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ADVANCED AUDITING ASSURANCE AND PROFESSIONAL ETHICS

CA KARTIK AGRAWAL

KEY HIGHLIGHTS

**DESIGNED AND PREPARED AS PER
NEW SYLLABUS**

CLASS BOOK VOLUME 1

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ADVANCED AUDITING ASSURANCE AND PROFESSIONAL ETHICS

CA FINAL

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CLASS BOOK VOLUME 1

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Chapter - 1

QUALITY CONTROL

Standard on Quality Control (SQC) 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*

Introduction

The purpose of this Standard on Quality Control (SQC) is to establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements. This SQC is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and other relevant pronouncements of the Institute (hereinafter referred to as "the Code").

Objective

The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances.

A system of quality control consists of policies designed to achieve the objectives set out in paragraph above and the procedures necessary to implement and monitor compliance with those policies.

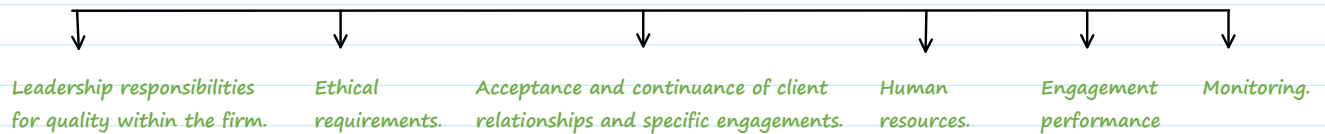
Definitions

- **Engagement quality control review** – a process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
- **Engagement quality control reviewer** – a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. However, in case the review is done by a team of individuals, such team should be headed by a member of the Institute.
- **Inspection** – in relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.

Requirements

TO MEET ABOVE OBJECTIVE

TO MEET ABOVE OBJECTIVE



Elements of a System of Quality Control

The firm's system of quality control should include policies and procedures addressing each of the following elements:

- (a) Leadership responsibilities for quality within the firm.
- (b) Ethical requirements.
- (c) Acceptance and continuance of client relationships and specific engagements.
- (d) Human resources.
- (e) Engagement performance.
- (f) Monitoring.

The quality control policies and procedures should be documented and communicated to the firm's personnel.

Leadership Responsibilities for Quality within the Firm

The firm should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Perform work that complies with professional standards and regulatory and legal requirements; and Issue reports that are appropriate in the circumstances.

Such policies and procedures should require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing partners (or equivalent), to assume ultimate responsibility for the firm's system of quality control.

Of particular importance is the need for the firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs.

Accordingly:

- a. The firm assigns its management responsibilities so that commercial considerations do not override the quality of work performed;
- b. The firm's policies and procedures addressing performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, are designed to demonstrate the firm's overriding commitment to quality; and
- c. The firm devotes sufficient resources for the development, documentation and support of its quality control policies and procedures.

Ethical Requirements

The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.

The Code establishes the fundamental principles of professional ethics, which include:

(a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behaviour.

The firm's policies and procedures should emphasize the fundamental principles, which are reinforced in particular by (a) the leadership of the firm, (b) education and training, (c) monitoring, (d) a process for dealing with non-compliance.

Independence

Observance of "Independence" in all engagements is the founding requirement. The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and (including experts contracted by the firm and network firm personnel) maintain independence where required by the Code.

Such policies and procedures should enable the firm to: -

- a. Communicate its independence requirements to its personnel
- b. Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.

There should exist a mechanism in the firm by which engagement partners provide the firm with relevant information about client engagements and personnel of firm promptly notify firm of circumstances and relationships that create a threat to independence. All breaches of independence should be promptly notified to firm for appropriate action. Its objective is to ensure that independence requirements are satisfied.

At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.

SQC 1 lays special emphasis on familiarity threat. Using the same senior personnel on assurance engagements over a prolonged period may impair the quality of performance of the engagement. Therefore, the firm should establish criteria for determining the need for safeguards to address this threat. In determining appropriate criteria, the firm considers such matters as-

- a. the nature of the engagement, including the extent to which it involves a matter of public interest and
- b. the length of service of the senior personnel on the engagement.

Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review. The familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the engagement partner should be rotated after a pre defined period, normally not more than seven years (except in cases where audit of listed entities is conducted by a sole practitioner). However, to ensure quality control exists in such firms and appropriate reports are issued, there is a process for mandatory peer review of such firms.

Acceptance and Continuance of Client Relationships and Specific Engagements

The firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it:

- a. Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
- b. Is competent to perform the engagement and has the capabilities, time and resources to do so; and
- c. Can comply with the ethical requirements.

The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.

With regard to the integrity of a client, matters that the firm considers include, for example:

- The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non reappointment of the previous firm.

In considering whether the firm has the capabilities, competence, time and resources to undertake a new engagement from a new or an existing client, the firm reviews the specific requirements of the engagement and existing partner and staff profiles at all relevant levels.

Matters the firm considers include whether:

- Firm personnel have knowledge of relevant industries or subject matters;
- Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
- The firm has sufficient personnel with the necessary capabilities and competence;
- Experts are available, if needed;
- Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and
- The firm would be able to complete the engagement within the reporting deadline.

The firm also considers whether accepting an engagement from a new or an existing client may give rise to an actual or perceived conflict of interest. Where a potential conflict is identified, the firm considers whether it is appropriate to accept the engagement.

Where the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:

- a. The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to

regulatory authorities; and

b. The possibility of withdrawing from the engagement or from both the engagement and the client relationship.

Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

- Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances.
- If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.
- Considering whether there is a professional, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
- Documenting significant issues, consultations, conclusions and the basis for the conclusions.

Human Resources

The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances. Such policies and procedures should address relevant HR issues including recruitment, compensation, training, career development, performance evaluation etc. There should be emphasis on the continuing professional development of firm's personnel.

The firm should assign responsibility for each engagement to an engagement partner. The firm should establish policies and procedures requiring that:

- a. The identity and role of the engagement partner are communicated to key members of the client's management and those charged with governance;
- b. The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and
- c. The responsibilities of the engagement partner are clearly defined and communicated to that partner

Each engagement team should be able to carry out its responsibilities with necessary competence and skill. Therefore, the firm should ensure suitable people are available and also groom them for their role. The firm should assess performance of their partners and team members keeping in mind their commitment towards quality.

Engagement Performance

The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances.

Consistency in quality of engagement performance is achieved through briefing of engagement teams of their objectives, processes for complying with engagement standards, processes of engagement supervision and training, methods of reviewing performance of work, appropriate documentation of work performed.

Supervision includes the following:

- Tracking the progress of the engagement.
- Considering the capabilities and competence of individual members of the engagement team.
- Addressing significant issues arising during the engagement, considering their significance and appropriately modifying the planned approach appropriately.
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

Review responsibilities

Review responsibilities are determined on the basis that more experienced engagement team members, including the engagement partner, review work performed by less experienced team members.

Reviewers consider whether:

- a. The work has been performed in accordance with professional standards and regulatory and legal requirements;
- b. Significant matters have been raised for further consideration;
- c. Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- d. There is a need to revise the nature, timing and extent of work performed;
- e. The work performed supports the conclusions reached and is appropriately documented;
- f. The evidence obtained is sufficient and appropriate to support the report; and
- g. The objectives of the engagement procedures have been achieved.

Consultation

The firm should establish policies and procedures designed to provide it with reasonable assurance that:

- a. Appropriate consultation takes place on difficult or contentious matters;
- b. Sufficient resources are available to enable appropriate consultation to take place;
- c. The nature and scope of such consultations are documented; and
- d. Conclusions resulting from consultations are documented and implemented.

Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter.

Consultation helps to promote quality and improves the application of professional judgment.

Effective consultation with other professionals requires that those consulted be given all the relevant facts that will enable them to provide informed advice on technical, ethical or other matters. Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm (or, where applicable, outside the firm) on significant technical, ethical and other matters, and appropriate documentation and implementation of conclusions resulting from consultations.

Engagement Quality Control Review

The firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures should:

- a. Require an engagement quality control review for all audits of financial statements of listed entities;
- b. Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed; and
- c. Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (b).

The firm's policies and procedures should require the completion of the engagement quality control review before the report is issued.

An engagement quality control review ordinarily involves discussion with the engagement partner, a review of the financial statements or other subject matter information and the report, and, in particular, consideration of whether the report is appropriate. It also involves a review of selected working papers relating to the significant judgments that the engagement team made and the conclusions they reached. The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the engagement partner.

An engagement quality control review for audits of financial statements of listed entities includes considering the following:

- The engagement team's evaluation of the firm's independence in relation to the specific engagement.
- Significant risks identified during the engagement and the responses to those risks.
- Judgments made, particularly with respect to materiality and significant risks.
- Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.
- Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.
- The appropriateness of the report to be issued.

Engagement quality control reviews for engagements other than audits of financial statements of listed entities may, depending on the circumstances, include some or all of these considerations.

Where the engagement quality control reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer's satisfaction, the report is not issued until the matter is resolved by following the firm's procedures for dealing with differences of opinion.

Engagement quality control reviewer should be a suitably qualified external person such as a partner or employee (who should be member of ICAI) or can be from another firm with similar background. It is necessary to maintain objectivity of such reviewer.

The firm's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer.

For example, the engagement quality control reviewer:

- (a) Is not selected by the engagement partner;
- (b) Does not otherwise participate in the engagement during the period of review;
- (c) Does not make decisions for the engagement team; and
- (d) Is not subject to other considerations that would threaten the reviewer's objectivity.

The engagement partner may consult the engagement quality control reviewer during the engagement.

Where the nature and extent of the consultations become significant, however, care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the firm or a suitably qualified external person is appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement. The firm's policies should provide for the replacement of the engagement quality control reviewer where the ability to perform an objective review may be impaired.

Differences of Opinion

The firm should establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. Conclusions reached should be documented and implemented.

The report should not be issued until the matter is resolved.

A firm using a suitably qualified external person(s) to conduct an engagement quality control review recognizes that differences of opinion can occur and establishes procedures to resolve such differences, for example, by consulting with another practitioner or firm, or a professional or regulatory body.

Engagement Documentation

Completion of the Assembly of Final Engagement Files

The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.

In the case of an audit, for example, such a time limit is ordinarily not more than 60 days after the date of the auditor's report.

Where two or more different reports are issued in respect of the same subject matter information of an entity, the firm's policies and procedures relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement.

The firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.

The firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

In the specific case of audit engagements, the retention period ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

Monitoring

The firm should ensure that policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.

Quality control of engagements has to be monitored taking into account following factors:

- Deciding whether quality control system of the firm has been appropriately designed and effectively implemented.
- Examining whether new developments in the professional standards, legal and regulatory requirements have been reflected in the quality control policies.
- Conducting monitoring by entrusting responsibility of monitoring process to a partner or other persons with sufficient and appropriate experience and authority in the firm.
- Dealing with complaints and allegations against the firm or any employees of it of non compliance with professional standards or appropriate regulatory requirements by a person within or outside the firm.
- Taking appropriate remedial actions against the personnel who did not conform to quality control policies.
- Taking action when deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control are identified.

MECHANISMS FOR REVIEW OF QUALITY CONTROL

Peer Review Board

Peer review Board is constituted by Council of ICAI. The main objective of Peer review Board is to ensure that, in carrying out assurance assignments: -

- Technical, professional and ethical standards including regulatory requirements are complied with by members of ICAI.
- Proper systems are in place including documentation thereof which amply demonstrate quality of assurance services provided by members.

The peer review is meant for purpose of enhancing quality of professional work resulting in more reliable and useful audit reports.

Peer review means an examination and review of the systems and procedures to determine whether the same have been put in place by the Practice Unit for ensuring the quality of assurance services as envisaged by the technical, professional and ethical Standards or any other regulatory requirements.

Once a Practice Unit is subjected to Peer review, its assurance engagement records pertaining to the Peer review

period are subject to examination and review by the Peer Reviewer.

On completion of this exercise, a "peer review certificate" is issued in case of unqualified report issued by Peer Reviewer.

In case of a qualified report, it is informed to the Practice Unit that same cannot be issued along with the reasons therefor as well as inform about the due date for conducting a follow-on review as may be decided by the Board.

Quality Review Board

Quality review Board has been set up by Central government. It consists of members nominated by Central govt and Council of ICAI. The functions of QRB are: -

- a. To make recommendations to the Council regarding the quality of services provided by the members of the Institute;
- b. To review the quality of services provided by the members of the Institute including audit services and
- c. To guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements;

The statutory auditors in respect of the companies are identified for their audit quality review based upon risk-based approach. The review is carried out by technical reviewers who are empanelled by QRB on engagement basis from across the country.

National Financial Reporting Authority (NFRA)

NFRA has been constituted in terms of Section 132(1) of Companies Act, 2013.

Duties of NFRA also include the following: -

- Monitor and enforce compliance with accounting standards and auditing standards
- Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service

It has power to monitor and enforce compliance with accounting standards and auditing standards and oversee the quality of service under section 132(2) or undertake investigation under section 132(4) of the auditors of certain class of companies.

Such companies include listed companies, insurance companies, banking companies and other companies as provided for in rule 3 of NFRA Rules, 2018. Therefore, overseeing quality of audit services of listed companies falls under the purview of NFRA. QRB can review quality of audit services provided by the members of the Institute only in respect of entities other than those specified under Rule 3 of NFRA Rules, 2018 and those referred to QRB by NFRA under relevant rules.

SA 220* Quality Control for an Audit of Financial Statements

Scope

(SA) deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statement

This SA is to be read in conjunction with relevant ethical requirements.

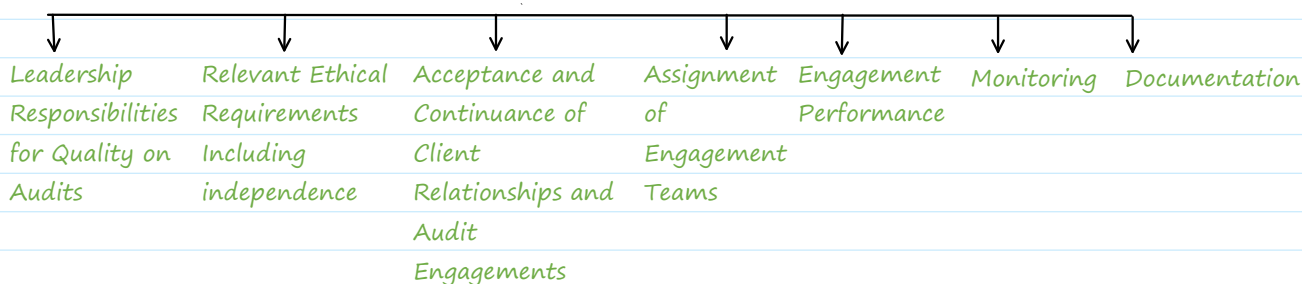
Objective

The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that

- (a) The audit complies with professional standards and regulatory and legal requirements;
- (b) The auditor's report issued is appropriate in the circumstances

Requirements

TO MEET ABOVE OBJECTIVE



Leadership Responsibilities for Quality on Audits

engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned

engagement partner shall emphasise through his action and messages importance to audit quality of

- a. Performing work that complies with professional standards and regulatory and legal requirements
- b. Complying with the firm's quality control policies and procedures
- c. Issuing auditor's reports that are appropriate in the circumstances
- d. The engagement team's ability to raise concerns without fear
- e. The fact that quality is essential in performing audit engagements

Relevant Ethical Requirements Including independence

Throughout the audit engagement

the EP shall remain alert

through observation and making inquiries

For evidence of non-compliance with relevant ethical requirements by members of the ET
If matters come to the engagement partner's attention

engagement team have not complied with relevant ethical requirements
engagement partner, in consultation with others in the firm, shall determine the appropriate action

INDEPENDENCE

form a conclusion on compliance with independence requirements

In doing so ep shall

Obtain relevant information
to identify and evaluate circumstances and relationships
that create threats to independence

Evaluate information on identified breaches of the firm's independence policies
to determine whether they create a threat to independence

Take appropriate action to eliminate such threats or reduce them to an acceptable level

if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted

promptly report to the firm any inability to resolve the matter for appropriate action

Acceptance and Continuance of Client Relationships and Audit Engagements

Ep shall be satisfied that procedures in relation to above are followed and conclusion reached is appropriate

If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action

Following type of information assist ep in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate

- (a) integrity of the principal owners, key management and tcwg
- (b) engagement team is competent
- (c) Whether the firm and the engagement team can comply with relevant ethical requirements
- (d) Significant matters that have arisen during the current or previous audit engagement

Assignment of Engagement Teams

The EP shall be satisfied that the ET, and any auditor's experts who are not part of the ET have the appropriate competence and capabilities to:

- (a) Perform the audit engagement in accordance with professional standards and regulatory and legal requirements; and
- (b) Enable an auditor's report that is appropriate in the circumstances to be issued

Engagement Performance

Direction, Supervision and Performance

The EP shall take responsibility for

- a. The direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements; and
- b. The auditor's report being appropriate in the circumstances

Reviews

The EP shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. On or before the date of the auditor's report, the EP shall, through a review of the audit documentation and discussion with the ET, be satisfied that SAAE has been obtained to support the conclusions reached and for the auditor's report to be issued.

SQC 1 review procedures involve

- (a) Work performed in accordance with SA and L&R
- (b) Significant matter raised for further consideration
- (c) Appropriate consultation have taken place
- (d) Work supports conclusion
- (e) Appropriate documentation
- (f) SAAE to support conclusion
- (g) Objectives of engagement procedures achieved

Consultation

The EP shall:

Take responsibility for the ET undertaking appropriate consultation on difficult matters

Be satisfied that members of the ET have undertaken appropriate consultation

Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted

Determine that conclusions resulting from such consultations have been implemented.

Engagement Quality Control Review

In case of listed entities and other audit engagements for which eqcr is required ep shall

Determine that an EQCR has been appointed;

Discuss significant matters arising during the audit engagement

Not date the auditor's report until the completion of the engagement quality control review.

EQCR shall perform an objective evaluation of the significant judgments made by ET and the conclusions reached in formulating the auditor's report. This evaluation shall involve:

Discussion of significant matters with the EP

Review of the financial statements and the proposed auditor's report

Review of selected audit documentation relating to the significant judgments the ET made and the conclusions it reached

Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:

- a. The engagement team's evaluation of the firm's independence in relation to the audit engagement;

- b. Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations;
- c. Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

Differences of Opinion

If differences of opinion arise within the ET, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion

Monitoring

monitoring process designed to provide the firm with RA that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The EP shall consider the results of the firm's monitoring process and whether deficiencies noted in that information may affect the audit engagement

Documentation

The auditor shall document:

- (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
- (b) Conclusions on compliance with independence requirements
- (c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
- (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.

The engagement quality control reviewer shall document

- a. The procedures required by the firm's policies on engagement quality control review have been performed
- b. The engagement quality control review has been completed on or before the date of the auditor's report; and
- c. The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate

SQC 1 VS. SA 220- KEY DIFFERENCES IN NATURE, SCOPE AND APPLICABILITY

SQC 1	SA 220
It applies to entire firm and fixes the responsibility of firm to be assumed by CEO or managing partners.	It applies to a particular audit engagement and engagement partner takes responsibility of the same
It is applicable to audits, reviews of historical financial information, and other assurance and related services engagements.	It is applicable to audit engagements only
It relates to setting up of a quality control system consisting of policies and procedures for firm as a whole.	It deals with responsibilities of engagement teams to implement quality control procedures that are applicable to audit engagements.
It pertains to establishing a system of quality control designed to provide firm with a reasonable assurance that a firm and its personnel comply with professional standards and regulatory and legal requirements so that reports issued by firm or	It is premised on the basis that firm is subject to SQC 1. Therefore, SQC 1 is a sine qua non for applicability of SA 220. It is within overall context of a firm's system of quality control, engagement teams implement quality

engagement partners are appropriate in circumstances.

control procedures applicable to audit engagements.

**OTHER STANDARDS
NOT COVERED
IN
STUDY MATERIAL**

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

Scope

(SA) establishes the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with SAs.

Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives

The independent auditor is referred to as "the auditor" hereafter

Objectives

The objectives of the auditor are:

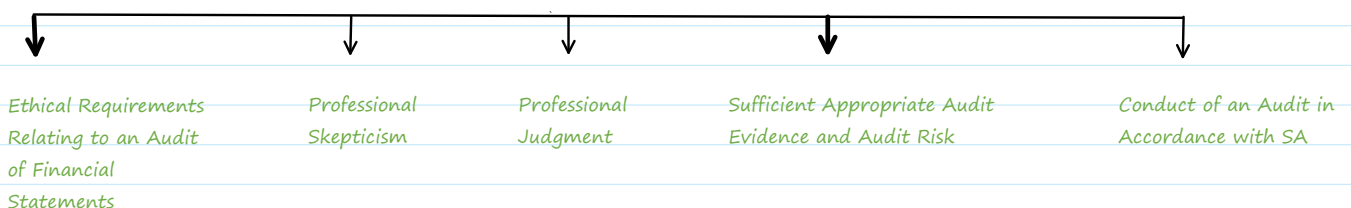
- i. To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an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

Further Std Says,

when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient Auditor shall disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted.

Requirements

TO MEET ABOVE OBJECTIVE



Ethical Requirements Relating to an Audit of Financial Statements

The auditor is subject to relevant ethical requirements, including those pertaining to independence

Relevant ethical requirements ordinarily comprise the Code of Ethics issued by the ICAI

The Code establishes the following as the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements

- a. Integrity;
- b. Objectivity;
- c. Professional competence and due care;
- d. Confidentiality; and
- e. Professional behaviour

Professional Skepticism

Professional skepticism – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence

The auditor shall plan and perform an audit with professional Skepticism

Professional Skepticism includes being alert to, for example:

- Audit evidence that contradicts other audit evidence obtained
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the SAs

Maintaining professional Skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Over generalising when drawing conclusions from audit observations.
- Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.

Professional scepticism is necessary to the critical assessment of audit evidence

The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence

Professional Judgment

Professional judgment – The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement

The auditor shall exercise professional judgment in planning and performing an audit

Professional judgment is essential to the proper conduct of an audit

Professional judgment is necessary in particular regarding decisions about:

- Materiality and audit risk.
- The nature, timing, and extent of audit procedures used to meet the requirements of the SAs and gather audit

evidence.

- Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the SAs and thereby, the overall objectives of the auditor.
- The evaluation of management's judgments in applying the entity's applicable financial reporting framework.

The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements

The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the auditor

Professional judgment needs to be exercised throughout the audit. It also needs to be appropriately documented

Sufficient Appropriate Audit Evidence and Audit Risk

To obtain reasonable assurance, the auditor shall obtain SAAE to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion

Audit evidence is necessary to support the auditor's opinion and report. It is primarily obtained from audit procedures performed during the course of the audit

Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions.

In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence

The sufficiency and appropriateness of audit evidence are interrelated.

Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required).

Obtaining more audit evidence, however, may not compensate for its poor quality

Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained

Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment

Audit risk is a function of the risks of material misstatement and detection risk

The assessment of risks is a matter of professional judgment, rather than a matter capable of precise measurement

The ROMM may exist at two levels:

The overall financial statement level; and

The assertion level for classes of transactions, account balances, and disclosures.

The risks of material misstatement at the assertion level consist of two components: inherent risk and control risk

The SAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of

the "risks of material misstatement"

Detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level

Inherent Limitations of an Audit

The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from:

- The nature of financial reporting;
- The nature of audit procedures; and
- The need for the audit to be conducted within a reasonable period of time and at a reasonable cost

Conduct of an Audit in Accordance with SA

The auditor shall comply with all SAs relevant to the audit

The auditor shall have an understanding of the entire text of an SA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly

The auditor shall not represent compliance with SAs in the auditor's report unless the auditor has complied with the requirements of this SA and all other SAs relevant to the audit

To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant SAs in planning and performing the audit, having regard to the interrelationships among the SAs

The auditor shall comply with each requirement of an SA unless, in the circumstances of the audit:

- (a) The entire SA is not relevant; or
- (b) The requirement is not relevant because it is conditional and the condition does not exist.

In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement

If an objective in a relevant SA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the SAs, to modify the auditor's opinion or withdraw from the engagement. Failure to achieve an objective represents a significant matter requiring documentation

SA 210* Agreeing the Terms of Audit Engagements

Scope

(SA) deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present

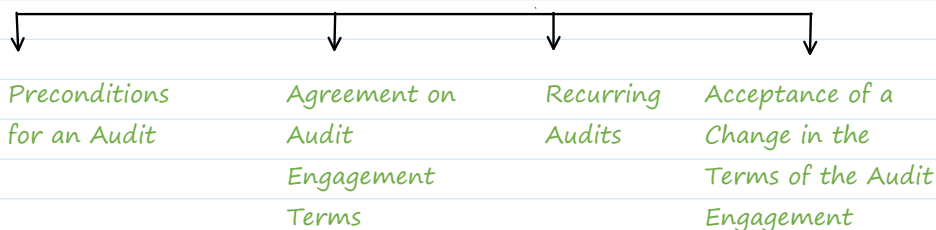
Objective

The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed

- a. Establishing whether the preconditions for an audit are present;
- b. Confirming that there is a common understanding between the auditor and management

Requirements

To meet above objective



Preconditions for an Audit

In order to establish whether the preconditions for an audit are present, the auditor shall:

- a. Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and
- b. Obtain the agreement of management that it acknowledges and understands its responsibility:
 - i. For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
 - ii. For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - iii. To provide the auditor with:
 - Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that the auditor may request from management for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence

If the preconditions for an audit are not present

Auditor shall discuss the matter with management

Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement

- If the auditor has determined that the FRF to be applied in the preparation of the financial statements is unacceptable,
- If the agreement referred to in above paragraph has not been obtained

Limitation on Scope Prior to Audit Engagement Acceptance

such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements

unless required by law or regulation to do so the auditor shall not accept such a limited engagement

Agreement on Audit Engagement Terms

The auditor shall agree the terms of the audit engagement with management

the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include

- o The objective and scope of the audit of the financial statements;
- o The responsibilities of the auditor;
- o The responsibilities of management;
- o Identification of the applicable financial reporting framework for the preparation of the financial statements; and
- o Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

The form and content of the audit engagement letter may vary for each entity
an audit engagement letter may make reference to, for example:

- o Elaboration of the scope of the audit
- o requirement for the auditor to communicate key audit matters
- o The fact that because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SAs
- o expectation that management will provide written representations
- o basis on which fees are computed
- o fact that the audit process may be subjected to a peer review
- o Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- o Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- o Arrangements concerning the involvement of internal auditors and other staff of the entity

Recurring Audits

On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement

The auditor may decide not to send a new audit engagement letter or other written agreement each period

However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms

- Any indication that the entity misunderstands the objective and scope of the audit.
- Any revised or special terms of the audit engagement.
- A recent change of senior management.
- A significant change in ownership.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements.
- A change in the financial reporting framework adopted in the preparation of the financial statements.
- A change in other reporting requirements.

Acceptance of a Change in the Terms of the Audit Engagement

- The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so.
- If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so.
- If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.
- If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:
 - (a) Withdraw from the audit engagement where possible under applicable law or regulation; and
 - (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators

SA 230 Audit Documentation

Scope

auditor's responsibility to prepare audit documentation for an audit of financial statements

Nature

meets the requirements of this SA and other SA and provides

- (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor
- (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Purpose

Assisting the engagement team to plan and perform the audit.

Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220

Enabling the engagement team to be accountable for its work.

Retaining a record of matters of continuing significance to future audits.

Enabling the conduct of quality control reviews and inspections in accordance with SQC 1.

Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements

Ownership of Audit Documentation

As per SQC 1

audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

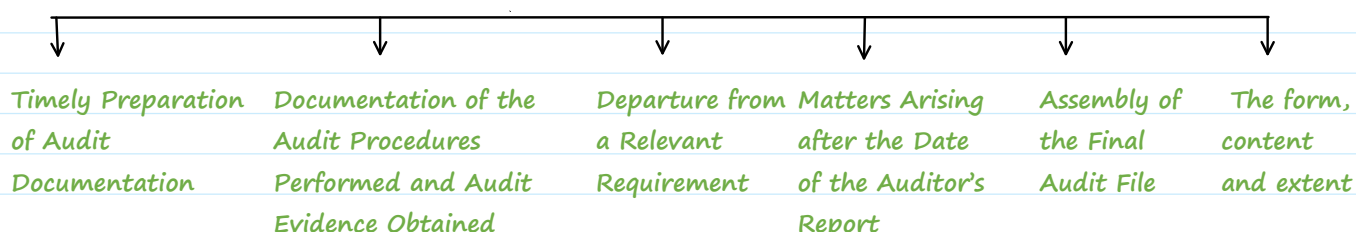
Objective

The objective of the auditor is to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor's report; and
- (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements

Requirements

TO MEET ABOVE OBJECTIVE



of Audit Documentation Audit Procedures Performed and Audit Evidence Obtained a Relevant Requirement after the Date of the Auditor's Report the Final Audit File content and extent

Timely Preparation of Audit Documentation

When such work is performed

to enhance the quality of the audit and facilitates the effective review

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand

- The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements

the auditor shall record:

- The identifying characteristics of the specific items or matters tested
- Who performed the audit work and the date such work was completed
- Who reviewed the audit work performed and the date and extent of such review.
- The results of the audit procedures performed, and the audit evidence obtained
- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
- The auditor shall document discussions of significant matters including the nature of the significant matters discussed and when and with whom the discussions took place.
- If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency

However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit.

For example:

- The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
- The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management, or where appropriate, TCWG
- An auditor's report containing an appropriately qualified opinion demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the SAs.
- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:

For example, there may be no single way in which the auditor's professional skepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism in accordance with SAs. Such evidence may include specific procedures performed to corroborate management's responses to the auditor's inquiries.

Departure from a Relevant Requirement

If, in exceptional circumstances

auditor judges it necessary to depart from a relevant requirement in a SA

than auditor shall document

alternative audit procedures performed achieve the aim of that requirement,
and

the reasons for the departure

Matters Arising after the Date of the Auditor's Report

If, in exceptional circumstances

auditor performs new or additional audit procedures or draws new conclusions after the date of auditors report
then auditor shall document

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

Assembly of the Final Audit File

Timely basis after the date of auditors report (not more than 60 days)

After the assembly the auditor shall not delete or discard audit documentation of any nature before the end of its retention period (not shorter than 7 years)

In case auditor modify existing audit documentation or add new audit documentation after the assembly
Then regardless of its nature

Auditor shall document

- The specific reasons for making them
- When and by whom they were made and reviewed.

The form, content and extent depend upon factors such as

- The size and complexity of the entity
- The nature of the audit procedures to be performed.
- The identified risks of material misstatement
- The significance of the audit evidence obtained
- The nature and extent of exceptions identified

CHAPTER - 2

General Auditing Principles and Auditors Responsibilities

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

Scope

Auditor's responsibilities relating to fraud in an audit of financial statements

Misstatements arise from either

a. Fraud

Fraud is an Intentional act

Characteristics of Fraud

- incentive or pressure,
- perceived opportunity ,
- rationalization of the act

b. Error

Error is an unintentional act

Although fraud is a broad legal concept but for the purposes of the SAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements

Further two types of intentional misstatements are relevant to the auditor

Misstatements resulting from misappropriation of assets.

Involves

the theft of an entity's assets

Techniques

- Embezzling receipts
- Stealing physical assets or intellectual property
- Causing an entity to pay for goods and services not received
- Using an entity's assets for personal use

Misstatements resulting from fraudulent financial reporting

Involves

- Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the financial statements are prepared.
- Misrepresentation in or intentional omission from, the financial statements of events, transactions or other significant information.
- Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

Techniques

- Recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results
- Inappropriately adjusting assumptions and changing judgments used to estimate account balances.
- Omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period.
- Concealing, or not disclosing, facts that could affect the amounts recorded in the financial statements

- Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity.

The primary responsibility for the prevention and detection of fraud rests with both TCWG of the entity and mgt

Auditor is responsible for obtaining reasonable assurance.....error

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs.

the potential effects of inherent limitations are particularly significant in the case of misstatement resulting from fraud.

When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit

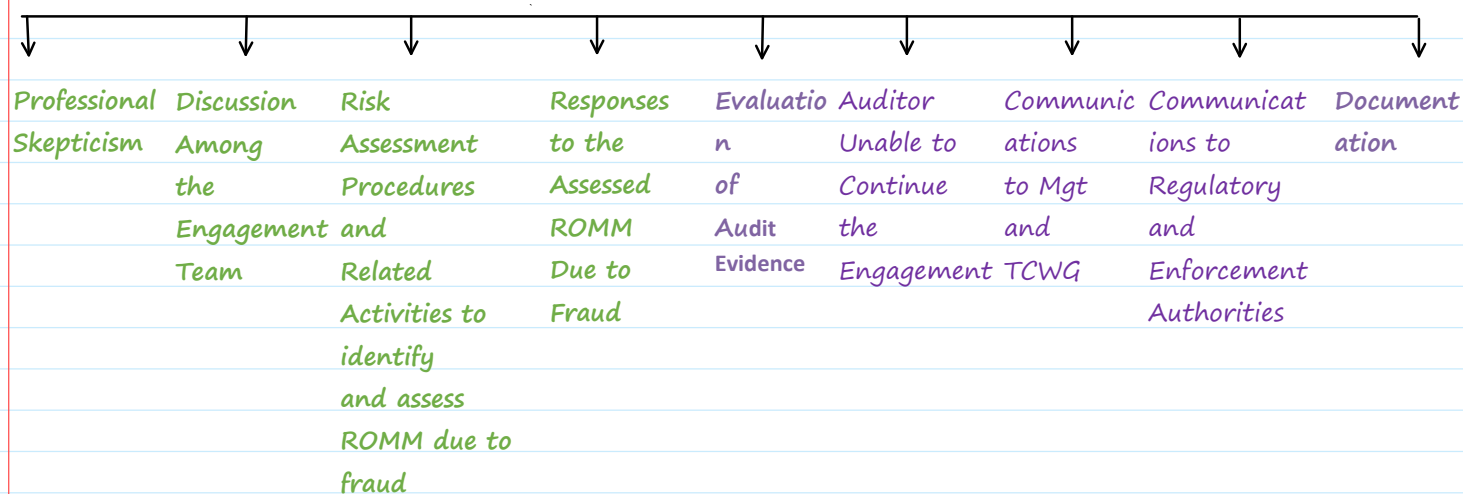
The requirements in this SA are designed to assist the auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement

Objectives

- To identify and assess the ROMM in the f.ST. due to fraud;
- To obtain SAAE about the assessed ROMM due to fraud, through designing and implementing appropriate responses
- To respond appropriately to identified or suspected fraud.

Requirements

TO MEET ABOVE OBJECTIVE



Professional Skepticism

the auditor shall maintain professional Skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist

Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further

Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.

In case auditor finds document, information to be unauthentic or modified and not disclosed to auditor then auditor shall investigate further by performing following additional procedure

- Confirming directly with the third party.
- Using the work of an expert to assess the document's authenticity

Discussion Among the Engagement Team

SA 315 requires a discussion among the engagement team members

This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur

Risk Assessment Procedures and Related Activities to identify and assess ROMM due to fraud

When performing RAP as per SA 315, the auditor shall perform following procedures to obtain information for identifying the ROMM due to fraud

Inquiry of mgt and internal audit and others regarding the following to determine

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud
- Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud
- Management's communication, if any, to those charged with governance
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- whether they have knowledge of any actual, suspected or alleged fraud affecting the entity

Management accepts responsibility for the entity's internal control and for the preparation of the entity's financial statements. Accordingly, it is appropriate for the auditor to make inquiries of management. The nature, extent and frequency of management's assessment are relevant to the auditor's understanding of the entity's control environment

Inquiry of TCWG

Unless all of TCWG are involved in managing the entity, the auditor shall obtain an understanding of how TCWG exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity

The auditor shall make inquiries of those charged with governance to determine whether they have knowledge of

any actual, suspected or alleged fraud affecting the entity

IT provides auditor

- insights regarding the susceptibility of the entity to management fraud,
- the adequacy of internal control over risks of fraud, and
- the competency and integrity of management

The auditor shall evaluate whether **unusual or unexpected relationships** that have been identified in performing **analytical procedures**

That indicate ROMM due to fraud

The auditor shall consider whether other information obtained by the auditor indicates ROMM due to fraud

Evaluation of Fraud Risk Factors

The auditor shall evaluate whether the information obtained indicates that one or more fraud risk factors are present

fraud risk factors may indicate ROMM due to fraud

Identification and Assessment of the ROMM Due to Fraud

In accordance with SA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level

The auditor shall treat those assessed ROMM due to fraud as significant risks and accordingly obtain an understanding of the entity's related controls, including control activities, relevant to such risks.

Responses to the Assessed ROMM Due to Fraud

Overall response at F.ST level

- Assign and supervise personnel taking account of the knowledge, skill and ability
- Evaluate whether the selection and application of accounting policies may be indicative of fraudulent financial reporting
- Incorporate an element of unpredictability

Response at assertion level

in accordance with SA 330, the auditor shall design and perform further audit procedures whose NTE are responsive to the assessed ROMM due to fraud at the assertion level.

Responsive to Risks Related to MGT Override of Controls

MGT is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent F.ST by overriding controls that otherwise appear to be operating effectively.

Auditor shall design appropriate audit procedures irrespective of auditor's assessment of the risk of mgt override of control

the auditor shall design and perform audit procedures to: -

- i. Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- ii. Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.
- iii. For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

Evaluation of Audit Evidence

When the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations

If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall re evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks

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

Auditor Unable to Continue the Engagement

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

- Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and
- If the auditor withdraws:
 - Discuss with the appropriate level of mgt and TCWG, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
 - Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

Because of the variety of the circumstances that may arise, it is not possible to describe definitively when

withdrawal from an engagement is appropriate. Factors that affect the auditor's conclusion include the implications of the involvement of a member of management or of those charged with governance (which may affect the reliability of management representations) and the effects on the auditor of a continuing association with the entity.

Communications to Mgt and TCWG

If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.

Unless all of TCWG are involved in managing the entity, if the auditor has identified or suspects fraud involving:

- Management;
- Employees who have significant roles in internal control; or
- Others where the fraud results in a material misstatement in the financial statements.

