditor has sole responsibility for audit opinion & is not reduced by Auditor's use of work of Auditor's expert.



Auditor's Expert

- Individual /organization **possessing expertise in field other than accounting or auditing**, whose **work in that field is used by auditor to assist auditor in obtaining SAAE**.
- An auditor's expert may be either an auditor's **internal expert** (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm) or an auditor's **external expert**.

NEED FOR AUDITOR'S EXPERT

- Obtaining an **understanding** of the entity & its environment, including its IC. **(SA-315)**
- Identifying** & assessing the **ROMM**. **(SA-315)**
- Determining** & implementing **overall responses** to assessed risks at the FS level. **(SA-330)**
- Designing** and performing **FAP** to respond to assessed risks at the assertion level, comprising TOC or substantive procedures. **(SA-330/500)**
- Evaluate **sufficiency and appropriateness** of **AE** obtained in forming an opinion on FS. **(SA-500)**

NEED FOR NTE OF AUDIT PROCEDURES

- Nature** of the matter to which that expert's work relates.
- ROM-MS** in the matter.
- Significance** of that expert's work.
- Auditor's **knowledge & experience** with previous work performed by that expert.
- Whether that expert is subject to auditor's firm's **quality control policies & procedures**.

Agreement with Auditor's Expert

Auditor shall agree, in **writing** on following matters with auditor's expert-

- Nature, scope and objectives** of that expert's work.
- Roles & responsibilities** of both.
- NTE of communication** in both, including form of **any report to be provided** by that expert.
- Need** for the auditor's expert to **observe confidentiality requirements**.

Procedure to Evaluate Experts Work (ASK U CCID) (Procedures by Statutory Auditor to verify Certificate of Actuary)

A = **Assumptions** to be used by expert & their consistence with PY

S = **Scope** of expert's work

K = **Knowledge** of expert in particular field.

U = **Understanding** of expert's work

C = **Competence**, Capability & Objectivity of expert

C = **Contents** of expert's report & usefulness to auditor.

I = **Independence** of expert & his relationship with client.

D = **Data** to be used by expert & its reliability

AREAS OF USE/ MATTERS OF EXPERTISE OF EXPERT WORK

- Valuation** of complex financial instruments, land & building, plant & machinery, Jewellery, works of art, antiques, intangible assets, impaired assets & liabilities.
- Actuarial calculation** of liabilities associated with insurance contracts or employee benefit plans
- Estimation** of oil & gas reserves.
- Valuation** of environmental liabilities & site cleanup costs.
- Interpretation** of contracts, laws & regulations.
- Analysis** of complex or unusual tax compliance issues.

Obtaining Understanding of Field of Expertise of Auditor's Expert-

To enable Auditor to **determine Nature, scope and objectives** of that **expert's work** for auditor's purposes & **Evaluate adequacy** of that **work** for auditor's purposes.

Evaluate CCO of that Expert (SA 500)

- **Competence**-Nature & level of *Expertise*
- Capability**-Ability to *exercise competence*
- Objectivity**-Possible *effects* that *bias*, conflict or interest or influence of others may have on professional/ business *judgment*.

SOURCES FOR OBTAINING INFORMATION OF AN AUDITOR'S EXPERT

- ✚ **Personal experience** with previous work of that expert.
- ✚ **Discussions** with that expert.
- ✚ **Discussions** with others who are familiar with that expert's work.
- ✚ **Knowledge** of that expert's qualifications.
- ✚ **Published papers** or books written by that expert.
- ✚ Auditor's firm's **Quality Control Policies & Procedures**.

Reference of Auditor's Expert in Auditor Report- Can Experts name be included in Auditor's Report?

- ✚ Yes, but only after **prior consent of expert**.
- ✚ Auditor **not to refer** to work of Auditor's expert in auditor's report containing **unmodified opinion unless required by law or regulation** & if so required, auditor to **indicate** that **reference not reduces auditor's responsibility** for audit opinion.

Evaluating Relevance, Adequacy & Reasonableness (RAR) i.e. Appropriateness/ Extent of reliance on Expert Work

- ✚ Relevance and reasonableness of that expert's **findings or conclusions**, & their consistency with other Audit Evidence.
- ✚ **Assumptions & methods** used by Expert in his work.
- ✚ **Significant Source Data** & its use to expert's work.
- ✚ If auditor determines that work of auditor's expert is **not adequate for auditor's purposes**, auditor shall: -
 - ✚ **Agree** with that expert on **Nature Timing Extent of further work** to be performed by that expert **OR**
 - ✚ **Perform Further Audit Procedure** appropriate to the circumstances.

Need for written agreement in Auditor & Auditor's expert.

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





SA 700- FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

OBJECTIVE

Form an opinion based on evaluation of conclusions drawn from AE & Express clearly that opinion through a written report.

SCOPE

-Only for **General purpose FS** as FS under **Special purpose FW** dealt by SA 800 & 805.

-**Not deals** with **audit of particular FS out of complete set /any particular component of FS.**

BASIC ELEMENTS/ CONTENTS OF AUDIT REPORT

1. **Title**- Independent Auditor's Report.
2. **Addressee**-Audience Addressed (To Members of XYZ Ltd.)
3. **Auditor's Opinion**-1st section of AR to include **Auditor's opinion** & have heading "Opinion." Opinion section of Auditor's Report shall also-
 - **Identify entity** whose FS are audited.
 - **State** that FS have been **audited**
 - **Identify Title** of FS that comprise complete set of FS.
 - Refer to **Summary** of Important **policies** & other explanatory info.
 - **Specify Time period** covered by audited FS.
4. **Basis for Opinion**- directly following Opinion section, with heading "**Basis for Opinion**" that:
 - States Audit was conducted in **accordance with SAs.**
 - Refers to section of AR that describes **auditor's responsibilities** under SA.
 - Includes **Statement that Auditor is independent** of entity as per relevant ethical requirements relating to Audit & fulfilled auditor's other ethical responsibilities as per these requirements. Statement shall **refer to Code of Ethics** issued by ICAI.
 - States if Auditor believes **he obtained**

Auditors Responsibility

- ✚ Auditor to **form an opinion** on whether Financial Statements are prepared in all material respects as per **applicable FRF.**
- ✚ Obtain **reasonable assurance** FS as whole are **free from M-MS.**
- ✚ To consider:
 - ❖ If **SAAE** has been **obtained.**
 - ❖ Whether **uncorrected misstatements** are **material**, individually or in aggregate & **appropriate steps** taken.
 - ❖ **Results** of evaluation where auditor required to evaluate if FS prepared as per applicable FRF by evaluating-
 - **Significant policies** Selected & Applied are adequately **disclosed.**
 - **Accounting policies** so selected & applied are **consistent** with framework requirements.
 - **Mgt.'s estimates** are **reasonable.**
 - FS fulfil **Qualitative requirements** i.e. Relevance, Reliability, Understandability & Comparability, etc.
 - Adequate **disclosures** have been made.
 - **Terminology** used, including Title of FS is **Appropriate.**

5. **Going Concern**-Where applicable, the auditor shall report in accordance with **SA 570.**
6. **Key Audit Matters (KAM)**- For Audits of complete sets of **General purpose FS of listed entities**, auditor shall **communicate Key Audit Matters** in AR as per **SA 701.**
 - When Auditor is otherwise **required by L&R/ decides to communicate** key audit matters in AR, auditor shall do so in accordance with **SA-701.**
7. **Management's Responsibility**-
 - **Preparation** of Financial Statements as per FRF.
 - Giving **WR** that Mgt. is responsible for same.
 - Designing and Implementation of **internal control.**
8. **Auditor's Responsibility**-
 - Express **opinion** on Financial Statements
 - **Compliance** with SA.
 - Location of **description** of **Auditor's responsibilities** for audit of Financial Statements.
9. **Other Reporting Responsibilities**-Sub-heading "Report on Other Legal & Regulatory Requirements".
10. **Signature of Auditor**-Audit report to be Signed in **Auditors Personal Name.**
 - If **Firm** was appointed as Auditor-Signed in Personal & Audit Firm Name
 - Also mention **Membership No.**
 - As applicable **Registration No. of Firm** allotted by ICAI
11. **Place & Date**- Where Audit Report is signed & Date.



SA 701- Communicating KAM in Independent Auditor's Report



KEY AUDIT MATTERS

- Matters that in auditor's **professional judgment** were of **most significance** in Audit of Financial Statements of current period.
- Key Audit Matters (KAM) selected from matters **communicated with TCWG**.

Factors/ Considerations while Determining Key Audit Matter

- Areas of **higher assessed Risk of material Misstatement**/ significant risks identified in accordance with **SA-315**.
- Significant Auditor's judgments that includes **highly uncertain management estimates**.
- Effect of the audit of **significant events or transactions** that occurred during the period.

Description of each Key Audit Matter

Key Audit Matter section of Audit Report shall include a reference to the **related disclosure** in Financial statements & shall address:

- Why** matter considered to be one of most significance in audit and therefore determined to be **Key Audit Matter** &
- How** matter was **addressed** in audit.

OBJECTIVE

Determine **Key Audit Matters** & having formed an opinion on Financial statements, **communicate** those matters by describing in Audit report.

Purpose of Key Audit Matter

- To **enhance communicative value** of Audit Report by providing greater **transparency** about audit performed.
- To provide **additional info.** to intended users of Financial Statements.
- To assist intended users in **Understanding entity** & areas of **Significant mgt. judgment** in audited Financial Statements.
- To provide a basis to **further engage** with Mgt. & TCWG about certain matters.

- Communicating **Key Audit Matters** is **not a substitute**
 - for **disclosures** in Financial statements.
 - for **modified opinion** as per **SA-705**.
 - for **reporting** as per **SA-570** when material uncertainty exists that cast doubt on **going concern**.
- Auditor **not** to communicate matter in Key Audit Matters when **already required to modify opinion** in **SA705** as a result of matter.

Matters not to be reported as Key Audit Matter

- A matter giving rise to **modified opinion** as per **SA 705 (Revised)**.
- A **material uncertainty** related to events or conditions that may cast significant doubt on entity's ability to continue as a going concern in accordance with **SA 570**.

Circumstances where Key Audit Matter not required in Audit Report



Auditor to describe each Key Audit Matter in Auditor's Report **UNLESS-**

- Law or Regulation** precludes (already includes) Public Disclosure about matter.
- In rare cases, auditor determines that disclosure of such matter in Audit Report will have **adverse consequences** as would outweigh Public Interest benefits of such communication.
- Entity has **publicly disclosed** info. about such Key Audit Matter.



SA 705- MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

Nature of Matter giving rise to Modification

- FS materially misstated
- Inability to obtain SAAE

Auditor's Judgment on Pervasiveness of Effect or Possible Effect on FS

- Material but not Pervasive
 - Qualified opinion
 - Qualified opinion

- Material and Pervasive
 - Adverse opinion
 - Disclaimer of opinion

Circumstances requiring Modifications in Audit Report

Based on SAAE obtained that FS as whole are not free from M-MS due to

Unable to Obtain SAAE to conclude FS as whole are free from M-MS due to

- Inappropriate Selection of Accounting Policies.
- Inappropriate application of the selected AP.
- Inappropriate /Inadequate Disclosures in FS.

- Limitation Imposed by Mgt.
- Circumstances beyond Entity Control (Example records destroyed by Fire).
- Circumstances relating to NTE of Auditor's Work.

After accepting engagement- LIMITATION IMPOSED-

- Need to express qualified/disclaimer of opinion.
- Request Mgt. to remove limitation.
- If Mgt. refuses- Communicate with TCWG.
- Discuss possibility to perform add. AP & obtain SAAE.
- Still unable to find SAAE-
 - Withdraw where law permits.
 - Withdrawal impracticable- DISCLAIM AN OPINION.

TYPE OF MODIFICATION TO THE AUDITOR'S OPINION

Qualified opinion

- Auditor Obtained SAAE.
- Misstatements is Material BUT not pervasive to FS.
- OR
- Auditor unable to Obtain SAAE to base opinion.
- Possible effects on FS of undetected misstatements (if any) could be Material BUT not Pervasive.

Adverse opinion

- Obtained SAAE.
- Concludes misstatements individually or in aggregate are both Material & pervasive to FS.

Disclaimer of Opinion

- Unable to obtain SAAE to base opinion
- Concludes MM individually or in aggregate are both Material & pervasive to FS.
- In extremely rare circumstances with multiple uncertainties -auditor concludes that he obtained SAAE regarding each of individual uncertainties it is not possible to form Opinion on FS due to potential interaction of uncertainties & their possible cumulative effect on FS.

FORM & CONTENT OF AUDITOR'S REPORT WHEN OPINION IS MODIFIED

- Auditor must prepare Basis for Qualified/ Disclaimer opinion before drafting Qualified/ Disclaimer Para drawing intention of users of FS towards reason of giving Qualification/ Disclaimer.
- Where there is conflict between FRF v/s Law- Discuss conflict with Mgt. (If Add. requirement can't be met even by add. disclosure, modify AR as per SA 705)

Drafting of Qualified Opinion: In our opinion & to best of Info & explanation given to us, except for matter described in Basis of Qualified Opinion para, FS reflect a True & Fair view.

Drafting of Disclaimer of Opinion Para: "Because of significance of matters described in Basis for Disclaimer of Opinion paragraph, we are unable to Obtain SAAE to provide a basis for opinion; Accordingly, we do not express an opinion on FS." OR
 "In our opinion, because of significance of matter discusses in Basis for Adverse Opinion paragraph, consolidated F/S do not give a True & Fair view in conformity with accounting principles generally accepted in India".



SA 706- Emphasis of Matter Paragraphs & Other Matter Paragraphs in Independent Auditor's Report



EMPHASIS OF MATTER PARAGRAPH

Para in AR - refer to **matter** appropriately reflected/ disclosed in FS that in the **auditor's judgment** is of such **significance** that it is fundamental to user's understanding of FS.

OTHER MATTER PARAGRAPH

Para in AR -refers to a matter **other than presented/ disclosed in financial statement** that in **auditor's judgment** is relevant for users understanding of audit, auditor's responsibilities or AR.

CIRCUMSTANCES IN WHICH EOM MAY BE NECESSARY (3 POINTS)

- FRAMEWORK UNACCEPTABLE-**
When **FRF** prescribed by **L&R unacceptable** but for the fact that it is prescribed by L&R.
- SPECIAL PURPOSE FRAMEWORK-**
To **alert users** that FS are prepared as per *Special purpose framework*.
- SUBSEQUENT EVENTS-**
When **facts** known to Auditor after Date of **Auditor's report** & auditor provides new/ amended auditor report (**SA 560**).

- **Requirements-** Auditor **Not** required to
 - ✚ **Modify** opinion
 - ✚ Matter is not **KAM (key audit matter)**
- It does **not affect** Auditor's Opinion.
- **Emphasizing** matter affecting FS in note by extensively **discussing** matter.
- Extensive use of EOM may **diminish effectiveness** of Auditor's communication about such matters.

EMPHASIS OF MATTER PARAGRAPH (EOM)

Circumstances where Auditor may consider necessary to include EOM Para

- Uncertainty** relating to the **future outcome** of exceptional **litigation** or regulatory action.
- Significant subsequent event** that occurs in- Date of FS & Date of AR.
- Early application** (where permitted) of a **new IND AS/AS** that has material effect on FS.
- Major Catastrophe** had/continues to have **significant effect** on Entity's financial position.

EOM which may have Adverse effect on functioning of company

- Factors leading to **material uncertainty** casting doubt on ability to continue as **going concern**.
- Material uncertainty** regarding **outcome of litigation**.

EOM which may not have Adverse effect on functioning of company

- Excess managerial remuneration** paid.
- Accrual** of contractually receivable **claim** based on **mgt. estimate** if ultimate realization different from amount accrued.
- On **Frauds** dealt with in FS of company & **not** having continuing effect on FS.

If auditor considers necessary to draw user's attention to matter **OTHER THAN** those **presented or disclosed in FS** that in auditor's judgment is fundamental to user's understanding of FS - Auditor to **include** OM Para.

PROVIDED-

- This is **not prohibited** by law or regulation &
- When **SA 701** applies Matter not being **KAM (Key audit matter)**.
- ✚ If auditor to include EOM/ OM Para he should **communicate** with **TCWG** regarding this & wording of Para.
- ✚ Include the paragraph within a separate section with the heading "**Other Matter,**" or other appropriate heading.

OTHER MATTER PARAGRAPH (OM)

Drafting of EOM Para

"Without qualifying our opinion, we draw attention to Note X of Schedule to FS." The Entity is defendant in lawsuit & filed counter action & Ultimate outcome of matter can't presently be determined & no provision made in FS for it. Addition of paragraph, emphasizing Going Concern problem or significant uncertainty is ordinarily adequate to meet auditor's reporting responsibilities regarding such matters. If multiple uncertainties that are significant to FS, Auditor may consider it appropriate to express Disclaimer of opinion instead of adding EOM Para.

OTHER MATTER PARAGRAPH (OM)

Auditor of CFS -includes OM Para in respect of auditor's responsibility in respect of subsidiaries not audited by him but which form part of consolidated FS under report.
"We didn't audit FS of 1 subsidiary, whose FS reflect Total Assets (net) of ₹XXX as at March 31, 2020, total revenues of ₹XXX & net cash outflows amounting to ₹XXX for year then ended. These FS audited by OA M/s B& Co. CAs whose reports furnished to us by mgt. & our opinion is based solely on reports of other auditors. Our opinion is not qualified in respect of this matter."



SA 710 -Comparative Info & Figures & Comparative FS

Comparative Information



Corresponding Figures



Comparative Financial statements

Amount & disclosures included in FS in respect of **1 or more prior periods** in as per applicable FRF. It includes-

1. Corresponding figures.
2. Comparative FS.

- Where amount & other disclosures for prior period are included as an **integral part of Current FS** & are intended to be read ONLY in relation to amount & other disclosures relating to **CURRENT PERIOD**.
- Not presented** as **Complete FS** capable of standing alone.
- Level of detail presented is dictated primarily by its **relevance** to CY figures.

- Where amt & other disclosures for prior period are **included for comparison** with FS of CY **BUT** if audited are referred to in Auditor's opinion.
- Level of info. included in those Comparative FS is **comparable** with that of the FS of CY.

AUDIT PROCEDURES

Auditor shall evaluate to **obtain SAAE** whether-

- Corresponding figures **agrees** with amount & disclosure of prior period.
- Accounting policies** reflected are **consistent** & if changes then adequately accounted, presented & disclosed.
- As required by **SA-580- Request WR**
 - for **all periods** referred to in Auditor's Opinion.
 - prior period item** that is separately disclosed in statement of P&L.

Audit Report for Previous year-UNMODIFIED
BUT Auditor obtains SAAE that Material Misstatement exists in prior period FS

Misstatement exists affecting Prior Period FS on which Predecessor auditor reported no modification.

- Communicate** Misstatement with appropriate level of Mgt. & TCWG.
- Request** that predecessor auditor to be informed.
- Report only on current period** if prior period Financial Statement are amended & predecessor auditor agrees to issue new report on amended Financial Statement of prior period.
- Verify** whether Misstatement –
 - Dealt as per applicable FRF &
 - if not- Auditor to express **Qualified opinion** or **Adverse opinion** in Audit Report on Current Year Financial Statement modified with respect to corresponding figures included therein.

If auditor's report on prior period, as previously issued included-

- ✓ Qualified opinion, Disclaimer of opinion, Adverse opinion &
- ✓ Matter giving rise to **modification resolved** & properly accounted/ disclosed in Financial Statements as per FRF.

Auditor to:

- When **affecting** Current period figures – **MODIFY REPORT**
 -Refer to both current period's figures & corresponding figures in Description of matter giving rise to modification when the **effect of matter** on Current period's figures are **material**.
- When **Not affecting** Current period figures- **MODIFY REPORT**
 In other cases, explain audit opinion modified because of effects or possible **effects of unresolved matter** on comparability of Current period figures & corresponding figures.

Previous Year Financial Statement Audited by Predecessor Auditor

If FS of prior period audited by predecessor auditor &

- Auditor **permitted by law or regulation** to refer to Predecessor Auditor's Report on corresponding figures & decides to do so then-
- Auditor shall State in **Other Matter paragraph** in auditor's report:
 - That **FS of Prior period** were audited by **Predecessor Auditor** &
 - Type of opinion** expressed by Predecessor auditor & if opinion was modified, Reasons therefore &
 - Date** of that report.
 (Unless Predecessor auditor's report on prior period's FS is revised with FS)
- Auditor to apply **SA 510** for audit of opening balances.
- If prior period Financial Statement audited by auditor himself apply **SA 560**.

PY Report- Qualified

Previous Year Financial Statements Not Audited

- ✚ If prior period Financial Statements were **NOT AUDITED**
- ✚ Auditor to State in **OTHER MATTER PARAGRAPH** in auditor's report that comparative info is unaudited.
- ✚ Such statement **does not** however **relieve auditor** of **requirement** to **Obtain SAAE** that opening balances not contain misstatements that materially affect Current period's Financial Statements.

Comparative Financial Statements

- ✚ When Comparative Financial Statements presented auditor's opinion shall refer to **each period** for which Financial Statements are presented & on which audit opinion is expressed.
- ✚ **Difference in current auditor's opinion & predecessor auditor's opinion**-When Reporting on prior period Financial Statements in connection with current period's audit, if auditor's opinion on such prior period Financial Statements differs from Opinion auditor previously expressed -Auditor shall **disclose substantive reasons** for different opinion in **Other Matter paragraph** as per **SA 706**.





SA 720- Auditor's Responsibility in relation to Other Information

Other information refers to **Financial or non-Financial information** included either by law/ regulation/ custom, in a document containing audited Financial statements & Audit Report thereon.

SCOPE

- This standard deals with auditor's responsibilities relating to other information relating to other information that is included in entity's annual report.
- These responsibilities **do not require** auditor to **give assurance** on other information.

Reporting of Other Information

Include separate section with heading **"Other information."** when the auditor has obtained any other information placed **after heading Key Audit Matters** & shall include:

- Statement that it is **mgt. responsibility** for other information.
- Identification** of other info. obtained **prior** to the date of Audit Report.
- For **listed entity**, identification of other info expected to be obtained **after** date of Audit Report.
- Statement that **auditor's opinion** on Financial Statements **not cover other information** & accordingly auditor does not express any opinion/conclusion thereon.
- Auditor's responsibilities** relating to obtaining, reading, considering & reporting other info as required by this SA.
- When other info obtained **prior** to date of Audit Report, a **statement** that auditor **not identified misstatement** in other information & has nothing to report in this regard /a statement that describes uncorrected misstatement of other info.

INCLUDES

- Corporate Governance Report.
- Financial summaries.
- Financial ratios.
- Mgt. discussion & Analysis Report.
- Director's Report.
- Chairman Speech.
- Corporate social responsibility Report.

RESPONSE OF AUDITOR

Material misstatement/ inconsistency exists before Audit Report

Misstatements identified prior to audit report - Ask management to make **correction**

- Revision required in Financial Statements-**
 - Ask management to make **correction**
 - Mgt. **refuses** to make revision.
 - Communicate matter with TCWG** & request that the revision to be made.
 - Even after communicating to Those Charged with Governance other info **not corrected**
 - Then consider **implication for auditor's report** & communicate with Those Charged with Governance about how auditor plans to address material misstatement in auditor's report by **MODIFYING THE OPINION/WITHDRAW.**
- Possible **implications** may be reported in the section "Other Information" Paragraph **(SA-706)**

Material misstatement/ inconsistency exists subsequent to date of Audit Report

- If such misstatements effect Financial Statements then apply **SA-560.**
- If Mgt. agrees to correct- Carry additional procedures.
- If **not corrected** by mgt. take appropriate action considering legal rights & obligations.

ROLE OF AUDITOR

- Auditor shall **Read** Other Information to identify **material inconsistency** if any between Other Information & Financial statement.
- Auditor shall **make appropriate arrangements** with Mgt. to **obtain** other info prior to date or Audit report.
- If not possible to obtain Other Information, he shall **read** such other information asap.

Material misstatement exists in Financial Statements

Respond appropriately in accordance with other Standards like SA-450, 315, 330, 705.

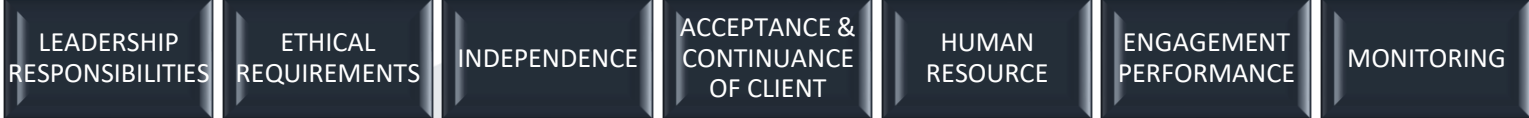
SQC-1 -Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements

Implement Quality control (QC) Procedures in every engagement to obtain reasonable assurance that

Firm & personnel **comply** with professional standards, regulatory & legal requirements

Reports issued by firm or partners are **appropriate** in the circumstances.

ELEMENTS OF SYSTEM OF QUALITY CONTROL



LEADERSHIP RESPONSIBILITY-

- Promote internal culture-
 - Essential of **QUALITY**.
 - COMPLIANCE** with professional standards, regulatory / legal requirements.
 - ISSUING REPORTS** appropriate in circumstances.
- Require **CEO/** managing partner to assume ultimate responsibility for Quality Control.
- Recognise & reward high quality work.
- Recognise quality precedes business objectives to assign Mgt. responsibilities appropriately.
- HR policies to demonstrate firm's Quality Control commitment.

ETHICAL REQUIREMENTS (ER) –Establish policies & procedures

- to obtain reasonable assurance that Firm & personnel comply with relevant Ethical Requirements such as-
- Integrity.
 - Objectivity.
 - Professional competence & due care.
 - Confidentiality.
 - Professional behaviour.
- Ethical requirements en-shrine **INDEPENDENCE***

INDEPENDENCE- Policies & procedures should enable-

- Identification** of circumstances threatening independence.
 - Take appropriate **action** to reduce threats / withdrawal from engagement.
 - Communication** requirements.
 - Resolution** of breaches.
- Maintenance of independence of personnel
- Engagement partners to provide firm with **relevant info.** about client.
 - Prompt notification** of threats to independence.
 - Accumulation & communication** of relevant info. to appropriate personnel.

ACCEPTANCE & CONTINUANCE OF CLIENT RELATIONSHIP-

- Integrity** of Mgt.
- Availability of **Time** /Resources.
- Independence.**
- Past **Experience.**

HUMAN RESOURCES- Establish policies & procedures -

- Firm has **sufficient personnel** with capabilities, competence & commitment to ethical principles
- Communicated Responsibility** of Engagement Partner clearly.

ENGAGEMENT PERFORMANCE-

- Establish policies / procedures for
- Compliance** with professional standards.
 - Compliance** with laws/ regulations.
 - Engagement partner **issues reports** that are **appropriate** in the circumstances.

Important aspects of engagement performance

- ✓ Supervision.
- ✓ Review.
- ✓ Consultation.
- ✓ Engagement Quality control review.
- ✓ Engagement documentation.
- ✓ Differences of opinion.

MONITORING –

Establish Policies & procedures to **obtain assurance** that Quality Control Policies & Procedures are:

- Relevant.
- Adequate.
- Operating effectively.
- Complied with in practice.



AUDIT STRATEGY, PLANNING & PROGRAMME

Planning an audit involves establishing Overall Audit Strategy & developing an audit plan.

AUDIT PLANNING

ADEQUATE PLANNING- BENEFITS

Attention to important.
Timely resolution of potential problems.
Proper Org. & Mgt. of audit engagement.
Proper selection of engagement team.
Direction & supervision of ET.
Easy coordination in work done by auditors of components & experts.

NATURE, EXTENT & CONTENT

Size & complexity of Auditee
Past experience & Expertise.
Change in circumstances.
NTE of planned RAP SA-315
NTE of FAP- SA-330
Other planned AP carried-comply SA.

DEVELOPMENT OF AN OVERALL PLAN

Terms of his engagement & statutory responsibilities
Nature & timing of reports
Applicable legal or statutory requirements.
Accounting policies adopted by the client
Effect of new a/c or auditing pronouncements.
Identification of significant audit areas.
Setting of materiality levels for audit purposes
Degree of reliance on a/c system & IC
Possible rotation of emphasis on specific audit areas
Nature & extent of audit evidence to be obtained
Work of internal auditors & extent of involvement
Involvement of other auditors
Involvement of experts
Allocation of work between joint auditors
Establishing & coordinating staffing requirements

CHANGES TO PLANNING DECISIONS

Result of unexpected events
changes in conditions
Audit Evidence obtained from results of audit procedures

DOCUMENTATION

Overall Audit Strategy
Audit plan
Significant changes +
Reasons for such change.

BENEFITS OF AUDIT STRATEGY

Employment of Qualitative Resources.
Allocation of Quality-Resources
Timely-Deployment of resource
Management of Resources

AUDIT PROGRAMME

Detailed plan & consists series of verification procedures to be applied to FS & a/c of co. for purpose of obtaining sufficient evidence-Enable an auditor to Express an opinion on such FS.

Formulating Audit programme- matters

Nature of business in which organisation is engaged
Overall Plan
System of Internal control & accounting procedures
Size of organisation & structure of its management
Information regarding organisation of business
Accounting & Management policies

AUDIT STRATEGY

OVERALL STRATEGY INCLUDE

1. Determination of Characteristics of audit
2. Reporting Objectives
3. Team's efforts
4. Preliminary work
5. NTE of Resources

AUDIT EXECUTION

1. EXECUTION PLANNING

RISK & CONTROL EVALUATION

3. TESTING

4. REPORTING

SA-600- USING THE WORK OF ANOTHER AUDITOR

Circumstances- Audit programme- suitably altered

Volume of turnover subsequently increased.
Significant changes- a/c org., procedures & personnel
When IC procedures not effective as assumed at the time the audit programme was framed.
Extraordinary increase in book debts/ stock value.
Suspicion aroused during audit/ info- received that assets of co. have been misappropriated.

AUDIT STRATEGY & AUDIT PLAN

High materiality	Detailed procedure	High Risk
Low Materiality	Test Checks	Low Risk

SA-610- Using the work of Internal Auditors

1. Acceptance as Principal auditor-Before accepting, consider-
 - Materiality
 - PA's degree of knowledge-biz components
 - ROMMS in FS audited by other
 - performance of add. procedures-components audited OA
2. PA procedures-
 - Visit & examine books of a/c,
 - consider professional competence
 - Procedures performed by PA when using work of OA.
 - Review written summary-OA procedures.
 - Consider significant findings of OA.
 - OA not professionally qualified.
 - PA document working papers- Components audited by OA.
3. Coordination Btw auditors- Issue written communication.
4. Reporting considerations-
PA express Qualified Opinion/ Disclaimer- Limitation to scope
If OA issues Modified opinion-PA consider subject matter of modification- nature & significance-requires modification-report
5. Division of responsibility.

1. External auditors (EA) responsibilities for audit-responsibility not reduced by using IA function or direct assistance by IA.
2. Scope of SA- Using work-IA function to obtain audit evidence & using IA to provide direct assistance.
3. Objectives of EA when entity has IA function- Determine IA function/ direct assistance can be used, work is adequate.
4. Evaluating-work can be used for purpose of audit
5. Determine NTE of work of IA function-
 - EA consider nature & scope of work performed- IA function
 - Significant judgments in audit engagement
 - Extent of involvement of EA
 - Communicate how EA has planned to use work of IA function
6. Using work of IA function-Discussion & coordination with IA function, EA read reports of IA function, Perform Sufficient AP to determine adequacy of IA function, Nature & extent of EA-AP-responsive to EA's evaluation, Conclusions-appropriate.
7. Determine IA-direct assistance for audit-
Not use IA direct assistance- Significant threats, IA lacks competence-results in high risk audits.

SA-620- Using the work of Auditor's Expert

1. **Scope of SA 620**-Not apply to Engagement Team members expertise
2. **Auditor's Responsibility**- Use work of expert need, if work of expert used whether **adequate or not**.
3. **Determining need for auditor's expert- help to- Understand entity** & environment, Identify **assess risk**, developing **overall response** to assessed risk, design Further Audit Procedure to respond to assesses risk, provide Sufficient & appropriate audit evidences.
4. **Considerations when deciding- use auditor's expert**
5. **Competence, Capabilities & objectivity**
6. **Other Matters- Relevance** of expert's competence.
7. **Evaluation of significant threats to objectivity & need for safeguards- Inquire entity**, Discuss with expert.
8. **Obtaining understanding of field of expertise**
9. **Agreement with auditor's Expert- Nature**, scope & objectives, **Roles & responsibilities**, Nature Timing Extent of **communication & Need for expert- observe confidentiality requirements**
10. **Evaluating adequacy of Auditor's expert's work-**
 - + **Relevance & reasonableness** findings & conclusions.
 - + Use of **significant assumptions & estimates**.
 - + **Use of source data**-complete, relevant, accurate.
11. **Reference to expert's work in audit report**

SA-540 Auditing A/c Estimates-Fair Value A/c Estimate & Related Disclosures

1. **Scope**- Auditor's responsibility-**Use of estimates**
2. **Nature of Accounting estimates**
3. **Degree of estimation uncertainty**
4. **Measurement objectives of Accounting estimates-**
 - + **Follow unbiased approach** in preparing a/c estimates.
 - + **Make appropriate disclosures** in Financial Statements about assertions & estimates made.
5. **Objective of SA 540**
6. **Auditor's responsibilities-**
 - + Perform **Risk Assessment Procedure & related activities**.
 - + Identify & assess **Risk of Material Misstatement**.
 - + Evaluate **Reasonableness** of Accounting estimates.
7. **Audit reporting & disclosures- Adequate-**
 - + **Assumptions & methods** of estimates used.
 - + **Basis of selection** of estimation.
 - + Any **change in method of estimation** as compared to prior periods.
 - + **Source & implication** of estimation uncertainty.

*If significant risk exists even after adequate disclosures auditor may conclude **disclosure of estimation uncertainty is inadequate** in light of facts & circumstances involved.*

SA-220 QUALITY CONTROL FOR AUDIT OF FINANCIAL STATEMENT

Establish & maintain system of quality control to provide reasonable assurance that- Firm & its personnel comply with professional standards, regulatory & legal requirements & report issued by firm & engagement partners are appropriate.

SA-520 ANALYTICAL PROCEDURES

- + Designing & performing-Determine Suitability, evaluate reliability of data, develop expectation of recorded amount, determine differences.
- + Assist when- Forming Overall Conclusions.
- + Investigating results of analytical procedures.



RISK ASSESSMENT & INTERNAL CONTROL

SA-315 establishes requirement & provides guidance on identifying & assessing ROMMS at diff levels

Risk that Auditor expresses inappropriate Audit opinion if FS are materially misstated

Audit risk is a function of the risks of material misstatement (ROMMS) & detection risk (DR)

- Audit Risk=ROMMS*Detection Risk (DR)
- ROMMS=Inherent Risk (IR)* Control Risk (CR)
- Audit Risk=IR* CR *DR

INHERENT RISK

- ❖ Susceptibility of Assertion about Class of Transaction, A/c Balance or Disclosure to misstatement that could be material either individually or aggregated
- ❖ Before consideration of related controls.

CONTROL RISK

- ❖ Risk that misstatement-occur in assertion- class of T-AB-D material, individually/aggregated
- ❖ not be prevented, detected & corrected, on timely basis by entity's IC.

DETECTION RISK

- ❖ Risk that Auditor procedures to reduce audit risk to acceptably low level
- ❖ not detects misstatement that could be material.

METHODS OF RECORDING

1. QUESTIONNAIRE

- Set of Questions designed to provide a thorough view of state of ICS.
- Enable executive to provide just 'Yes', 'No' or 'Not applicable' form of reply.

2. CHECK LIST

- Series of instructions/questions which member of audit staff must follow.

3. FLOW CHART

- Flow charting technique can also be resorted to for evaluation of ICS.
- Graphic presentation of IC in org.
- Concise & comprehensive way for reviewing internal controls
- Auditor be able to visually Correlate functions & related controls & assess Adequacy & effectiveness by-
- ❖ At what point document-raised internally/ received-external sources.
- ❖ No. of copies- document is received.
- ❖ Intermediate stages set sequentially by which document & activity pass.
- ❖ Distribution of documents to various sections, department or operations.
- ❖ Checking authorisation & matching at relevant stages
- ❖ Filing of documents.
- ❖ Final disposal by sending/destruction.

INTERNAL CONTROL SYSTEM

SCOPE

- ❖ Facilitates effectiveness & efficiency of operations.
- ❖ Helps ensure reliability of internal & external FR
- ❖ Compliance with laws & regulations.
- ❖ Helps safeguarding assets.

COMPONENTS OF INTERNAL CONTROL

- ❖ Control environment
- ❖ Entity's RAP
- ❖ Control activities
- ❖ Information system & communication
- ❖ Monitoring of Controls

ICS OVER SELLING & COLLECTION OF TICKETS

- Printing of tickets
- Ticket Sales
- Daily Cash Reconciliation
- Daily Banking
- Entrance ticket
- Advance booking
- Discounts & free pass
- Surprise checks.

LETTER OF WEAKNESS SA-265

Report by auditor-IC weakness

Deficiencies in ICS + explanation-potential effects

Lapse in operations-report

Disclaimer- IC weakness

known during audit & auditor not review on adequacy of IC to minimize legal ability on major loss resulting from weakness in ICS.

Area of weaknesses-ICS+ recommend suggestions.

Means for mgt. & governing body for improving system & its strict implementation

OBJECTIVES

- ❖ Transactions are executed through general/specific mgt. authorization
- ❖ All transactions are promptly recorded
- ❖ Assets & records are safeguarded from unauthorized access, use or disposition
- ❖ Assets verified at reasonable intervals & appropriate action taken-discrepancies.

STRUCTURE OF IC

- ❖ Segregation of duties
- ❖ Authorization of Transactions
- ❖ Adequacy of records & documents
- ❖ Accountability & safeguarding of assets
- ❖ Independent Checks

CONTROL ENVIRONMENT

- ❖ Communication & enforcement of integrity & ethical values
- ❖ Commitment to competence
- ❖ Participation by TCWG
- ❖ Mgt.'s philosophy & operating style
- ❖ Organisational structure
- ❖ Assignment of authority & responsibility
- ❖ Human resource policies & practices

CONTROL ACTIVITIES

- ❖ Performance reviews
- ❖ Information processing
- ❖ Physical controls
- ❖ Segregation of duties

INFO. SYSTEM & COMMUNICATION

- ❖ Identify & record all valid transactions
- ❖ Describe-detail t/n to permit proper classification of transactions for FR.
- ❖ Measure value of t/n- permits recording proper monetary value in FS.
- ❖ Determine time period-permit recording of t/n in proper a/c period.
- ❖ Present t/n & related disclosure.

ASPECTS-SYSTEM OF INTERNAL CHECK

- ❖ Custody & Records Distribution-diff.
- ❖ Independent Controls-No Ind. control
- ❖ Distribution of powers
- ❖ Updating of controls
- ❖ Job Rotation-Duties changes timely
- ❖ Accounting Control- Periodic review
- ❖ Introduction of system of Budgetary control
- ❖ Leave-encourage staff to go to leave
- ❖ Controls over Cash

RISK BASED AUDIT- RBA

Audit approach that **analysis audit risks, sets materiality** thresholds based on audit risk analysis & develops audit program that **allocate Larger portion of audit resources to high-risk areas.**

Audit should be **risk-based or focused on areas of greatest risk** to achievement of audited entity's objectives.

General steps in conducting RBA

Step 1- Understand **auditee operations** to identify & prioritize risks

Step 2- Assess auditee mgt. **strategies & controls** to determine residual audit risk

Step 3- **Manage residual risk** to reduce it to acceptable level

Step 4- Inform auditee of **audit results** through appropriate report.





AUDIT UNDER AUTOMATED ENVIRONMENT

Ecosystem **combining people, processes & technology** in overall business environment. It is driven by computer-based systems known as **Info technology (IT) Systems/ Info systems (IS)**. Several applications exist in business depending on Nature, Size & Location of business, etc.

LAYERS OF AE

- ❖ Physical Environment,
- ❖ Networks,
- ❖ SAP R/3 Application,
- ❖ Unix Operating system,
- ❖ Oracle 12g Database.

KEY CONCEPTS OF AUDITING IN REAL- TIME ENVIRONMENT

REAL-TIME ENVIRONMENT is **automated environment** in which business operations & transactions **initiated, processed & recorded immediately** as they happen without delay. For ex- Bank using CBS-Customer A/c bal. instantly updated if withdraws cash from ATM. It has several **CRITICAL IT COMPONENTS** enabling anytime & anywhere transaction-

1. APPLICATIONS	ERP, SAP, Oracle R 12, Core Banking Applications.
2. MIDDLEWARE	ATM Switches
3. NETWORKS	Wide Area Network, Internet hosting
4. HARDWARE	Data Centre, Backup and storage devices, Power supply



2. CONSIDERATION OF AE RELEVANT AT EACH PHASE OF AUDIT CYCLE

During Risk Assessment, auditor to consider risk arising from use of IT systems at co.

When obtaining understanding of business process.

While **assessing entity level controls** for IT governance.

Pervasive controls-segregation of duties, general IT controls/ apps considered & received.

During **testing phase**, results of general IT controls would impact NTE of testing.

When **testing of reports** & info produced by entity (IPE) generated by IT systems & apps.

At **completion**, evaluation of control deficiencies requires use of data analytics & CAATs.

4. ASSESSING IT RELATED RISK & CONTROLS

Entity level aspects of risk that are related to governance, org. & mgt. of IT. Risk in IT processes & procedures being followed. Controls that are put in place to migrate risk & to maintain confidentiality, integrity & availability & security of data are-

GENERAL IT CONTROLS	APPLICATION CONTROLS	IT-DEPENDENT CONTROLS
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5. EVALUATING RISK & CONTROLS AT ENTITY LEVEL & PROCESS LEVEL

Controls operate across co. at all levels are known as **ENTITY LEVEL CONTROLS (ELCS)**.

Obtain an understanding of how biz process operates, Relevant IS used in processing of biz transactions & activities, Risks & controls pertaining to IS & underlying infrastructure, Reliability of info. generated from systems, Understand, evaluate & validate ELCS.

PLANNING EXECUTION & COMPLETION

1. RISK ASSESSMENT- It is most critical components of Enterprise Risk Mgt. It involves considerations for qualitative & quantitative factors, definition of key performance & risk indicators, risk appetite, risk scores, scales & maps, use of data & metrics & benchmarking. **VARIOUS STAGES OF RAP-**

Define biz. Objectives & Goals | **Identify events-affect achievement of biz. objectives**

Assess likelihood & impact | **Respond & mitigate risks** | **Assess residual risk**

2. UNDERSTAND & EVALUATE- Document understanding of Biz process using flowcharts, Prepare Risk control Matrix, understanding design of controls by performing walk through of end-by-end process, process wide considerations for ELCS, IT General controls, application controls.



3. TESTS FOR OPERATING EFFECTIVENESS- Assess NTE of control testing, Reliability of key reports & spreadsheet, sample testing, consider competence & independence of staff.

4. REPORTING- Evaluate control deficiencies, significant deficiencies, material weakness, remediation of control weakness, Internal control memo (ICM) or management Letter, Auditor's report.

FIVE COMPONENTS OF AN INTERNAL CONTROL FRAMEWORK

Control Environment	Risk Assessment	Information & Communication
Monitoring	Control Activities	

AUDITING IN REAL TIME EN.

1. UNDERSTAND & DOCUMENT AUTOMATED ENVIRONMENT

Required as per **SA 315**

Auditor's understanding includes-

1. Applications used by co.
2. Details of IT infra components for each app.
3. Org. structure & governance.
4. Policies, procedures & processes followed.
5. IT risks & controls.

Auditor to document- **SA-230**

3. ENTERPRISE RISK MGT. OVERVIEW

Co. Act requires Board to include statement indicating development & implementation of risk.

6. USING RELEVANT ANALYTICAL PROCEDURES & TESTS USING DATA ANALYTICS

Generating & **preparing meaningful info from raw data** using processing tools & techniques is **DATA ANALYTICS**.

Data analytics method used in an audit are known as **CAAT**.

STANDARDS, GUIDELINES & PROCEDURES

- Standards on Auditing
- Section 143 of Co. Act, 2013
- Sarbanes Oxley Act of 2002
- ISO 27001 is the information security Management system
- ITIL & ISO 2000 (Information Technology Infrastructure Library)
- Control Objectives for Info & Related Technologies (COBIT)
- Cyber Security Framework (CSF)

SEC-128-BOOKS OF ACCOUNTS

SEC. 128(1)- PLACE OF KEEPING BOOKS OF ACCOUNTS

PREPARE & KEEP AT ITS REGISTERED OFFICE books of a/c & FS for every financial year which gives a true and fair view of state of affairs of company, including that of its branch office.

Such books shall be kept on **ACCRUAL BASIS & DOUBLE ENTRY SYSTEM.**

Books of a/c may be kept at such **OTHER PLACE IN INDIA** as BOD may decide.

7 DAYS NOTICE TO BE FILED WITH ROC in writing giving Full Address of that other place. **AOC-5**

SEC. 128(2)- KEEPING BOOKS OF ACCOUNT AT BRANCH

Where company has branch office, books of account relating to transactions effected **AT BRANCH OFFICE MAY BE KEPT AT THAT OFFICE.**

PROPER SUMMARIZED RETURNS periodically are required to be sent by branch office to company.

SEC. 128(5)- PRESERVATION OF BOOKS OF ACCOUNTS

Books of a/c relating to a period of **NOT LESS THAN 8 FYS IMMEDIATELY PRECEDING FY**, or where co. had been in existence for period less than 8 years, all preceding years shall be kept in good order.

Where **INVESTIGATION ORDERED**, CG may direct that books of a/c may be kept for **SUCH LONGER PERIOD AS IT MAY DEEM FIT.**

SECTION-129 -FINANCIAL STATEMENTS

SEC. 129(1)- FORM OF FINANCIAL STATEMENTS

FS shall-Give a **TRUE & FAIR VIEW** of the state of affairs of the company

comply with the **INS-AS/ AS** notified u/s 133

shall be in the form as provided in **SCHEDULE III.**

Form & Content of FS **NOT APPLY- Banking & Insurance** companies, Co. generating/supplying **Electricity**, Form-FS **specified in Act** governing it.

SEC. 129(2)- LAYING FS IN AGM-At every AGM of company, BOD shall lay before such meeting, financial statements for Financial Year.

EXEMPTION may be granted either unconditionally/ Terms & Conditions as in notification **Central Govt. on own/ on Application by Class of Co. by notification exempt** compliance to requirements of Sec 129/ Rules if necessary in Public Interest.