The auditor shall communicate these matters to TCWG on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions to TCWG and discuss with them the NT&E of audit procedures necessary to complete the audit

Communications to Regulatory and Enforcement Authorities

If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances

Documentation

The auditor's documentation of the understanding of the entity and its environment and the assessment of the ROMM required by SA 315 shall include:

- a. The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud; and
- b. The identified and assessed ROMM due to fraud at the financial statement level and at the assertion level.

The auditor's documentation of the responses to the assessed risks of material misstatement required by SA 330 shall include:

- a. The overall responses to the assessed ROMM due to fraud at the financial statement level and the NT&E of audit procedures, and the linkage of those procedures with the assessed ROMM due to fraud at the assertion level; and
- b. The results of the audit procedures, including those designed to address the risk of management override of controls.

The auditor shall document communications about fraud made to management, those charged with governance, regulators and others

Additional content on Fraud Risk Factors

[A] Risk factors relating to misstatements arising from fraudulent financial reporting

The following are examples of risk factors relating to misstatements arising from fraudulent financial reporting: -

Incentives/Pressures

Financial stability or profitability is threatened by economic, industry, or entity operating conditions, such as (or as indicated by): -

- High degree of competition or market saturation, accompanied by declining margins.
- High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates.
- Significant declines in customer demand and increasing business failures in either the industry or overall economy.
- Operating losses making the threat of bankruptcy, foreclosure, or hostile takeover imminent.
- Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth.
- Rapid growth or unusual profitability especially compared to that of other companies in the same industry.
- New accounting, statutory, or regulatory requirements.

Information available indicates that the personal financial situation of management or TCWG is threatened by the entity's financial performance arising from the following: -

- Significant financial interests in the entity.
- Significant portions of their compensation (for example, bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, or cash flow.
- Personal guarantees of debts of the entity.
- There is excessive pressure on management or operating personnel to meet financial targets established by those charged with governance, including sales or profitability incentive goals.

Opportunities:

The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following: -

- Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
- A strong financial presence or ability to dominate a certain industry sector that allows the entity to dictate terms or conditions to suppliers or customers that may result in inappropriate or non-arm's-length transactions.
- Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate.
- Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions.
- Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist.
- Use of business intermediaries for which there appears to be no clear business justification.
- Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification.

Attitudes/Rationalizations

- Communication, implementation, support, or enforcement of the entity's values or ethical standards by management, or the communication of inappropriate values or ethical standards, that are not effective.
- Non-financial management's excessive participation in or preoccupation with the selection of accounting policies or the determination of significant estimates.
- Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior management, or those charged with governance alleging fraud or violations of laws and regulations.
- Excessive interest by management in maintaining or increasing the entity's stock price or earnings trend.
- The practice by management of committing to analysts, creditors, and other third parties to achieve aggressive or unrealistic forecasts.
- Management failing to remedy known significant deficiencies in internal control on a timely basis.
- An interest by management in employing inappropriate means to minimize reported earnings for tax-motivated reasons.
- Low morale among senior management.
- The owner-manager makes no distinction between personal and business transactions.
- Dispute between shareholders in a closely held entity.
- Recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality.

[B] Risk factors relating to misstatements arising from misappropriation of assets

The following are examples of risk factors relating to misstatements arising from misappropriation of assets: -

Incentives/Pressures

Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets. Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example, adverse relationships may be created by the following:

- Known or anticipated future employee layoffs.
- Recent or anticipated changes to employee compensation or benefit plans.
- Promotions, compensation, or other rewards inconsistent with expectations.

Opportunities

Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following: -

- Large amounts of cash on hand.
- Inventory items that are small in size, of high value, or in high demand.
- Easily convertible assets, such as bearer bonds, diamonds, or computer chips.
- Fixed assets which are small in size, marketable, or lacking observable identification of ownership.
- Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets.

Attitudes/Rationalizations

- Disregard for the need for monitoring or reducing risks related to misappropriations of assets.
- Disregard for internal control over misappropriation of assets by overriding existing controls or by failing to take

appropriate remedial action on known deficiencies in internal control.

- *Behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee.*
- *Changes in behaviour or lifestyle that may indicate assets have been misappropriated.*
- *Tolerance of petty theft.*

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

Scope-

Deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements.

Responsibility of Management

It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements

Procedure for ensuring compliance

- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
- Instituting and operating appropriate systems of internal control.
- Developing, publicising and following a code of conduct.
- Ensuring employees are properly trained and understand the code of conduct.
- Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
- Engaging legal advisors to assist in monitoring legal requirements.
- Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints

Responsibility of the Auditor

The requirements in this SA are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations.

However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement whether caused by fraud or error

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected

This SA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:

- a. The provisions of those laws and regulations generally recognised to have a **direct effect** on the determination of material amounts and disclosures in the financial statements such as tax and labour laws. and – the auditor's responsibility is to obtain sufficient appropriate audit evidence about compliance with the provisions of such law and regulations
- b. Other laws and regulations that **do not have a direct effect** on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties– the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with laws and regulations that may have a material effect on the financial statements

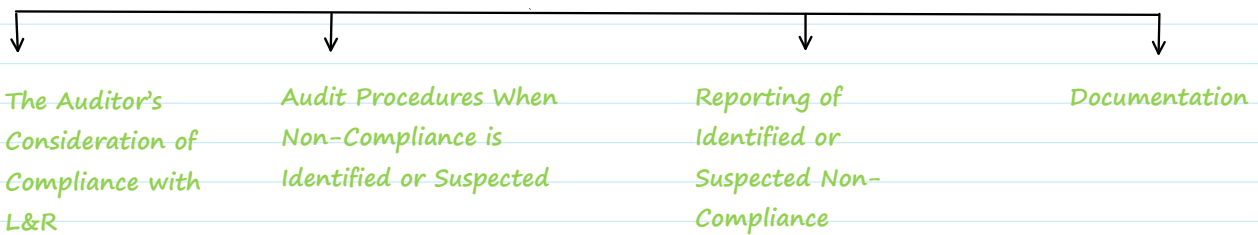
Objectives

The objectives of the auditor are:

- i. To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;
- ii. To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and
- iii. To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit

Requirements

To meet above objective



The Auditor's Consideration of Compliance with Laws and Regulations

As part of obtaining an understanding of the entity and its environment in accordance with SA 315, the auditor shall obtain a general understanding of:

- i. The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
- ii. How the entity is complying with that framework.

The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.

The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements:

- i. **Inquiring** of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and
- ii. **Inspecting correspondence**, if any, with the relevant licensing or regulatory authorities.

During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention

The auditor shall request management and, where appropriate, those charged with governance to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor

Audit Procedures When Non-Compliance is Identified or Suspected

If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

- i. An understanding of the nature of the act and the circumstances in which it has occurred; and
- ii. Further information to evaluate the possible effect on the financial statements

If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice.

If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.

The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action.

When the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with L&R;

- Investigations by regulatory organisations and government departments or payment of fines or penalties.
- Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
- Purchasing at prices significantly above or below market price.
- Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.
- Unusual payments towards legal and retainership fees.
- Unusual transactions with companies registered in tax havens.
- Payments for goods or services made other than to the country from which the goods or services originated.
- Payments without proper exchange control documentation.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorised transactions or improperly recorded transactions.
- Adverse media comment

Reporting of Identified or Suspected Non-Compliance

Reporting Non-Compliance to Those Charged with Governance

Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor, the auditor shall communicate with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.

If, in the auditor's judgment, the non-compliance referred above is believed to be intentional and material, the auditor shall communicate the matter to those charged with governance as soon as practicable.

If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.

Reporting Non-Compliance in the Auditor's Report on the Financial Statements

If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with SA 705 express a qualified or adverse opinion on the financial statements.

If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit in accordance with SA 705

If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion in accordance with SA 705

Reporting Non-Compliance to Regulatory and Enforcement Authorities

If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.

Documentation

The auditor shall document identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity

SA 260(Revised) * Communication with Those Charged with Governance

Scope

deals with the auditor's responsibility to communicate with those charged with governance

Recognizing the importance of effective two-way communication. It help in assisting

- The auditor and TCWG in understanding matters related to the audit
- The auditor in obtaining from TCWG information relevant to the audit
- TCWG in fulfilling their responsibility to oversee the financial reporting process

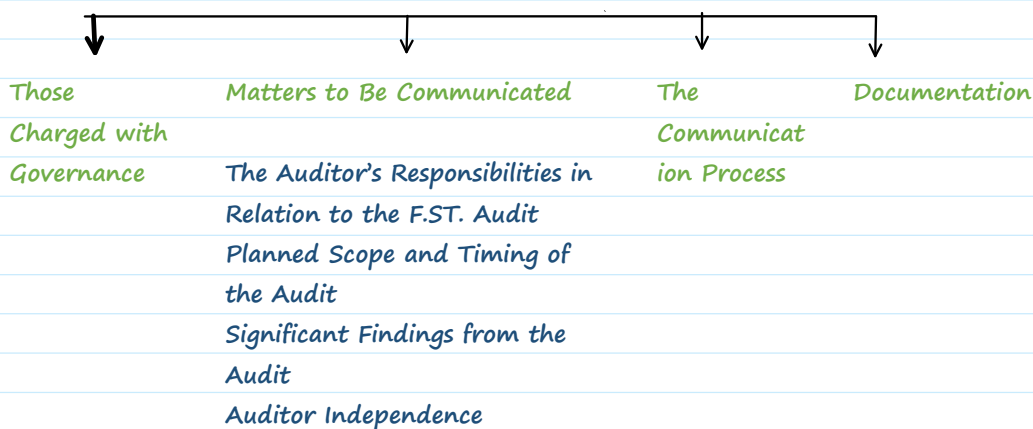
Objectives

The objectives of the auditor are:

- To communicate clearly with TCWG the responsibilities of the auditor in relation to the F.ST. audit, and an overview of the planned scope and timing of the audit;
- To obtain from TCWG information relevant to the audit;
- To provide TCWG with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and
- To promote effective two-way communication between the auditor and TCWG.

Requirements

To meet above objective



Those Charged with Governance

The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate

Communication with a Subgroup of TCWG

The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate

Communication with a Subgroup of TCWG

If the auditor communicates with a subgroup of TCWG, the auditor shall determine whether the auditor also needs to communicate with the governing body

When All of TCWG Are Involved in Managing the Entity

In some cases, all of TCWG are involved in managing the entity

In these cases, if matters required by this SA are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role.

The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity

Matters to Be Communicated

The Auditor's Responsibilities in Relation to the F.ST. Audit, including that

- The auditor is responsible for forming and expressing an opinion on the F.ST. that have been prepared by MGT with the oversight of TCWG;
- The audit of the F.ST. does not relieve MGT or TCWG of their responsibilities

Planned Scope and Timing of the Audit

The auditor shall communicate with TCWG an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor

Significant Findings from the Audit

- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and F.ST. disclosures. When applicable, the auditor shall explain to TCWG why the auditor considers a significant accounting practice, that is acceptable under the AFRR, not to be most appropriate to the particular circumstances of the entity
- Significant difficulties, if any, encountered during the audit
 - Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the auditor to perform the auditor's procedures.
 - An unreasonably brief time within which to complete the audit.
 - Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
 - The unavailability of expected information.
 - Restrictions imposed on the auditor by management.

- Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.
- Unless all of TCWG are involved in managing the entity:
 - i. Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and
 - ii. WR the auditor is requesting;
- Circumstances that affect the form and content of the auditor's report, if any; and
- Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process

Auditor Independence

In the case of listed entities, the auditor shall communicate with TCWG

A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and

- i. All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence
- ii. The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level

The Communication Process

Establishing the Communication Process

The auditor shall communicate with TCWG the form, timing and expected general content of communications
Clear communication helps establish the basis for effective two-way communication

Forms of Communication

The auditor shall communicate in writing with TCWG regarding significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate.

The auditor shall communicate in writing with those charged with governance regarding auditor independence when required

In addition to the significance of a particular matter, the form of communication may be affected by such factors as:

- Whether a discussion of the matter will be included in the auditor's report.
- Whether the matter has been satisfactorily resolved.
- Whether management has previously communicated the matter.
- The size, operating structure, control environment, and legal structure of the entity.
- In the case of an audit of special purpose financial statements, whether the auditor also audits the entity's general purpose financial statements.
- Legal requirements. In some entities, a written communication with TCWG is required in a prescribed form by local law.
- The expectations of TCWG, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with TCWG.
- Whether there have been significant changes in the membership of a governing body.

Timing of Communications

The auditor shall communicate with TCWG on a timely basis

Timely communication helps in achieving two-way dialogue between TCWG and the auditor

However, the appropriate timing for communications will vary with the circumstances

Relevant circumstances include significance and nature of the matter, and the action expected to be TCWG. For example:

- Communications regarding planning matters may often be made early in the audit engagement
- It may be appropriate to communicate a significant difficulty encountered during the audit as soon as practicable

Other factors that may be relevant to the timing of communications include:

- The size, operating structure, control environment, and legal structure of the entity being audited.
- Any legal obligation to communicate certain matters within a specified timeframe.
- The expectations of TCWG

Adequacy of the Communication Process

The auditor shall evaluate whether the two-way communication between the auditor and TCWG has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action

Documentation

Where matters required by this SA to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and

to whom they were communicated.

Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation

SA 299(Revised)* Joint Audit of Financial Statements

Scope

A joint audit is an audit of financial statements of an entity by two or more auditors appointed with the objective of issuing the audit report. Such auditors are described as joint auditors

This Standard lays down the principles for effective conduct of joint audit to achieve the overall objectives of the auditor

This Standard deals with the special considerations in carrying out audit by joint auditors. Accordingly, in addition to the requirements enunciated in this Standard, the joint auditors also need to comply with all the relevant requirements of other applicable Standards on Auditing.

This Standard does not deal with the relationship between a principal auditor who is appointed to report on the financial statements of an entity and another auditor who is appointed to report on the financial statements of one or more component (divisions, branches, subsidiary, joint venture, associates, other entity) included in the financial statements of the entity

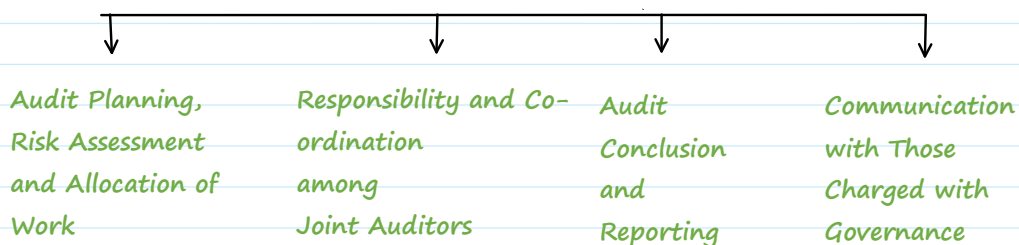
Objectives

The objectives of this Standard are:

- To lay down broad principles for the joint auditors in conducting the joint audit.
- To provide a uniform approach to the process of joint audit.
- To identify the distinct areas of work and coverage thereof by each joint auditor,
- To identify individual responsibility and joint responsibility of the joint auditors in relation to audit

Requirements

To meet above objective



Audit Planning, Risk Assessment and Allocation of Work

- The engagement partner and other key members of the engagement team from each of the joint auditors shall be involved in planning the audit.
- The joint auditors shall jointly establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

- Prior to the commencement of the audit, the joint auditors shall discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors shall:
 - Identify division of audit areas and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor
 - Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required
 - Consider and communicate among all joint auditors the factors that, in their professional judgment, are significant in directing the engagement team's efforts;
 - Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other or similar engagements performed earlier by the respective engagement partner(s) for the entity is relevant
 - Ascertain the nature, timing and extent of resources necessary to perform the engagement.
- At this stage, ROMM need to be considered and assessed by each of the joint auditors and shall be communicated to other joint auditors, and documented, whether pertaining to the overall financial statements level or to the area of allocation among the other joint auditors.
- The joint auditors shall discuss and document the nature, timing, and the extent of the audit procedures for common and specific allotted areas of audit to be performed by each of the joint auditors and the same shall be communicated to those charged with governance.
- The joint auditors shall obtain common engagement letter and common management representation letter.
- After identification and allocation of work among the joint auditors, the work allocation document shall be signed by all the joint auditors and the same shall be communicated to those charged with governance of the entity.

Responsibility and Co-ordination among Joint Auditors

- a. In respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures
- b. All the joint auditors shall be jointly and severally responsible for:
 - i. the audit work which is not divided among the joint auditors and is carried out by all joint auditors;
 - ii. decisions taken by all the joint auditors under audit planning in respect of common audit areas concerning the nature, timing and extent of the audit procedures to be performed by each of the joint auditors.
 - iii. matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
 - iv. examining that the financial statements of the entity comply with the requirements of the relevant statutes;
 - v. presentation and disclosure of the financial statements as required by the applicable financial reporting framework;
 - vi. ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI.

Where, in the course of the audit, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit.

Audit Conclusion and Reporting

The joint auditors are required to issue common audit report,

however, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report.

A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report and shall express opinion formed by the said joint auditor in separate audit report in case of disagreement.

In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to the separate audit report(s) issued by the other joint auditor(s).

Further, separate audit report shall also make reference to the audit report issued by other joint auditors.

Such reference shall be made under the heading "Other Matter Paragraph" as per SA 706(Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"

Each joint auditor is entitled to assume that:

- i. The other joint auditors have carried out their part of the audit work and the work has actually been performed in accordance with the SA issued by the ICAI. It is not necessary for a joint auditor to review the work performed by other joint auditors or perform any tests in order to ascertain whether the work has actually been performed in such a manner.
- ii. The other joint auditors have brought to said joint auditor's notice any departure from applicable financial reporting framework or significant observations that are relevant to their responsibilities noticed in the course of the audit

Before finalizing their audit report, the joint auditors shall discuss and communicate with each other their respective conclusions that would form the content of the audit report.

Communication with Those Charged with Governance

When the joint auditors expect to modify the opinion in the auditor's report, the joint auditors shall communicate with TCWG the circumstances that led to the expected modification and the proposed wording of the modification to ensure compliance with SA 705(Revised)

If the joint auditors expect to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the joint auditors shall communicate with TCWG regarding this expectation and the proposed wording of this paragraph to ensure compliance with SA 706(Revised)

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

Scope

obtain SAAE when a user entity uses the services of one or more service organisations

When services provided by a service organization are relevant to the audit of a user entity's financial statements?

Services provided by a service organisation are relevant to the audit of a user entity's financial statements when those services, and the controls over them, are part of the user entity's information system, including related business processes, relevant to financial reporting. Although most controls at the service organisation are likely to relate to financial reporting, there may be other controls that may also be relevant to the audit, such as controls over the safeguarding of assets.

A service organisation's services are part of a user entity's information system, including related business processes, relevant to financial reporting if these services affect any of the following: -

- The **classes of transactions** in the user entity's operations that are significant to the user entity's financial statements
- The procedures, within both information technology (IT) and manual systems, by which the **user entity's transactions** are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements
- The **related accounting records**, either in electronic or manual form, supporting information and specific accounts in the user entity's financial statements that are used to initiate, record, process and report the user entity's transactions
- How the user entity's **information system captures events and conditions**, other than transactions, that are significant to the financial statements
- The **financial reporting process** used to prepare the user entity's financial statements, including significant accounting estimates and disclosures and
- **Controls surrounding journal entries**, including non-standard journal entries used to record non recurring, unusual transactions or adjustments

The nature and extent of work to be performed by the user auditor regarding the services provided by a service organisation depend on the nature and significance of those services to the user entity and the relevance of those services to the audit.

Objectives

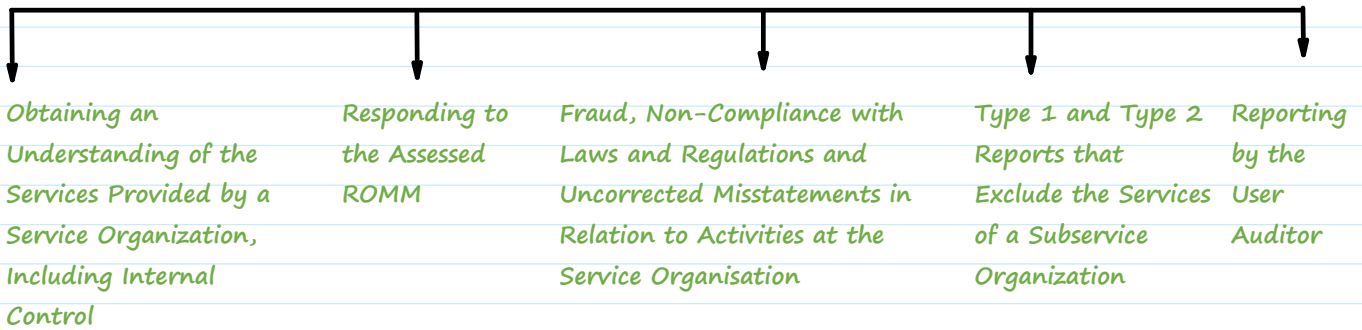
The objectives of the user auditor, when the user entity uses the services of a service organisation, are:

- a. To obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the ROMM; and

b. To design and perform audit procedures responsive to those risks

Requirements

TO MEET ABOVE OBJECTIVE



Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control

When obtaining an understanding of the user entity in accordance with SA 315, the user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations, including:

- The nature of the services provided by the service organisation and the significance of those services to the user entity, including the effect thereof on the user entity's internal control;
- The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;
- The degree of interaction between the activities of the service organisation and those of the user entity; and
- The nature of the relationship between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the service organisation

When obtaining an understanding of internal control relevant to the audit in accordance with SA 315, the user auditor shall evaluate the design and implementation of relevant controls at the user entity that relate to the services provided by the service organisation, including those that are applied to the transactions processed by the service organisation

The user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit has been obtained to provide a basis for the identification and assessment ROMM.

If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that

understanding from one or more of the following procedures:

- (a) Obtaining a Type 1 or Type 2 report, if available;
- (b) Contacting the service organisation, through the user entity, to obtain specific information;
- (c) Visiting the service organisation and performing procedures that will provide the necessary information about the relevant controls at the service organisation; or
- (d) Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.

Using Type 1 or Type 2 Report to Support the User Auditor's Understanding of The Service Organisation :

In determining the sufficiency and appropriateness of the audit evidence provided by a Type 1 or Type 2 report, the user auditor shall be satisfied as

to: -

- a. The service auditor's professional competence (except where the service auditor is a member of the Institute of Chartered Accountants of India) and independence from the service organisation; and
- b. The adequacy of the standards under which the Type 1 or Type 2 report was issued.

If the user auditor plans to use a Type 1 or Type 2 report as audit evidence to support the user auditor's understanding about the design and

implementation of controls at the service organisation, the user auditor shall:

- a. Evaluate whether the description and design of controls at the service organisation is at a date or for a period that is appropriate for the user auditor's purposes;
- b. Evaluate the sufficiency and appropriateness of the evidence provided by the report for the understanding of the user entity's internal control relevant to the audit; and
- c. Determine whether complementary user entity controls identified by service organisation are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls.

Responding to the Assessed ROMM

In responding to assessed risks in accordance with SA 330, the user auditor shall:

- a. Determine whether SAAE concerning the relevant financial statement assertions is available from records held at the user entity; and, if not,
- b. Perform further audit procedures to obtain SAAE or use another auditor to perform those procedures at the service

organisation on the user
auditor's behalf

When the user auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures:

- a. Obtaining a Type 2 report, if available;
- b. Performing appropriate tests of controls at the service organisation; or
- c. Using another auditor to perform tests of controls at the service organisation on behalf of the user auditor

Type 1 and Type 2 Reports that Exclude the Services of a Subservice Organization

If the user auditor plans to use a Type 1 or a Type 2 report that excludes the services provided by a subservice organisation and those services are relevant to the audit of the user entity's financial statements, the user auditor shall apply the requirements of this SA with respect to the services provided by the subservice organisation

If a service organisation uses a subservice organisation, the service auditor's report may either include or exclude the subservice organisation's relevant control objectives and related controls in the service organisation's description of its system and in the scope of the service auditor's engagement. These two methods of reporting are known as the inclusive method and the carve-out method

Fraud, Non-Compliance with Laws and Regulations and Uncorrected Misstatements in Relation to Activities at the Service Organisation

The user auditor shall inquire of management of the user entity whether the service organisation has reported to the user entity, or whether the user entity is otherwise aware of, any fraud, non-compliance with laws and regulations or uncorrected misstatements affecting the financial statements of the user entity.

The user auditor shall evaluate how such matters affect the NTE of the user auditor's further audit procedures, including the effect on the user auditor's conclusions and user auditor's report

Reporting by the User Auditor

The user auditor shall modify the opinion in the user auditor's report in accordance with SA 705(Revised) if the user auditor is unable to obtain SAAE regarding the services provided by the service organisation relevant to the audit of the user entity's F.ST.

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

If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion

DEFINITION

Type 1 report

Report on the description and design of controls at a service organisation (referred to in this SA as a **Type 1 report**) – A report that comprises:

- i. A **description**, prepared by **management** of the service organisation, of the service organisation's system, control objectives and related controls that have been **designed and implemented** as at a specified date; and
- ii. A **report by the service auditor** with the objective of conveying reasonable assurance that includes the service auditor's opinion on the **description** of the service organisation's system, control objectives and related controls and the suitability of the **design** of the controls to achieve the specified control objectives.

Type 2 report

Report on the description, design, and operating effectiveness of controls at a service organisation (referred to in this SA as a **Type 2 report**) – A report that comprises:

- i. A **description, prepared by management** of the service organisation, of the service organisation's system, control objectives and related controls, their design and implementation as at a specified date or throughout a specified period and, in some cases, their **operating effectiveness** throughout a specified period; and
- ii. A **report by the service auditor** with the objective of conveying reasonable assurance that includes:
 - a. The service auditor's opinion on the description of the service organisation's system, control objectives and related controls, the suitability of the design of the controls to achieve the specified control objectives, and the **operating effectiveness** of the controls; and

b. A description of the service auditor's tests of the controls and the results thereof

Service auditor –

An auditor who, at the request of the service organisation, provides an assurance report on the controls of a service organisation.

Service organisation –

A third-party organisation (or segment of a third party organisation) that provides services to user entities that are part of those entities' information systems relevant to financial reporting.

Subservice organisation –

A service organisation used by another service organisation

User auditor –

An auditor who audits and reports on the financial statements of a user entity.

User entity –

An entity that uses a service organisation and whose financial statements are being audited.

CHAPTER - 3

Audit Planning Strategy & Execution

SA 300* Planning an Audit of Financial Statements

Scope

plan an audit of financial statements

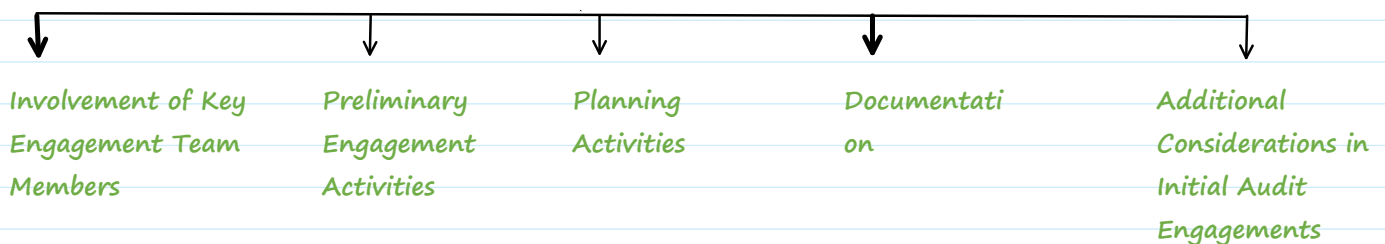
Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement

Objective

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

Requirements

TO MEET ABOVE OBJECTIVE



Involvement of Key Engagement Team Members

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

Preliminary Engagement Activities

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

- Performing procedures required by SA 220, regarding the continuance of the client relationship and the specific audit engagement;
- Evaluating compliance with ethical requirements, including independence, as required by SA 220; and
- Establishing an understanding of the terms of the engagement, as required by SA 210.

Planning Activities

The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan

The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan

In establishing the overall audit strategy, the auditor shall:

- a. Identify the characteristics of the engagement that define its scope;
- b. Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- c. Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts;
- d. Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
- e. Ascertain the NT&E of resources necessary to perform the engagement

The auditor shall develop an audit plan that shall include a description of:

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

The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit

Documentation

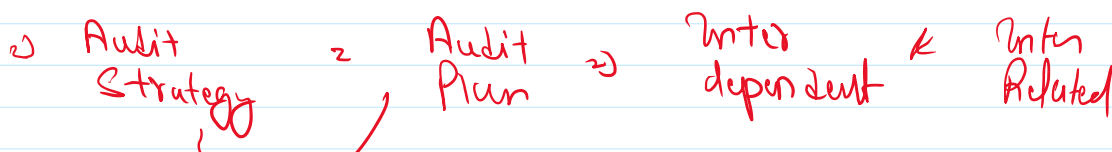
The auditor shall document:

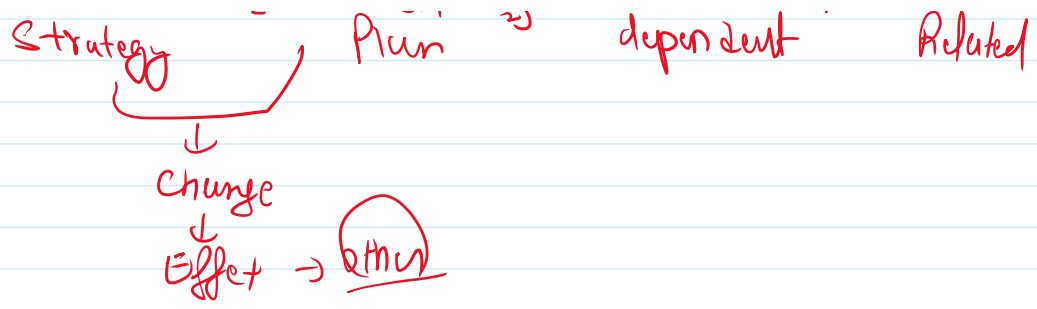
- a. The overall audit strategy;
- b. The audit plan; and
- c. Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes

Additional Considerations in Initial Audit Engagements

The auditor shall undertake the following activities prior to starting an initial audit

- a. Performing procedures required by SA 220 regarding the acceptance of the client relationship and the specific audit engagement⁴; and
- b. Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.





AUDIT PLANNING, STRATEGY & EXECUTION

AUDIT PLANNING

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways described hereunder -

- (i) Attention to Important areas
- (ii) Timely resolution of Potential Problems
- (iii) Proper Organisation and Management of Audit Engagement.
- (iv) Proper Selection of Engagement Team
- (v) Direction and Supervision of Engagement Team
- (vi) Easy Coordination in work done by auditors of components and experts.

Nature and Extent of Planning

- a. **Size and Complexity of the Auditee** - If the size and complexity of organization of which audit is to be conducted is large, then much more planning activities would be required as compared to an entity whose size and complexity is small.
- b. **Past Experience & Expertise** - The key engagement team members' previous experience & expertise also contributes towards variation in planning activities.
- c. **Change in Circumstances** - Another factor contributing towards variation in planning activities is change in circumstances.

Planning -

A Continuous Process Planning is not a discrete phase of an audit but rather a continual and iterative process. It often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning includes consideration of the timing of certain activities and audit procedures. It also involves Audit Programming.

Planning includes the need to consider such matters as:

- The analytical procedures to be applied as risk assessment procedures.
- Obtaining a understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework. □ The determination of materiality.
- The involvement of experts.
- The performance of other risk assessment procedures

Overall Audit Strategy and Audit Plan

- When discussing matters about the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit to be taken to see there is no compromise in the effectiveness of the audit.
- The engagement partner and other key members of the engagement team should be involved in planning the audit.
- The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience, thereby, enhancing the effectiveness and efficiency of the planning process

- Consider results procedures regarding the acceptance and continuance of client relationships and audit engagements

Contents of an Audit Plan (all relevant points covered in SA 300)

The auditor should develop an audit plan that shall include a description of -

1. The nature, timing and extent of planned risk assessment procedures, as determined under SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment".
2. The nature, timing and extent of planned further audit procedures at the assertion level, as determined under SA 330 "The Auditor's Responses to Assessed Risks".
3. Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.

Planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.

Changes to Planning Decisions

The auditor may need to modify the overall audit strategy and audit plan due to below mentioned factors

- (i) result of unexpected events,
- (ii) changes in conditions, or
- (iii) the audit evidence obtained from the results of audit procedures.

Further, the auditor would also have to modify the nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. This may be the case when information coming to the auditor differs significantly from the information when he planned the audit procedures.

In addition to above, there may be a possibility of change in law, notifications, Govt. policies which warrants updation of overall Audit strategy.

OVERALL AUDIT STRATEGY

Factors while establishing Overall Audit Strategy

Overall audit strategy would involve -

- Determination of Characteristics of Audit:** Identify the characteristics of the engagement that defines its scope.
- Reporting Objectives:** Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required.
- Team's Efforts:** Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts.
- Preliminary Work:** Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant.
- Nature, timing and Extent of Resources:** Ascertain the nature, timing and extent of resources necessary to perform

the engagement.

Benefits of Overall Audit Strategy

The process of establishing the overall audit strategy assists the auditor to determine such matters as -

- i. **Employment of Qualitative Resources:** The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters like review of valuation, hedging transactions.
- ii. **Allocation of Quantity of Resources:** The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the extent of review of other auditors' work in the case of group audits, or the allocation of audit budgeted hours to high risk areas.
- iii. **Timing of Deployment of Resources:** When these resources are to be deployed, such as whether at an interim audit stage or at or close to key cut-off dates.
- iv. **Management of Resources:** How such resources shall be managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.

Considerations in Establishing the Overall Audit Strategy

Some of the examples of matters that the auditor may consider in establishing the overall audit strategy are given hereunder.

Many of these matters will also influence the auditor's detailed audit plan. All matters are not relevant to every audit engagement and the list is not necessarily complete.

(a) Characteristics of the Engagement

- a. The financial reporting framework.
- b. Industry-specific reporting requirements such as reports mandated by industry regulators.
- c. The expected audit coverage, including the number and locations of components to be included.
- d. The extent to which components are audited by other auditors.
- e. The entity's use of service organizations and how the auditor may obtain evidence concerning the design or operation of controls performed by them
- f. The expected use of audit evidence obtained in previous audits, for example, audit evidence related to risk assessment procedures and tests of controls.
- g. The effect of information technology on the audit procedures.
- h. The availability of client personnel and data.

(b) Reporting Objectives, Timing of the Audit, and Nature of Communications

- a. The entity's timetable for reporting.
- b. The organization of meetings with management regarding audit work (Nature, timing and extent).
- c. The discussion with management regarding type and timing of reports to be issued.
- d. The discussion with management regarding communications on the status of audit work.
- e. Communication with auditors of components regarding types and timing of reports to be issued.
- f. The nature and timing of communications among engagement team members.

- g. Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

(c) Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

- a. The determination of materiality in accordance with SA 320.
- b. Preliminary identification of areas where there may be a higher risk of material misstatement.
- c. The impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review.
- d. The manner in which engagement team members needs to maintain an inquisitive/ questioning mind and exercise professional Skepticism and unpredictability.
- e. Results of previous audits including the identified deficiencies and action taken to address them.
- f. The discussion of matters that may affect the audit with firm personnel responsible for performing other services to the entity.
- g. Evidence of management's commitment to the design, implementation and maintenance of sound internal controls.
- h. Volume of transactions which may determine reliance on internal control.
 - i. Importance attached to internal control.
 - j. Significant business developments affecting the entity.
 - k. Significant industry specific developments and development in the economic environment.
 - l. Significant changes in the financial reporting framework, such as changes in accounting standards.
- m. Other significant relevant developments, such as changes in the legal and regulatory environment affecting the entity.

Documenting the Audit Plan

The auditor shall document -

- i. The overall audit strategy;
- ii. The audit plan; and
- iii. Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes as under -
 - a. **Record of Key Decisions:** The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team
 - b. **Record of Nature, Timing and Extent of Risk Assessment Procedures:** The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and additional audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.
 - c. **Record of reasons for Change in Audit Plans:** A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.
 - d. **Nature, Timing and Extent of Resources**

- a. The selection of the engagement team and the assignment of audit work to the team members.
- b. Engagement budgeting

Relationship between the Overall Audit Strategy and the Audit Plan

The audit strategy is prepared before the audit plan.

The audit plan is more detailed than the overall audit strategy.

Audit strategy and audit plan are inter-related because change in one would result into change in the other.

The audit strategy provides the guidelines for developing the audit plan.

It establishes the scope and conduct of the audit procedures and thereby, works as basis for developing a detailed audit plan.

Detailed audit plan would include the nature, timing and extent of the audit procedures so as to obtain sufficient appropriate audit evidence

AUDIT PROGRAMME

An audit programme is commonly prepared to allocate work to team members which may include the list of audit procedures and instructions to be followed by the member. It also estimates the duration for completing an audit task

Formulating an Audit Programme

It is very useful for students to know how to plan an audit programme.

The programme may contain audit objectives for each area and should have sufficient detail to serve as a set of instructions to the assistants involved in the audit and as means to control the proper execution of work.

It may be emphasised that a clear spelling out of audit objectives for each area is important to link up the procedures with audit objectives and to ensure a purposeful audit.

The important matters which need to be considered in this regard are:

- (a) Nature of business in which the organisation is engaged:
- (b) Overall plan:
- (c) System of internal control and accounting procedures:
- (d) Size of the organisation and structure of its management:
- (e) Information as regards organisation of the business:
- (f) Accounting and management policies:

Drawing up the audit programme:

After the auditor has collected the aforementioned information, he will be in a position to draw up the programme of audit. He can now decide the areas to be covered by audit, also those to be covered in detail and those which should be covered by the applications of the test checks. He will also be able to decide the specific audit procedures which should be applied in each case

When an auditor is appointed to audit the accounts of an entity for the first time, the audit programme should be developed in three stages stated below:

- a. To begin with, a broad outline of the audit programme should be drawn up.
- b. After the internal and accounting procedures have been reviewed, the details should be filled up on a

consideration of the deficiencies in the system of internal control.

- c. After the detailed checking procedure is over, the extent to which the special procedures (first time/ opening balance audit procedures) that are required to be applied should be determined, e.g., independent verification of balances of debtors and creditors, physical inspection of fixed assets, personal inspection of various items of stock included in closing inventories and testing their values.

At each subsequent engagement, the programme should be reviewed and, if necessary, modified on account of:

- a. experience gained during the previous audits;
- b. important changes that have taken place in the business specially in the system of internal control, accounting procedures or in the structure of management or of the scope of business; and
- c. evaluation of internal control made for the current year.

Given below are a few circumstances where in the audit programme would have to be suitably altered:

- a. If the audit procedures were designed for a certain volume of turnover and subsequently the volume have substantially increased. Also, when there have been significant changes in the accounting organisation, procedures and personnel subsequent to the audit procedures.
- b. Where during the course of an audit, it has been discovered that internal control procedures were not as effective as assumed at the time the audit programme was framed.
- c. Where there has been an extraordinary increase in the amount of book debts or that in the value of stocks as compared to that in the previous year.
- d. When a suspicion has aroused during the course of audit or information has been received that assets of the company have been misappropriated.

AUDIT EXECUTION

Execution Planning

- Prior to commencement of an audit engagement, it is important to lay down the roadmap for audit execution to ensure timely and quality audit results.
- The auditors need to plan their work in order to carry out the audit in an effective, efficient and timely manner.
- A detailed audit program is prepared laying down the audit objectives, scope and audit approach.
- The manpower requirement, audit team qualifications, and the time element, etc. are some of the important considerations during execution planning.
- In order to plan effectively, the auditor may need some more information about the audit area. A preliminary survey would help in gathering the required information

Risk and Control Evaluation

- For each segment of audit, the auditors should conduct a detailed risk and control assessment i.e. list the risks that must be reviewed in that segment, capture for each risk the controls that exist or those that are needed to protect against the risk and show for each control, the work steps required to test the effectiveness of the controls.
- While making Risk & Control assessment, it is necessary to bear in mind the Materiality levels as the same is linked to Audit Risks.

Testing

Once a comprehensive understanding is gained of the key risks and the controls to be evaluated in a given audit area, the auditors should test the operating effectiveness of the controls to determine whether controls are operating as designed. There are multiple test methods which can be used to arrive at the conclusions on the effectiveness of the controls

Reporting

- SA 700, "Forming an Opinion and Reporting on Financial Statements" establishes standards on the form and content of the auditor's report issued as a result of an audit performed by an auditor of the financial statements of an entity.
- The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements.
- This review and assessment involves considering whether the financial statements have been prepared in accordance with an acceptable financial reporting framework applicable to the entity under audit.
- It is also necessary to consider whether the financial statements comply with the relevant statutory requirements such as compliance of Provisions & Enactments of the Company Law, Accounting Standards framed by ICAI, latest Guidelines etc.
- The auditor's report should contain a clear written expression of opinion on the financial statements taken as a whole.

SA 600 Using the Work of Another Auditor

(SA) 200, "Basic Principles Governing an Audit", states

"When the auditor delegates work to assistants or uses work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on the financial information.

However, he will be entitled to rely on work performed by others, provided **he exercises adequate skill** and care and is not aware of any reason to believe that he should not have so relied.

In the case of any **independent statutory appointment** to perform the work on which the auditor has to rely in forming his opinion, such as in the case of the work of branch auditors appointed under the Companies Act the **auditor's report should expressly state the fact of such reliance**

The purpose of (SA 600) is to establish standards to be applied in situations where an auditor (referred to herein as the '**principal auditor**'), reporting on the financial information of an entity, uses the work of another auditor (referred to herein as the '**other auditor**') with respect to the financial information of one or more components included in the financial information of the entity.

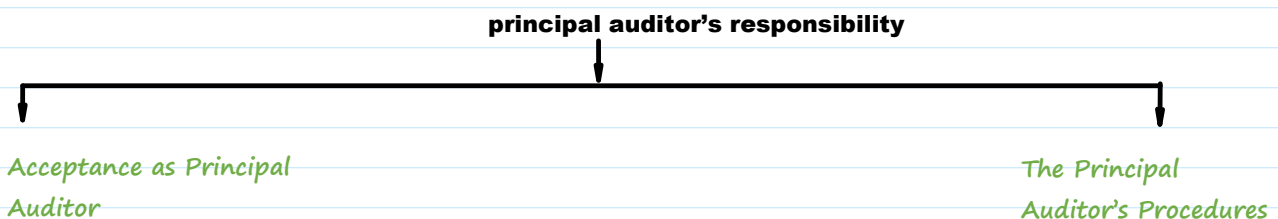
This **SA also discusses the principal auditor's responsibility** in relation to his use of the work of the other auditor

DEFINITION

"Principal auditor" means the auditor with responsibility for reporting on the financial information of an entity when that financial information includes the financial information of one or more components audited by another auditor

"Other auditor" means an auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.

"Component" means a division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the financial information audited by the principal auditor



principal auditor's responsibility

Acceptance as Principal Auditor

The auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor.

For this purpose the auditor would consider:

- a. the materiality of the portion of the financial information which the principal auditor audits;
- b. the principal auditor's degree of knowledge regarding the business of the components;
- c. the ROMM in the financial information of the components audited by the other auditor; and
- d. the performance of additional procedures as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

The Principal Auditor's Procedures

visit a component and examine the books of account and other records of the said component

Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component

When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of specific assignment if the other auditor is not a member of the ICAI

The principal auditor should perform procedures to obtain SAAE, that the work of the other auditor is adequate for the principal auditor's purposes

- advise the other auditor of the use that is to be made of the other auditor's work and report
- make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit.
- The principal auditor would inform the other auditor of matters such as areas requiring special consideration,
- procedures for the identification of inter-component transactions that may require disclosure and the time-table for completion of audit

And

advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them

The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list. The principal auditor may also wish to visit the other auditor. The NTE of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other Auditor

The principal auditor should consider the significant findings of the other auditor

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

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

principal auditor should document

- components whose financial information was audited by other auditors; their significance to the financial information of the entity as a whole
- the names of the other auditors
- conclusions reached that individual components are not material
- The principal auditor should also document the procedures performed and the conclusions reached
- Where the other auditor's report is other than unmodified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report

Co-ordination Between Auditors

There should be sufficient liaison between the principal auditor and the other auditor. For this purpose, the principal auditor may find it necessary to issue written communication(s) to the other auditor

The other auditor, knowing the context in which his work is to be used by the principal auditor, should co-ordinate with the principal auditor

When considered necessary by him, the principal auditor may require the other auditor to answer a detailed questionnaire regarding matters on which the principal auditor requires information for discharging his duties. The other auditor should respond to such questionnaire on a timely basis.

Reporting Consideration

When the principal auditor concludes, based on his procedures, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor

principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit

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

Division of Responsibility

The principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.

When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity

SA 610 Using the Work of Internal Auditors

Scope

(SA) deals with the external auditor's responsibilities if using the work of internal auditors.

This includes

using the work of the internal audit function in obtaining audit evidence

And

using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor

Nothing in this SA requires the external auditor to use the work of the internal audit function

In some cases, the external auditor may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance. The SAs do not override laws or regulations that govern an audit of financial statements

The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement

This SA, therefore, defines the conditions that are necessary for the external auditor to be able to use the work of internal auditors. It also defines the necessary work effort to obtain sufficient appropriate evidence that the work of the internal audit function, or internal auditors providing direct assistance, is adequate for the purposes of the audit

Objectives

In case , where the entity has an internal audit function and the external auditor expects to use the work of the function or, to use internal auditors to provide direct assistance

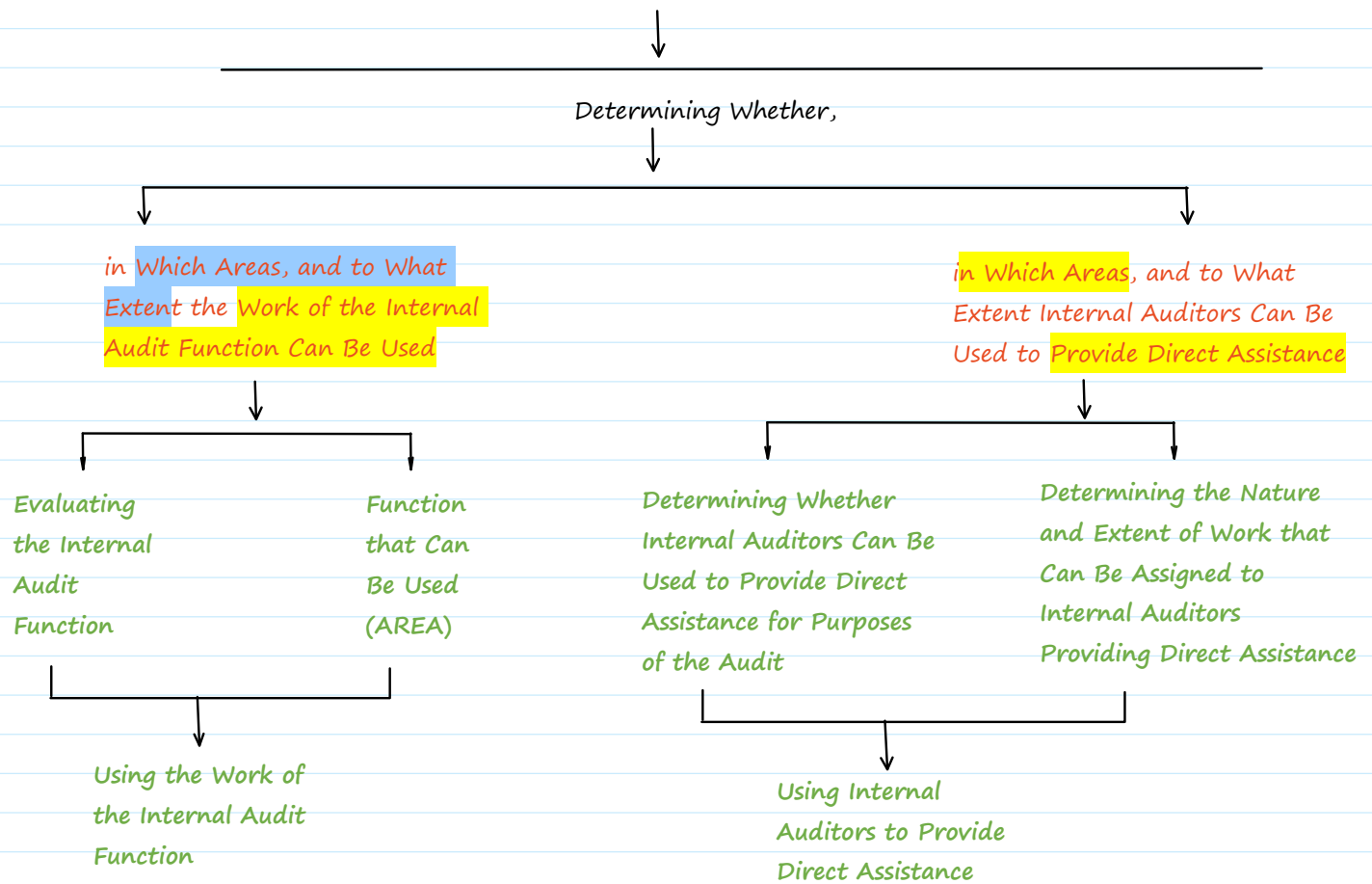
The objectives of the external auditor, are;

To determine whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent
having made that determination, determine

- If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit
- If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.

Requirements

TO MEET ABOVE OBJECTIVE



Determining Whether,

in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

Evaluating the Internal Audit Function

The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit

by evaluating the following:

- (a) The extent to which the internal audit function's organizational status and relevant policies and procedures support the **objectivity** of the internal auditors; -
 - Objectivity refers to the ability to perform those tasks without allowing bias, conflict of interest or undue influence of others to override professional judgments
 - Factors that may affect the external auditor's evaluation include the following
 - Whether the organizational status of the internal audit function, including the function's authority and accountability, supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgments
 - Whether the internal audit function is free of any conflicting responsibilities
 - Whether TCWG oversee employment decisions related to the internal audit function
 - Whether there are any constraints or restrictions placed on the internal audit function by management or TCWG
 - Whether the internal auditors are members of relevant professional bodies and their memberships obligate their compliance with relevant professional standards relating to objectivity, or whether their internal policies achieve the same objectives

(b) The **level of competence** of the internal audit function; -

Competence of the internal audit function refers to the attainment and maintenance of **knowledge and skills** of the function as a whole at the level required to enable assigned tasks to be performed diligently and in accordance with **applicable professional standards**

Factors that may affect the external auditor's determination include the following:

- Whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements
- Whether the internal auditors have adequate technical training and proficiency in auditing
- Whether the internal auditors possess the required knowledge relating to the entity's financial reporting and the AFRF and whether the internal audit function possesses the necessary skills
- Whether the internal auditors are members of relevant professional bodies that oblige them to comply with the relevant professional standards including continuing professional development requirements

(c) Whether the internal audit function **applies a systematic and disciplined approach**, including quality control. -

The application of a systematic and disciplined approach to planning, performing, supervising, reviewing and documenting its activities

Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following

- The existence, adequacy and use of documented internal audit procedures
- Whether the internal audit function has appropriate quality control policies and procedures

The external auditor shall not use the work of the internal audit function if the external auditor determines that:

- (a) The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;
- (b) The function lacks sufficient competence; or
- (c) The function does not apply a systematic and disciplined approach, including quality control.

Function that Can Be Used (AREA)

As a **basis for determining the areas and the extent** to which the work of the internal audit function can be used, the external auditor shall consider the **nature and scope** of the work that has been performed, or is planned to be performed, by the internal audit function and **its relevance to the external auditor's overall audit strategy and audit plan**

The external auditor shall make all significant judgments in the audit engagement

to prevent undue use of the work of the internal audit function, shall plan to use less of the work of the function and perform more of the work directly:

- a. The more judgment is involved in:
 - i. Planning and performing relevant audit procedures; and
 - ii. Evaluating the audit evidence gathered;
- b. The higher the assessed ROMM at the assertion level, with special consideration given to risks identified as significant;
- c. The less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and
- d. The lower the level of competence of the internal audit function.

The external auditor shall also evaluate whether, in aggregate, using the work of the internal audit function to the extent planned would still result in the external auditor being sufficiently involved in the audit, given the external auditor's sole responsibility for the audit opinion expressed

The external auditor shall, in communicating with TCWG an overview of the planned scope and timing of the audit in accordance with SA 260, communicate how the external auditor has planned to use the work of the internal audit function

Examples of work of the internal audit function that can be used

- 🕒 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.

Significant judgments include the following:

- 🕒 Assessing the risks of material misstatement;
- 🕒 Evaluating the sufficiency of tests performed;
- 🕒 Evaluating the appropriateness of management's use of the going concern assumption;
- 🕒 Evaluating significant accounting estimates; and
- 🕒 Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor's report

Using the Work of the Internal Audit Function

If the external auditor plans to use the work of the internal audit function, the external auditor shall discuss the planned use of its work with the function

The external auditor shall read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings

The external auditor shall perform sufficient audit procedures on the work of the internal audit function as a whole that the external auditor plans to use to determine its adequacy for purposes of the audit, including evaluating whether:

- a. The work of the function had been properly planned, performed, supervised, reviewed and documented;
- b. Sufficient appropriate evidence had been obtained to enable the function to draw reasonable conclusions; and
- c. Conclusions reached are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed

The nature and extent of the external auditor's audit procedures shall be responsive to the external auditor's evaluation of:

- a. The amount of judgment involved;
- b. The assessed risk of material misstatement;
- c. The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; and
- d. The level of competence of the function shall include reperformance of some of the work.

The external auditor shall also evaluate whether the external auditor's conclusions regarding the internal audit function and the determination of the nature and extent of use of the work of the function for purposes of the audit remain appropriate.

in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit

The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors.

If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit

the external auditor shall evaluate

- a. the existence and significance of threats to objectivity
- b. the level of competence of internal auditors

The external auditor shall not use an internal auditor to provide direct assistance if:

- (a) There are significant threats to the objectivity of the internal auditor; or
- (b) The internal auditor lacks sufficient competence to perform the proposed work

In evaluating the existence and significance of threats to the objectivity of an internal auditor, the following factors may be relevant:

- The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors.
- Family and personal relationships with an individual working in, or responsible for, the aspect of the entity to which the work relates.
- Association with the division or department in the entity to which the work relates.
- Significant financial interests in the entity other than remuneration on terms consistent with those applicable to other employees at a similar level of seniority

Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance

In determining the nature and extent of work that may be assigned to internal auditors and the NTE of direction,

supervision and review that is appropriate in the circumstances, the external auditor shall consider:

- (a) The amount of judgment involved in:
 - (i) Planning and performing relevant audit procedures; and
 - (ii) Evaluating the audit evidence gathered;
- (b) The assessed ROMM; and
- (c) The external auditor's evaluation of the existence and significance of threats to the objectivity and level of competence of the internal auditors who will be providing such assistance.

The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:

- a. Involve making significant judgments in the audit;
- b. Relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited;
- c. Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or
- d. Relate to decisions the external auditor makes in accordance with this SA regarding the internal audit function and the use of its work or direct assistance.

Having appropriately evaluated whether and, if so, to what extent internal auditors can be used to provide direct assistance on the audit, the external auditor shall, in communicating with TCWG an overview of the planned scope and timing of the audit in accordance with SA 260 communicate the nature and extent of the planned use of internal auditors to provide direct assistance so as to reach a mutual understanding that such use is not excessive in the circumstances of the engagement

since in accordance with SA 505 the external auditor is required to maintain control over external confirmation requests and evaluate the results of external confirmation procedures, it would not be appropriate to assign these responsibilities to internal auditor

Using Internal Auditors to Provide Direct Assistance

Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:

- a. Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor; and
- b. Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity

The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with SA 220.

- a. The NTE of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors and
- b. The review procedures shall include the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be

sufficient in order for the external auditor to be satisfied that the internal auditors have obtained SAAE to support the conclusions based on that work

In directing, supervising and reviewing the work performed by internal auditors, the external auditor shall remain alert for indications that the external auditor's evaluations are no longer appropriate

Documentation

If the external auditor uses the work of the internal audit function, the external auditor shall include in the audit documentation:

(a) The evaluation of:

- i. Whether the function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors;
 - ii. The level of competence of the function; and
 - iii. Whether the function applies a systematic and disciplined approach, including quality control;
- (b) The nature and extent of the work used and the basis for that decision; and

(b) The audit procedures performed by the external auditor to evaluate the adequacy of the work used.

If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:

- i. The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;
- ii. The basis for the decision regarding the nature and extent of the work performed by the internal auditors;
- iii. Who reviewed the work performed and the date and extent of that review
- iv. The written agreements obtained from an authorized representative of the entity and the internal auditors
- v. The working papers prepared by the internal auditors who provided direct assistance on the audit engagement

SA 620* Using the Work of an Auditor's Expert

Scope

(SA) deals with the auditor's responsibilities regarding the use of an individual or organisation's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining SAAE

This SA does not deal with-

1. engagement team includes a member with expertise
2. a management's expert

The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert

Auditor's expert – An individual or organisation possessing expertise in a field **other than accounting or auditing**, whose work in that field is used by the auditor to assist the auditor in obtaining SAAE

Expertise in a field other than accounting or auditing may include expertise in relation to such matters as:

- The valuation of complex financial instruments, land and buildings, plant and machinery, jewellery, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
- The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
- The estimation of oil and gas reserves.
- The valuation of environmental liabilities, and site clean-up costs.
- The interpretation of contracts, laws and regulations.
- The analysis of complex or unusual tax compliance issues.

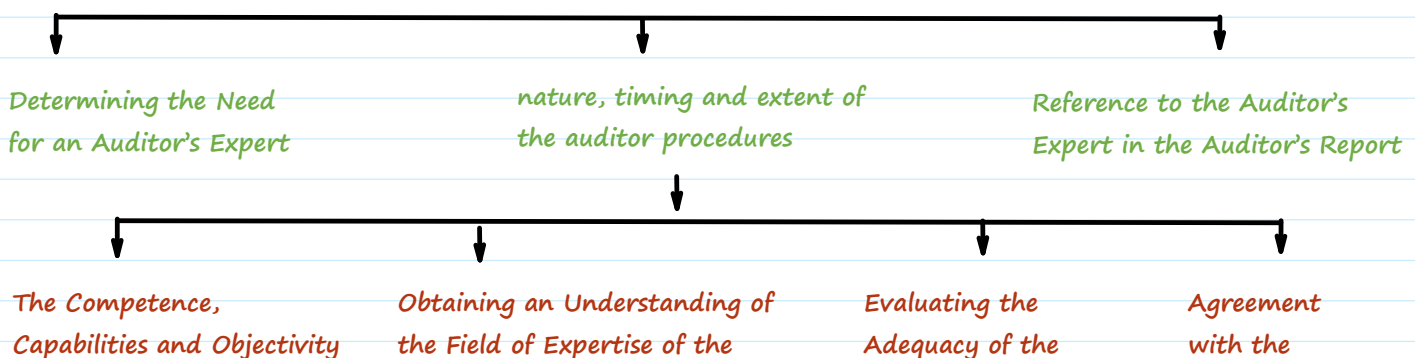
Objectives

The objectives of the auditor are:

- a. To **determine whether to use** the work of an auditor's expert
- b. If using the work of an auditor's expert, to determine **whether that work is adequate** for the auditor's purposes.

Requirements

TO MEET ABOVE OBJECTIVE



The Competence, Capabilities and Objectivity of the Auditor's Expert

Obtaining an Understanding of the Field of Expertise of the Auditor's Expert

Evaluating the Adequacy of the Auditor's Expert's Work

Agreement with the Auditor's Expert

Determining the Need for an Auditor's Expert

If expertise in a field other than accounting or auditing is necessary to obtain SAAE, the auditor shall determine whether to use the work of an auditor's expert

Considerations when deciding whether to use an auditor's expert may include:

- Whether management has used a management's expert in preparing the financial statements
- The nature and significance of the matter, including its complexity.
- The ROMM in the matter.
- The expected nature of procedures to respond to identified risks, including the auditor's knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of audit evidence.

An auditor's expert may be needed to assist the auditor in one or more of the following:

- Obtaining an understanding of the entity and its environment, including its internal control.
- Identifying and assessing the ROMM
- Determining and implementing overall responses to assessed risks at the financial statement level.
- Designing and performing further audit procedures to respond to assessed risks at the assertion level, comprising tests of controls or substantive procedures.
- Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements.

When management has used a management's expert in preparing the financial statements, the auditor's decision on whether to use an auditor's

expert may also be influenced by such factors as:

- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- Any controls within the entity over the management's expert's work.

Nature, timing and extent of the auditor procedures

In determining the **NTE of those procedures**, the auditor shall consider matters including:

- (a) The nature of the matter to which that expert's work relates;
- (b) The risks of material misstatement in the matter to which that expert's work relates;
- (c) The significance of that expert's work in the context of the audit;
- (d) The auditor's knowledge of and experience with previous work performed by that expert; and
- (e) Whether that expert is subject to the auditor's firm's quality control policies and procedures.

The NTE of the auditor's procedures with respect to the requirements of this SA will vary depending on the circumstances-

the following factors may suggest the need for different or more extensive procedures than would otherwise be the case: L

- The work of the auditor's expert relates to a significant matter that involves subjective and complex judgments.
- The auditor has not previously used the work of the auditor's expert, and has no prior knowledge of that expert's competence, capabilities and objectivity.
- The auditor's expert is performing procedures that are integral to the audit, rather than being consulted to provide advice on an individual matter.
- The expert is an auditor's external expert and is not, therefore, subject to the firm's quality control policies and procedures

The Competence, Capabilities and Objectivity of the Auditor's Expert

The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes.

In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity.

Competence relates to the nature and level of expertise of the auditor's expert.

Capability relates to the ability of the auditor's expert to exercise that competence in the circumstances of the engagement.

Objectivity relates to the possible effects that bias, conflict of interest, or the influence of others may have on the professional or business judgment of the auditor's expert.

Information regarding the competence, capabilities and objectivity of an auditor's expert may come from a variety of sources, such as

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other auditors or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- The auditor's firm's quality control policies and procedures

When evaluating the objectivity of an auditor's external expert, it may be relevant to:

1. Inquire of the entity about any known interests or relationships that the entity has with the auditor's external expert that may affect that expert's objectivity.
2. Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that may be relevant to discuss with the auditor's expert include:
 - Financial interests.
 - Business and personal relationships.
 - Provision of other services by the expert, including by the organisation in the case of an external expert that is an organisation.
 - In some cases, it may also be appropriate for the auditor to obtain a written representation from the auditor's external expert about any interests or relationships with the entity of which that expert is aware.

Obtaining an Understanding of the Field of Expertise of the Auditor's Expert

The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to:

- (a) Determine the nature, scope and objectives of that expert's work for the auditor's purposes; and
- (b) Evaluate the adequacy of that work for the auditor's purposes.

Aspects of the auditor's expert's field relevant to the auditor's understanding may include:

- Whether that expert's field has areas of specialty within it that are relevant to the audit
- Whether any professional or other standards, and regulatory or legal requirements apply.
- What assumptions and methods, including models where applicable, are used by the auditor's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes.
- The nature of internal and external data or information the auditor's expert uses.

Agreement with the Auditor's Expert

The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert:

- (a) The nature, scope and objectives of that expert's work;
- (b) The respective roles and responsibilities of the auditor and that expert;
- (c) The NTE of communication between the auditor and that expert, including the form of any report to be provided by that expert; and
- (d) The need for the auditor's expert to observe confidentiality requirements

the following factors may suggest the need for more a detailed agreement than would otherwise be the case, or for the agreement to be set out in writing:

- ① The auditor's expert will have access to sensitive or confidential entity information.

- ⌚ The respective roles or responsibilities of the auditor and the auditor's expert are different from those normally expected.
- ⌚ Multi-jurisdictional legal or regulatory requirements apply.
- ⌚ The matter to which the auditor's expert's work relates is highly complex.
- ⌚ The auditor has not previously used work performed by that expert.
- ⌚ The greater the extent of the auditor's expert's work, and its significance in the context of the audit.

Evaluating the Adequacy of the Auditor's Expert's Work

The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including:

1. The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence;
2. If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and
3. If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes, the auditor shall:

- (a) Agree with that expert on the nature and extent of further work to be performed by that expert; or
- (b) Perform further audit procedures appropriate to the circumstances

Reference to the Auditor's Expert in the Auditor's Report

The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so

If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion

SA 540 * Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Scope

(SA) deals with the auditor's responsibilities regarding accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements

Some financial statement items cannot be measured precisely, but can only be estimated. For purposes of this SA, such financial statement items are referred to as accounting estimates

The measurement objective of accounting estimates can vary depending on the AFRF and the financial item being reported

measurement objective for some accounting estimates is to forecast the outcome of one or more transactions, events or conditions giving rise to the need for the accounting estimate

accounting estimate

EXAMPLES

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

For other accounting estimates, including many fair value accounting estimates, the measurement objective is different, and is expressed in terms of the value of a current transaction or financial statement item based on conditions prevalent at the measurement date, such as estimated market price for a particular type of asset or liability. For example, the AFRF may require fair value measurement based on an assumed hypothetical current transaction between knowledgeable, willing parties in an arm's length transaction, rather than the settlement of a transaction at some past or future date

other accounting estimates, including many fair value accounting estimate

EXAMPLES

- Complex financial instruments, which are not traded in an active and open market.
- Share-based payments.
- Property or equipment held for disposal.
- Certain assets or liabilities acquired in a business combination, including goodwill and intangible assets.
- Transactions involving the exchange of assets or liabilities between independent parties without monetary consideration

nature and reliability of information available in making of an accounting estimate varies widely, which thereby affects the degree of estimation uncertainty associated with accounting estimates.

The degree of estimation uncertainty affects, in turn, the ROMM of accounting estimates,

A difference between the outcome of an accounting estimate and the amount originally recognised or disclosed in the financial statements does not necessarily represent a misstatement of the financial statements. This is particularly the case for fair value accounting estimates, as any observed outcome is invariably affected by events or conditions subsequent to the date at which the measurement is estimated for purposes of the financial statements

Objective

The objective of the auditor is to obtain SAAE whether in the context of the AFRF:

- a. accounting estimates, including fair value accounting estimates, in the financial statements, whether recognised or disclosed, are reasonable; and
- b. related disclosures in the financial statements are adequate.

Requirements

- Risk Assessment Procedures and Related Activities
- Identifying and Assessing the ROMM
- Responses to the Assessed ROMM
- Further Substantive Procedures to Respond to Significant Risks
- Evaluating the Reasonableness of the Accounting Estimates, and Determining Misstatements
- Disclosures Related to Accounting Estimates
- Indicators of Possible Management Bias
- WR
- Documentation

Risk Assessment Procedures and Related Activities

When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, the auditor shall obtain an understanding of the following in order to provide a basis for the identification and assessment of the ROMM for accounting estimates

- a. The requirements of the AFRF relevant to accounting estimates, including related disclosures.
- b. How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements. In obtaining this understanding, the auditor shall make inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.

Inquiries of management about changes in circumstances may include, for example, inquiries about whether:

- The entity has engaged in new types of transactions that may give rise to accounting estimates.
- Terms of transactions that gave rise to accounting estimates have changed.
- Accounting policies relating to accounting estimates have changed, as a result of changes to the requirements of the applicable financial reporting framework or otherwise.

- Regulatory or other changes outside the control of management have occurred that may require management to revise, or make new, accounting estimates.
- New conditions or events have occurred that may give rise to the need for new or revised accounting estimates.

c. **How management makes the accounting estimates**, and an understanding of the data on which they are based, including:

- The method, including where applicable the model, used in making the accounting estimate;
- Relevant controls;
- Whether management has used an expert;
- The assumptions underlying the accounting estimates;
- Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why; and
- Whether and, if so, how management has assessed the effect of estimation uncertainty

The auditor shall review the outcome of accounting estimates included in the prior period financial statements.

Identifying and Assessing the ROMM

the auditor shall evaluate the degree of estimation uncertainty associated with an accounting estimate

The auditor shall determine whether, in the auditor's judgment, any of those accounting estimates that have been identified as having high estimation uncertainty give rise to significant risk

Examples of accounting estimates that may have high estimation uncertainty include the following

- Accounting estimates that are highly dependent upon judgment, for example, judgments about the outcome of pending litigation or the amount
- Accounting estimates that are not calculated using recognised measurement techniques.
- Accounting estimates where the results of the auditor's review of similar accounting estimates made in the prior period financial statements indicate a substantial difference between the original accounting estimate and the actual outcome.
- Fair value accounting estimates for which a highly specialised entity-developed model is used or for which there are no observable inputs.

Responses to the Assessed ROMM

- Based on the assessed ROMM, the auditor shall determine:
 - a. Whether management has appropriately applied the requirements of the AFRF relevant to the accounting estimate;
and
 - b. Whether the methods for making the accounting estimates are appropriate and have been applied consistently, and whether changes, if any, in accounting estimates or in the method for making them from

the prior period are appropriate in the circumstances.

- In responding to the assessed risks of material misstatement, as required by SA 330, the auditor shall undertake one or more of the following, taking account of the nature of the accounting estimate:
 - a. Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.
 - b. Test how management made the accounting estimate and the data on which it is based. In doing so, the auditor shall evaluate whether
 - i. The method of measurement used is appropriate in the circumstances; and
 - ii. The assumptions used by management are reasonable in light of the measurement objectives of the AFRFThis can be achieved by
 - Testing the extent to which data on which accounting estimate is based is accurate, complete and relevant and whether the accounting estimate has been properly determined using such data and management assumptions.
 - Considering the source, relevance and reliability of external data.
 - Recalculating the accounting estimate and reviewing information about an accounting estimate for internal consistency.
 - c. Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures.
 - d. Develop a point estimate or a range to evaluate management's point estimate. For this purpose:
 - i. When the auditor uses assumptions or methods that differ from management's, the auditor shall obtain an understanding of management's assumptions or methods sufficient to establish that the auditor's point estimate or range takes into account relevant variables and to evaluate any significant differences from management's point estimate.
 - ii. When the auditor concludes that it is appropriate to use a range, the auditor shall narrow the range, based on audit evidence available, until all outcomes within the range are considered reasonable.
- the auditor shall consider whether specialised skills or knowledge in relation to one or more aspects of the accounting estimates are required in order to obtain sufficient appropriate audit evidence

Further Substantive Procedures to Respond to Significant Risks

Accounting estimates that give rise to significant risks

in addition to other substantive procedures performed to meet the requirements of SA 330 the auditor shall evaluate the following

- a. How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate
- b. Whether the significant assumptions used by management are reasonable
- c. Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the AFRF, management's intent to carry out specific courses of action and its ability to do so.

If, in the auditor's judgment, management has not adequately addressed the effects of estimation uncertainty on the accounting estimates that give rise to significant risks, the auditor shall, if considered necessary, develop a range with which to evaluate the reasonableness of the accounting estimate

Recognition and Measurement Criteria

the auditor shall obtain SAAE whether the following are in accordance with the requirements of the AFRF

- a. management's decision to recognise, or to not recognise, the accounting estimates in the financial statements; and
- b. the selected measurement basis for the accounting estimates

Evaluating the Reasonableness of the Accounting Estimates, and Determining Misstatements

The auditor shall evaluate, based on the audit evidence, whether the accounting estimates in the financial statements are either reasonable in the context of the applicable financial reporting framework, or are misstated.

Disclosures Related to Accounting Estimates

The auditor shall obtain SAAE about whether the disclosures in the financial statements related to accounting estimates are in accordance with the requirements of the AFRF

For accounting estimates that give rise to significant risks, the auditor shall also evaluate the adequacy of the disclosure of their estimation uncertainty in the financial statements in the context of the AFRF

- a. The presentation of financial statement in accordance with the applicable financial reporting framework includes adequate disclosure of material matters. These disclosures may include,
 - The assumptions used.
 - The method of estimation used, including any applicable model.
 - The basis for the selection of the estimation.
 - Any changes in the method of estimation from prior period and its subsequent effect.
 - The sources and implication of estimation uncertainty.
- b. In relation to accounting estimate having significant risk, even where the disclosures are in accordance with the applicable financial reporting framework, the auditor may conclude that the disclosure of estimation uncertainty is inadequate in light of the circumstances and facts involved.

Indicators of Possible Management Bias

The auditor shall review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias. Indicators of possible management bias do not themselves constitute misstatements for the purposes of drawing conclusions on the reasonableness of individual accounting estimates

Examples of indicators of possible management bias with respect to accounting estimates include

- Changes in an accounting estimate, or the method for making it, where management has made a subjective assessment that there has been a change in circumstances.
- Use of an entity's own assumptions for fair value accounting estimates when they are inconsistent with observable marketplace assumptions.
- Selection or construction of significant assumptions that yield a point estimate favourable for management objectives.
- Selection of a point estimate that may indicate a pattern of optimism or pessimism

Management bias can be difficult to detect at an account level. It may only be identified when considered in the aggregate of groups of accounting estimates or all accounting estimates, or when observed over a number of accounting periods.

Although some form of management bias is inherent in subjective decisions, in making such judgments, there may be no intention by management to mislead the users of financial statements.

Where, however, there is intention to mislead, management bias is fraudulent in nature.

Written Representations

The auditor shall obtain WR from management and, where appropriate, TCWG whether they believe significant assumptions used in making accounting estimates are reasonable.

Documentation

The audit documentation shall include:

- The basis for the auditor's conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks; and
- Indicators of possible management bias, if any.

SA 520* Analytical Procedures

Scope

(SA) deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"),
And

as procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements

"analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. The auditor's choice of procedures, methods and level of application is a matter of professional judgement.

Analytical procedures include the consideration of comparisons of the entity's financial information with, for example:

- Comparable information for prior periods.
- Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.
- Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.

Analytical procedures also include consideration of relationships, for example:

- Among elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, such as gross margin percentages.
- Between financial information and relevant non-financial information, such as payroll costs to number of employees.

Objectives

The objectives of the auditor are:

- (a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and
- (b) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

Requirements

TO MEET ABOVE OBJECTIVE

Substantive Analytical Procedures

When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with SA 330, the auditor shall:

- (a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed ROMM and tests of details, if any, for these assertions;

Suitability of Particular Analytical Procedures

- Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time
- In some cases, even an unsophisticated predictive model may be effective as an analytical procedure
- Different types of analytical procedures provide different levels of assurance
- The determination of the suitability of particular substantive analytical procedures is influenced by the nature of the assertion and the auditor's assessment of the ROMM
- Particular substantive analytical procedures may also be considered suitable when tests of details are performed on the same assertion

(b) Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed

The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

- Source of the information available
- Comparability of the information available
- Nature and relevance of the information available
- Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity.

(c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and

(d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required

Analytical Procedures that Assist When Forming an Overall Conclusion

The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity

Investigating Results of Analytical Procedures

If analytical procedures performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by

- a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and
- (b) Performing other audit procedures as necessary in the circumstances

CHAPTER - 4

Materiality, Risk Assessment And Internal Control

SA 315* Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

Scope

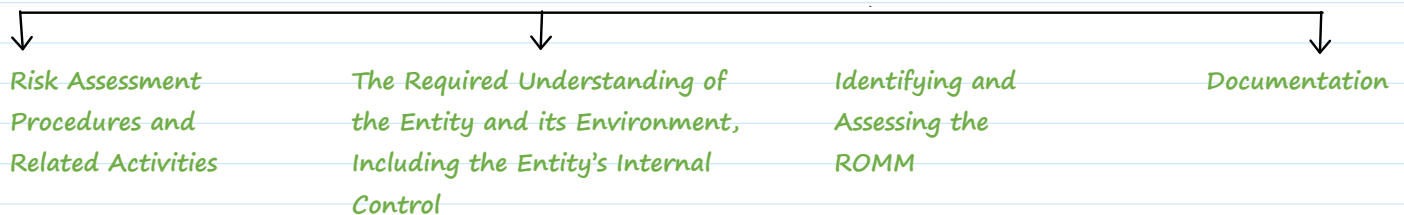
auditor's responsibility to identify and assess the ROMM in the financial statements, through understanding the entity and its environment, including the entity's internal control.