COMPANY ACCOUNTS

RULE 4 (SEC 206)- BOA INSPECTION

1. Books of a/c to be Open for **INSPECTION BY DIRECTOR** at RO/other place in India **DURING BUSINESS HOURS**
2. **MEMBERS NO RIGHT TO EXAMINE**/ Inspect BOA unless Table F apply i.e. where no Articles of Association exist
3. **MEMBERS INSPECT** Book of a/c if it is Conferred by Co/Authorize by GM/ BODS Read with Regulation 89 (ii)
4. Inspection of **SUBSIDIARY** Books & papers to be done only by Person authorized for it by board resolution
5. **FINANCIAL INFO. MAINTAINED O/S INDIA**-copies to be maintained & produced for Inspection by Director-Rule 4
6. Furnish Request + Full details, Period of info asked to Director in **15 DAYS** of Date of receipt of written request

RULE 3- ELECTRONIC-FORM OF BOOKS OF ACCOUNTS

Complete & Unaltered information

Proper system for Storage, Retrieval, Display or Printout of E-records (not to be disposed of/ rendered unusable)

Remains **accessible in India** for **subsequent reference**

Retained completely in format **Originally Generated**

Info in E-record of doc-capable of displayed in **Legible form**

Backup of E-Books of a/c at place outside India to be kept in **servers physically located in India** periodically

Intimate ROC-Annual Basis- at time of Filing of FS-Name, IP Address & Location of Service Provider.

Received from **Branch Office not be altered** & be kept in manner depicting it was Originally received from branches.

SEC. 129(5)-NON-COMPLIANCE WITH AS/IND AS

Where FS of co. **DO NOT COMPLY** with AS/ IND AS, co. shall disclose in its FS following-

1. **DEVIATION** from AS/ IND AS
2. **REASONS** for such deviation
3. **FINANCIAL EFFECTS** arising out of such deviation.

SEC. 129(3) & 129(4)- CONSOLIDATED FS

Prepare **CFS** of own Co. with subsidiaries (Joint Venture & Associates) in same form & manner as that of its own.

AOC-1-Attach with FS- **Separate Statement** of salient features of FS of **SUBSIDIARIES**

Rule 6-CFS- SCHEDULE III & IND-AS 110/28 & AS-21

If Co. not required to make CFS by IND AS/ AS, whether **comply to SCHEDULE III** for CFS.

EXEMPTION FROM CONSOLIDATION- CO. ACT, 2013

Intermediate holding Co. Exempted-

Parent files CFS with ROC in compliance to IND-AS/ AS.

Securities not listed/not in process of listing on Stock exchange.

S/h do not object for not prepare CFS

SECTION-130 -RE-OPENING OF ACCOUNTS

PROVISO TO SEC. 130(1)

REQUIREMENT BEFORE PASSING THE ORDER

Court/Tribunal shall give notice to CG, Income-tax authorities, SEBI/ statutory regulatory body/authority/any person & Shall take into **consideration representations,** made by persons to whom notice was given.

SEC. 130(2)- STATUS OF REVISED A/C

Accounts so revised or re-cast u/s 130(1) shall be final.

SEC. 130(3)- LIMITATION TO REVISION

No order shall be made u/s 130(1) in respect of re-opening of books of a/c relating to period earlier than **8 FINANCIAL YEARS** immediately preceding the current financial year (except when books of a/c are kept for longer period)

- ❖ Revised FS/Report- **Max. Once in FY.**
- ❖ Reasons for such revision shall be disclosed in Board's report in relevant FY.

SECTION-133- CG TO PRESCRIBE AS

- ❖ CG may prescribe AS-recommended by ICAI in consultation with & recommendations by **National Financial Reporting Authority (NFRA)**
- ❖ In exercise of powers conferred under Sec 132, **CG made NFRA rules, 2018**
- ❖ NFRA shall have power to **monitor & enforce compliance with AS &** auditing standards, oversee quality of service or undertake investigation.

SEC- 134(5) DIRECTOR'S RESPONSIBILITY STATEMENT

- **AS Followed**
- **Not followed-departure REASONS**
- Selected **A/c policies-** applied consistently
- **Judgements & estimates-** reasonable & prudent-Give True & Fair view- BS & SPL
- Taken proper care-
- Maintenance of **adequate a/c records**
- **Safeguarding** of assets
- For **preventing, detecting fraud** & other irregularities.
- Prepared **Annual a/c going concern basis**
- Listed Company- **INTERNAL FINANCIAL CONTROLS-**Aequate & Operating effectively.
- Devised proper system- Ensure **COMPLIANCE-** Provisions of applicable Laws
- System-adequate & Operating effectively

SEC. 130(1)-ON COURT'S OR TRIBUNAL ORDER

Co. shall not re-open its books of a/c & not recast its F.S. **UNLESS-**

- ❖ **APPLICATION** is made by CG, Income-tax authorities, SEBI, any other statutory regulatory body/authority/ person concerned &
- ❖ **ORDER** is made by a court of competent jurisdiction or Tribunal

NATURE OF ORDER MADE BY COURT OR TRIBUNAL

Order is made by Court of competent/Tribunal to the effect that—

- ❖ Relevant earlier accounts were prepared in a **fraudulent manner.**
- ❖ Affairs of company were mismanaged during relevant period, casting a **doubt on reliability of financial statements**

- ❖ If it appears to **directors** of co. that-
- ❖ **FS,** or
- ❖ **Board Report**
- ❖ **Not comply** provisions section **129 or 134**

SECTION-131
VOLUTARY
REVISION OF
FS/BOARD REPORT

they may prepare revised FS or revised report

Any **3 preceding financial years**

After **obtaining approval of Tribunal** on **application by company+** Reasons **Copy of order** passed by Tribunal shall be **filed with Registrar**

Tribunal to- Give notice to CG & IT authorities - Consider representations made by CG or authorities before passing order u/s 131

SECTION-134- FS, BOARD REPORT, ETC

Sec. 134(1)

FS including CFS before submission to auditor for his report, shall be signed, on behalf of Board **at least by-**

- + **CHAIRPERSON** of the company where he is authorised by the Board **or**
- + **2 Directors** out of which **1 Managing Director** and
- + **Chief Executive Officer,** if he is a **director** in the company
- + **Chief Financial Officer** and
- + **Company Secretary** of the company, wherever they are appointed
- + In case of a One Person Company, only by **one director,**

SEC. 134(2)- ATTACHMENT OF AUDITOR'S REPORT

- + **Auditors report** to be attached to every FS
- + Signed copy- FS & CFS to be issued, circulated/ published with copy each of-
- + Notes annexed forming part of FS + Auditor report + Board report
- + **Specified IFSC Pvt. Co.-**Private ltd. co licensed to operate by RBI/ SEBI/ IRDA from IFSC (International Financial Service Centre located in SEZ)-**No need to include in Board Report info which is already included in FS.**

INTERNAL FINANCIAL CONTROL (IFR)

Policies & procedures adopted by company for ensuring-

- ❖ **Orderly & efficient conduct of its business,** Incl. adhering to co. policies,
- ❖ **Safeguarding** of assets,
- ❖ **Preventing & detecting frauds & errors,**
- ❖ **Accuracy & Completeness** of a/c records, &
- ❖ **Timely preparation** of reliable financial information.

INTERNAL FINANCIAL CONTROL OVER FINANCIAL REPORTING

Process designed to provide reasonable assurance regarding **reliability of FR & Preparation of FS** for external purposes in **accordance with GAAP.** It Includes-

- ❖ **Maintenance of records-**accurately & fairly reflect-t/n & dispositions of assets
- ❖ T/n recorded-**GAAP,** Expenditures-authorized by Mgt./Directors
- ❖ **Prevention & detection of unauthorized acquisition,** disposition of assets.

Exemption to Pvt. Co.- One Person Co., Small Co., Co. having- Turnover in FY < 50 Cr. & Borrowing anytime in FY <25 Cr.

Provided not defaulted in filing FS (Sec-137) & Annual return (Sec-92)



SEC. 132(1)- CONSTITUTION OF NFRA BY CG

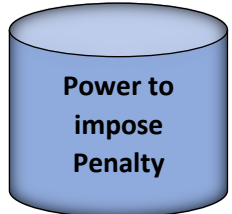
The C.G. may, by notification, constitute a **NATIONAL FINANCIAL REPORTING AUTHORITY** to provide for matters relating to accounting & auditing standards under this Act

SEC. 132(2)- FUNCTIONS OF NFRA

Notwithstanding anything contained in any other law for time being in force, the NFRA shall:

- MAKE RECOMMENDATIONS TO CG**-formulation & laying down of a/c & auditing policies & standards for adoption by co./class of companies/their auditors, as the case may be.
- MONITOR & ENFORCE** - Compliance with AS & SA.
- OVERSEE QUALITY OF SERVICE**- Professions associated with ensuring compliance with such standards, & **SUGGEST MEASURES** required for improvement in quality of service.
- Perform such other functions as may be prescribed.

NFRA shall have power to investigate,
 ✚ either **Suo moto** / on a **reference made to it by the CG**
 ✚ for such class of bodies corporate or persons,
 ✚ into the matters of professional or other misconduct
 ✚ committed by any member/ firm of CA, registered under CA Act, 1949



SECTION 132(4) POWERS OF NFRA

Notwithstanding anything contained in any other law for time being in force-

Power to investigate into matters of Professional/ other misconduct

- IMPOSING PENALTY OF-**
- ✚ **Individuals**- not less than **₹ 1 lakh**, may extend to **5 times** of fees received
 - ✚ **Firms**- not less than **₹ 5 lakh**, may extend to **10 times** of fees received.

- DEBARRING MEMBER/FIRM FROM-**
- ✚ **Being appointed**-auditor/ internal auditor/ undertaking audit in respect of FS/ internal audit of functions & activities of any Co./ body corporate; or
 - ✚ **Performing valuation** as per u/s 247, Minimum **period-6 months/** Maximum- **not exceeding 10 years** as may be determined by NFRA.

NFRA RULES, 2018

Rule 3-Classes of co. & Body corporate governed by Authority-

1. NFRA shall have power to-	Monitor & enforce compliance- AS & SA	Oversee quality of service-132(2)	Undertake investigation-132(4)
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of auditors of following class of companies & Body corporate-

- whose **SECURITIES LISTED** on stock exchange in India/outside
- UNLISTED PUBLIC COMPANIES-**
 - **Paid-up capital** -not less than **₹500 crores** or
 - **Annual turnover**- not less than **₹1,000 crores** or
 - **Aggregate O/S loans**, debentures & deposits- **not less than ₹500 crores** as on 31st March of immediately preceding FY
- INSURANCE** Co., **BANKING** Co., companies engaged in generation/supply of **ELECTRICITY**, governed by **SPECIAL ACT**
- Body corporate/Co./person/any class on a **REFERENCE** made to Authority **BY CG** in public interest &
- Body corporate incorporated/ registered **OUTSIDE INDIA**-is a subsidiary /associate co. of any co./ body corporate incorporated/registered in India as referred-in clauses (a) to (d), if **income/ net worth of such subsidiary/ associate co. exceeds 20% of the consolidated income/net worth.**

2. Every Body corporate, other than Co. as defined in clause (20) of Sec-2, formed in India- **within 15 days of appointment of auditor** u/s 139(1), inform Authority in **FORM NFRA-1**, particulars-auditor appointed by body corporate

3. Co./Body corporate other than co. governed under this rule shall continue to be governed by Authority for period of **3 years** after it ceases to be listed/ its paid-up capital/ turnover/ aggregate of loans, debentures & deposits falls below limit stated

RULE 5: ANNUAL RETURN

Every auditor referred to in rule 3 shall file return with Authority on or **before 30th Nov.** every year in **NFRA- 2**

RULE 6: RECOMMENDING AS & SA

- For purpose- recommending AS/SA- CG Approval NFRA
 - Shall **RECEIVE RECOMMENDATIONS FROM ICAI** on **proposals for new AS/SA/amendments** in existing
 - may seek **ADD. INFO FROM ICAI** on recommendations received in clause (a), if required.
- Authority shall **consider recommendations** & add. info. such manner-as it deems fit before recommending to CG.

RULE 8: MONITORING & ENFORCING COMPLIANCE WITH AUDITING STANDARDS

- NFRA - **Review working papers** & communications
 - Evaluate sufficiency of quality control system** of auditor & **manner of doc** of system by auditor.
 - Perform other testing** of audit, supervisory, & quality control procedures of auditor-considered necessary
- Auditor to **report on governance practices & internal processes designed**-promote audit quality, protect reputation & reduce risks-failure of auditor & action
- Seek add. info**/personal presence of auditor- seeking add. info in connection with the conduct of an audit.
- Perform monitoring & enforcement activities through **officers/experts with experience**-relevant industry.
- Publish findings-non-compliances on website** & manner considers fit, **unless has reasons not to do so in public interest** & records reasons in writing.
- Not publish proprietary/ confidential info**, unless reason public interest & records reasons in writing.
- Send **Separate report-proprietary/confidential info** to **CG** for its info.
- NFRA finds/ reason to believe any law/ professional/ other standard- **violated by auditor**, it may decide on further investigation/enforcement action.

RULE 9: OVERSEEING THE QUALITY OF SERVICE & SUGGESTING MEASURES FOR IMPROVEMENT

- On basis of review, **direct auditor takes measures-improvement of audit quality** incl. changes in their audit processes, QC, & audit reports & specify detailed plan with time-limits.
- shall be **auditor's duty to make required improvements & send report to NFRA**-how it complied with directions made by NFRA
- Monitor improvements** made by auditor & take such action as it deems fit depending on progress made by auditor.
- Refer cases** with regard to overseeing quality of service of auditors of co./bodies corporate referred to in rule 3 to the QRB constituted under CA Act, 1949 or call for report/ info in respect of such auditors/co./body corporate from such Board.
- take **assistance of experts** for oversight & monitoring activities.

Punishable with fine which may extend to -

- ₹10,000, &
- where contravention is continuing, further fine which-extend to ₹1,000 for every day after 1st contravention continues.

SECTION 135- CORPORATE SOCIAL RESPONSIBILITY

APPLICABILITY-Applies to All Co. having-

Turnover ≥ Rs. 1000 Cr. Net worth ≥ Rs. 500 Cr.

Net Profit ≥ Rs. 5 Cr. during immediately preceding FY

Constitute CSR Committee

EXEMPTION- Ceases to cover in limit for 3 Consecutive FYs No CSR Committee & no Sec 135 till meets such criteria.

CSR committee > 2 Directors if co. not required to appoint Independent Director u/s 149(4)

CSR ACTIVITIES UNDER SCHEDULE VII

- Promote Healthcare, Education & Gender equality
- Homes for Women, Orphan & Senior Citizen
- Eradicate hunger, poverty & malnutrition
- Protect Natural Heritage, Art, & Culture
- Measures to reduce Inequalities faced by socially & economically backward groups
- Contribute to PMs National Relief Fund/ other fund setup by CG for welfare of SC, ST, OBC & Minority
- Contribute to Technology Incubators in CG approved Academic Institutions & Rural development projects
- Benefit Armed forces veterans, widows & dependents
- Sustain Enviro, Ecological, Animal welfare
- Training to promote rural, nationally recognized, Paralympics or Olympic Sports
- Contribution to Clean Ganga fund or Swachh Bharat Kosha or Slum Area Development

CSR policy of Co. need to be disclosed on its website

If co. fails to spend CSR- Reason in Board report

RULE 13: PUNISHMENT IN CASE OF NON-COMPLIANCE

Company	Officer of co.	Auditor	Another person
Contravenes any of provisions of these rules,			
Company & every officer of company, who is in default/ auditor/ such other person shall be punishable as per provisions of Sec. 450 of the Act.			

SECTION- 450

- If Co./officer of Co./another person
- contravenes provisions** of this Act/ rules made thereunder/condition/ limitation/restriction
- subject to which approval**, sanction, consent, confirmation, recognition, direction or exemption in relation to any matter has been accorded/given/**granted**, &
- for which **no penalty/punishment is provided elsewhere**, Co. & every officer of co. who is in default or any other person.

- ❖ **Formulate & recommend** to Board, CSR Policy indicating activities to undertake &
- ❖ **Recommend Expenditure** to incur on CSR activities &
- ❖ **Monitor CSR Policy** of Co. from time to time.

CONSTITUTION OF COMMITTEE

- ❖ Minimum- 3 + At least 1 ID
- ❖ Unlisted public Co./ Private Co- have its CSR Committee without any IDA
- ❖ Private Co. with only 2 directors- Constitute-2 directors only
- ❖ Foreign Co.-Committee 2 persons (1 resident in India)
- ❖ Board Report to include Composition of CSR Committee.

ACTIVITIES NOT CSR- Contribution to Political Party

Activities outside India	CSR activities in normal course of biz
CSR expense benefiting only Co. employees.	Expenses due to Act or Statute or Regulations (MCA Circular)

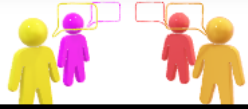
HOW TO UNDERTAKE CSR ACTIVITIES

Through **Registered Trust/ Society/Co. established** (Trust to be established by Co/holding/subsidiary/associate & if not- Trust-Track Record-3 years- undertaking similar programs/ projects)

Collaborate with other companies- CSR projects/programs
Build CSR capacities-own personnel & implementing agencies through institutions-Track Record- 3 FYs **but such exp must not exceed 5 % of Total CSR exp of Co. in 1 FY**

NOTIFICATION & CIRCULARS ON CSR

CSR expense by Co. to be in **Project/Program mode**
 CSR policy **relatable to Schedule VII**.
Deemed CSR by Indian Subsidiary-Expense by Foreign Holding Co for CSR activities in India.
 Contribution to Corpus of Trust/ Society/ Sec 8 Co. will be CSR expense if it is **exclusively created**-CSR Activities-Schedule VII.
 CSR **not-Claimed** as Business Expense/ Professional Expense
 CSR **not to form part**-biz expense already taken exemption of under Income Tax Act 1961
 Co with **Small CSR funds** take up CSR Activities/ Program/ Project can combine-similar Co. by pooling CSR resources.



SECTION-136- RIGHT OF MEMBERS TO COPIES OF AUDITED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS & OTHER DOCUMENTS COPY TO DISPATCH

Audited financial statements + consolidated financial statements + Audit Report + Other documents send To every Member, Trustee of Debt holder, all entitled.

NOT LESS THAN 21 DAYS before AGM

Kept for Inspection-at its **Registered office-business hours**

ABRIDGED ACCOUNTS -IN CASE OF LISTED CO.

- Summary of FS- **FORM AOC-3**- AS based financial statements
FORM AOC-4- IND AS based financial statements, **unless** Shareholders ask for full financial statements.
- Deemed compliance with Sec 134** if copies of docs available for Inspection at its Registered Office during working hours-21 days before Date of meeting.
- Financial statements & consolidated financial statements & other documents-**website**.
- Section 8 company**- Instead of 21 days-**14 days** is considered.

RULE 11 (MANNER OF CIRCULATION IN CERTAIN CASES)

Listed & other Public Co- **E-serving of financial statements**

Net Worth- > 1 Cr & Turnover > 10 Cr may send financial statements by-

- E-Mode-members whose **shareholding is dematerialized** & Email ids registered with Co.
- E-Mode-members **not holding shares physically** & given **written consent to get FS by E Mode**.
- Physical Copy-Registered/Speed Post/Courier.

FINANCIAL STATEMENTS ADOPTED IN AGM-

File to ROC within **30 days from AGM** -FS+ CFS+ All docs required to be attached with FS+ FS-Subsidiaries outside & not with established Place of Business in India-**AOC-4**.

One Person Co.- Filed to ROC- **180 days- Closure of FY**

FINANCIAL STATEMENTS NOT ADOPTED AT AGM

File-**30 days** from Date of AGM/ Adoption Adjourned AGM
File **provisional Financial Statements- 30 days** till Audited & Adopted financial statements filed

Un-adopted financial statements & other documents if **not filed in 30 days**- filing may be done in **300 days with additional fee**.

SECTION-138- INTERNAL AUDIT- RULE 13

Appointment of Internal Auditors/Firm of Internal Auditors

All **Listed Co. & Unlisted Co.** having any of the following-

Paid up Sh./Capital > **50 Cr.** Turnover > **200 Cr.**

O/s Borrowing > **100 Cr.** O/s Deposits > **25 Cr.**

Pvt. Ltd. Co- Turnover > **200 Cr OR** O/s Borrowing > **100 Cr**

NEW INSERTION BY COMPANIES AMENDMENT ACT 2017

Copies of documents- **sent < 21 days before AGM**

It is deemed-duly sent if it is so **agreed by members**

(a) Holding, if co. has **Share capital**, majority in no. entitled to vote & represent **not < 95% of such part of the paid-up share capital** of co. as gives right to vote at meeting **OR**

(b) Having, if co. has **no share capital**, **not < 95% of Total voting power exercisable at meeting**.

LISTED CO. REQUIREMENTS - CO. (AMENDMENT) ACT 2017

Place Separate Audited a/c of each Subsidiary on its website.

Listed co.-has foreign subsidiary & if such foreign subsidiary-

- Is **statutorily required to prepare CFS** under law of country of its incorporation-Requirement of this proviso shall met if **CFS of foreign subsidiary is placed on website** of listed co.
- Is **not required to get its FS audited** & which does not get such FS audited-**holding Indian listed co. may place such unaudited FS on its website**.

PROVISIONS FOR NIDHI CO.

Not send FS to individual members- if members **not** Individually/Jointly **hold** shares > **1000 face value or > 1 % of Total paid up share capital**, whichever is less.

Intimation-**public notice-newspaper** in district of Registered Office of NIDHI-Date, Time & venue of AGM & FS with enclosures can be inspected at RO & affixed in Notice Board.

AGM NOT HELD- File in **30 days** of Last Date before AGM **due**-FS & docs duly signed with **reasons** of AGM not held
As per ICAI view expressed-Only Audited FS-submitted to ROC

FS in XBRL (Extensible Bus Reporting Language) filed to ROC by

All **Listed Co.** & their subsidiaries

All Co.-**Paid up capital- > 5 Cr OR Turnover- > 100 Cr.**

Exemption-Banking, Insurance, Power sector, NBFC & housing finance co. not required to file under this rule.

Companies Required to furnish **Cost Audit Report** & other docs to **CG** – To File report using XBRL.



- Internal Auditor**- CA (in practice or not)/ CWA/ Other professional decided by BOD.
- Audit Committee/ Board in consultation with Internal Auditor**-Formulate scope, functioning, & periodicity for conduct of Internal Audit.

COMPANY AUDIT

Appointment of 1st AUDITOR

SUBSEQUENT AUDITOR

GOVERNMENT CO. SECTION- 139(7)	NON- GOVERNMENT CO. SECTION- 139(6)
<ul style="list-style-type: none"> CAG to appoint 60 Days from date of registration (BOD to inform CAG) 	<ul style="list-style-type: none"> BOD to appoint 30 days of Registration of Company
<ul style="list-style-type: none"> CAG Not appoints- BOD appoint Auditor Next 30 days 	<ul style="list-style-type: none"> BOD fail BOD to inform members
<ul style="list-style-type: none"> If BOD fails- (BODs to inform members) Shareholders in EGM Within 60 days 	<ul style="list-style-type: none"> Shareholders in EGM Within 90 days from date of registration
hold office till Conclusion of 1st AGM	hold office till 1st AGM Conclusion

CASUAL VACANCY

Death, Resign or Disqualification of Auditor/ Firm of Auditors

GOVERNMENT CO.	NON- GOVERNMENT CO.
<ul style="list-style-type: none"> Filled by CAG in 30 days 	<ul style="list-style-type: none"> Other Reason- Filled by BODs in 30 days
<ul style="list-style-type: none"> CAG Not appoints BOD- next 30 days 	<ul style="list-style-type: none"> Resignation-S/h Approval in GM- 3 months-BOD recommend If GM not ratify it-BOD appoint- Board Resolution.

SECTION 139(9)-NON-REAPPOINTMENT

Retiring auditor may be reappointed **UNLESS-**

- Refused in writing
- Disqualified
- Special resolution passed for not appointing him as auditor or appoint another auditor.

SECTION 139(10)-WHEN NO AUDITOR IS APPOINTED IN AGM

Previous auditor to continue. **Provided-**

- No disqualification u/s 141 attracted-retiring auditor
- Retiring auditor is willing to continue
- Rotation provisions are not applicable.

SEC. 139(11)-RECOMMENDATION BY AUDIT COMMITTEE

Whenever auditor is appointed including filling of casual vacancies to be made recommendations of AC is taken.

SECTION-140- REMOVAL, RESIGNATION & REQUIREMENT OF SPECIAL NOTICE

- **BOD Resolve** to remove existing auditor
- Before taking action-Auditor provided **Opportunity of being heard**
- Obtaining **prior approval of CG** in prescribed manner
- Passing **Special Resolution** in General Meeting
- Principle of **Audi Alteram Partem** to be followed-Representation Rights.

GOVERNMENT CO.-SECTION-139(5)

- CAG to appoint in **180 days** of Commencement of FY
- hold office till Conclusion of next AGM.

NON- GOVERNMENT CO.-SECTION-139(1-4)

SEC-139(1)-Appointment of Subsequent auditor-RULE 3/4

- Hold office from 1st AGM till conclusion of 6th AGM & thereafter till every 6th AGM under Rule 3
- Audit Committee recommend BOD-proposed auditor
- BOD not consider AC recommendation- Reasons-members
- Proposed auditor-Written certificate in **RULE 4**
- Company in AGM appoint auditor
- Within 15 Days**-conclusion of AGM FILE- **FORM-ADT-1-ROC**
- In case of IFSC Co. (International Financial Service Centre)-**30 days** taken rather 15 days above

Written certificate- RULE 4 of CAAR

- Eligibility from auditor under **CA Act & regulation**
- Appointment as per **Companies Act 2013**
- Within **Ceiling limits**- Section 141(3)(g)
- Any kind of **disciplinary actions/proceedings** against him

SECTION-139(2)- Rotation & Cooling Period **RULE 5/6**

Applicability- Rule 5

- | | |
|--|-------------|
| ✓ Listed co. | ✗ OPC |
| ✓ Public Co.- PSC ≥ 10 Cr. OR | ✗ small Co. |
| ✓ Private Co.- PSC ≥ 50 Cr. OR | ✗ Specified |
| ✓ Either of Co.- Public borrowings ≥ 50 Cr. | IFSC Co. |

Rotation, Cooling period & Transitional provisions- Rule 6

Not appointed as auditor after

- Individual-auditor- Completed 1 term of 5 consecutive Years
- Audit firm-auditor- Completed 2 term of 5 consecutive Year

- AC/BOD shall recommend name of auditor, who replaces Existing auditor.
- BOD shall forward recommendations to members &
- Members will appoint the auditor in AGM.

Cooling period- After Completion of above time period cannot be appointed as auditor- **5 Years from completion**

Cooling Period applies on-

- Retiring auditor/ Firm
 - Common partner firm
 - Signing partner-retiring firm-retires & joins another firm
- Individuals belonging to same network of firms.**

Transitional provisions-Every Co. existing before commencement of this Act- Shall comply with 139(2) not later than Date of 1st AGM **after 3 years** from Date of commencement of this Act.

SECTION-139(3)- Joint Audit & Rotation of Audit partner

Co. may provide rotation of audit partners-SQC-1-7 years

SECTION-139(4)- Powers of CG to Make Rules

CG can make rules. Rule 6 made by CG.

RULE 7- Application to CG-
30 days of Passing Board Resolution **FORM- ADT-2**

After CG approval **withing 60 Days Special Resolution** passed in EGM of shareholders

SECTION 140(2)-RESIGNATION OF AUDITOR

1. • **Rule 8**- Auditor to inform his resignation **FORM-ADT-3**
2. • Within **30 days** of resignation with Reasons
3. • To **ROC**, CAG (if Govt. co.)

SECTION 140(4)-REQUIREMENT OF SPECIAL NOTICE

1. • **Special notice required to pass Special resolution** at AGM providing
2. • **Appointing someone else** as auditor or
3. • **not to reappoint** retiring auditor
4. • Special Notice shall be received by company at least **14 days before AGM** & Forward to auditor
5. • Copy of Notice & Representation **sent to every person** who got notice of AGM
6. • Auditor may demand **reading Representation** in Meeting
7. • Copy of Representation **not sent required-Copy filed ROC**
8. • Co aggrieved may apply to Tribunal for not sending/reading Representation-If **auditor abused rights**
- **Tribunal satisfied-Copy of Representation not be sent** nor read at meeting.

SECTION-140(3)-PENALTY FOR CONTRAVENTION

1. • Minimum-₹ 50,000 or audit fees, whichever is lower.
2. • Maximum- ₹ 5,00,000.
3. • Add. - ₹ 500 per day for which default continues.

SECTION-140(4)-REMOVAL BY TRIBUNAL

1. • Tribunal may either **Suo motu** or **on application of CG** or other **concerned person**, may be order
2. • to direct company-removal of its auditors
3. • if it is of opinion that auditor of company directly/indirectly acted in fraudulent manner.
4. • If **on an application of CG**- it shall within **15 days** of application direct that
5. • Auditor cannot continue & **CG to Appoint another auditor**
6. • Individual/Audit firm against whom order passed by Tribunal, **disqualified** to be appointed as auditor-5 years & liable to be **punished u/s 447** of Companies Act, 2013.

SECTION-141(1), (2)-Eligibility for Appointment

Sec-143 (1)-Only **CA** is eligible for Appointment

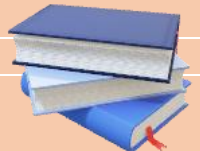
Sec-143 (2)-Firm (Incl. LLP) with **Majority of Partners Practicing in India** are CA can be Eligible for Appointment under Firm Name

Only **CA partners-Authorized to Act & sign** on behalf of firm

SECTION-141(3)-DISQUALIFICATION

Following Person ineligible for Appointment as Auditor

- d) Person, who himself or his relative or partner-
 - is **holding any security/ any interest** in Co., holding, associate, subsidiary or subsidiary of such holding company (CHASS) **Rule 10-Relative-hold securities-Face value up to ₹ 1 Lac**. In case holding exceeds **₹1 Lac**, auditor is required to take corrective action **within 60 days**.
 - is **indebted** to CHASS for amount **> 5 Lac**
 - has **guarantee** to CHASS for amount **> 1 Lac**.
- e) Person/Firm-Directly or Indirectly has **Business Relationship with CHASS EXCEPT Professional services** or Transactions in ordinary course of bus at Arm Length Price.
- f) Person whose **Relative-Director** or **Key managerial personnel (KMP)** of Co.
- g) Who is in **full time employment** elsewhere or **who is auditor of > 20 Companies**
EXCLUDING - OPC, Small Companies, dormant companies, and - Pvt. companies having PUC < 100 Cr.
CEILING ON NUMBER OF AUDITS- CA can do any No. of Audits of these Companies but as per Council General Guidelines, Upper Limit-30 including above Companies.
- h) Who is **convicted by court** of any offence involving **fraud & period of 10 years not elapsed** since date of conviction.
- i) Person, who directly/indirectly **renders any services referred u/s 144** to company, holding company or subsidiary company.



SECTION-141(4)-DISQUALIFICATION

Where person attracts any disqualifications referred u/s 141(3) after appointment as auditor he shall vacate office & such vacancy will be treated as **Casual Vacancy**.

SECTION-142-REMUNERATION

AUTHORITY TO FIX REMUNERATION-Remuneration of auditor shall be determined by-

- ✓ 1st Auditor appointed by **BOD**
- ✓ Else-**Company in general meeting** or may prescribe manner in which remuneration may be fixed.

Inclusion- Remuneration shall include all expenses incurred in relation to audit

Exclusion- Remuneration shall not include the remuneration for other services rendered.

SEC-145- SIGNING OF AUDIT REPORT & FS & READING AR

Auditor-**CAIP/ Partner** of his firm-Sign Audit Report & Certify other documents

Qualifications/observations/comments on Financial Transactions or matters having Adverse effect on functioning of Co.-Mention in Audit Report & read before GM & be open to inspection by members



SECTION-143-POWER, RIGHT & DUTIES OF AUDITOR

1. RIGHTS OF AUDITOR

2. **Right of Access** to Books of a/c & vouchers at all times, whether kept at registered office or elsewhere
3. **Right to obtain information** & Explanation-required for purpose of audit from officers or employees of Company
4. **Right of access to records of subsidiaries**-Auditor of holding co.-right of access to records of subsidiaries & associate co. in relation to audit of CFS
5. **Right to resign**-Specified in 4th proviso to Sec. 139(2)
6. **Right of opportunity of being heard**-In case of removal before completion of tenure.
7. **Right of representation**-If special notice to pass SR wrt. appointing another auditor/not reappoint retiring Auditor (Sec. 140(4))

SECTION 143(1)- SPECIFIC INQUIRIES REGARDING-

1. **EXCEPTION REPORTING-REPORTING OF PROPRIETY MATTERS ONLY IF ADVERSE FINDING**
2. **Loans & Advances-Secured & Terms not prejudicial** to Interest of Co. & Members
3. **Book entries-Not prejudicial**
4. **Co. other than Investment/ bank co.- Sold securities below cost**
5. **Loans shown as deposits**
6. **Personal expenses- Debited to P&L**
7. **Shares issued for other than cash** whether disclosed

SEC-142(2) Auditor to issue report on every FS & doc. Forming part of FS to be laid before AGM-whether FS gives true & fair view or not.

SECTION 143(3)- SPECIFIC REPORTING REQUIREMENTS

Auditor has to report on following matters whether or not there exists any qualifications/ adverse remarks.

- a) Whether all **info & explanation** necessary for audit-**Obtained**
- b) Proper **Books of A/c-maintained & Returns from branches** not visited received.
- c) Branch audited by **Branch auditor reports u/s 148(1) send to company auditor** & auditor dealt such reports
- d) **FS prepared as per Books of Accounts**
- e) FS comply with AS/IND AS
- f) **Observations or comments-of auditor**-Financial/other matters- **adverse effect on functioning of company-EOM**
- g) **Director-G-Disqualifications u/s 164 (2)**-Report-Director disqualification-
Section 164(2)- Director will be disqualified to be appointed as director-5 Years + Vacate u/s 167(1)(a)
Not filled FS/annual returns-3 consecutive years OR
Failed to repay- Public deposits+ interest, debenture + interest, declared dividends- Failure continues- >1 Year.
- h) **Qualifications, reservations & adverse remarks**-A/c matters-Reported as modification in AR.
- i) **Internal Financial control** with reference to **Financial Reporting- Rule 10A**
 No reporting needed for IFC effectiveness if- OPC & Small Co. & Co. whose-
Aggregate Borrowings- < 25 Cr-Bank/PFI/Body corporate-at any time in FY & **Turnover < 50 Cr** as per latest Audited FS
- j) **Additional comments to be reported- RULE 11**
 - ✓ **Provisions** for Material Foreseeable loss on **LT Contracts** made
 - ✓ **Disclosure of Pending Litigations** Impact on Financial Position
 - ✓ Any delay in **Transferring amt to Investor education & protection fund**



SEC-143(4)- **Reasons for reservation**- Auditor to give reasons for qualifications given under 143(3)

SECTION-143(5)

C&AG can give **supplementary instructions to auditor** & auditor of govt. co. to report on matter as required under this act & supplementary instruction to C&AG.

SECTION-143(6)

C&AG- in **60 days** of auditor's report can order- **SUPPLEMENTARY AUDIT**. Make inquiries-auditor. Additional audit & not review of work of auditor

SECTION-143(7)

C&AG-can also order **TEST AUDIT** of company.

SECTION-143(8)-BRANCH AUDIT

Co. Auditor/ other person to conduct audit of branches **UNLESS** auditor is appointed.

Appointed by- **Shareholders in GM or Shareholders may decide**

Branch Auditor Report to be sent to Auditor of Company who to deal with it as necessary.

SEC-143(9)- Auditor to follow **Standards on Auditing**

SEC-149(10)- CG may prescribe SAs in consult with **NFRA (National Financial Reporting Authority)**

SEC-149(11)- **CARO**- CG may direct Auditor Report to include Statement on matters in order issued (**CARO 2016**)

SEC-143(13)- No liability on auditor-Reporting of Fraud u/s 143(12) if reporting **Done in Good Faith**

SEC-143(14)- Sec-143 apply mutatis mutandis apply to-**Cost Accountant in Practice & CS in practice**

SEC-143(15)- **FINE FOR NON-REPORTING OF FRAUD-1 Lakh to 25 Lakhs**



SECTION-143(12)-FRAUD REPORTING

RULE 13 of CAAR, 2014

Fraud involving amount <1 Crore

Fraud involving amount >1 Crore

- ✚ Auditor Within **2 days** of knowledge of fraud
Report Board/AC.
- ✚ Nature & description of Fraud
- ✚ Approx. amt. involved &
- ✚ Parties involved

- ✚ Within **2 days** of knowledge of fraud.
- ✚ Report to Board/AC
- ✚ Seeking reply within **45 days**

Reply/ Observation
received within stipulated time

Reply/ Observation
Not received within stipulated time

Forward Report+
Reply to **CG within 15 days** of receipt of such reply-**ADT 4**

Forward Report+
Note-details-report for which failed to receive reply

Report on Letter Head of CA, Address, Mail, Phone No., Sign, Seal & Membership No.

- ✚ **Co. bound to disclose certain specific details in Board's report-**
- ✚ Nature of Fraud.
- ✚ Approx. amt. involved &
- ✚ Parties-if remedial action taken or not.

SECTION-144-PROHIBITION TO RENDER CERTAIN SERVICES



Following **Services are prohibited** to be rendered directly or indirectly by-

- ✘ CA, relative, Entities where relative have SI/ Control, Common control entities
- ✘ If firm- CA, partners, Entities where relative have SI/ Control, Common control entities

To Company, Holding, Subsidiary

1. Accounting & book keeping services
2. Internal Audit services
3. Outsourcing services
4. Actuarial Services
5. Investment advisory
6. Investment Banking
7. Design & Implement Financial Information System
8. Management consultancy Services
9. Other Prescribed Services.

SECTION-146- ATTEND GENERAL MEETING

- ✓ Co. to give all Notice & communication of General Meetings to Auditor
- ✓ Auditor to attend GM **through himself/ his authorized representative UNLESS** exempted by co.
- ✓ Shall have right to be heard at such meeting on part of business which concerns him as Auditor.

SECTION-147- PUNISHMENT FOR CONTRAVENTION

147(1)-Contravention-Sec-139-146

Company & every Officer

Company-Fine from **25,000 to 5 Lakh**
Officer in Default-
Imprisonment **up to 1 year, OR**
Fine **10,000 - 1 Lakh or Both**

147(2)-Contravention-Sec 139, 143, 144, 145

Auditor- Non-compliance-
Minimum-Fine 25,000 to
Maximum-5 Lakh OR 4 Times
Remuneration, whichever is less

Involved in Fraud-

Imprisonment **up to 1 year AND**

Minimum-Fine 50,000 to

Maximum-25 Lakh OR 8 Times Remuneration- whichever is less

- ✓ **Refund Remuneration** received
- ✓ **Pay for damage-**to Co., statutory bodies or authorities or to members or creditors of co. for loss-incorrect statements.

SECTION-148- COST AUDIT

1. Requirement of maintenance of cost accounting records-

- ✓ **CG-order-companies** engaged-production of prescribed goods/services
- ✓ particulars relating to **material, labour & other items** of cost shall be included in books of A/c.
- ✓ **Rule 3-** Co. + foreign co. engaged in production of goods/services-include cost records in their books of A/c
- ✓ **Overall Turnover-All products/ services > 35 Cr.**

2. Sec-148(2)-requirement of cost audit-

CG-audit of cost records of companies-u/s 148(1)-**Rule 4-** requirement-

In case of regulated sector	In case of non-regulated
Overall annual turnover-all products/ services - > 50 cr. Aggregate turnover-individual products/services - > 25 cr.	Overall annual turnover-all products/ services - > 100 cr. Aggregate turnover-individual products/services - > 35 cr.

3. Exemption from cost audit- cost audit shall **not be applicable** to a company

- ✘ Whose **revenue from exports** in foreign currency **> 75%** of total revenue, or
- ✘ Which is operating from **special economic zone (sez)**, or
- ✘ Which is engaged in **electricity generation for captive consumption.**



SEC-123- DECLARATION OF DIVIDEND



AUDIT OF DIVIDENDS



SEC-124-UNPAID DIVIDEND ACCOUNT

1. 123(1) – Source of Dividend

- ❖ **When Co. Has ADEQUATE Profit in CY**
 - ✓ Current Year Profit After Depreciation
 - ✓ PY Profit lying in accumulated P&L after depreciation
 - ✓ Out of Funds provided by CG or SG
- ❖ **When Co. has INADEQUATE Profit in the CY**
 - ✓ Out of Acc. Profit in PY and Transferred to Free Reserve [Co. (Declaration & Payments of Dividend) Rules 2014 is required to be followed]
 - ✓ Such Rule shall not apply to Government Co. (100% Government Ownership)
- ❖ **Notes - Profit should not include notional/unrealized gains**
- ❖ **Transfer to Free Reserve – 1st proviso to 123(1) - Company may transfer appropriate % of profits to reserves.**
- ❖ **Dividend cannot be declared unless carried over losses & dep. not provided in earlier years are set-off against profit of CY.**

2. 123(2) – Depreciation

Shall be provided in accordance with **provision of Schedule II**

3. Declaration of Dividend out of Free Reserve i.e. Rule 3 of co. (Declaration & Payments of Dividend) Rules 2014

- ❖ **Dividend out of Free Reserve-Subject to conditions-**
 - a) **Rate of Dividend < Average rate of preceding 3 years.**
 - b) **Amt withdrawn from reserves < 10% of PUC & free reserves.**
 - c) **Balance of Reserves after withdrawal > 15% of PUC.**
 - d) **Amount withdrawn from reserves shall be first utilised to set off the losses of Current FY.**

4. 123(3) – Interim Dividend

- ❖ **BOD of Co. may declare Interim dividend**
- During any FY or Anytime between FY end & date of AGM**
- ❖ **OUT OF-**
 - (a) Surplus in P&L
 - (b) Profit of CY
 - (c) Profits in CY till the quarter preceding date of declaration of Interim dividend

Note-In case of any loss in CY rate of Dividend cannot be higher than average dividend of preceding 3 FY

5. 123(4) – Depositing of Dividend

Dividend including interim dividend shall be **deposited** within **5 DAYS OF DECLARATION** in **Separate Bank Account.**

6. 123(5) – Payment of Dividend

- ❖ **Dividend Shall be Paid Only to**
 - a) Registered Share Holder or
 - b) To his Order or
 - c) To his Banker

In form of CASH ONLY (paid by Cheque/DD/ECS mode also)

7. 123(6) – Prohibition on Declaration of Dividend

- Company **FAILING TO COMPLY** with: -
- 2) **Sec-73**-Prohibition on acceptance of deposits from public &
 - 3) **Sec-74**-Repayment of deposits accepted before commencement of Act.

As long-failure continues, not-declare Dividend-Equity Shares.

1. 124(1)- Transfer to Unpaid Dividend A/c

- ✚ Dividend declared but not paid/claimed
- ✚ **within 30 days** from date of declaration,
- ✚ shall be **transferred to unpaid dividend account**
- ✚ **within 7 days** from the expiry of 30 days.

2. 124(2)- Statements of Particulars

- Company in **90 days** of making any transfer of amt u/s 124(1): -
- a) **Prepare Statement of Names**, last known addresses & unpaid dividend payable to each person &
 - b) **Place it on website** of co. & other web-site approved by CG for this purpose in manner & particulars prescribed

3. 124(3)- Default In Transfer

Any default will attract **interest @ 12% p.a.** to be paid to members in proportion to amount remaining unpaid

4. 124(4)- Apply for Claim

Any person entitled for money transferred to unpaid dividend account may apply to company for **payment of money claim.**

5. 124(5)- Transfer to IEPF

- ✚ Money transferred to unpaid dividend account remaining **UNCLAIMED-7 YEARS SHALL BE TRANSFERRED TO IEPF**
- ✚ Co. to send **Statement of details of transfer to authority which administers said Fund.**
- ✚ Authority-issue Receipt to company as evidence of Transfer

6. 124(6)- Transfer of Share to IEPF

- ✚ All shares in respect of which dividend has not been paid for 7 consecutive years/more shall be transferred to IEPF.
- ✚ Claimant of shares shall be entitled to claim the transfer of shares from IEPF

7. 124(7)- Non-Compliance

- ✚ Company punishable-Fine from Rs. 5 Lakhs to Rs. 25 Lakhs.
- ✚ Officer in default-Rs. 1 Lakhs to Rs. 5 Lakhs

SEC-125-INVESTOR EDUCATION & PROTECTION FUND

125(1)-Authority

Central Government shall establish a fund called IEPF

125(2) -Amount to be transferred to Fund

- 1) Amount given by CG as **grants** after appropriation by Parliament by law.
- 2) **Donations**-CG, SG, Companies/other institution for Fund.
- 3) **Unpaid Dividend A/c** co. transfer to Fund u/s 124(5).
- 4) **IEPF lying u/s 205C** of Co. Act 1956.
- 5) **General revenue a/c** of CG transferred to a/c u/s 205 remaining unpaid/ unclaimed on commencement of Act.
- 6) Amount received-**disgorgement or disposal of securities.**
- 7) **Income from investments** as Interest or other income on investments of Fund.
- 8) **Application money got for allotment of securities** & due for refund + Interest accrued
- 9) **Matured deposits** with co. except banks + Interest accrued
- 10) **Matured debentures** with companies + Interest accrued
- 11) **Amount of sale proceeds of fractional shares** of bonus shares, merger & amalgamation for **7 or more years.**
- 12) **Redemption amount of preference shares** remaining unpaid/ unclaimed for **7 or more years.**

SEC-125-INVESTOR EDUCATION & PROTECTION FUND

125(3) – Utilization of Funds

- ✚ **Refund** of unclaimed dividends, matured deposits, matured debentures, application money due for refund & interest thereon
- ✚ **Promotion** of investor, education, awareness & protection
- ✚ **Distribution of disgorged amt.** among eligible applicants;
- ✚ **Reimbursement-legal expenses-** class suits u/ss 37 & 245
- ✚ Any other purpose incidental thereto.