Objective

The objective of the auditor is to identify and assess the ROMM whether due to fraud or error, at the F.ST. and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed ROMM. This will help the auditor to reduce the ROMM to an acceptably low level

Requirements

To meet above objective



The auditor shall perform risk assessment procedures

to provide a basis for the identification and assessment of ROMM at the financial statement and assertion levels.

Risk assessment procedures by themselves, however, do not provide SAAE on which to base the audit opinion

The risk assessment procedures shall include the following:

- (a) Inquiries of management,
- (b) Analytical procedures.
- (c) Observation and inspection.

The auditor shall consider whether information obtained from the auditor's client acceptance or continuance process is relevant to identifying ROMM

Where the engagement partner has performed other engagements for the entity, the engagement partner shall consider whether information obtained is relevant to identifying ROMM

consider whether information obtained is relevant to identifying ROMM

When the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit

The Required Understanding of the Entity and its Environment, Including the Entity's Internal Control

ENVIRONMENT

The Entity and Its Environment

The auditor shall obtain an understanding of the following:

- a. Relevant industry, regulatory, and other external factors including the AFRF
- b. The nature of the entity, including:
 - i. its operations;
 - ii. its ownership and governance structures;
 - iii. the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and
 - iv. the way that the entity is structured and how it is financed;to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.
- c. The entity's selection and application of accounting policies, including the reasons for changes thereto
- d. The entity's objectives and strategies, and those related business risks that may result in ROMM
- e. The measurement and review of the entity's financial performance

major sources of obtaining information about the client's business?

Information about the client's business: The auditor can obtain information about client's business from the following sources:

- o The client's annual Reports to shareholders;
- o Minutes of meetings of shareholders, board of directors and important committees;
- o Internal financial management report for current and previous periods, including budgets, if any;
- o The previous year's audit working papers, and other relevant files;
- o Firm personnel responsible for non-audit services to the client who may be able to provide information on matters that may affect the audit;
- o Discussions with the client;
- o The client's policy and procedures manual;
- o Relevant publications of the Institute of Chartered Accountants of India and other professional bodies, industry publication, trade Journals, magazines, newspapers or text books;
- o Visits to the client's premises and plant facilities to the management.

- Consideration of the state of the economy and its effects on the client's business

INTERNAL CONTROL

The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit

auditor shall evaluate the design of those controls and determine whether they have been implemented,

Components of Internal Control

Control environment

The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:

- a. Management, with the oversight of TCWG, has created and maintained a culture of honesty and ethical behaviour; and
- b. The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control

The entity's risk assessment process

The auditor shall obtain an understanding of whether the entity has a process for:

- (a) Identifying business risks relevant to financial reporting objectives;
- (b) Estimating the significance of the risks;
- (c) Assessing the likelihood of their occurrence; and
- (d) Deciding about actions to address those risks.

Risks can arise or change due to circumstances such as the following

- Changes in operating environment
- New personnel
- Rapid growth
- New or revamped information systems
- New technology
- Corporate restructuring
- Expanded foreign operations
- New business models, products, or activities
- New accounting pronouncements

The information system, including the related business processes, relevant to financial reporting, and communication

An information system consists of infrastructure (physical and hardware components), software, people, procedures, and data. Many information systems make extensive use of information technology (IT).

The information system relevant to financial reporting objectives, which includes the financial reporting system, encompasses methods and records that:

- Initiate, record, process, and report entity transactions
- Resolve incorrect processing of transactions
- Process and account for system overrides or bypasses to controls
- Transfer information from transaction processing systems to the general ledger
- Capture information relevant to financial reporting for events and conditions other than transactions, such as the depreciation
- Ensure information required to be disclosed by the applicable financial reporting framework is accumulated, recorded, processed, summarised and appropriately reported in the financial statements.

IT benefits an entity's internal control by enabling an entity to:

- Consistently apply predefined business rules and perform complex calculations in processing large volumes of transactions or data;
- Enhance the timeliness, availability, and accuracy of information;
- Facilitate the additional analysis of information;
- Enhance the ability to monitor the performance of the entity's activities and its policies and procedures;
- Reduce the risk that controls will be circumvented; and
- Enhance the ability to achieve effective segregation of duties

IT also poses specific risks to an entity's internal control, including, for example:

- Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both.
- Unauthorised access to data that may result in destruction of data or improper changes to data,
- The possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.
- Unauthorised changes to data in master files.
- Unauthorised changes to systems or programs.
- Failure to make necessary changes to systems or programs.
- Inappropriate manual intervention.
- Potential loss of data or inability to access data as required

Control activities relevant to the audit

The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks

In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT

Monitoring of controls

Management's monitoring of controls includes considering whether they are operating as intended and that they are modified as appropriate for changes in conditions

The auditor shall obtain an understanding of the

- o major activities that the entity uses to monitor internal control over financial reporting, including those related to those control activities relevant to the audit
- o If the entity has an internal audit function
- o The sources of the information used in the entity's monitoring activities

Identifying and Assessing the ROMM

The auditor shall identify and assess the ROMM at:

- (a) the financial statement level; and
- (b) the assertion level for classes of transactions, account balances, and disclosures;

to provide a basis for designing and performing further audit procedures.

For this purpose, the auditor shall:

1. Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks,
2. Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;
3. Relate the identified risks to what can go wrong at the assertion level taking account of relevant controls that the auditor intends to test
4. Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement

Significant Risks Require Special Audit Consideration

the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk

When the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk.

In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:

1. Whether the risk is a risk of fraud;

2. Whether the risk is related to recent significant economic, accounting, or other developments like changes in regulatory environment, etc., and, therefore, requires specific attention;
3. The complexity of transactions;
4. Whether the risk involves significant transactions with related parties;
5. The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
6. Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual

Risks for Which Substantive Procedures Alone Do Not Provide SAAE

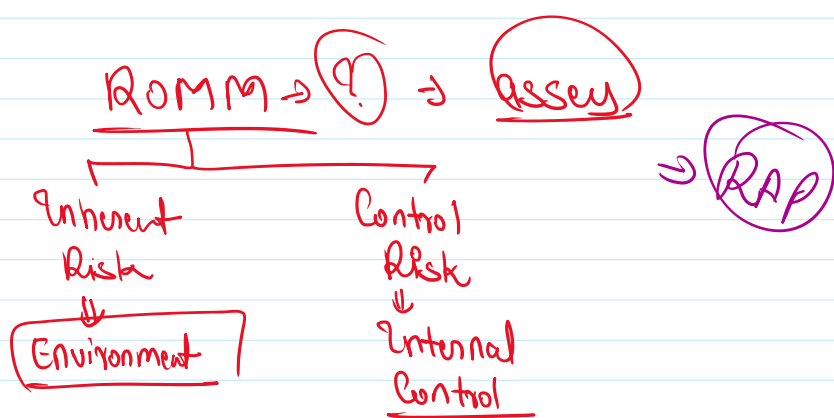
In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.

Revision of Risk Assessment

In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly

Documentation

ROMM
DISCUSSION
RELATED CONTROL



Environment /

Internal
Control

SA 320 Materiality in Planning and Performing an Audit

Scope

apply the concept of materiality in planning and performing an audit of financial statements

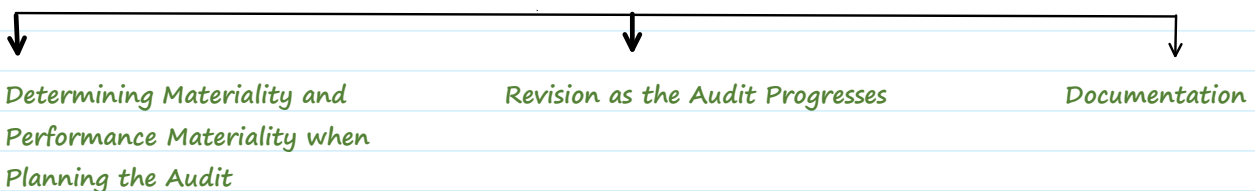
SA 450 explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements

Objective

The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit

Requirements

TO MEET ABOVE OBJECTIVE



Determining Materiality and Performance Materiality when Planning the Audit

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole.

If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures

Use of Benchmarks in Determining Materiality for the Financial Statements as a Whole

Determining materiality involves the exercise of professional judgment.

A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.

Factors that may affect the identification of an appropriate benchmark include the following:

- The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);
- Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);
- The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;
- The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and
- The relative volatility of the benchmark

Performance Materiality

Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements.

Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole

Revision as the Audit Progresses

The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate

Documentation

The audit documentation shall include the following amounts and the factors considered in their determination:

- a. Materiality for the financial statements as a whole
- b. If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures
- c. Performance materiality ; and
- d. Any revision of (a)-(c) as the audit progressed

Meaning

Materiality level \Rightarrow Misstatement / omission \Rightarrow economic decision \Rightarrow Users \Rightarrow F. St
 \downarrow \downarrow
affect

\hookrightarrow How to Set Up
 \downarrow

Common financial needs \Rightarrow Users

Circumstance, Size, Nature, Law, AFRP

Prof Judgment

Entity \approx Entity

\downarrow

Basic assumption

\downarrow

Users \Rightarrow Reasonable knowledge \Rightarrow Entity

Audit \Rightarrow Materiality according

Reasonable economic decision \Rightarrow Info in F. St

\downarrow

Initially \Rightarrow Materiality level \Rightarrow Set \Rightarrow %

[% of Profit before tax or Gross Revenue]

Benchmark

\downarrow

Materiality

\downarrow
application / Use

\downarrow

Audit effect / opinion

\Rightarrow SA
450

Performance materiality

\downarrow
Use

\downarrow

effect of Audit Procedure

assurance level \uparrow

SA 330* The Auditor's Responses to Assessed Risks

SCOPE

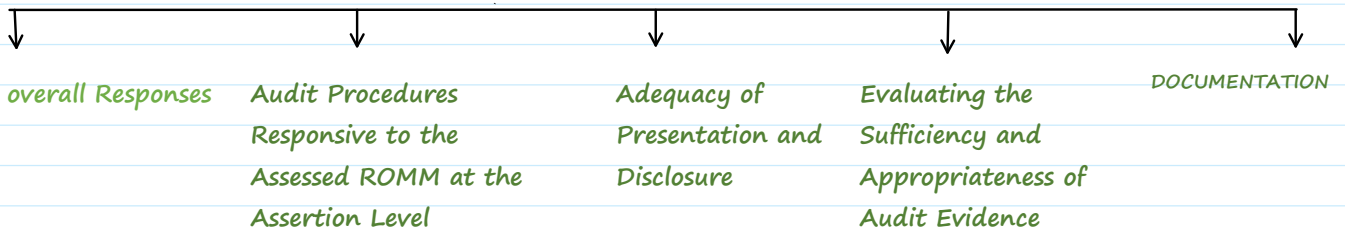
design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with SA 315

OBJECTIVE

The objective of the auditor is to obtain SAAE about the assessed ROMM, through designing and implementing appropriate responses to those risks

Requirements

TO MEET ABOVE OBJECTIVE



overall Responses

The auditor shall design and implement overall responses to address the assessed ROMM at the financial statement level.

may include:

- Emphasizing to the audit team the need to maintain professional Skepticism.
- Assigning more experienced staff or those with special skills or using experts.
- Providing more supervision.
- Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.
- Making general changes to the NTE of audit procedures,

An effective control environment may allow the auditor to have more confidence in internal control and the reliability of audit evidence generated internally within the entity and thus, allow the auditor to conduct some audit procedures at an interim date rather than at the period end

Audit Procedures Responsive to the Assessed ROMM at the Assertion Level

The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed

ROMM at the assertion level.

In designing the further audit procedures to be performed, the auditor shall

Consider the reasons for the assessment given to the ROMM at the assertion level for each class of transactions, account balance, and disclosure,

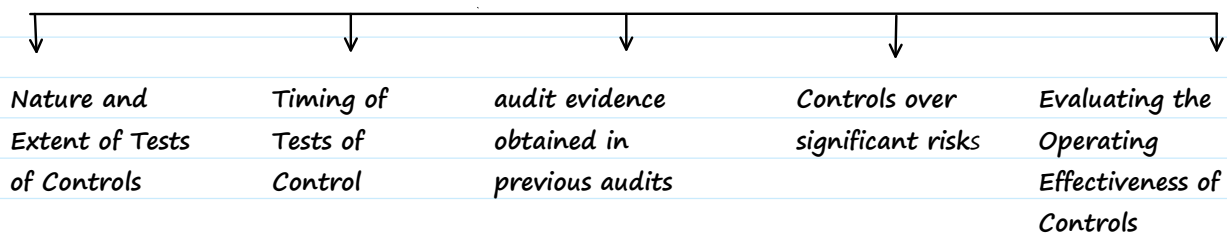
including:

- a. The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure (i.e., the inherent risk); and
- b. Whether the risk assessment takes into account the relevant controls (i.e., the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively

Obtain more persuasive audit evidence the higher the auditor's assessment of risk

FURTHER AUDIT PROCEDURES

TEST OF CONTROL



The auditor shall design and perform tests of controls to obtain SAAE as to the operating effectiveness of relevant controls when:

- (a) The auditor's assessment of ROMM at the assertion level includes an expectation that the controls are operating effectively
- (b) Substantive procedures alone cannot provide SAAE at the assertion level.

In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control

Nature and Extent of Tests of Controls

Perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls, including:

WHO APPLIED HOW APPLIED CONSISTENCY

Determine whether the controls to be tested depend upon other controls (indirect controls), and if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls

Timing of Tests of Controls -

The auditor shall test controls for the particular time, or throughout the period, for which the auditor intends to rely on those controls in order to provide an appropriate basis for the auditor's intended reliance

audit evidence obtained during an interim period

Auditor shall

Obtain audit evidence about significant changes to those controls subsequent to the interim period; and

Determine the additional audit evidence to be obtained for the remaining period

audit evidence obtained in previous audits -

Auditor need to **establish its continuing relevance** by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit

If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit

If there have not been such changes, the auditor shall test the controls **at least once in every third audit**, and shall **test some controls each audit**

Auditor shall test the control in current period if;

- A deficient control environment.
- Deficient monitoring of controls
- A significant manual element to the relevant controls.
- Personnel changes that significantly affect the application of the control.
- Changing circumstances that indicate the need for changes in the control.
- Deficient general IT-control

Controls over significant risks - Test in current period

Evaluating the Operating Effectiveness of Controls -

When evaluating the operating effectiveness of relevant controls,

the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively.

The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective

When **deviations from controls** upon which the auditor intends to rely are **detected**, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether:

- (a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls;
- (b) Additional tests of controls are necessary; or
- (c) The potential risks of misstatement need to be addressed using substantive procedures.

Substantive Procedures

Irrespective of the assessed ROMM, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure

AS

the auditor's assessment of risk is judgmental and so may not identify all risks of material misstatement; and there are inherent limitations to internal control, including management override.

Depending on the circumstances, the auditor may determine that:

Performing only **substantive analytical procedures** will be sufficient to reduce audit risk to an acceptably low level.

Only **tests of details** are appropriate.

A **combination** of substantive analytical procedures and tests of details are most responsive to the assessed risks.

Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time

The auditor shall consider whether **external confirmation** procedures are to be performed as substantive audit procedures.

Factors that may assist the auditor in determining whether external confirmation procedures are to be performed as substantive audit procedures include

- The confirming party's knowledge of the subject matter
- The ability or willingness of the intended confirming party to respond
- The objectivity of the intended confirming party

The auditor's substantive procedures shall include the following audit procedures related to the **financial statement closing process**:

- (a) Agreeing or reconciling the financial statements with the underlying accounting records; and

(b) Examining material journal entries and other adjustments made during the course of preparing the financial statements.

Substantive Procedures Responsive to Significant Risks

When the auditor has determined that an assessed ROMM at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details

Timing of Substantive Procedures

When substantive procedures are performed at an interim date, the auditor shall cover the remaining period by performing:

- a. substantive procedures, combined with tests of controls for the intervening period; or
- b. if the auditor determines that it is sufficient, further substantive procedures only; that provide a reasonable basis for extending the audit conclusions from the interim date to the period end.

If misstatements that the auditor did not expect when assessing the ROMM are detected at an interim date, the auditor shall evaluate whether the related assessment of risk and the planned NTE of substantive procedures covering the remaining period need to be modified.

Adequacy of Presentation and Disclosure

The auditor shall perform audit procedures to evaluate whether the overall presentation of the F.ST., including the related disclosures, is in accordance with the AFRF

Evaluating the Sufficiency and Appropriateness of Audit Evidence

Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the ROMM at the assertion level remain appropriate.

The auditor shall conclude whether SAAE has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence

If the auditor has not obtained SAAE as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain SAAE, the auditor shall express a qualified opinion or a disclaimer of opinion

DOCUMENTATION

The auditor shall document:

- (a) The overall responses to address the assessed ROMM at the F.ST. level, and the NTE of the further audit procedures performed;
- (b) The linkage of those procedures with the assessed risks at the assertion level; and
- (c) The results of the audit procedures, including the conclusions where these are not otherwise clear.

If the auditor plans to use audit evidences about the operating effectiveness of controls obtained in previous audits, the auditor shall document the conclusions reached about relying on such controls that were tested in a previous audit.

The auditors' documentation shall demonstrate that the financial statements agree or reconcile with the underlying accounting records.

RISK ASSESSMENT AND INTERNAL CONTROL

RISK ASSESSMENT

Risk assessment assesses the level of risk in the various business processes. Risk assessment focuses on the business environment, regulatory environment, organisation structure, organizational and business environmental changes and specific concerns of management and the audit committee to determine the areas of greatest risk.

Audit risk

Audit risk is the risk of expressing an inappropriate audit opinion on financial statements that are materially misstated.

Audit Risk Components

Mathematically Audit Risk (AR) can be expressed as a product of Inherent Risk (IR), Control Risk (CR) and Detection Risk (DR), i.e. $AR = IR \times CR \times DR$

Audit Risk has two components: Risk of material misstatement (the risk that the financial statements contain a material misstatement) and detection risk (the risk that the auditor will not be able to detect such misstatement).

Audit Risk = Risk of Material Misstatement X Detection Risk

Risk of material Misstatement: -

Risk of material misstatement is anticipated risk that a material misstatement may exist in financial statement before start of the audit. It has two components inherent risk and control risk.

The relationship can be defined as Risk of material Misstatement = Inherent risk X Control risk

Inherent Risk-

Susceptibility of an assertion to a misstatement that could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

Inherent risk is addressed at both the financial statement level and at the assertion level.

For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement.

These are the business and other risks that arise from the entity's objectives, nature of operations and industry, the regulatory environment in which it operates and its size and complexity.

Control Risk (Do internal controls in place mitigate the inherent risks?)

Risk that the entity's internal control system will not prevent, or detect and correct on a timely basis, a misstatement that could be material, individually or when aggregated with other misstatements.

The entity should identify and assess its business and other risks (such as fraud) and respond by designing and implementing a system of internal control. Entity level controls such as board oversight, IT general controls, and HR policies

Detection Risk

Detection Risk

It is a risk that a material Misstatement remained undetected even if all Audit procedures applied.

This is the risk that the auditor will not detect a misstatement that exists in an assertion that could be material, either individually or when aggregated with other misstatements. The acceptable level of detection risk for a given level of audit risk bears an inverse relationship to the risks of material misstatement at the assertion level

It should be noted that the combined level of Inherent Risk and Control Risk is inversely related with Detection Risk, and Audit Materiality is also inversely related with audit risk.

Types of assertions used by the auditor to consider the different types of potential misstatements that may occur, as follows:

Assertions about classes of transactions and events for the period under audit:

1. **Occurrence**— transactions and events that have been recorded have occurred and pertain to the entity.
2. **Completeness**— all transactions and events that should have been recorded have been recorded.
3. **Accuracy**— amounts and other data relating to recorded transactions and events have been recorded appropriately.
4. **Cut-off**— transactions and events have been recorded in the correct accounting period.
5. **Classification**— transactions and events have been recorded in the proper accounts.

Assertions about account balances at the period end:

1. **Existence**— assets, liabilities, and equity interests exist.
2. **Rights and obligations**— the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
3. **Completeness**— all assets, liabilities and equity interests that should have been.
4. **Valuation and allocation**— assets, liabilities, and equity interests are included in the FS at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

Assertions about presentation and disclosure:

1. **Occurrence and rights and obligations** — disclosed events, transactions, and other matters have occurred and pertain to the entity.
2. **Completeness**— all disclosures that should have been included in the financial statements have been included.
3. **Classification and understandability**— financial information is appropriately presented and described, and disclosures are clearly expressed.
4. **Accuracy and valuation**— financial and other information are disclosed fairly and at appropriate amounts.”

Steps for Risk Identification

- Assess the significance of the assessed risk, impact of its occurrence and also revise the materiality accordingly for the specific account balance.

- Determine the likelihood for assessed risk to occur and its impact on our auditing procedures.
- Document the assertions that are effected
- Consider the impact of the risk on each of the assertions
- (completeness, existence, accuracy, validity, valuation and presentation) relevant to the account balance, class of transactions, or disclosure.
- Identify the degree of Significant risks that would require separate attention and response by the auditor. Planned audit procedures should directly address these risks.
- Enquire and document the management's response.
- Consider the nature of the internal control system in place and its possible effectiveness in mitigating the risks involved.
- Consider any unique characteristics of the risk.
- Consider the existence of any particular characteristics (inherent risks) in the class of transactions, account balance or disclosure that need to be addressed in designing further audit procedures.

Possible potential misstatements - Indicators

Completeness

- Transactions not identified.
- Source documents not prepared.
- Source documents not captured.

Existence

- Source documents overstated.
- Transactions duplicated on source documents.
- Capture of source documents duplicated.
- Invalid source documents captured on subsidiary ledgers.

Recording

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

Cut-Off Procedures

- Transactions that occur in one period are recorded in another period.

RISK-BASED AUDIT APPROACH

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

In the context of performance audit, it is the risk to delivery of an activity or scheme or programme of the entity with economy, efficiency and effectiveness. Awareness of areas that puts the programme or resources at risk from the point of view of economy, efficiency and effectiveness helps focus audit attention on them. The risk analysis provides a framework for assurance in performance auditing.

Audit Risk Analysis

The auditor should perform an analysis of the audit risks that impact on the auditee before undertaking specific audit procedures. Risk assessment is a subjective process. It is part of the professional judgment of the auditor and of the particular circumstances.

Audit risks are brought about by error and fraud:

General Steps in the Conduct of Risk Based Audit

The auditor's objective in a risk-based audit is to obtain reasonable assurance that no material misstatements whether caused by fraud or errors exist in the financial statements.

This involves the following three key steps:

- Assessing the risks of material misstatement in the financial statements
- Designing and performing further audit procedures that respond to assessed risks and reduce the ROMM in the financial statements to an acceptably low level; and
- Issuing an appropriate audit report based on the audit findings

The risk-based audit process is presented in three distinct phases:

Risk assessment.

The risk assessment phase of the audit involves the following steps:

- Performing client acceptance or continuance procedures;
- Planning the overall engagement;
- Performing risk assessment procedures to understand the business and identify inherent and control risks;
- Identifying relevant internal control procedures and assessing their design and implementation
- Assessing the risks of material misstatement in the financial statements;
- Identifying the significant risks that require special audit consideration and those risks for which substantive procedures alone are not sufficient;
- Communicating any material weaknesses in the design and implementation of internal control to management and those charged with governance; and
- Making an informed assessment of the risks of material misstatement at the financial statement level and at the assertion level.

Risk response

This phase of the audit is to design and perform further audit procedures that respond to the assessed risks of material misstatement and will provide the evidence necessary to support the audit opinion.

Reporting.

The final phase of the audit is to assess the audit evidence obtained and determine whether it is sufficient and appropriate to reduce the risks of material misstatement in the financial statements to an acceptably low level.

When all procedures have been performed and conclusions reached:

- Audit findings should be reported to management and those charged with governance; and
- An audit opinion should be formed, and a decision made on the appropriate wording for the auditor's report.

INTERNAL CONTROL SYSTEM - NATURE, SCOPE, OBJECTIVES AND STRUCTURE

"Internal Control System" means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable,

- the orderly and efficient conduct of its business, including adherence to management policies,
- the safeguarding of assets,
- the prevention and detection of fraud and error,
- the accuracy and completeness of the accounting records, and
- the timely preparation of reliable financial information.

The auditor should obtain an understanding of the control environment sufficient to assess management's attitudes, awareness and actions regarding internal controls and their importance in the entity. Such an understanding would also help the auditor to make a preliminary assessment of the adequacy of the accounting and internal control systems as a basis for the preparation of the financial statements, and of the likely nature, timing and extent of audit procedures.

When obtaining audit evidence about the effective operation of internal controls, the auditor considers :

- how they were applied,
- the consistency with which they were applied during the period and
- by whom they were applied.

Nature of Internal Control

a primary responsibility of every management to create and maintain an adequate system of internal control appropriate to the size and nature of the business entity.

SA 315 defines the system of internal control as the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations.

Scope of Internal Controls

- The scope of internal controls extends beyond mere accounting controls and includes all administrative controls concerned with the decision - making process
- The fundamental therefore is that effective internal control is a process effected by people that supports the organization in several ways, enabling it to provide reasonable assurance regarding risk and to assist in the achievement of objectives.
- Fundamental to a system of internal control is that it is integral to the activities of the company, and not something practiced in isolation.
- In an independent financial audit, the auditor is primarily concerned with those policies and procedures having a bearing on the assertions underlying the financial statements. Administrative controls, on the other hand, have only a remote relationship with financial records and the auditor may evaluate only those administrative controls which have a bearing on the reliability of the financial records.

Objectives of Internal Control System

- (i) Transactions are executed through general or specific management authorization.
- (ii) All transactions are promptly recorded in an appropriate manner

(iii) Assets and records are safeguarded from unauthorized access, use or disposition.

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

Accounting control objectives

Ensure all transactions are

Recorded

Real

Properly

Valued

Recorded Timely

Properly Posted Properly Classified and Disclosed

Properly Summarized.

If the response to all the above answer is positive, the auditor would be justified in limiting his account balance tests considerably.

In case of excellent companies it may also be possible to rely on account balance with minimum of external tests, such as direct confirmation, management representation etc.

Where in a system a particular control is found to be deficient, audit attention can be focused on the areas where basic accounting control objectives are not being adhered to.

Limitations of Internal Control

- Management's consideration that the cost of an internal control does not exceed the expected benefits to be derived.
- The fact that most internal controls do not tend to be directed at transactions of unusual nature.
- The potential for human error, such as, due to carelessness, distraction, mistakes of judgement and misunderstanding of instructions.
- The possibility of circumvention of internal controls through collusion with employees or with parties outside the entity.
- The possibility that a person responsible for exercising an internal control could abuse that responsibility, for example, a member of management overriding an internal control.
- Manipulations by management with respect to transactions or estimates and judgements required in the preparation of financial statements

Structure of Internal Control

In order to achieve the objectives of internal controls, it is necessary to establish adequate control policies and procedures. Most of these policies and procedures cover:

Segregation of duties -

Transaction processing are allocated to different persons in such a manner that no one person can carry through the completion of a transaction from start to finish or the work of one person is made complimentary to the work of another person

Apart from segregation of duties, periodic rotation of duties of personnel is also desirable.

Authorization of Transaction -

Authorization may be general or it may be specific with reference to a single transaction. It is necessary to establish procedures which provide assurance that authorizations are issued by persons acting within the scope of their authority, and that the transactions conform to the terms of the authorizations

Adequacy of Records and Documents -

Transactions are executed in accordance with management's general or specific authorization. Transactions and other events are promptly recorded at correct amounts. Transactions should be classified in appropriate accounts and in the appropriate period to which it relates. Transaction should be recorded in a manner so as to facilitate preparation of financial statements in accordance with applicable accounting standards, other accounting policies and practices and relevant statutory requirements.

Accountability and Safeguarding of Assets -

The process of accountability of assets commences from acquisitions of assets its use and final disposal. Safeguarding of assets requires appropriate maintenance of records, their periodic reconciliation with the related assets. For proper safeguarding of assets, only authorized personnel should be given access to such asset.

Independent Checks -

Independent verification of the control systems, designed and implemented by the management, involves periodic or regular review by independent persons to ascertain whether the control procedures are operating effectively or not. Such process may be carried out by specially assigned staff under the banner of external audit

COMPONENTS OF INTERNAL CONTROLS

In general, a system of internal control to be considered adequate should include the following five components:

- (i) Control environment;
- (ii) Entity's Risk assessment Process;
- (iii) Control activities;
- (iv) Information system and communication;
- (v) Monitoring of Controls

REVIEW OF THE SYSTEM OF INTERNAL CONTROLS

- The design of a control is considered first. Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.
- An entity's system of internal control contains manual elements and often contains automated elements.

The review of the internal control system enables the auditor -

- i. to formulate his opinion as to the reliance he may place on the system itself i.e. whether the system is such as would enable the management to produce a true and fair set of financial statements; and
- ii. to locate the areas of weakness in the system so that the audit programme and the nature, timing and extent of substantive and compliance audit procedures can be adjusted to meet the situation.

INTERNAL CONTROL ASSESSMENT & EVALUATION

Standard Operating Procedures (SOPs): A well defined set of SOPs helps define role, responsibilities, process & controls & thus helps clearly communicate the operating controls to all touch points of a process

Following are some of the *key components to assess & evaluate the controls environment*:

i. Enterprise Risk Management:

An organization which has robust process to identify & mitigate risks across the enterprise & its periodical review will assist in early identification of gaps & taking effective control measures. In such organizations, surprises of failures in controls is likely to be few.

ii. Segregation of Job Responsibilities:

A key element of control is that multiple activities in a transaction/decision should not be concentrated with one individual. Segregation of duties is an important element of control such that no two commercial activities should be conducted by the same person.

iii. Job Rotation in Sensitive Areas:

Any job carried out by the same person over a long period of time is likely to lead to complacency & possible misuse in sensitive areas. It is therefore important that in key commercial functions, the job rotation is regularly followed

iv. Delegation of Financial Powers Document:

As the organization grows, it needs to delegate the financial & other powers to their employees. A clearly defined document on delegation of powers allows controls to be clearly operated without being dependent on individuals.

v. Information Technology based Controls:

With the advent of computers & enterprise resource planning (ERP) systems, it is much easier to embed controls through the system instead of being human dependent. The failure rate for IT embedded controls is likely to be low, is likely to have better audit trail & is thus easier to monitor.

Techniques of evaluation of Internal control

i. Questionnaire

- Most of the auditing firms have their own standardised internal control questionnaire on a generally applicable basis
- A questionnaire is a set of questions framed in an organised manner, about each functional area, which has as purpose the evaluation of the effectiveness of control and detection of its weakness if any.
- A questionnaire usually consists of several separate sections devoted to areas such as purchases, sales, trade receivables, trade payables, wages, etc.
- Questions are so framed as generally to dispense with the requirement of a detailed answer to each question. For this purpose, often one general question is broken down into a number of questions and sub-questions to

enable the executive to provide a just 'Yes', 'No' or 'Not applicable' form of reply

- Questions are also framed in such a manner that generally a "No" answer will effect weakness in the control system. However, this should not be taken as an unbreakable rule. Questions may be framed also when a 'Yes' answer would indicate weakness. The only thing that should be borne in mind is that the scheme of questions should be consistent, sequential, logical, and if possible corroborative.

In the use of standardized internal control questionnaire, certain basic assumptions about elements of good control are taken into account. These are -

- a. Organisations are such that permit an extensive division of duties and responsibilities. The larger the organisation, the greater is the scope of such division.
- b. Employees concerned with accounting function are not assigned any custodial function.
- c. No single person is thrust with the responsibility of completing a transaction all by himself.
- d. There should always be evidence to identify the person who has done the work whether involving authorisation, implementation or checking.
- e. The work performed by each one is expected to come under review of another in the usual course of routine.
- f. There is proper documentation and recording of the transactions.

ii. Check List

- It is a series of instructions or questions on internal control which the auditor must follow or answer.
- When a particular instruction is carried out, the auditor initials the space opposite the instruction.
- If it is in the form of a question, the answer generally 'Yes', 'No' or 'Not Applicable' is entered opposite the question.
- A check list is more in the nature of a reminder to the auditor about the matters to be checked for testing the internal control system.
- While a questionnaire is basically a set of questions put to the client,
- a check list which may be in a form of instructions, questions or just points to be checked may be meant for the auditor's own staff
- Questions in the check list may be formed in the following manner (this is an illustrative set of questions to be answered by the audit staff). Have you checked that the cashier - (i) is not responsible for opening the incoming mails; (ii) does not authorise any of the ledgers; (iii) does not authorise any expenditure or receipt; etc.

iii. Flow chart

- It is a graphic presentation of internal controls in the organisation and is normally drawn up to show the controls in each section or sub-section.
- it provides the most concise and comprehensive way for reviewing the internal controls and the evaluator's findings
- it can successfully bring the whole control structure, specially the essential parts thereof, in a condensed but wholly meaningful manner
- It gives a bird's eye view of the system
- A properly drawn up flow chart can provide a neat visual picture of the whole activities of the section or department involving flow of documents and activities. More specifically it can show-
 - a. at what point a document is raised internally or received from external sources;
 - b. the number of copies in which a document is raised or received;
 - c. the intermediate stages set sequentially through which the document and the activity pass;
 - d. distribution of the documents to various sections, department or operations;
 - e. checking authorisation and matching at relevant stages;
 - f. filing of the documents; and

g. final disposal by sending out or destruction.

REPORTING TO CLIENTS ON INTERNAL CONTROL WEAKNESSES

Material weaknesses are defined as absence of adequate controls on flow of transactions that increases the possibility of errors and frauds in the financial statements of the entity

The auditor should communicate such material weaknesses to the management or the audit committee, if any, on a timely basis.

This communication should be, preferably, in writing through a letter of weakness or management letter.

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

- a. The letter lists down the area of weaknesses in the system and offers suggestions for improvement.
- b. It should clearly indicate that it discusses only weaknesses which have come to the attention of the auditor as a result of his audit and that his examination has not been designed to determine the adequacy of internal control for management.
- c. This letter serves as a valuable reference document for management for the purpose of revising the system and insisting on its strict implementation.
- d. The letter may also serve to minimize legal liability in the event of a major defalcation or other loss resulting from a weakness in internal control

The objective of the auditor is to communicate appropriately to those charged with governance 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.

Other relevant points already covered with SA 265

FRAMEWORKS OF INTERNAL CONTROL

There are a number of global internal control frameworks that provide guidance to entities for developing and establishing their internal control systems.

Control should be built and established within the processes through which the company pursues its objectives. It follows that, rather than developing separate risk reporting systems, it would be more appropriate to build early warning mechanisms into existing management information systems

International Internal Control Frameworks

COSO Framework

- COSO's Internal Control – Integrated Framework was introduced in 1992 as guidance on how to establish better controls so companies can achieve their objectives.
- COSO categorizes entity -level objectives into
 - **Operations**– related to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.
 - **Reporting**– related to internal and external financial and non-financial reporting to stakeholders, which would encompass reliability, timeliness, transparency, or other terms as established by regulators, standard setters, or the entity's policies.

- **Compliance**—In the Framework, the compliance objective was described as “relating to the entity’s compliance with applicable laws and regulations.”
- The framework includes more than 20 basic principles representing the fundamental concepts associated with its five components: control environment, risk assessment, control activities, information and communication, and monitoring. However, the Framework clarifies the requirements for effective internal control. This was largely done through the articulation of the 17 principles.
- **Limitations of Internal Control:** The Framework acknowledges that there are limitations related to a system of internal control. For example, certain events or conditions are beyond an organization’s control, and no system of internal control will always do what it was designed to do. Controls are performed by people and are subject to human error, uncertainties inherent in judgment, management override, and their circumvention due to collusion. An effective system of internal control provides reasonable assurance, not absolute assurance, that the entity will achieve its defined operating, reporting, and compliance objectives.

CoCo

CoCo was introduced in 1992 with the objective of improving organizational performance and decision-making with better controls, risk management, and corporate governance.

The Criteria of Control (CoCo) framework was developed by the Canadian Institute of Chartered Accountants. The framework includes 20 criteria for effective control in four areas of an organization: purpose (direction), commitment (identity and values), capability (competence), and monitoring and learning (evolution).

In order to assess whether controls exist and are operating effectively, each criterion would be examined to identify the controls that are in place to address them.

COBIT

- COBIT stands for Control Objectives for Information and Related Technology. It is a framework created by the ISACA (Information Systems Audit and Control Association) for IT governance and management.
- COBIT has 34 high-level processes that cover 210 control objectives categorized in four domains: planning and organization, acquisition and implementation, delivery and support, and monitoring and evaluation.
- Business managers are equipped with a model to deliver value to the organization and practice better risk management practices associated with the IT processes. It is a control model that guarantees the integrity of the information system.
- Overall, COBIT ensures quality, control and reliability of information systems in organization, which is also the most important aspect of every modern business.

SOX Section 404

SOX Section 404 (Sarbanes-Oxley Act Section 404) mandates that all publicly-traded companies must establish internal controls and procedures for financial reporting and must document, test and maintain those controls and procedures to ensure their effectiveness.

The purpose of SOX is to reduce the possibilities of corporate fraud by increasing the stringency of procedures and requirements for financial reporting.

The SEC rules and PCAOB standard require that:

- Management perform a formal assessment of its controls over financial reporting including tests that confirm

the design and operating effectiveness of the controls.

- *Management include in its annual report an assessment of ICFR.*
- *The external auditors provide two opinions as part of a single integrated audit of the company:*
 - *An independent opinion on the effectiveness of the system of ICFR.*
 - *The traditional opinion on the financial statements.*

SA 265* Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

Scope

deals with the auditor's responsibility to communicate appropriately to TCWG and management deficiencies in internal control that the auditor has identified in an audit of F.ST.

This SA does not impose additional responsibilities on the auditor regarding obtaining an understanding of internal control and designing and performing tests of controls over and above the requirements of SA 315 and SA 330

SA 260 establishes further requirements and provides guidance regarding the auditor's responsibility to communicate with TCWG

The auditor is required to obtain an understanding of internal control relevant to the audit when identifying and assessing the ROMM.