125(4) -Claim Apply

Person Claiming amount u/s 124(2) may apply to Authority u/s 125(5) for payment of it

125(5)-Authority for administrating the fund

- ✚ CG Constitute the authority by notification
- ✚ Authority for admin of IEPF consisting of Chairperson & other members not > 7 & CEO as CG may appoint

125(6) – Handling Funds

Manner of admin of Fund, appointment of chairperson, members & CEO and holding of meetings of authority will be as per rules prescribed under IEPF Authority Rules, 2016

125(7) – CG Provides Resources to Administer Funds

CG may provide to authority such offices, officers, employees & other resources as per IEPF Authority (Appointment of Chairperson & Members, holding of meetings & provision for offices & officers) Rules, 2016

125(9) – Right of Authority to Spend

It shall be competent for the authority to spend money out of the Fund for carrying out the objects specified in Sec. 125(3)

125(10) – Audit of Fund

- ✚ A/c of Fund-audited by C&AG of India at intervals specified
- ✚ Audited a/c & Audit Report is forwarded annually by authority to CG

125(11) – Annual Report

Authority to prepare in form & at time for each FY its annual report giving full account of activities in FY & forward copy to CG & SG & to be laid before each House of Parliament.

STEPS FOR VERIFICATION OF DIVIDEND

1. **Examine MOA & AOA-** Ascertain dividend rights of different classes of shares.
2. Confirm It is **made out of distributable profits** u/s Sec. 123.
3. **Dividend out of reserves- compliance** of conditions
4. **Inspect shareholder’s Minute Book-**verify dividend declared.
5. Examine if **dividend payable is deposited in Separate bank a/c in 5 days** of declaration of dividend.
6. Check **particulars of members** as entered in Dividend List by reference to Register of Members.
7. Check **amount of dividend paid** with dividend warrants surrendered.
8. **Verify if dividend unclaimed or unpaid in 30 days** of declaration & transferred to **“Unpaid Dividend A/c” in 7 days** from date of expiry of 30 days.
9. Verify if **Unpaid or unclaimed dividend Amount after 7 years** from date of transfer is transferred to IEPF.

Sec-126-Right to dividend, Right Shares & Bonus Shares to be held in abeyance pending registration of transfers of shares

Where any instrument of transfer-delivered to co, but **transfer not yet registered**, co-transfer dividend in **UNPAID DIVIDEND ACCOUNT UNLESS** registered holder authorises co to pay such dividend to transferee.

Sec-127-Punishment for Failure to Distribute Dividend

- ✚ **Penalty for failure to pay dividend within 30 days:**
 - ❖ **Director of co. if knowingly a party to default Imprisonment up-to 2 years**
 - Fine >= Rs. 1000** for Every day of default
 - ❖ **For Company-Simple Interest @ 18% p.a.** for the time default continues
- ✚ **EXCEPTIONS**
 - ✗ Dividend not paid by **operation of law.**
 - ✗ **Shareholder directions** to co. on payment of dividend & those directions **can’t be complied** & same is communicated to him.
 - ✗ **Dispute on Right to receive** dividend.
 - ✗ **Dividend lawfully adjusted** by company **against** any sum **due** to it from Shareholder
 - ✗ For other reason **failure to pay dividend** or to post warrant wasn’t due to default of co.

MISCELLANEOUS POINTS

SEC-8 COMPANIES-

PROHIBITED from paying any **DIVIDEND TO MEMBERS**

Revocation of Dividend

- ✚ Reg-80-Table-F-Schedule I-may declare dividends, but **not exceed amt recommended by Board.**
 - a) Sec. 127-Dividend has to be paid within 30 days from date of declaration.
 - b) Dividend once declared, becomes debt against the company and cannot
- ✚ Revoked **EXCEPT** in certain situations.
- ✚ **Final Dividend once declared in AGM cannot be revoked by BOD.** However, before declaration of dividend, dividend recommended by BOD may be revoked for just and proper reasons.

Disclosure Requirement

- ✚ **Schedule III-Amt of dividend proposed-distributed to equity & preference s/h** for period & related amount **per share-disclosed separately.**
- ✚ **AS 4-Enterprise declares dividends after B/S date, not recognise dividends as liability** at B/S date **UNLESS** statute requires otherwise. Such dividends should be **disclosed in notes.**



SALIENT FEATURES OF AUDIT OF LIMITED LIABILITY PARTNERSHIPS (LLP AUDIT)

SEC. 34 OF LLP ACT, 2008- MAINTENANCE OF BOOKS OF ACCOUNT, OTHER RECORDS AND AUDIT, ETC

BOOKS OF ACCOUNTS- LLP shall maintain such proper books of account as may be prescribed.

Maintained on **Cash basis or Accrual basis** & **Double entry system** of a/c At **Registered office**

RULE 24 OF LLP RULES, 2009- The books of a/c shall include-

- Sums of money received & expended & matters in respect of which receipt & expenditure takes place.
- Record of Assets & Liabilities of LLP.
- statements of cost of goods purchased, inventories, WIP, finished goods and cost of goods sold.
- any other particulars which the partners may decide.

BOA Preserved for **8 years** from date on which made.

STATEMENT OF ACCOUNT & SOLVENCY-

- LLP-within period of **6 months** from end of each FY
- Prepare **Statement of a/c & Solvency**
- Signed by designated partners** of LLP
- Statement of a/c & Solvency shall be **filed with Registrar** + prescribed fees.

RULE 24 OF LLP RULES, 2009

Statement of a/c & Solvency- **FORM 8** with Registrar, within period of **30 days** from **end of 6 months** of FY to which Statement of a/c & Solvency relates.

ADVANTAGE/PURPOSE/NEED OF AUDIT

- Detection** of errors & frauds
- Verification** of financial statements
- Resolving disputed** among partners-a/c matters.
- Arranging finance** from banks & FI.
- Improved management** of LLP
- Settlement of a/c** between partners at time of admission, death, retirement, insolvency, insanity.

AUDITOR'S DUTY REGARDING AUDIT OF LLP

- Obtain instructions**-writing-work to be performed
- Read LLP agreement** & note following **provisions**-
 - Nature of the business of LLP
 - Capital contributed by each partner
 - Interest in respect of capital contributions
 - Duration of partnership
 - Drawings allowed to the partners
 - Salaries, commission etc payable to partners
 - Rights & duties of partners
 - Method of settlement of accounts between partners at admission, retirement, admission etc.
 - Any loans advanced by partners
 - Profit sharing ratio
- Report**-Whether records reflects **true & fair view**. Whether he **obtains all info & explanation**. Whether **restriction/limitation imposed** on him.
- If **minute book** is being maintained, auditor shall refer it for resolution passed regarding a/c.

AUDIT OF ACCOUNTS- Accounts of LLP shall be audited in accordance with such rules as may be prescribed.

RULE 24 OF LLP RULES, 2009

- Requirement of Audit**- **Not required** to get its accounts audited
Turnover < ₹40 Lacs (in any FY) **OR Contribution < ₹25 Lacs.**
- Eligibility for auditor**- Only **CA in practice.**
- Period of Appointment**- for **each FY** of LLP for auditing a/c.
- Appointment of auditor by designated partner**- may appoint
 - At any time for 1st FY** but before end of 1st FY.
 - At least **30 days prior** to end of each FY (other than 1st FY)
 - to **fill casual vacancy** in office of auditor, incl. in case when turnover/ contribution of LLP exceeds limits, or
 - to fill up vacancy caused by **removal of auditor.**
- Appointment of auditor by partner**-where **designated partners** have power to appoint & have **failed to appoint.**
- Tenure of Auditor**- Auditor shall **hold office as per terms** of his or their appointment & shall continue office till period-
 - New auditors appointed, or
 - Re-appointed.

SECTION-35- ANNUAL RETURN

Annual return duly authenticated with **Registrar within 60 days** of **closure of its FY** in prescribed form & manner.

Annual return with Registrar shall be filed in **FORM 11.**

SECTION-36- INSPECTION OF DOCUMENTS KEPT BY REGISTRAR

Documents to be made available for inspection- **Rs. 50**

- Incorporation document,
- Names of partners and changes, if any, made therein,
- Statement of Account & Solvency &
- Annual return filed with registrar. **Any person can inspect.**

SECTION-38- POWER OF REGISTRAR TO OBTAIN INFORMATION

Registrar may require any person incl. any present/ former partner/ designated partner/ employee of LLP to answer question/ make declaration in **writing** to him **within reasonable period**

In case such persons

- do not answer** question/make declaration /supply details/particulars by Registrar
- within reasonable time**/ time given by Registrar
- when **Registrar is not satisfied** with reply such person Registrar-power **to summon** that person to appear before him/ inspector/ other public officer whom Registrar may designate, to answer question/declaration/supply details, as case may be.

AUDIT REPORT CARO 2016

APPLICABILITY

Applies to all Co. + Foreign Co. **EXCEPT-**

1. Banking Company	2. Insurance Company	3. One Person Company
4. Small Company.	5. Section 8 Company	
6. Pvt. Ltd co.- NOT being subsidiary or holding of public company with- Paid up capital + Reserves & Surplus &	≤ 1 Cr.	B/S date
Total borrowings from Bank & F.I. &	≤ 1 Cr.	Any time during year
Total revenue as disclosed in Schedule III	< 10 Cr.	for the year

Section 143(11) requires auditor to include statement on prescribed matters-Para 3.

MATTERS TO BE REPORTED / AUDIT AREAS UNDER CARO 2016

CLAUSE 3 (i)-FIXED ASSETS (PPE) FIXED ASSET REGISTER -Proper records maintained including quantitative details & situation. PHYSICAL VERIFICATION -At reasonable intervals (At least once in 3 years), Material discrepancies noticed & properly dealt with in BOA. IMMOVABLE PROPERTY -Title deeds-held in name of co & if not provide details thereof.	CLAUSE 3 (ii) INVENTORY PHYSICAL VERIFICATION -At reasonable intervals MATERIAL DISCREPANCIES -whether noticed & if yes whether dealt properly in books. IND-AS 2/ AS-2 followed 3 (vi)- COST RECORD Specified u/s 148(1) Whether cost records MADE & MAINTAINED.	CLAUSE 3 (iii)-LOAN GIVEN-CO. Whether loans granted to Section 189 parties. If Yes- NOT PREJUDICIAL - Terms & Conditions to co.'s interest. REPAYMENT TERMS & REGULARITY -Obtain Schedule of repayment & irregularities. OVERDUE - > 90days- Total Amount due, No. of cases, Total principle+ interest due etc. REASONABLE STEPS taken by company to recover.	CLAUSE 3 (iv)- LOANS & INVESTMENTS Provision of Sec 185 & 186 have been compiled In respect of loans, investments, guarantees & security . If not complied provide details.
CLAUSE 3 (v)- PUBLIC DEPOSITS CHECK COMPLIANCE Provisions under Sec- 73 to 76 Directives issued by the Reserve Bank of India (RBI) Orders passed by CLB, NCLT, RBI or any other court or tribunal. Reasons for contraventions	3 (vii)- STATUTORY DUES UNDISPUTED DUE -PF, ESI, IT, ST, Custom, VAT, Excise, CESS- Regular. OVERDUE - O/S > 6 months on B/S date. DISPUTED DUES - State Amount & nature.	3 (viii)- REPAYMENT OF LOANS Obtain SCHEDULE of repayment & actual payments. DEFAULT -existing on B/S date only to be reported. RESTRUCTURING -Not applied-report & if applied- only fact. NATURE & AMOUNT of Default Lender-wise details.	3 (ix)- END USE OF FUNDS Whether money raised by IPO/ FPO/ Term Loans APPLIED FOR PURPOSE THEY WERE RAISED Disclose end use of fund & remaining unutilised Report diversion of fund TEMPORARY INV. of idle fund- Not diversion
CLAUSE 3 (x)- FRAUD REPORTING Frauds by the co.-by officers On the co.-3 rd party / employees NOTICED/ REPORTED - Not detect Detection- SA-240 & not in CARO Section 143 (12)-Similar reporting AMOUNT & NATURE OF FRAUD	3 (xi) MANAGERIAL REMUNERATION SECTION 197+ Schedule V Within Limits paid & if not Approval of s/h in GM. State Amount & Steps for securing refund reported Details to be reported are -Payment to director -Excess payment -Due to be recovered -Steps for recovery -Remarks.	3 (xii)- NIDHI COMPANIES Invest money of members Nidhi Rules, 2014- followed Net owned Fund ≥ 10 Lakhs Unencumbered term deposits 10% of O/S debts-maintained No. of members: Max-100 NOF:Deposit liability= 1:20 Report Non-compliance.	3 (xiii)- RELATED PARTY TRANSACTIONS COMPLIANCE SECTION- 177 & 188 DISCLOSED in FS- IND AS- 24 & AS-18 RPT- Approved by s/h in GM & BOD UNLESS - Ordinary course of Biz. or at Arm's length price RPT- Reviewed by Audit committee
3 (xiv)- PREFERENTIAL ALLOTMENT/ PVT PLACEMENT Issuing shares/ Debentures to identified subscribers Whether preferential allotment of Shares/ FCD/ PCD made COMPLIANCE-SEC-42, SEBI END USE OF FUNDS Not exceeding 200 persons Details of Amount involved & Nature of Non-Compliance & Misuse of funds report.	3 (xv)- NON-CASH TRANSACTIONS WITH DIRECTORS	3 (xvi)- SECTION 45 IA RBI ACT-Compliance >50% Assets-financial >50% Income-financial Register itself as NBFC with RBI Unless Exempted Whether registration required u/s 45IA of RBI Act, 1934 & if so, Registration obtained & if not reasons for same.	

FEATURES OF QUALIFIED AUDIT REPORT

Clarity	Explanation	Placement
Except for	Quantification	Nature of qualification
Violation of law	Draft Report	Notes-Report Relationship

REPORT-Formal statement made after Enquiry, of specified matters including Involves opinion, based on factual data, not exactitude as based on estimates & judgments.

AUDIT COMMITTEE & CORPORATE GOVERNANCE (CG)

Corporate Governance term encompasses **rules, processes or laws** by which business entities are operated, regulated or controlled.

SEBI issued **Listing Obligations & Disclosure Requirements Regulations, 2015** (referred as LODR Regulations). Covers CG principles found in **Clause 49** of SEBI's Model Listing Agreement.

Applicability of LODR Regulations [Regulation 3]



Listed Entities- Securities listed on recognised Stock Exchange(s):

- ❖ Specified securities listed on main board or SME Exchange or institutional trading platform;
- ❖ Non-convertible debt securities/redeemable PS, perpetual debt instrument, perpetual non- cumulative PS.
- ❖ Indian depository receipts;
- ❖ Securitised debt instruments;
- ❖ Security receipts;
- ❖ Units issued by mutual funds;
- ❖ Any other securities as may be specified by Board.

ISSUES ADDRESSED IN THE LODR REGULATIONS REGARDING CG


- Responsibilities & key functions of **Board**, it's composition, compensation & disclosures.
- Code of Conduct & **vigil mechanism**.
- Composition, meetings, powers, role & responsibilities of **Audit Committee** which is an important pillar of CG.
- Management of subsidiary companies.
- Procedures related to **Risk Management**.
- Disclosures on important issues regarding **Related Party** transactions, accounting treatment etc.
- Content of **Management Discussion & Analysis**.
- Information to shareholders.
- Compliance Certificate** by the CEO & CFO.
- Compliance Certificate from either auditors/ practising company secretaries regarding **Compliance of Conditions on Corporate Governance**.

AUDIT COMMITTEE- LODR (REGULATION 18) & SECTION 177 (COMPANIES ACT 2013)

Particulars	LODR (REGULATION 18)	COMPANIES ACT, 2013 (SECTION 177)
	Provision of Audit Committee & Corporate Governance- Chapter IV of LODR	Rule 4 Cos (Appointment & Qualification of director Rule 2014)
Applicability 	All Listed Entities having Designed Securities on Recognized Stock Exchange.	All Public Companies- Paid-up Capital >=Rs. 10 Crore Turnover >= Rs. 100 Crore O/S Loans, Debentures & Deposits > Rs. 50 Crore. Following Unlisted Public Companies shall not be covered: •Joint Venture •Wholly Owned Subsidiary •Dormant Company as covered u/s 455 <i>Once covered in limit covered for 3 consecutive years</i>
Minimum director members	Minimum 3 Directors	Minimum 3 Directors
Minimum non-executive director	Not Applicable	Not Applicable
Minimum independent director	2/3rd of director- Independent Director Listed entity having outstanding SR (Superior Rights) equity shares, AC shall only comprise of independent directors.	Majority of Independent Director 
Financial literacy	All member financially literate	Majority including Chairperson
Financial mgt. Or a/c expert	At least 1	Not Applicable.
Chairperson	Independent + Present in AGM	Financially literate
Secretary	Company Secretary.	Not Applicable.
INVITEES (May be invited)	Finance Director/ Head of finance, Head of Internal Audit, Statutory Auditor.	Not Applicable.
Meetings of AC	4 Times a year Max. Gap of 120 Days	No Provision
Quorum	2 or 1/3rd of AC whichever is higher + Minimum 2 ID should be present	No Provision

POWERS OF AUDIT COMMITTEE [REGULATION 18(2)]

1. To **investigate** any activity within its terms of reference.
2. To **seek information** from any employee.
3. To **obtain outside legal** or other professional **advice**.
4. To **secure attendance of outsiders** with relevant expertise, if it considers necessary.

AUDIT PROCEDURES- Review **Minute Book** of AC & other sources like agenda etc. Deficiencies/ adverse findings notes by AC, **Sec-177 Auditor+ KMP right to be heard**-AC meeting when consider AR-No right to Vote, **communicates frequently** on a/c matters/auditing issues, **assist mgt.-drive CG**, **compliance with requirement of Corporate Governance.** 

AUDITPEDIA EXEMPTION CHARTS -BY CA RAVI AGARWAL

ROLE OF AUDIT COMMITTEE [PART C(A) OF SCHEDULE II]

- Oversight- **listed entity's FR process** & disclosure of its financial info to ensure that FS is correct, sufficient & credible
- Recommendation** for appointment, remuneration & terms of appointment of auditors of listed entity.
- Approval of payment to statutory auditors** for any other services rendered by statutory auditors
- Reviewing with Mgt., Annual FS & Auditor's Report** thereon **before submission to Board** for approval, reference to-
 - ❖ Matters required-**Director's Responsibility Statement u/s 134(3)**.
 - ❖ Changes in **accounting policies & practices** & reasons.
 - ❖ **Major Accounting Entries** involving estimates based on exercise of judgment by mgt.
 - ❖ **Significant adjustments** in FS arising out of audit findings.
 - ❖ **Compliance** with listing & other legal requirements- F/S.
 - ❖ Disclosure of any **Related Party Transactions**.
 - ❖ **Modified opinion(s)** in draft audit report.
- Review Mgt.-Quarterly FS** before submission BOD- approval
- Review **End Use of Funds**-Statement of uses of fund raised
- Approval/ modification of t/n with **Related Parties**.
- Scrutiny of **Inter-Corporate Loans & Investments**
- Valuation of Undertakings** or assets of the listed entity.
- Evaluation of **Internal Financial Controls** & risk mgt. systems
- Reviewing with mgt.**, auditor's **performance**, ICS adequacy.
- Reviewing **Adequacy of Internal Audit Function**.
- Discussion-Internal Auditors**-significant findings & follow up
- Discussion-Statutory Auditors**-NTE of audit, areas of concern
- Review functioning-**Whistle Blower mechanism**.
- Approval of appointment of **Chief Financial Officer**.

MANDATORY REVIEW BY AC- PART C(B) OF SCHEDULE II

- MANAGEMENT DISCUSSION & ANALYSIS** of financial condition & results of operations.
- STATEMENT OF SIGNIFICANT RELATED PARTY TRANSACTIONS** (as defined by the Audit Committee), submitted by Mgt.
- Management letters / letters of **INTERNAL CONTROL WEAKNESSES** issued by statutory auditors.
- INTERNAL AUDIT REPORTS** relating to IC weaknesses.
- Appointment, removal & terms of remuneration of **CHIEF INTERNAL AUDITOR** shall be subject to review by AC.
- STATEMENT OF DEVIATIONS**- (a) **Quarterly Statement of deviations** including report of monitoring agency if applicable & (b) **Annual Statement of funds utilized** for purposes other than those stated in the offer document/ prospectus/ notice.

Maximum Directorship	01-04-2019	8 Listed Entities
	01-04-2020	7 Listed Entities
Independent Director		7 Listed Entities
	IF MD/WTD	3 Listed Entities

In case of Listed Co. having **outstanding SR equity shares**, the auditor shall check -**At least 50% of BOD= ID.**

AMENDMENT

This provision shall **not be applicable** to Listed Entities which **do not have any identifiable promoters** as per shareholding pattern filed with stock exchanges.

FUNCTIONS OF AUDIT COMMITTEE of Co. Act, 2013

- Section 177 (4)**-Every AC- act in accordance-terms of reference specified in writing by Board which include- Auditor-appointment, remuneration & terms- **Recommend** Review & monitor auditor's independence, performance & **effectiveness of audit process**.
- Examination- **FS & auditors' report** thereon;
- Approval/ modification of t/n with **related parties**
- Scrutiny of **inter-corporate loans & investments**
- Valuation of undertakings/** assets- where necessary.
- Evaluation-**Internal financial controls & Risk Mgt. Systems**
- Monitoring **end use of funds** raised by public offers etc.
- Proviso to Sec. 177(4)** AC may make **omnibus approval** for RPT proposed to entered in by co. subject to conditions.
- Transaction not > Rs. 1 Cr.** is entered by director/ officer of co. **without approval of AC & not ratified by AC in 3 months** from date of Transaction then **voidable at option of AC**. If **transaction with Related party** to director/ authorized by other director, **director concerned shall indemnify co. against any loss incurred by it.**
(Transaction except under Sec.188 of Co. Act 13 btw holding & 100% subsidiary & No AC Approval-make its recommendations to Board)
- Section 177 (5)**- AC may call-**Comments of auditors** about **ICS, scope of audit, observations** of auditors.
-**Review of FS** before submission to Board.
-Discuss **related issues**-internal & statutory auditors & Mgt.
- Section 177(6)**- Authority to **Investigate**- matter in relation to items specified in Sec. 177(4)/ referred by BODs AC for this purpose empowered to **obtain professional advice from external sources** & full access to info, records.
- Section 177 (7)**- Auditor & KMP-**Right to be heard**-meeting AC-considers auditor's report but not have right to vote.
- Section 177 (8)**- Board's report -**u/s 134(3)-disclose composition of AC** & where Board had not accepted recommendation of AC-disclose in report+ reasons.
- Section 177 (9)**- Every listed co.- Establish **Vigil mechanism** - directors & employees to report genuine concerns.
- Section 177 (10)**- **Safeguards** against victimisation of persons use above mechanism & direct access-chairperson.

Verification-Composition of Board [Regulation 17 & 17A]

BOD SIZE	Minimum 6 Directors Top 1000 listed entities (Top 2000 listed entities w.e.f. April 1, 2020)
COMPOSITION OF BOD	>=50% of Non-Executive Directors At least 1 Women Director (Top 500 listed entities) & (For 1000 by April 1, 2020) 1 Independent Women Director
NON-EXECUTIVE DIRECTOR	Less than 75 Years of Age If > 75 Years - Special resolution along with explanatory statement annexed to notice.
INDEPENDENT DIRECTOR	Chairperson- Non-Executive (NED)- 1/3rd ID NED BUT Promoter/ related- 1/2 ID Else- 1/2 ID
CHAIRPERSON	Top 500 listed entities (w.e.f. April 1, 2020) NED + Not related to MD/CEO

Limited Review of audit of all Entities whose accounts are to be consolidated with Listed Entity

AMENDMENT

Whose A/c to be consolidated with Listed Entity as per AS / Ind-AS in accordance with guidelines issued by SEBI on this matter. Consequently, following should shall comply with prescribed procedure-

1. All Listed Entities whose Equity Shares & Convertible Securities are LISTED ON A RECOGNISED STOCK EXCHANGE & STATUTORY AUDITORS of such entities.
2. All Entities WHOSE A/C ARE TO BE CONSOLIDATED with listed entity & STATUTORY AUDITORS of same

Disclosure requirements regarding Directors' Remuneration

All Pecuniary relationship/ transactions- Non-Executive director shall be disclosed in Audit Report.

Criteria- making payments to non-executive directors. In addition to Co Act 2013 disclosures- disclosure of remuneration of directors in section of CG in Audit report.

- All elements of remuneration package.
- Details of Fixed component & performance linked incentives, along with performance criteria.
- Service contracts, notice period, severance fees.
- Stock option details & whether issued at discount as well as period over which accrued & over which exercisable.

Approval of Remuneration of Directors [Regulation 17(6)]

All fees/compensation to NED+ Independent directors-

- Fixed by board
- Previous approval of shareholders in general meeting
- EXCEPTION to prior approval of shareholders in GM- Payment of sitting fees to NED, if within limits prescribed Co. Act, 2013. Annual remuneration payable-Single NED exceeds 50% total payable to all NED, Approval of shareholders-special resolution
- No Stock Option-Independent director.

Fees-Executive Directors- promoter/member promoter group- Approval of shareholders by Special resolution in GM- If Fees > Rs. 5 Cr. or 2.5 % of Net Profits whichever is higher If >1 such Director- 5% of Net Profit.

Vigil Mechanism [Regulations 22, 46 and Part C of Schedule V]

- Establish a vigil mechanism to report GENUINE CONCERNS.
- Adequate SAFEGUARDS against victimization.
- DIRECT ACCESS to the chairperson of AC.
- Disclose on WEBSITE & BOARD'S REPORT.

OBLIGATIONS EMP, KMP, DIRECTORS & PROMOTERS

Director Member Max. 10 Committees All LE
 Director Chairperson Max. 5 Committees All LE
BOD- periodically review compliance reports of all laws applicable. If non-compliances- Steps taken to rectify.
NED -disclose shareholding-listed entity - proposed directors-prior appointment. Details-disclosed in notice.
ID- liable, only- acts of omission/commission by LE which occurred with his knowledge/ not acted diligently.
 Senior Mgt.- disclosures to BOD- material financial & commercial transactions-having their personal interest-which has potential conflict with interest of Co. at large.
 ID-resigns/ removed from BOD of listed entity-replaced by ID -at earliest but not later than immediate next Board meeting or 3 months from date of such vacancy, whichever is later. If other ID already-vacancy may fill by other director.

Code of Conduct [Reg. 17(5), 26(3), 46(2) & Part-D-Sch. V]

BOD lay down-Code of conduct- members & senior mgt.

Manager, Senior Mgt. & All personnel shall affirm compliance with code on annual basis.

Annual Report of Co.- contain declaration signed by CEO

Code of conduct shall be posted on website of Co.

Code of Conduct- duties of ID as laid down in Co. Act,13

Senior mgt.- CEO, MD, WTD, Manager (CEO if not part of board) & Specially includes CFO, CS.

Subsidiary of LE [Reg.16(c), 24 & 46 & Part C Sch. V]

- Regulation 16 (c) Material subsidiary- Income/ Net worth > 10% of Income/ Net worth in listed entities & its subsidiaries in immediately preceding a/c year.
- Regulation 24(1)-At least 1 ID on BOD- listed entity shall-director BOD of unlisted material subsidiary. Here "Material subsidiary" income/net worth > 20%.
- AC-also Review FS investments by unlisted subsidiary.
- Minutes-BOD meetings-unlisted subsidiary-placed at BOD meeting of Listed Entities. Mgt.-bring to notice of BOD of LE -Statement- Significant transactions & arrangements entered into by unlisted subsidiary.
- Co. formulate policy-determine 'material' subsidiaries, disclose-company's website & web link in AR.
- Selling, disposing & leasing-assets > 20% of assets of material subsidiary-Prior Approval of s/h by Special Resolution, UNLESS made under scheme of arrangement approved- Court/Tribunal/resolution plan u/s 31 of Insolvency Code & disclosed to recognized stock exchanges -1 day of Related Party approval.
- Where LE has-Listed Subsidiary which itself-holding Co., the above provisions shall apply to listed subsidiary insofar as its subsidiaries are concerned.

MGT. DISCUSSION & ANALYSIS REPORT- DISCLOSURES

SCHEDULE V- Part of Director's Report Matters within

limits set by co.'s competitive position includes-

Industry structure & developments, **Outlook, Opportunities & Threats** (SWOT), **Risks** & concerns, Segment or product-wise **performance Internal control systems** & their adequacy

Discussion on **financial performance** with respect to operational performance.

Material **developments in HR** / Industrial Relations front including number of people employed.

Change in Return on Net Worth + detailed explanation.

Significant Changes - 25% or more in key financial ratios + detailed explanations-Debtors, Inventory t/o, Int. Cove., current, Debt Equity Ratio, Operating Profit, NP (%).

NOMINATION & REMUNERATION COMMITTEE (NRC) [REGULATION 19 & PART D OF SCHEDULE II]

Board constitute NRC- **Minimum Directors- 3**

All-Non-executive Directors ID -1/2 Chairperson-ID

ID if listed entity having o/s SR equity shares-2/3rd

Chairperson of Company NOT Chairperson of NRC

Meeting- At least Once in a year

Quorum- 2 or 1/3rd, whichever greater + **At least 1 ID**

Chairperson-may be available to answer queries in AGM

- **ROLE -Criteria formulate-** Determining qualifications, positive attributes & independence of director & **recommend** to BOD a policy- remuneration of directors, KMP & other employees.
- **Identifying qualified person-** become directors & who may be appointed in senior mgt. & **recommend Board** for appointment & removal.
- **Criteria formulate-Evaluate performance-** ID & BOD
- Devising a **policy on Board diversity**
- **Recommend BOD-Remuneration** to senior mgt.
- **Extend/ continue term of appointment-ID.**

STATEMENT OF DEVIATION(S) OR VARIATION(S) [REGULATION 32 AND PART C OF SCHEDULE II]

- LE submit to stock exchange on **Quarterly basis** for public issue, rights issue, preferential issue etc.:
- **Indicating deviations-** use of proceeds from objects stated in offer doc/statement to notice for GM.
- **Indicating category-wise variation** btw **projected utilisation of funds** in its offer doc/ statement to notice for GM & **actual utilisation of funds.**
- **Continually given** till issue proceeds-fully utilised/ purpose for which proceeds raised-achieved
- **Raised funds-preferential allotment/ QIB-disclose** every year, utilization -Annual R. until-fully utilized.

TRANSFER /TRANSMISSION/ TRANSPOSITION OF SECURITIES [REG. 40]

BOD shall **delegate power** to **Committees, Compliance officer, registrar to issue, share transfer agent.**

BOD/ delegated authority-**attend formalities** pertaining to transfer of security at least **Once in a fortnight.**

Delegated authority report to BOD in each meeting.

DISCLOSURE & TRANSPARENCY [REGULATION 4]

Ensure timely & accurate disclosure-all material matters of LE

1. **Info-prepared & disclosed as per prescribed standards** of a/c, financial & non-financial disclosure.
2. **Channels for disseminating info-**provide for equal, timely & **cost-efficient access** to relevant info. by users.
3. **Minutes of meeting-**maintained-dissenting opinions

RELATED PARTY DISCLOSURE [REG. 23, 27, 46 & Sch. V]

1. Submit **Quarterly Compliance Report-Cor. Gov.**
2. to recognised **stock exchange** within **15 days-** Quarter end
3. All **Material t/n** with related parties - **disclosed.**
4. Report-**Signed-**by Compliance officer/CEO of listed entity
5. Disclose policy- RPT- **website & web link in AR.**
6. Disclose t/n with-Person/entity-promoter/promoter group which hold(s) **> 10% shareholding** in listed entity.
7. Listed entity-Submit within **30 days-**date of publication of its standalone & consolidated financial results for half year, disclosures-RPT-consolidated basis, Publish- website.

DISCLOSURE OF ACCOUNTING TREATMENT [SCHEDULE V]

In preparing FS, **treatment diff from prescribed in AS is followed, fact-disclosed in FS +Mgt. explanation-**why such alternative treatment for true & fair view of biz t/n.

Auditor refer **Compliance Certificate** issued in as per Reg-17

Disclosures- Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act,13 (Sch. V)

Amongst other matters, following should be disclosed in the section on Corporate Governance of the Annual Report:

1. No. of complaints **FILED** during financial year.
2. No. of complaints **DISPOSED** of during financial year.
3. No. of complaints **PENDING** as on end of financial year.

STAKEHOLDERS RELATIONSHIP COMMITTEE [REGULATION 20 AND PART D OF SCHEDULE II]

LE-specifically look into various aspects of interest of shareholders, debenture holders & other security holders.

Minimum Directors-3 Chairperson- Non-Executive director

Independent Director-At least 1, However in case of **LE**

having outstanding SR equity shares, ID- 2/3rd

Chairperson-shall be available to answer queries in AGM

Meeting- At least Once in a year

- **ROLE-Resolving Grievances-Complaints-**transfer/ transmission of shares, non-receipt-annual report & declared dividends, issue of certificates, general meetings.
- **Review-measures-effective exercise-voting rights by s/h.**
- **Review adherence-service standards** adopted by LE of services rendered by **Registrar & Share Transfer Agent.**
- **Review measures/initiatives** by LE-**reducing quantum of unclaimed dividends** & timely receipt of dividend warrant/annual report/statutory notices by shareholders.

RISK MANAGEMENT COMMITTEE [REGULATION 21]

BOD constitute RMC **Majority member-** Members of BOD **Meeting- At least Once** in a year

In case of **LE having outstanding SR equity shares, ID- 2/3rd**

Chairperson- Must be Members of Board of Directors.

ROLE- BOD decide role, delegate monitoring & reviewing of risk mgt. plan, specifically **cover cyber security.**

Applies to **Top 500** listed entities

COMPLIANCE CERTIFICATE [PART B OF SCHEDULE II]

Chief Executive Officer & Chief Financial Officer -

certify to Board

1. They **Reviewed Financial Statement & Consolidated Financial Statement** & best of their knowledge & belief-
 - **Do not contain materially untrue statement/** omit material fact/ contain statements that might be misleading.
 - Present **true & fair view** of listed entity's affairs & are in **compliance** with existing AS, applicable laws & regulations.
2. **No transactions** entered by Listed Entity are **fraudulent, illegal/** violative of the listed entity's code of conduct.
3. Accept **Responsibility-establishing & maintaining Internal Control for Financial Reporting & evaluated effectiveness of Internal Control System** of Listed Entity pertaining to Financial Reporting & they disclosed to auditors & Audit Committee, **deficiencies** -design/ operation of Internal Control- aware & steps taken/propose- to **rectify deficiencies**.
4. Indicated to auditors & Audit Committee-
 - **Significant changes in Internal control over Financial Reporting.**
 - **Significant changes in Accounting policies** - disclosed in Financial Statements.
 - Instances of **Significant fraud.**

REPORT ON CORPORATE GOVERNANCE [REGULATION 27 AND SCHEDULE II]

Submit **Quarterly Compliance Report**-Corporate Governance to recognised stock exchange **within 15 days**- Quarter end.
 Report-signed-Compliance Officer/Chief Executive Officer Auditor- ascertain BOD included Annual Report-**Separate section on cor. Gov.**+ compliance report.
 Data in report on Corporate Governance **not be inconsistent** with in Financial statements.

AUDITORS' CERTIFICATE (SCHEDULE V)

COMPLIANCE CERTIFICATE from Auditors/practicing Company Secretary- **compliance of conditions-corporate governance & annex to Directors' Report.**

Situations-Adverse/ qualified statement/ disclosure without making- subject matter of qualification in Auditors' Certificate are:

1. **Non-Executive Director < 50%** of strength of BOD.
2. Qualified & independent **Audit Committee is not set up.**
3. **Chairman of Audit Committee -not an independent director.**
4. Audit Committee **does not meet four times a year.**
5. **Necessary powers**-Part C- Schedule II **-not been vest by Board** in Audit Committee.
6. Time **gap** between 2 Board meetings **>120 days.**
7. **Director- member > 10 committees/Chairman > 5 committees** across all companies.
8. Information-**quarterly results**- **neither website nor sent to stock exchange** on which entity's securities are listed so such stock exchange can put it on its own website.
9. **Power**- share transfer **not delegated.**





AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

IND-AS 110

AS- 21

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance sheet	Consolidated statement of Profit & Loss	Consolidated cash flow statement	Consolidated statement of change in equity (if applicable)	any explanatory notes annexed to, or forming part thereof
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Schedule III Division I (AS Based), Division II (Ind AS Based) & Guidance notes on Audit of CFS & CFS must be approved by BOD & laid before the AGM.

Section 129(3)

LEGAL PROVISIONS -COMPANIES ACT 2013

•>= 1 subsidiaries (Including Associate & Joint Venture

Section 129(4)

•preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, also apply to the CFS.

**FORM AOC 1-
Separate Statement
Salient features of FS
of Subsidiaries.**

EXEMPTION FROM CONSOLIDATION COMPANIES ACT 2013

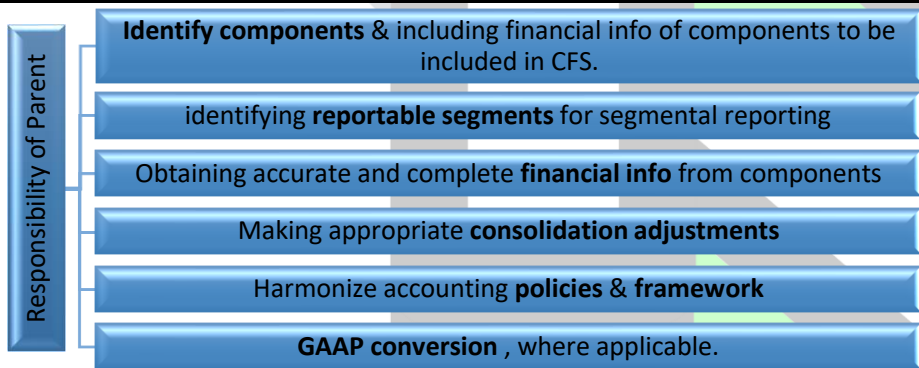
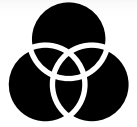
(1) Wholly owned subsidiary /partially owned subsidiary of another co.

(2) all its other members, including those not entitled to vote, having been intimated in writing & for which the proof of delivery of such intimation is available with co.

(3) do not object to the co. for not presenting CFS.

Company whose securities **NOT LISTED** or not in process of listing on any stock exchange in India or Outside India

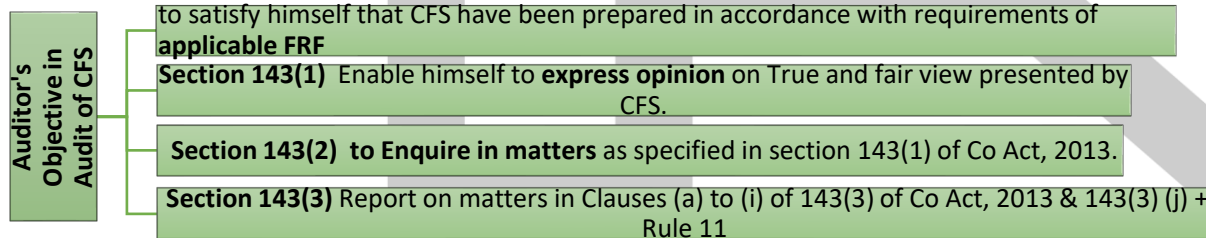
its **Ultimate** or any **Intermediate holding Co.** files CFS with Registrar as per Applicable AS.



Parent ordinarily issues instructions to Management of Component specifying parent's requirements relating to financial info of components to be included in CFS which cover accounting policies to be applied, statutory & other disclosure requirements applicable to Parent, including identification of & reporting on reportable segments, Related party, transactions & reporting timetable.

RESPONSIBILITY OF AUDITOR

Auditor of CFS is responsible for expressing opinion-whether CFS are prepared as per



AUDITING THE CONSOLIDATION - AUDIT PROCEDURES

TO MAKE PLAN FOR

TO CHECK

1. Understanding Group Structure & groupwise control

2. Understanding Accounting policies

3. Determining & programming NTE of audit procedures to be performed on assessment of ROMMS

4. Determining Extent of use of other auditor's work & Auditor's expert

5. Coordinating the work to be performed.

1.

•To obtain list of components to be included in CFS.

2.

• Review information provided by Management wrt. components.

3.

•Verify that all components have been included in CFS.

4.

•Identify changes in shareholding that might have taken place.

5.

•Compliance Check of IND AS-110,28,111, AS-21,23,27 & Section 129 of Co Act 2013

6.

• SA-600 using the work of another auditor & SA- 620(R) Auditor's Expert

7..

•Verify adjustments according to IND AS whenever required & properly authorized by the management of parent.

TO CHECK -COMPLETENESS OF COMPONENTS

- Review **working papers** for prior years.
- Review **parent's procedures** for identification of various components.
- Make **inquiries** of management to identify-New component.
- Review **Joint venture & Joint arrangements** entered into by parent.
- Review **Other arrangements** & Identify changes in shareholdings.
- Review **Statutory Records** (Register u/s 186 & 190 of Co Act, 2013). & changes in shareholding.

Separate FS of parents & components



Other Financial Information

CFS

OTHER FINANCIAL INFORMATION

- Includes- **Disclosures** to be made in CFS about components,
- Proportion of items included in CFS to which **different Accounting Policies** have been applied
- Adjustments** made for the effects of **significant transactions or events** that occur btw the FS of parents & its components (**different Accounting Period**)

SPECIAL AUDIT CONSIDERATIONS

Current period Consolidation Adjustment-

Adjustment made in accounting period for which CFS is done.

- Eliminate **Intra Group transactions** & A/c Balances
- Eliminate **Unrealized profits**
- Eliminate **Intra-group indebtedness**
- Adjustment for **harmonizing a/c policies**
- Adjustment for **impairment loss**
- Treatment of **Non-controlling interests**.



Permanent Consolidation Adjustments-Adjustments on **First occasion/ subsequent** occasion in which there is a **change** in shareholding of Preparation & Presentation of CFS.

- Determination of goodwill/ capital reserve as per applicable AS/ IND AS.
- Determination of amount of equity attributable to **minorities/ NCI (Non-Controlling interests)** at date on which investment in subsidiary is made.

Reporting on CFS

When Parent's Auditor IS Also Component's Auditor

Issue Audit report expressing opinion-about **True & Fair view** of state of affairs of Group as on B/S Date, Statement of P& L & Cash flow statement.

Auditor of parent to report whether principles & procedures for preparation of CFS are as per relevant IND AS/AS. If not **disclose deviation**.

When Parent's Auditor IS NOT Component's Auditor

Consider requirement of **SA 600**
SA 706 prescribes if auditor considers it is necessary to make reference to the audit of other auditors in Report, he should disclose clearly portion of FS audited by Other auditor(s).

Constructed as an indication of **divided responsibility** B/w Auditors of parents & subsidiaries

When the component's Auditor reports on FS under an Accounting Framework Different than that of Parent

Parent's Mgt. performs **conversion of components' audited F.S.**
Conversion adjustments are audited by Principal auditor to ensure financial info suitable & appropriate for purposes of consolidation.

Component **may** prepare FS on basis of Parent's accounting policies. Local component auditor can then audit & issue Audit report on components FS prepared as per "Group accounting policies"

When the component's Auditor reports on FS under an Auditing Framework Different than that of Parent

To maintain consistency of Auditing framework & to enable parent auditor to rely & refer to other auditor's Audit report in their audit report on CFS, his component's FS **should be audited under framework that corresponds to Ind-GAAS.**

Components Not Audited

Auditor reporting on CFS to consider unaudited components in **evaluating a possible modification to his report** on CFS.

*Evaluation necessary as Auditor **unable to Obtain SAAE** on such Consolidated amounts/ balances.

- Using Guidance provided in **SA 705** Auditor to evaluate qualitative & quantitative factors on **possible effect** of amount **remaining unaudited** when reporting on CFS



GENERAL PRINCIPLES

1. Banking Regulation Act, 1949
2. Banking Co (Acquisition & Transfer of Undertakings) Act, 1970
3. RBI Act, 1934 & SBI Act, 1955
4. SBI (Subsidiary Banks) Act, 1959
5. Prevention of Money Laundering Act, 2002
6. Regional Rural Banks Act, 1976
7. Payment & Settlement systems Act, 2007
8. Credit Information Companies Regulation Act, 2005
9. Information Technology Act, 2000
10. Cooperative Societies Act, 1912
11. Companies Act, 2013
12. SARFAESI Act, 2002

CONDUCTING AN AUDIT

1. Initial Considerations
2. Understanding
3. Risk Assessment
4. Execution
5. Reporting

APPOINTMENT OF AUDITOR

- ❖ Banking Co.-Appointed at AGM of shareholders.
- ❖ Nationalized Bank- Concerned bank acting through its BOD
- ❖ In all cases-Approval of RBI is required before appointment is made.
- ❖ SBI-Appointed by C&AG in consultation with CG

REPORTS IN ADDITION TO MAIN REPORT

- ❖ Long Form Audit Report (LFAR)
- ❖ Report on Compliance of SLR
- ❖ Report on Adequacy & operating effectiveness of Internal Control over Financial reporting
- ❖ Certificate on reconciliation of securities by Bank
- ❖ Certificate on Compliance by bank on key areas of prudential & other guidelines issued by RBI
- ❖ Report on Compliance- implementation of recommendation of Ghosh committee etc.

INTERNAL CONTROL IN CERTAIN SELECTED AREAS

1. BILLS PURCHASED- Verify

- ✓ All **documents of title** are properly assigned to bank
- ✓ **Sufficient margin** should be kept while purchasing/discounting.
- ✓ **Recovery Steps** taken immediately-Unable- collect bill on date
- ✓ **Irregular O/S accounts** should be periodically **reported to HO**.
- ✓ Bills purchased O/S at close of year- discount received should be **properly apportioned** between 2 years.

2. LOANS & ADVANCES-

- ✓ Make advances after satisfying - creditworthiness of borrowers
- ✓ All necessary **documents** must be executed before advance.
- ✓ **Sufficient Margin** against securities taken to cover decline in value.
- ✓ Securities requiring registration be **registered in name of bank**.
- ✓ **Goods in possession** of bank, Check contents at time of receipt.
- ✓ Check **Market Value** of Goods.
- ✓ **Surprise Checks**-Hypothecated goods.
- ✓ A/cs kept within **drawing power & sanctioned limit** at all times.
- ✓ **Operations** in each advance-**Reviewed** at least **Once Every Year**.

3. TELEGRAPHIC TRANSFER (TT) & DEMAND DRAFT (DD)

- ✓ Bank-have **Reliable Private Code** known only to responsible person
- ✓ **Signature** on Demand Draft- Checked by officer- Signature Book
- ✓ TT & DD Sold by branch immediately **confirmed by Advices**.
- ✓ Paying Branch **not receive confirmation/ Credit** in A/c- Take steps.

4. CREDIT CARD OPERATIONS

- ✓ **Effective Screening** of apps with reasonably Good cr. assessment
- ✓ **Strict control** over storage & issue of Cards.
- ✓ Confirmation of **unutilized limit** of CC holder, before statement in case it exceeds specified % of total limit.
- ✓ **Reimbursement** made only **after verification** of validity of merchant's acceptance of card.
- ✓ **Statements** regularly send.
- ✓ **Reimbursement** (Gross of commission) charges to customer's A/c.
- ✓ **Monitor** & follow up customer payments.
- ✓ Identify & attend **overdue** over a reasonable time.
- ✓ Periodic review of CC holder **a/c limit** can be **revised** if necessary.

COMPLIANCE WITH CRR & SLR REQUIREMENT

- Maintain CRR**- Banking Co.-Banking Regulation Act, 1949 -Schedule Bank- RBI Act, 1934
- Maintain SLR**-Central Auditors-Verify Compliance- 12 Odd dates in diff. months Excluding Friday-Resultant report Sent to Top Mgt. of Bank & RBI- Report of Stat. Auditors covers-Correctness of compilation of Demand & Tax liability position & Maintenance of Liquid assets.

VERIFICATION OF ASSETS & BALANCES

INVESTMENTS (Inv.)

- ✓ **Internal control evaluation** & review policy to ascertain Policy confirms to RBI's guidelines.
- ✓ **Separation of inv. Function**- Segregation of duties.
- ✓ **Examination of Reconciliation**- Confirm with subsidiary general ledger bal. with public debt office & Verify securities in hand physically.
- ✓ **Examination of Documents**- Ascertain Inv. are within bank's authority, ensure other covenant/ conditions which restrict right of ownership &/or disposal complied with bank.
- ✓ **Physical verification**-Inv. scripts physically on B/s date, Year end certificates of depository org. in respect of scrip-less dealings, confirmations of counter party banks in respect of BRs.
- ✓ **Examination of Valuation**- Examine appropriateness of method of a/c, Compliance with guidelines, Income from inv., Whether inv. properly classified, proper system for recording & maintenance of TDS certificates.
- ✓ **Dealing in securities on behalf of others**- prior approval obtained & Bank's income recorded.
- ✓ **Special purpose certificates relating to inv.**-Own inv. a/c need separated from PMS client a/c, exam. of Classification & Shifting & whether shifting of inv. from available for sale to held to maturity duly **approved by BOD** of bank.

INCOME RECOGNITION NORMS

Dividend	Accrual basis, if right to receive dividend
Performing Inv.	Accrual basis provided pre-determined interest rate
NPA	As & when Realised
Govt. Guarantee	Accrual basis, provided interest is serviced regularly OVERDUE- cash basis
Dis on dis instruments	Accrual basis over the remaining period of maturity
Units of Mutual Funds	Cash Basis
Sale of Investments	P/L to be shown in P&L

VERIFICATION OF BALANCE IN ACCOUNT OF BANK SITUATED IN FOREIGN

1. Verify Ledger bal. in each a/c-bank confirmation certificate/statements.
2. Review reconciliation statements- Pay special attention to-
-No debit for charges/ credit for interest O/S & all items taken to revenue.
-No cheque sent/received in clearing is O/S.
3. Examine large transactions in inter-bank a/c, particularly at year end.
4. Check original deposit receipts.
5. Check whether these balances are converted into Indian currency at Exchange rates prevailing on B/S date & ensure Compliance with IND AS/AS.

PROVISION FOR NPA

CLASSIFICATION-Classification appropriate, Segregation of secured/unsecured portion of advances correct & provision calculated properly.

DRAWING POWER CALCULATION-Calculation of DP as per guidelines by BOD, Special consideration to proper reporting of sundry creditors for DP calculation, Stock audit all banks-funded exposure more than stipulated limit.

LIMITS NOT REVIEWED-A/c where regular/ ad-hoc limits are not reviewed within 180 days from due date of ad-hoc sanction, should be considered NPA

GOVT. GUARANTEED ADVANCES BECOMES NPA-Unrealised interest not taken as income, can be treated as NPA when govt. repudiates its guarantee when invoked (CG) & if CG guarantee hasn't invoked reasoning taken & reported in LFAR. In state govt. NPA overdue >90 days.

AGRICULTURE ADVANCES- NPA norms applied in as per crop season.

PROVISIONING TOWARDS STANDARD ASSETS-Check latest circulars of RBI, Provision for bifurcation of standard advances under relevant category.

RESTRUCTURING OF CASES-RBI revised guidelines-treating restructured a/c.

UPGRADATION OF ACCOUNTS-Upgrading strictly in terms of RBI guidelines.

AP FOR A/C FALLING UNDER CORPORATE DEBT RESTRUCTURING (CDR)- Elements of interest computed in present value terms. **SACRIFICE** computed as diff. btw. Present value of future interest income based on current BPLR+ appropriate term premium & credit risk premium.

CLASSIFICATION OF NPA'S-NPA if It ceases to generate income for bank.

- ❖ Interest &/ Installment of principal remained Overdue/of order **>90 days**.
- ❖ **No credits** continuously for 90 days as on B/S date or credits not enough to cover Interest debited in period.
- ❖ Bills Payable/ Bills Discounted- Bills remained overdue **> 90days**
- ❖ Cash Credit / Overdraft- Account remained overdue **> 90 days**
- ❖ Term Loans- Interest / Installments remain overdue **> 90 days**
- ❖ Agricultural Advances -

Short Duration Crops > 1 Crop Season Long Duration Crops >2 Crop Seasons

- ❖ Credit Card- Min. amt. due **not paid in 90days** from next statement due

REVERSAL OF INCOME-

- ❖ NPA- Interest credited but not realized to be reversed.
- ❖ NPAs Commission/ Other Income- Recognized on accrual basis & not received yet to reverse.
- ❖ Finance Charge of Leased Asset- Recognize Income on accrual but not yet realise be reversed.

ADVANCES

EVALUATION OF INTERNAL CONTROL OVER ADVANCES-Examine Loan documents, validity of recorded amt, Check existence/ enforceability & valuation of security, Ensure compliance-terms of sanction & loan policy, end use of funds, review operations of a/cs.

SUBSTANTIVE AUDIT PROCEDURES-Check amount in B/S, advances represent amount due to bank & that are appropriately supported by loan doc, Ensure no unrecovered advance, Basis of calculation check, disclosure as per a/c policies, Check provisioning as per RBI norms, Interest accuracy & completeness.

RECOVERABILITY OF ADVANCES-Review periodic statement, late FS of borrowers, report on inspection of security, auditor's report-borrowers enjoying aggregate cr. limits of Rs. 10 Lakhs & above for Working cap.

EXCEPTIONS TO NPA GENERAL CLASSIFICATION NORMS

TEMPORARY DEFICIENCIES- Non-availability of current drawing power due to non-receipt of stock statement, delay in renewal of limits on due dates.

NATURAL CALAMITIES- Short term agricultural loan converted into term loans treated as current dues but not NPA.

FACILITIES BACKED BY CG GUARANTEE- Overdue account classified as NPA only when CG repudiates its guarantee.

VERIFICATION OF CAPITAL & LIABILITY

ACCEPTANCES, ENDORSEMENTS & OTHER OBLIGATIONS

ITEMS-Includes LC opened by bank on behalf of customers, Bills Drawn by customers & accepted/ endorsed by bank.

LETTER OF CREDIT- Evaluate adequacy of IC over LC Forms-custody, verification etc, verify bal. of LC from register maintained by bank to ascertain amount of LC & payments made, examine guarantees of customers, copies of LC issued & Security obtained.

OTHER ACCEPTANCES & ENDORSEMENTS- Examine arrangements made by bank with customers, Test check amount of bills with register, verify whether such bills marked off in register on payment at maturity.

LETTER OF COMFORT- Verify bank has incurred potential financial obligation under such letter. If obligation has been cast, ensure that amount has been shown as Contingent Liability in the B/S.

CAPITAL ADEQUACY-CRAR=Capital funds/Risk weighted assets & off B/S items*100. Maintain **MINIMUM CRAR-9%**

CONTINGENT LIABILITY

AUDIT PROCEDURES-

PARTIES-Ensure that there **exists system** whereby non-fund-based facilities or additional/ ad-hoc credit facilities to parties are **extended only to their regular constituents** etc.

ADEQUACY OF CONTROL-Evaluate adequacy of ICS by verifying whether-Transactions executed only by **authorized persons** & **Procedures** laid down **duly complied with**.

IDENTIFICATION-Examine **a/c system & ICS** to ensure that CL are promptly & properly identified.

RECORDING-Perform **substantive audit tests** to establish **completeness of recorded obligations** through confirmations procedures & examination of relevant records.

YEAR END AMOUNTS-Evaluate **reasonableness** of year end amount in light of previous experience & knowledge of CY activities.

TRADE CREDIT-In case of guarantees-trade credit, ensure that period of guarantee is **co-terminus with period of credit**, reckoned from date of shipment.

MGT. REPRESENTATION-Obtain representation from the Mgt. that all contingent liabilities have been **disclosed**, disclosed CL **do not include contingencies** which are likely to **result in loss/expense** thereby requiring provision in FS & Estimated amount of financial effect of CL are based on best estimates of **IND-AS-37 /AS-29**, including any possibility of any reimbursement.

DISCLOSURE REQUIREMENTS

Schedule III to Banking Regulation Act, 1949 requires disclosure in Foot note to B/S



1. CONTINGENT LIABILITIES-

- ✚ Claims against the bank not acknowledged as debts.
- ✚ Liability for partly paid investments.
- ✚ Liability on account of o/s forward exchange contracts.
- ✚ Guarantees given on behalf of constituents.
- ✚ Acceptances, endorsements and other obligations.
- ✚ Other items for which Bank contingently liable.

2. BILLS FOR COLLECTIONS.

CLAIMS AGAINST THE BANK NOT ACKNOWLEDGED AS DEBT

1. Examine **Relevant Evidence**. E.g. -correspondence with lawyers, claimants, workers/officers etc
2. Review **Minutes of Meeting** of BODs, contracts, agreements, pending legal cases & correspondence relating to Taxes etc., to identify claims against the bank.
3. Ascertain from Mgt. **Status of Claims O/S** as at the end of previous year.
4. Review **Subsequent Events** to obtain evidence about **Completeness & Valuation of Claims**.

GUARANTEE GIVEN ON BEHALF OF CONSTITUENTS

- Check there are **Internal control over issuance of guarantees**
- Adequate controls over **Unused guarantee forms**.
- Examine guarantee register to seek marking off **Expired** one.
- Check relevant **Guarantee Register** with list of O/S.
- Verify **Securities held as Margin**.

VALUATION OF INVESTMENTS- "HELD TO MATURITY"

HELD TO MATURITY (HTM)- Securities acquired by bank with the intention to hold till maturity.

HELD FOR TRADING (HFT)-Securities acquired by bank for trading, i.e. to be sold in 90 days.

AVAILABLE FOR SALE (AFS)-Securities which do not qualify for being classified as HTM or HFT.

VERIFY ADVANCES AGAINST GOOD

SANCTION-Examine **Sanction Letter**, Letter of hypothecation & note important terms & conditions of bank audit.

STOCK STATEMENTS-Verify **Quantity & Value of goods** & **Test check Godown Register** & examine valuation of goods.

INSPECTION- Ascertain if premises of borrowers periodically **Visited** by bank officials to verify quantity.

STOCK AUDIT- See whether bank has got a **System of Obtaining Stock** & receivables audit report.

HYPOTHECATION/ PLEDGE- Examine **Letter of hypothecation** & Certificate of Registration of charge.

INSURANCE- Examine Insurance policies for their **Validity**, adequacy etc. & see policies in favour of bank.

DOCUMENTS OF TITLE- Inspect documents of Title to goods like Bill of lading, Dock warrant, railway receipts etc to ensure that they are **Endorsed/ registered in favour of bank**.

3RD PARTY CERTIFICATE- Where hypothecated goods are in **Possession** of 3rd parties.

REQUIREMENTS OF RISK MGT SYSTEM/PROCESS IN BANK

OVERSIGHT & INVOLVEMENT OF TCWG- **Approved by TCWG** on bank's business Objectives & Strategies, Cap. strength, Mgt. Expertise, Regulatory Req. & types of risks.

IDENTIFY, MEASURE & MONITOR RISKS- Risks that may **Significantly affect achievement** of bank's goals & objectives should be identified, measured and monitored.

CONTROL ACTIVITIES- Banks should have **Appropriate controls to manage risk** -Verification & approval of transactions, Effective segregation of duties, Reporting & approval of exception, Setting of limits.

MONITORING ACTIVITIES- Risk Mgt. **Models, methodologies & assumptions used to measure** & manage risk should be regularly assessed & updated.


RELIABLE INFORMATION SYSTEM-Banks require reliable IS that **Provide adequate financial, operational & compliance information** on a timely & consistent basis to mgt. & TCWG.



CONCURRENT AUDIT

- ✓ It is **Verification of transactions/** activities of an org. concurrently as the transaction/ activity takes place.
- ✓ It **Attempts to Shorten Interval** in a transaction & its examination by an independent person not involved in its documentation.
- ✓ Emphasize **Substantive Checking** rather than test checking.
- ✓ **Not a pre-audit.**
- ✓ **Akin to Internal Audit.**

SCOPE

- ✓ **CASH**-Daily cash transactions wrt. abnormal receipts & payments, proper a/c inward & outward cash remittance, Expense incurred by cash payment involving sizable amount, proper a/c of current chest transactions, its prompt reporting to RBI.
- ✓ **INVESTMENTS**- Verification of returns, statements, calculation of CAR & compliance with RBI/HO Guidelines regarding SGL forms/BG/ documentation, ensure securities held in book are held physically, ensure sale of purchase transactions is done at rate beneficial to bank.
- ✓ **DEPOSITS**- Verify of procedure & docs to open new current, savings, term deposit accounts, Check transactions about deposit received & paid, % check of interest paid on deposits.
- ✓ **ADVANCES**- Verify advances, OD, CC, term loans, bills purchase, LC etc. Procedure for sanction & documents to be verified, check Bank Guarantee issued, securities have proper charge, instances indicative of misutilization of funds, submission of claims of DICGC & ECGC etc.
- ✓ **FOREX**- Verification of forex transactions, check foreign bills negotiated under LC, Check FCNR & other non-resident a/c whether debit & credit are permissible under rules, verification of VOSTRO/NOSTRO A/c etc. 
- ✓ **HOUSE KEEPING**- Ensure maintenance of ledgers, inter branch reconciliation suspense a/c, verification of interest, discount, commission, Revenue leakage, examine day book to verify diff. in clearing have been adjusted.
- ✓ **OTHER ITEMS**- Study of RBI & Internal Inspection reports, statutory auditor's report, ensure customer complaints etc.

COVERAGE

- ✓ Branches whose total credit aggregate to **not less than 50%** of total credit of bank.
- ✓ Branches whose aggregate deposits cover **not less than 50%** of aggregate deposits of Bank.
- ✓ Exceptionally large, very large & **large branches**.
- ✓ Special branches handling **foreign exchange business**.
- ✓ Branches rated as **poor/very poor**.
- ✓ Head Office dept. dealing with **treasury/ funds Mgt.** & handling investment portfolio.





Audit of Insurance Companies



LEGAL FRAMEWORK

1. •Insurance Act, 1938
2. •Insurance Regulatory & Development Authority Act, 1999
3. •Insurance Regulatory & Development Authority Regulations framed under the IRDA Act, 1999
4. •Companies Act, 2013
5. •IRDA Investment Regulation Act, 2013

APPOINTMENT OF AUDITOR

1. •GIC & its Subsidiaries-appointment by C&AG
2. •For Others-Appointment at AGM
3. •Maximum No. of Statutory Audit-3 (of which max 2 life or 2 general)
4. •Companies Remuneration-Fixed in General Meeting or Manner prescribed in GM Act, 2013

GENERAL INSURANCE BUSINESS & AUDIT OF A/C-GENERAL INSURANCE

Fire or Marine or Miscellaneous Business (Motor, Aviation, Professional Liability, Loss of Profit etc.)

SECTION 6- REQUIREMENT AS TO MINIMUM PAID UP CAPITAL

LIC/GIC-100 Cr. | Health -100 Cr.
Re Insurer-200 Cr. & Net Owned Fund not less than 5000 Cr.

SECTION 11- FORM & CONTENT OF FINANCIAL STATEMENTS

Schedule A – For GIC | Schedule B – For LIC
Schedule C – Matter to be dealt with by the Auditor’s Report.
Applicable to both LIC & GIC

SUFFICIENCY OF ASSETS OR SOLVENCY MARGIN

1. **Requirement of Solvency Margin**-Every insurer & re-insurer shall at all times maintain excess of value of assets over amount of liabilities- **not less than 50%** of amount of minimum capital.
2. **Non-Compliance of Solvency Margin**-Insurer/ Re insurer shall be **deemed to be insolvent** or wound up by court-application by IRDA
3. **Submission of Financial Plan**-If Control level of Solvency Margin not maintained, Insurer/ Re-Insurer-submit financial plan indicating plan -correct deficiency, within specified period **not exceeding 6 months**
4. **Modification to Financial Plan**-IRDA-propose modification to plan
5. **Non-Submission-Financial Plan**-deemed-default-complying-Section

RESERVE FOR UNEXPIRED RISK RESERVE

- ✚ As per IRDA (General Insurance-Claim Reserving) Regulations, 2013
- ✚ Marine Hull Insurance-**100% of Net Premium**
- ✚ Fire, Marine, Cargo & Misc.-**50% of Net Premium**

AUDIT OF REVENUE ITEM OF GENERAL INSURANCE BUSINESS

PREMIUM INCOME

- A. Internal Control System**
- ✚ **Review of System** used by Co. to collect money, underwrite & issue policy
 - ✚ Issue of Proper cover note. must be serially numbered
- B. Revenue Recognition**
- ✚ **Recognition of premium income** for all risks incepted
 - ✚ **Advance premium** to be accounted under head **Premium Received in Advance** & disclosed separately
 - ✚ Advance-last year treated-current years Income
 - ✚ Premium to be booked at **Gross amount without providing for reserve**
- C. Misc.**
- ✚ Whether **GST** has been charged from Insured
 - ✚ **Premium Register** has been maintained Properly
 - ✚ **IRDA Guidelines** has been duly complied with

CLAIMS PAID

- A. Internal Control System**
- ✚ Only **Bona fide Claims** paid
 - ✚ Claims **Sanctioned-appropriate authority**
 - ✚ Collect **Info. from Branches**
- B. Claims Paid**
- ✚ Premium received by co. on claims which-paid on **basis-advice-another co.**
 - ✚ Payment of claim was **duly sanctioned**
 - ✚ **Salvage recovered** duly a/c for
 - ✚ Amount **deposited with court not-claims**
 - ✚ **Unqualified Discharge note**- received
 - ✚ Partially settled claims-duly vouched.
- C. Claim O/s-Year End/Provision for Claims**
- ✚ Provision for **unsettled claim** made
 - ✚ Provision for claim-**legally enforceable**
 - ✚ **No Excess provision** should be made
 - ✚ **Subsequent event**-considered
 - ✚ **Average Clause**-applied-Under Insurance
 - ✚ Claims are provided for **net of estimated salvage**, wherever applicable
 - ✚ No Contingent Liability to be carried for **Claims intimidated for Policies issues**
- D. Records & Register**
- ✚ **Claims Intimation Register**
 - ✚ Claims Paid Register
 - ✚ Salvage Register
 - ✚ **Claim Dockets Report**-Quality Assurance Team
 - ✚ Claims Disbursement Book

COMMISSION

- ✚ Vouching of **Disbursement entries**
- ✚ Proper Authorisation of Voucher & **TDS**
- ✚ **Deducted** as applicable
- ✚ Test check correctness of amounts of **commission allowed**
- ✚ Commission is **not paid in excess of Limit** (i.e. paid according to rate as specified) specified by IRDAI
- ✚ Examination of **Agent’s Ledger**

RECEIPT & PAYMENT

- A. Auditor to express opinion whether**
- ✚ R&P A/c are in **agreement with books of a/c**
 - ✚ R&P are prepared a per applicable **Laws & Regulation**
 - ✚ R&P A/c give **true & Fair view** of business of co.
 - ✚ Expense of **Rs 5 lakhs or in excess of 1% of net premium** is shown separately



INVESTMENT

Audit of Balance Sheet Items of General Insurance Business

O/S PREMIUM & INTEREST BALANCE

1. •Verify **Existence & Valuation** of Investment
2. •Verify **Investment Scrips** from custodian Statement/demat a/c etc.
3. •All Investment must be in **name of company**
4. •Examine **records for investments** held at branches & request respective branch auditors to issue certificate to this effect
5. •If **Investment held by another person** (Broker, agent etc.) obtain certificate from him
6. •Verify **Income from Investment** is properly accounted for
7. •Verify whether **TDS Certificate** are properly recorded & maintained
8. •Any **change in method for valuation** of investment should be properly disclosed
9. •Ensure **compliance** of Sections 27, 27A & 27B of Insurance Act, 1938

1. •Scrutinize & review **control account debit balances** & their nature should be enquired into
2. •Examine **inoperative balances** & treatment given for old balances with reference to co rules
3. •Enquire into **reason** for **old debit balance**
4. •Verify old debit balances requiring **provision or adjustment.**
5. •Check age-wise, sector-wise analysis of **outstanding premium.**
6. •Verify whether **outstanding premiums have since been collected.**
7. •Check **availability of adequate bank guarantee** or premium deposit for outstanding premium

PROVISION FOR TAXATION

1. •Whether **Provision** is made as per law applicable to Insurance Business
2. •Assess **past trend** of Income Tax Dept., decision of High & Supreme Court-computation made.
3. •See whether **deductions** under Chapter VIA of Income Tax Act, 1961 properly taken into a/c
4. •whether **exemption provision-TDS** from certain income as exempted properly availed.
5. •Check **grossing up-TDS-Income** properly done for computation of Taxable income.
6. •Check liability under VAT & whether **provision** for **adequate** amount made in books or not.
7. •Verify adequate provision made for **add. liability** -earlier year for which demands received now

CONTINGENT LIABILITY DISCLOSURE REQUIREMENTS

1. •Partly paid up **investments**
2. •**Underwriting** Commitments outstanding.
3. •**Claims**, other than under policies, **not acknowledged as debts.**
4. •**Guarantees** given by or on behalf of the Company.
5. •**Statutory demands** / Liabilities in dispute, not provided for.
6. •**Reinsurance obligations** to extent not provided for in a/c.
7. •**Others** (to be specified).

TRADE CREDIT INSURANCE

BASIC REQUIREMENT OF TRADE CREDIT INSURANCE PRODUCT

1. Policyholder's loss arises due to **non-receipt-trade receivable.**
2. Policyholder is supplier of goods/services for consideration.
3. **Buyer is liable to pay trade receivable** to policyholder in return for goods & services received by him from policyholder
4. Premium for entire Policy Period has been paid.
5. Other requirement that-specified by Authority.

It provides protection to suppliers against risk of non-payment of goods/services by their buyers who may be situated in same country (domestic risk)/another country (export risk) against non-payment as result of insolvency of buyer/non-payment after agreed no. of months after due date.

CO-INSURANCE-

- ✚ Sharing of Business b/w >1 insurer at agreed %
- ✚ Lead Insurer-Issues Doc, Collect Premium & Settle Claims

AUDIT PROCEDURE FOR CO-INSURANCE

Incoming Co-Insurance	Outgoing Co-insurance
✚ Check premium a/c is credited on basis of statements received from leading insurer. If statement not received, whether premium-a/c-basis of advices received.	✚ Auditor should scrutinize transactions relating to outgoing Biz. i.e. where Co. is leader
✚ Obtain WR from mgt.-premium received from leader a/c for.	✚ Examine relevant doc.
✚ Verify provision for claims made & paid.	✚ Check whether co-insurer a/c debited with his share of claim.
✚ Ensure claim paid only for its share in co-insurance.	

A. Treaty Reinsurance

1. Treaty Agreement-entered into between ceding co. & reinsurer where reinsurance is within limit of treaty
2. Limits can be monetary, geographical, section of biz
3. Reinsurer, in such cases, treats the amount paid to insurer as 'advance against claim
4. Obligatory for reinsurer to accept all the risk and for ceding co. to cede risk as per term of agreement
5. Treaties can be divided into two types-

Proportional Treaty-Based-pro-rata apportionment-sum insured/premium/losses, as per pre-determined %/ratio.

REINSURANCE

TYPES OF RE- INSURANCE

B. Facultative Re-Insurance

1. Contract relates to **one particular risk** & is expressed in reinsurance policy
2. **Oldest method** of reinsurance & it necessitates consideration of each risk separately.
3. **Each party to transaction has free choice**, i.e., for ceding company to offer & reinsurer to accept
4. Such Insurance are used mainly when-
 - Automatic cover has exhausted.
 - Risk is excluded from treaties
 - Reinsurance treaties have not to be overburdened.
 - Insurer has no automatic cover.
 - Technical guidance required-each stage of acceptance risk.

Non-Proportional Treaty-Distribution of liability b/w ceding co. & reinsurer-basis of losses rather than sum insured.

- ✚ Premium not calculated on each cession, but on whole portfolio of ceding co.
- ✚ Premium rate is predetermined
- ✚ Cost of Reinsurance vary substantially each year.
- ✚ Normally no commission is paid.



AUDIT OF LIFE INSURANCE BUSINESS

VERIFICATION OF RE INSURANCE INWARD OR OUTWARD

1. Evaluate **Internal Control** in area of Reinsurance ceded/ accepted
2. Ascertain whether **adequate guidelines & procedures-established** to granting/obtaining re-insurance.
3. Reconcile reinsurance **underwriting returns** received from various units with figures of premium, claims paid & o/s claims as whole.
4. Whether Commission/premium-paid/received **as per agreement**.
5. Remittance to/from foreign insurer-**foreign exchange regulation**.
6. **Examine confirmation of Balance** with Principle Insurer/Reinsurer
7. Whether claims paid/loss recovered-**accounted on regular basis**
8. **Review individual account** of Principle/reinsurer

Life Insurance Products-

Term & Protection-Traditional Form-covers holder for specific period & **pays death benefits only** if policy holder dies during policy period.

Endowment/Pure Endowment-Cover risk for specified period, **at end sum assured paid back** to policyholder along with all bonus accumulated during policy term.

Money Back Plan-Type of Endowment policies-**provides periodic payments**-partial benefits during term of policy-policy holder is alive.

Whole Life Insurance Product-**Cover throughout life time**, sum assured paid-family-unfortunate death of policy holder

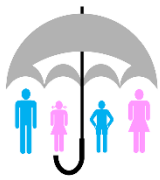
Unit Linked Insurance Plan-**Value of policy changes as per underlying investment assets**.

Pension or Retirement Plan

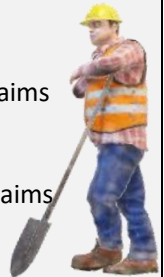
Annuities -Where Insurer in **return for payment at regular intervals** till fixed date make series-payments at regular intervals from fixed date.

Group Insurance-Cover Group of People.

AUDIT OF ACCOUNTS OF LIFE INSURANCE COMPANIES

CONCEPT	ROLE OF AUDITOR
<p>1) Actuarial Process-Actuarial dept. concentrates key areas of Insurance biz-</p> <p>P - Product Development/ Pricing & Experience analysis. B - Business Planning. M - Model Development. M - Mgt. reporting on various business valuations S - Statutory Valuations and reserving. S - Solvency management. P - Profitability models of Life Insurance business</p> 	<ul style="list-style-type: none"> To certify, whether actuarial valuation of liabilities is duly certified by appointed actuary Assumptions for such valuation as per-guidelines & norms issued by IRDA & Actuarial Society of India Discussion with actuaries regarding process followed & assumption made.
<p>2) Underwriting -Process to verify level of risk in each new entrant is called underwriting. Functions of Underwriter is to –</p> <ul style="list-style-type: none"> Acquire/to “write” biz that will bring money to insurance Co., & to protect company’s business from risks-loss. 	<ul style="list-style-type: none"> To review process of acceptance of risk through this Evaluate & test effectiveness of internal controls in place to ensure timely & accurate Insurance policy, Adherence to IRDA Act & Rules & regulations.
<p>3) Free Look Cancellation –</p> <ul style="list-style-type: none"> Option provided to shareholder-return policy after reviewing Terms & Condition (Time-15 days from receipt of policy doc) FLC requests-received through any mode - mail, fax and letters. In case-written letters, sign-holder-match-original proposal form. Processed only when there is disagreement in Terms & Condition FLC Can be paid via cheque or direct credit. 	<ul style="list-style-type: none"> Check & Confirm FLC Is Received within 15 Days Verify signature of policyholder and whether FLC request process in defined time by insurer Check appropriate accounting entries for the refund
<p>4) Policy Lapse & Revival-</p> <ul style="list-style-type: none"> Discontinuance-policy-non-payment-premium dues It forfeits benefits under policy Lapse policy-revived during life time of life assured In case of insurer if policy is lapsed for certain period of time then revival is not allowed. 	<ul style="list-style-type: none"> Check & confirm-due dates-recorded & monitored properly & policies marked as “lapsed”-non-receipt-renewal premium within due dates/grace period. In case of revival request, check adequate checks in place for receipt of o/s amounts & adequate documents are obtained before reviving policy.
<p>5) Policy Surrender-</p> <ul style="list-style-type: none"> Voluntary termination of insurance before expiry of term of contract Eligibility-Completion of 3 years from commencement of Policy + All Premium are paid Submit- Duly Signed Application + Original Policy Document + Any Other Document Required. 	<ul style="list-style-type: none"> Confirm surrender requests from policy holder only. Check adequate controls in place-ensure proper verification process-checking of request, premiums are paid on regular basis. Whether surrender amount is paid only to the policy holder & paid only as per terms & conditions mentioned in policy document. Whether appropriate accounting entries are passed.

<p>6) Premium Collection- Premium refers to consideration received by insurance co. from policy holder. Premium income recognized as-</p> <p>(1) New business premium-premium received for first policy year & (2) Renewal Premium-Premium received for subsequent policy years. <i>Premium received but not identifiable against any policy would be treated as 'unallocated premium' / 'suspense amount'.</i></p>	<p>Collection of Premium (a) Existence of appropriate mechanism-all collections deposited-Bank on timely basis. (b) whether there is daily reconciliation process to reconcile amounts collected, entered into system & deposited into bank.</p> <p>Calculation of Premium (a) Check a/c system calculates premium amounts & due dates correctly. (b) Check system equipped to calculate all types of premium modes correctly.</p> <p>Recognition of Income (a) Ensure premium is recognised only on basis of 'Issued Policies'. (b) Check there is appropriate mechanism in place to conduct reconciliation on daily basis & reconciling items, if any, are rectified/ followed up.</p> <p>Accounting of 'Advance Premium' (a) Whether system has capability to identify regular & advance premium. (b) Whether there is process-applying advance premium to a contract-premium is due.</p>
<p>7) Claims-Primary objective of Audit of Life Insurance co. is checking accuracy of processing & a/c of claims with focus on areas:</p> <ul style="list-style-type: none"> ✚ Claims lodgement & processing ✚ Authority for approval of claims ✚ Review of pay-out & disbursements ✚ Review-compliance-Statutory Req., applicable IRDA Regulations. ✚ Review of Reinsurance claims ✚ Review of reporting of claims. 	<p>(a) Review policy document to ensure that it prescribes documentary evidence needed to support claim. (b) Ensure that register of claims is maintained, in which every claim is entered along with details. (c) Review reasons for rejections, in case of rejection of claims. (d) Ensure complete recording of all claims received. (e) Ensure that appropriate provisioning has been carried out, in cases of claims intimated but not paid. (f) Ensure that cost of claims includes the claims settlement cost. (g) Ensure there is system of regular reconciliation is carried out between claims management system & General ledger. (h) Ensure that liability of claims should be booked net of reinsurance.</p>





AUDIT OF NON-BANKING FINANCIAL COMPANY



Section 45 I(f) of RBI (Amendment) Act, 1997 defines NBFC

- Financial institution which is a company;
- Non-banking institution which is Co. with **principal business of receiving of deposits or lending**;
- Such other non-banking institution/class of such institutions, as RBI with previous approval of CG may specify by notification in Official Gazette.
- For purpose of **RBI Directions** on Acceptance of Public Deposits **NBFC** means only non-banking institution which is a Loan co, Investment co, hire purchase finance co, Equipment leasing co & Mutual benefit financial co.

FINANCIAL ACTIVITY AS PRINCIPAL BUSINESS

- ✓ Financial assets **>= 50%** Total assets
- ✓ Income from Financial assets **>= 50%** Gross income

NBFC DIFFERENCE FROM BANKS

- NBFC **cannot accept demand deposits**;
- NBFCs **do not form part of the payment & settlement system & cannot issue cheques** drawn on itself
- Deposit insurance facility** of DICGC is **not** available to depositors of NBFCs.

TYPES of NBFC'S Registered with RBI

AMENDMENT

Investment & Credit Co.	Infrastructure Finance Co.	Systematically Important Core Investment Co.	Infrastructure Debt Fund	NBFC-Micro Finance Institution	NBFC Factors	Non-operative Financial holding co.
Asset finance biz.	Non-deposit taking Net owned fund >= 300 Cr.	Total assets >=100 Cr.	Non-deposit taking	>=85% Assets-Microfinance	FA >=50% TA FI >=50% Gross income	Non-deposit taking
	Deployed 75% of TA-Infrastructure Loans	Acq. Of shares Biz.	Net owned fund >= 300 Cr.	Rural Income-100000 & 160000 Urban.	Non deposit taking	
	Credit rating A or above		Facilitate flow of long-term debt into infrastructure projects	Loan< Rs. 50000(start) & then 100000 without collateral	Main biz. factoring	
	CRAR=15% TIER I Cap-10%			Tenure<=24 months		

- All NBFCs are either deposit taking or non-deposit taking. If they are non-deposit taking, ND is **suffixed** to their name (NBFC-ND).
- The NBFCs which have **asset size of ₹500 Crore** or more are known as **Systemically Important NBFC**.

REGISTRATION AND REGULATION OF NBFC

- Sec. 45-IA of RBI (Amendment) Act, 1997** provides that no NBFC is allowed to commence/carry on biz. of NBFC without-
- Obtaining a **certificate of registration** from RBI.
- Net owned fund **Rs. 25 Lakhs** not exceeding **Rs. 200 Lakhs**.
(As per Finance bill **Upper limit raised-Rs.2 Cr to Rs.100 Cr.**
Minimum NOF Rs.25 Lakh to Rs. 2 Cr.)

Registration required where **financing activity** is principal business

Certain categories of NBFC which are regulated by other regulators are **exempted** from requirement of registration with the RBI, for example: companies registered with SEBI or IRDA.

RBI has **issued directions to NBFC** on acceptance of public deposits, prudential norms, risk exposure norms & other measures to monitor financial solvency and reporting by NBFC.

RBI also **issued directions to auditors** to report to the RBI, BOD and shareholders, any noncompliance with the RBI Act and regulations made by the RBI.

COMPLIANCE OF PRUDENTIAL NORMS-

(A) PRUDENTIAL NORMS-

- Capital Requirements-** Maintain minimum Capital ratio
 - TIER I & TIER II capital** -Minimum **15%** of aggregate risk weighted assets of B/S & Risk adjusted Value of off-B/S Items.
 - TIER I Capital**-At any point Minimum **10%**.
 - NBFC engaged in **Gold jewellery** (>50%)
-**TIER-I Capital**-Minimum **12%**
- Income recognition-**
 - Based on recognised accounting principles.
- Asset classification-** (a) Standard assets; (b) Sub-standard assets; (c) Doubtful assets; and (d) Loss assets. & NPA.
- Provisioning Requirements-**Apply to all NBFC **EXCEPT NBFC-MFI**

AMENDMENT

5. **Norms for concentration of credit.**
 6. **Prohibition of granting loans against its own shares.**
 7. **Prohibition on loans & investments for failure to repay public deposits.**
- A. Policy for demand Loans:** The auditor shall ensure that Board of the NBFC shall frame a policy for granting demand/call loans and implement the same.
- B. Classification of Advances:** Verify the classification of advances & loans as standard/substandard/doubtful/loss & proper provision has been made in as per with directions.
- C. Income from NPA:** Auditor should ensure that unrealised income from NPA has not been taken to profit & Loss Account.
- D. Recovery in NPA Accounts:** Check all NPAs of previous year to verify whether during current year any payments have been received or still they continue to be NPA during the current year also.

AUDIT PROCEDURES

1. **Ascertaining the Business-** Study
 - ✚ Memorandum and Article of Association of Co.
 - ✚ Business Policies of the company.
 - ✚ Minutes of the Board/Committee meetings.
2. **Evaluation of Internal Control System-**
 - ✚ IC -adequate & effective.
 - ✚ Review system of Recovery & review of advances.
3. **Registration with the RBI-**Obtain copy of RC
4. **Compliance of Public Deposit Directions**

COMPLIANCE OF PUBLIC DEPOSITS DIRECTIONS BY NBFC

1. **Credit Rating-**Obtain a copy of credit rating assigned to NBFC & check whether **public deposits** accepted/held by it are in accordance with the **level of credit rating** assigned to it.
2. **Interest & Brokerage Payments-**Test checks interest calculations & **interest not in excess** of specified.
3. **Written Application-** NBFC accepted or renewed public deposits only after a **written application** from depositor.
4. **Deposit Register-** Verify it & test check the particulars entered for depositors with supporting receipts.
5. **Repayment of Deposits-**NBFC is **regularly paying** its deposits on due dates.
6. **Custody of investments-** investments made in approved liquid assets have been lodged in safe custody with a designated bank. Obtain certificate.
7. **Submission of accounts-**Submitted within prescribed time limit from the date of holding the AGM.
8. **Filing of Annual Returns-**Filed its annual return in specified time i.e. **before 30th June.**
9. **Board Resolution** passed if non-acceptance of PD.

PROVISION	In 2018			
STANDARD	No default	0.40 %-NBFC Systematically imp. ND /D taking NBFC 0.25%-NBFC Systematically Imp. ND taking NBFC		
SUB-STANDARD		10%		
DOUBTFUL	UNSECURED	100%		
DOUBTFUL	SECURED	Up to 1 Year 20%	1-3 Years 30%	>3 Years 100%
LOSS ASSETS		100%		
NPA		3 months		

CLASSIFICATION OF FRAUDS BY NBFC

1. •Misappropriation & criminal breach of trust.
2. •Fraudulent by forged Instruments, manipulation of BOA or by fictitious a/c & conversion of property.
3. •Cheating & forgery.
4. •Negligence & Cash shortages.
5. •Irregularities in FOREX Transactions.
6. •Unauthorized credit facilities extended for reward or for illegal gratification.

- ❖ Other type of fraud not under specific head.
- ❖ **Negligence & cash shortages & Irregularities in foreign exchange transactions** to be reported as Fraud if **intention to cheat/ defraud is suspected proved. Except** these cases will be **treated as fraud without considering intention-**
- ❖ Cases of cash shortages > ₹10,000
- ❖ Cases of cash shortages > ₹5000 detected by auditor/Mgt./Inspecting officer & not reported by the person handling cash.

AMENDMENT

REPORTING OF FRAUDS TO RBI

(A) Frauds involving ₹ 1 lakh & above

- ✚ Less than 1 Cr.
 - ✚ Report fraud in **(FMR-1)**
 - ✚ Sent to Regional Office- Dept. **NON-BANKING SUPERVISION** under whose jurisdiction the Registered Office of the applicable NBFC falls.
 - ✚ Within 3 weeks (**21 days**) from fraud detection date.
 - ✚ Submit case-wise **QUARTERLY PROGRESS REPORT (FMR-3)** from **15 days** end of quarter.
- Close fraud case-** Applicable NBFC's permitted
- ✚ Only where actions complete &
 - ✚ Prior approval is obtained from the respective Regional Offices of DNBS.

FRAUDS-

- ✚ Misrepresentation, Breach of trust, Manipulation of books of account, Fraudulent encashment of FDRs, Unauthorised handling of securities charged to the applicable NBFC, Misfeasance, Embezzlement, Misappropriation of funds, Conversion of property, Cheating, Shortages, Irregularities, etc.
- ✚ **Central investigating agencies** have initiated criminal proceedings suo-motu and/or Bank has directed that they be reported as frauds.
- ✚ Frauds perpetrated in their subsidiaries & affiliates/joint ventures. Such frauds should not be included in report on outstanding frauds & the quarterly progress reports.

Applicability of Indian Accounting Standards (Ind- AS) on NBFCs –

Rule 4 (1)(iv) of the Companies (Indian Accounting Standards) Rules, 2015 NBFCs to comply with IND- AS,

1. Accounting periods **Beginning 1 April 2018**-Listed & unlisted NBFCs –Net worth of **500 crore or more** & holding, subsidiary, joint venture or associate companies of such NBFCs.
2. **Beginning 1 April 2019** -All other listed NBFCs, unlisted NBFCs having a net worth of **250 crore or more BUT less than 500 crore** & holding, subsidiary, joint venture or associate companies of such NBFCs.

Difference in Division II (IND- AS other than NBFCs) & Division III (IND- AS NBFCs) of Schedule III

1. **LIQUIDITY ORDER**-Allowed to present items of B/S in order of their liquidity **BUT** which is not allowed to companies following Division II.
2. **CLASSIFICATION AS FINANCIAL & NON-FINANCIAL**-NBFCs to classify items of the B/S in financial & non-financial **BUT** companies following Division II to classify as Current/Non-current.
3. **NBFC** to *separately disclose* by note any item of **OTHER INCOME** or **OTHER EXPENDITURE > 1 % of Total income**. Whereas, **Division II**, requires *disclosure* for any item of **INCOME/EXPENDITURE** which **exceeds 1% of revenue from operations or 10 lakhs, whichever is higher**.
4. NBFCs to separately disclose **under receivables**, the **debts due from any LLP** in which its director is a partner or member.
5. **NBFC** also to *disclose items* comprising **REVENUE FROM OPERATIONS & OTHER COMPREHENSIVE INCOME ON FACE** of Statement of P&L instead showing as part of notes.

(B) Frauds committed by unscrupulous borrowers

Frauds committed by unscrupulous borrowers Include-

- ✚ Companies,
- ✚ Partnership firms,
- ✚ Proprietary concerns,
- ✚ their directors/partners. by various methods including-

(a) Fraudulent **discount of instruments**;

(b) Fraudulent **removal of pledged stocks**/disposing of hypothecated stocks without the NBFC's knowledge/inflating the value of stocks in the stock statement & drawing excess finance;

(c) **Diversion of funds outside the borrowing units**, lack of interest/criminal neglect on part of borrowers/partners, etc. & also due to **managerial failure** leading to unit becoming sick & due to laxity in **effective supervision** over operations in borrower accounts on part of NBFC functionaries rendering advance difficult of recovery;

In respect of frauds in borrower accounts, **additional information** as prescribed should be **furnished**.

(C) Frauds involving ₹ 1 crore and above

- ✚ Sent to-
 1. Central Fraud Monitoring Cell
 2. Dept. **BANKING SUPERVISION**
 3. RBI.
 4. Regional Office- Dept. **NON-BANKING SUPERVISION** under whose jurisdiction the Registered Office of the applicable NBFC falls.
- ✚ Through **D.O. letter** addressed to 1,2,3 above & copy to 4 above, RBI, Central office.
- ✚ Briefing fraud like- Amount, Nature, **MODUS OPERANDI** in brief, Name of branch/office, parties, officials involved & whether complaint lodged with police.
- ✚ Within 3 weeks (**21 days**) from fraud detection date.

(D) Cases of attempted fraud

- ✚ All individual cases involving **> ₹ 25 lakh**
 - Placed before the **Audit Committee**.
- ✚ **Includes**- modus operandi of the attempted fraud.
 - How the **attempt failed**.
 - **Measures taken**-strengthen existing systems & controls.
 - **New systems & controls** put in place in the area where fraud was attempted.
- ✚ **Yearly review** of such cases detected-
 - **Info.** regarding area of operations where such attempts were made
 - **Effectiveness** of new process & procedures.
 - **Trend** -last 3 years
- ✚ **Need for further change**- On March 31 every year- Within **3 months** of end of the relative year.

ALL NBFC'S
PARA 3(A)

AUDITORS REPORT

In addition to Report made by Auditor u/s 143 of Co Act, 2013, auditor shall also make **Separate report to BODs** of Company on matters specified in Para 3 & 4 of NBFC'S Report (Reserve Bank) Directions, 2016

MATTERS TO BE INCLUDED IN AUDITORS REPORT IN CASE OF NBFC

1. Whether company is **ENGAGED IN BUSINESS OF NBFC**
2. Whether company **OBTAINED CERTIFICATE OF REGISTRATION (COR)** from Bank.
3. Whether company is **ENTITLED TO CONTINUE TO HOLD** such COR in terms of its Principal Business Criteria (Financial asset/ Income pattern) as on March 31.
4. **REQUIREMENT OF NET OWNED FUND** as laid in Non-Systemically Important & Non-Deposit taking Company (Reserve Bank) Directions, 2016 & Systemically Important Non-Deposit taking Company and Deposit taking Company (RBI) Directions, 2016.
5. Every NBFC to **submit Certificate** from its Statutory Auditor that it is engaged in business of NBFC requiring it to hold a COR u/s 45-IA of RBI Act and is eligible to hold it for this a Certificate from Statutory Auditor on position of company at **31st March** FY ended may be **submitted to Regional Office** of Dept. of Non-Banking Supervision under whose jurisdiction NBFC is registered in **1 month from Date of finalization of B/S** & in any case not later than December 30th)

NBFCs ACCEPTING/ HOLDING PUBLIC DEPOSITS PARA 3(B)

1. **PRUDENTIAL NORMS & RETURNS-**
 - Whether complied with Prudential Norms on Income Recognition, AS, Asset classification, provisioning for bad & doubtful debts & concentration of Credit/ Investments.
 - Whether Co. furnished to Bank in Stipulated period **Quarterly return- NBS 1.**
 - Whether Co. furnished to Bank in Stipulated period **Half Yearly Return.**
2. **COMPLIANCE WITH REQUIREMENTS**
 - Whether Co. complied with **Liquid Assets requirement** as prescribed by Bank.
3. **CRAR/CAR-** Whether Capital Adequacy Ratio as disclosed in return submitted to Bank has been correctly determined & whether such ratio is in compliance with Minimum CRAR prescribed.
4. **DEPOSITS-**
 - Whether PD accepted are in **limits** admissible to co as per provisions of NBFCs Acceptance of Public Deposits (RBI) Directions, 2016.
 - Whether NBFC is accepting PD **without minimum Investment Grade Credit Rating from Approved credit rating agency** as per NBFC Acceptance of PD (RBI) Directions, 2016.
 - Whether PD held by Co. in **excess** of such deposits permissible to it under NBFCs Accept of (PD) Public Deposits (RBI) Directions, 2016 are regularised in manner given in it.
 - Whether Co. **defaulted in paying** to its depositors Interest/principal amt. of deposits after such Interest/principal became due.