In making those risk assessments, the auditor considers internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

This SA specifies which identified deficiencies the auditor is required to communicate to those charged with governance and management

Objective

The objective of the auditor is to communicate appropriately to TCWG and MGT deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance

Deficiency in internal control – This exists when:

- i. A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
- ii. A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing

Significant deficiency in internal control – A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of TCWG

Requirements

To meet above objective

The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control

Determine whether, individually or in combination, they constitute **significant**

Determine whether, individually or in combination, they constitute **significant deficiencies**

Matters that the auditor may consider in determining whether a deficiency constitutes a significant deficiency include:

- The likelihood of the deficiencies leading to material misstatements in the financial statements in the future.
- The susceptibility to loss or fraud of the related asset or liability.
- The subjectivity and complexity of determining estimated amounts, such as fair value accounting estimates.
- The financial statement amounts exposed to the deficiencies.
- The volume of activity that has occurred or could occur in the account balance or class of transactions exposed to the deficiency or deficiencies.

Indicators of significant deficiencies in internal control include, for example:

- Evidence of ineffective aspects of the control environment
- Absence of a risk assessment process within the entity where such a process would ordinarily be expected to have been established.
- Evidence of an ineffective entity risk assessment process, such as management's failure to identify a risk of material misstatement that the auditor would expect the entity's risk assessment process to have identified.
- Evidence of an ineffective response to identified significant risks
- Misstatements detected by the auditor's procedures that were not prevented, or detected and corrected, by the entity's internal control.

Communicate in **writing** significant deficiencies in internal control identified during the audit to **TCWG** on a timely basis.

The auditor shall also **communicate to management** at an appropriate level of responsibility on a timely basis:

- i. In **writing**, significant deficiencies in internal control that the auditor has communicated or intends to communicate to TCWG, unless it would be inappropriate to communicate directly to management in the circumstances; and
- ii. Other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention

The auditor shall include in the **written communication** of significant deficiencies in internal control

- A description of the deficiencies and an explanation of their potential effects; and
- Sufficient information to enable TCWG and MGT to understand the context of the communication. In particular, the auditor shall explain that:

- i. The purpose of the audit was for the auditor to express an opinion on the F.ST.
- ii. The audit included consideration of internal control relevant to the preparation of the F.ST. in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and
- iii. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to TCWG.

SA 450 Evaluation of Misstatements Identified during the Audit

Scope

evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements (SA320 +SA700)

Misstatement –

A difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

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

Misstatements may result from:

1. An inaccuracy in gathering or processing data from which the financial statements are prepared;
2. An omission of an amount or disclosure;
3. An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; and
4. Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.

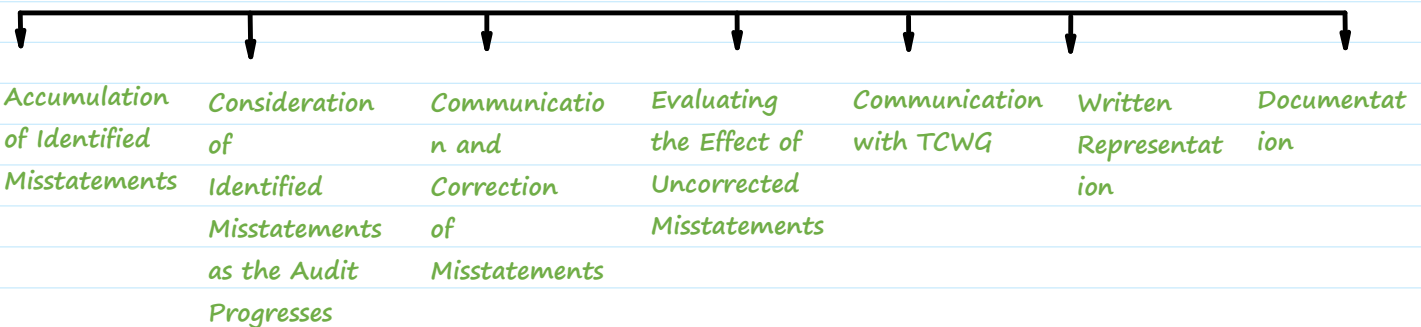
Objective

The objective of the auditor is to evaluate:

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

Requirements

TO MEET ABOVE OBJECTIVE



Accumulation of Identified Misstatements

The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial.

The auditor may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial statements.

“Clearly trivial” is not another expression for “not material”. Matters that are “clearly trivial” will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with SA 320, and will be matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

To assist the auditor in evaluating the effect of misstatements accumulated during the audit and in communicating misstatements to management and those charged with governance, it may be useful to distinguish between factual misstatements, judgmental misstatements and projected misstatements.

Factual misstatements

- o misstatements about which there is no doubt.

Judgmental misstatements

- o differences arising from the judgments of management concerning accounting estimates that the auditor considers unreasonable, or the selection or application of accounting policies that the auditor considers inappropriate.

Projected misstatements

- o the auditor's best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

Consideration of Identified Misstatements as the Audit Progresses

The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:

1. The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or
2. The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320.

If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain

Communication and Correction of Misstatements

The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation

The auditor shall request management to correct those misstatements

If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.

Evaluating the Effect of Uncorrected Misstatements

Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320 to confirm whether it remains appropriate in the context of the entity's actual financial result

The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:

- (a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and
- (b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Communication with Those Charged with Governance

The auditor shall communicate with TCWG uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.

The auditor shall also communicate with TCWG the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole

Written Representation

The auditor shall request a WR from management and, where appropriate, TCWG whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole.

A summary of such items shall be included in or attached to the written representation

Documentation

The audit documentation shall include:

(a) The amount below which misstatements would be regarded as clearly trivial

(b) All misstatements accumulated during the audit and whether they have been corrected and

(c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion

CHAPTER - 5

Audit Evidence

SA 500 Audit Evidence

Scope

(SA) explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain SAAE to be able to draw reasonable conclusions on which to base the auditor's opinion.

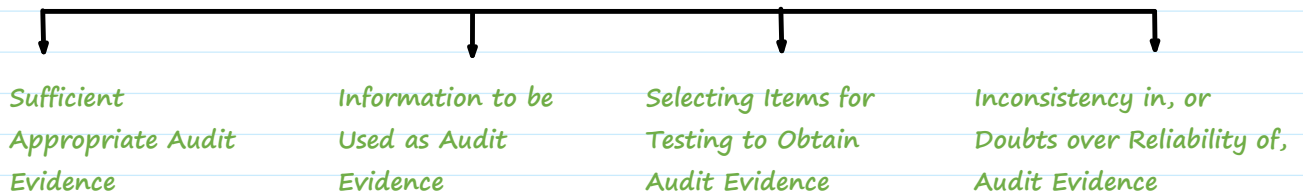
This SA is applicable to all the audit evidence obtained during the course of the audit.

Objective

The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain SAAE to be able to draw reasonable conclusions on which to base the auditor's opinion

Requirements

To meet above objective



Sufficient Appropriate Audit Evidence

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining SAAE

Audit evidence is necessary to support the auditor's opinion and report (ALREADY DISCUSSED IN SA 200)

To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion

Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment

Audit Procedures for Obtaining Audit Evidence

(a) Risk assessment procedures; and

(b) Further audit procedures, which comprise:

(i) Tests of controls, when required by the SAs or when the auditor has chosen to do so; and

(ii) Substantive procedures, including tests of details and substantive analytical procedures.

Audit procedures (inspection, observation, confirmation, recalculation, reperformance and analytical procedures) may be used as risk assessment procedures, tests of controls or substantive procedures, depending on the context in which they are applied by the auditor

Inspection involves examining records or documents, whether internal or external

Observation consists of looking at a process or procedure being performed by others

An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party

Recalculation consists of checking the mathematical accuracy of documents or records

Reperformance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data (SA520)

Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity

Information to be Used as Audit Evidence

When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence

The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

Relevance -

logical connection with assertion under consideration

Reliability -

influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and

maintenance

While recognising that exceptions may exist, the following generalisations about the reliability of audit evidence may be useful

- The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
- The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.
- Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly.
- Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally
- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies

When information to be used as audit evidence has been prepared using the work of a management's expert,

Management's expert – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes

- Evaluate the competence, capabilities and objectivity of that expert;
- Obtain an understanding of the work of that expert; and
- Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion

The NTE of audit procedures in relation to the EXPERT WOEK, may be affected by such matters as

- The nature and complexity of the matter to which the management's expert relates.
- The ROMM in the matter.
- The availability of alternative sources of audit evidence.
- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- The nature and extent of any controls within the entity over the management's expert's work.

- The auditor's knowledge and experience of the management's expert's field of expertise.
- The auditor's previous experience of the work of that expert.

Competence relates to the nature and level of expertise of the management's expert. Capability relates the ability of the management's expert to

exercise that competence in the circumstances

Objectivity relates to the possible effects that bias, conflict of interest or the influence of others may have on the professional or business judgment

of the management's expert

The competence, capabilities and objectivity of a management's expert, and any controls within the entity over that expert's work, are important

factors in relation to the reliability of any information produced by a management's expert

Information regarding the **competence, capabilities and objectivity** of a management's expert may come from a variety of sources, such as

- 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, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- An auditor's expert, if any, who assists the auditor in obtaining SAAE with respect to information produced by the management's expert

Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include:

- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;
- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods;
and
- If that expert's work involves significant use of source data, the relevance, completeness, and accuracy of that source data

When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes,

I.E. sufficiently complete and accurate , sufficiently precise or detailed for the auditor's purposes

Selecting Items for Testing to Obtain Audit Evidence

When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure

The means available to the auditor for selecting items for testing are:

(a) Selecting all items (100% examination); -

100% examination may be appropriate when, for example:

- The population constitutes a small number of large value items
- There is a significant risk and other means do not provide sufficient appropriate audit evidence

(b) Selecting specific items; - example -High value or key items

(c) Audit sampling (SA520)

Inconsistency in, or Doubts over Reliability of, Audit Evidence

If:

- (a) audit evidence obtained from one source is inconsistent with that obtained from another; or
(b) the auditor has doubts over the reliability of information to be used as audit evidence,

The auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit

SA 501* Audit Evidence - Specific Considerations for Selected Items

Scope

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

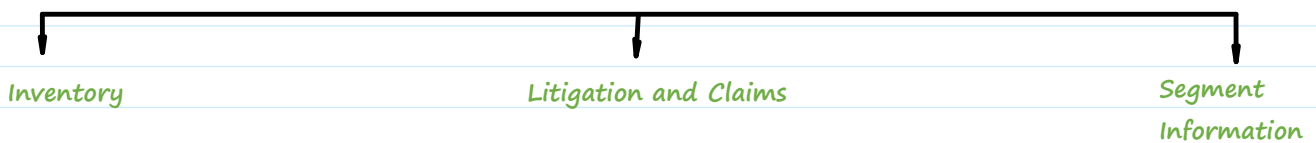
Objective

The objective of the auditor is to obtain SAAE regarding the:

- (a) Existence and condition of inventory;
- (b) Completeness of litigation and claims involving the entity; and
- (c) Presentation and disclosure of segment information in accordance with the AFRF

Requirements

TO MEET ABOVE OBJECTIVE



Inventory

When inventory is material to the financial statements

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

(a) Attendance at physical inventory counting, unless impracticable, to:

- (i) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;
- (ii) Observe the performance of management's count procedures;
- (iii) Inspect the inventory; and
- (iv) Perform test counts;

and

(b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results

HOWEVER IF

- physical inventory counting is conducted at a date other than the F.ST. DATE

the auditor shall

In addition to the Above procedures

perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the F.ST. DATE are properly recorded

- auditor is unable to attend physical inventory counting due to unforeseen circumstances
the auditor shall
make or observe some physical counts on an alternative date, and perform audit procedures on intervening transaction
- attendance at physical inventory counting is impracticable
the auditor shall
perform alternative audit procedures to obtain SAAE regarding the existence and condition of inventory.

If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with SA 705
- Material inventory under the custody and control of a third party
the auditor shall
obtain SAAE regarding the existence and condition of that inventory by performing one or both of the following
 - (a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
 - (b) Perform inspection or other audit procedures appropriate in the circumstances.

Litigation and Claims

The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a ROMM, including

Inquiry of management and, where applicable, others within the entity, including in-house legal counsel;

Reviewing minutes of meetings of TCWG and correspondence between the entity and its external legal counsel;

Reviewing legal expense accounts

If the auditor assesses a ROMM regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist

the auditor shall, in addition to the procedures required by other SAs, seek direct communication with the entity's external legal counsel.

HOWEVER IF

management refuses to give the auditor permission to communicate or meet entity's external legal counsel

Or

entity's external legal counsel refuses to respond

or is prohibited from responding

AND

the auditor is unable to obtain SAAE

by performing alternative audit procedures

the auditor shall modify the opinion in the auditor's report in accordance with SA 705

Segment Information

The auditor shall obtain SAAE regarding the presentation and disclosure of segment information in accordance with the AFRF by:

(a) Obtaining an understanding of the methods used by management in determining segment information, and:

(i) Evaluating whether such methods are likely to result in disclosure in accordance with the AFRF; and

(ii) Where appropriate, testing the application of such methods; and

(b) Performing analytical procedures or other audit procedures appropriate in the circumstances

Written Representations

The auditor shall request management and, where appropriate, TCWG to provide WR that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and appropriately accounted for and disclosed in accordance with the AFRF

SA 505* External Confirmations

Scope

auditor's use of external confirmation procedures to obtain audit evidence

This SA is intended to assist the auditor in designing and performing external confirmations procedures to obtain relevant and reliable audit evidence

An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party

Objective

The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.

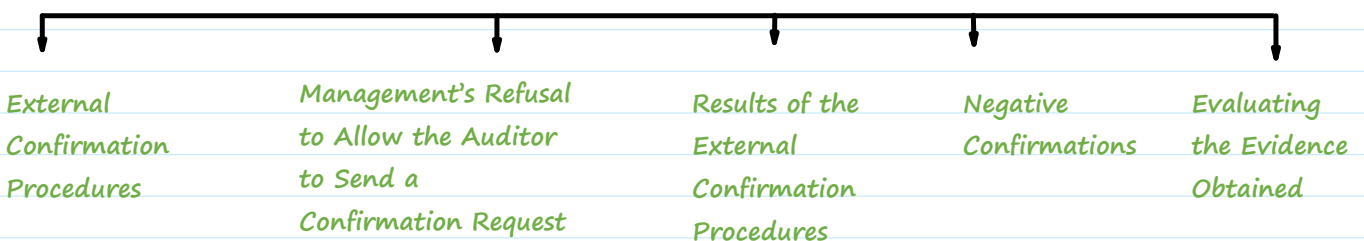
Negative Confirmations

Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed ROMM at the assertion level unless all of the following are present:

- The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion;
- The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;
- A very low exception rate is expected; and
- The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

Requirements

TO MEET ABOVE OBJECTIVE



External Confirmation Procedures

When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

(a) Determining the information to be confirmed or requested; -
eg. request information regarding account balances, terms of agreements, contracts, or transactions between an entity and other parties

(b) Selecting the appropriate confirming party; -

Responses to confirmation requests provide more relevant and reliable audit evidence when confirmation requests are sent to a confirming party the auditor believes is knowledgeable about the information to be confirmed

⊕ Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses

to be sent directly to the auditor; -

The design of a confirmation request may directly affect the confirmation response rate, and the reliability and the nature of the audit evidence obtained from responses

Factors to consider when designing confirmation requests include:

- The assertions being addressed.
- Specific identified risks of material misstatement, including fraud risks.
- The layout and presentation of the confirmation request.
- Prior experience on the audit or similar engagements.
- The method of communication (for example, in paper form, or by electronic or other medium)

(d) Sending the requests, including follow-up requests when applicable, to the confirming party.

Management's Refusal to Allow the Auditor to Send a Confirmation Request

If management refuses to allow the auditor to send a confirmation request,

- the auditor shall
Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness
- Evaluate the implications of management's refusal on the auditor's assessment of the relevant ROMM, including the risk of fraud, and on the NTE of other audit procedures

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

If auditor conclude

management's refusal unreasonable

OR

auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures

Auditor shall

communicate with TCWG in accordance with SA 260

AND

determine the implications for the audit and the auditor's opinion in accordance with SA 705

Results of the External Confirmation Procedures

doubts about the reliability of the response - auditor shall obtain further audit evidence to resolve those doubts

response to a confirmation request is not reliable - evaluate the implications on the assessment of the relevant ROMM, including the risk of fraud, and on the related NTE of other audit procedures.

Non-Responses - perform alternative audit procedures to obtain relevant and reliable audit evidence

If the auditor has determined that a response to a positive confirmation request is necessary to obtain SAAE, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor's opinion in accordance with SA 705

The auditor shall investigate exceptions to determine whether or not they are indicative of misstatements

Evaluating the Evidence Obtained

The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether performing further audit procedures is necessary

SA 510* Initial Audit Engagements - Opening Balances

Scope

(SA) deals with the auditor's responsibilities relating to opening balances when conducting an initial audit engagement

In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments

Initial audit engagement – An engagement in which either:

- (i) The financial statements for the prior period were not audited; or
- (ii) The financial statements for the prior period were audited by a predecessor auditor

Opening balances – Those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances **also include** matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

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

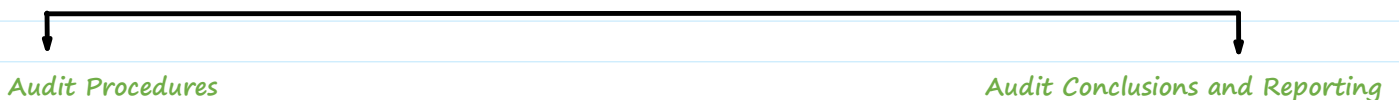
Objective

In conducting an **initial audit engagement**, the objective of the auditor with respect to **opening balances** is to obtain **SAAE** about whether:

- a. Opening balances contain misstatements that materially affect the current period's financial statements; and
- b. Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the AFRR

Requirements

TO MEET ABOVE OBJECTIVE



Audit Procedures

Opening Balances

- The auditor shall read the most recent financial statements, if any, and the predecessor auditor's report thereon, if any, for information relevant to opening balances, including disclosures.
- The auditor shall obtain SAAE about whether the opening balances contain misstatements that materially affect the current period's financial statements by:
 - (a) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss
 - (b) Determining whether the opening balances reflect the application of appropriate accounting policies; and
 - (c) Performing one or more of the following:
 - i. Where the prior year financial statements were audited, perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements;
 - ii. Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or
 - iii. Performing specific audit procedures to obtain evidence regarding the opening balances

If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements.

If the auditor concludes that such misstatements exist in the current period's financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with SA 450

Audit Conclusions and Reporting

Opening Balances

auditor is unable to obtain SAAE regarding the opening balance -

the auditor shall express a **qualified opinion or a disclaimer of opinion**, as appropriate

auditor **concludes** that the opening balances contain a misstatement that materially affects the current period's financial statements

And the effect of the misstatement is not properly accounted for or not adequately presented or disclosed -

the auditor shall express a **qualified opinion or an adverse opinion**, as appropriate

Audit Procedures

Consistency of Accounting Policies

The auditor shall obtain SAAE about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the AFRF

Audit Conclusions and Reporting

Consistency of Accounting Policies

If the auditor **concludes** that:

- a. the current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework; or
- b. a change in accounting policies is not properly accounted for or not adequately presented or disclosed in accordance with the applicable financial reporting framework,

-the auditor shall express a qualified opinion or an adverse opinion as appropriate in accordance with SA 705

Audit Procedures

Relevant Information in the Predecessor Auditor's Report

If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the ROMM in the current period's financial statements in accordance with SA 315

Audit Conclusions and Reporting

Modification to the Opinion in the Predecessor Auditor's Report

If the predecessor auditor's opinion regarding the prior period's financial statements included a modification to the auditor's opinion that remains

relevant and material to the current period's financial statements, the auditor shall modify the auditor's opinion on the current period's financial statements in accordance with SA 705 and SA 710

SA 530 Audit Sampling

SCOPE

This Standard on Auditing (SA) applies when the auditor has decided to use audit sampling in performing audit procedures.

It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample

- **Audit sampling** (sampling) – The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
- **Population** – The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
- **Sampling risk** – The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:

(i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

(ii) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

- **Non-sampling risk** – The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.
- **Anomaly** – A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.
- **Statistical sampling** – An approach to sampling that has the following characteristics:
 - (i) Random selection of the sample items; and
 - (ii) The use of probability theory to evaluate sample results, including measurement of sampling risk.A sampling approach that does not have characteristics (i) and (ii) is considered non-statistical sampling.
- **Stratification** – The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).
- **Tolerable misstatement** – A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.
- **Tolerable rate of deviation** – A rate of deviation from prescribed internal control procedures set by the auditor

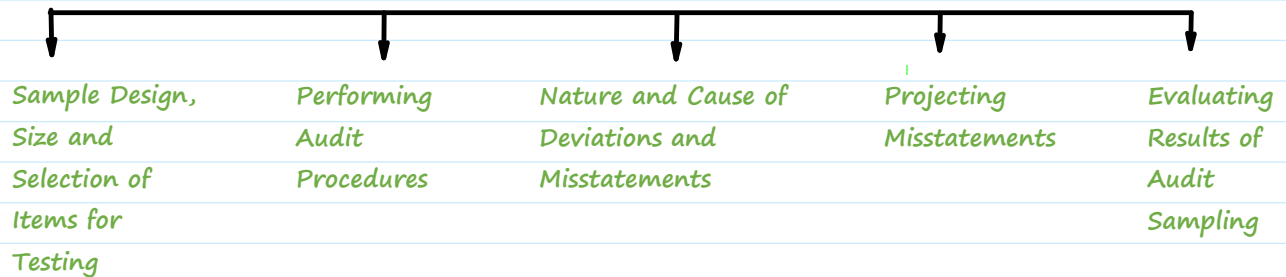
in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

Objective

The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected

Requirements

TO MEET ABOVE OBJECTIVE



Sample Design, Size and Selection of Items for Testing

When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.

The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

Performing Audit Procedures

The auditor shall perform audit procedures, appropriate to the purpose, on each item selected.

If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item.

If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details

Nature and Cause of Deviations and Misstatements

The auditor shall investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit.

In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population

Projecting Misstatements

For tests of details, the auditor shall project misstatements found in the sample to the population.

Evaluating Results of Audit Sampling

The auditor shall evaluate

- (a) The results of the sample; and
- (b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

Sample Selection Methods There are many methods of selecting samples.

The principal methods are as follows:

- a. **Random selection** (applied through random number generators, for example, random number tables).
- b. **Systematic selection**, in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerised random number generator or random number tables. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.
- c. **Monetary Unit Sampling** is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.
- d. **Haphazard selection**, in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.
- e. **Block selection** involves selection of a block(s) of contiguous items from within the 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 items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample

Examples of Factors Influencing Sample Size for Tests of Details

- a. The more the auditor is relying on other substantive procedures the smaller the sample size can be
- b. The higher the auditor's assessment of the risk of material misstatement, the larger the sample size needs to be
- c. An increase in the auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in the population will increase the sample size
- d. An increase in tolerable misstatement will decrease the sample size
- e. When stratification of the population is appropriate then sample size will decrease
- f. The greater the amount of misstatement the auditor expects to find in the population, the larger the sample size
- g. There will be negligible effect on sample size due to number of sampling units in the population

Examples of Factors Influencing Sample Size for Tests of Controls

- a. the greater the reliance the auditor places on the operating effectiveness of controls in the risk assessment, the greater is the extent of the auditor's tests of controls
- b. If there is an increase in the tolerable rate of deviation. Then sample size will decrease
- c. higher the expected rate of deviation, larger the sample size
- d. An increase in the auditor's desired level of assurance that the tolerable rate of deviation is not exceeded by the actual rate of deviation in the population will increase the sample size
- e. In case of large populations, the actual size of the population has little, if any, effect on sample size

SA 550 Related Parties

Scope

(SA) deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs. In the context of related parties, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater. Planning and performing the audit with professional skepticism as required by SA 200 is therefore particularly important in this context

Definitions

For purposes of the SAs, the following terms have the meanings attributed below:

Arm's length transaction—A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests.

Related party – A party that is either:

- i. A related party as defined in the applicable financial reporting framework; or
- ii. Where the applicable financial reporting framework establishes minimal or no related party requirements:
 - a. A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;
 - b. Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
 - c. Another entity that is under common control with the reporting entity through having:
 - A. Common controlling ownership;
 - B. Owners who are close family members; or
 - C. Common key management

However, entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another

Objectives

The objectives of the auditor are:

- (a) Irrespective of whether the AFRF establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:
 - i. To recognise fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the ROMM due to fraud; and
 - ii. To conclude whether the financial statements, insofar as they are affected by those relationships and transactions:
 - o Achieve a true and fair presentation (for fair presentation frameworks); or
 - o Are not misleading (for compliance frameworks); and
- (b) In addition, where the AFRF establishes related party requirements, to obtain SAAE about whether related party

relationships and transactions

have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the AFRF

Requirements

TO MEET ABOVE OBJECTIVE



Risk assessment procedures and related activities

As part of the risk assessment procedures and related activities

the auditor shall perform **Following the audit procedures** and related activities

to obtain information relevant to identifying the ROMM associated with related party relationships and transactions

i. Understanding the Entity's Related Party Relationships and Transactions

The **engagement team discussion** -

shall include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions

matters that are to be addressed in the discussion among the engagement team include:

- Nature and extent of the entity's relationships and transactions with related parties.
- Emphasis on the importance of maintaining professional skepticism throughout the audit regarding the potential for material misstatement associated with related party relationships and transactions.
- Circumstances or conditions of the entity that may indicate the existence of related party relationships or transactions that management has not identified or disclosed to the auditor.
- Records or documents that may indicate the existence of related party relationships or transactions.
- Importance that management and TCWG attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions and the related risk of management override of relevant controls.

In addition, the discussion in the context of fraud may include specific consideration of how related parties may be involved in fraud. For example:

- How special-purpose entities controlled by management might be used to facilitate earnings management.

- How transactions between the entity and a known business partner of a key member of management could be arranged to facilitate misappropriation of the entity's assets.

The auditor shall **inquire of management** regarding:

- The **identity of the entity's related parties**, including changes from the prior period;
- The **nature of the relationships between the entity and these related parties**; and
- Whether the entity **entered into any transactions** with these related parties during the period and, if so, the type and purpose of the transaction

The **auditor shall inquire** of management and others within the entity, and perform other risk assessment procedures to **obtain an understanding of the controls**, if any, that management has established to

- Identify, account for, and disclose related party relationships and transactions in accordance with the AFRF
- Authorise and approve significant transactions and arrangements with related parties;
- Authorise and approve significant transactions and arrangements outside the normal course of business

ii. Maintaining Alertness for Related Party Information When Reviewing Records or Documents

During the audit, the **auditor shall remain alert**, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.

In particular, the auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor:

- (a) Bank, legal and third party confirmations obtained as part of the auditor's procedures;
- (b) Minutes of meetings of shareholders and of those charged with governance; and
- (c) Such other records or documents as the auditor considers necessary in the circumstances of the entity. -

Eg.

- 🕒 Entity income tax returns.
- 🕒 Information supplied by the entity to regulatory authorities.
- 🕒 Shareholder registers to identify the entity's principal shareholders.
- 🕒 Statements of conflicts of interest from management and those charged with governance.
- 🕒 Records of the entity's investments and those of its pension plans.
- 🕒 Contracts and agreements with key management or those charged with governance.
- 🕒 Significant contracts and agreements not in the entity's ordinary course of business.
- 🕒 Specific invoices and correspondence from the entity's professional advisors.
- 🕒 Life insurance policies acquired by the entity.
- 🕒 Significant contracts re-negotiated by the entity during the period.
- 🕒 Internal auditors' reports.
- 🕒 Documents associated with the entity's filings with a securities regulator

If the auditor identifies **significant transactions outside the entity's normal course of business** when performing the audit procedures the auditor shall inquire of management about:

- (a) The nature of these transactions; and
- (b) Whether related parties could be involved.

iii. Sharing Related Party Information with the Engagement Team

The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team

Identification and Assessment of the ROMM Associated with Related Party Relationships and Transaction

As per SA 315 the auditor shall identify and assess the ROMM associated with related party relationships and transactions and determine whether any of those risks are significant risks

In making this determination, the auditor shall treat **identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.**

If the auditor identifies fraud risk factors (including circumstances relating to the existence of a related party with dominant influence) when performing the risk assessment procedures and related activities in connection with related parties, the auditor shall consider such information when identifying and assessing the ROMM due to fraud

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

Indicators of dominant influence exerted by a related party include:

- The related party has vetoed significant business decisions taken by management or TCWG.
- Significant transactions are referred to the related party for final approval
- There is little or no debate among management and TCWG regarding business proposals initiated by the related party.
- Transactions involving the related party (or a close family member of the related party) are rarely independently reviewed and approved

Responses to the ROMM Associated with Related Party Relationships and Transactions

the auditor designs and performs further audit procedures to obtain SAAE about the assessed ROMM associated with related party relationships and transactions. These audit procedures shall include following

a. Identification of **Previously Unidentified** or **Undisclosed** Related Parties or **Significant** Related Party Transactions

If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions

If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:

- i. Promptly communicate the relevant information to the other members of the engagement team
- ii. Where the AFRF establishes related party requirements:
 - 1) Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation; and
 - 2) Inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;
- iii. Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related part transactions;
- iv. Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and
- v. If the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to fraud), evaluate the implications for the audit

b. Identified Significant Related Party Transactions outside the Entity's Normal Course of Business

a. For identified significant related party transactions outside the entity's normal course of business, the auditor shall:

- (a) Inspect the underlying contracts or agreements, if any, and evaluate whether:
 - (i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;
 - (ii) The terms of the transactions are consistent with management's explanations; and
 - (iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and
- (b) Obtain audit evidence that the transactions have been appropriately authorised and approved.

Examples of transactions outside the entity's normal course of business, include the following:

- i. Complex equity transactions, such as corporate restructurings or acquisitions.
- ii. Transactions with offshore entities in jurisdictions with weak corporate laws.
- iii. The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.
- iv. Sales transactions with unusually large discounts or returns.
- v. Transactions with circular arrangements, for example, sales with a commitment to repurchase.
- vi. Transactions under contracts whose terms are changed before expiry.

c. Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction

When management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain SAAE about the assertion

Evaluation of the Accounting for and Disclosure of Identified Related Party Relationships and Transactions

In forming an opinion on the financial statements in accordance with SA 700 the auditor shall evaluate:

1. Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the AFRF; and
2. Whether the effects of the related party relationships and transactions:
 - (i) Prevent the financial statements from achieving true and fair presentation (for fair presentation frameworks); or
 - (ii) Cause the financial statements to be misleading (for compliance frameworks).

Written Representations

Where the AFRF establishes related party requirements, the auditor shall obtain WR from management and, where appropriate, TCWG that:

- a. They have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and

b. They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the AFRF

Communication with TCWG

Unless all of TCWG are involved in managing the entity, the auditor shall communicate with TCWG significant matters arising during the audit in connection with the entity's related parties.

Documentation

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

CHAPTER - 6

Completion and Review

SA 560 Subsequent Events

Scope

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

Financial statements may be affected by certain events that occur after the date of the financial statements. Many FRF specifically refer to such events. Such FRF ordinarily identify two types of events:

- (a) Those that provide evidence of conditions that existed at the date of the financial statements; and
- (b) Those that provide evidence of conditions that arose after the date of the financial statements.

SA 700(Revised) explains that the date of the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date

Definitions

- a. Date of the financial statements – The date of the end of the latest period covered by the financial statements.
- b. Date of approval of the financial statements – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognised authority have asserted that they have taken responsibility for those financial statements.
- c. Date of the auditor's report – The date the auditor dates the report on the financial statements in accordance with SA 700
- d. Date the financial statements are issued – The date that the auditor's report and audited financial statements are made available to third parties.
- e. Subsequent events – Events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report

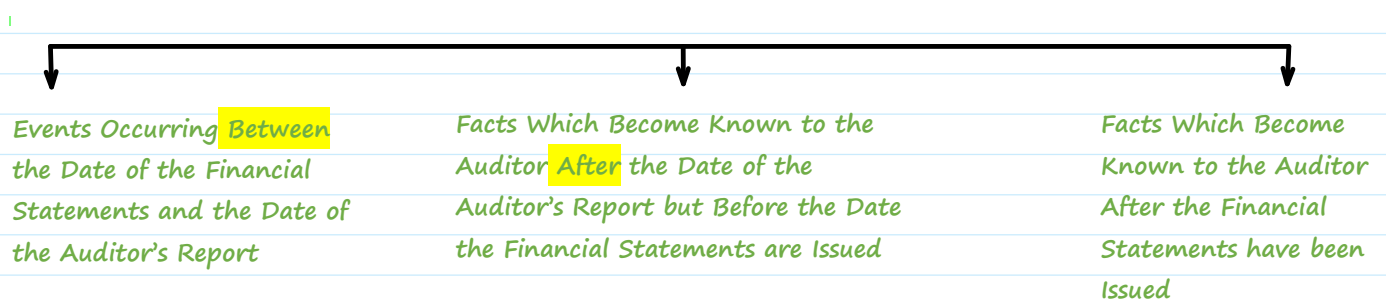
Objectives

The objectives of the auditor are to:

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

Requirements

TO MEET ABOVE OBJECTIVE



Events Occurring **Between** the Date of the Financial Statements and the Date of the Auditor's Report

The auditor shall perform audit procedures designed to obtain SAAE

that all events occurring **between** the date of the financial statements and the date of the auditor's report that **require adjustment of, or disclosure** in, the financial statements have been **identified**



The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following

- a. Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
- b. Inquiring of management and, where appropriate, TCWG as to whether any subsequent events have occurred which might affect the financial statements.
- c. Reading minutes, if any, of the meetings, of the entity's owners, management and TCWG, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.
- d. Reading the entity's latest subsequent interim financial statements, if any.

as a result of the procedures performed

the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.

The auditor shall request management and, where appropriate, TCWG, to provide a WR that all events occurring subsequent to the date of the financial statements and for which the AFRF requires adjustment or disclosure have been adjusted or disclosed

Facts Which Become Known to the Auditor **After** the Date of the Auditor's Report but Before the Date the Financial Statements are Issued

The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report

However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, **may have caused the auditor to amend the auditor's report**, the auditor shall:

- (a) Discuss the matter with management and, where appropriate, TCWG
- (b) Determine whether the financial statements need amendment and, if so,
- (c) Inquire how management intends to address the matter in the financial statements

If management amends the financial statements, the auditor shall:

- (a) Carry out the audit procedures necessary in the circumstances on the amendment
- (b) Unless the circumstances in Below provided paragraph apply:

- (i) Extend the audit procedures referred to the date of the new auditor's report; and
- (ii) Provide a new auditor's report on the amended financial statements.

The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements

When law, regulation or the FRF does not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent events or events causing that amendments and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment, the auditor is permitted to restrict the audit procedures referred on subsequent events to that amendment.

In such cases, the auditor shall either:

- a. Amend the auditor's report to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements; (The following is an illustration of such an additional date:

“(Date of auditor's report), except as to Note Y, which is as of (date of completion of audit procedures restricted to amendment described in Note Y)”.

or

- b. Provide a new or amended auditor's report that includes a statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph that conveys that auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.

In some entities, management may not be required by the applicable law, regulation or the FRF to issue amended financial statements and, accordingly, the auditor need not provide an amended or new auditor's report.

However, when management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then

- a. If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion as required by SA 705 and then provide the auditor's report; or
- b. If the auditor's report has already been provided to the entity, the auditor shall notify management and TCWG, unless all of TCWG are involved in managing the entity, not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action, to seek to prevent reliance on the auditor's report

Facts Which Become Known to the Auditor After the Financial Statements have been Issued

After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements.