NBFCs NOT ACCEPTING/ HOLDING PUBLIC DEPOSITS

1. Whether BOD has passed **Resolution** for **Non-acceptance** of any public deposits
2. Whether Co. **accepted any PD** during relevant period.
3. Whether Co. **complied with Prudential norms** relating to Income recognition, AS, Asset classification & provisioning for bad and doubtful debts as applicable to it.
4. Whether NBFC has been **correctly classified** as NBFC Micro Finance Institutions (MFI).
5. For **Systemically Important Non-deposit** taking NBFCs:
 - Whether CAR as disclosed in return submitted to Bank has been **correctly arrived at** & ratio is in **compliance with minimum CRAR** prescribed by the bank.
 - Whether Co. has **furnished** to Bank, **Annual Statement** of Capital funds, Risk assets/ Exposures & Risk asset ratio in stipulated period.

Reasons to Unfavourable or Qualified statements (Para 4)

If in Auditor's report, Statement regarding any of the items referred to in Para 3 above is **unfavourable** /qualified, Auditor's report shall also state **reasons** for such unfavourable or qualified statement.

Where Auditor is **unable to express any opinion** on any of the items referred to in Para 3 above, his report shall indicate such fact together with **reasons** therefore.

If a company in business of Non-Banking Financial Institution not required to hold COR- certain conditions

Apart from matters enumerated above where company has obtained a specific advice from Bank that it is not required to hold COR from Bank auditor shall include **statement that Company is complying with conditions** stipulated as advised by Bank.

Format for preparation of financial statements by NBFCs under IND- AS

MCA vide notification dated October 11, 2018 introduced **Division III under Schedule III of the Companies Act, 2013**, wherein a format for preparation of FS by NBFCs complying with IND- AS has been prescribed. Every NBFC required to comply with IND - AS shall prepare its FS as per it.

OBLIGATIONS OF AUDITOR TO SUBMIT EXCEPTION REPORTS TO RBI IN CASE OF NBFCs (PARA 5)

- Where in case of NBFC, statement regarding any of the items referred to in Para 3 is **UNFAVOURABLE OR QUALIFIED**, or in the opinion of the auditor the company has **NOT COMPLIED** with-
 - Provisions of **Chapter III B of RBI Act OR**
 - NBFC **Acceptance of Public Deposits (RBI) Directions, 2016 OR**
 - NBFC **Non-systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 & NBFC Systemically Important Non-Deposit taking Co. & Deposit taking Company (RBI) Directions, 2016.**
- It shall be **OBLIGATION OF AUDITOR TO MAKE A REPORT** containing details of such unfavourable or qualified statements &/ or about the non-compliance, to concerned **Regional Office** of Dept. of **Non- Banking Supervision of the Bank** under whose jurisdiction the registered office of the co is located.
- Duty shall be to **REPORT ONLY CONTRAVENTIONS** of provisions of RBI Act,1934, & such report **NOT CONTAIN** statement with respect to **COMPLIANCE** of any those provisions.

AUDIT OF INVESTMENT AND CREDIT COMPANY (NBFC-ICC)

Co. is a FI whose **principal business is asset finance**, providing it by making loans/advances or otherwise for any activity other than its own & acquisition of securities & not covered under other categories of NBFC.

Harmonization of diff. types of NBFCs into fewer ones shall be carried out based on principle of regulation by activity rather than regulation by entity. So, it was notified to **merge the 3 categories** viz. Asset Finance Co., Loan Co. & Investment Co. into a new category called NBFC - Investment & Credit Co. (NBFC-ICC).

1. Physical Verification-

- All shares & securities held by NBFC.
- If Lodged-Institution/Bank-Certificate to verify.



AUDIT CHECKLIST

AMENDMENT

2. NBFC not advanced any loans against the security of own shares.

3. Income recognition

- Dividend** income wherever declared-**duly received**.
- Interest** wherever due -**duly a/c for**.
- Prudential norms- Dividend -shares/ Mutual funds-cash basis.
- BUT** NBFC has option-**Accrual basis**. (If declared by body corporate in AGM & right established)
- Income from Bonds/Deb-body corporate-Accrual basis **Only IF** Int. predetermined, regular & not in arrears.

4. Test check bills/contract notes received from brokers with ref. to prices & stock market quotations on respective dates.

5. Verify BOD Minutes for purchase & sale of investments.

- Board resolution/obtain certificate**-Investment-Current/Long-term.

6. Valuation of Investment -NBFC Prudential Norms Directions & adequate provision for fall in the market value of securities.

7. List of subsidiary/group Co., verify investment & Basis for arriving at price paid on acquisition.

8. Unquoted debentures/bonds as term loans or other credit facilities.

9. Ensure compliance with IND-AS 40/AS-13 followed & Loan properly sanctioned.

10. Obtain a confirmation from depository regarding the shares/securities held by it on behalf of the NBFC.

11. Securities of same type/class are received back by lender/paid by borrower at end of specified period with all corporate benefits.

12. Verify charges paid/received.

13. Confirmation from the approved intermediary regarding securities deposited with/borrowed from it as at the year end.

14. Each loan properly sanctioned. Check conditions attached to sanction.

15. Verify security obtained & agreements entered with concerned parties in respect of the advances given & Realisability.

16. Obtain Balance confirmation from concerned parties.

17. Check that proper records/documents have been maintained for every bill discounted/rediscouted by the NBFC. Test check some transactions with reference to the documents maintained.

18. Not lent in excess of specified limits to single /group of borrowers.

19. Adequate system of appraisal & follow up of loans & advances. Trend of recovery performance check.

20. Check Classification & Adequacy of provisions etc.

AMENDMENT

Clause (xii) of Paragraph 3 of CARO

COMPLIANCE WITH CARO, 2016

Clause (xvi) of Paragraph 3 of CARO

- Whether the **Nidhi Company** has complied with the **Net Owned Fund to Deposits** in the **ratio of 1: 20** to meet out the liability & Whether the **Nidhi Company is maintaining 10% unencumbered term deposits** as specified in the Nidhi Rules, 2014 to meet out the liability.
- Section 406(1)** of the Act defines -Nidhi company, As per **Rule 3(d)** Net Owned Funds.
- Nidhi company **can accept FD, RD & savings deposits** from its members as per directions notified by CG. The aggregate of such deposits is referred to as "deposit liability".

AUDIT PROCEDURE AND REPORTING

- Auditor should ask Mgt. to provide **Computation of the deposit liability & Net owned funds (NOF)** to enable him to **verify that ratio of deposit liability to net owned funds** is in as per requirements prescribed in this regard.
- Auditor's report** may include the following:
 - In case of **SHORTFALL IN RATIO** of NOF to deposits, **REPORT AMOUNT OF SHORTFALL & STATE ACTUAL RATIO** of NOF to deposits.
 - In case of **SHORTFALL** regarding the **MINIMUM AMOUNT OF 10% AS UNENCUMBERED TERM DEPOSITS**, as specified in Nidhi Rules 2014, **REPORT AMOUNT** thereof.

- Whether the company is **required to be registered under Section 45-IA** of the RBI Act, 1934 and if so, whether the **registration has been obtained**.
- Sec. 45-IA of RBI (Amendment) Act, 1997 **Not allowed** to commence /carry on business of NBFC **without obtaining a certificate of registration** from RBI where financing main biz.

AUDIT PROCEDURE AND REPORTING

- Examine transactions** of Co. with relation to activities covered under RBI Act & directions to determine whether **Co. is engaged in financial activity**.
- Examine** FS to ascertain whether company's Financial Assets **>=50 %** of Total Assets & Financial Income from FA **>=50 %** of Gross Income.
- Ascertain** whether the **Net owned funds** of Co. **exceed** such amount so as to require Co. **to get itself registered** as NBFC with RBI.
- Ascertain whether Co. has **obtained registration** as NBFC, if not, the **reasons** should be sought from the management and documented.
- Auditor's Report** under CARO, 2016 shall include-
 - Whether the **REGISTRATION IS REQUIRED** under section 45-IA of the RBI Act, 1934.
 - If so, whether it has **OBTAINED THE REGISTRATION**.
 - If the registration **NOT OBTAINED, REASONS** thereof.





AUDIT UNDER INDIRECT TAX LAWS



Definition of Audit-Sec. 2(13) of CGST Act, 2017

- Examination of records, returns & documents maintained or furnished by **Registered person** under this Act to verify correctness of-
 - Turnover declared
 - Taxes paid
 - Refund claimed
 - ITC availed
- To assess-compliance with provisions of this Act or rules

PRACTICES ADOPTED FOR GST AUDIT

- Evaluate Internal Control**-Identify areas to be focused. Practices may be adopted:
 - Verify-Statutory Audit report has **specific disclosure-maintenance of Record, Stock & fixed assets.**
 - Information System Audit report** & Internal Audit Report.
 - IC **questionnaire** may be designed for GST compliance-
 - Using-**Generalized Audit Software** to aid GST audit ensuring **Risk Based Audit.**
 - Reconciliation of books of a/c/** reports **from ERP's** to return is imperative.
 - Review of Gross trial bal.**-detect incomes-set off-expense
 - Review of purchases/ expenses**-examine **application of Reverse Charge** applicable to goods/ services.
 - FOREX outgo reconciliation** necessary for identifying liability of import of services.
 - Quantitative Reconciliation of stock transfer** in State/ supplies to job workers under exemption.
 - Ratio analysis** on areas of non-compliance.

AUDIT PLANNING & PROCEDURES

- Obtain Understanding of organization Internal Process-**

Accounting of Transactions	Reporting to the GSTN Portal
Reconciliation of filed data	IC systems implementation
- Plan audit & develop effective audit approach** to meet audit requirements.

In planning portions of audit which may be affected by **Client's CIS environment.** Auditors-

Obtain understanding of significance & complexity of CIS activities & availability of data for use in audit.

PRELIMINARY REVIEW- Conduct Before starting of Audit to-

- Assess CIS controls + risks that could impact his work by considering following points-
 - Knowledge** of the Business
 - Understanding **technology deployed**
 - Understanding **Internal Control System**
 - Risk assessment** & Materiality



FAILURE TO SUBMIT ANNUAL RETURN OR A/C NOT AUDITED

SECTION 47(2)-NON-SUBMISSION OF ANNUAL RETURN

Late fee levy-**Rs. 100/day** during which such failure continues subject to **max of 0.25%** of turnover in State/UT & Equal amount of late fee under respective State/UT GST law.

No specific penalty-not getting accounts audited by-CA/CMA

SECTION-125 of CGST Act- Subjected to penalty **up to 25,000**

General penalty-where any person, contravenes any of provisions this Act/rules for which no penalty is separately provided.

TYPES OF AUDIT UNDER GST

1. AUDIT BY PROFESSIONALS- AUDIT OF ACCOUNTS

Section 35(5) Read with Section 44(2) & Rule 80]

Registered person-Accounts audited-by-

Chartered Accountant Cost Accountant

Aggregate turnover > Rs. 2 Crores-during FY

Furnish electronically through common portal along with **Annual Return- FORM GSTR-9C** copy of-

Audited annual accounts Reconciliation Statement

Reconciliation Statement-

- Reconcile value of supplies-in return furnished for FY with Audited annual FS & other particulars

Aggregate turnover-

Includes Value of all outward supplies-

- Taxable supplies Exempt supplies Exports
- Inter-State supplies of persons having same PAN be computed on all India basis.

Excludes the following-

- CGST SGST UTGST IGST
- Compensation cess Value of inward supplies on which tax payable under RCM

2. GENERAL AUDIT- AUDIT BY TAX AUTHORITIES

SECTION 65 & RULE 101

Commissioner/any officer authorised by him-undertake audit-Registered person

Audit u/s 66 is special audit to be conducted by CA/CMA nominated by Commissioner whereas audit under Section 65 is routine audit by tax office.

3. SPECIAL AUDIT- SECTION 66 & RULE 102

Registered person-directed-get his **records**

Examined & Audited

By **CA** or **CMA** during any stage of scrutiny/inquiry/ investigation/other proceedings varying upon complexity of case.

Officer not below rank of Assistant Commissioner, duly approved, **may avail services of CA/CMA** to conduct exam of specific areas of operations of RP.

Availing services-expert-CA/CMA-permitted by this section only when officer considering nature & complexity of business & in interest of revenue is of opinion that-

- Value has not been correctly declared**
- Credit availed** is **not** within the **normal limits**

CIRCUMSTANCES FOR NOTICE FOR SPECIAL AUDIT

Assistant Commissioner (AC) after commencement & before **completion of any scrutiny**-direct registered person to get his books of a/c audited by expert.

AC needs-**obtain prior permission of Commissioner** to issue such direction to taxable person.

Expert-nominated by Commissioner

AUDIT REPORT submitted within period of **90 days** to AC.

Due date-submission of AR-**extended by another 90 days.**

EXPENSES for Examination & Remuneration for Audit-**determined & borne by Commissioner.**

GST AUDIT IN COMPUTERISED ENVIRONMENT

Compliances under GST depend on technology because transactions are numerous.

Information Systems **become integral to enterprise day-to-day operations**-Return filing, Payment of taxes, Rectification of returns filed, Reconciliation of returns, e-Way Bill, GSTR 9 etc.

- ✓ **Assess entire Computerized Info System (CIS)** environment & **get macro** perspective of data availability & systems reliability
- ✓ Audits-**Larger assesses**-carried out by using Computer Systems & Technology
- ✓ **Huge Transactions** can't be done manually so computerized tools & methods are used.
- ✓ It is Important for **auditor-aware of such computerized environment** & Audit risks.

GSTR 9- ANNUAL RETURN FILING, FORMAT, ELIGIBILITY & RULES

- + Annual return filed **ONCE** in year.
- + All **Registered taxable persons** in GST file GSTR9 form
- + Details regarding-Supplies made & received in year under tax heads i.e. CGST, SGST, IGST
- + It consolidates information furnished in monthly/quarterly returns during year.
- + **EXEMPTION**-Below **not required to file GSTR 9-**
 - ✗ Casual Taxable Person
 - ✗ Input service distributors
 - ✗ Non-resident taxable persons
 - ✗ Persons paying TDS under section 51 of GST Act.

DETAILS REQUIRED IN GSTR-9

Inward outward supplies	ITC declared in returns filed
Details of Taxes paid	Other details.

DIFFERENCE FORM GSTR-9 & GSTR 9C

Return in GSTR 9	Return in GSTR 9C
Formal Report-information or consolidation of all GST Returns	Formal statement-on GST returns certified by GST Auditor
All GST Registered taxpayer to File GSTR 9	Whom Audit Applicable-Aggregate t/o > 2 Crores.
EXEMPTION -Casual Taxable Person, Non-Resident Taxable Person, Input Service Distributor, UIN Holders, Online info & Database Access Retrieval Service, Composition Dealers, persons required to deduct taxes u/s 51 & persons required to collect taxes u/s 52.	EXEMPTION - Those mentioned under GSTR-9 BUT also registered person whose Aggregate Turnover in FY < Rs. 2 Crores
No need-annex financials	Financials to be annexed
No certification-CA/CMA	Certification is Must.



1. **AUDIT PROCEDURES/STEPS FOR PREPARATION**
2. **Inform concerned assessee** about applicability of GST audit
3. **Confirm eligibility to be GST auditor** under related legislation
4. **Understand nature of biz**, products/services, requirements of records to be maintained & advise auditee to maintain a/c & records
5. **Prepare questionnaire**- understand operations/activities of auditee & develop questions-those issues-which GST law would have bearing
6. **Preparation of detailed audit program** & list of records to be verified
7. **Host of relevant reconciliations**

VARIOUS RETURNS IN GST

Following are various forms to be filed under GST Act-
GSTR 9-Filed by **regular taxpayers** filing GSTR 1, GSTR 2, GSTR 3
GSTR 9A-Registered under **composition scheme** under GST.
GSTR 9B-Filed by **e-commerce operators**
GSTR 9C-By taxpayers whose **ANNUAL TURNOVER > 2 Crores** during FY
All such taxpayers are also required to get their accounts audited & file copy of audited annual a/c & reconciliation statement of tax already paid & tax payable as per audited accounts along with GSTR 9C.

GSTR-9C

PART A-RECONCILIATION STATEMENT-

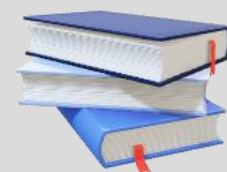
Part 1-Basic details

1. Financial year
2. GSTIN
- 3A. Legal Name
- 3B. Trade Name (if any)
3. Are you liable to audit under any act

Part 2-Reconciliation of turnover declared in audited Annual FS with turnover declared in AR-GSTR9.

PART B-CERTIFICATION-

1. We have examined-
 - (a) B/s as on.
 - (b) P/L for period.
 - (c) Cash flow statement for period.
2. Based on our audit we report that Registered person has maintained/not maintained books of a/c, records & doc required by IGST/CGST Act, 2017 & rules/notifications there under.
3. Discrepancies hereby observed.



AS V/S GST

- + Auditor to take into a/c AS/ IND AS followed-FS
- + Diff-Manner of a/c treatment of certain transactions as per AS/ IND AS in FS & that in GST. Like-

	AS/IN-AS	GST
Finance Lease	Lessor books-Cost of asset recorded-receivable Lessee books-Asset purchased	Cost of asset recorded-purchase FV not recorded Lessee books as purchase
Lessee	Lease rentals bifurcated into interest charges & liability	Entire lease rentals treated as expense
Lessor	Financial charges as revenue	Entire as Revenue



AUDIT UNDER DIRECT TAX LAWS



AUDIT OF PUBLIC TRUST (AUDIT U/S 12A-IT ACT, 1961)

APPLICABILITY -Total income of Trust without giving effect exemptions u/ss 11 & 12 exceeds maximum exempted amt, a/c of trust for that year need to be audited by accountant.

AUDIT PROGRAMME

1. PRELIMINARY

OBTAIN following from Trust

- 1) Copy of **Resolution** specifying appointment-determine scope.
- 2) List of **Accounting records maintained** by the trust.
- 3) Certified true copy of **Trust deed**.
- 4) **Trial Balance** as at end of accounting period.
- 5) **Balance Sheet & P&L** a/c of trust authenticated by trustee.
- 6) **List of institutions/activities run/carried out by trust**.

2. ROUTINE CHECKING

1. **CHECK BOOKS OF A/C & OTHER RECORD** having record to system of Accounting & Internal Control
2. **VOUCH TRANSACTIONS** of trust to ensure following-
 - ✓ transaction **falls within the ambit**
 - ✓ transaction-**properly authorized** by authorized person
 - ✓ **Proper accounting** of all incomes & expenses
 - ✓ **Amount applied-covered within objects** of trust as per document governing trust.
3. **VERIFY TRIAL BALANCE, BS & P&L** as obtained to scrutinize
 - ✓ **Assets** of trust are verified & have been properly valued
 - ✓ **Liabilities** of the properly accounted for
 - ✓ **Investment** are Properly classified
 - ✓ **Outstanding dues** are properly accounted for & provision if any are duly made for irrecoverable

4. AUDIT REPORT

- ✓ **Audit Report** shall be furnished in **Form No. 10B**.
- ✓ **Annexure to Form 10B** requires certain info by auditor
 - Certified list of Person covered by Section 13(3)
 - Statement enlisting the various items specified in the Annexure to Form No. 10B.

METHOD OF A/C, AS & ICDS

Sec-145(1)-Income chargeable under head **PGBP/Other sources** shall, be computed as per either **cash/ mercantile system** of accounting regularly employed by assessee.

Sec-145(2)-**CG may notify in Official Gazette-Income Computation & Disclosure Standards**-followed by any class of assessee or in respect of any class of income.

ICDS Notified by CG-

ICDS 1	Accounting Policies
ICDS 2	Valuation of Inventories
ICDS 3	Construction Contracts
ICDS 4	Revenue Recognition
ICDS 5	Tangible Fixed Assets
ICDS 6	Effects of Changes in Foreign Exchange Rates
ICDS 7	Government Grants
ICDS 8	Securities
ICDS 9	Borrowing Costs
ICDS 10	Provisions, Contingent Liabilities & Contingent Assets



TAX AUDIT U/S 44AB OF THE INCOME TAX ACT, 1961

APPLICABILITY

1. **Business-Total Sales/Turnover/Gross Receipts exceeds ₹100 lakhs** in any PY
2. **Profession-Gross Receipts > ₹ 50 Lakhs** in any PY
3. **Business-u/s 44AE/44BB/44BBB** & declaring lower income than prescribed-those sections in any PY.
4. **Profession-u/s 44ADA** & declare lower income than deemed u/s 44ADA & his income exceeds maximum exempted amount.
5. **Business-u/s 44AD** & shall **not be eligible** to claim the **benefit of provisions of Sec. 44AD due to applicability of provisions of Sec. 44AD (4)** & his income exceeds maximum exempted amount.

TAX AUDITOR

- ✓ **Chartered Accountant** having Certificate of Practice
- ✓ Any other **person who is entitled to be appointed** as an auditor of the Co. under Companies Act 2013

IMPORTANT CASE STUDIES ON APPLICABILITY-TAX AUDITS

1.	DB Pvt. Ltd. has total turnover of Rs. 125 Lakhs for FY 2017-18.	Sec-44AD is not applicable to company Assessee , hence Limit of Rs. 2 Cr. is not applicable & has to conduct Audit of Books of a/c u/s 44AB of Act for FY 2017-18 as turnover exceeds Rs. 1 Cr.
2.	ABC & Co. (Partnership firm) engaged in trading of electronic goods having turnover- Rs.165 Lakhs for FY 2017-18	Sec-44AD is applicable to Partnership Firm . Thus, ABC & Co. can declare minimum profit @ 8% of turnover as its turnover during PY 2017-18 does not exceed Rs.2 Cr. If firm do not opt for presumptive income scheme u/s 44AD-get books of a/c audited.
3.	Mr. Anand Khater, Commission Agent has commission receipts of Rs. 137 Lakhs during FY 2017-18.	Though Sec-44AD is applicable to Individual, it is not applicable to Commission income . Here, since, Mr. Anand earns commission income-cannot take benefit of Sec-44AD. His total turnover during FY 2017-18 of commission income > Rs.1 Cr-get his books of a/c audited.
4.	Mr. Vishal Raka, owning Agency of Samsung Mobile for city of Pune & makes turnover of Rs. 87 Lakhs during FY 2017-18	Though Sec-44AD is applicable to Individual, it is not applicable to Commission income . Mr. Vishal earns commission income, cannot take benefit of Sec-44AD. Total turnover during FY 2017-18 of income < Rs. 1 Cr., so, need not to get books of a/c audited.

SECT-44AB requires tax auditor to submit **AUDIT REPORT** in prescribed form & setting forth prescribed particulars

AUDIT REPORT

- a) **Form No 3CA:** Form for report-case-Person who carries business/professional, a/c of which have been audited under law
- b) **Form No. 3CB:** Form for report-case-Person who carries business/professional, but not being person referred in (1) above.
- c) **Form No. 3CD:** This is form containing certain points which tax auditor has to furnish



CLAUSE	PARTICULARS TO BE FURNISHED								
1.	Name of Person whose accounts are being audited u/s 44AB to be given								
2.	Address same as communicated by Person to IT Dept. for assessment purposes on date of signing of audit report.								
3.	PAN allotted to Person indicated. (in E-filing = PAN is mandatory)								
4.	Details of IDT Registration (Person liable to pay IDT like Excise, Service Tax, GST, VAT, Custom (If yes, please furnish Registration no./other identification no. allotted for same). Tax auditor is required to report-GST Registration no of assessee. If auditor-opinion that assessee is required to get himself under indirect tax law but he is not registered under said law, required to report same appropriately								
5.	Status of Person mentioned (Individual, HUF, Co, Firm, AOP etc.)								
6.	Previous Year (Period of previous year to be stated)								
7.	AY relevant to previous year for which accounts being audited-mentioned-8, 9, 10, 11, 12, 13.								
8.	Under which Clause of Sec 44AB audit conducted-mentioned by auditor								
9.	If firm or AOP, indicate names of partners/members & PSR. If change in partners/ members/ PSR since last date of preceding year = particulars of change								
10.	<ul style="list-style-type: none"> ✓ Nature of business/profession (If > 1 business/profession carried in PY-Nature of every business/profession) ✓ Change in nature of business or profession-particulars of such change 								
11.	<ul style="list-style-type: none"> ✓ Books of A/c prescribed u/s 44AA (If Yes-List of books, Mentioning Stock book & register not maintained). ✓ List of BOA maintained & address at which BOA are kept. (In case BOA maintained in computer system, mention BOA generated by such computer system. If Books of a/c not kept at 1 location, please furnish Addresses of locations along with details of BOA maintained at each location) ✓ List of BOA & nature of relevant documents examined. 								
12.	Whether P/L includes any profits & gains assessable on presumptive basis . If yes indicate amount & section (44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, etc.)								
13.	<ul style="list-style-type: none"> ✓ Method of accounting employed in previous year ✓ Whether change in method of accounting employed in comparison to method in previous year ✓ If answer to (b) above is in affirmative-give details of such change & effect thereof on P/L. ✓ Details of deviation in method of a/c employed in PY from AS prescribed u/S 145 & effect on P/L 								
14.	<ul style="list-style-type: none"> ✓ Method of valuation of closing stock employed in the previous year. ✓ In case of deviation prescribed under section 145A, & the effect thereof on the profit or loss, please furnish- <table border="1" style="margin-left: 20px; border-collapse: collapse; width: 60%;"> <thead> <tr> <th style="width: 20%;">Serial Number</th> <th style="width: 30%;">Particulars</th> <th style="width: 15%;">Increase in Profit</th> <th style="width: 35%;">Decrease in Profit</th> </tr> </thead> <tbody> <tr> <td style="height: 20px;"> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table> 	Serial Number	Particulars	Increase in Profit	Decrease in Profit				
Serial Number	Particulars	Increase in Profit	Decrease in Profit						
15.	Give following particulars of capital asset converted into stock-in-trade- <ul style="list-style-type: none"> ✓ Description of capital asset, Date of acquisition, Cost of acquisition, Amt at asset-converted into stock-in-trade 								
16.	Amounts not credited to P/L being: - (a) Items falling in Scope of section 28. (b) Performa credits, drawbacks, refund of duty of customs or excise or service tax or sales tax or VAT (c) Escalation claims accepted during the previous yr. (d) Any other item of income. (e) Capital receipt (i.e. Capital receipts Taxable u/h PGBP & not Capital Gain)								
17.	Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish								
18.	Particulars of depreciation allowable in Income-tax Act, 1961 of each asset or block of assets.								
19.	Capital expense on scientific research assets & entire Sec 35 series of PGBP & 32 AC, AB, ABA. In list of weighted deductions Section 32 AD has been added i.e. where Companies get deduction for investment allowance.								
21.	a) Furnish details of Amt debited to P/L , being in nature of capital, personal, advertisement exp. etc. (Any expenditure not disallowed u/s 37/personal expense not debited in P & L. (Expenditure incurred on club, if same is incurred by co to meet personal exp. of Director report.) b) Amounts inadmissible u/s 40(a) (i.e. when TDS not deducted/not deducted on due date-Details of amount, date of payment, Name & Address of payee) c) Amt. debited to P/L -Interest, salary, bonus, commission or remuneration inadmissible u/s 40(b)/ 40(b)(a)								

	d) Disallowed income/ expenses i.e. Disallowance/deemed income under section 40A (3). (i.e. Cash payment> Rs.10000. Exceptions given in Rule 6DD must be kept in mind).																								
22	Amount inadmissible u/s 23 of Micro, Small & Medium Enterprises Development Act, 2006.																								
23	Particulars of payments made to persons specified under section 40A (2) (b) (Related party). Example-Rent paid to brother-Report in form 3CD. Also check if payment is excessive (> FMV or legitimate needs of business).																								
24	Amounts deemed to be Profits & Gains u/s 32AC, 33AB or 33ABA or 33AC																								
25	Amount of profit chargeable to tax u/s 41 & computation thereof.																								
28	During PY assessee-received property, being share of co. not being company-public are substantially interested, without consideration/ for inadequate consideration-in Sec-56(2) (vii)(a), if yes, please furnish details of same.																								
29	Whether during PY assessee received any consideration for issue of shares which exceeds fair market value of shares as referred to in Sec-56(2)(vii)(b), if yes, please furnish details of same.																								
31	Particulars of each loan/deposit in amount > limit us/ 269SS (taken or accepted >20000) or 269 T (repayment > 20000) in cash. (Furnish details such as PAN, Amount, Name, Address & Payment Mode.)																								
32	Details of b/f loss/depreciation allowance , incurred any speculation loss, incurred any loss referred to in Sec 73A on any specified business in PY, change in shareholding due to which losses can't be allowed-carried forward u/s 79.																								
33,34	If Person is required to deduct or collect tax, furnished statement of tax deducted or tax collected in prescribed time, liable to pay interest u/s 201(1A) or section 206C (7).																								
35	Trading Concern -Give quantitative details of principal items of goods traded Manufacturing -Give quantitative details of principal items of RM, FG & by-products (Opening Stock, Purchases & Sales)																								
36	Domestic company -Details of Tax on Distributed Profits .																								
37,38,39	Whether Cost audit (37)/ Audit under Central Excise Act (38)/ Special Audit u/s 72A of Finance Act was carried out (39) . If yes- details-disqualification/ disagreement on matter/ item/ value/ quantity-reported/ identified by Auditor.																								
40	<p>Details regarding turnover, gross profit, etc., for the previous year & preceding previous year:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Sr. No.</th> <th style="width: 45%;">Particulars</th> <th style="width: 20%;">Previous Year</th> <th style="width: 25%;">Preceding Previous Year</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Total turnover of the assessee</td> <td></td> <td></td> </tr> <tr> <td>2</td> <td>Gross profit/turnover</td> <td></td> <td></td> </tr> <tr> <td>3</td> <td>Net profit/turnover</td> <td></td> <td></td> </tr> <tr> <td>4</td> <td>Stock-in-trade/turnover</td> <td></td> <td></td> </tr> <tr> <td>5</td> <td>Material consumed/finished goods produced</td> <td></td> <td></td> </tr> </tbody> </table>	Sr. No.	Particulars	Previous Year	Preceding Previous Year	1	Total turnover of the assessee			2	Gross profit/turnover			3	Net profit/turnover			4	Stock-in-trade/turnover			5	Material consumed/finished goods produced		
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4	Stock-in-trade/turnover																								
5	Material consumed/finished goods produced																								
41	Please furnish details of demand raised or refund issued during PY under any tax laws other than Income-tax Act, 1961 & Wealth tax Act, 1957 along with details of relevant proceedings.																								





AUDIT OF PUBLIC SECTOR UNDERTAKINGS (PSU)

CATEGORIES FOR ORGANISATION OF PSUs

Departmentally managed undertakings which form part & parcel of govt. activities.

Govt. Co. & deemed Govt. Co. setup under the Co. Act 2013.

Corporations set up under the specific Acts of the legislature

COMPTROLLER & AUDITOR GENERAL OF INDIA

Term of C&AG-Hold office for a Term of **6 YEARS/UP TO AGE OF 65** Years whichever **EARLIER**.

ROLE OF C&AG	
1. ARTICLE- 149	<ul style="list-style-type: none"> ❖ Appointment of C&AG by parliament. ❖ Special procedures for removal of C&AG, only on ground of proven misbehaviours.
2. ARTICLE- 148	<ul style="list-style-type: none"> ❖ Duties & Powers-A/cs of Union & States ❖ C&AG (Duties, Powers & Condition of service) Act, 1971 define these.
3. ARTICLE- 150	<ul style="list-style-type: none"> ❖ On C&AG advice, President to prescribe form in which A/cs of Union & States shall be kept.
4. ARTICLE- 151	<ul style="list-style-type: none"> ❖ Audit reports submitted to President/ Governor.

ORGANISATIONS SUBJECT TO C&AG	
1.	All Union & State Govt. Dept. & offices including Indian Railways, Posts & Communications.
2.	Public Commercial Enterprises controlled by Union & State Govt. (Govt. Co. & Corporations)
3.	Non-Commercial autonomous Bodies & authorities controlled by Union & States.
4.	Authorities & bodies substantially financed by Union & States .

AUDIT OF GOVT (COMMERCIAL AUDIT)

Where Equity participation by Govt is **>51 %**. Auditors are **CA appointed by C&AG**, who gives directions on manner in which audit should be conducted by them.

AUDIT BOARD SETUP IN COMMERCIAL AUDIT (COMPREHENSIVE AUDITS)

- Audit board conduct comprehensive audits of PSUs.
- Associate Experts with them
- No Separate legal entity-Supervision & control is of C&AG
- Results incorporated in C&AG report.

AUDIT OF GOVT. CO. (COMMERCIAL AUDIT)

Public Accounts Committee

Estimates Committee


Committee on Public Undertakings (Financial control PSUs)

Financial & Exp. Control - Govt. Dept.	Report Economics, efficiency, improvements to have effect on underlying estimates made.	Examine Accounts & reports.
Moneys were legally disbursed for purpose to which they were applied.	Suggest Alternative Policies	Examine reports of C&AG
Authorised Expenditure	Examine whether money well laid out within limits	Examine Autonomy & Efficiency of PSU.
Re-appropriations made in accordance with provision made (Distribution of fund)	Suggest form for estimates presentation before parliament.	

OBJECTIVES -PUBLIC ENTERPRISES AUDIT

1. **NOT CONSTRAINED** to financial & compliance audit & Includes- **-PROPRIETY & COMPREHENSIVE AUDIT**
2. **AUTHORISATION**- Decisions taken by competent authority.
3. Helping Govt. to improve **EFFECIENCY & EFFECTIVENESS**.
4. **HIGHLIGHT ISSUES** of efficient & economic operations.
5. **FISCAL & MGT. ACCOUNTABILITY**
FISCAL- Audit of Sanctions, provision of funds, compliance & propriety.
MGT- Efficiency cum performance Audit.

THREE PARTIES INVOLVED

AUDITOR- Role of auditor fulfilled by Supreme Audit Institution, India & its personnel delegated to conduct audits. 

RESPONSIBLE PARTY-

- Auditable entities & TCWG of auditable entities be responsible parties.
- Responsible for subject matter info, to manage subject matter/ address recommendations.
- Responsibilities are determined by constitutional/ legislative arrangements.

INTENDED USERS- Individuals, org. or classes thereof for whom Auditor prepares AR.

BASIC ELEMENTS OF PSU

SUBJECT MATTER, CRITERIA & SUBJECT MATTER INFORMATION

SUBJECT MATTER- Information, condition, activity that is measured/ evaluated against certain criteria.

CRITERIA- Benchmarks used to evaluate the subject matter.

SUBJECT MATTER INFO- Outcome of evaluating or measuring subject matter against criteria.

TYPES OF ENGAGEMENT

1. **ATTESTATION ENGAGEMENTS**- Responsible party measures subject matter against criteria & presents its info, on which auditor then gathers SAAE to provide **reasonable basis for expressing conclusion**.
2. **DIRECT REPORTING ENGAGEMENTS**- It is Auditor who measures/evaluates subject matter against criteria. (Performance audits & compliance audits)

PRINCIPLES OF PSU AUDIT

GENERAL PRINCIPLES

13. Ethics & Independence
14. Professional Judgement, Due care & Skepticism
15. Quality Control
16. Audit Team Mgt. & Skill
17. Audit Risk
18. Materiality
19. Documentation
20. Communication.

PRINCIPLES RELATED TO AUDIT PROCESS

PLANNING THE AUDIT

- Establish **terms of Audit**
- Obtain **Understanding** of the Entity
- Conduct **Risk Assessment** of Problem Analysis
- Identify Risks** of Fraud
- Develop **Audit Plan**.

CONDUCTING THE AUDIT

- Perform planned **Audit procedure** to obtain AE.
- Evaluate** Audit Evidence & draw **conclusions**.

REPORTING & FOLLOW UP

- Prepare a **Report** based on the Conclusions Reached
- Follow-Up** on Reported Matters as relevant.

FINANCIAL AUDIT

- Financial audit is primarily conducted to-
- ❖ Express **Audit opinion** on FS.
 - ❖ Enhance **Degree of confidence** of intended users in FS.
 - ❖ **Examination & evaluation** of financial records.
 - ❖ **Compliance** with applicable statutes.

COMPLIANCE AUDIT

- ❖ **Independent assessment** of whether a given subject matter is in **compliance with applicable authorities** identified in criteria
- ❖ Compliance audit is concerned with-
REGULARITY- Adherence to laws, regulations & agreements applicable to entity.
PROPRIETY- Observations of General principles governing sound financial Mgt. & ethical conduct of public officials.
- ❖ Perspective of compliance audit- It is generally conducted either-
In relation **with Audit of FS**.
Separately as **individual compliance audits**.
In combination **with performance auditing**.



PROPRIETY AUDIT

- ❖ Propriety means the **test of public interest**, commonly accepted customs, standards & particularly as applied to professional performance, req. of law, Govt. regulations & professional codes.
- ❖ Concerned with **scrutiny of executive actions**.

REQUIREMENT-

- ❖ **Expense is not** prima facie **more** than the occasion demands.
- ❖ **Authority** exercises power to **sanction** expenses to pass order which **not accrue to its own advantage**.
- ❖ Funds **not utilized** for benefit of a **particular person/ group**.
- ❖ Apart from agreed remuneration, **no other avenue** to **benefit Mgt.** personnel, employees & others
- ❖ Tests on Efficiency, Effectiveness & Economy.

PROPRIETY ELEMENTS IN CO ACT, 13 & CARO-

- ❖ **Section 143(1)** requiring enquiry into Certain Specified Matters.
- ❖ **CARO 2016** -PARA 3(iii) (vii) (viii) (ix) (x) (xi) & (xv).



PERFORMANCE AUDIT

- ❖ **Objective & systematic examination** for independent assessment of **performance of Govt. org program** or activity so as to improve public accountability & facilitate decision making.

OBJECTIVES

1. Examine- Resources used economically & acquired in due time, in appropriate quantity & quality, at best price.
2. **EFFICIENCY**- Assessment of Input Output Ratio.
3. **EFFECTIVENESS**- Extent to which objectives are achieved.

PLANNING PERFORMANCE AUDIT-PROCEDURE

1. **Understanding** of Entity/ program.
2. Defining **Goals, Objectives & Scope** of audit.
3. Determining **Audit criteria**.
4. Deciding **Audit Approach**.
5. Developing **Audit questions**.
6. Assessing **Audit team skills** & whether outside **expertise** required.
7. Preparing **Audit Design Matrix**.
8. Establishing **Time Table** & resources.
9. Intimation of **Audit programme** to audit entities.

COMPREHENSIVE AUDIT

EFFICIENCY CUM PERFORMANCE AUDIT-

Locates area of weakness & extravagance for Mgt. Issues examined are-

1. Overall Cost of Capital of project?
2. Accepted Production?
3. Planned Rate of Return been achieved?
4. System of project formulation?
5. Cost control measures are adequate?
6. Purchase policies are adequate?
7. Repair & maintenance?
8. Effective & economical?
9. Poor/ inefficient project planning?

AUDIT REPORT OF C&AG

1. **Introduction** to govt. co. etc.
2. **Result of comprehensive appraisal** of selected undertakings by Audit board.
3. **Resume of Co. AR** submitted by them & comments on a/c of govt. co.
4. **Significant result** of audit of undertakings not taken for appraisal by Audit Board.

SOURCES FOR UNDERSTANDING THE ENTITY

1. Documents of the entity
2. Legislative documents
3. Policy documents
4. Academic/ special research
5. Past audits
6. Media coverage
7. Special focus groups

AUDIT DESIGN MATRIX

1. Audit Objective.
2. Audit Questions.
3. Audit Criteria.
4. Evidence.
5. Data Collection & Analysis centre.

PROPRIETY ELEMENTS UNDER CARO

- A. Whether the Co. has **GRANTED LOANS TO RELATED PARTIES** (Sec. 189)
- B. Whether Co. is **REGULAR IN DEPOSITING UNDISPUTED STATUTORY DUES.**
- C. Whether Co. has **DEFAULTING IN REPAYMENT OF DUES** to FI/Bank/Deb holder
- D. Whether **MONEY RAISED** by way of IPO/FPO & Term loans were applied for **PURPOSE FOR WHICH OBTAINED.**
- E. Whether **FRAUD** by the Co. /on the Co. by its officers/ Employees.

SOURCES FOR DETERMINING AUDIT CRITERIA

1. Procedure manuals of the entity
2. Policies, standards, directives & guidelines
3. Criteria used by same entity or other entities in similar activities or programmes.
4. Independent expert opinion & know how
5. New/ established scientific knowledge & other reliable info
6. General mgt., subject matter literature & research papers.

METHODS FOR DECIDING AUDIT APPROACH

1. Analysis of procedures.
2. Case Studies.
3. Use of existing data.
4. Surveys.
5. Analysis of results.
6. Quantitative analysis.

AUDITING EFFICIENCY EMBRACES ASPECTS

1. **Sound procurement practices** are followed.
2. Resources are **properly protected** & maintained.
3. Human, financial & other resources are efficiently used.
4. **Optimum amount of resources** (staff, equipment, and facilities) are used in producing, delivering appropriate quantity & quality of goods or services in a timely manner
5. Public sector programmes, entities & activities are **efficiently managed**, regulated, organised & executed.
6. **Efficient operating procedures** are used objectives of public sector programmes are met **cost-effectively**.

AUDITING EFFECTIVENESS

1. Assess whether **objectives of & means provided** (legal, financial, etc.) for a new or ongoing public sector programme are proper, consistent, suitable or relevant to policy.
2. Determine extent to which a program achieves a **desired level of program results.**
3. Assess & establish with evidence whether observed direct/ indirect social & economic impacts of a policy are due to policy or to other causes
4. Identify factors inhibiting satisfactory performance or goal-fulfilment.
5. Assess whether programme duplicates, overlaps other related programmes.
6. Assess effectiveness of program &/or of individual program components.
7. Determine whether mgt. has **considered alternatives** for carrying out program that might yield desired results more effectively or at a lower cost.
8. Assess **adequacy of mgt. control system** for measuring, monitoring & reporting programme's effectiveness.
9. Assess **compliance with laws & regulations** applicable to program.
10. Identify ways of making programmes work more effectively.





LIABILITIES OF AUDITOR

Lord Justice Tope once famously remarked that "The Auditor is a watchdog and not bloodhound."

AUDITOR'S LIABILITY

Professional Negligence

Civil Liability

Criminal Liability

Liability under Income tax Act

TAKING ASSISTANCE IN THE DISCHARGE OF HIS DUTIES

1. **Contracts involving personal skill**, or other personal qualifications normally **cannot be assigned**.
2. Work of Auditor being of personal character, it must be **performed either by him/his persons** under his supervision since he himself remains finally responsible.
3. **Clause (12) of Part I of First Schedule to CA(Amendment) Act 2006** makes it obligatory that reports on FS would be signed either by member/ his partner.

JUDGEMENTS IN TWO RENOWNED CASES:

4. **Henry Squire (Cash Chemists) Ltd. v/s Ball Baker & Co.-**The **principal must not excuse himself for his clerk's negligence** by saying that he employed a clerk.
5. **Superintendent of Police v/s Rajamany:** **No auditor can escape from personal liability** by taking shelter under misconduct of his own employees.
6. **Chapter II of Council General Guidelines, 2008** Member of the Institute who is an employee shall exercise due diligence & shall not be grossly negligent in the conduct of his duties.

NEGLIGENCE, WHICH IS CULPABLE, GENERALLY CONSISTS OF UNDER MENTIONED 3 ELEMENTS-

1. Professional negligence would constitute failure to perform duties according to "accepted professional standards", resulting in some loss or damage to a party to whom the duty is owed.
2. Existence of duty/ responsibility owed by 1 party to another to perform some act with certain degree of **care & competence**.
3. Occurrence of a **breach** of such duty.
4. **Loss or detriment**, being suffered by party to whom duty was owed as a result of negligence.

PROFESSIONAL NEGLIGENCE

CIVIL LIABILITIES UNDER CO. ACT

Civil action against auditor may either take form of **CLAIM FOR DAMAGES** on account of negligence or that of **MISFEASANCE** proceeding for breach of trust or duty.

1. **DAMAGES FOR NEGLIGENCE: MISSTATEMENT IN PROSPECTUS (Sec. 35 of Co. Act, 2013)** where person has subscribed for securities of Co. acting on any statement included, or inclusion/omission of any matter, in prospectus which is misleading & has sustained any loss/damage as a consequence thereof, Co. & every person who

- | | |
|---|----------------------------|
| ❖ Director/ to be /named as a director. | ❖ Promoter |
| ❖ expert referred to in sub-section (5) of section 26 | ❖ Who authorised the issue |

Liable to pay compensation to every person who sustained such loss or damage.

NO PERSON LIABLE ABOVE, IF HE PROVES:

- ❖ Consented to be director BUT **withdrew consent before issue of prospectus** & was issued without his authority.
- ❖ Prospectus issued **without his knowledge** or consent & on becoming aware of its issue, he gave **reasonable public notice** that it was issued without his knowledge or consent.

Notwithstanding anything here, if it is **PROVED** -prospectus - issued with **INTENT TO DEFRAUD** every person (sub-section (1)) shall be **PERSONALLY RESPONSIBLE, WITHOUT ANY LIMITATION OF LIABILITY**.

2. **LIABILITY FOR MISFEASANCE: BREACH OF TRUST/ DUTY**, Auditor of Co.- guilty of misfeasance if he has been guilty of any breach of trust or negligence in performance of his duties which has resulted in some loss/ damage to Co./ property.

- ❖ Apart from liability for professional negligence, Auditor also may be **PENALISED UNDER SECTION 147** of Co. Act, 2013- **Failure to comply with provisions of Sections 143 & 145.**
- ❖ **Sec. 143 of Co. Act, 2013** if auditor **DOES NOT REPORT** any matter of **FRAUD** involving-LIABLE FOR PUNISHMENT.