However, when, after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

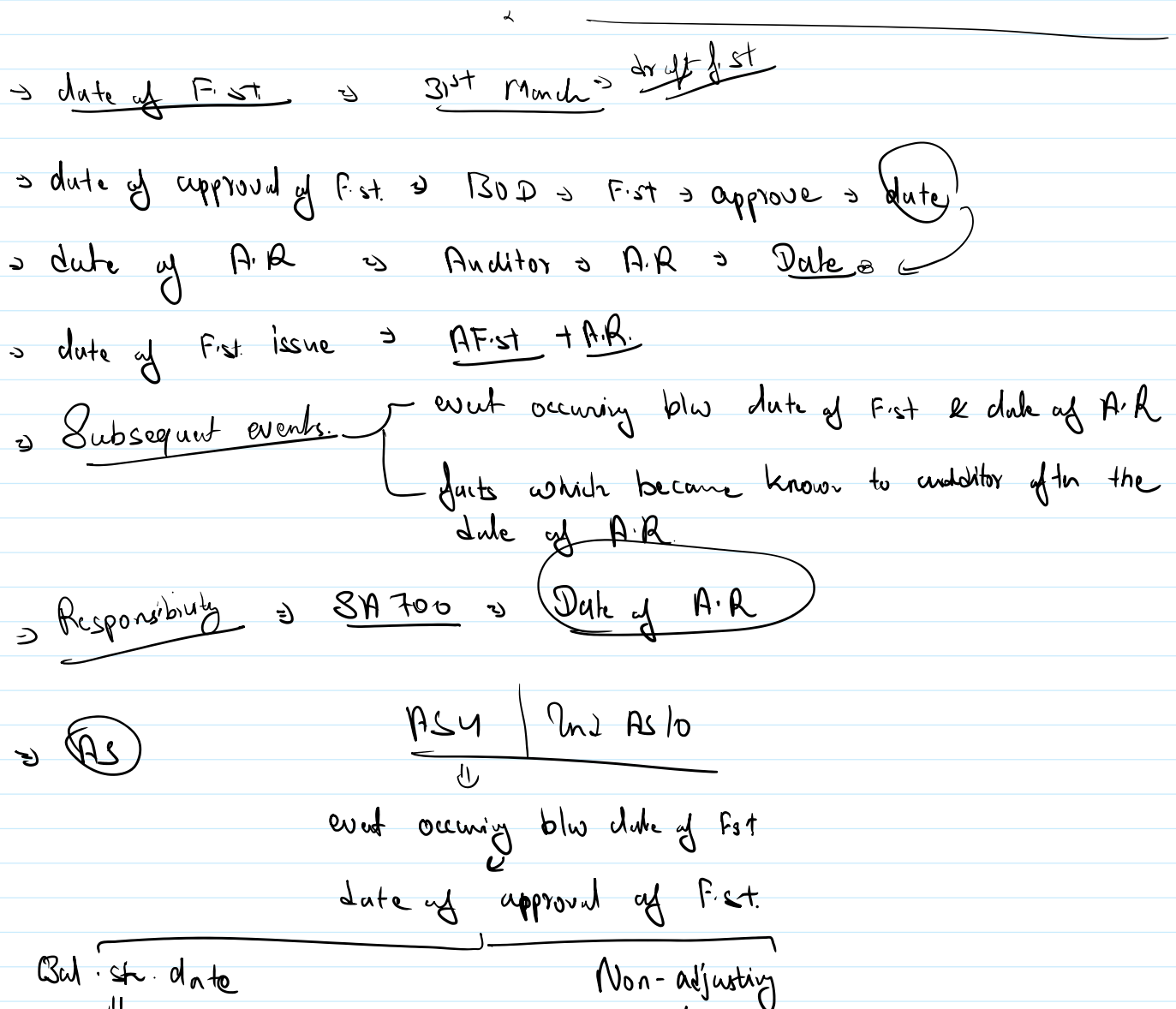
- a. Discuss the matter with management and, where appropriate, TCWG
- b. Determine whether the financial statements need amendment and, if so,
- c. Inquire how management intends to address the matter in the financial statements

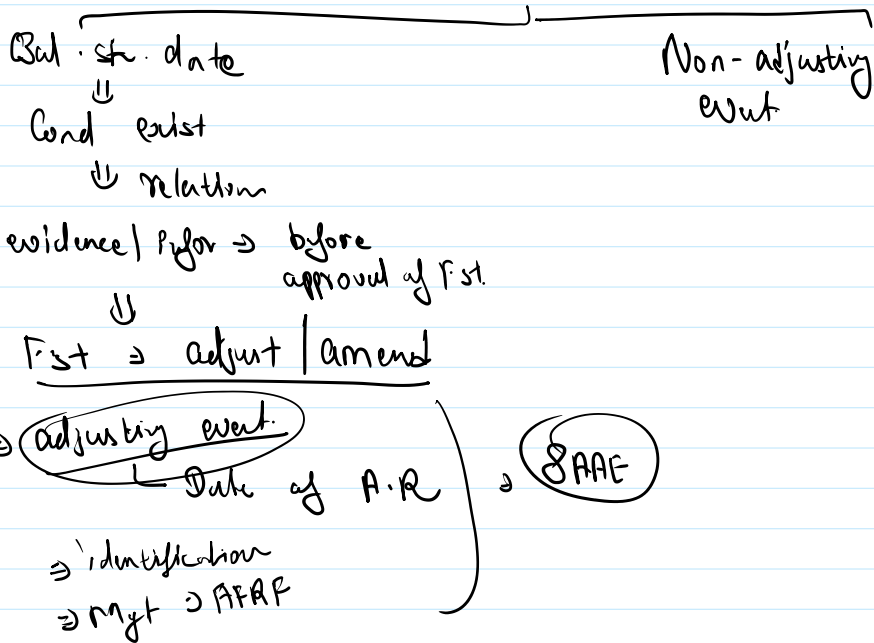
If the management amends the financial statements, the auditor shall:

- a. Carry out the audit procedures necessary in the circumstances on the amendment.
- b. Review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation.
- c. Unless the circumstances in BLUE PARAGRAPH apply:
 - i. Extend the audit procedures referred to the date of the new auditor's report, and the date the new auditor's report no earlier than the date of approval of the amended financial statements; and
 - ii. Provide a new auditor's report on the amended financial statements.
- d. When the circumstances in BLUE paragraph apply, amend the auditor's report, or provide a new auditor's report as required by BLUE paragraph

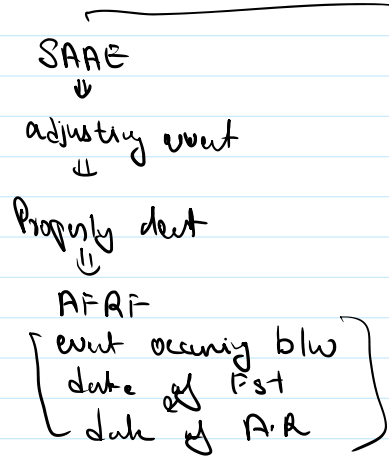
The auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter(s) paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor

If management **does not take the necessary steps** to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and **does not amend the financial statements** in circumstances where the auditor believes they need to be amended, the auditor shall notify management and, unless all of TCWG are involved in managing the entity, TCWG, that the auditor will seek to prevent future reliance on the auditor's report. If, despite such notification, management or TCWG do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

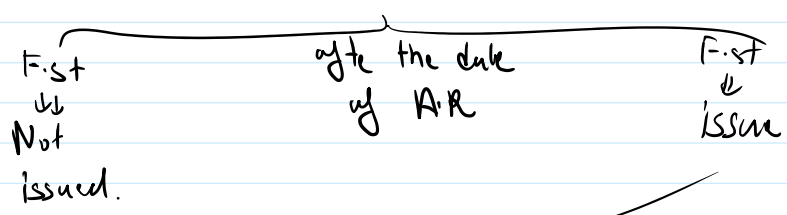




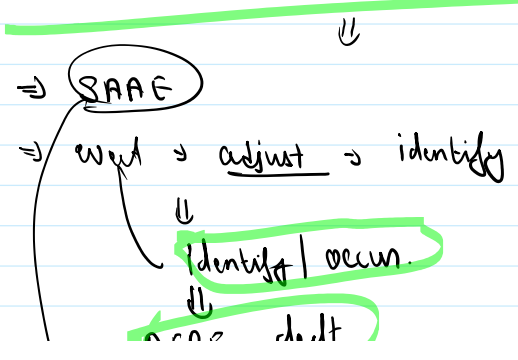
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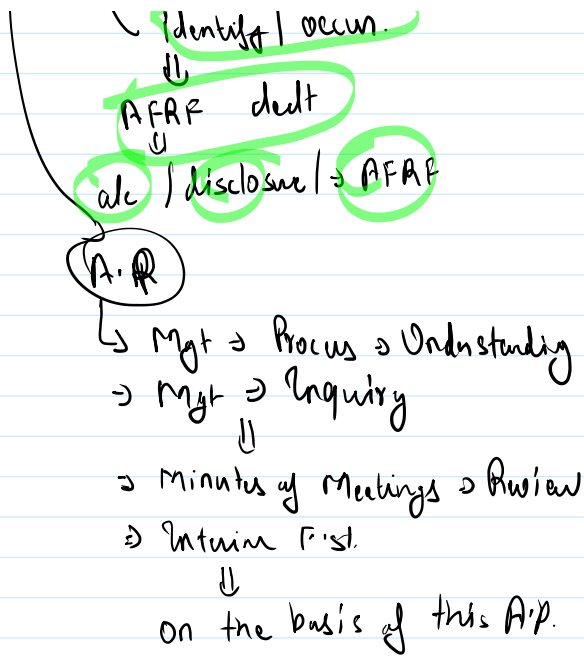


Respond appropriately
 ↓
 To the fact which become known to the auditor after the date of A.R.
 ↓
 had such fact known to the auditor before date of A.R.
 ↓
 would have caused auditor to amend the A.R.



Respond





date of A.R → Responsibility X

Facts → ~~USA~~ ~~USA~~ ~~USA~~ → A.R → amend

↓

appropriately Respond

→ Mgt / → discuss

→ amendment

→ Mgt → inquiry → address

amend

↓

A.P

↓

(New A.R)

↓

A.P

↓

date of New A.R

↓

after date of approval of amended F. st.

(date dating)

Particular event → adjustment

↓

event → approval

↓

adjustment → A.P

↓

existing A.R

↓

add. date

(New A.R)

↓

(EOM/OM)

(amend X)

↓

law XX

↓

amended F.st

↓

issue XX

↓

Mgt amend X

↓

auditor → amend X

SA 570 Going Concern

Scope

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

General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so

When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

The auditor's responsibilities are to obtain SAAE regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

However, as described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

- (a) In the case of a fair presentation FRF, the fair presentation of the financial statements, or
- (b) In the case of a compliance framework, the financial statements not to be misleading.

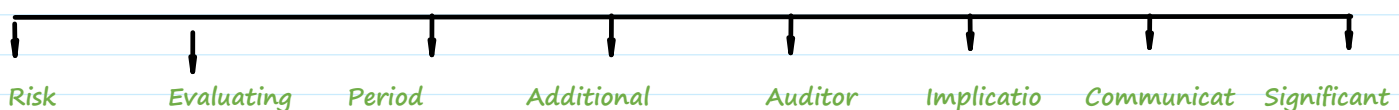
Objectives

The objectives of the auditor are:

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

Requirements

TO MEET ABOVE OBJECTIVE



Risk Assessment Procedures and Related Activities	Evaluating Management's Assessment	Period beyond Management's Assessment	Additional Audit Procedures When Events or Conditions Are Identified	Auditor Conclusions	Implications for the Auditor's Report	Communication with TCWG	Significant Delay in the Approval of Financial Statements
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Risk Assessment Procedures and Related Activities

When performing risk assessment procedures

auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern

In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and:

- a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or
- (b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern

The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern

- Net liability or net current liability position
- Adverse key financial ratios.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.
- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.

- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Shortages of important supplies.
- Emergence of a highly successful competitor.
- Non-compliance with capital or other statutory or regulatory requirements,
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity

Evaluating Management's Assessment

The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern

In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period.

If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in SA 560, the auditor shall request management to extend its assessment period to at least twelve months from that date.

In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit. evaluating management's assessment of the entity's ability to continue as a going concern may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

Period beyond Management's Assessment

The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern

Additional Audit Procedures When Events or Conditions Are Identified

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern

the auditor shall obtain SAAE to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt

on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors.

These procedures shall include

1. Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
2. Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
3. Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
4. Considering whether any additional facts or information have become available since the date on which management made its assessment.
5. Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

Audit procedures that are relevant to the requirement may include the following:

- Analysing and discussing cash flow, profit and other relevant forecasts with management.
- Analysing and discussing the entity's latest available interim financial statements.
- Reading the terms of debentures and loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory action

Auditor Conclusions

The auditor shall evaluate whether SAAE has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements

Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists

If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

1. Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
2. Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the ARFR, the financial statements provide adequate disclosures about these events or conditions.

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting is Inappropriate

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

Use of Going Concern Basis of Accounting is Appropriate but a Material Uncertainty Exists

1. Adequate Disclosure of a Material Uncertainty is Made in the Financial Statements

auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to

- o Draw attention to the note in the financial statements that discloses the matters and
- o State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt

on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter

2. Adequate Disclosure of a Material Uncertainty is Not Made in the Financial Statements

- Express a qualified opinion or adverse opinion, as appropriate,
- In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter

3. Management Unwilling to Make or Extend Its Assessment

If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report.

Communication with TCWG

Unless all TCWG are involved in managing the entity, the auditor shall communicate with TCWG events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern.

Such communication with TCWG shall include the following:

- (a) Whether the events or conditions constitute a material uncertainty;
- (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;
- (c) The adequacy of related disclosures in the financial statements; and
- (d) Where applicable, the implications for the auditor's report.

Significant Delay in the Approval of Financial Statements

If there is significant delay in the approval of the financial statements by management or TCWG after the date of the financial statements,

the auditor shall inquire as to the reasons for the delay.

If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty

SA 580 Written Representations

Scope

(SA) deals with the auditor's responsibility to obtain WR from management and, where appropriate, TCWG

WR are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, WR are audit evidence

Although WR provide necessary audit evidence, they do not provide SAAE on their own about any of the matters with which they deal

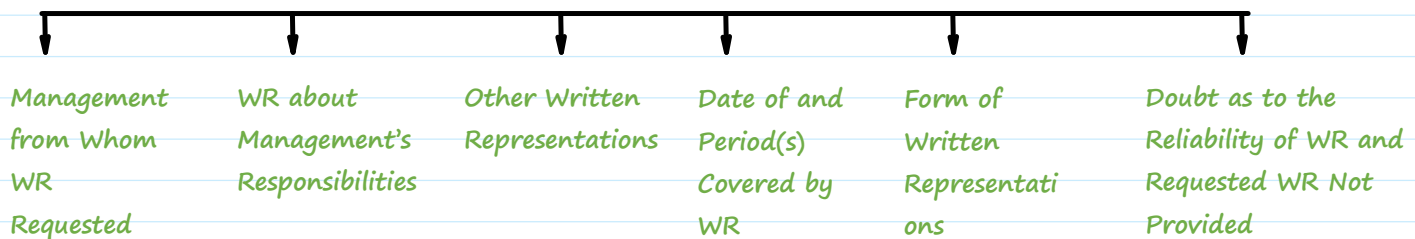
Written representations – A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. WR in this context do not include financial statements, the assertions therein, or supporting books and records

Objectives

The objectives of the auditor are:

- To obtain WR from management and, where appropriate, TCWG that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor;
- To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of WR, if determined necessary by the auditor or required by other SAs; and
- To respond appropriately to WR provided by management and, where appropriate, TCWG, or if management or, where appropriate, TCWG do not provide the WR requested by the auditor

Requirements



Management from Whom WR Requested

The auditor shall request WR from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned

WR about Management's Responsibilities

- Preparation of the Financial Statements

The auditor shall request management to provide a WR that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the AFRF

b. Information Provided and Completeness of Transactions

- It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and
- All transactions have been recorded and are reflected in the financial statement

c. Description of Management's Responsibilities in the WR

Management's responsibilities shall be described in the WR in the manner in which these responsibilities are described in the terms of the audit engagement.

Other Written Representations

Other SAs require the auditor to request WR. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more WR to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor shall request such other WR

Date of and Period(s) Covered by WR

The date of the WR shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. The WR shall be for all financial statements and period(s) referred to in the auditor's report

Form of Written Representations

The WR shall be in the form of a representation letter addressed to the auditor.

If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required, the relevant matters covered by such statements need not be included in the representation letter

Doubt as to the Reliability of WR and Requested WR Not Provided

a. Doubt as to the Reliability of WR

auditor has concerns about the competence, integrity, ethical values or diligence of management
OR

In particular, if WR are inconsistent with other audit evidence,
the auditor shall perform audit procedures to attempt to resolve the matter.

If the matter remains unresolved, the auditor shall reconsider the assessment of the competence, integrity,
ethical values or diligence of management

the auditor shall determine the effect that such concerns may have on the reliability of representations
and audit evidence in general

If the auditor concludes that the WR are not reliable, the auditor shall take appropriate actions, including

determining the possible effect on the opinion in the auditor's report in accordance with SA 705
(DISCLAIM AN OPINION)

b. Requested WR Not Provided

If management does not provide one or more of the requested WR, the auditor shall:

- *Discuss the matter with management;*
- *Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and*
- *Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 (DISCLAIM AN OPINION)*

CHAPTER - 7

Reporting

SA 700 Forming an Opinion and Reporting on Financial Statements

Scope

(SA) deals with the auditor's responsibility to form an opinion on the financial statements
It also deals with the form and content of the auditor's report

SA701 - communicate key audit matters

SA 705 and SA 706 - form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an EOM paragraph or an OM paragraph

This SA applies to an audit of a complete set of general purpose financial statements

General purpose financial statements – Financial statements prepared in accordance with a general purpose framework

General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users.

The financial reporting framework may be a fair presentation framework or a compliance framework.

The term "**fair presentation framework**" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- i. Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- ii. Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term "**compliance framework**" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above

Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the **financial statements** are prepared, in all material respects, in accordance with the AFRF

"financial statements" in this SA means "a complete set of general purpose financial statements, including the related notes

The requirements of the AFRF determine the form and content of the financial statements, and what constitutes a complete set of financial statements

Objectives

The objectives of the auditor are:

- (a) To **form an opinion** on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

(b) To express clearly that opinion through a written report.

Requirements

TO MEET ABOVE OBJECTIVE

- Forming an Opinion on the Financial Statements
- Form of Opinion
- Auditor's Report
- Auditor's Report Prescribed by Law or Regulation
- Auditor's Report for Audits Conducted in Accordance with Both Standards on Auditing issued by ICAI and International Standards on Auditing or Auditing Standards of Any Other Jurisdiction
- Supplementary Information Presented with the Financial Statements

Forming an Opinion on the Financial Statements

The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the AFRF

In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error

That conclusion shall take into account:

- (a) The auditor's conclusion, in accordance with SA 330, whether sufficient appropriate audit evidence has been obtained;
- (b) The auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate
- (c) The evaluations -
 - The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the AFRF. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments
 - In particular, the auditor shall evaluate whether, in view of the requirements of the AFRF
 - The financial statements adequately disclose the significant accounting policies selected and applied;
 - The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - The accounting estimates made by management are reasonable;
 - The information presented in the financial statements is relevant, reliable, comparable, and understandable;
 - The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and

understandable;

- The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
- The terminology used in the financial statements, including the title of each financial statement, is appropriate

Form of Opinion

unmodified opinion

auditor concludes that the financial statements are prepared, in all material respects, in accordance with the AFRF

modify the opinion

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

If the auditor is unable to obtain SAAE to conclude that the financial statements as a whole are free from material misstatement

Auditor's Report

The auditor's report shall be in writing.

Auditor's Report for Audits Conducted in Accordance with SA

Title	The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor.
Addressee	The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement
Auditor's Opinion	<p>The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion."</p> <p>The Opinion section of the auditor's report shall also:</p> <ul style="list-style-type: none">(a) Identify the entity whose financial statements have been audited;(b) State that the financial statements have been audited;(c) Identify the title of each statement comprising the financial statements;(d) Refer to the notes, including the summary of significant accounting policies; and(e) Specify the date of, or period covered by, each financial statement comprising the financial statements. <p>When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:</p> <ul style="list-style-type: none">(a) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the AFRF]; or(b) In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the AFRF].

When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the AFRF]

Basis for Opinion

The auditor's report shall include a section, **directly following the Opinion section**, with the heading "Basis for Opinion", that

- a. States that the audit was conducted in accordance with SA
- b. Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs;
- c. Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI;
- d. States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Going Concern

Where applicable, the auditor shall report in accordance with SA 570

Key Audit Matters

For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with SA 701

Other Information

Where applicable, the auditor shall report in accordance with SA 720

Responsibilities for the Financial Statements

The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements."

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

- a. Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- b. Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

The auditor's report shall include a section with the **heading "Auditor's Responsibilities for the Audit of the Financial Statements."**

This section of the auditor's report shall:

- a. State that the objectives of the auditor are to:
 - i. Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
 - ii. Issue an auditor's report that includes the auditor's opinion.
- b. State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists; and

- c. State that misstatements can arise from fraud or error, and either:
 - i. Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements or
 - ii. Provide a definition or description of materiality in accordance with the AFRF

The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further:

- a. State that, as part of an audit in accordance with SAs, the auditor exercises professional judgment and maintains professional Skepticism throughout the audit; and
- b. Describe an audit by stating that the auditor's responsibilities are:
 - i. To identify and assess the ROMM of the financial statements
 - ii. To obtain an understanding of internal control relevant to the audit
 - iii. To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
 - iv. To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

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

The description of the auditor's responsibilities for the audit of the financial statements

- a. Within the body of the auditor's report;
- b. Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or
- c. By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or the applicable auditing standards expressly permit the auditor to do so

Other Reporting Responsibilities

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

Signature of the Auditor

The auditor's report shall be signed. The report is signed by the auditor (i.e. the engagement partner) in his personal name. Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the audit reports signed by them

Place of Signature

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

Date of the Auditor's Report

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

Auditor's Report Prescribed by Law or Regulation

If the auditor is required by law or regulation applicable to the entity to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to SA only if the auditor's report includes, at a **minimum**, each of the following elements:

- i. A **title**.
- ii. An **addressee**, as required by the circumstances of the engagement.
- iii. An **Opinion section** containing an expression of opinion on the financial statements and a reference to the AFRF used to prepare the F.ST
- iv. An **identification of the entity's financial statements that have been audited**.
- v. A **statement that the auditor is independent of the entity** in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI.
- vi. Where applicable, a section that addresses, and is not inconsistent with, the **reporting requirements of SA 570**
- vii. **Where applicable, a Basis for Qualified (or Adverse) Opinion section** that addresses, and is not inconsistent with, the reporting requirements of SA 570 (Revised).
- viii. **Where applicable, a section that includes the information required by SA 701**, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that SA
- ix. Where applicable, a **section that addresses the reporting requirements of SA 720**.
- x. A **description of management's responsibilities** for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with this SA
- xi. A reference to Standards on Auditing and the law or regulation, and a **description of the auditor's responsibilities** for an audit of the financial statements that addresses, and is not inconsistent with, the requirements
- xii. **The auditor's signature**.
- xiii. **The Place of signature**
- xiv. **The date of the auditor's report**.

Auditor's Report for Audits Conducted in Accordance with Both Standards on Auditing issued by ICAI and International Standards on Auditing or Auditing Standards of Any Other Jurisdiction

An auditor may be required to conduct an audit in accordance with, in addition to the Standards on Auditing issued by ICAI, the International Standards on Auditing or auditing standards of any other jurisdiction.

If this is the case, the auditor's report may refer to Standards on Auditing in addition to the International Standards on Auditing or auditing standards of such other jurisdiction, but the auditor shall do so only if:

- a. There is no conflict between the requirements in the ISAs or such auditing standards of other jurisdiction and those in SAs that would lead the auditor
 - i. to form a different opinion, or
 - ii. not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by SAs; and

b. The auditor's report includes, at a minimum, each of the elements set out in paragraphs above

Supplementary Information Presented with the Financial Statements

required by the AFRF

shall be covered by the auditor's opinion

Not required by the AFRF

- integral part

shall be covered by the auditor's opinion

- Not integral part

the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited F.ST

YES

OK

NO

ask management to change presentation

If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of profit and loss, (statement of changes in equity) and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)]

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and its profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with SA 701.]

Assessment of carrying value of investment in subsidiaries, and associates carried at cost

As detailed in note xxx of the standalone financial statements, during the year

The Company has equity investments in various subsidiaries and associates. The Company accounts for equity investments in subsidiaries and associates at cost (subject to impairment assessment).

For investments carried at cost where an indication of impairment exists, the carrying value of investment is assessed for impairment and where applicable an impairment provision is recognized, if required.

The accounting for investments is a key audit matter as the determination of recoverable value for impairment assessment involves significant management judgement. In measuring these investments, valuation methods are used based on inputs that are not directly observable from market information and certain other unobservable inputs.

The key inputs and judgements involved in the impairment of investments include:

- i) Forecast cash flows including assumptions on growth rates
- ii) Discount rates
- iii) Terminal growth rate

Our procedures to assess the carrying value of investment (including impairment) in subsidiaries, and associates included the following:

- We obtained an understanding from the management, assessed and tested the design and operating effectiveness of the Company's key controls over the impairment assessment of material investments.
- We evaluated the Company's process regarding impairment assessment by involving auditor's valuation experts

to assist in assessing the appropriateness of the impairment model including the independent assessment of the underlying assumptions relating to cash flow, discount rate, terminal value, etc. for material investments.

- We checked the mathematical accuracy of the impairment model and agreed relevant data back to the latest budgets, actual past results and other supporting documents.
- We assessed the Company's sensitivity analysis and evaluated whether any reasonably foreseeable change in assumptions could lead to impairment or material change in the carrying value.
- We assessed adequacy of relevant disclosures in the Standalone Financial Statements.

Based on the above audit procedures performed, the Management's assessment of the carrying value of the investments was considered to be reasonable.

Recognition of deferred tax asset on unused tax losses

As detailed in note xxx of the standalone financial statements, during the year, the Company has recognised deferred tax asset ('DTA') of Rs. 1,xxx crores on unabsorbed depreciation and long-term capital losses. The Company's ability to recover the deferred tax assets is assessed by the management at the end of each reporting period which is based on an assessment of the probability that future taxable income will be available against which the carried forward unused tax losses can be utilized. As per the assessment done by the management and election of tax planning opportunities available with the Company, the management believes that the carried forward unused tax losses will get offset against the capital gains projected by the Company in future years on sale of certain investments in subsidiaries held by the Company.

Thus, auditing the Company's assessment of the recoverability of deferred tax assets is dependent on the Company's ability to generate future taxable gains through sale of these investments. The valuation of these investments is subject to significant judgments and estimates applied by the management. This is considered to be a key audit matter, considering the past history of losses in the Company and complexity of the accounting requirements for recognition of deferred tax assets.

How the matter was addressed in our audit

In view of the significance of the matter we applied the following audit procedures in this area to obtain sufficient appropriate audit evidence. Test of Controls: We tested the design, implementation and operating effectiveness of key controls over the key inputs and assumptions, used in valuation of its investments proposed to be sold as part of the tax planning opportunities. Test of details: z Evaluated the appropriateness of the assumptions applied to key inputs in valuation of the investments. z Involved independent valuation specialists in testing the appropriateness of the valuation model including evaluating whether the comparable companies considered in the valuation are appropriate

Performed necessary procedures to verify the accuracy of amounts disclosed in the financial statements and adequacy of disclosures made for compliance with applicable Indian Accounting Standards and accounting principles generally accepted in India

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"] [Reporting in accordance with the reporting requirements in SA 720 (Revised)]

Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity)⁴⁰ and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those Board of Directors are also responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

Paragraph 41(b) of this SA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or applicable auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern

basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

We did not audit the financial statements/ information of (number) branches included in the standalone financial statements of the Company whose financial statements/financial information reflect total assets of Rs. as at 31st March 20XX and total revenue of Rs.for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of branches, is based solely on the report of such branch auditors. Our opinion is not modified in respect of this matter

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2020 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act, 2013, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable

As required by Section 143(3) of the Act, we report that:

For XYZ & Co
Chartered Accountants (Firm's Registration
No.)

Signature (Name of the Member Signing the
Audit Report)
(Designation)
(Membership No.)
UDIN

Place of Signature:

Date

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

Scope

(SA) deals with the auditor's responsibility to communicate key audit matters in the auditor's report.

Key audit matters - Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed

Communicating key audit matters provides additional information to intended users of the financial statements ("intended users") to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period

Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements

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

Communicating key audit matters in the auditor's report is not:

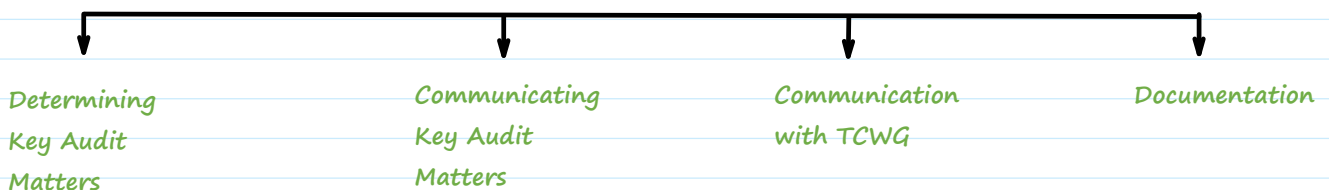
- A substitute for disclosures in the financial statements that the AFRR requires management to make, or that are otherwise necessary to achieve fair presentation;
- A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705
- A substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or
- A separate opinion on individual matters.

Objectives

The objectives of the auditor are to determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.

Requirements

TO MEET ABOVE OBJECTIVE



Determining Key Audit Matters

The auditor shall determine, from the matters communicated with TCWG, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following

- a. Areas of higher assessed ROMM, or significant risks identified in accordance with SA 315
- b. Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- c. The effect on the audit of significant events or transactions that occurred during the period.

The auditor shall determine from the above matters

That were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

Communicating Key Audit Matters

The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters,"

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

- a. Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and
- b. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

Key Audit Matters Not a Substitute for Expressing a Modified Opinion

Descriptions of Individual Key Audit Matters

The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

- (a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and
- (b) How the matter was addressed in the audit

Circumstances in Which a Matter Determined to Be a Key Audit Matter is Not Communicated in the Auditor's Report

The auditor shall describe each key audit matter in the auditor's report unless

- a. Law or regulation precludes public disclosure about the matter; or
- b. In extremely rare circumstances, the auditor determines that the matter should not be communicated in the

auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

These matters shall not be described in the Key Audit Matters section

A matter giving rise to a modified opinion in accordance with SA 705

material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570

Rather, the auditor shall:

- a. Report on these matter(s) in accordance with the applicable SA(s); and*
- b. Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section.*

Communication with TCWG

The auditor shall communicate with TCWG

- a. Those matters the auditor has determined to be the key audit matters; or*
- b. If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report.*

Documentation

The auditor shall include in the audit documentation:

- a. The matters that required significant auditor attention as determined and the rationale for the auditor's determination as to whether or not each of these matters is a key audit matter in accordance*
- b. Where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report and*
- c. Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter.*

areas of significant auditor attention

- the implementation of a new IT system (or significant changes to an existing IT system)*
- the auditor may have had extensive discussions with management and those charged with governance at various stages throughout the audit about the effect on the financial statements of significant transactions with related parties or significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.*

Management may have made difficult or complex judgments in relation to recognition, measurement, presentation or disclosure of such transactions, which may have had a significant effect on the auditor's overall strategy.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with SA 701.]

Assessment of carrying value of investment in subsidiaries, and associates carried at cost

As detailed in note xxx of the standalone financial statements, during the year

The Company has equity investments in various subsidiaries and associates. The Company accounts for equity investments in subsidiaries and associates at cost (subject to impairment assessment).

For investments carried at cost where an indication of impairment exists, the carrying value of investment is assessed for impairment and where applicable an impairment provision is recognized, if required.

The accounting for investments is a key audit matter as the determination of recoverable value for impairment assessment involves significant management judgement. In measuring these investments, valuation methods are used based on inputs that are not directly observable from market information and certain other unobservable inputs.

The key inputs and judgements involved in the impairment of investments include:

- i) Forecast cash flows including assumptions on growth rates
- ii) Discount rates
- iii) Terminal growth rate

Our procedures to assess the carrying value of investment (including impairment) in subsidiaries, and associates included the following:

- We obtained an understanding from the management, assessed and tested the design and operating effectiveness of the Company's key controls over the impairment assessment of material investments.
- We evaluated the Company's process regarding impairment assessment by involving auditor's valuation experts to assist in assessing the appropriateness of the impairment model including the independent assessment of the underlying assumptions relating to cash flow, discount rate, terminal value, etc. for material investments.
- We checked the mathematical accuracy of the impairment model and agreed relevant data back to the latest budgets, actual past results and other supporting documents.
- We assessed adequacy of relevant disclosures in the Standalone Financial Statements.

Based on the above audit procedures performed, the Management's assessment of the carrying value of the investments was considered to be reasonable.

Recognition of deferred tax asset on unused tax losses

As detailed in note xxx of the standalone financial statements, during the year, the Company has recognised deferred tax asset ('DTA') of Rs. 1,xxx crores on unabsorbed depreciation and long-term capital losses.

The Company's ability to recover the deferred tax assets is assessed by the management at the end of each reporting period which is based on an assessment of the probability that future taxable income will be available against which the carried forward unused tax losses can be utilized.

As per the assessment done by the management and election of tax planning opportunities available with the Company, the management believes that the carried forward unused tax losses will get offset against the capital gains projected by the Company in future years on sale of certain investments in subsidiaries held by the Company.

Thus, auditing the Company's assessment of the recoverability of deferred tax assets is dependent on the Company's ability to generate future taxable gains through sale of these investments. The valuation of these investments is subject to significant judgments and estimates applied by the management. This is considered to be a key audit matter, considering the past history of losses in the Company and complexity of the accounting requirements for recognition of deferred tax assets.

How the matter was addressed in our audit

In view of the significance of the matter we applied the following audit procedures in this area to obtain sufficient appropriate audit evidence.

Test of Controls:

We tested the design, implementation and operating effectiveness of key controls over the key inputs and assumptions, used in valuation of its investments proposed to be sold as part of the tax planning opportunities.

Test of details:

Evaluated the appropriateness of the assumptions applied to key inputs in valuation of the investments.

Involved independent valuation specialists in testing the appropriateness of the valuation model including evaluating whether the comparable companies considered in the valuation are appropriate

Performed necessary procedures to verify the accuracy of amounts disclosed in the financial statements and adequacy of disclosures made for compliance with applicable Indian Accounting Standards and accounting principles generally accepted in India

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

Scope

(SA) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA

700(Revised),¹ the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary

SA also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion

Pervasive –

A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain SAAE. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- (i) Are not confined to specific elements, accounts or items of the financial statements;
- (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
- (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Objective

The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:

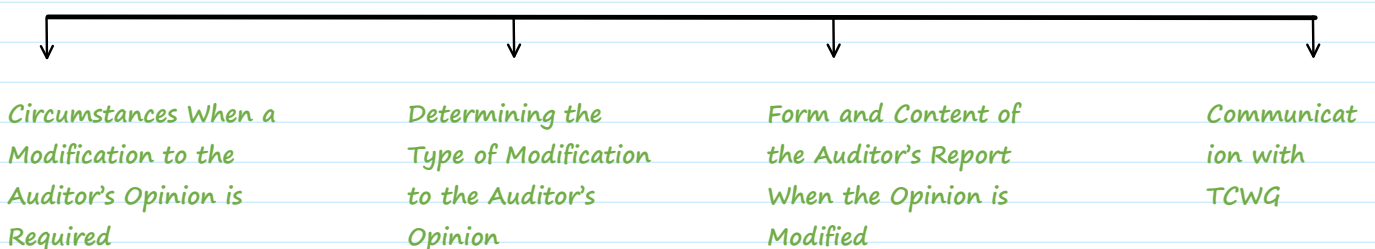
(a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement

or

(b) The auditor is unable to obtain SAAE to conclude that the financial statements as a whole are free from material misstatement.

Requirements

TO MEET ABOVE OBJECTIVE



Required

Opinion

Modified

Circumstances When a Modification to the Auditor's Opinion is Required

The auditor shall modify the opinion in the auditor's report when:

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) The auditor is unable to obtain SAAE to conclude that the financial statements as a whole are free from material misstatement.

Determining the Type of Modification to the Auditor's Opinion

Qualified Opinion

The auditor shall express a qualified opinion when:

- a. The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- b. The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

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

Disclaimer of Opinion

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

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

effect on the financial statements.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted

the Engagement

If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

If management refuses to remove the limitation referred to in this SA, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

- a. If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- b. If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - i. Withdraw from the audit, where practicable and possible under applicable law or regulation; or
 - ii. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

If the auditor withdraws as contemplated by paragraph (b)(i), before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion

When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole.

Form and Content of the Auditor's Report When the Opinion is Modified

Auditor's Opinion

When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section.

Qualified Opinion

When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:

- a. When reporting in accordance with a fair presentation framework, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
- b. When reporting in accordance with a compliance framework, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase

"except for the possible effects of the matter(s) ..." for the modified opinion.

Adverse Opinion

When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s)

described in the Basis for Adverse Opinion section:

- a. When reporting in accordance with a fair presentation framework, the accompanying financial statements do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
- b. When reporting in accordance with a compliance framework, the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

Disclaimer of Opinion

When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:

- a. State that the auditor does not express an opinion on the accompanying financial statements;
- b. State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- c. Amend the statement required by paragraph 24(b) of SA 700 (Revised), which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

Basis for Opinion

When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by SA 700 (Revised):

- a. Amend the heading "Basis for Opinion" required by paragraph 28 of SA 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and
- b. Within this section, include a description of the matter giving rise to the modification.

If there is a material misstatement of the financial statements that **relates to specific amounts** in the financial statements (including quantitative disclosures in the notes to the financial statements), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable.

If it is not practicable to quantify the financial effects, the auditor shall so state in this section.

If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:

- a. Discuss the non-disclosure with those charged with governance;
- b. Describe in the Basis for Opinion section the nature of the omitted information; and
- c. Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.

When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of SA 700(Revised) to include the word "qualified" or "adverse", as appropriate.

When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include the elements required by paragraphs 28(b) and 28(d) of SA 700 (Revised).

Those elements are:

- a. A reference to the section of the auditor's report where the auditor's responsibilities are described; and
- b. A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

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

When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by SA 700 (Revised) to include only the following:

- (a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with Standards on Auditing and to issue an auditor's report;
- (b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- (c) The statement about auditor independence and other ethical responsibilities required by SA 700 (Revised).

Considerations When the Auditor Disclaims an Opinion on the Financial Statements

Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with SA 701 or an Other Information section in accordance with SA 720 (Revised)

Communication with Those Charged with Governance

When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification

SA 706(Revised)* Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Scope

(SA) deals with additional communication in the auditor's report when the auditor considers it necessary to:

- a. Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
- b. Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Emphasis of Matter paragraph – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

Other Matter paragraph – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

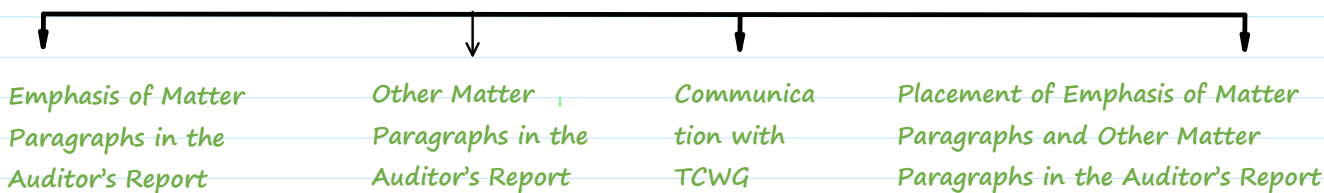
Objective

The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to

- a. A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or
- b. As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Requirements

TO MEET ABOVE OBJECTIVE



Emphasis of Matter Paragraphs in the Auditor's Report

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:

- (a) The auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter; and
- (b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
- Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
- Indicate that the auditor's opinion is not modified in respect of the matter emphasized

Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary

When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.

To alert users that the financial statements are prepared in accordance with a special purpose framework.

When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report

Examples of circumstances

- ⌚ An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- ⌚ A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
- ⌚ Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- ⌚ A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position

Other Matter Paragraphs in the Auditor's Report

If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:

- (a) This is not prohibited by law or regulation; and
- (b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading

Communication with Those Charged with Governance

When the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification

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

The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with SA 700

Emphasis of Matter Paragraphs

When the Emphasis of Matter paragraph relates to the AFRF, including circumstances where the auditor determines that the FRF prescribed by law or regulation would otherwise be unacceptable, the auditor may consider it necessary to place the paragraph immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion.