CRIMINAL LIABILITIES-CO. ACT

SECTION 447

Fraud < 10 lakh **OR** 1% of Turnover-**whichever lower** & Not involve public interest-

Imprisonment-up to 5 years OR Fine up to 50 lakh OR Both

Else, **Imprisonment-6 months -10 years & Fine not Less than amount involved in Fraud but may extend to 3 Times Amount involved in fraud.**

1. **FOR MISSTATEMENT IN PROSPECTUS- (SEC-34)-** Where prospectus circulated/ issued/ distributed (CID) including statement which is **UNTRUE OR MISLEADING-** Every person who authorize issue of such prospectus- **LIABLE U/S 447.**

2. **MAKING FALSE STATEMENT- (SEC-448)-** If in Return, Report, Certificate, FS, Prospectus, Statement / Other doc under this law, any person makes statement: **Which is false in material particulars, knowing to be false. OR which omits material fact, knowing it to be material-** **LIABLE U/S 447**

SECTION 288

LIABILITIES UNDER INCOME TAX ACT, 1961

SECTION 278

- ❖ Person **convicted of offence** connected with **Income Tax** proceeding or on whom penalty imposed (Except under sec. 271 (1)(ii) under said Act is disqualified from representing assessee.
 - ❖ **CA found guilty of professional misconduct** in his professional capacity by the Council of the ICAI **cannot act as an authorised representative** for such time that order of the Council disqualifies him from practising.
- DISQUALIFICATIONS U/S 288(4)-**
- ❖ Dismissed/ removed from Govt. Service.
 - ❖ Insolvent
 - ❖ Convicted with Income tax proceedings/whom penalty imposed
 - ❖ Convicted by court for offence involving fraud shall not be qualified to represent an assessee U/S 288.

Any person who **abets or induces another person** to make & deliver to Income Tax Authorities **false account**, Statement, or Declaration relating to any chargeable income knowingly false or does not believe to be true is punishable with-

- ❖ Amount of Tax penalty/ Interest evaded **> 25 Lakh**
- Imprisonment- **6 months - 3 years + Fine**
- ❖ Other Case- Imprisonment- **3 months - 2 years + Fine**

SECTION 271

Accountant, Merchant Banker, Registered Valuer- Furnish Incorrect Info in report or certificate then AO or Commissioner (Appeals) to direct to pay **Rs. 10000** for each such report/ certificate as penalty.

RULE 12A

CA as an authorised representative has prepared return filed by assessee, has to furnish to AO, particulars of accounts, statements & other documents supplied to him by assessee for preparation of return.

Where CA Examine records & submit Report on Scope & results of such examination.

If report contains any information which is false & which CA either knows or believes to be false then he liable to **Rigorous imprisonment which may extend to 7 years & Fine.**

CA RAVI AGARWAL
PRESENTS
TEST SERIES
FOR CA STUDENTS
FOR BENEFITS OF STUDENTS
COST SPECIFIC & QUALITY ORIENTED

INTERNAL AUDIT

Includes **continuous & critical appraisal** of functioning of entity to **suggest improvements** & give **value addition** to & **strengthen overall governance** mechanism of entity, including entity's strategic Risk Mgt. & Internal control system.

Only **Review & report** & does not involves functions related to operational managers.

Not confined to financial transactions & includes **optimum utilization of resources**.

Internal auditor to be **CA** (whether or not he is engaged in practice) or **Cost accountant** or **Other Professional** decided by BODs (**Principle of EJUDEM GENERIS = professional can't include Doctor / Lawyer**).



SCOPE/ REVIEW of-

1. • **Efficient & economical use** of available resources.
2. • **Review** all **operations &** Internal control system & procedures.
3. • Evaluation of **effectiveness** of **Mgt. & Accomplishment** of **Goals & objectives**
4. • **Org. structure** of entity & its congruence with its objectives.
5. • **Compliance** with policies, plans & procedures & L&R.
6. • System of **custodianship & safeguarding** of assets.
7. • System of **data collection & ensure info** given to **Mgt & others** is **reliable & relevant**.

QUALIFICATIONS

- ✚ Fair & **not biased** to override Objectives
- ✚ Be **straightforward**, honest and sincere in his approach to his professional work
- ✚ Maintain an **impartial attitude**.
- ✚ Should not only be **independent** in fact but also appear to be independent.
- ✚ **Not undertake activities-incompatible** with his **independence & objectivity**.
- ✚ Have A/c & financial **expertise & Knowledge** of relevant areas of work.

Internal audit plan specifying Coverage of area

- ✚ **Identification of benchmarks** against which actual outcome of activities, time spent, cost incurred be measured.
- ✚ **NTE** of reports/ other communication & AE to be obtained.
- ✚ Setting **time budget** for each activities & **Involvement of experts**.
- ✚ Effect of new accounting/ auditing pronouncements on the audit.
- ✚ **Degree of reliance** to place on accounting system & **internal control**.
- ✚ **Terms of engagement** & statutory responsibilities.
- ✚ A/c policies adopted by client & changes in them.
- ✚ Applicable legal/statutory Req.
- ✚ Identification of **significant audit areas**.
- ✚ NTE of procedures to be performed.
- ✚ Set **materiality level** for audit purposes.
- ✚ Establishing & coordinating **human resource** requirements.
- ✚ Method to **physically verify** cash & investment.

INTERNAL AUDIT	EXTERNAL AUDIT
Ongoing audit within org.	Performed by independent body.
Operational efficiency.	Accuracy & validity of FS.
Mgt. appoints.	Members appoints.
Continuous process.	Once in a year.
Less independent.	Independent person

INTERNAL AUDIT REPORT

1. Tittle.
2. Addressee.
3. Report distribution list.
4. Period of coverage of report.
5. Opening/Introductory para.
6. Objective para.
7. Scope para.
8. Executive summary.
9. Observation, findings & recommendation
10. Comments.
11. Action taken report.
12. Date & place of signature.

APPLICABILITY

SECTION 138 read with **Rule 13**

1. Every LISTED company	
2. Every UNLISTED public co-	
Paid-up Share capital	>=50 Cr. during preceding FY
Turnover	>=200 Cr. during preceding FY
O/s Loans/ borrowings - bank/ FI	>=100 Cr. anytime during preceding FY.
O/s deposits	>=25 Cr. anytime during pre. FY.
3. Every Private co-	
Turnover	>=200 Cr. during preceding FY
O/s Loans/ borrowings -bank/ FI	>=100 Cr. anytime during preceding FY.

Factors of Review -IA function by Statutory Auditor SA-600

Adequacy of Scope of work & audit programme.

Proper planned & **assistant's work** is properly supervised, reviewed, documented.

Obtained **SAAE** to get reasonable basis for conclusions reached.

Conclusions reached appropriate & reports **consistent** with results of work performed.

Any **exceptions/unusual matters disclosed**.

Document conclusions in respect of the specific work which he reviewed.

ESSENTIAL OF GOOD IA REPORT

1. • Objectivity.
2. • Constructiveness.
3. • Accuracy.
4. • Conciseness.
5. • Readability
6. • Clarity
7. • Timeliness.
8. • Recommendations
9. • Findings & conclusions
10. • Auditor's Views.
11. • Draft Report.
12. • Supporting Info.
13. • Summary.
14. • Writing & issuing report.

- Deals with **all fields of activities** of concern.
- Review **adequacy & Competence** of **objectives, policies, plans & decisions** at top level.
- Auditor will look to see whether Mgt. is getting **info. relevant to decisions & actions** which it must take.

PREREQUISITES

- Mgt. Structure.
- Purposes of organization.
- Financial Managements.
- Sales management.
- Personnel policy.
- Reports required by mgt.
- Decision making process.
- Internal controls
- Production planning.
- Material management.
- Books and Records.
- Installed capacity.
- Nature of production of Biz.
- Factory layout & design

Mgt. Audit	Operational
Wider scope	Smaller scope
Quality of managing	Quality of operations
Test level of Top mgt.	Operational level testing.
Level of appraisal different	
Complementary & supplementary to each other	

REPORTS

- Through written reports **comments, criticisms and recommendations** of Mgt. audit are conveyed.
 - Prepared by audit staff.
- | Summary WR |
|----------------------------------|
| Title |
| Objectives |
| Scope |
| Findings, conclusions & opinions |
| Recommendations |
| Auditor's views |
| Summary |
- Summarize main findings & recommendations.**

MANAGEMENT AUDIT

Evaluation of Mgt. functions of laying down objectives and policies.

Effectiveness-Evaluation of relevance & effectiveness of aims, duties & Mgt. decisions at various levels.

Efficiency-Review of efficiency in Mgt. decisions & functions & judge whether: Mgt. is doing the correct things & doing those things correctly.

DESIRABILITY/NEED

- **Detecting & overcoming** current managerial deficiencies in ongoing operations.
- Mgt. tool to assist the organization in **accomplishing** desired **objectives**.
- **Managerial problems** & related operational difficulties can be spotted before fact. It is preventive maintenance concept..
- It represents **positive aspects-Forward looking** approach, Mgt. **effectiveness & Appropriateness** of Mgt. decisions.
- Helpful to **isolate problems** & account for their elements.
- Helps identifying oiling industries to be taken over **by Govt./ heavily financed by FI.**

MA QUESTIONNAIRE

- **Tool** for mgt. audit.
- Considers **imp. facts** by measuring current performance.
- **Comprehensive & constructive examination** of org. mgt & assigned tasks.
- **Appraisal** of mgt actions in accomplishing organization's objectives.
- **Highlight weaknesses & deficiencies** of org.
- **Review** of mgt. functions of planning, organizing, directing & controlling.

BEHAVIOURAL ASPECTS

- Staff/Line Conflict**-Superiority complex & Non-cooperation of staff.
- Control**-Evaluate effectiveness of control so will have fear that actions will cause adverse effect-
-Insensitive audit practices
-Audit part of overall programme mandated by top.
-Punitive actions.
-Fear of criticism.
- Resistance to change.**

- Client improve-auditor's act considered as professional advisor.
- Constructive criticism-mutual problem-solving approach instead of fault finding
- Reporting methods- Convey effectively by adopting friendly tune.
- Review conducted with Minimum interference
- Participative approach
- Review objective-Provide maximum service.
- Responsible officers informed & have opportunity to review findings & recommend before AR.

Oral reports	Interim WR	Regular WR	Summary WR
Used carefully for specially matters in emergency & followed up immediately by WR.	Inform Mgt. of significant developments before main report.	Particular audit assignment includes preparation of a formal written report.	Known as 'Flash' reports. Top level Mgt. who not review individual reports.
No permanent record.	Where need for early consideration	short or long	Primarily for audit committees

DEVELOPMENT-Mgt. Program

1. Devising **Statement of policy.**
2. **Location** of audit function.
3. Allocate **personnel.**
4. Staff **training** programme
5. **Time** and other aspects.
6. **Frequency.**

CONDUCTING Mgt. Audit

1. **Investigating & analysing** facts.
2. Collecting facts through **Interviews.**
3. Measuring performance by **Mgt. audit questionnaire** to determine problems confronting org.
4. **Review & appraise** functional areas.
5. Exchange of info. & **discussion** btw. Auditor & Manager should be **friendly.**

CONCLUDING Mgt. Audit

1. **Prepare Draft** Mgt. audit **report**
2. **Assist** independent 3rd party in collecting imp. elements of audit.
3. **Comprehensive investigation** involves **wider** report, whereas **small-scale** investigation of functional areas results in a **less comprehensive** report.
4. Assist preparing **final report** that covers details of Mgt. auditor's **findings & recommendations.**
5. **Follow-up** of the audit report.



OPERATIONAL AUDIT

- Operational auditing is a systematic process involving logical, structured and organised series of procedures.
- Operational auditing is **REVIEW & APPRAISAL OF OPERATIONS** by competent independent person.
- Focuses more on **QUALITATIVE ASPECTS OF OPERATIONS** rather than regular accounting aspects.
- Review operations like production, purchases, sales etc. to check they are as per company's policies, objectives & goals.

Systematic process

Evaluating effectiveness, efficiency & economy of operations

Under Mgt. control & reporting appropriate person result with improvement recommendation

future oriented as provides improvement recommendation



WHY OPERATIONAL AUDIT

- SPECIALIZED MANAGEMENT INFORMATION TOOL** to fill the gap which conventional sources fail to fill.
- CONVENTIONAL SOURCES FAIL** to provide information for best direction & remains ineffective as-
 - Internal Audit Reports-**Routine & mechanical**.
 - Managers & executives are **too pre occupied &** departmental managers **have own limitations**.
 - Managers rely on **transmitting info.** rather than analysing situations.
 - Mgt. is at a **distance from actual operations** due to layers of delegation of responsibility, separating it from actualities in the organization.
- To work in **AREAS BEYOND THEIR DIRECT OBSERVATION** to be fully, objectively & currently informed about conditions in units under control.

OBJECTIVES OF OPERATIONAL AUDIT

- APPRAISAL OF CONTROLS**- Whether controls are adequate.
- EVALUATION OF PERFORMANCE**- Depending on standards available.
- APPRAISAL OF OBJECTIVES & PLANS**-to measure effectiveness, efficiency & economy.
- APPRAISAL OF ORG. STRUCTURE**- Essential element of Internal control design.
 - Is org. structure in Conformity with Mgt. objective.
 - Line of responsibility is clear.
 - Matching responsibility & authority.
 - Delegation of responsibility not overlapping.

OPERATIONAL AUDIT



INTERNAL AUDIT



QUALITIES OF OPERATIONAL AUDITOR

- Poses attitude of **skepticism**.
- Must be **persistent**.
- Must **not give up**/feel satisfied easily.
- Ask who, why, how of everything**.
- Must **visualize** simple **alternative** means.
- have a **constructive** approach

Review & appraisal of operations

Analyse plans fulfilled, sound biz requirement, objectives & achievements in **tune with** policies, procedures, controls.

View & Examine **risk mgt., maintenances & customer complaints**.

Not part of Internal Control System (ICS)

Determining **internal controls** are well **designed &** in place.

As it includes operational audit also it performs **Protective & constructive function** focusing on **qualitative** aspects.

View & examine **IC in financial & accounting areas** to ensure loss wastages & frauds not occur.

Part of internal control system.

TYPES OF OPERATIONAL AUDIT



FUNCTIONAL AUDITS

ORGANISATIONAL AUDITS

SPECIAL ASSIGNMENTS

	OPERATIONAL AUDIT	FINANCIAL AUDIT
PURPOSE	Emphasizes on effectiveness & efficiency of operations for future performance.	Concerned with whether historical info. recorded is correct.
AREA	All activities related to efficiency & effectiveness of Co. operations.	Directly affecting appropriateness of presented FS.
REPORTING	Report is primarily for mgt.	Sent to all stock holders, bankers & other interested persons in organization.
END TASK	Not limited to reporting but includes suggestions for improvements.	Reporting findings to person getting it as end objectives.

Deals with > 1 functions in org. like payroll for division/company. Permits specialization by auditors. Means of categorising activities. Fails to evaluate interrelated functions.	Deals with an entire org. unit , like department, branch/subsidiary Focuses on efficiency & effectiveness of functions. Make plans & coordinate activities.	At request of Mgt. Determining cause of ineffective IT system. wide variety of such audits
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DUE DILIGENCE

WHY DUE DILIGENCE??

- ✓ To **Confirm** that the business is what it appears to be.
- ✓ **Identify** potential 'deal killer' defects in the target & avoid bad biz. transaction
- ✓ **Gain info.** that will be useful for valuing assets, defining representations & warranties, &/or negotiating price concessions; &
- ✓ **Verify** that transaction complies with investment or acquisition criteria.

DUE DILIGENCE??

- ✚ Investigate & Evaluate a **prospective business opportunity**.
- ✚ Involves **review of financial & non-financial records** as deemed relevant and material.
- ✚ General duty to **exercise care** in any transaction.
- ✚ **Measure of prudence activity**, or assiduity as it is expected to be exercised by a reasonable & prudent person.
- ✚ **Process of investigation** of potential investment to confirms all material facts of prospective business opportunity.

CLASSIFICATION OF DUE DILIGENCE



Commercial & operational DD	Performed by the concerned acquire enterprise involving an evaluation from commercial, strategic & operational perspectives & Whether proposed Merger would create Operational Synergies .
Financial DD	Perform after completion of Commercial DD. Analyse books of a/c & other info. pertaining to financial matters of the entity.
Tax DD	Pertains to all taxation & related matters of entity & Determine tax effect of merger /acquisition.
Information system DD	Pertain to all computer system & other related matters and whether information systems provide reliable & timely information.
Legal DD	Required where legal aspects of functioning of the entity are reviewed & compliance with laws.
Environmental DD	Study the entity's environment , its flexibility & adaptiveness to the acquirer entity.
Personnel DD	To ascertain that entity's personnel policies are in line/can be changed to suit the requirements of the restructuring.

In order to achieve its objective, DD process can include any or all of the following objectives for individual areas of the verification:

1. BRIEF DESCRIPTION OF THE **HISTORY OF BUSINESS & PROMOTERS BACKGROUND.**

- ❖ Details of how co.-set & were the original promoters has to be gone into.
- ❖ History of target may reveal **TURNING POINTS, SURVIVAL STRATEGIES ADOPTED**, market share & changes in that, PLC & Adequacy of resources.
- ❖ **Enquiries** of target's biz. History-
 - Nature of Biz.
 - Location of production facilities.
 - Employment by location, wages, Govt. regulation, supply etc.
 - Product or service & Markets.
 - History of biz of imp. Suppliers of good/services.
 - Inventories-Location & quantity.
 - Franchises, licenses, patents, Imp. Expenses categories, R&D, Foreign current assets, legislation & regulations that significantly affects entity, IS.

FINANCIAL DUE DILIGENCE

2. **ACCOUNTING POLICIES & PRACTICES-**
 - ❖ Appropriate & if changes properly accounted for.
 - ❖ Areas where different AP followed by target.
3. **REVIEW OF FS-**
 - ❖ FS as per Statue governing target.
 - ❖ **Assets & liabilities** as per latest B/S.
 - ❖ Evaluation of trading results.
4. **TAXATION**-Current status of **Income tax** assessments including appeals pending against tax liabilities assessed by tax authority.
5. **CASH FLOW PATTERNS-**
 - ❖ Liquidity.
 - ❖ Deployment of idle funds.
6. **PROJECTION OF FUTURE PROFITABILITY.**
7. **MANAGEMENT & EMPLOYEES-**
 - ❖ Excess workforce.
 - ❖ Complex labour laws.
 - ❖ Employee benefits properly paid/provided.
 - ❖ Consider pay package of Key employees.
8. **STATUTORY COMPLIANCES.**

Hidden Liabilities

- CONTINGENT LIABILITY** -Not show any show cause notices which have not matured into demands, as contingent liabilities.
- LETTERS OF COMFORT** - to banks & financial institutions. Since these are not "guarantees", not be disclosed in the B/S of target Co.
- Agreed to take over & **INDEMNIFY ALL LIABILITIES & contingent liabilities of sold subsidiaries.**
- Product & other **LIABILITY CLAIMS**; warranty liabilities.
- TAX LIABILITIES** under direct & indirect taxes.
- Long **pending SALES TAX ASSESSMENTS.**
- Pending final ASSESSMENTS OF CUSTOMS DUTY** where provisional assessment only has been completed.
- Agreement to **BUY BACK SHARES** sold at stated price.
- Future **LEASE LIABILITIES.**
- ENVIRONMENTAL PROBLEMS**/claims/3rd party claims.
- UNFUNDED GRATUITY**/superannuation/leave salary liabilities; incorrect gratuity valuations.
- Huge **LABOUR CLAIMS** under negotiation when the labour wage agreement has already expired.

Over-Valued Assets

- UNCOLLECTED**/uncollectable **RECEIVABLES.**
- OBSOLETE**, slow non-moving **INVENTORIES** or inventories valued above NRV; huge inventories of packing materials etc., with name of company.
- Underused or **OBSOLETE PLANT & MACHINERY & their spares**; asset values which have been impaired due to sudden fall in market value etc.
- ASSETS CARRIED AT MUCH MORE THAN CURRENT MARKET VALUE** due to capitalisation of expenditure/FOREX fluctuation, Capitalisation of expenditure mainly in the nature of revenue.
- LITIGATED ASSETS** and property.
- INVESTMENTS** carried **AT COST** though **NRV is much lower.**
- INVESTMENTS** carrying a very **LOW RATE OF RETURN.**
- Infructuous project expenditure/**DEFERRED REVENUE EXPENDITURE** etc
- GROUP COMPANY BALANCES** under reconciliation etc
- INTANGIBLES** of **no value.**

WORK APPROACH TO DUE DILIGENCE

Reviewing & reporting on financials submitted by the target Company.

Assessing the business first hand by a site visit (if applicable).

Helping **prepare an offer** based on completion of DD.

Working through DD process with acquisitioning Co. or investor by defining key areas.



HOW TO CONDUCT DD

- START WITH AN OPEN MIND.** Do not assume that anything wrong will be found and look for it.
- Get the best team of people. If you do not have a group of people inside your firm then **HIRE EXPERTS**
- GET HELP IN ALL AREAS** like finance, tax accounting, legal, marketing, technology, & others relevant to assignment so that you get 360-degree view of acquisition candidate.
- TALK TO** customers, suppliers, business partners, and employees are great resources.
- Take a **RISK MANAGEMENT APPROACH.**
- Prepare a **COMPREHENSIVE REPORT** detailing the compliances and substantive risks/issues.



PRE-DUE DILIGENCE PERIOD

- Discussion with client- Gain **understanding of transaction.**
- Assessment of most **appropriate scope of work & method.**
- **Centralised coordination** of project team.
- Preparation of DD **request list to target specific areas** of concern.

CONTENTS OF DUE DILIGENCE REPORT

- Executive Summary
- Introduction
- Background of Target
- Objective of due diligence
- Terms of reference and scope of verification
- Brief history of the company
- Share holding pattern
- Observations on the review
- Assessment of management structure
- Assessment of financial liabilities
- Assessment of valuation of assets
- Comments on properties, terms of leases, lien & encumbrances.
- Assessment of operating results
- Assessment of taxation and statutory liabilities
- Assessment of possible liabilities on account of litigation & legal proceedings against the company.
- Assessment of net worth
- Interlocking investments & financial obligations with group / associate Co., amounts receivables subject to litigation, any other likely liability which is not provided for in the books of account.
- SWOT Analysis
- Comments on future projections
- Status of charges, liens, mortgages, assets & properties
- Suggestion on ways and means including affidavits, indemnities, to be executed to cover unforeseen and undetected contingent liabilities
- Suggestions on various aspects to be taken care of before and after the proposed merger/acquisition.



DUE DILIGENCE PROCESS & NEGOTIATION PHASE

1. Working **off-site/on-site**.
2. **Flexible approach** even after project kick-off.
3. **Q&A process** with Mgt.
4. **Report drafting**, including assistance.
5. Support for **preparation of negotiation terms**.
- 6.. **Regular update** with Client.



CLOSING & POST-CLOSING PROCESS

1. **Preparation of review** of closing doc. prepared by target.
2. PPA assistance & other **post-closing transaction review**.
3. Involvement in **price adjustments procedures** using the findings.



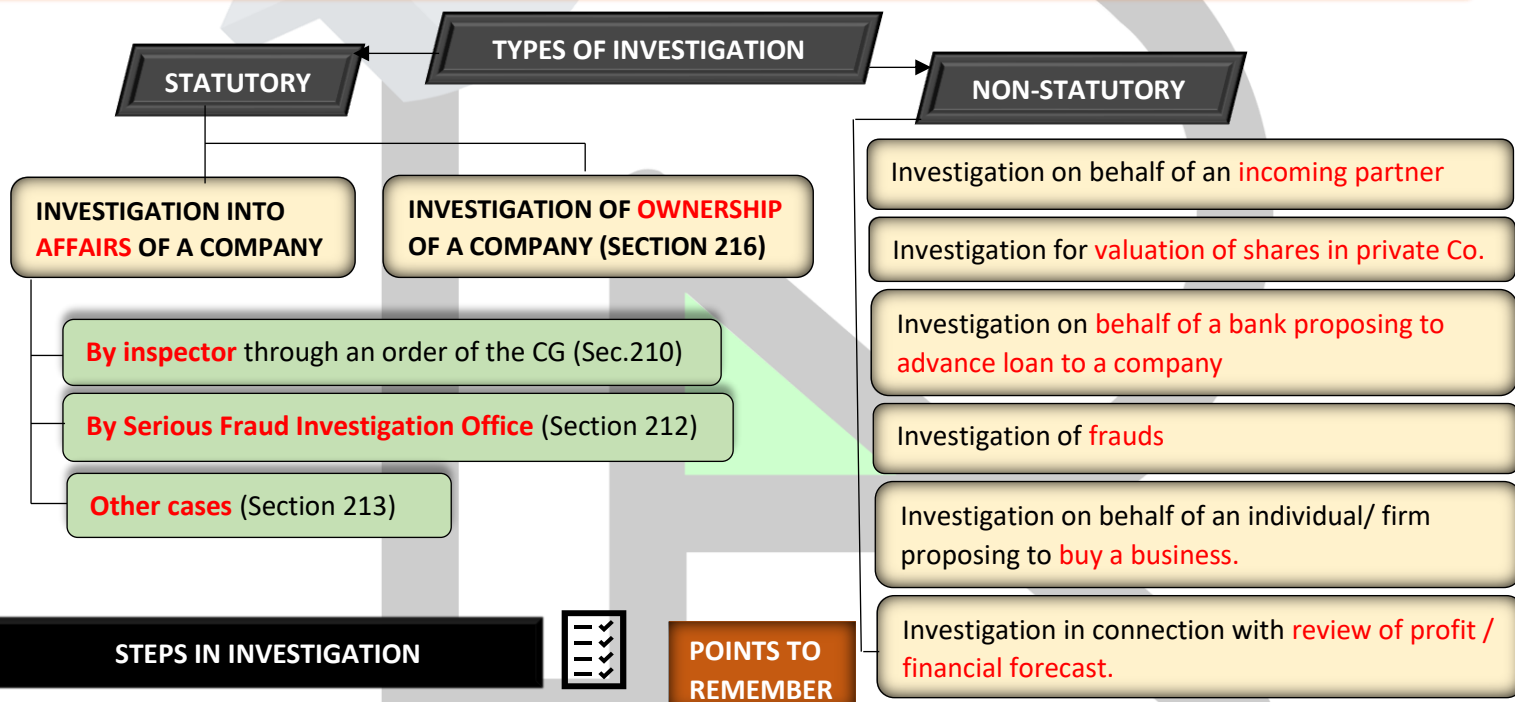


INVESTIGATION V/S AUDIT

INVESTIGATION

BASIS	INVESTIGATION	AUDIT
OBJECTIVE	At establishing a fact or a happening or at assessing a particular situation.	To verify whether FS display a true & fair view of the state of affairs & working results of entity
SCOPE	Governed by statute / Non-statutory .	Wider scope & in case of statutory audit scope of work is determined by provisions of relevant law .
PERIODICITY	Not limited by rigid time frame. May cover several years, as outcome is uncertain.	Either quarterly, half-yearly or yearly
NATURE	Requires a detailed study & examination of facts/figures.	Involves tests checking, sampling to draw evidences for forming a judgement & expression of opinion .
INHERENT LIMITATIONS	No inherent limitation owing to its nature of engagement.	Audit suffers from inherent limitation .
EVIDENCE	Conclusive evidence.	Audit is mainly concerned with prima-facie evidence.
OBSERVANCE OF ACCOUNTING PRINCIPLES	It is analytical in nature & requires a thorough mind, capable of observing, collecting & evaluating facts.	Is governed by compliance with generally accepted accounting principles, audit procedures & disclosure requirements.
REPORTING	The outcome is reported to the person(s) on whose behalf investigation is carried out .	The outcome is reported to the owners of the business entity.

INSPECTOR -A firm, body corporate or other association cannot be appointed as an Inspector thus, a firm of professional accountant cannot be appointed as inspector but an individual accountant can be appointed.



STEPS IN INVESTIGATION

1. Determination of **objectives** & establishment of **scope** of investigation.
2. Formulation of the **investigation programme**.
3. Examination & **study of various records** by reference to appropriate evidence.
4. Analysis, processing & interpretation of **findings**
5. Preparation of **report** & drawing up of conclusions

POINTS TO REMEMBER

1. Report **should not contain anything irrelevant** either to highlight nature of investigation /final outcome thereof.
2. Every **word/ expression used-properly considered** so that possibility of arriving at **different interpretation-minimised**
3. **Relevant facts** & conclusions should be **properly linked**.
4. **Bases & assumptions** made should be explicitly **stated**.
5. Report clearly defines-Nature & objective of assignment accepted its scope & limitations, if any.
6. **Report-paragraph form** with headings for para. **Detailed data & figures** supporting any finding may be given in **Annexures**.
7. **Opinion** of investigator should appear in **final para** of report.

INVESTIGATION INTO AFFAIRS OF A COMPANY

SEC-210,212,213

BY INSPECTOR THROUGH AN ORDER OF THE CG (Sec.210)

- + **CG MAY ORDER** an investigation into affairs of company-
 1. On receipt of a **report of Registrar/Inspector** u/s 208.
 2. On intimation of a **Special resolution** passed by company.
 3. In **Public Interest**.
- + Where **ORDER IS PASSED BY COURT/ TRIBUNAL**-CG to Order Investigation in affairs of company.
- + CG may **APPOINT 1 OR MORE PERSONS AS INSPECTORS** who report to CG in manner as directed by CG.

BY SFIO (SERIOUS FRAUD INVESTIGATION OFFICE) (Sec.212)

- + **CG MAY BY ORDER** assign investigation into affairs of a company to **SFIO**
 1. On receipt of a **report of Registrar/Inspector** u/s 208.
 2. On intimation of a **Special resolution** passed by company.
 3. In **Public Interest**.
 4. On request from any **Department of CG/SG**.
- + When CG assigns case to SFIO- **NO OTHER INVESTIGATING AGENCY OF CG/SG** shall proceed with investigation.
- + SFIO shall follow manners/procedures as **provided & submit report to CG**.

OTHER CASES (Sec.213)

- + **TRIBUNAL MAY ORDER** an investigation into affairs of company- On receipt of-
 1. Application by **specified no. of members** with evidence.
 2. Application by **another person/tribunal** itself if satisfied-
 - Biz. Is conducted with view to **defraud its creditors**
 - Co. formed for **fraudulent/unlawful purpose**.
 3. Opportunity of being heard given.

APPROACH/STEPS FOR PURSUING THE INVESTIGATION

1. **CLARITY OF TERMS OF REFERENCE:** The inspector should ensure that the terms of reference are **clear, unambiguous & in writing**.
2. **SCOPE OF INVESTIGATION:** On the **basis of terms of reference**
3. **PERIOD FOR INVESTIGATION:** He should also have regard to period over which the investigation should **stretch**.
4. **FRAMING OF PROGRAMME:** Systematic manner, Keep adequate working papers.
5. **USING THE WORK OF EXPERTS:** Consider whether assistance of other experts like engineers, lawyers, etc., is necessary.
6. **LEGAL REQUIREMENTS AND INVESTIGATION REPORT:** Only after
 - **Completing steps** in investigation programme & info. gathering can prepare report.
 - Can make **interim report (Sec.223 of Co. Act, 2013)**
 - **Obtain & keep on record evidence** relied upon by him.
 - Make report as per Sec. 223 of the Companies Act, 2013.

PROCEDURE, POWERS ETC., OF INSPECTORS

1. **DUTY OF OFFICERS & EMPLOYEES OF CO.** towards inspector **to preserve & to produce all books & papers** relating to Co. or person; & **to provide assistance** in connection with investigation which they are reasonably able to give.
 - Inspector may ask information from any Body corporate.
 - Examine on oath.
 - Cannot keep Books & Papers in custody for more than 180 days.
 - Possess all the Powers of Civil Court under the Code of Civil Procedure.
 - Assistance of Officers of Govt. to Inspector to provide necessary assistance to inspector.
 - Court may issue letter of request to court/authority in such country/place for seeking evidence.

SEC-217

SEC-223

2. INSPECTOR'S REPORT

An inspector shall, if directed by CG, **submit interim reports** to that Govt., & on conclusion of investigation, shall **submit final report** to the CG. Every report made, shall be in **writing/printed** as directed by the CG. Copy of **report may be obtained by making an application to the CG**.

INVESTIGATION INTO OWNERSHIP OF A COMPANY

- + **CG MAY APPOINT 1 OR MORE INSPECTORS** to investigate & report on matters relating to co., its membership for purpose of determining true person,
 1. Who have been **interested Financially**, Or,
 2. Who have been **able to control or materially influence** the policy of the Company
- + Tribunal may also order such investigation
- + **Investigating accountant**-determine **area of accounts** & extend to which enquiry be made.
- + **May require to interrogate directors** etc.
- + **Enquiry should be based on motive**.

INVESTIGATION ON BEHALF OF INCOMING PARTNER

- + About Co. **Background**- inception & growth of co.
- + Examine **Partnership deed**, composition, Capital etc.
- + Scrutiny of records of **profitability**.
- + Examine **assets, liabilities position**.
- + Position & term of **loan** finance.
- + Position of **orders at hand/** Incomplete contracts.
- + Study composition & quality of **KMP**.
- + Contractual & legal **obligations**.
- + **Reason of admission** of new partner.
- + **Capital employed** & Rate of return.
- + Manner of **computation of goodwill**.
- + **Special clause** if any in DEED.

INVESTIGATION FOR VALUATION OF SHARES OF PVT. CO.

FOR EQUITY SHARES-

- (A) **Net worth basis**= Net worth/ No. of Equity Shares of co.
- (B) **Yield Basis**= Profit earned by biz. During previous 5-7 years is computed. Value of biz is calculated by capitalizing it at a reasonable rate of interest.

INVESTIGATION ON BEHALF OF AN INDIVIDUAL/ FIRM PROPOSING TO BUY A BUSINESS

1. PROPRIETORSHIP/PARTNERSHIP- Examine

- + Reason of sale, Effect on FS elements.
- + Valuation of **goodwill** more or less.
- + Length of **lease** & its expiry.
- + Patent **licenses** expiry.
- + Age of present **managerial staff** & prospects of continuing in service.
- + Elements of **weaknesses**.

2. LIMITED COMPANY

- + Purchase of **acquisition of shares**.
- + Authorized & issued **capital**.
- + **Uncalled liability**.
- + If Different **Class-Rights attached** to such classes
- + Details of **dividend** paid+ arrears.
- + Any **Mortgages** created on assets.
- + **Price** at which shares are offered.



INVESTIGATION FOR BEHALF OF A BANK PROPOSING TO ADVANCE LOAN TO A COMPANY

1. INVESTIGATING ACCOUNTANT COLLECT INFO. –

- + **Purpose** of loan Requirement.
- + **Repayment Schedule**.
- + Financial standing & **reputation** of co.
- + History of last 5 years **performance**-growth etc.
- + Is Co. **authorized** with MOA/AOA to borrow for purpose for which loan used.
- + **Economic position** of co. etc.

2. INVESTIGATE PROFITABILITY-

- + **Prepare Condensed income statement** through P/L of 5 years.
- + Calculation of **ratios**.
- + Enter separate part of statement-**breakup of sales** product-wise to show trend.

3. PREPARE SCHEDULES OF ASSETS & LIABILITIES-

- + **Fixed asset**- Detail+ Rate of Depreciation.
- + **Trade receivables**/Bill receivables- Composition+ O/S.
- + **Investments**- Date of purchase, Cost & MV.
- + **Inventories**-Valuation.
- + **Contingent liability**-Ascertain whether any loan application made to another bank/3rd party.
- + **Secured loan**-separate schedule-Debentures+ Loans.
- + Other **liabilities**.
- + **Provision of taxation**.

INVESTIGATION OF FRAUDS- Sec-240



- + Fraud considered in 2 specific sections of Co. Act 2013-**Section 143(10), Section 447 & SA-240**.
- + **Any act, omission, concealment of fact /abuse of position committed** by any person to deceive, to gain **undue advantage**, interests of Co./ shareholders/Creditors whether or not there is any wrongful gain or wrongful loss.

TYPES OF FRAUDS:

Fraudulent Financial Reporting	Mis-appropriation of Assets	Additional Classification
+ Alteration/ falsification of records & documents.	+ Embezzlement of receipts in respect of written-off accounts.	+ Fraudulent Entries.
+ Misrepresentation/ intentional omission of events, trans./info.	+ Stealing physical assets or intellectual properties	+ Sales Frauds, Collection Frauds.
+ Intentional misapplication of accounting principles.	+ Introduction of fictitious vendors	+ Banking related Frauds
+ Fictitious Journal Entries.	+ Introduction of fictitious vendors	+ Expenses Frauds.
+ Adjusting assumptions & changing Judgments.	+ Using entities assets for personal use.	+ Payroll Frauds, Technology related Frauds
+ Omitting, advancing or delaying the recognition of events/trans.		+ Data Frauds etc.

INDICATORS OF FRAUD

- + **Discrepancies in Accounting Records** including nonrecording or partial recording or incorrect recording or delayed recording of amounts, misclassifications, etc.
- + **Conflicting or missing evidence** including missing documents, altered documents, significant unexplained items in reconciliations, discrepancies between entity's records and confirmations received etc.
- + **Unacceptable Mgt. responses**– denial of access to records/employees, undue time pressure to resolve complex issues, unusual delays-requested info., denial for use of CAAT, unwillingness-address identified deficiencies in IC etc.
- + **Other indications** such as – AP in variance with Industry Norms, Frequent changes in A/C estimates etc.

RESPONSES TO FRAUD

✚ SA 330-Auditor's responses to assessed risks- **MGT. OVERRIDE CONTROL-**

1. Testing **appropriateness of journal entries**.
2. Other **adjustments** in preparation of FS
3. Review of **accounting estimates** for biases
4. Review the **significant transactions** that are **outside the normal course of business/unusual**.



✚ **ASSESS FRAUD RISK FACTORS**-MMS/ MS of asset.

✚ Response includes-**COMMUNICATIONS** to Mgt. & TCWG, Regulatory & enforcement authorities & **APPROPRIATE DOCUMENTATION** on his assessment of the ROMMS.

✚ **AUDITOR'S ABILITY TO DETECT FRAUD DEPENDS ON FACTORS** such as-

1. The **skill full-ness** of the perpetrator.
2. The frequency & extent of **manipulation**.
3. The degree of **collusion** involved.
4. The relative size of individual **amounts manipulated**;
5. The **seniority** of those individuals involved.

FRAUDS AT DIFFERENT LEVELS

Personal Level	Corporate fraud	Operational Level
✚ Bribery	✚ Advance billing	✚ Tampering cheques/drafts/online payment/receipt
✚	✚ Shell /dummy Company scheme	✚ Off book frauds, Payroll frauds
✚	✚ Money laundering activities	✚ Cash misappropriation, Expense reimbursements
		✚ Teeming & lading, Commission schemes
		✚ Fraudulent disbursements

A. CASH RECEIPT FRAUDS

1. Holding back cash sales, Recoveries out of bad debts etc.
2. Entry for part amount but payment taken full from payee.
3. Large cash discounts than actually allowed.
4. Adjusting fictitious credit in a/c of customer goods returned.
5. Under casting receipt/Over casting payment side.
6. Short debiting customers account in ledger.
7. Writing off good debts as bad & irrecoverable.

VERIFICATION OF CASH RECEIPTS

1. Scrutinize Evidences-Income received from different sources
2. Recalling pay in slip from banks for cash deposited.
3. Scrutinize carbon copy of receipts marked 'duplicate'.
4. Vouch cash sales properly in detail.
5. Check record of Scrap sale.
6. Cross check withdrawals from bank pass book.
7. Check recoveries from customers & other parties.

B. INVENTORY FRAUDS

1. Misappropriation of goods & their concealment.
2. Theft of goods manipulated so that it matches with actual.
3. Remove goods from premises.

VERIFICATION OF INVENTORY FRAUDS

1. Check total of inventory book.
2. Review system of receipts/storage/dispatch.
3. Check different types of inventory held.
4. Check goods inward & outward register.
5. Verify entries of returns.
6. Reconcile variation of shortages from physical verification.

C. INFLATING CASH PAYMENT FRAUDS

1. Double payment of invoice/fake invoice payment.
2. Paying personal expenses out of business.
3. Falsely adjusting a refund in a/c of customer.
4. Withdrawing Unclaimed credit balance of customers.
5. Wrong totalling of wages & misappropriating excess amount.

VERIFICATION OF CASH PAYMENTS.

1. Scrutinize Evidence of cash payments.
2. Vouch & total petty cash book.
3. Examine payments by bearer checks.
4. Obtain confirmation from partners/ directors in respect of amount paid to them.
5. Special a/c on payment made- salary/wages.
6. Review system of recording wages-Eliminate entries of dummy workmen.
7. Review system of recording goods-Confirm no payment made for supplies not received.

D. FRAUDS THROUGH SUPPLIER LEDGER-CREDITOR

1. Adjusting fictitious/Duplicate invoices.
2. Withdrawing unclaimed amounts of suppliers.
3. Suppressing Credit Notes.
4. Accept purchase invoice at higher price than MP & taking excess amount in cash from supplier.

VERIFICATION OF BALANCE IN SUPPLIER LEDGER

1. Vouch purchase journal to goods inward book & invoice to confirm amount credited.
2. Ask for statement from suppliers.

VERIFICATION OF BALANCE IN CUSTOMER'S LEDGER

1. Allowances adjusted for goods returned/diff. in price- to amount written off as bad debts.
2. Reconcile entries in Order Book with Sales Day Book.
3. Obtain debtors statement to confirm O/S balance.

FORENSIC AUDIT

- Application of accounting methods to **tracking & collection of forensic evidence**, usually for investigation & prosecution of criminal acts like embezzlement or fraud is forensic accounting.
- Examination of documents & **interviewing people to collect evidence**.
- Emerging discipline of **financial expertise**, fraud knowledge & sound knowledge, understanding of business reality & working of legal system.
- To Detect frauds in companies that suspects fraudulent transactions.

NEED FOR FORENSIC AUDIT AROSE AS-

- No. of fraudulent activities & ambiguous financial activities increasing.
- Risk of fraudulent activities in biz.
- To combat corruption, financial crimes & frauds by investigations & resolving allegations of fraud & embezzlement.

SERVICES RENDERED BY FORENSIC AUDITORS-

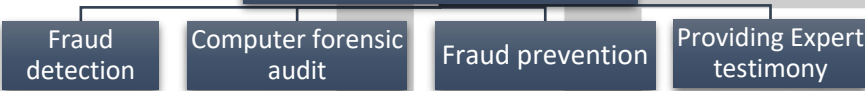
- Identify & preserve key evidence.
- Conducting research relevant to facts
- Crafting questions to be posed
- Identify individuals most knowledgeable of facts.
- Responding to questions posed.
- Identify docs to be requested &/or subpoenaed.
- Provide questions & cross examine fact & expert witnesses.
- Identify alternative means to obtain key facts & info.
- Evaluating produced docs & info for completeness.
- Analysing produced records & other info for facts.

	FORENSIC AUDIT	OTHER AUDIT
Applicability	Financial Investigation when need arise.	Financial Audit is mandatory.
Objective	Fraud Detection.	Opinion on True & fair view.
Diff. in mindset	Investigative mentality	Professional skepticism
Nature of evidence	Conclusive evidence	Persuasive evidence.
Techniques	Investigative, substantive /in-depth check	Substantive & Compliance (sample based)
Period	No period defined	Accounting period.
Verification of Stock, Estimated NRV of assets, provisions & liability	Independent verification of Suspected/ selected items where misappropriation suspected.	Relies on mgt. certificate/ Management Representation.
Off balance sheet items (like contracts)	Regulatory & propriety of these transactions/contracts are examined.	Used to vouch the arithmetic accuracy & compliance with procedures.
Adverse findings	Legal determination of fraud impact & identify perpetrators depending on Scope.	Negative opinion or qualified opinion expressed with/ without quantification.

PROCESS OF FORENSIC AUDIT



ROLE OF FORENSIC AUDITOR



Investigate & analyse financial evidence, detect financial frauds & trace misappropriated funds.	Develop computerized applications to assist in Recovery, Analysis & Presentation of financial evidence.	Review internal control to verify their adequacy/ provide consultation to develop & implement IC framework aligned to org.'s risk profile.	Assisting in legal proceeding including testifying in court as an expert witness & preparing visual aids to support trial evidence.
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IMPORTANCE OF FORENSIC AUDIT

- Prevent, detect fraud
- Risk Management.
- Internal Controls Review
- Compliance & Regulatory Functions
- Investigative methodologies
- Evidence Collection & Analysis
- Other Critical areas
- Assignments with regulatory agencies like SEBI, RBI etc.

CHARACTERISTICS FORENSIC AUDITOR

- Out of the Box Thinking
- Imagination, Skepticism
- Strong Visualization, Curiosity
- Confidence, Persistence.
- Sound professional judgment
- Persistence Detail oriented
- Discretion, Impulsiveness.

AREAS IN WHICH SERVICES OF FORENSIC ACCOUNTANTS ARE IN GREAT DEMAND

Criminal Investigation	Fraud Investigation/ Risk Control Reviews
Professional negligence cases	Settlement of Insurance Claims
Arbitration service	Dispute Settlement

FORENSIC AUDIT TECHNIQUES

Analytical Steps

1. Understand Business.
2. Identify possible frauds.
3. Catalog possible fraud symptoms

Technology Steps

4. Use technology to gather data on symptoms
5. Analyse results.
8. Auto Detect procedures

Investigative Steps

6. Investigate Symptoms
7. Follow up.

TECHNIQUES

1. **General** Audit Techniques-Testing defences.
2. **Statistical** & Mathematical-Trend & Ratio analysis.
3. **Technology** based/ Digital Forensic Technique-
 - Live analysis.
 - Deleted files.
 - Stenography.
 - PC system log.
 - Tracking log. Files.
4. **CAAT**-Computer assisted auditing techniques.
5. **Generalized** Audit Software.
6. **Common Software** Tool-Spreadsheet RDBMS.
7. **Data mining** technique.
8. **Laboratory** Analysis of Physical & Electronic Evidences.

SKILLS FORENSIC AUDITOR TO POSSESS

SAs, Procedures & Related methodologies
 A/c & Business reporting systems.
 Information Technology, Data Analytics Criminology.
 Legal Framework.
 Litigation processes & procedures
 Investigative Techniques.
 Evidence gathering.
 Network of professional contacts in related fields' viz. enforcement, regulatory bodies, law, industry, peers, etc.

POINTS TO BE KEPT IN MIND WHILE REPORTING

- Clear Thinking**
 -Report issuing to **whom**
 -**Purpose** of report
 -Cool & calm thinking to have **logical** presentation
 -Pattern of presentation.
- Keep reader in Mind**
 -**Translate** technical matters to layman's language.
 -Know reader's **viewpoint**.
- Unbiased approach**
 -Mention the Client's **view**.
- Impact of report**
 -**Analyse** before drawing conclusions.
- Proper Sequence**
 -Proper **sequences** while drafting.

FORENSIC AUDIT REPORT

Statement of **observations gathered** & considered while providing conclusive evidence.

It is medium through which auditor **expresses his opinion**.

6. EXECUTIVE SUMMARY

- Background
- Origin of audit
- Audit objective
- Proposed audit outputs
- Audit implementation approach.

5. RISK ANALYSIS

- Internal environmental risk-
- Financial Mgt.
 - Customer's products & competitors.
 - Information technology.
 - Business process.
 - Human resource mgt.
- External environmental forces-
- Influence of economic & market
 - Political & legal scenario.
 - Technology.

2. AUDIT RECOMMENDATION

- Logical framework approach
- Preconditions & risk.

1. GOVERNANCE ON RECOMMENDATION IMPLEMENTATION

- Stock holders
- Budget consideration.

3. EVIDENCE OF RISK EVENTS

- Conflict of interest
- Bribery & extortion
- Theft
- Fraudulent transactions
- Inventory frauds
- Misuse of assets
- Financial statement frauds.

4. AUDIT PROCESS

- Preliminary understanding of scope.
- Collect evidence.
- Conduct interviews.
- Analyse findings.
- Validate inferences & conclusions.



PEER REVIEW

- **Examination & review** of systems & procedures
- to determine whether they are in place by practice unit
- for **ensuring quality of assurance services** as envisaged by
- Technical, Ethical & Professional Standards & whether these were effective or not during period under review.

SCOPE OF PEER REVIEW

Apply to **ALL** assurance services provided by a Practice Unit.

Review shall cover-

Compliance with Technical, Professional & Ethical Standards.


Quality of reporting.

Systems & procedures for carrying out assurance services.

Training programmes for staff.

Compliance with directions/guidelines issued by Council.

AREAS EXCLUDED FROM SCOPE OF PEER REVIEW

1. Management Consultancy Engagements. 
2. Representation before various Authorities.
3. Prepare tax returns or advising clients in taxation matters.
4. Compilation of financial statements.
5. Assist clients preparing/ collecting info other than FS.
6. Testifying as an expert witness.
7. Providing expert opinion.
8. Due diligence.

MANDATORY REQUIREMENT FOR PEER REVIEW

LEVEL I	LEVEL II	LEVEL III
3 Years (Periodicity of review)	4 Years	5 Years
Central Statutory Auditor of All banks, PSU, Co-operative society, Insurance Co. Statutory Auditor of AMC/ MF	Statutory/Concurrent/Internal Auditor /System/Tax Audit of Insurance co., bank, Co-op. bank, Stat audit of RRB/NBFC	Rest all Others
Listed entities, Entities raising > 50 Cr funds by Bank/PFI Net worth >500 Cr.	Statutory Audit of entities- Net worth > 5 Cr. OR Annual Turnover > 50 Cr.	
Entities raising > 50 Cr funds by Govt. scheme / donations.		



Eligibility to be a Reviewer

1. Member with **at least 10 year of experience** in practice & currently in practice.
2. Undergone requisite **training** prescribed by Board.
3. Shall **furnish declaration** as prescribed by Board.
4. Should signed **declaration of confidentiality**.
5. Should have conducted audit of LEVEL I Entities for **at least 7 Years** to be eligible for conducting review of same.

OBJECTIVES OF PEER REVIEW

1. **Comply with Technical, Professional & Ethical Standards** as applicable including other regulatory requirements thereto
2. **have in place proper systems** including documentation thereof, to amply demonstrate quality of assurance services.
3. **Not to find out deficiencies BUT to improve quality** of services rendered by members
4. **Provide guidance** to members to improve performance & adherence to statutory & regulatory requirement.

TECHNICAL, PROFESSIONAL & ETHICAL STANDARDS

1. Accounting Standards issued by ICAI.
2. Standards- Engagement standards/ Statements/ Guidance Notes/ Standards on Internal Audit/ Statements on Quality Control/ Notifications/ Directions/ Announcements/ Guidelines/ Pronouncements/Professional standards.
3. Framework for P&P of FS, Statements & Standards on auditing, Standards on assurance engagements, QC etc.
4. Provisions of the various relevant statutes/ regulations.

QUALITY REVIEW BOARD

Board shall be constituted by council.

>=50% members from Council.

Member of Disciplinary comm./Board/Ethical standard comm./FR Comm. & Review board of ICAI **cannot** be member of Peer review board.



PEER REVIEW PROCESS

1. SELECTION OF PRACTICE UNIT & APPOINTMENT OF REVIEWER-

Notification to Practice Unit by Board.

Name of 3 Reviewers -recommended by Board.

Practice Unit shall select one out of 3 Reviewers & **intimate** to Board within **7 days**.

Board shall **intimate Reviewer** so selected & seek his **consent** within **7 days**.

2. PLANNING-

INFO. TO BE FURNISHED BY PU- WITHIN 15 DAYS-

- ⇨ Duly filled-in Questionnaire sent by Board.
- ⇨ Complete List- Assurance service clients, Nature of service provided & Fees charged.
- ⇨ Note on policies & procedure adopted- Independence, Staff Supervision & Development & 'Second Person' Review.
- ⇨ Details of proceedings against PU/partner/qualified assistant.

SELECTION OF SAMPLE BY PEER REVIEWER

- ⇨ Select sample of Assurance service to be reviewed within **15 days** of receiving info.
- ⇨ Seek additional clarification from PU.
- ⇨ Plan for on-site review visit/ initial meeting in consultation with PU.
- ⇨ Give PU at least **15 days** to be completed within **90 days**.

1. •Review **Not have Disciplinary action**/ proceeding pending against him.
2. •**Not been found guilty** by Council/Disciplinary Board
3. •**Not been Convicted** by competent court.
4. •**Obligation**/ Conflit in interest in practice unit etc.
5. •Shall **NOT ACCEPT** professional assignment from practice unit **for 2 Years** from date of appointment.

Methods of Collection of evidences by PEER REVIEWER-**INSPECTION, OBSERVATION & INQUIRY.**

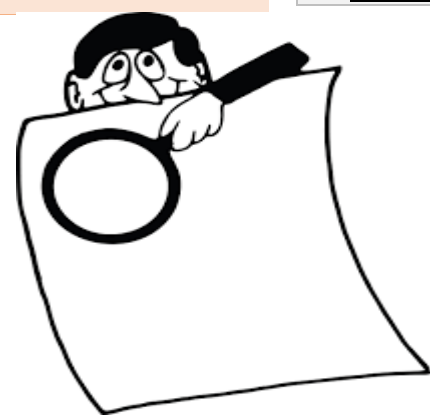


Document working papers & submit copy to board within **12 Months** of completion.

On receipt of Peer review report, **Board shall within 3 months- Issue peer review certificate to PU mentioning next due date OR Modified- Inform unable to issue certificate + Reasons+ Inform due date of follow on review.**

CHECKLIST OF AUDIT PROGRAMME

1. Appointment letter & relevant resolution for appointment.
2. Terms of engagement.
3. Details of business of client and its accounting systems
4. Statement of Profit and Loss account, Balance sheet, Auditors' and Directors' reports of previous year and the reports of IA.
5. Analytical review procedures
6. Assessment of audit risk by using professional judgement & AP
7. Preliminary estimates of materiality for audit as a whole.
8. Compliance tests to evaluate the reliability of key controls.
9. Material weaknesses in operation of key controls of Mgt.
10. Performance of analytical review procedures, substantive TOD.
11. Fundamental accounting assumptions followed & Disclosure of change in an accounting policy.
12. Audit report is received from all the Branch Auditors
13. Review of unadjusted errors
14. Compliance with all AS/Legal/Regulatory requirements.
15. Post balance sheet events.
16. Formulation of draft audit opinion.
17. Comparison of budgeted time to actual & reasons
18. Complete staff evaluation forms
19. Planning of next year's audit.



3. EXECUTION-

- A. **ON-SIGHT REVIEW**- visits will be conducted at the Practice Unit's head office or /&branch(es) or any other locations. **Not extend beyond 7 days.**
- B. **COMPLIANCE REVIEW-GENERAL CONTROLS-of-**
 - ↔ Independence
 - ↔ Maintenance of Professional Skills and Standards
 - ↔ Outside Consultation
 - ↔ Staff recruitment, Supervision & Development
 - ↔ Office Administration
- C. **SELECTION OF ASSURANCE SERVICE ENGAGEMENTS FOR REVIEW-** based on Nature/Size/Fees charged etc.
- D. **REVIEW OF RECORDS-**
 - ↔ **Compliance Approach**- Assess control procedures followed by PU to ensure compliance with T/P/E standards.
 - ↔ **Substantive Approach**-Review assurance working papers to establish extent of compliance with T/E/P standards.

4. REPORTING-

- A. **SYSTEM OF QUALITY CONTROL** for assurance services of PU designed to ensure compliance with T/E/P standards
- B. **ADDRESS REPORT OF COMPLIANCE** with general controls.
- C. **DISCUSS/ COMMUNICATE FINDINGS**
After on-site review, Reviewer shall **communicate in PRELIMINARY REPORT to PU** in his opinion system & procedures are deficient/ Non-compliant with reference to any matter noticed by him/ seek clarification. PU after **15 days after receipt** make submission in writing.
- D. **PEER REVIEW REPORT -AT END OF ONSITE REVIEW-**
Reviewer is satisfied with reply of PU-Submit Peer review report to board with initial findings & response of PU.
Not satisfied- Submit modified report to board with reasons. (Initial findings+ Responses by PU+ Manner in which response dealt.
- E. **IN CASE OF MODIFIED-FOLLOW ON AUDIT**
Board shall order a **FOLLOW-ON REVIEW** after **1 Year** from date of issue of report. Above may be reduced but **not be less than 6 Months.**



QUALITY REVIEW

- Quality means **doing it right when no one is looking**.
- Establish system of QC designed to provide reasonable assurance that firm & its personnel **comply with professional standards & other regulatory Req.**
- Identify & address weaknesses /deficiencies related to how audits are performed by Audit firms.**

OBJECTIVES OF TECHNICAL REVIEW

Compliance with **applicable technical standards**, other applicable professional & ethical standards & relevant L&R.

Consideration of **SA 240**

Implementation of **system of quality control** with reference to applicable QC standards.

If there is **no MMS of assets & liabilities as at the reporting date** in respect of the Company/entity audited by the AFUR.

SCOPE

Examine- Engagement partner **complied** with applicable **-TECHNICAL STANDARDS & requirements.**

-LAWS & REGULATIONS.

Implemented system of quality control as per **SQC-1.**

TECHNICAL STANDARDS

Accounting standards-Sec 133 Co. act

Accounting standards-ICAI

Quality control engagement standard

Statements on auditing-ICAI

Guidance notes-ICAI

Notifications/directions/ guidelines

Code of ethics-ICAI

QRB Composition- 1 Chairperson + 10 Members *Appointed from amongst person eminence having experience in field of law/ Eco., biz. / finance/ accountancy.*

SQC-1 requires that every firm's system of quality control should include policies & procedures addressing each element-

- Leadership** responsibilities for quality within the firm
- Ethical requirements** including independence
- Engagement performance**
- Acceptance & continuance of client relationships** & specific engagements.
- Human resources**

QUALITY REVIEW BOARD

Review quality of services provided by members.

Recommend council for quality of services by members

Guide members to improve quality of services & adhere to statutory & other regulatory requirements.

FUNCTIONS OF QRB

Review quality of services provided by members.

Make recommendations to council for quality of services provided by members.

Guide members to improve quality & adherence to Statutory & Regulatory requirements.

SITUATIONS WHEN REVIEWER MAY QUALIFY REPORT

Non-compliance with tech standards.

Non-compliance with relevant laws & regulations.

Quality control system design deficiency.

Non-compliance with quality control policies.

Non-existence of adequate training program for staff.

CONSIDERATION IN EVALUATION OF FINDINGS

Response given by engagement team.

Materiality of items of FS.

A/c auditing practices under legal & regulatory framework.

Alternative procedures to obtain SAAE.

QUALIFICATIONS OF TECHNICAL REVIEWER

- Should not have disciplinary proceedings under CA Act, 1949 pending against him or penal action-**Last 3 YEARS**
- No association with specified statutory audit firms-**Last 3 YEARS**
- Member or his firm /network firm should not have been statutory auditor of co.-**Last 3 YEARS**
- Comply all eligibility conditions laid down u/s 141(3) of Co. Act 2013.

POWERS OF QRB

Evaluate & review quality of work by members.

Lay down procedures of evaluation criteria to evaluate various services.

Call for Information.

Make recommendations to council.

Stages involved in Quality review Assignment

- Selection** of Audit Firm & Technical Reviewer & **Offer letter.**
- Technical Reviewer to **convey his acceptance** of Letter of Engagement.
- Intimation to Audit Firm** about the proposed Quality Review & acceptance.
- Technical Reviewer to send specified Quality Review Program General **Questionnaire**
- Technical Reviewer to carry Quality Review by **visiting office**
- Technical Reviewer to send **preliminary report** to Audit firm.
- Audit firm to submit representation** on preliminary report to Technical Reviewer.
- TR to submit **final report** with copy of Annual report to **Board** on Individual letter head duly signed & dated in **45 days** from date of acceptance of assignment.
- TR to send final report to **Statutory Auditor/ Audit firm**, requesting firm to send submissions to Board in **7 days** of receipt of final report with copy to TR (On receipt Reviewer to submit in next 7 days summary of their findings, reply & final comments).
- Quality Review Group to consider the report of Technical Reviewer & **responses of Audit firm & recommend** to QRB.
- QRB to consider Report of Quality Review Group & decide **final course of action.**

REPORT-

- Elements of audit qualities of company. 2.Elements relating to QC framework.
- TC expresses opinion on SQC for attestation services with proper compliance.
- TC not necessarily disclose all weaknesses. Projection of evaluation of SQC to future periods is subject to risk that SQC may become inadequate.

RELEVANT PROVISIONS

SECTION 2(2)-MEMBER DEEMED TO BE IN PRACTICE

When Individually or in Partnership with **CA in Practice** for consideration of-
-Remuneration received/ to be received
 Performs **Specified services** (Deeming Services)

DEEMING SERVICES

- Engages himself in **Practice of Accountancy**
- Perform Services-Audit/ Verification of Financial Transactions, Books, A/c or Records/Preparation, Verification, or Certification of Financial a/c & related statements/ holds himself to **Public as Accountant**
- Professional Services**/ Assistance- Accounting Procedure, Recording, Presentation, Certification.
- Other services**-Opinion of Council-rendered by CAip

NOTIFIED SERVICES

- Management Consultancy Services
- Representation/ Other notified services.

SECTION 4- Member of ICAI- Register of Members

- SECTION 5- Fellow & Associate member of ICAI
- ✓ **ACA**- Associate Member- CAIP or all member.
- ✓ **FCA**- Fellow member- CAIP ≥ 5 Years.

SECTION 6- CERTIFICATE OF SERVICE (COP)

CAIP to hold COP
Cannot practice without COP, not even when applied.
REGULATION- 10- CANCELLATION OF COP
 COP Surrendered & Submitted to Secretary-
 Name of Holder **Removed from Register** | Member **Cease-Practice**
 Member **not paid Annual COP fee** till 30 September of year
 Council satisfied-**COP on Incorrect**, Misleading, False Info or Mistake after hearing CA

REGULATION- 11- RESTORATION OF COP

Application + Payment of Fees

SECTION 8- DISABILITIES

< 21 years age | Of Unsound Mind | Un-discharged Insolvent
 Offensive-Moral Turpitude | Removed-Professional Misconduct
 Discharged Insolvent- Due to misfortune & not misconduct-BUT not obtained Certificate of Insolvency by court.

SECTION- 20-REMOVAL OF NAME FROM REGISTER

Order under CA Act to Remove from Membership
 On **Death** | On **Request** | Non-payment of fees | **Disabilities**

SECTION-26- UNQUALIFIED PERSONS NOT TO SIGN DOCUMENTS

No person except ICAI Member ca Sign on behalf of CAIP/ Firm of CA
 Penalty- Firstly- up to Rs. **5000** to Rs. **1 Lakh**
 2nd Conviction- Rs. **10000** to Rs. **2 Lakh** &/ Imprisonment <**1 Year**

SEC-27-MAINTENANCE OF BRANCH OFFICES

- ✓ CAIP/ CA Firm- > 1 Office in India- Separate charge of member
- ✓ CA+ **Partner OR Full-time employee**
- ✓ **At least 182 Day**- Visit branch / resided in such Place of Office.
- ✓ **Branch office**- Name Board fixed/advertised/designed as branch in professional stationary.
- ✓ **At residence**- Name board of firm **can't** be fixed.

MANAGEMENT CONSULTANCY SERVICES

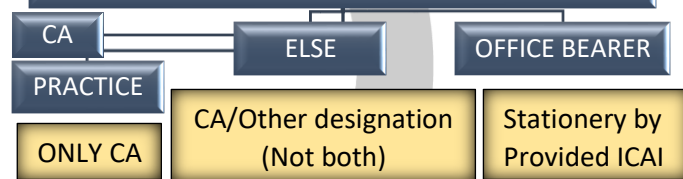
- | | |
|---|---|
| 6. Financial Mgt. related | 7. Cost Mgt. related |
| 8. Org. & biz. Mgt. related | 9. System Management |
| 10. HR management | 11. Mgt. & operational audits |
| 12. Investment advice | 13. Environment, Energy audit |
| 14. Inventory Mgt. related | 15. Quality audit |
| 16. Recovery consultant in banking sector | 17. Insurance financial advisory services |
| 18. Valuations, market research, other mgt. decision making advisor to consultant to an issue, resistor to issue. | |

PROHIBITED SERVICES- Portfolio Management, Merchant banking-broking or underwriting services.

REPRESENTATION/ OTHER NOTIFIED SERVICES

Deemed in Practice if in **Professional Capacity** & Neither as personal capacity nor as an employee Acts as-
 Liquidator | Trustee | Executor | Arbitrator | Administrator
 Receiver | Adviser | Representative- Cost, tax, finance
 Appointment-CG/SG/Court of law / Legal Authority
 Acts as **Secretary UNLESS** salary cum full time basis
 In Practice even if **not actually engaged but also Offer to Render** i.e. Act of Setting up Establishment offering Service of A/c to perform even though no Client being served.

SECTION 7- Members to be known as CA- Designation



- ✓ No prefix/ suffix restriction
- ✓ DISA-ISA (ICAI)
- ✓ Degree abbreviation of recognized university

SEC 24- PENALTY FOR FALSE CLAIM TO BE MEMBER

Not Member but uses CA Designation
 Is a Member but without COP is practicing as CAIP
 Penalty- Firstly- up to **1000**
 Subsequent conviction- up to **5000/-** &/or Imprisonment <= **6 months**

SEC 25- CO. NOT TO ENGAGE IN ACCOUNTANCY

No Co. -Practice as CA
 If Contravenes- Punishable u/s 24.

- ✓ Exemptions- **SECOND OFFICE EXEMPTION**
 - ✚ Same premise/ City
 - ✚ 50 Km radius from municipal limits of city
- ✓ **TEMPORARY OFFICE**-Hilly areas
 - ✚ For **< 3 Months** in Winters
 - ✚ Regular office not Closed
 - ✚ All Communication at Permanent Office
 - ✚ Inform to ICAI- Before Open & Close
 - ✚ Name Board removed after 3 Month
 - ✚ Not mention-Place of biz. - Office doc.

KNOW YOUR CLIENT NORMS

1. Client- **Individual/ Proprietor**

A. General Information

- ✚ Name of the Individual
- ✚ PAN/Aadhar No.
- ✚ Business Description
- ✚ Copy of last Audited FS

B. Engagement Information

- ✚ Type of Engagement

2. Client-**Corporate Entity**

A. General Information

- | | |
|----------------------------------|----------------------|
| Name & Address of Entity | Business Description |
| Name of Parent co- if Subsidiary | Last Audited FS |

B. Engagement info- Types of engagement

C. Regulatory Information

- | | |
|----------------------------|----------------------------|
| Company PAN No. | Company Identification No. |
| Director Names & Addresses | DIN |

3. Client-**Non-Corporate Entity**

A. General Information

- ✚ Name & Address of Entity
- ✚ Copy of PAN No.
- ✚ Business Description
- ✚ Partner's Names & Addresses (PAN/Aadhar Card/DIN No.)
- ✚ Copy of last Audited FS

B. Engagement Info-Type

RECENT DECISIONS OF ETHICAL STANDARDS BOARD

1. CAIP-**EQUITY RESEARCH ADVISER**, but **CANNOT PUBLISH RETAIL REPORT**.
2. CAIP-engage himself as **REGISTRATION AUTHORITY (RA)** for obtaining **DIGITAL SIGNATURES** for clients.
3. CAIP-can act as **MEDIATOR IN COURT**, since "mediator" deemed-covered- "arbitrator", which is permitted.
4. CAIP-can be **SETTLOR OF TRUST** (Like liquidator)
5. CAIP-**CANNOT BE FINANCIAL ADVISORS** & **RECEIVE FEES/COMMISSION** from FI-Mutual Funds, Insurance Co., NBFCs etc.
6. CAIP-**CANNOT TAKE AGENCIES**-UTI, GIC or NSDL.
7. CAIP-**CANNOT HOLD CUSTOMS BROKERS LICENCE** u/s 146 of the Customs Act, 1962.
8. CA-**WHO IS MEMBER OF TRUST, CANNOT BE AUDITOR** of said trust.
9. CA-can **HOLD CREDIT CARD** of bank when he is also auditor of bank, **provided o/s balance on said card does not exceed Rs 10000 beyond prescribed credit period limit on credit card given to him**.
10. CAIP-**CANNOT ACCEPT AUDIT ASSIGNMENT** of bank if he has **taken loan against Fixed Deposit** held by him in that bank.
11. **CA in service**-may appear as **TAX REPRESENTATIVE** before tax authorities on **behalf of his employer, but not on behalf of other employees of the employer**.
12. CA-who is **STATUTORY AUDITOR OF BANK CANNOT FOR SAME FY ACCEPT STOCK AUDIT** of same branch, bank/ concern.
13. **CA Firm**-appointed as **INTERNAL AUDITOR of PF Trust by Govt. Co. CANNOT** be appointed as its **STATUTORY AUDITOR**.
14. **CONCURRENT AUDITOR of bank 'X' CANNOT** be appointed as **STATUTORY AUDITOR of bank 'Y'**, which is **sponsored by 'X'**.
15. CA/CA Firm-can act as **INTERNAL AUDITOR of co. & STATUTORY AUDITOR OF ITS EMPLOYEES PF FUND**.
16. CA-**CANNOT EXERCISE LIEN** over client documents/records for **non-payment of his fees**.
17. CA Firm-**CANNOT- PRINT ITS VISION & VALUES** behind visiting cards, as it would result in solicitation.
18. **Ethical Standards Board in 2013- STATUTORY AUDITOR /TAX AUDITOR CANNOT BE VALUER OF UNQUOTED EQUITY SHARES OF SAME ENTITY**. Board-recent Meeting-reviewed & decided where **LAW PROHIBITS**, such **PROHIBITION** on statutory auditor/tax auditor to be valuer will **CONTINUE**, but where there is **NO SPECIFIC RESTRICTION** under law-**PERMISSIBLE**, subject to compliance with provisions, in COE relating to independence.
19. **Ethical Standards Board in 2011-** Member if **DIRECTOR OF COMPANY, UPON RESIGNATION FROM COMPANY CANNOT BE APPOINTED AS AN AUDITOR OF SAID COMPANY**, & cooling period-2 years. Board- recent Meeting-reviewed & noted that Sec- 141 of Co. Act, 2013 does not mention prohibition, though threats pertaining to said eventuality have been mentioned in COE. Further, Board-view-member may take decision in such situation based on provisions of Co. Act, 2013 & COE.
20. **Ethical Standards Board** while noting that there is requirement for Director u/s 149(3) of Co. Act, 2013 to **reside in India for minimum period of 182 days** in previous calendar year, decided that such Director would be within scope of **DIRECTOR SIMPLICITOR** (generally permitted as per ICAI norms), if he is **NON-EXECUTIVE DIRECTOR, REQUIRED IN BOARD MEETINGS ONLY**, & **NOT PAID ANY REMUNERATION** except for attending such Board Meetings.
21. **INTERNAL AUDITOR NOT TO UNDERTAKE GST AUDIT SIMULTANEOUSLY**.



FUNDAMENTAL PRINCIPLES OF CODE OF ETHICS

- Integrity**-Straightforward & Honest in both professional & business relationships.
- Objectivity**-Unbiased & no conflict of interest.
- Professional Competence & Due Care**-Maintain professional skills & standards & act diligently as per Technical & Professional Standards.
- Confidentiality**-Not disclose info. of Client without his consent or required by law.
- Professional Behaviour**- Comply with L&R & avoid action that may bring discredit to profession.

PROFESSIONAL ACCOUNTANT IN PUBLIC PRACTICE Threats-

1. **Self-interest**- Ex- financial interest in client.
2. **Self-review**- maker should not be checker.
3. **Advocacy**- *Client Ka sath Dena*
4. **Familiarity**-Should take break
5. **Intimidation**-Coercive measure
- A. **Safeguards**-may eliminate/ reduce threat to acceptably level-created by professional, legislation, regulations & work environment.


SECTION 28 SANCTION TO PROSECUTE

No person shall be prosecuted under this Act except on complaint made by or under the order of council or the Central Government.

SCHEDULE I

PART I-PROFESSIONAL MISCONDUCT-CAIP

Clause 1- Allows to practice in own name

- Allows any person to practice in his name as CA
- Unless, such person is Also **CA in practice AND** 
- In **partnership** with **OR employed** by him

Clause 2- Sharing of fees

- Pays, allows, agrees to pay, allow, directly or indirectly
- Share/ Commission/ Brokerage in fees or profits of his professional business
- to any person **OTHER THAN TO- (Allowed)**
 - ✓ Member **OR**
 - ✓ Partner **OR**
 - ✓ Retired partner **OR**
 - ✓ Legal representative of deceased partner (if partnership deed provides so) **OR**
 - ✓ Member of other professional Bodies (Reg.53A)
 - ✓ With persons having prescribed Qualification to render Professional Services in or outside India.



Transfer/ Sale of Goodwill of Sole proprietorship permitted on death of proprietor if-

- ICAI permission to practice in such firm name in 1 year of death
- 1 partner dies-widow of deceased partner gets share of firm if partnership agreement provides
- Proprietor CAIP dies-widow can sell g/w & right to use CA firm name if sold in 1 year.


Sharing of fees or profits- **CAIP-can share** fee or profits arising out of his professional business with **Qualified Persons in Regulation 53A** i.e. CS, CWA & CMA, Actuary, BE, B. Tech, Bachelor in Architecture, Bachelor in Law & MBA.

CASE LAW-Mukherjee V/s ICAI

Clause 3-Accepts share in fees

- Accepts, agrees to accept
- any part of profits of professional work of person not a member of ICAI.
- such **restriction Not applies to (Allowed)**- Member of any other **professional bodies**, with such other persons having **prescribed qualifications (Reg. 53A)**

Clause 4-Partnership

- Enters in partnership 
- in/ outside India
- with any other person **EXCEPT-(Allowed)**
- ✓ **CA in practice.**
- ✓ Member of other **professional bodies**- prescribed qualifications. (Reg. 53B)-**Except MBA, B tech**
- ✓ Person, who but for his **residence abroad** would be entitled to be registered as member.
- ✓ Person whose **qualifications are recognized by CG** or Council for permitting such partnerships.

Clause 5- Prohibition in securing work

- By **means** which are **not open to a CA.**
- Through services of person-**not employee/partner**

CASE LAW- Jethanand Sharda v/s Deepak Mehta

Clause 6- Solicits clients or professional work

- Directly or indirectly by **CAip**
- **Circular, Advertisement, Interview, Personal communication**
- or by Any other means. **PROVIDED- (Allowed)**
- CA from **other CAIP OR**
- Responding to tenders/ enquiries-professional work.
- CAIP **not respond** to any tender **unless minimum fee** prescribed in tender document.

FORMS OF SOLICITATION

1. Advertisement & note in press

- ✓ Change- Partnership, address & contact numbers
- ✓ ICAI journal/ Newsletter-sharing professional work- assignment basis **BUT FIRM NAME NOT ALLOWED**
- ✓ Staff recruitment.
- ✓ On client's behalf-HR, liquidator etc.

2. Empanelment of Allotment of Audit / professional work-

- | | |
|-----------------------------|-----------------------|
| ✓ Apply, if aware, | ✗ Roving enquiries, |
| ✓ INQUIRE work allotted-him | ✗ cannot demand work. |

3. Publication in Telephone/ Other directories-

- | | |
|-------------------------------|----------------------|
| ✓ Separate section for CA, | ✗ No Special request |
| ✓ normal letters, | ✗ additional payment |
| ✓ logical alphabetical order, | ✗ Not bold |
| ✓ local directory, | |
| ✓ payment-basic listing | |



4. Publication of Books or Articles

- | | |
|----------------------------|---------------------------|
| ✓ Write books | ✗ No Firm Name |
| ✓ Mention name + academics | ✗ No solicitation of work |

5. Tenders or Inquiries

- | | |
|----------------------------------|------------------------------|
| ✓ Exclusively for CA- | ✗ Exclusively for CA- |
| ✓ Minimum fees prescribed | ✗ No minimum fees |
| ✓ Open for All- can apply | |

6. Greeting cards, Invitations-

- | | |
|---|--|
| ✓ Name of Firm & address | ✗ Send other than Client, relatives, Close friends |
| ✓ Marriage, Religious ceremony, office inauguration | ✗ Qualification/ solicit |

7. Issuing Hand Bills

- | | |
|-----------------------|----------------------------|
| ✓ clients-Tax matters | ✗ issue- Other than Client |
|-----------------------|----------------------------|

8. Public Interviews

- | | |
|---------------------|--------------------------------------|
| ✓ firm name allowed | ✗ publicity/professional attainments |
|---------------------|--------------------------------------|

9. Website

- | | |
|------------------------------|-------------------------------|
| ✓ Pull mode | ✗ Push mode |
| ✓ Any colours | ✗ Client Name + fees charged |
| ✓ Passport size photo | ✗ Logo other than ICAI |
| ✓ Name of member/firm | ✗ No advertisement |
| ✓ Their address, contact etc | ✗ Sponsored ad |
| ✓ Partner details | ✗ Not result- solicitation |
| ✓ Job vacancies (+ articles) | ✗ Non- professional article |
| ✓ Reference ICAI/ Govt sites | ✗ Not contradictory info-ICAI |
| ✓ Date when updated | ✗ Photo except passport size |

10. Accept work emanating from client introduced by another CA

- ✗ Not accept if work comes directly where original work introduced by another CA
- ✓ Duty to ask client to come through that another CA.



Clause 7- Advertises professional attainments or services

- Advertises his professional attainments or services
 - Uses designation/ expressions **Other than CA-** on
- | | | | |
|-------------------|---------------|-------------|-------------|
| Professional docs | Visiting card | Letter head | Sign boards |
|-------------------|---------------|-------------|-------------|
- ✓ Recognized degree of university/ title indicating membership of ICAI/other recognized institution. **(Allowed)**

ADVERTISEMENTS

1. Advertisement in press- (Clause 6)

2. Appearance on TV/radio/seminar/press-

- | | |
|------------------|-------------------------------|
| ✓ May appear | ✗ Firm Name & address |
| ✓ describe as CA | ✗ Host- not refer such things |

3. Photograph & brief particulars of CA in Magazines-

- | | |
|---------------|-------------------------------------|
| ✓ Can publish | ✗ no payment made/ No Advertisement |
| | ✗ No professional attainment |

4. Training Courses/Seminars-

- ✓ For staff + Client+ Staff-other professional accountants

5. Publicity-appointment of position-Local/ National importance-

- | | |
|---------------------------|-------------|
| ✓ Mention ICAI membership | ✗ Firm Name |
|---------------------------|-------------|

6. Prospectus- CA is director-

- | | |
|---------------------------|---------------------------------|
| ✓ CA name+ address | ✗ Firm name |
| ✓ In capacity of director | ✗ No expression- "Associate of" |
| ✓ Update Co- COE | ✗ No Professional attainment |

7. Sign Board-

- | | |
|-----------------------------------|--------------------------|
| ✓ Name board of self at residence | ✗ Glow/ large sign board |
| | ✗ Firm name -residence |

8. Date of Establishment-

- ✓ Only Pull request

9. Photographs & QR Codes on visiting card-

- | | |
|---------------------------------------|--|
| ✓ Only Pull request | ✗ No photo on visiting card |
| ✓ QR codes on visiting card permitted | ✗ QR code not contain things not permissible |

10. Press note- success of candidate in exams-

- | | |
|---------------------------|--|
| ✓ Name/address/background | ✗ Undesirable publicity of article/principal/firm. |
| ✓ Success Details | |
| ✓ Name-principal & Firm | |

11. Listing in directory/ List of members of particular body-

- | | |
|------------------|----------------------------------|
| ✓ Logical order | ✗ Client name & services offered |
| ✓ Name & Address | |

12. Logo-

- | | |
|-----------------------|-------------------|
| ✓ Common logo of ICAI | ✗ Other than ICAI |
|-----------------------|-------------------|

13. Sponsorships-

- | | |
|-----------|-----------------|
| ✓ Allowed | ✗ Not suffix CA |
|-----------|-----------------|

Clause 8- Communication with Previous Auditors

- Accept position as Auditor
- previously held by another CA
- without 1st communicating with him in writing.
- All audits- Internal/ external
- By hand delivery/Registered **Post Acknowledgement Due.**



Clause 9- Checking compliance with Section 140 & 139

- Accepts appointment as auditor of co. without ascertaining whether requirements of Sec 139, 140, 142, 141 & 225 of Co. Act in respect of appointment have been duly **complied** with.

Clause 10- Contingent Fees

- Charges/offers to Charge/accepts/offers to accept
- in respect of any professional Employment
- fee based-on **% of profits-which are contingent** on finding/results of such employment,
- except as permitted under any regulations.

EXCEPTIONS (Allowed)

- ✓ **Receiver/Liquidator**- % of Realization/ disbursement of assets.
- ✓ **Co-operative society**-% of paid up/ working capital/ Gross/ Net- income/profits.
- ✓ **Valuer**-DT & duty-%-value of property valued.
- ✓ **Mgt. Consultancy services**-% contingent-findings.
- ✓ **Fund Raising services** = %-fund raised.
- ✓ **Debt recovery services** = %-debt recovered.
- ✓ **Services of Cost optimization** - %-benefit derived.
- ✓ **Other service**- as may be decided by Council.
- Fees-not contingent- **fixed-court/public authority**

Clause 11- Engages in other occupation/ Business

- Engages in Business/ occupation **other than profession of CA** unless permitted by council for it
- Member may become **director (not being MD/WTD)** in company provided **he/his partners is not interested** in such company as auditor

Regulation 190A- CAIP Generally permission

- ✓ Employment under CAIP (No attest function)
- ✓ Private tutorship (No attest function)
- ✓ LIC Agency holds only renewal commission.
- ✓ Value/ set paper, head-examiner/moderator.
- ✓ Authorship of books & articles.
- ✓ Hold public elective offices-M.P., M.L.A & M.L.C
- ✓ Attend classes & appear for any exam.
- ✓ Honorary office leadership of charitable
- ✓ Part-time tutorship in ICAI
- ✓ Act as Notary Public, Justice, & Magistrate & like.
- ✓ Editor of professional journals.
- ✓ Surveyor & Loss Assessor
- ✓ Own agricultural land & carry agricultural activity.
- ✓ Act as Recovery consultant in banks

Special Permissions- Prior approval of council

- ✓ Full/ Part time employment in business concern- **(No Substantial interest (≥ 20%))**.
- ✓ Non-business- Full time/part time
- ✓ Office of MD/WTD **(No substantial interest)**
- ✓ Interest in family business- HUF-**Not Karta**
- ✓ Interest in Educational institute **other than ICAI**
- ✓ **Special permissions-No attest function**, but if engaged as- Lecturer in affiliated university, Educational institution, Coaching org., private tutorship, **Attest functions granted** if- Direct teaching hours **≤ 25 Hours a week**

Clause 12- Allows other person to Sign report

- Allows person **not being CAIP OR**
- Member **not being his partner**
- Sign on his behalf/ his Firm- B/S, P/L, Reports of FS

Sec 26 of CA Act 1949- No person other than ICAI Member can Sign documents in professional capacity. But others can issue- Draft observations/FS, Issues of audit queries, questionnaire, raising bills, initiating/stamping vouchers, routine work.

PART II-PM-CA in service

Clause 1- Sharing of fees or emoluments

- Pays/allows/agrees to pay
- directly or indirectly to any person
- any **share in emoluments** of
- employment undertaken by him.

Clause 2- Accepts share in fees

- Accepts/agrees to accept
 - any part of fees, profits, gains
 - as commission or gratification from-
- | | | | | |
|--------|----|--------|-------|----------|
| Lawyer | CA | Broker | Agent | Customer |
|--------|----|--------|-------|----------|

PART IV-Other Misconduct-All members

Clause 1- Is held guilty by any civil or criminal court for an offence which is punishable with **imprisonment for a term not exceeding 6 months**

Cases of Other Misconduct- Bribery, Non-repayment of dues, Misappropriation by office-bearer of Regional Council of funds for **personal use**, keep assessment records of income tax department **belonging to Client at home**, **Retain BOA & Docs of client** without reasonable cause, adopt **coercive methods** on bank for having loan sanctioned to him.

PART III-PM-All members

Clause 1- Not being fellow of Institute, but acts as fellow of Institute.

Clause 3-Supplies incorrect Information

- While inviting professional work from another CA
- while responding to tenders/enquiries
- advertising through write up
- anything as provided for in Clauses 6 & 7 of Part I of this Schedule, gives info knowing it to be false.

Clause 2- Not supply info to ICAI

- **DOES NOT SUPPLY INFO**
- **DOES NOT COMPLY WITH** requirements Called/asked for
- By Institute,
- By Council
- By any of its committees,
- By Director (Discipline),
- By Board of Discipline,
- By Disciplinary Committee,
- By QRB/appellate authority.

Clause 2-In opinion of Council brings **disrepute to the profession or Institute** as a result of his action whether or not related to his professional work.

SCHEDULE II

PART I-PROFESSIONAL MISCONDUCT-CAIP

Clause 1- Confidentiality

- Discloses info acquired in course of his professional engagement to-
- Any person other than his client so engaging him
- without consent of his client
- Otherwise- required by any law for time being in force.

Clause 2-Certifies/reports without examination

- Certifies or submits-in his name/ name of his firm
- report of examination of FS
- unless examination of statements & related records
- made by- Him/ partner/ Employee/ another CAIP.

Applies to engagements involving examination of FS

CASE LAW- JDI Bombay V/S B.K. Kurhade

Clause 3- Certifies on Accuracy of forecasts.

- Permits-his name/name of firm
- To be used in connection with
- estimate of earnings-contingent on future transactions
- in manner which may lead to belief that
- he **vouches for accuracy of forecast-(Misconduct)**

GN-A/c Report-Profit Forecasts &/Financial Forecasts

CAIP can associate his name with forecasts-SAE 3400-Member Can participate-subject to conditions-

- ✚ Indicates **Source of information is mentioned**
- ✚ Indicates **basis of forecasts is mentioned**
- ✚ Gives in **report assumptions** in arriving at forecasts.
- ✚ **Not vouches** for Accuracy of forecasts.

Clause 4- Substantial Interest

- Express his opinion on financial statements
- of any business or enterprise in which
- he, his firm or partner
- has substantial interest
- As per Council General Guidelines even relative shouldn't have substantial interest.

Clause 5- Fails to disclose material facts known to him

- Fails to disclose a material fact, known to him,
- which is **NOT DISCLOSED IN FS**, but disclosure-necessary,
- in making such FS not misleading where
- he is concerned with that FS in professional capacity.

Applies to all assignments involving FS

CASE LAWS- Davar & Sons Ltd. V/S M.S. Krishnaswamy -Doraiswami V/S P.M. Raghavendra Rao

Clause 6- Fails to disclose misstatement known to him

- Fails to **report Material fact/Misstatement** known to him
 - to appear in FS which he is concerned-professional capacity.
- Applies to all assignments involving reporting on FS.*

Clause 7-Due diligence/ grossly negligent

- Does not exercise due diligence/ is grossly negligent
- in the conduct of his professional duties.

Applies to engagements

CASE LAW- D.C. Sopariwala

Clause 8- Fails to obtain Sufficient Information

- Fails to Obtain sufficient information
- which is necessary for expression of opinion
- or its exceptions are sufficiently material
- to negate the expression of an opinion.

*Applies to assignments involving expression of opinion
Incorrect opinion & not Inadequate Opinion*

Clause 9- Fails to invite attention to SAs

- Fails to Invite attention to **SA & material departure** from
- **Generally accepted procedure of Audit.**

Applies to Audit assignments.

Clause 10- Fails to keep Money of client in separate bank a/c

Fails to keep money of client **EXCEPT**

- ✚ Fees or remuneration
- ✚ money meant to be expended
- ✚ **in Separate bank a/c or to use such money for purpose which they are intended** in a Reasonable time.

SI-Carry Not less than 20 % voting power- 1 or >1 Relative/ Partners & their relatives/ concern- he+ relative+ his partner+ relatives.

PART II-PM- All Members

Clause 1-Contravenes provisions of the Act

- Contravenes-any of provisions of this act **OR**
- Regulations made there under **OR**
- any guidelines issued by the council.

REGULATIONS

- 43-Engagement of Article Clerks
- 46-Registration of Article Clerks
- 47-Premium of Article Clerks
- 48-Stipend to Article Clerks
- 56-Termination of Articles
- 60-Working hrs. of Article Clerk
- 65-Article Clerks not to engage in any other Occupation

Clause 2- Confidentiality

- Being an employee of any-company, firm or person
- discloses confidential information
- acquired in course of his employment
- **EXCEPT** required by law or permitted by Employer.

Clause 3-Supplies incorrect Information to ICAI

- Includes in any info Statement return or form
- to be submitted to Institute/council/ its Committees, Director, board of discipline, disciplinary committee, review board or Appellate authority
- any particulars **knowing them to be false.**

Clause 4- Defalcates/ embezzles money

- Defalcates/ embezzles money received
- in his professional capacity.

CASE LAW- Tara Pada Banerjee Dy. General Manager Bank of Baroda V/S B.K. Sarker

PART III-Other Misconduct- All Members

CLAUSE 1-Other misconduct- He is guilty by any civil or criminal court for an offence which is **PUNISHABLE FOR A TERM EXCEEDING 6 MONTHS**

COUNCIL GENERAL GUIDELINES

Chapter 1- Preliminary- Applies to all member

Chapter 2- Conduct of member being an employee

Exercise due diligence& not grossly negligent.

Chapter 4- Opinion on FS when there is substantial interest

Not express opinion on FS- relatives have substantial interest.

Chapter 5- Maintenance of Books of Accounts

Maintain Cash Book & Ledger irrespective of Turnover.

Chapter 6- Tax audit assignments

Maximum 60 Tax Audit assignments per AY per partner-CAIP.

Chapter 7- Auditor Appointment-Non-payment-undisputed fees

CAIP- NOT ACCEPT-if Undisputed Audit fee of Previous Auditor not paid **EXCEPT- Sick Units** (Liabilities > Assets).

Chapter 8- Specified No. of audit assignments

Max. 30 Company audit assignments at any point of time per partner who is CAIP (Includes branch audit)

Public Company- **PSC- ≥ 25 Lakhs- Only 10 Assignments.**

Chapter 10- Appointment of auditor when he is indebted

Limit > 10,000, Debt + Guarantee

In Co. Act, 2013- Indebtness- 5 Lakh, Guarantee- 1 Lakh.

Chapter 11- Directions in case of unjustified removal of auditor

Not accept audit- Improper removal of previous auditor.

Chapter 12- Minimum Audit Fees in respect of audits

Recommendatory & not mandatory for a CA.

Kuch to Author kahenge- Lets Summarise !!!

Schedule I	Part	Applicable to	Clauses
Mild Misconduct	Part I	CA- Practice	12
Penalty-Max. 1 Lakh	Part II	CA- Service	2
Suspension-3 months	Part III	All Members	3
	Part IV	All Members	2
Schedule II			
Serious Misconduct	Part I	CA- Practice	10
Penalty-Max. 3 Lakh	Part II	All Members	4
Permanent Suspension	Part III	All Members	1



AMENDMENT

CONCEPT OF NETWORK



- To **enhance their ability**
- to provide **professional services**,
- firms frequently form
- larger structures with other firms & entities.

- Whether larger structures create network
- **depends on-facts & circumstances**
- **not depend** on whether firms & entities are **legally separate & distinct.**

NOT DEEMED as Network if-

- **Mere Association between firm & unrelated entity** to jointly provide service/ develop product.
- **Co-operates with another entity solely** to respond jointly to request for proposal for provision.
- Sharing of **immaterial costs.**
- Sharing of costs **limited only to costs related to development of audit methodologies/manuals/training courses.**

DEEMED as Network

- Where larger structure is **aimed at co-operation** & it is **clearly aimed at profit or cost sharing** among entities within structure.
- Share **common ownership/control/ mgt./QC policies & procedures/common business strategy/ use of common brand name.**
- Share **Significant part** of professional resources.

Judgment-whether LARGER STRUCTURE IS NETWORK-

- ✚ Whether reasonable & informed 3rd party would likely to conclude, weighing all specific facts & circumstances, that entities are associated in a way that network exists.
- ✚ Judgment-applied consistently throughout network

FORMS OF NETWORK- Network can be constituted

1. **MUTUAL ENTITY**- Act facilitator for constituents of Network- will not carry out professional practice.
2. **PARTNERSHIP FIRM**- Conditions total **no. of partners does not exceed 20.**
3. **LLP**- subject to provision of CA Act, Rules & such other laws applicable.
4. **COMPANY**- subject guidelines prescribed by Institute for corporate form of practice & formation of management consultancy services company.

APPROVAL OF NAME OF NETWORK AMONGST FIRMS REGISTERED WITH INSTITUTE

- ✚ Network-distinct name
- ✚ Approved by Institute -**Form-A**
- ✚ To distinguish "Network" from "firm" of CA,
- ✚ **USE**-After Name of network- "**& Affiliates**" &
- ✚ **NOT USE**- words- "**& Co.**" / "**& Associates**"

Example- If Network is-
Mutual Entity or Partnership Firm- AB & Affiliates
LLP- AB Affiliates LLP
Limited Company- AB Affiliates P. Ltd/Limited

REGULATION 190 OF CA REGULATIONS, 1988

- ✚ Applicable to name of Network.
- ✚ Even if **name is approved & subsequently found-undesirable**
- ✚ Name may-**withdrawn** at any time by Institute.
- ✚ Institute shall reject any undesirable name & provisions in respect of names of companies as prescribed in Companies Act, 1956 be applicable in spirit.
- ✚ Institute shall **approve/reject name**-Network
- ✚ Intimate-Network at address in **Form-A**
- ✚ **Not later than 30 days** from receipt of Form.
- ✚ Mere approval of name-shall not entitle Network to carry on practice in its own name.