When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph

Other Matter Paragraphs

When a Key Audit Matters section is presented in the auditor's report and an Other Matter paragraph is also considered necessary, the auditor may add further context to the heading "Other Matter", such as "Other Matter – Scope of the Audit", to differentiate the Other Matter paragraph from the individual matters described in the Key Audit Matters section.

When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the Report on Other Legal and Regulatory Requirements section.

Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report

Key audit matters	Emphasis of Matter paragraph
Those matters that, in the auditor's professional judgment, were of most significance in the audit of	A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial

<p>the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. [SA 701]</p>	<p>statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. [SA 706]</p>
<p>Matters that are determined to be key audit matters in accordance with SA 701 may also be, in the auditor's judgment, fundamental to users' understanding of the financial statements. In such cases, in communicating the matter as a key audit matter in accordance with SA 701, the auditor may wish to highlight or draw further attention to its relative importance.</p> <p>Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgment in the audited financial statements.</p>	<p>A widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters.</p> <p>Use of Emphasis of Matter paragraphs is not a substitute for a description of individual key audit matters where SA 701 is applicable.</p> <p>There may be a matter that is not determined to be a key audit matter in accordance with SA 701 (i.e., because it did not require significant auditor attention), but which, in the auditor's judgment, is fundamental to users' understanding of the financial statements (e.g., a subsequent event). If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with this SA.</p>
<p>The communication of key audit matters in the auditor's report may also provide intended users a basis to further engage with management and those charged with governance about certain matters relating to the entity, the audited financial statements, or the audit that was performed.</p>	<p>The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial statements.</p>

Emphasis of Matter

We draw your attention to the following matters:

- a. Note XXX to the Standalone Financial Statements, which describes the management's assessment of the impact of the outbreak of Coronavirus (COVID-19) on the business operations of the Company. In view of the uncertain economic environment, a definitive assessment of the impact on the subsequent periods is highly dependent upon circumstances as they evolve.
- b. Note XXX to the Standalone Financial Statements relating to non-realisation of foreign currency receivable balances as at March 31, 2022 aggregating to XXX million outstanding beyond the stipulated time period permitted under the RBI Master Direction on Export of Goods and Services vide FED Master Direction No. 16/2015-16 dated January 1, 2016 (as amended), issued by the Reserve Bank of India (RBI). The Company has made the necessary application with the Authorised Dealer (AD) banker/RBI seeking extension of time limit for remittance of certain balances and

write-off the remaining balances.

Our opinion is not modified in respect of the above matters

Other Matter

The Standalone Financial Statements of the Company for the year ended 31st March, 2022, prepared in accordance with Ind AS have been audited by the predecessor auditors. The report of the predecessor auditors dated 6th May, 2022, expressed an unmodified opinion.

We did not audit the financial statements/ information of (number) branches included in the standalone financial statements of the Company whose financial statements/financial information reflect total assets of Rs. as at 31st March 20XX and total revenue of Rs.for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of branches, is based solely on the report of such branch auditors. Our opinion is not modified in respect of this matter

SA 710* Comparative Information - Corresponding Figures and Comparative Financial Statements

Scope

(SA) deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in SA 510 regarding opening balances also apply

two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information

a. corresponding figures

auditor's opinion on the financial statements refers to the current period only

b. comparative financial statements.

the auditor's opinion refers to each period for which financial statements are presented

- **Comparative information** – The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the AFRF.
- **Corresponding figures** – Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as “current period figures”). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.
- **Comparative financial statements** – Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor's opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period.

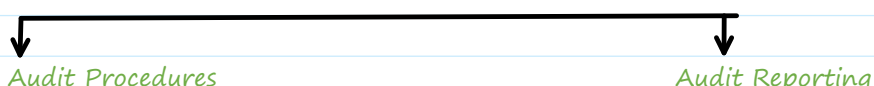
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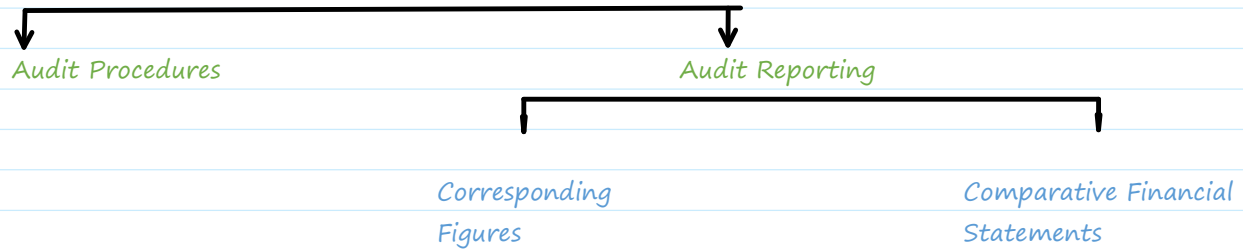
The objectives of the auditor are:

- To obtain SAAE about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the AFRF; and
- To report in accordance with the auditor's reporting responsibilities.

Requirements

TO MEET ABOVE OBJECTIVE





Audit Procedures

The auditor shall determine whether the financial statements include the comparative information required by the AFRR and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:

- The comparative information agrees with the amounts and other disclosures presented in the prior period; and
- The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain SAAE to determine whether a material misstatement exists. If the auditor had audited the prior period's financial statements, the auditor shall also follow the relevant requirements of SA 560

As required by SA 580, the auditor shall request WR for all periods referred to in the auditor's opinion

Audit Reporting

Corresponding Figures

When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the circumstances prescribed below

Prior Period Financial Statements Audited by a current Auditor

If the auditor's report on the prior period, as previously issued, included a **qualified opinion, a disclaimer of opinion, or an adverse opinion** and the matter which gave rise to the **modification is unresolved**, the auditor shall modify the auditor's opinion on the current period's financial statements.

In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

- Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
- In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures

If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the AFRF and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein

Prior Period Financial Statements Audited by a Predecessor Auditor

If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:

- (a) That the financial statements of the prior period were audited by the predecessor auditor;
- (b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
- (c) The date of that report

Prior period financial statements were not audited

the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited.

Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements

Comparative Financial Statements

When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed

When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706

Prior Period Financial Statements Audited by a Predecessor Auditor

If the financial statements of the prior period were audited by a predecessor auditor in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:

- (a) That the financial statements of the prior period were audited by a predecessor auditor;
- (b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor; and
- (c) The date of that report

unless the predecessor auditor's report on the prior period's financial statements is revised with the financial statements

If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which

the predecessor auditor had previously reported without modification,

the auditor shall communicate the misstatement with the appropriate level of management and TCWG and request that the predecessor auditor be informed.

If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period.

Prior Period Financial Statements Not Audited

If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited.

Such a statement does not, however, relieve the auditor of the requirement to obtain SAAE that the opening balances do not contain misstatements that materially affect the current period's financial statements

SA 720(Revised)* The Auditor's Responsibilities Relating to Other Information

Scope

(SA) deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report.

The auditor's opinion on the financial statements does not cover the other information, nor does this SA require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.

This SA requires the auditor to read and consider the other information

because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon.

Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared

This SA does not apply to:

- (a) Preliminary announcements of financial information; or
- (b) Securities offering documents, including prospectuses.

The auditor's responsibilities under this SA do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.

Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading

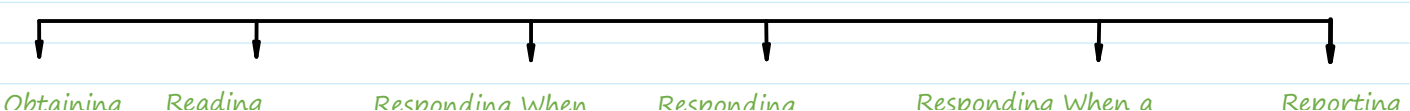
Objectives

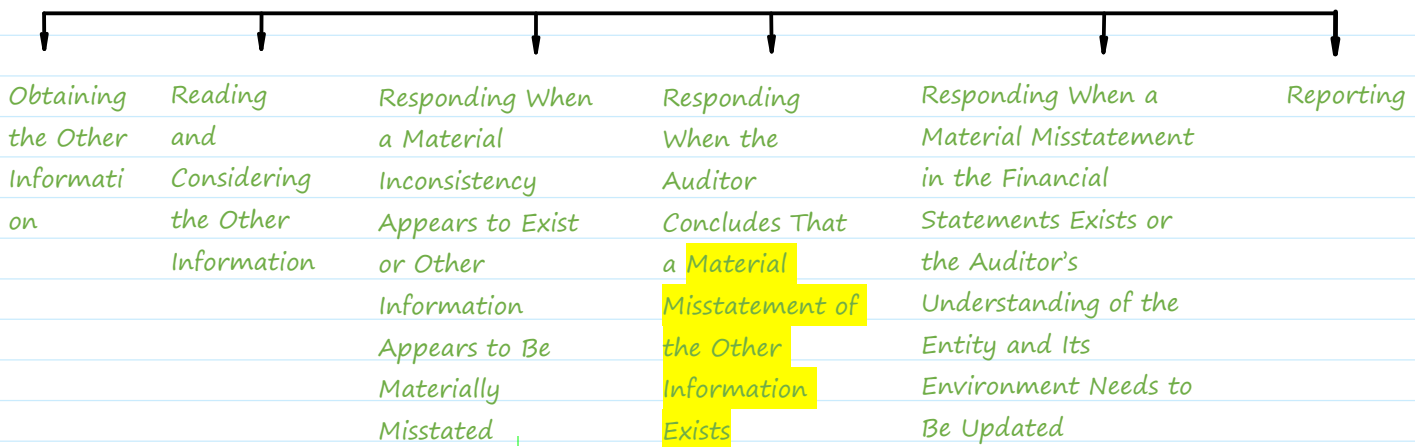
The objectives of the auditor, having read the other information, are:

- a. To consider whether there is a material inconsistency between the other information and the financial statements;
- b. To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit;
- c. To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and
- d. To report in accordance with this SA.

Requirements

TO MEET ABOVE OBJECTIVE





Obtaining the Other Information

The auditor shall:

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

Reading and Considering the Other Information

The auditor shall read the other information and, in doing so shall

- Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information with such amounts or other items in the financial statements; and
- Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit

While reading the other information the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated.

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

If the auditor identifies that a material inconsistency appears to exist the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:

- A material misstatement of the other information exists;
- A material misstatement of the financial statements exists; or

(c) The auditor's understanding of the entity and its environment needs to be updated.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information.

If management:

- (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
- (b) Refuses to make the correction, the auditor shall communicate the matter with TCWG and request that the correction be made.

If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with TCWG, the auditor shall take appropriate action, including:

- a. Considering the implications for the auditor's report and communicating with TCWG about how the auditor plans to address the material misstatement in the auditor's report
- b. Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:

- a. If the other information is corrected, perform the procedures necessary in the circumstances; or
- b. If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared

Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated

If, as a result of procedures performed the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other SA.

Reporting

The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:

- a. For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or
- b. For an audit of financial statements of an unlisted corporate entity, the auditor has obtained some or all of the other information.

When the auditor's report is required to include an Other Information section

this section shall include:

- a. A statement that management is responsible for the other information;*
- b. An identification of:
 - i. Other information, if any, obtained by the auditor prior to the date of the auditor's report; and*
 - ii. For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;**
- c. A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;*
- d. A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this SA; and*
- e. When other information has been obtained prior to the date of the auditor's report, either:
 - i. A statement that the auditor has nothing to report; or*
 - ii. If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.**

DUTIES OF AUDITORS

DUTIES OF AUDITORS

Sections 143 of the Companies Act, 2013 specifies the duties of an auditor of a company in a quite comprehensive manner. It is noteworthy that scope of duties of an auditor has generally been extending over all these years.

a. Duty of Auditor to Inquire on certain matters

It is the duty of auditor to inquire into the following matters -

- i. whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
- ii. whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
- iii. where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
- iv. whether loans and advances made by the company have been shown as deposits;
- v. whether personal expenses have been charged to revenue account;
- vi. where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

“The auditor is not required to report on the matters specified in sub-section (1) unless he has any special comments to make on any of the items referred to therein. If he is satisfied as a result of the inquiries, he has no further duty to report that he is so satisfied. In such a case, the content of the Auditor's Report will remain exactly the same as the auditor has to inquire and apply his mind to the information elicited by the enquiry, in deciding whether or not any reference needs to be made in his report. In our opinion, it is in this light that the auditor has to consider his duties under section 143(1).”

Therefore, it could be said that the auditor should make a report to the members in case he finds answer to any of these matters in adverse.

b. Duty to Sign the Audit Report

- i. As per section 145 of the Companies Act, 2013, the person appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company, in accordance with the provisions of sub-section (2) of section 141
- ii. the qualifications, observations or comments on financial transactions or matters, which have any adverse

effect on the functioning of the company mentioned in the auditors' report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

c. Duty to comply with Auditing Standards:

As per sub-section (9) of section 143 of the Companies Act, 2013, every auditor shall comply with the auditing standards.

Further, as per sub-section 10 of section 143 of the Act, the Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

Students may note that until any auditing standards are notified, any standard, or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.

d. Duty to audit report:

As per sub-section (3) of section 143, the auditor's report shall also state –

- i. whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;
- ii. whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
- iii. whether the report on the accounts of any branch office of the company audited under sub section (8) by a person other than the company's auditors has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
- iv. whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;
- v. whether, in his opinion, the financial statements comply with the accounting standards;
- vi. the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;
- vii. whether any director is disqualified from being appointed as a director under sub-section (2) of the section 164;
- viii. any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
- ix. whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls;

(Note: Clause (i) of Sub-Section (3) of Section 143 shall not apply to a private company:—(i) which is a one person company or a small company; or (ii) which has turnover less than rupees fifty crores as per latest

and the operating effectiveness of such controls;

(Note: Clause (i) of Sub-Section (3) of Section 143 shall not apply to a private company:—(i) which is a one person company or a small company; or (ii) which has turnover less than rupees fifty crores as per latest audited financial statement and which has aggregate borrowings from banks or financial institutions or anybody corporate at any point of time during the financial year less than rupees twenty five crore)

x. such other matters as may be prescribed. Rule 11 of the Companies (Audit and Auditors) Rules, 2014 prescribes the other matters to be included in auditor's report. The auditor's report shall also include their views and comments on the following matters, namely:—

- 1) whether the company has disclosed the impact, if any, of **pending litigations** on its financial position in its financial statement;
- 2) whether the company has made **provision**, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
- 3) whether there has been any delay in **transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.**
- 4)
 - a) Whether the management has represented that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;
 - b) Whether the management has represented, that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the company from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and
 - c) Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (i) and (ii) contain any material mis-statement.
- 5) Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.
- 6) [Whether the company, in respect of financial years commencing on or after the 1st April, 2022,] has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.]

Audit Trail means, a step-by-step sequential record which provides evidence of the documented history of financial transactions to its source. An auditor can trace every step of, the financial data of a particular transaction right from the general ledger to its source document with the help of the audit trail.

“The auditor of the company shall, in his report under section 143, make a statement as to whether the remuneration paid by the company to its directors is in accordance with the provisions of this section, whether remuneration paid to any director is in excess of the limit laid down under this section and give such other details as may be prescribed”

As per Advisory issued by ICAI on 09-09-2019, the aforesaid reporting requirement for auditors of public companies needs to be covered in auditor's report under the Section “Report on Other Legal and Regulatory Requirements”. Accordingly, auditors of public companies are advised to comply with the aforesaid reporting requirements in their auditor's reports.

e. Duty to report on frauds:

i. Reporting to the Central Government-

- 1) As per sub-section (12) of section 143 of the Companies Act, 2013, if an auditor of a company in the course of the performance of his duties as auditor,
- 2) has reason to believe that an offence of fraud involving amount of RS. 1 crore or above, is being or has been committed in the company by its officers or employees,
- 3) the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed.-
 - a) the auditor shall report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days;
 - b) on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations;
 - c) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of 45 days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations;
 - d) the report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed Post followed by an e-mail in confirmation of the same;
 - e) the report shall be on the letter-head of the auditor containing postal address, e-mail address and contact telephone number or mobile number and be signed by the auditor with his seal and shall indicate his Membership Number; and
 - f) the report shall be in the form of a statement as specified in Form ADT-4

ii. Reporting to the Audit Committee or Board

- 1) Sub-section (12) of section 143 of the Companies Act, 2013 further prescribes that in case of a fraud involving lesser than the specified amount [i.e. less than RS. 1 crore], the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed. (immediately but not later than 2 days of his knowledge of the fraud and he shall report the matter specifying the following:)

Nature of Fraud with description;	(b) Approximate amount involved; and	(c) Parties involved.
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iii. Disclosure in the Board's Report:

- 1) Sub-section (12) of section 143 of the Companies Act, 2013 furthermore prescribes that the companies, whose auditors have reported frauds under this sub-section (12) to the audit committee or the Board, but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed.
- 2) The company is required to disclose in the Board's Report the following details of each of the fraud reported to the Audit Committee or the Board under sub-rule (3) during the year:

(a) Nature of Fraud with description	(b) Approximate Amount involved;
(c) Parties involved, if remedial action not taken	(d) Remedial actions taken

iv. Other Important Provisions

- 1) Sub-section (13) of section 143 of the Companies Act, 2013 safeguards the act of fraud reporting by the auditor if it is done in good faith.
- 2) It is very important to note that the provisions regarding fraud reporting shall also apply, mutatis mutandis, to a cost auditor and a secretarial auditor during the performance of his duties under section 148 and section 204 respectively
- 3) If any auditor, cost accountant or company secretary in practice does not comply with the provisions of sub-section (12) of section 143, he shall be liable to a penalty of five lakh rupees in case of a listed company and a penalty of one lakh rupees in case of any other company.
- 4) The auditor is also required to report under clause (x) of paragraph 3 of Companies (Auditor's Report) Order, 2020 [CARO, 2020] on whether any fraud by the company or any fraud on the Company has been noticed or reported during the year. If yes, the nature and the amount involved is to be indicated.

f. Duty to report on any other matter specified by Central Government:

- i. The Central Government may, in consultation with the National Financial Reporting Authority (NFRA), by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.

g. Duty to state the reason for qualification or negative report:

- i. As per sub-section (4) of section 143, where any of the matters required to be included in the audit report is answered in the negative or with a qualification, the report shall state the reasons there for

CARO, 2020

In exercise of the powers conferred by section 143(11) of the Companies Act, 2013, the Central Government, after consultation with the National Financial Reporting Authority constituted under section 132 of the Companies Act, 2013, has issued the **Companies (Auditor's Report) Order, 2020, (CARO, 20)** dated 25th February, 2020.

Applicability of The CARO, 2020

The CARO, 2020 is an additional reporting requirement. The order applies to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013.

However, the Order specifically **exempts** the following classes of companies:

1. a **banking company** as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
2. an **insurance company** as defined under the Insurance Act, 1938 (4 of 1938);
3. a company licensed to operate under **section 8 of the Companies Act**;
4. a **One Person Company** as defined under clause (62) of section 2 of the Companies Act and a **small company** as defined under clause (85) of section 2 of the Companies Act; and
5. a **private limited company**, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than rupees one crore as on the **balance sheet date** and which does not have total borrowings exceeding rupees one crore from any bank or financial institution **at any point of time during the financial year** and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding rupees ten crore during the financial year as per the financial statements.

Points to be noted

- The Order also applies to foreign companies as defined in clause (42) of section 2 of the Act. In the case of a foreign company, wherever under any of the provisions of the Act, an audit of financial statements under Chapter X of the Act is required to be carried out, the Order would be applicable.
- The Order is also applicable to the audits of branch(es) of a company
- The applicability of the Order would be based on the status of the company as at the balance sheet date.
- in case a company is covered under the definition of small company, it will remain exempted from the applicability of the Order even if it falls under any of the criteria specified for private company.
- the exemption would also extend to companies licensed to operate under section 25 of the Companies Act, 1956.
- small company means a company, other than a public company
 - i. paid-up share capital of which does not exceed 4 crore; and
 - ii. turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed 40 crore.

➤ Paid-up Capital and Reserves and Surplus

❖ Paid - up capital

- paid-up share capital" as such aggregate amount of money credited as paid up in respect of shares
- amount originally paid-up on forfeited shares should be added to the figure of paid-up capital.
- amount of calls unpaid should be deducted
- share application money received should not be considered as part of the paid-up capital.
- Convertible instruments whether optionally or fully convertible should be considered in paid up share capital only once the actual shares are issued by the company.

❖ "Reserve & Surplus"

- defines the term "reserve" as, "the portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability".
- Reserves & Surplus consists of:-

- Ⓞ Capital Reserves;
- Ⓞ Capital Redemption Reserve;
- Ⓞ Securities Premium;
- Ⓞ Debenture Redemption Reserve;
- Ⓞ Revaluation Reserve;
- Ⓞ Share Options Outstanding Account;
- Ⓞ Other Reserves
- Ⓞ Surplus i.e., balance in statement of profit and loss.

(Debit balance of statement of profit and loss shall be shown as a negative figure under the head "Surplus".)

➤ Borrowings

- Borrowings from banks or financial institutions can be long term or short term and are normally in the form of term loans, demand loans, export credits, cash credits, overdraft facilities, bills purchased or discounted.
- Outstanding balances of such borrowings should be considered as borrowing outstanding .
- Non-fund based credit facilities, to the extent such facilities have devolved and have been converted into fund based credit facilities, should also be considered as outstanding borrowings
- In case of term loans, interest accrued and due is considered as a borrowing whereas interest accrued but not due is not considered as a borrowing
- the limit of "exceeding one crore rupees" would apply in aggregate to all borrowings and not with reference to each bank or financial institution.

➤ Revenue

- revenue/total income would include other income as per Schedule III.
- Revenue will also include revenue from discontinuing operations

Auditor's report to contain matters specified in paragraphs 3 and 4

Every report made by the auditor under section 143 of the Companies Act, 2013 on the accounts of every company audited by him, to which this Order applies, for the financial year, shall in addition, contain the matters specified in paragraphs 3 and 4, as may be applicable.

It may be noted that the Order shall **not apply to the auditor's report on consolidated financial statements** except clause (xxi) of paragraph 3

Matters to be included in the auditor's report (paragraph 3)

PARA	PARTICULAR	DESCRIPTION												
3														
(i)	Property, Plant and Equipment;	a.												
	maintaining proper records	A. whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment; B. whether the company is maintaining proper records showing full particulars of intangible assets;												
	physically verified	b. whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;												
	title deeds	c. whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below:-												
		<table border="1"> <thead> <tr> <th>Description of property</th> <th>Gross carrying value</th> <th>Held in name of</th> <th>Whether promoter, director or their relative or</th> <th>Period held – indicate range, where</th> <th>Reason for not being held in name of</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or	Period held – indicate range, where	Reason for not being held in name of						
Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or	Period held – indicate range, where	Reason for not being held in name of									

			employee	appropriate	company*
					*also indicate if in dispute

Revalued

d. whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;

Benami property

e. whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements;

Points to be noted (Audit procedure to be followed in order to comply with reporting)

1. proper records

a. The Order does not define as to what constitutes 'proper records'.

b. In general, however, the records relating to property, plant and equipment (PPE) should contain, inter alia, the following details:

- (i) sufficient description of the PPE to make identification possible;
- (ii) classification, that is, the head under which it is shown in the accounts, e.g., plant and machinery, office equipment, etc;
- (iii) situation;
- (iv) quantity, i.e., number of units;
- (v) original cost;
- (vi) year of purchase;
- (vii) date of put to use;
- (viii) useful life;
- (ix) residual value;
- (x) component-wise breakup; (wherever applicable)
- (xi) adjustment for revaluation or for any increase or decrease in cost;
- (xii) date of revaluation, if any;
- (xiii) rate(s)/basis of depreciation;
- (xiv) depreciation for the current year;
- (xv) accumulated depreciation
- (xvi) particulars regarding impairment;
- (xvii) particulars regarding sale, discarding, demolition, destruction, etc.

a. Where PPE register is not maintained by the company, it is a serious documentation and control lacuna. This should be mentioned by the auditor while reporting under this clause.

1. Physical verification

a. Physical verification of the assets is the responsibility of the management and, therefore, has to be carried out by the management itself and not by the auditor.

b. It is, however, necessary that the auditor satisfies himself that such verification was done and that there is adequate evidence on the basis of which he can arrive at such a conclusion.

c. The auditor may prefer to observe the verification on test basis.

d. The auditor should examine whether the method of verification was reasonable

e. This clause requires the auditor to report whether the management has verified the property, plant and equipment at reasonable intervals. What constitutes "reasonable intervals" depends upon the circumstances of each case

f. The factors to be taken into consideration in this regard include the number of assets, the nature of assets, the relative value of assets, difficulty in verification

g. While an annual verification may be reasonable, it may be impracticable to carry out the same in some cases. Even in such cases, the verification programme should be such that all assets are verified at least once in every three years.

h. Where verification of all assets is not made during the year, it will be necessary for the auditor to report that fact, but if he is satisfied regarding the frequency of verification he should also make a suitable comment to that effect.

2. title deeds

a. In general, title deeds mean a legal deed or document constituting evidence of a right, especially to the legal ownership of the immovable property. In case of leased assets, title deeds would imply the lease agreements and related documents.

b. Following documents mainly constitute title deeds of the immovable property: Registered sale deed / transfer deed / conveyance deed, etc. of land, land & building etc. purchased, allotted, transferred by any person including any Government, government authority / body/ agency / corporation, etc. to the company.

c. The auditor should carry out detailed examination in the cases where immovable property is transferred as a result of conversion of partnership firm or limited liability partnership into company or amalgamation of companies, as in such cases title deeds may be in the name of the erstwhile entity.

d. Where the title deeds of the immovable property have been mortgaged with the banks/financial institutions, etc., for securing the borrowings and loan raised by the company, a confirmation about the same should be sought from the respective institution to this effect.

e. There may be instances where the title deeds were lost accidentally or otherwise. In such cases, the certified copies of the documents, as available with the company, and details about the FIR filed about loss of such documents needs to be obtained and documented. The auditor should also seek written representation from the management in this regard.

3. Revaluation

Aspects to be considered by the auditor in this regard are:

- ① Date of revaluation carried out by the company.
- ① Name of the registered valuer or firm who carried out the valuation exercise, place and date of valuation report.
- ① Membership/license number of the registered valuer (registered valuer are to be registered with the Insolvency and Bankruptcy Board of India).
- ① Review of valuation report issued under Rule 8 of the aforesaid Rules, by such registered valuer.
- ① Methods and significant assumptions applied in estimating fair values.
- ① Extent to which fair values were determined directly or estimated.
- ① Accounting treatment of revaluation surplus.

4. benami property

a. For reporting under this clause, the auditor is required to examine whether proceedings have been initiated or any proceedings are pending against the company during any of the preceding financial years.

b. In case any proceedings are initiated or pending, the auditor is required to examine whether appropriate disclosures are made in the financial statements

c. Appropriate disclosures shall include nature of property, carrying value of the property in the books of account, status of proceedings before the relevant authority, consequential impact on the financial statements and/ or the liability that may arise in case the proceedings are decided against the company.

d. For the purpose of ascertaining whether any proceedings are initiated or are pending,

- i. the auditor should make necessary inquiries from the management including obtaining a management representation letter
- ii. The auditor may also review the legal expenses account to ascertain whether any expenses have been incurred by the company in respect of a proceeding under the aforesaid Act.

iii. The auditor should also review the minutes of meetings

e. It may be noted that reporting under this clause is limited to the adequacy of disclosure in the financial statements and to cases where proceedings are initiated with the company being treated as a benamidar. The reporting is not applicable where the notice is received by the company as a beneficial owner.

f. What constitutes "reasonable intervals" depends on circumstances of each case. The periodicity of the physical verification of inventories depends upon the nature of inventories, their location and the feasibility of conducting a physical verification.

(ii)	Inventory physical verification working capital limits	<p>a. whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;</p> <p>b. whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;</p>
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Points to be noted (Audit procedure to be followed in order to comply with reporting)

1. physical verification

- a. This clause requires the auditor to comment whether the management has conducted physical verification of inventory at reasonable intervals, and whether the coverage and procedure of such verification by the management is appropriate. This clause also requires the auditor to comment on whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account.
- b. Physical verification of inventory is the responsibility of the management of the company which should verify all material items at least once in a year
- c. The auditor should obtain reasonable assurance about existence and condition of inventories. Observation of physical verification/ examination of records of physical verification of inventory is the primary source of evidence for the purpose of reporting under this clause.
- d. The auditor may compare the final inventories with stock records and other corroborative evidence

2. sanctioned working capital

- a. This clause does not require reporting where such limits are unsecured or sanctioned on the basis of assets other than current assets.
- b. It may be noted that for the purpose of reporting under this clause, the auditor is required to check the working capital sanctioned limit and not its utilisation.
- c. The auditor should determine the sanctioned limit with reference to the sanction letter issued by banks or financial institutions and relevant agreements executed with them.
- d. The sanctioned limit may be less than five crore rupees but due to excess withdrawals/ levy of interest/ temporary overdrawing, the balance may exceed five crore rupees. Such cases are beyond the scope of reporting under this clause.
- e. The term "sanction" here should include fresh sanction during the year as well as limits renewed or due for renewal during the year. Moreover, both fund based and non-fund based credit facilities availed by the company should be considered for the purpose of checking the limit.
- f. It is also pertinent to note that the aforesaid threshold of five crore rupees should

be examined for any day during the year for which the reporting is to be made, and not as at the end of the financial year. This would mean that even if the limit exceeds five crore rupees on a day during the year, the auditor is required to report the same.

g. The limit would cover the working capital limits from all the banks and financial institutions in aggregate. However, this would exclude any working capital limits which are sanctioned without the security of the company's current assets

(iii)	investments guarantee or security or granted any loans or advances	<p>whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so,-</p> <p>a. whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate -</p> <p>A. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;</p> <p>B. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates;</p> <p>b. whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;</p> <p>c. in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;</p> <p>d. if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;</p> <p>e. whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];</p> <p>f. whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013;</p>
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Points to be noted (Audit procedure to be followed in order to comply with reporting)

- during the year
- The auditor should examine the agreement
- it is suggested that the auditor should ensure compliance with all the requirements of sections 179, 180, 185, 186, 187 of the Act and rules thereunder.
- Under this clause the auditor's duty is to determine whether, in his opinion, the terms and conditions of the investments, guarantee, security, loans/advances in nature of loans granted during the year are prejudicial to the interest of the company

- **terms and conditions** would primarily include rate of interest, security, terms and period of repayment and restrictive covenants, nature of entity i.e. whether given to a start-up or an entity having established track record etc
- section 186 of the Act states that no investment shall be made, or loan or guarantee or security given by the company unless the resolution sanctioning it is passed at a meeting of the Board with the consent of all directors present at the meeting
- Reporting under this clause may warrant a cross referencing with reporting under clause 3(iv).
- It may be mentioned that clause (a) of sub-section (1) of section 143 of the Act also requires the auditor to inquire whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members
- If there is no such agreement / arrangement or the agreement / arrangement does not contain the schedule of repayment of principal and payment of interest, the auditor shall report that there is no stipulation of schedule of repayment of principal and payment of interest and may report that he is unable to make specific comment on the regularity of repayment of principal & payment of interest
- Advances in nature of loans which do not contain the schedule of repayment and payment of interest are required to be reported under this clause.
- Paragraph 3(ii) (e) is a new reporting requirement This clause is inserted to identify instances of 'evergreening' of loans/advances in nature of loans.
- Paragraph (iii)(f) is a new reporting requirement.

(iv) sections 185 and 186 in respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof;

Points to be noted (Audit procedure to be followed in order to comply with reporting)

1. Compliance of Section 185 (Loan to directors, and person in which director interested)

- Obtain from the management the details of the directors or any person in whom any of the director of the company is interested.
- The auditor may also check the details of the persons covered under this clause from the Form MBP-1 and from the register maintained under section 189 of the Act.
- Obtain and check the details of the transactions carried out with such persons, including of any guarantee given and security provided.
- Further examine the details to find out whether any of the transaction is attracting the provisions of section 185 of the Act.
- In case of transactions that are covered under the exceptions as provided under section 185 of the Act, the auditor should obtain the necessary evidence in support of such exception
- Section 185 of the Act prohibits advance of any loan to directors, etc., directly or indirectly
- The auditor should report the nature of non-compliance, the maximum amount outstanding during the year and the amount outstanding as at the balance sheet date in respect of:
 - (i) the directors; and
 - (ii) any person in whom any of the director of the company is interested

2. Compliance of Section 186 (Loan and Investment by Company)

- a. The duty of the auditor under this clause is to determine whether the loans and investments made by the company comply with the requirements of the provisions of section 186 of the Act.
- b. Section 186 of the Act governs giving of loans, and guarantee or providing any security in connection with a loan, by a company to any person or other body

- corporate and acquiring securities of any other body corporate by a company
- c. The section also prohibits a company from making investments through more than two layers of investment companies
- d. Obtain the details of, loans given and investment made during the year as well as the outstanding balances as at the beginning of the year.
- e. Check whether, at any point of time during the year in case of aforesaid transactions, the company has exceeded the limit of sixty per cent of its paid-up share capital, free reserves and securities premium account or one hundred per cent of its free reserves and securities premium account, whichever is more.
- f. If it exceeds the limits specified above, check whether prior approval by means of a special resolution passed at a general meeting has been obtained
- g. Check whether the company has passed the board resolution as prescribed and obtained the prior approval from the public financial institution concerned where any term loan is subsisting.
- h. Check whether the company has disclosed the full particulars of the loan given, investment made or guarantee given or security provided in the financial statements including the purpose for which the same is proposed to be utilized by the recipient.
- i. Check whether rate of interest is not lower than the prevailing yield of one year, three year, five year or ten year government security closest to the tenor of the loan granted.
- j. Check if the company is in default in the repayment of any deposits accepted or in payment of interest thereon, then the company is not allowed to give any loan or guarantee or provide any security or make an acquisition till such default is subsisting.
- k. Check whether the company has maintained a register (as per Form MBP-2)

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| (v) | deposits | <ul style="list-style-type: none"> • in respect of deposits accepted by the company or amounts which are deemed to be deposits, • whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, • if not, the nature of such contraventions be stated; • if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not; |
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| (vi) | cost records | whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained; |
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Points to be noted (Audit procedure to be followed in order to comply with reporting)

- Section 148(1) of the Act specifies that the Central Government may, by order, in respect of such class of companies as may be prescribed, direct that particulars relating to the utilization of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies.
- These rules also prescribed the items of cost to be included in the books of account.
- This clause requires the auditor to report whether cost accounts and records have been made and maintained
- The auditor has to report under this clause irrespective of whether a cost audit has been ordered by the central government.
- The auditor should obtain a written representation from the management
- The Order does not require a detailed examination of the cost records.
- The auditor should, therefore, conduct a general review of the cost records to ensure that the records as prescribed are made and maintained. He should, of course, make

such reference to the cost records as is necessary for the purposes of his audit of the financial statements

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

Points to be noted (Audit procedure to be followed in order to comply with reporting)

1. undisputed statutory dues

- a. This clause requires the auditor to report upon the regularity of the company in depositing undisputed statutory dues
- b. If the company is not regular in depositing the above mentioned undisputed statutory dues, the auditor is required to state the extent of arrears of statutory dues which have remained outstanding as at the last day of the financial year concerned for a period of more than six months from the date they became payable
- c. Any other statute and dues thereunder" is concerned, the auditor can draw further guidance from SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements".
- d. The intention of the Government, in this clause is to ascertain how regular the company is in depositing statutory dues with the appropriate authorities.
- e. Since the emphasis of this clause is on the regularity, the scope of auditor's inquiry is restricted to only those statutory dues, which the company is required to deposit regularly to an authority.
- f. any sum payable to an electricity company as electricity bill would not constitute a statutory due despite the fact that such electricity company has been established under a statute
- g. payment of bonus to an employee though the same is under Payment of Bonus Act, 1965 it will not be considered as a statutory due.
- h. dividend declared and not paid to the shareholders within specified time limit and which is required to be transferred to specified fund will be considered as a statutory due.
- i. interest and rent that are required to be incurred under section 61 of the Customs Act, 1962 would come under category of other statutory dues and the auditor would have to examine and comment upon the regularity of the company in depositing such interest and rent
- j. Non-payment of advance income tax would constitute default in payment of statutory dues
- k. company has deposited the relevant dues before the end of the year while it has been in default in the matter for a significant part of the year. In cases where there are no arrears on the balance sheet date but the company has been irregular during the year in depositing the statutory dues, the auditor should state this fact while reporting under this clause
- l. In order to ensure that deposit of the dues is made in time, the company may make lump-sum deposits of estimated amounts and adjust the excess or deficit against the following month's deposit. If this method is consistently followed and the difference between the total dues and the lump-sum deposit is not significant, it need not be considered that dues have not been regularly deposited and no unfavourable comment is necessary

2. disputed statutory dues

unfavourable comment is necessary

2. **disputed statutory dues**

- a. the auditor should consider a matter as "disputed" where there is a positive evidence or action on the part of the company to show that it has not accepted the demand for payment of tax or duty, e.g., where the company has gone into appeal.
 - b. It may also be noted that this clause has clarified that mere representation to the concerned Department shall not be treated as a dispute.
 - c. minor amounts would be required to be reported under this clause.
 - d. The auditor should report in a manner so that the reader is able to understand the dispute and the amount involved therein
 - e. The auditor should also obtain a management representation about the disputed dues, the amounts involved and the forum where the dispute is pending.
3. The auditor should obtain a written representation with reference to the date of the balance sheet from the management:
- a. specifying the cases and the amounts considered disputed;
 - b. containing a list of the cases and the amounts in respect of the statutory dues which are undisputed and have remained outstanding for a period of more than six months from the date they became payable; and
 - c. containing a statement as to the completeness of the information provided by the management.