Change in constitution of registered Network

- ✚ On account of any entry into or
- ✚ Exit from Network,
- ✚ Network shall communicate same to Institute
- ✚ by filing **Form-C in 30 days** from date of change in constitution.

NETWORK- Larger structure is aimed at co-operation & it is clearly aimed at profit or cost sharing among entities within structure.

NETWORK FIRM- Firm/ Entity that belongs to network.

JOINING/ASSOCIATION WITH "NETWORKS" BY CAIP

Clauses referred from CA Act-

- ✚ Clause (2) of Part I of First Schedule to the Act
- ✚ Clause (3) of Part I of First Schedule to Act
- ✚ Clause (5) of Part I of First Schedule to the Act
- ✚ Clause (6) of Part I of First Schedule to Act

- ✚ **Not permissible for CAIP** to join Networks
- ✚ **OTHER THAN Networks registered with the Institute. (ALLOWED)**
- ✚ Non-compliance of above-**disciplinary proceedings.**

REGISTRATION OF NETWORK WITH ENTITIES IN INDIA

- ✚ After Approval of name of Network-under Guideline 5-
- ✚ Institute **reserve** such name for period of
- ✚ **3 months** from date of approval
- ✚ **NETWORK REGISTRATION- FORM B- 3 months**
- ✚ With institute, failing which name assigned shall stand cancelled on expiry of said period.

REGISTRATION-MANDATORY.

- ✚ If different Indian firms-networked with common Multinational Accounting Firm, they-considered as part of network.

LISTING OF NETWORK WITH ENTITIES OUTSIDE INDIA

- ✚ Duly authorized representative(s) of Indian Member firm (s)/Member constituting Network with entities outside India shall
- ✚ File declaration with Institute-**Form-D** for Listing of such Network **within 30 days** from date of entering into Network arrangement.
- ✚ Proprietary/individual members, partnership firms as well as members in LLP/any other entity of members
- ✚ Shall be **permitted to join network with entities outside India**
- ✚ **provided** that proprietary/individual members, partnership firms/ members in LLP/ other entity of members **are allowed to join only one network &**
- ✚ firms having common partners shall join only one such network

CONSENT OF CLIENT

Effect of registration-network with Institute-**deemed to be public notice of network & hence consent of client-deemed to be obtained**

Kuch to Author kahenge- Lets Summarise !!!

FORM A	Approval of Name	30 days
FORM B	Network registration	3 Months
FORM C	Change in constitution	30 days
FORM D	Listing-Outside India	Within 30 days





SARBANES OXLEY ACT (Old Course)

MAJOR PROVISIONS OF SARBANES-OXLEY ACT OF 2002

1. Public Company Accounting Oversight Board (PCAOB) **formation.**
2. Requirement for **PUBLIC COMPANIES** to-
⇒ Evaluate & disclose **effectiveness of IC over FR** &
⇒ independent **auditors** of such co. **attest disclosures**
3. **Certification** of financial reports by **CEO & CFO**
4. Auditor **independence,**
⇔ **Prohibition** on certain work for audit clients &
⇔ **Audit Committee certify All Non audit work**
5. **Prohibition of loans to director/** executive officer
6. Reporting-**INSIDER TRADING**
7. **Prohibition**-Insider trading during pension fund blackout periods
8. **Criminal & civil penalty**-Contravention of securities law
9. Fully **independent Audit Committee**-
⇔ **Listed Co.** registered on stock exchange
⇔ Oversee relationship between co & its auditor
10. **Additional disclosures on Financial Reporting**
11. **Higher Imprisonment & Fines-Corporate frauds**
⇔ Corporate Executives
⇔ Knowingly & wilfully Misstate FS
12. **Whistle blower-protection,** Employees who,
⇔ File complaints with OSHA
⇔ **within 90 days**

- ⇔ Establish **Corporate Accountability &**
- ⇔ **Civil & criminal penalties** for white-collar crimes.
- ⇔ Aka **Public co a/c Reform** & Investor Protection Act 2002
- ⇔ Commonly called SOX/Sar box.
- ⇔ Aids **ALL REGULATORY BODIES & COURTS**
⇒ in taking various actions-civil & criminal prosecution
⇒ Wrt. misstatements amounting to
⇒ **A/c scandals & fraudulent financial reports**
⇒ Other **frauds on securities** matters
⇒ **obstruction of justice** &
⇒ safeguard-**corporate whistle-blowers.**
- ⇔ **CIVIL & CRIMINAL PENALTIES**

BASIC ACCOUNTING CONTROL OBJECTIVES

1. All transactions are **Recorded**
2. Which are **Real**
3. Properly **valued**
4. Recorded **timely**
5. Properly **posted**
6. Properly **classified**
7. Properly **disclosed**

COSO FRAMEWORK

- A. PCAOB **suggests considering COSO framework** for assessment of controls.
- B. **Defines 5 areas-**
 1. Risk Assessment Process
 2. Control Environment
 3. Control Activities
 4. Monitoring
 5. Info & Communication

PROVISIONS WRT. CORPORATE RESPONSIBILITY

- 1) **More Independent Audit committee**
⇒ by enhancement of over sight responsibilities &
⇒ 1 member-Financial Expert.
- 2) **Certification by CEO & CFO-**
⇒ issue certification of quarterly financial results &
⇒ Annual reports to SEC.
- 3) **To Prescribe Rules regarding-**
⇒ Conduct for managers & officers- Pension matters.
- 4) **Reporting contravention of securities laws**
⇒ Attorneys are required
⇒ to report violation of securities laws
⇒ to company's CEO/chief legal counsel &
⇒ to Audit Committee if no action is taken.



DISCLOSURE CONTROLS & PROCEDURES

WHY DISCLOSURE?

- 1) **FOR ENSURING-**
⇔ All information required by law
⇔ included in periodic reports
⇔ Filed with SEC
⇔ Made available to person responsible for preparing it
- 2) **EASY TO IMPLEMENT**
- 3) Should be in **WRITTEN FORM**
- 4) Should be **CUSTOMIZED TO REFLECT OPERATIONS.**

KEY REQUIREMENTS OF AUDITING STANDARDS OF PCAOB

- 1) **Design of controls**-relevant assertions related to all significant accounts & disclosures in FS
- 2) Info about how **significant transactions** are initiated, authorized, supported, processed & reported
- 3) Enough info. about **flow of transactions** to identify where MM due to error/fraud could occur
- 4) Controls **designed to prevent/detect fraud**
- 5) Controls over **period-end FR process**
- 6) Controls over **safeguarding of assets**
- 7) Results of **mgt. testing & evaluation**

EVALUATION OF DCP BY DISCLOSURE COMMITTEE

- 1) Evaluation of **Accuracy** of disclosures.
- 2) **Inadequate staff.**
- 3) **Reliability** of info systems
- 4) **Level of experience** of person making report
- 5) Person preparing reports have **access to persons that have required info**
- 6) **Sufficient time** allowed to **review, comment** on drafts
- 7) **Sufficient time** to **discuss issues**
- 8) **Proper communication** between gatekeepers of info
- 9) **Material transactions & issues** included in early drafts
- 10) **Adequate controls** over **Related Party Transactions**

INTERNAL CONTROL OVER FINANCIAL REPORTING

- ⇒ Ensure **INTEGRITY OF FS** &
- ⇒ **SAFEGUARDING OF ASSETS** of company at-
- ⇒ **Bookkeeping level-**
 - ⇔ To have proper recording of income & expenditure.
- ⇒ **Executive level-**
 - ⇔ To prevent manipulation of revenues & expenses.

PROCEDURES

- Include policies & procedures-provide reasonable assurance
- ⇒ Records are **maintained fairly**.
- ⇒ Transactions are **properly recorded** to **prepare FS** in **accordance with GAAP**
- ⇒ Receipts & expenditures are **properly authorized**
- ⇒ **Timely detection-unauthorized use of company assets.**

FUNCTIONS OF DISCLOSURE COMMITTEE

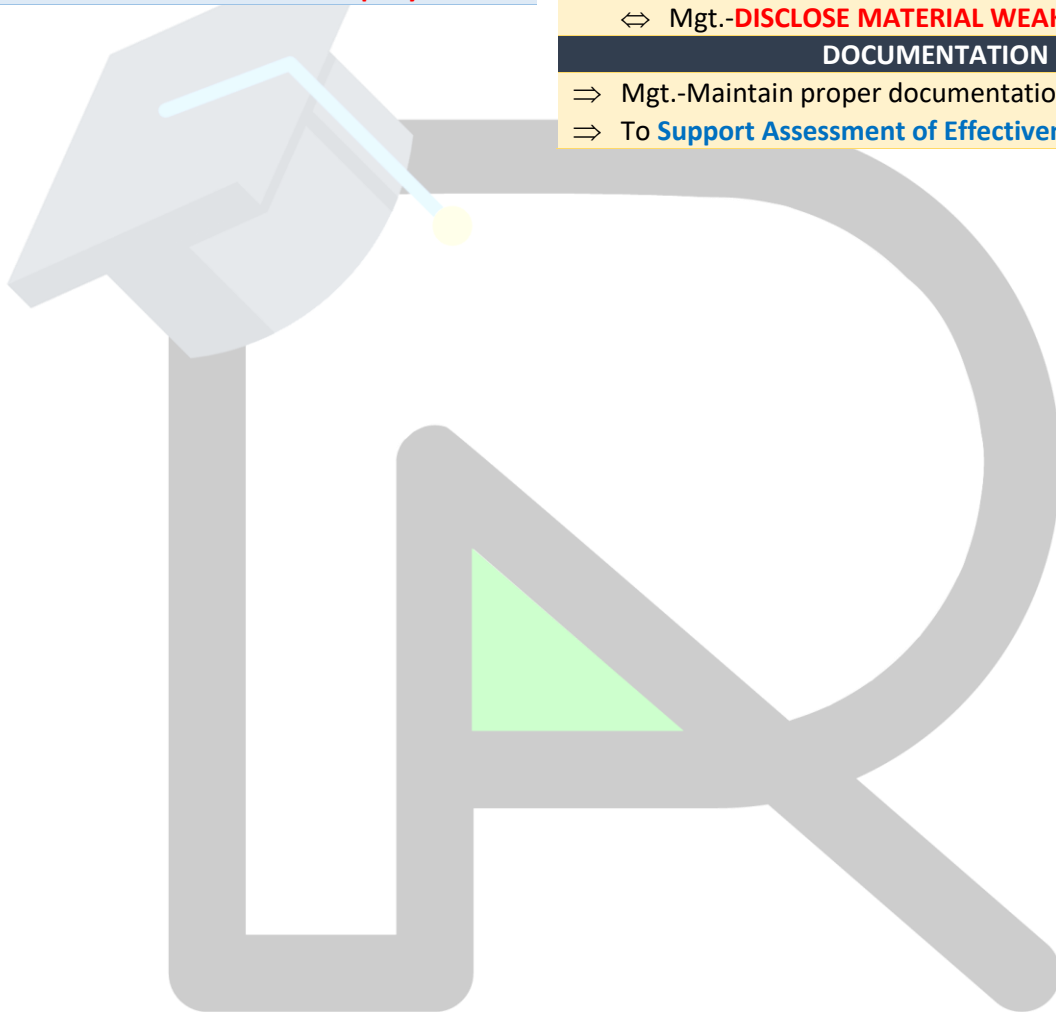
- 1) **Drafting** disclosure
- 2) **Resolve matters** about materiality of development
- 3) **Reviewing & advising** on matters of disclosure
- 4) **Oversee & coordinating** Info. accumulation
- 5) **Communication** with investing public.
- 6) **Recommendation** to board, AC, CEO & CFO for report.

MANAGEMENT'S RESPONSIBILITY TO ASSESS & REPORT

- ⇒ To evaluate **EFFECTIVENESS & EFFICIENCY** of controls
- ⇒ To **INCLUDE REPORT OF SUCH EVALUATION**
 - ⇔ in annual report, attested by outside accountants.
- ⇒ Unbiased.
- ⇒ In case -**DEFICIENCY IN DESIGN/OPERATION OF ICFR**
 - ⇔ Mgt.-**DISCLOSE MATERIAL WEAKNESS** in report.

DOCUMENTATION

- ⇒ Mgt.-Maintain proper documentation
- ⇒ To **Support Assessment of Effectiveness** of ICFR.





COST AUDIT (Old Course)

COMPRISE OF

VERIFICATION OF COST ACCOUNTING RECORDS-

⇒ Like accuracy of cost accounts, cost reports, cost statements, cost data & techniques.

EXAMINATION OF COST ACCOUNTING RECORDS-

⇒ To ensure-
⇒ Adherence to cost a/c principles, procedures & objectives

TYPES OF COST AUDIT

1. COST AUDIT ON BEHALF OF MANAGEMENT-

⇒ Establishing **ACCURACY** of cost data
⇒ Ensuring **OBJECTIVES ACHIEVED**-by appropriate collection, segregation, analysis & compilation of data.
⇒ Ascertaining **ABNORMAL LOSSES/gains**
⇒ Determination of **PER UNIT COST** of production.
⇒ Establishing proper **OVERHEAD ABSORPTION RATES**
⇒ Fixation of **CONTRACT PRICES**+ Determine additional supplementary charges raised against customers.
⇒ Improving **QUALITY - COST A/C SYSTEM**

2. COST AUDIT ON BEHALF OF CUSTOMERS- COST + CONTRACT

3. COST AUDIT ON BEHALF OF GOVERNMENT-

⇒ Consideration of **GRANT**
⇒ Assessment of **PRODUCTION-BASED TAXES.**

4. COST AUDIT ON BEHALF OF TRADE ASSOCIATIONS- CONTROL PRICES.

⇒ May require **Accuracy of costing info**
⇒ **Submitted by member** units-checked
⇒ **Seek full info on costing system**, level of efficiency, utilisation of capacity, etc.

5. STATUTORY COST AUDIT U/S 148 CIRCUMSTANCES-WARRANT COST AUDIT

- ⇔ Price Fixation
- ⇔ Cost Variations in industries
- ⇔ Inefficient management
- ⇔ Tax Assessment
- ⇔ Trade Disputes



COST AUDIT PROGRAMME

1. REVIEW OF RECORDS

Consist of--

- 1) **Methods of costing** in use batch, process or unit.
- 2) **Method of Accounting** for Raw material/stores/spares/wastage etc.
- 3) **System of recording wages**, etc.
- 4) **Basis of allocation** of overheads to cost centres
- 5) **Treatment of Interest**, Royalty, research & Development etc.
- 6) **Method** for a/c for **depreciation**
- 7) **Method of stock-taking** & valuation+ Inventory policies
- 8) **System of budgetary control**
- 9) **System of Internal Auditing.**

ADVANTAGES

1. To Management

⇒ To have **reliable data** for day to day operations.
⇒ Close & **continuous check** on wastes.
⇒ **Identify Inefficiencies.**
⇒ Management by **Exception.**
⇒ **Reliable check in valuation** of inventory.
⇒ **Detection of errors & frauds**

2. To Society

⇒ **Price fixation** on basis of correct data.
⇒ **No price increase** without justified increase in cost.
⇒ Helpful in **cost reduction.**
⇒ Proper **utilisation of scarce resources**

3. To Shareholder

⇒ Ensures **proper maintenance** of records.
⇒ **Economic & efficient operations.**
⇒ **Fair valuation** of Inventories.

4. To Government

⇒ **Price Fixation** of essential commodities.
⇒ **Identify inefficient units.**
⇒ **Protection** to sick industries.
⇒ **Settlement** of trade disputes.
⇒ **Generation** of healthy competition.
⇒ **Decision** for sanctioning grants.
⇒ **Assessments of taxes** based on production.



FUNCTIONS OF COST AUDITOR

1) INVENTORY

⇒ **Size** of inventory adequate/excess?
⇒ **Provision** most economical?
⇒ Ensure optimum **order size**?
⇒ Take note of **lead time**?
⇒ **Receipt & issue system** cause bottle-neck in production

2) OPENING & CLOSING STOCKS

⇒ **Not large** compared with volume of production
⇒ Represents **actual physical stock** not merely a/c figure

3) STORE ISSUE PROCEDURE IN STOCKS

⇒ Withdrawal **authorised** & permits receipt-located
⇒ No possibility of **loss/pilferage** of stock

4) WORK-IN PROGRESS

⇒ **Physically verified**
⇒ **Valuation-correct** with reference to stage of completion
⇒ **No over-valuation/under-valuation**

5) LABOUR

⇒ **Maximum utilisation** of labour-reduce labour cost
⇒ **Cost-Allocated to different jobs** wrt. Time/job card

6) CAPACITY UTILISATION

7) OVERHEADS & INDIRECT EXPENDITURE

⇒ **Correct-allocation** of indirect expenditure
⇒ Compared with value of production charges-**not excess**
⇒ Actual indirect exp **not exceed budgets/standard**

VERIFICATION-COST STATEMENT & OTHER DATA

Covers-

- 1) Licensed, installed & utilized capacity
- 2) Financial ratio
- 3) Production data
- 4) Cost of Raw material consumed, wages & salaries, store etc
- 5) Sales realization
- 6) Abnormal non-recurring & special cost
- 7) Cost statements
- 8) Reconciliation with financial books



NECESSITY TO REFER FINANCIAL RECORDS

⇒ Required to- **EXAMINE VARIOUS INFORMATION** like Cost of Raw Material consumed, power & fuel, employee costs, depreciation, etc.,

⇒ **AVAILABLE IN FINANCIAL RECORDS.**

- 1) **ANNEXURE** to **COST AUDIT REPORTS (FORM CRA-3)** require reporting on-
 - a) Reconciliation of **profit**,
 - b) **Value addition** & Distribution of Earnings
 - c) **Financial Position** & Ratio analysis.
 - d) **Related Party Transactions.**
 - e) Reconciliation of **Indirect Taxes.**
 - f) Such information-available only from financial records.
- 2) **INFORMATION** in **Part II of Schedule III to Co. Act, 2013**,
 - ⇒ Consumption of raw materials,
 - ⇒ Purchases of stock-in-trade, sales of products,
 - ⇒ Changes in inventories, WIP, stock-in-trade etc.
 - ⇒ Covered in cost statements.

TRUE & FAIR COST OF PRODUCTION (COP)

Relevant considerations-determine COP determined-true & fair

- 1) **Determination of cost**
 - ⇒ As per **generally accepted cost accounting principles**
- 2) **Application of costing system**-Appropriate to product
- 3) **Materiality**
- 4) **Consistency**- Application of
 - ⇒ Costing system &
 - ⇒ Cost accounting principles
- 5) **Maintenance of cost records** &
 - ⇒ Preparation of cost statements in prescribed form
- 6) **Abnormal wastages & losses** & other unusual transactions being ignored in determination of cost.



COST STATEMENT

Cost statement as per **CRA-1** shall Consist-

- 1) **Quantitative information**-
 - ⇒ Each goods/service showing details of
 - ⇒ Available capacity, actual production,
 - ⇒ Production as per excise records, capacity utilization,
 - ⇒ Quantity available for sale, wastage & actual sale.
- 2) **Details of cost of production**,
 - ⇒ Cost of sale of goods & margin in total & per unit
- 3) **Reconciliation** of Indirect Taxes.
- 4) To be prepared for each plant, factory/service centre.

RECONCILIATION OF COST & FINANCIAL ACCOUNTS

⇒ **Part D of Annexure to CRA-3**

⇒ Requires cost auditor to make profit reconciliation

		CY	PY
1	Profit as per Cost Records		
2	Add- Income not considered		
3	Less- Expenses not considered		
4	Difference in valuation of stock		
5	Other Adjustments		
6	Profit as per financial accounts		

⇒ Identify instances of misstatement by comparing Info

COMPOSITE AUDIT

- 1) Take **TOGETHER** cost audit & financial audit
- 2) Only when **COMMON OBJECTIVES** are there
- 3) **DIFFERENT OBJECTIVES-DIFFICULT TO COMBINE.**
- 4) **OBJECTIVE OF**
 - FINANCIAL AUDIT**-Opinion-true & fair view of **FS**
 - COST AUDIT**-Ascertain true & fair view of **COP**
- 5) **Cost audit**- Conducted by **MANAGEMENT**
Financial audit-Conducted-behalf of **SHAREHOLDER**

SECTION-148-COMPANIES ACT, 2013 & COMPANIES (COST RECORDS & AUDIT), RULES, 2014

⇨ **COST RECORDS - Sec. 148(1)**

- ⇨ **CG** may by order Companies
- ⇨ Engaged in production of **prescribed goods/services**
- ⇨ Particulars-**Material Labour /Other items of cost**
- ⇨ Shall be **included in books of accounts**

Rule 3 of Co. (Cost Records & Audit) Rules, 2014

- ⇒ Companies + foreign companies
- ⇒ Engaged in
- ⇒ production of goods/services as specified

Regulated Sector	Non-Regulated Sector
Telecommunication	Iron
Electricity, Petroleum	Steel
Sugar, Fertilisers	Rubber
Drugs & Pharma	Cement etc.

TURNOVER > 35 CR shall include cost records in their books of accounts

RULE 5- Every Company under these Rules shall Maintain Cost records in **FORM CRA - 1**

⇨ **COST AUDIT - Sec. 148(2)**

- ⇨ **CG** may be order
- ⇨ For audit of cost records of Co. covered u/s 148(1)
- ⇨ Prescribed net worth/turnover in manner specified

Rule 4 of Companies (Cost Records & Audit) Rules, 2014

Cost Records required to be audited	
Overall Annual Turnover-All Product/Service	
Regulated Sector	Non-Regulated Sector
>50 Cr.	>100 Cr. Immediately preceding FY
Aggregate Turnover- Individual Product/ Service	
Regulated Sector	Non-Regulated Sector
>25 Cr.	>35 Cr. Immediately preceding FY
<ul style="list-style-type: none"> ✗ Exemption – Rule 4(3) ✗ Requirement of Cost Audit ✗ Shall NOT APPLY to co. ✗ REVENUE FROM EXPORTS-Forex >75% -Total revenue ✗ Operating from SEZ ✗ Engaged-GENERATION OF ELECTRICITY for captive consumption 	

COST AUDIT REPORT SEC-148(5) & 148(6)

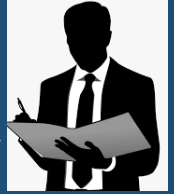
- ⇒ Cost Auditor-Submit his report to BOD
- ⇒ Company-within 30 days of date of receipt of report
- ⇒ Furnish such report to CG + full Info & explanation.

RULE 6-CO. (COST RECORDS & AUDIT) RULES, 2014

- ⇒ Cost Auditor-Submit Cost Audit Report in Form CRA-3.
- ⇒ Cost Auditor-Forward Duly Signed Report to BOD
- ⇒ Within 180 days from closure of FY.
- ⇒ Report + Info & explanation
- ⇒ Furnished to CG in Form CRA-4 in XBRL Format

COST AUDITOR- SEC-148(3)

- ⇔ Cost Audit shall be
- ⇔ Conducted by **COST ACCOUNTANT**
- ⇔ Appointed by BOD in prescribed manner
- ✗ No person appointed u/s 139 as auditor-
- ✗ Cannot be appointed as Cost auditor




RULE 6 OF CO. (COST RECORDS & AUDIT) RULES, 2014

- ⇒ Appointed **WITHIN 180 DAYS** of commencement of every financial year.
- ⇒ Before appointment **WRITTEN CONSENT** & certificate be obtained.
- ⇒ Co.-**INFORM COST AUDITOR** of his appointment.
- ⇒ Co.-**FILE NOTICE WITH CG** in **Form CRA-2**
- ⇒ within **30 days of Board meeting** or
- ⇒ within **180 days of commencement of FY** whichever is **EARLIER**.
- ⇒ Shall continue till **expiry of 180 days of closure of FY or till submission of cost audit report.**
- ⇒ Cost statements shall be **APPROVED BY BOD**

Kuch to Author kahenge- Lets Summarise !!!

Form CRA-1	Maintain Cost Records
Form CRA-2	File notice with CG
Form CRA-3	Cost Audit Report
Form CRA-4	Cost Audit Report Furnished to CG






CA RAVI AGARWAL
PRESENTS

TEST SERIES


FOR CA STUDENTS

FOR BENEFITS OF STUDENTS
COST SPECIFIC & QUALITY ORIENTED





AUDIT OF CO-OPERATIVE SOCIETIES (OC)

Important Provisions-Cooperative Societies Law	
Qualifications of Auditors	
CA or Person holding govt. diploma in co-operative a/c & who served as auditor in co-operative govt Dept.	
Appointment of the Auditor	
⇒ Appointed by Registrar of Cooperative Societies .	
⇒ Conducted on behalf of Registrar &	
⇒ Submits report to Registrar & also to society.	
⇒ Audit fees paid by society based on statutory scale	
Books & Account	
⇒ Maintained-as per instructions of Registrar-	
1. Money received & expended by society	
2. Sales & purchases of goods by society.	
3. Assets & liabilities of society.	
⇒ Society-can maintain add records as per convenience	
⇒ Like-Registers for -Property & Investment, FD, Surety, Daily Cash Sales Summary, Collection from Debtors.	
Contribution to Education Fund	
⇒ Every society shall contribute annually towards	
⇒ Education Fund of State Federal Society , at appropriate rate prescribed.	
⇒ Contribution to Education Fund-	
✓ Charge on profits	
✗ Not an appropriation.	
RIGHTS & DUTIES OF AUDITOR	
SEC-17 OF CO-OPERATIVE SOCIETIES ACT, 1912	
⇒ Registrar shall audit	
⇒ by some person authorised by him	
⇒ by general/special order	
⇒ in writing -A/c of every registered society	
⇒ ONCE AT LEAST in every year.	
⇒ Examination of overdue debts,	
⇒ Valuation of the assets & liabilities of society.	
⇒ Registrar, Collector or any person authorised by Registrar	
⇒ All times have ACCESS TO ALL THE BOOKS , a/c, papers & securities of society, &	
⇒ Officer- FURNISH INFO -transactions & working of society	
SCHEDULES FORMING PART OF AUDIT REPORT	
⇒ Form as prescribed by various states	
⇒ Auditor to attach schedules to report regarding	
1. Transactions- contrary to provisions -Act, rules & bye-laws.	
2. All sums, which ought to have been, but have not been brought into account by society.	
3. Any material, or property belonging to society which appears to be bad/doubtful of recovery .	
4. Any material irregularity in expenditure or in the realisation or monies due to society.	
5. Any other matters specified by Registrar in this behalf.	
6. If Nil report in any of the above matters, auditor will have to provide nil report.	

Restrictions on share holdings	
SEC-5 OF CO-OPERATIVE SOCIETIES ACT, 1912	
⇒ Member's liability- Limited	
✗ No member of society	✓ other than registered society
⇒ Can hold such portion of share capital of society	
⇒ Exceed 20% of total No. of shares or of	
⇒ Value of shareholding to Rs. 1000	
⇒ Whichever is HIGHER	
Restrictions on loans	
✗ Registered society- NOT PROVIDE LOAN to person	
✓ other than member.	
⇒ Sec-29 -With SPECIAL SANCTION OF REGISTRAR ,	
⇒ PROVIDE LOAN TO ANOTHER REGISTERED SOCIETY	
⇒ SG may further put restrictions on powers of society to its members/ other societies in interest of society concerned & its members.	
Restrictions on borrowings	
⇒ May accept loans & deposits from its members & others	
⇒ Subject to restrictions & limits of bye-laws of society.	
⇒ Sec-30 -Auditor to examine bye-laws in this respect.	
Investment of funds	
⇒ Sec-32 -of Central Act modes of investment of funds of society may be stated as follows.	
⇒ MAY INVEST FUNDS IN-	
1. Central or State Co-operative Bank.	
2. Securities specified in Sec-20 of Indian Trusts Act, 1882.	
3. Shares, securities, bonds or debentures of other society with limited liability.	
4. Co-operative bank, other than Central/ State co-operative bank , approved by Registrar-Specified T&C.	
5. Other moneys permitted by CG/SG	
Appropriation of profits	
⇒ Sec-33 of Central Act states-	
⇒ 25% of profits-transfer to Reserve Fund , before distribution as dividends or bonus to members.	
⇒ But Registrar may reduce % of transfer	
⇒ NOT LESS THAN 10%.	
Contributions to Charitable Purposes	
⇒ Sec-34 states Registered society may,	
⇒ With sanction of Registrar,	
⇒ Contribute not exceeding 10% of NP after compulsory transfer to reserve fund for any charitable purpose	
Investment of Reserve Fund	
⇒ Society may USE RESERVE FUND-	
⇒ BUSINESS of society, as working capital subject to rules	
⇒ INVEST as per provisions of Act.	
⇒ PUBLIC PURPOSES likely to promote object of society.	
⇒ Auditor ENSURE STRICT COMPLIANCE with State Act & Rules in this regard.	

SPECIAL FEATURES OF CO-OPERATIVE SOCIETIES AUDIT

Examination of overdue debts-

- ⇒ Overdue-**6 months to 5 years & > 5 years** classified & reported
- ⇒ **Proper provisions for doubtful debts** made & is satisfactory.

Overdue Interest-

- ⇒ **Excluded from interest o/s** & accrued due while calculating profit.
- ⇒ Is int. accrued/accruing in a/c, amt of which principal is overdue.
- ⇒ **Overdue int. reserve created** & credit of overdue int. credited to interest a/c is reduced.

Certification of Bad Debts-

- ⇒ Bad debts written off only when **certified as bad by auditor**.
- ⇒ Where no such requirement exists, **managing committee** of society must **authorise write-off**.

Valuation of Assets & Liabilities-

- ⇒ **Auditor-ascertain existence, ownership & valuation** of assets.
- ⇒ **Fixed assets**-valued at **cost- provision for depreciation**.
- ⇒ **Incidental expenses** in acquisition & installation-**capitalized**.
- ⇒ **Current assets**-valued at **cost / market price, whichever is lower**.
- ⇒ **Liabilities**-All known liabilities **brought into account**
- ⇒ **Contingent liabilities**-Shown in **notes**

Adherence to Co-operative Principles-

- ⇒ Ascertain objectives for which co-operative org is set up- achieved
- ⇒ **Principles of propriety audit** should be **followed** for purpose.

Observations of Provisions of Act & Rules-

- ⇒ Auditor-to point out infringement with provisions of Co-operative Societies Act & Rules & bye-laws.

Verification of Members Register & examination of their pass books

Special report to the Registrar-

- ⇒ During audit, if auditor **notices-serious irregularities** in working
- ⇒ He **may report** these **special matters to Registrar**
- ⇒ Drawing his **specific attention to points**

INSTANCE WHERE SPECIAL REPORT MAY BECOME NECESSARY-

1. **Personal profiteering** by members of managing committee in transactions of society-**detrimental to interest** of the society.
 2. **Fraud Detection**-Expense, purchase, property & stores of society.
 3. **Specific ex of mis-management** like Mgt. decisions against co-operative principles.
 4. In case of **urban co-operative banks-disproportionate advances** to vested interest groups, Like-Relatives of Mgt. & deliberate negligence about recovery thereof.
 5. **Cases of reckless advancing**, where **Mgt.- negligent** about taking **adequate security & proper safeguards**
- ⇒ For **judging credit worthiness** of the party

Audit classification of society-

- ⇒ After judgement of overall performance of society
- ⇒ Award class to society based on criteria specified by Registrar.
- ⇒ If **Mgt. of society-not satisfied** about award of audit class
- ⇒ Can **appeal Registrar**, & **Registrar-direct review** audit classification.

Discussion of draft audit report with managing committee-

- ⇒ **Auditor-ask Secretary to convene managing committee** meeting to discuss audit draft report.
- ⇒ **AR cannot be finalised without discussion**-managing committee.
- ⇒ Irregularities-settled & rectified.

Multistate Co-Operative Societies Act, 2002

APPOINTMENT OF AUDITOR-SEC-70

- ⇒ **1st AUDITOR**
- ⇒ BOD **within 1 month** of registration.
- ⇒ If BOD fails, Co. at General meeting.
- ⇒ Hold office till conclusion of 1st AGM.
- ⇒ **SUBSEQUENT AUDITOR**
- ⇒ **At each AGM**
- ⇒ Hold office till conclusion of next AGM.

BOOKS OF ACCOUNT

1. **Money received & expended**
 2. **Sales & purchases** of goods.
 3. **Assets & liabilities** of the society.
 4. Engaged in **production, processing & manufacturing**-Particulars-utilization of materials/labour/other term of cost-
- ⇒ Specified in bye laws.



POWERS & DUTIES OF AUDITOR OF MULTI-STATE COOPERATIVE SOCIETY

- ⇒ Right to access books of accounts.
- ⇒ Obtain Info & explanation.
- Duties- Inquire**
- ⇒ Whether **loans & advances** made are **prejudicial to interest** of society.
- ⇒ Whether **transactions represented merely by book entries prejudicial to interest** of society.
- ⇒ Whether **personal expenses** have been **charged to revenue account**.
- ⇒ Whether **cash reflected** in books of accounts has been **actually received**

POWERS OF CG TO DIRECT SPECIAL AUDIT

- Sec-77**-Multi State Co. op. Societies Act, 2002
- ⇒ CG to pass an order for special audit-
 - 1. When **Affairs of co-operative society-not being managed as per cooperative principles**.
 - 2. **Managed in manner** likely to cause certain **injury/damage to interest of trade/business**.
 - 3. **Financial position** of Multi-state co-operative society is to **endanger its solvency**.





AUDIT IN COMPUTERIZED INFORMATION SYSTEM (CIS) ENVIRONMENT (OC)

1. SCOPE/FACTORS TO EVALUATE IMPACT OF COMPUTERISATION ON AUDIT APPROACH

- 1) High speed- Info can be generated **very quickly**.
2. Extend substantive procedures for **collection of more evidence** to support judgment.
 - 2) Low clerical error- **Highly minimised**
 - 3) Concentration of duties-
 3. In CIS, **traditional approach does not apply-computer programs perform > 1 set of activities** at a time
 4. concentrate duties of personnel involved in work
 - 4) **Shifting of internal control base**- Application systems development control & Systems software control
 - 5) **Disappearance of Manual Reasonableness**- Needs **Detail analysis of physical system** for transformation into logical platform.
 - 6) **Impact of poor system**- If system analysis & designs **falls short of expected standard** of performance
 - ⇒ CIS may do **more harm to integrated biz** operation.
 - 7) **Exception reporting**- Is part of Mgt. Info. system.
 - ⇒ Value of variable is only reported if it **lies outside some pre-determined normal range**.
 - 8) **Man-machine interface**- Ensures **maximum effectiveness of info system**. It is user centred & Integrates knowledge from wide range of disciplines.

AUDIT APPROACH IN CIS ENVIRONMENT

AUDIT AROUND COMPUTER-BLACK BOX APPROACH

- ⇒ **Focus on input/output & ignore computer process**
- ⇒ **Matches 'input' with 'output' & assumes transformation** must have been **correct**
- ⇒ **Advantage-Ease of comprehension**-tracing documents to output **not require in-depth study** of app program
- ⇒ **Disadvantage-Inability to examine assertions** about underlying process-auditor not directly tested control.
- ⇒ **Intermediate print outs non-available**.

- 1) **Segregation of Duties**
- 2) **Delegation of authority & Responsibility**
- 3) **Competent & Trustworthy person**- Available
- 4) System of **Authorisation**
- 5) **Adequate Documents & Records**- Not-Existence
- 6) **Physical Control over assets & records**- Risk of loss & unauthorised access.
- 7) **Adequate Management Supervision** over employees as work may have to be carried out remotely.
- 8) **Independent checks on performance**
- 9) **Comparing Recorded Accountability** with Asset

Impact of Changes from Manual Processing to Computerised Processing

1. Process of recorded Transaction- May **not be followed strictly** in sequential form in **manual system**
2. Form of A/c Records-Primary record wholly/partly may be **abandoned**.
3. Use of Loose-leaf Stationeries- Bound hand written records used in manual a/c processes **replaced by loose-leaf machine written records**.
4. Use of Accounting Code-**Alpha-numeric codes** used.
5. **Absence of link** between transactions-Loss of Audit Trail

Recent Changes to be considered by auditor in CIS Environment

- 1) **Mainframes are substituted** by Mini/micro users.
- 2) **Shift from proprietary operating system** to more universal ones like UNIX, LINUX, programming in 'C'.
- 3) **RDBMS** are **increasingly used**.
- 4) **Use of CASE (Computer Aided Software Engineering)** tools for systems development.
- 5) **End user computing** is on increase resulting in decentralized data processing
- 6) **Increase in need for data communication & networking**.
- 7) **Common biz documents** replaced by paperless EDI.
- 8) **Conventional Data entry** by use of scanner, digitized image processes, voice recognition system etc.

Impact of Changes on Auditing in CIS Environment

- 1) **End-user computing** may result in **unintentional errors**.
- 2) **Improper use of DSS** can have **serious repercussion**.
- 3) **Usage of sophisticated audit s/w** would be **necessity**.
- 4) **Auditors non-participation at SDLC** pose **considerable problem** in **understanding operational controls**.
- 5) **Data communication & networking**-introduce **audit risk**.
- 6) **Move toward paperless EDI**-eliminate **audit trail**.

AUDIT THROUGH COMPUTER-WHITE BOX APPROACH

- ⇒ **Processes & controls surrounding subject-**
- ⇒ **Not only subject to audit but also processing controls** operating over this process are investigated.
- ⇒ **Circumstances requiring auditing through computer**
 1. **Processing large volumes of input** by app system & production of large volumes of output.
 2. **IC system** is built in computer system.
 3. **Complex Logic-system & portions**-facilitate use of system.
 4. **Gaps** in Visible audit trail.
- ⇒ **Methods of Auditing through computer**
 1. Test data
 2. Controlled processing
 3. Computer Audit Programmes



PROBLEMS IN IMPLEMENTATION-INTERNAL CONTROL IN COMPUTERIZED INFORMATION





INTERNAL CONTROL IN COMPUTERIZED INFORMATION SYSTEM ENVIRONMENT

⇒ COLLECTION & EVALUATION OF AUDIT EVIDENCE-

- REASONS FOR CHANGES IN COLLECTION OF EVIDENCES-
 - Non-possibility-collection** of Audit evidence-manually
 - Internal Control** Technology-Complex.
 - Rapid development** in Hardware & Software technology.
 - Cryptographic Controls** to protect the privacy of data.
- REASONS FOR CHANGES IN EVALUATION OF EVIDENCES-
 - Increasing complexity** of computer & control technology.
 - Updation of Multiple data** by single input transaction.
 - Nature of errors.**
 - Speed** at which **errors are generated & cost** + effort to correct & re-run program.

INTERNAL CONTROLS- REQUIREMENT GENERAL CIS CONTROLS

- ⇒ Establish framework of control over CIS Activities
- ⇒ **Provide reasonable assurance** objectives are achieved.

TYPES OF GENERAL CIS CONTROLS

- Organisation Structure** & Mgt. Controls.
- App System Development & **Maintenance Controls.**
- Computer **Operations Controls.**
- System Software Controls**
- Data Entry & **Program Controls**

OTHER SAFEGUARDS

- Offsite back up of data & computer programmes.
- Recovery procedures in the event of loss of data.
- Provision for offsite processing

CIS application Controls

- ⇔ Establish specific control procedures over a/c app. &
- ⇔ **Provide reasonable assurance**-all transactions are authorized, recorded & processed timely.

TYPES OF CIS APPLICATION CONTROLS

- Controls over Input-**
 - ⇒ **Proper authorisation** before processing.
 - ⇒ **Accurate conversion** in machine readable form.
 - ⇒ **No duplication**, loss or improper alteration.
 - ⇒ **Rejection of Incorrect Transaction** & correction.
- Controls over processing-**
 - ⇒ **Proper processing.**
 - ⇒ **No duplication**, loss or improper alteration.
 - ⇒ **Identification of processing error** & correction
- Controls over Output**
 - ⇒ **Accurate results.**
 - ⇒ **Access to authorised persons** on timely basis

NATURE OF RISKS IN COMPUTERIZED INFORMATION SYSTEM ENVIRONMENT

⇒ CONTROLS TO BE EVALUATED OVER DATA

- Org. structure Control**-Authority & Responsibility
- Documentation Control**-Existence, Adequacy, Authorisation for Changes
- Access Control**-Unauthorised access
- Input Control**- Authorised and Validation Check
- Processing Control**- Integrity of data, validation check
- Recording Control**-Records to be kept free of errors
- Storage Control**-Back up & recover facilities
- Output Control**- Access to authorized person, audit trail

⇒ AUDIT PLAN TO DETERMINE RELIABILITY-CONTROLS

- Existence & Effectiveness on Controls** desired.
- Generality V/s speciality** of control wrt. various errors
- Whether **control acts to prevent, detect or correct** error? Focus on-
 - Preventive Controls
 - Detective Controls
 - Corrective Controls
- Number of components used** to execute control.



⇒ CLAUSES OF CONTROLS TO BE EVALUATED

- Authenticity**-Verify identity of individuals involved.
- Accuracy**- correctness & accuracy of data
- Completeness**- No data is missing/ incomplete
- Privacy**- Protection of data.
- Audit Trail**-Events traceability of all events.
- Redundancy**-Avoid data duplication.
- Existence**-Ongoing availability of system resources.
- Asset Safeguarding**-Protection of resources.
- Effectiveness**-Objectives achieved.
- Efficiency**-Optimum use of resources to achieve goals.

⇒ FACTORS CONSIDERED TO EVALUATE RELIABILITY OF ACCOUNTING & INTERNAL CONTROL SYSTEM

- Availability** of authorized, correct & complete data.
- Timely detection** & correction of errors
- Existence of data recovery** & back up system.
- Adequate data security** against fire & other calamities
- Prevention of unauthorized amendments** to program.
- Provision for Offsite processing** in event of disaster.
- Safe custody of source code** of application software.
- Accuracy** & completeness of output.
- Prevention of loss** of data due to processing failure.

- Lack of **Transaction Trail**
- Uniform **Processing** of Transaction
- Lack of **Segregation of Functions.**
- Potential for Errors & **Irregularities**
- Automatic **execution** of transactions.
- Dependence of **other Controls.**
- Potential for **increased mgt.** supervision.
- Potential for **use of CAAT.**



AUDIT TECHNIQUES

AUDIT TRAIL

CAAT-COMPUTER ASSISTED AUDIT TECHNIQUES

- ⇒ Facility to trace individual transactions from source to completion or vice versa.
- ⇒ In CIS Environment, **audit trail is often missing**
- ⇒ **REASON FOR NON-EXISTENCE OF AUDIT TRAIL IN CIS**

1. **Non-availability** of source documents
2. **Replacement** of ledger summaries by Master Files.
3. **Generation** of reports on exception only.

⇒ REMEDIES FOR AUDIT TRAIL-

- ⇔ Use of **Computer Programs**.
- ⇔ Use of **Test Packs (Test Data)**

⇒ STEPS IN APPLICATION OF CAAT

1. **Set objective** of CAAT application
2. **Determine content** & accessibility of entity's files
3. **Identify specific** databases to be examined
4. **Understand relationship** b/w data tables
5. **Define specific tests/procedures & output** Req.
6. **Arrange copies** of relevant files/database tables
7. **Identify personnel**-Design & app.
8. **Refine estimates** of costs & benefits
9. **Ensure use of CAAT**- Controlled properly
10. **Arrange administrative activities**
11. **Reconcile data** to be used for CAAT
12. **Execute CAAT** application
13. Evaluate **results**
14. **Document** CAATs used including objectives
15. **Assess effect of changes** system on use of CAAT.

⇒ CONTROL PROCEDURES WHILE USING CAAT

1. **ESTABLISHING CONTROLS-**
 - ⇒ **Provides reasonable assurance**-objectives met.
 - ⇒ Auditor Considers need of-
 1. **Review of work** to be performed by CAAT.
 2. **Review general controls**-Contribute to integrity
 3. **Ensure appropriate integration** of output.
2. **AUDIT SOFTWARE APPLICATION-**
 - ⇒ Participating in **design & testing**.
 - ⇒ **Checking coding** of programme.
 - ⇒ **Ensure Compatibility** of software-Entity's system.
 - ⇒ **Running audit software** as test before running on main data files.
 - ⇒ Ensure **correct files were used**.
 - ⇒ **Obtaining evidence**-Software functioned-planned.
 - ⇒ **Establishing security measures** to safeguard against manipulations of entity's data files.

⇒ Auditing Techniques take assistance of computer to audit

⇒ USES- PERFORMING VARIOUS AUDITING PROCEDURES-

1. **Test of details of transactions & bal.**-Use of Audit Software
2. **Analytical Review**- by use of Audit Software
3. **Sampling Programs**- to Extract data for audit testing.
4. **Re-performing calculations**-performed by entity a/c systems.
5. **Compliance Test of General CIS Controls**- through Test Data
6. **Compliance Test of CIS App Controls**- through Test Data.

⇒ CONSIDERATIONS IN USE OF CAAT

1. **Sufficient IT knowledge & Expertise**- Available
2. **Incompatibility**-CAAT & Computer Facilities.
3. **Impracticability** of manual test.
4. **Impact of effectiveness** & efficiency in extracting data
5. **Time** Constraints.

⇒ COMMONLY USED CAAT

A. **AUDIT SOFTWARE**- Programs used by auditor to process data

TYPES OF AUDIT SOFTWARE

1. **Package Programs**-Programs designed to perform data processing.
 2. **Purpose Written Programs**-Programs designed to perform audit task in specific circumstances.
 3. **Utility Programs**-Programs to perform common data processing functions.
 - ⇒ Not designed for audit purpose.
- B. **TEST DATA**-Set of Hypothetical data entered into computer system of org.& **result-compared-pre-determined results**.
- ⇒ Used in "**Integrated Test Facility (ITF)**" where dummy unit is established & to which test transactions are posted during normal processing.
- ⇒ Auditor required-**Test transactions-subsequently eliminated**.

⇒ FEATURES OF CAAT

- ⇒ **Understandable**, Simple, Adaptable
- ⇒ **Vendor Technical Support Installation**, documentation, training, updations.
- ⇒ **Capability of statistical Sampling**-At different confidence levels.
- ⇒ **Acceptability**-Auditor & client-compatibility, interference.
- ⇒ **Processing Capabilities**-Multiple apps, extended data selection, stratification etc.
- ⇒ **Ability to prepare** multiple reports.