(viii) undisclosed income

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

Points to be noted (Audit procedure to be followed in order to comply with reporting

- A. This clause is a new reporting requirement.
- B. Reporting under this clause shall be applicable only when the transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the income tax assessments.
- C. If yes, then the auditor shall also report on proper recording of the same in the books of account during the year.
- D. undisclosed income means transaction represents wholly or partly income or property which has not been or would not have been disclosed for the purposes of this Act, or any expense, deduction or allowance claimed under this Act which is found to be false.
- E. The emphasis is on the words surrendered or disclosed which implies that the company must have voluntarily admitted to the addition of such income
- F. the auditor is required to review all the tax assessments completed during the year under audit.
- G. The auditor is also required to review the tax assessments completed subsequent to the balance sheet date but prior to signing of the auditor's report if the surrendered or disclosed income relates to the year under audit or prior years.
- H. The auditor should obtain a representation letter from the management that all the assessments completed during the year have been duly informed to the auditor.
- I. Proper recording, by implication, includes proper disclosure thereof in the financial statements of the company. The disclosure in the financial statements should be sufficient to enable the users understand the impact of such transactions.

(ix) Defaulted in repayment of loans

a. whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below:-

OR

Other conditions

Nature of borrowing, including debt securities	Name of lender*	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
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*lender wise details to be provided in case of defaults to banks, financial institutions and Government.

- b. whether the company is a declared wilful defaulter by any bank or financial institution or other lender;
- c. whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;
- d. whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;
- e. whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;
- f. whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;

Points to be noted (Audit procedure to be followed in order to comply with reporting

1. defaulted in repayment of loans

- A. borrowings do not include public deposits as the reporting on public deposits is covered by clause 3(v) of the Order.
- B. for the purpose of reporting under this clause, preference share capital should not be considered as borrowings.
- C. format requires the auditor to report the number of days of delay or unpaid.
- D. Accordingly, the auditor should report the amount of all defaults committed during the year and the number of days of default.
- E. Further, since the auditor is also required to report amounts remaining unpaid, it is clarified that the auditor should also report the period and amount of all defaults existing at the balance sheet date irrespective of when those defaults have occurred.
- F. The auditor should consider the period up to the date of the audit report for reporting of the delay in number of days or the amount that remains unpaid
- G. financial institution includes all banks, public financial institutions, as well as non-banking institutions and also includes non-banking financial companies.
- H. The auditor should obtain the schedule of repayments
 - I. The auditor should examine the agreement containing the terms and conditions of the loans and borrowings
- J. Submission of application for reschedulement/ restructuring does not mean that no default has occurred. Accordingly, in such situations also the auditor should report the period of default and the amount of default
- K. The auditor may come across a situation where the company has adequate balance in its current account on the due date of repayment of loan or payment of interest, but such date is either a public holiday or a bank holiday. In such cases, the payment is normally debited by banks/ financial institutions/ lenders on the next working day. It is clarified that in such cases, the auditor should not consider the same as default.

2. Term loans normally have a fixed or pre-determined repayment schedule. In the common parlance of the expression, loans with repayment period beyond 36 months are usually known as term loans. Cash credit, overdraft and call money accounts/deposits are therefore not covered by the expression "Term Loans"

- A. Term loan obtained from entities/persons other than banks/financial institutions would also have to be examined by the auditor for the purpose of reporting under this clause.

B. Normally the end use of the funds raised by term loans is mentioned in the sanction letter

C. During construction phase, companies, generally, temporarily invest the surplus funds to reduce the cost of capital or for other business reasons. However, subsequently the same are utilised for the stated objectives. In such cases, the auditor should mention the fact that pending utilisation of the term loan for the stated purpose, the funds were temporarily used for the purpose other than for which the loan was sanctioned but were ultimately utilised for the stated end-use.

(x) IPO/FPO a. whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;

b. whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance;

Points to be noted (Audit procedure to be followed in order to comply with reporting

A. IPO/FPO

1. Currently, there is no legal requirement under the Act to disclose the end use of money raised by initial public offer or further public offer (including debt instruments) in the financial statements.

2. The companies, however, make such a disclosure in the Board's Report

3. Schedule III to the Act requires that only unutilized amount of any initial public offer or further public offer (including debt instruments) made by the company should be disclosed in the financial statements of a company

4. In the absence of any legal requirement of such disclosure, it appears that this clause envisages that companies should disclose the end use of money raised by the initial public offer or further public offer (including debt instruments) in the financial statements by way of notes and the auditor should verify the same.

5. examination of the offer document

6. obtain a representation from the management

7. In case, the company has appointed a monitoring agency for the purpose of the issue, reports of such monitoring agency would also be helpful to the auditor while reporting under this clause.

8. moneys raised from foreign capital markets in any form and by way of issuance of Global Depository Receipts and American Depository Receipts may not fall within the scope of reporting under this clause.

(xi) fraud a. whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;

b. whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;

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

Points to be noted (Audit procedure to be followed in order to comply with reporting

A. Fraud

1. Under this clause, the responsibilities of the auditor have been widened by removing the words "officers or employees"
 2. This clause requires the auditor to report whether any fraud has been noticed or reported either on the company or by the company during the year and is not limited to frauds by the officers or employees of the company
 3. This clause does not require the auditor to discover such frauds on the company and by the company. The scope of auditor's inquiry under this clause is restricted to frauds 'noticed or reported' during the year.
 4. Irrespective of the auditor's comments under this clause, the auditor is also required to comply with the requirements of SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements".
 5. Further, the auditor is required to comply with the requirements of section 143(12) of the Companies Act, 2013.
 6. Although fraud is a broad legal concept, the auditor is concerned with fraudulent acts that cause a material misstatement in the financial statements
- i. whistle-blower
- a. This is a new reporting requirement in the Order and requires the auditor to consider whistle blower complaints, if any, received by the company during the year (emphasis applied) under audit.
 - b. The auditor is not required to consider whistle-blower complaints pertaining to earlier years while reporting under this clause

- (xii) Nidhi Company
- a. whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability;
 - b. whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;
 - c. whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;

Points to be noted (Audit procedure to be followed in order to comply with reporting

- "Nidhi" means a company which has been incorporated as a Nidhi with the object of cultivating the habit of thrift and saving amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit, and which complies with the rules made by the central Government for regulation of such class of companies.
- The auditor should note that as such a Nidhi Company can accept deposits not exceeding twenty times of its net owned funds as per last audited balance sheet.
- "net owned funds" are defined as the aggregate of paid up equity share capital and free reserves as reduced by accumulated losses and intangible assets appearing in the last audited balance sheet: Provided that, the amount representing the proceeds of issue of preference shares, shall not be included for calculating net owned funds.
- A Nidhi company can accept fixed deposits, recurring deposits accounts and savings deposits from its members in accordance with the directions notified by the Central Government. The aggregate of such deposits is referred to as "deposit liability"
- The auditor should ask the management to provide the computation of the deposit liability and net owned funds on the basis of the requirements mentioned above
- This would enable the auditor to verify that the ratio of deposit liability to net owned funds is in accordance with the requirements prescribed in this regard
- The auditor should examine the documents such as Form NDH-3 filed by the Nidhi Company half yearly containing the terms and conditions of the deposits. This examination would enable the auditor in verifying the amount and due dates of the payments mentioned in the documents.
- The auditor should obtain the schedule of payments of interest and repayments of deposits

- It is clarified that the auditor should report the period and amount of all defaults:
 - ⌚ Existing as at the year-end; and
 - ⌚ Defaults existing during any period and made good during the year.

(xiii) related parties

- whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;

Points to be noted (Audit procedure to be followed in order to comply with reporting

- The duty of the auditor under this clause is to report:
 - a. Whether all transactions with the related parties are in compliance with sections 177 and 188 of the Companies Act, 2013 (“Act”).
 - b. Whether related party disclosures as required by relevant Accounting Standards (AS 18, “Related Party Disclosures” or Ind AS 24, “Related Party Disclosures”, as may be applicable) are disclosed in the financial statements.
- Section 188 of the Act is applicable to all classes of companies (including private companies). The Act envisages the approval of Board of Directors and/or the approval of the shareholders (by way of resolution passed in the general meeting of the company), as the case may be, in accordance with the provisions of section 188.
- SA 550, “Related Parties” has prescribed auditor’s responsibilities regarding related party relationships and transactions when performing an audit of financial statements
- The auditor should obtain written representations from management and, where appropriate, TCWG that:
 - a. They have disclosed to the auditor the identity of the entity’s related parties and all the related party relationships and transactions of which they are aware; and
 - b. They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
- In addition to management representation, the auditor may review the minutes of audit committee meetings as well as Board of Directors meetings.
- The auditor should obtain a list of companies, firms or other parties, the particulars of which are required to be entered in the register maintained under section 189 of the Act
- Section 177 of the Act requires that audit committee to approve transactions of the company with related parties.

(xiv) internal audit system

- a. whether the company has an internal audit system commensurate with the size and nature of its business;
- b. whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;

Points to be noted (Audit procedure to be followed in order to comply with reporting

- This clause requires the auditor to comment whether the company has an internal audit system commensurate with the size and nature of its business In accordance with section 138 of the Act
- In respect of companies which are excluded from the ambit of internal audit under section 138 of the Act, (with regard to mandatory applicability of internal audit system), the auditor would still be well-advised to make inquiries regarding the existence of internal audit system and to report the fact under this clause.
- It is pertinent to note that where the auditor considers the work done by the internal auditor for his audit purposes, compliance with SA 610(Revised), “Using the Work of Internal Auditors”, is mandatory for the statutory auditor.
- The statutory auditor should also assess the impact of the control deficiencies, if any pointed by the internal auditors, while framing his report on the internal financial controls over financial reporting (IFCoFR)

(xv)	non-cash transactions	<ul style="list-style-type: none"> • whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with; <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Points to be noted (Audit procedure to be followed in order to comply with reporting</p> <ul style="list-style-type: none"> • Section 192 of the Act deals with restriction on non-cash transactions involving directors or persons connected with them. The section prohibits the company from entering into following types of arrangements unless it meets the conditions laid out in the said section: <ul style="list-style-type: none"> a. An arrangement by which a director of the company or its holding, subsidiary or associate company or a person connected with such director acquires or is to acquire assets for consideration other than cash, from the company. b. An arrangement by which the company acquires or is to acquire assets for consideration other than cash, from such director or person so connected. • Arrangements, as discussed herein above, can only be entered by the company on fulfilment of the conditions laid out in section 192 of the Act which are as under: <ul style="list-style-type: none"> a. The company should have obtained prior approval for such arrangement through a resolution of the company in general meeting. b. In case the concerned director or the person connected therewith, is also a director of its holding company, a similar approval should have been obtained by the holding company through a resolution at its general meeting c. notice for approval of the resolution by the company or holding company in general meeting shall include the particulars of the arrangement along with the value of the assets involved in such arrangement duly calculated by a registered valuer. • obtaining a management representation as to whether the company has undertaken any non-cash transactions with the directors or persons connected with the directors </div>
(xvi)	Non-Banking Financial Company	<ul style="list-style-type: none"> a. whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained; b. whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934; c. whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria; d. whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group; <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Points to be noted (Audit procedure to be followed in order to comply with reporting</p> <p>1. Registration (a&b)</p> <ul style="list-style-type: none"> a. Under this clause, the auditor is required to examine whether the company is engaged in the business which attract the requirements of the registration under section 45- IA of the Reserve Bank of India Act, 1934 b. The registration is required where the company is engaged in the business of a non-banking financial institution (as defined in section 45-I(a) of the Reserve Bank of India Act, 1934) as its principal business. c. The Reserve Bank of India restricts companies from carrying on the business of a non-banking financial institution without obtaining the certificate of registration. Reference may be made to Section 45-IA of Reserve Bank of India Act, 1934. d. The auditor should report incorporating the following details: - (i) Whether the registration is required under section 45- IA of the RBI Act, 1934. (ii) If so, whether the company has obtained the registration. (iii) If the registration is not </div>

obtained, reasons thereof.

2. Core Investment Company.

- a. Under this clause, the auditor is required to examine whether the company is engaged in the business which attracts the requirement of registration as Core Investment Company.
- b. every Core Investment Company (CIC), that is to say, a NBFC carrying on the business of acquisition of shares and securities and which satisfies the conditions as on the date of the last audited balance sheet:

3. If any of the non-compliance is reported in clause 3(xvi) of CARO 2020 regarding NBFC / NHB / Core Investment Company Regulations, the auditor should also consider whether such non-compliance should be reported by way of an Exception Report to Reserve Bank of India in terms of Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016.

(xvii) cash losses • whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses

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

Points to be noted (Audit procedure to be followed in order to comply with reporting

- This is a new reporting requirement in the Order wherein the auditor is required to report if there has been any resignation of the statutory auditors during the year
- This clause is applicable where new auditor ("incoming auditor") is appointed during the year to fill a casual vacancy caused by resignation of the auditor created in the office of the previous auditor under section 140(2) of the Act. Auditor's resignation can occur for various reasons.
- When an incoming auditor is appointed by an entity, the incoming auditor, prior to accepting the position as auditor, in accordance with the requirements of ICAI Code of Ethics⁶, is required to communicate with the previous auditor to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of the existing accountant.
- In case of listed companies, the incoming auditor should also comply with abovementioned SEBI circular for listed entities.
- incoming auditor should obtain a copy of letter of resignation stating the reasons as submitted to the management and copy of Form ADT 3 as submitted to ROC. In case of listed companies, incoming auditor should also obtain copy of Annexure A from the listed company
- As part of obtaining 'no objection' from outgoing auditor, the incoming auditor should enquire in respect of such modifications/adverse comments included by the outgoing auditor in his last issued audit/review report, since this clause casts an obligation on the incoming auditor to consider the issues, objections or concerns, if any, raised by the outgoing auditors.

(xix) Material Uncertainty • on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;

Points to be noted (Audit procedure to be followed in order to comply with reporting

- The auditor is required to report that no material uncertainty exists as on the date of the audit report about company's ability to meet its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date. The emphasis, therefore, is on the company's ability to meet its liabilities.
- The auditor needs to form his opinion on the basis of the
 - financial ratios,
 - ageing and expected dates of realization of financial assets and payment of financial liabilities,
 - other information accompanying the financial statements,
 - the auditor's knowledge of the Board of Directors and management plans
- AS 1, Disclosure of Accounting Policies, considers going concern as a fundamental accounting assumption and paragraph 27 of AS 1 requires a disclosure where such assumption is not followed.
- As per SA 570(Revised), Going Concern, the auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and to conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern
- Under this clause, the test of existence of material uncertainty is to be done as on the date of audit report for the position of liabilities existing at the date of balance sheet. In other words, the auditor needs to consider the subsequent period transactions between the date of balance sheet and the date of audit report.

(xx)	Corporate Social Responsibility	<p>a. whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act;</p> <p>b. whether any amount remaining unspent under sub-section (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of sub-section (6) of section 135 of the said Act;</p>
(xxi)	qualification/ adverse remark made in individual component CARO Report	<p>a. whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.</p> <p>Points to be noted (Audit procedure to be followed in order to comply with reporting</p> <ul style="list-style-type: none"> • the term qualifications or adverse remarks used in this clause refers to the term unfavourable or qualified answers used in paragraph 4 of the Order. • when reporting under clause 3(xxii), the auditor is not required to re-evaluate the materiality from a consolidation perspective. Hence every qualification/adverse remark made by every individual component including the parent should be included while reporting under clause 3(xxii).

Para 4. Reasons to be stated for unfavourable or qualified answers –

- a. Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or

qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be.

b. Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same.

CHAPTER - 8

Specialized Areas

SA 800 Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks (REVISED)

Scope

The Standards on Auditing (SAs) in the 100-700 series apply to an audit of financial statements. This SA deals with special considerations in the application of those SAs to an audit of financial statements prepared in accordance with a special purpose framework.

This SA is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework.

SA 805 deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.

This SA does not override the requirements of the other SAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

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

Definitions

For purposes of the SAs, the following terms have the meanings attributed below:

Special purpose financial statements – Financial statements prepared in accordance with a special purpose framework.

Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework

Examples of special purpose frameworks are:

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

There may be circumstances where a special purpose framework is based on a financial reporting framework established by an authorised or recognised standards setting organization or by law or regulation, but does not comply with all the requirements of that framework.

An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Jurisdiction X.

When this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the financial reporting framework established by the authorised or recognized standards setting organization or by law or regulation.

In the above example of the contract, the description of the applicable financial reporting framework may refer to the financial reporting provisions of the contract, rather than make any reference to the Financial Reporting Standards of Jurisdiction X

The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the AFRF determine the form and content of the financial statements, and what constitutes a complete set of financial statements

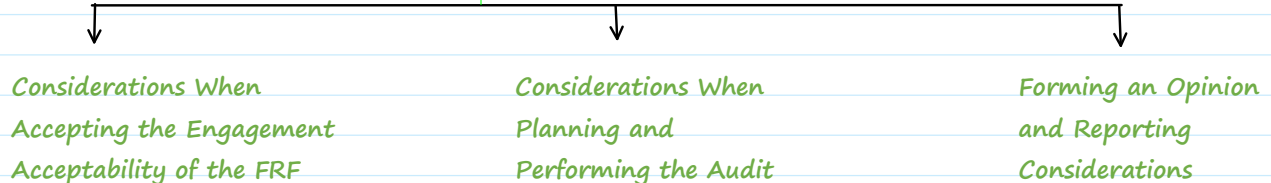
Objective

The objective of the auditor, when applying SAs in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:

- a. The acceptance of the engagement;
- b. The planning and performance of that engagement; and
- c. Forming an opinion and reporting on the financial statements.

Requirements

TO MEET ABOVE OBJECTIVE



Considerations When Accepting the Engagement Acceptability of the Financial Reporting Framework

SA 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. In an audit of special purpose financial statements, the auditor shall obtain an understanding of:

- a. The purpose for which the financial statements are prepared;
- b. The intended users; and
- c. The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the FRF applied in the preparation of the financial statements.

The applicable financial reporting framework may encompass the financial reporting standards established by an organization that is authorized or recognized.

In that case, those standards will be presumed acceptable for that purpose if the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders.

Some law(s) or regulation(s) may prescribe the FRF to be used by management in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such entity.

Where the financial reporting standards referred to in above paragraph are supplemented by legislative or regulatory requirements, SA 210 requires the auditor to determine whether any conflicts between the financial reporting standards and the additional requirements exist, and prescribes actions to be taken by the auditor if such conflicts exist

The applicable financial reporting framework may encompass the financial reporting provisions of a contract, or sources other than those described in above paragraphs . In that case, the acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 of SA 210. (Relevance, Completeness, Reliability, Neutrality, Understandability)

In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment. For example, for purposes of establishing the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information is not neutral when compared with financial information prepared in accordance with a general purpose framework.

Considerations When Planning and Performing the Audit

SA 200 requires the auditor to comply with all SAs relevant to the audit.

In planning and performing an audit of special purpose financial statements, the auditor shall determine whether application of the SAs requires special consideration in the circumstances of the engagement.

Application of some of the requirements of the SAs in an audit of special purpose financial statements may require special consideration by the auditor.

For example, in SA 320, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the intended users.

In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the

auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.

Communication with those charged with governance in accordance with SAs is based on the relationship between those charged with governance and the financial statements subject to audit, in particular, whether those charged with governance are responsible for overseeing the preparation of those financial statements. In the case of special purpose financial statements, those charged with governance may not have such a responsibility. In such cases, the requirements of SA 260(Revised) may not be relevant to the audit of the special purpose financial statements, except when the auditor is also responsible for the audit of the entity's general purpose financial statements or, for example, has agreed with those charged with governance of the entity to communicate to them relevant matters identified during the audit of the special purpose financial statements.

SA 315 requires the auditor to obtain an understanding of the entity's selection and application of accounting policies. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.

Forming an Opinion and Reporting Considerations

When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in SA 700 (Revised).

Description of the Applicable Financial Reporting Framework

SA 700 (Revised) requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

SA 700(Revised) deals with the form and content of the auditor's report, including the specific ordering of certain elements. In the case of an auditor's report on special purpose financial statements:

- a. The auditor's report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and
- b. If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
- c. When key audit matters are communicated in the auditor's report on special purpose financial statements, SA 701 applies in its entirety.
- d. SA 720(Revised) deals with the auditor's responsibilities relating to other information. In the context of this SA, reports containing or accompanying the special purpose financial statements – the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in special purpose financial statements – are considered to be annual reports for the purposes of SA 720(Revised). In the case of financial statements prepared using a special purpose framework, the term "similar stakeholders" includes the specific users whose financial information needs are met by the design of the special purpose framework used to prepare the special

purpose financial statements. When the auditor determines that the entity plans to issue such a report, the requirements of SA 720(Revised) apply to the audit of the special purpose financial statements.

- e. The auditor may deem it appropriate to refer, in an Other Matter paragraph in the auditor's report on the special purpose financial statements, to the auditor's report on the complete set of general purpose financial statements or to matter(s) reported therein as per SA 706 (Revised). For example, the auditor may consider it appropriate to refer in the auditor's report on the special purpose financial statements to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of general purpose financial statements.

Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework

The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading that include an Emphasis of Matter paragraph

The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. To avoid misunderstandings, the auditor alerts users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

Restriction on Distribution or Use

In addition to the alert required by above paragraph, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the auditor's report. In these circumstances, the paragraph alerting readers may be expanded to include these other matters, and the heading modified accordingly.

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

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

Scope

The Standards on Auditing (SAs) in the 100-700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.

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

The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework.

SA 805 does not apply to the report of a component auditor, issued as a result of work performed on the financial information of a component at the request of a principal auditor for purposes of an audit of consolidated financial statements.

If prepared in accordance with a special purpose framework, SA 800 (Revised) also applies to the audit.

This SA does not override the requirements of the other SAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement

A single financial statement (for example, a cash flow statement) or to a specific element of a financial statement (for example, cash and bank balances) includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.

Objective

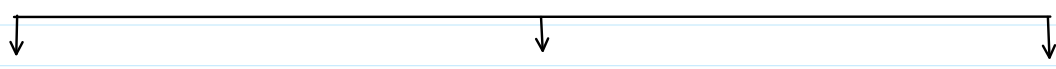
The objective of the auditor, when applying SAs in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to:

- a. The acceptance of the engagement;
- b. The planning and performance of that engagement; and
- c. Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control

Requirements

TO MEET ABOVE OBJECTIVE





*Considerations When
Accepting the Engagement
Acceptability of the FRF*

*Considerations When
Planning and
Performing the Audit*

*Forming an Opinion
and Reporting
Considerations*

Considerations When Accepting the Engagement Application of SAs

SA 200 requires the auditor to comply with all SAs relevant to the audit. In the case of an audit of a single financial statement or of a specific element of a financial statement, this requirement applies irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements. If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with SAs is practicable.

SA 200 requires the auditor to comply with all SAs relevant to the audit.

Compliance with the requirements of SAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements.

In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records.

In the case of an audit of a specific element of a financial statement, certain SAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of SA 570(Revised) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with SAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

Acceptability of the Financial Reporting Framework

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

A single financial statement or a specific element of a financial statement may be prepared in accordance with an applicable financial reporting framework that is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements.

authorised or recognised standards setting organisation for the preparation of a complete set of financial statements. If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework on which it is based that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures.

Considerations When Planning and Performing the Audit

SA 200 states that SAs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.

In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all SAs relevant to the audit as necessary in the circumstances of the engagement.

The relevance of each of the SAs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, SAs such as SA 240, SA 550 and SA 570(Revised) are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern assumption under the applicable financial reporting framework.

SA 260(Revised) requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate. SA 260(Revised) notes that, in some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognise this position. When complete set of financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the single financial statement or the element may not be the same as those charged with governance responsible for the oversight of the preparation of the complete set of financial statements.

When auditing a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element.

SAs, however, require the auditor to plan and perform the audit of the financial statement or element to **obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.**

The individual financial statements that comprise a complete set of financial statements, and many of the elements of those financial statements, including their related notes, are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.

Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements

Form of Opinion

SA 210 requires that the agreed terms of the audit engagement include the expected form of any reports to be issued by the auditor. In the case of an audit of a single financial statement or of a specific element of a financial statement, the auditor shall consider whether the expected form of opinion is appropriate in the circumstances.

The form of opinion to be expressed by the auditor depends on the AFRF and any applicable laws or regulations. In accordance with SA 700 (Revised):

1. When expressing an unmodified opinion on a **complete set of financial statements** prepared in accordance with a fair presentation framework, the auditor's opinion, unless otherwise required by law or regulation, uses one of the following phrases:
 - a. the financial statements present fairly, in all material respects, in accordance with [the AFRF]; or
 - b. the financial statements give a true and fair view in accordance with [the AFRF]; and
2. When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a compliance framework, the auditor's opinion states that the financial statements are prepared, in all material respects, in accordance with [the AFRF]

In the case of a single financial statement or of a specific element of a financial statement, the applicable financial reporting framework may not explicitly address the presentation of the financial statement or of the element. This may be the case when the applicable financial reporting framework is based on a financial reporting framework established by an authorised or recognised standards setting organization for the preparation of a complete set of financial statements. The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework.

Factors that may affect the auditor's consideration as to whether to use the phrases "presents fairly, in all material respects", or "gives a true and fair view" in the auditor's opinion include:

- Whether the AFRF is explicitly or implicitly restricted to the preparation of a complete set of financial statements.
- Whether the single financial statement or the specific element of a financial statement will:
 - Comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element, and the presentation of the financial statement or the specific element of a financial statement include the related disclosures.
 - If necessary to achieve fair presentation, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.

The auditor's decision as to the expected form of opinion is a matter of professional judgment. It may be affected by whether use of the phrases "presents fairly, in all material respects", or "gives a true and fair view" in the auditor's opinion on a single financial statement or on a specific element of a financial statement prepared in accordance with a fair presentation framework is generally accepted in the particular jurisdiction.

Forming an Opinion and Reporting Considerations

When forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in SA 700 (Revised) and SA 800, adapted as necessary in the circumstances of the engagement.

SA 700 (Revised) requires the auditor, in forming an opinion, to evaluate whether the financial statements

provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements. In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, including the related notes, in view of the requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

Going Concern:

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

Key Audit Matters:

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

Other Information:

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

Signature of the Auditor:

The auditor's report shall be signed. The report is signed by the auditor (i.e. the engagement partner) in his personal name. Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the auditor's report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the auditor's reports signed by them.

This SA requires the auditor to consider the implications, if any, of certain matters included in the auditor's report on the complete set of financial statements for the audit of the single financial statement or the specific element of a financial statement and for the auditor's report thereon. Considering whether a matter included in the auditor's report on the complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element of a financial statement involves professional judgment.

Factors that may be relevant in considering those implications include:

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

- The time elapsed since the date of the auditor's report on the complete set of the financial statements.

For example, in the case when there is a qualification of the auditor's opinion in relation to accounts receivable in the auditor's report on the complete set of financial statements, and the single financial statement includes accounts receivable, or the specific element of a financial statement relates to accounts receivable, it is likely that there would be implications for the audit. On the other hand, if the qualification of the auditor's opinion on the complete set of financial statements relates to classification of long-term debt, then it is less likely that there would be implications for an audit of the single financial statement that is the Statement of Profit and Loss, or if the specific element of the financial statement relates to accounts receivable.

Inclusion of a reference to the auditor's report on the complete set of financial statements: Even when certain matters included in the auditor's report on the complete set of financial statements do not have implications for the audit of, or for the auditor's report on, the single financial statement or the specific element of a financial statement, the auditor may deem it appropriate to refer to the matter(s) in an Other Matter paragraph in an auditor's report on the single financial statement or on the specific element of a financial statement as per SA 706(Revised).

For example, the auditor may consider it appropriate to refer in the auditor's report on the single financial statement or a specific element of the financial statement to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of financial statements.

Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of Those Financial Statements

If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement.

An audited single financial statement or an audited specific element of a financial statement may be published together with the entity's audited complete set of financial statements. If the auditor concludes that the presentation of the single financial statement or of the specific element of a financial statement does not differentiate it sufficiently from the complete set of financial statements, the auditor shall ask management to rectify the situation.

the auditor shall also differentiate the opinion on the single financial statement or on the specific element of a financial statement from the opinion on the complete set of financial statements. The auditor shall not issue the auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement until satisfied with the differentiation.

Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements for the Audit of the Single Financial Statement or the Specific Element of a Financial Statement and for the Auditor's Report Thereon

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

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

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

Even when certain matters included in the auditor's report on the complete set of financial statements do not have implications for the audit of, or for the auditor's report on, the single financial statement or the specific element of a financial statement, the auditor may deem it appropriate to refer to the matter(s) in an Other Matter paragraph in an auditor's report on the single financial statement or on the specific element of a financial statement (see SA 706(Revised)). For example, the auditor may consider it appropriate to refer in the auditor's report on the single financial statement or a specific element of the financial statement to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of financial statements.

Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements:

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

This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole. .

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

1. The auditor is not prohibited by law or regulation from doing so;
2. That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and
3. The specific element does not constitute a major portion of the entity's complete set of financial statements.

The auditor shall not express an unmodified opinion on a **single financial statement** of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements

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

Examples of Specific Elements, Accounts or Items of a Financial Statement

- Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not

reported" claims in an insurance portfolio, including related notes.

- A schedule of externally managed assets and income of a private pension plan, including related notes.
- A schedule of net tangible assets, including related notes.
- A schedule of disbursements in relation to a lease property, including explanatory notes.
- A schedule of profit participation or employee bonuses, including explanatory notes

SA 810 Engagements to Report on Summary Financial Statements

Scope

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

Objectives

The objectives of the auditor are to:

- (a) Determine whether it is appropriate to accept the engagement to report on summary financial statements;
- (b) Form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and
- (c) Express clearly that opinion through a written report that also describes the basis for that opinion.

Definitions

For purposes of this SA, the following terms have the meanings attributed below:

- **Applied criteria** – The criteria applied by management in the preparation of the summary financial statements.
- **Audited financial statements** – Financial statements audited by the auditor in accordance with SAs, and from which the summary financial statements are derived.
- **Summary financial statements** – Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time. Different laws and regulations may use different terminology to describe such historical financial information.

Requirements

TO MEET ABOVE OBJECTIVE

- **Considerations When Accepting the Engagement Acceptability of the FRF**
- **Nature Of Procedures**
- **Form Of Opinion**
- **Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited F.St.**
- **Auditor's Report on Summary Financial Statements**
- **Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting**
- **Comparatives**
- **Unaudited Supplementary Information Presented with Summary Financial Statements**

- *Other Information in Documents Containing Summary Financial Statements*
- *Auditor Association*

Engagement Acceptance

The auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived

The audit of the financial statements from which the summary financial statements are derived provides the auditor with the necessary knowledge to discharge the auditor's responsibilities in relation to the summary financial statements in accordance with this SA. Application of this SA will not provide sufficient appropriate evidence on which to base the opinion on the summary financial statements if the auditor has not also audited the financial statements from which the summary financial statements are derived.

Before accepting an engagement to report on summary financial statements, the auditor shall:

a. Determine whether the applied criteria are acceptable

Management is responsible for the determination of the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements. Because summary financial statements by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when established criteria for the preparation of summary financial statements do not exist.

Factors that may affect the auditor's determination of the acceptability of the applied criteria include:

- ⌚ The nature of the entity;
- ⌚ The purpose of the summary financial statements;
- ⌚ The information needs of the intended users of the summary financial statements; and
- ⌚ Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.

The criteria for the preparation of summary financial statements may be established by an authorised or recognised standards setting organisation or by law or regulation. Similar to the case of financial statements, as explained in SA 210, in many such cases, the auditor may presume that such criteria are acceptable.

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

Criteria that are acceptable in the circumstances will result in summary financial statements that:

- Adequately disclose their summarised nature and identify the audited financial statements;
- Clearly describe from whom or where the audited financial statements are available or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, that law or regulation;
- Adequately disclose the applied criteria;
- Agree with or can be re-calculated from the related information in the audited financial statements; and
- In view of the purpose of the summary financial statements, contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

b. Obtain the agreement of management that it acknowledges and understands its responsibility:

- For the preparation of the summary financial statements in accordance with the applied criteria;
- To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements); and
- To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them

c. Agree with management the form of opinion to be expressed on the summary financial statements

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

An engagement conducted in accordance with such law or regulation does not comply with this SA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SA.

The auditor shall include appropriate reference to this fact in the terms of the engagement. The auditor shall also determine the effect that this may have on the engagement to audit the financial statements from which the summary financial statements are derived

The auditor's evaluation whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty is affected by factors such as whether:

- The summary financial statements describe clearly from whom or where the audited financial statements are available;
- The audited financial statements are on public record; or
- Management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements.

Nature of Procedures

The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

- Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.
- When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
 - From whom or where the audited financial statements are available; or
 - The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
- Evaluate whether the summary financial statements adequately disclose the applied criteria.

- d. Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.
- e. Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
- f. Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
- g. Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements

Form of Opinion

When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases:

- a. The summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [the applied criteria]; or
- b. The summary financial statements are a fair summary of the audited financial statements, in accordance with [the applied criteria].

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

- a. Apply the procedures described earlier and any further procedures necessary to enable the auditor to express the prescribed opinion; and
- b. Evaluate whether users of the summary financial statements might misunderstand the auditor's opinion on the summary financial statements and, if so, whether additional explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding.

If, the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this SA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SA.

Auditor's Report on Summary Financial Statements

Elements of the Auditor's Report

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

- a. A **title** clearly indicating it as the report of an independent auditor.
- b. An **addressee**: If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.
- c. Identification of the summary financial statements on which the auditor is reporting, including the title of each statement, included in the summary financial statements - When the auditor is aware that the summary

financial statements will be included in a document that contains information other than the summary financial statements and the auditor's report thereon, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers identify the summary financial statements to which the auditor's report relates.

- d. Identification of the audited financial statements.
- e. A clear expression of an opinion.
- f. A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements and that reading the summary financial statements and the auditor's report thereon is not a substitute for reading the audited financial statements and the auditor's report thereon.
- g. If required, then a statement that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements.
- h. Reference to the auditor's report on the audited financial statements, the date of that report, and the fact that an unmodified opinion is expressed on the audited financial statements.
- i. A description of management's responsibility for the summary financial statements, explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria.
- j. A statement that the auditor is responsible for expressing an opinion, based on the auditor's procedures conducted in accordance with this SA, on whether the summary financial statements are consistent, in all material respects, with [or are a fair summary of] the audited financial statements.
- k. The auditor's signature along with the firm registration number, wherever applicable, and the membership number assigned by the Institute of Chartered Accountants of India. Besides, UDIN is required to be stated.
- l. The date of the auditor's report.

The auditor shall date the auditor's report on the summary financial statements no earlier than:

- a. The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognised authority have asserted that they have taken responsibility for them; and
- b. The date of the auditor's report on the audited financial statements.

- m. The place of signature.

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

Reference to the Auditor's Report on the Audited Financial Statements : When the auditor's report on the audited financial statements includes:

- a. a qualified opinion in accordance with SA 705(Revised);
- b. an Emphasis of Matter paragraph, or an Other Matter paragraph in accordance with SA 706(Revised);
- c. A Material Uncertainty Related to Going Concern section in accordance with SA 570(Revised);
- d. Communication of key audit matters in accordance with SA 701; or
- e. A statement that describes an uncorrected material misstatement of the other information in accordance with SA 720(Revised);

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

- a. State that the auditor's report on the audited financial statements includes a qualified opinion, an Emphasis of

Matter paragraph, an Other Matter paragraph, a Material Uncertainty Related to Going Concern section, communication of key audit matters, or a statement that describes an uncorrected material misstatement of the other information; and

b. Describe:

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

When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, in addition also contain following::

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

Modified Opinion on the Summary Financial Statements

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

Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting

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

Comparatives

If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements.

If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that SA 710 requires the auditor to include in the auditor's report on the audited financial statements.

Unaudited Supplementary Information Presented with Summary Financial Statements

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

(SA 700 (Revised) contains requirements and guidance to be applied when unaudited supplementary information is presented with audited financial statements)

Information in Documents Containing Summary Financial Statements

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

Auditor Association

If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document. If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document.

The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:

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

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

Other appropriate actions the auditor may take when management does not take the requested action may include informing the intended users and other known third-party users of the inappropriate reference to the auditor. The auditor's course of action depends on the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements

The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. In such cases, the auditor's report on the summary financial statements shall state that the summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements that may require adjustment of, or disclosure in, the audited financial statements.

The auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements, but of which the auditor previously was unaware. In such cases, the auditor shall not issue the auditor's report on the summary financial statements until the auditor's consideration of such facts in relation to the audited financial statements in accordance with SA 560 has been completed.

When the auditor reports on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements since the summary financial statements are derived from the audited financial statements.

CHAPTER - 9

Audit Related Services

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

Introduction

The purpose of this Standard on Related Services (SRS) is to establish standards and provide guidance on the auditor's professional responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken and on the form and content of the report that the auditor issues in connection with such an engagement.

In an engagement to perform agreed-upon procedures, the auditor is engaged by the client to issue a report of factual findings, based on specified procedures performed on specified subject matter of specified elements, accounts or items of a financial statement.

For example, an engagement to perform agreed-upon procedures may require the auditor to perform certain procedures concerning individual items of financial data, say, accounts payable, accounts receivable, purchases from related parties and sales and profits of a segment of an entity, or a financial statement, say, a balance sheet or even a complete set of financial statements.

This SRS is directed towards engagements regarding financial information. However, it may provide useful guidance for engagements to perform agreed-upon procedures regarding non-financial information; provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base his findings.

These Standards on Auditing is to be read in conjunction with the "Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services". The principles laid down in the other SAs, issued by the Institute of Chartered Accountants of India, may be used by the auditor, to the extent practicable, in applying this SRS.

However, a person performing related services need not necessarily be the auditor of the entity's financial statements.

Chartered Accountants in practice are often asked to provide services to clients which do not involve the expression of an opinion on the truth and fairness of the financial statements.

For the purpose of standardising the procedures to perform such kind of non-assurance services, the AASB of ICAI issued two Standards on two different services i.e. Standards on Related Services.

The following standards have been issued under Standards on Related Services: -

- SRS 4400 Engagements to Perform Agreed-upon Procedures Regarding Financial Information
- SRS 4410 Compilation Engagements

Not all engagements performed by practitioners are assurance engagements. Other frequently performed engagements that do not meet the definition of assurance engagements include: -

- The preparation of tax returns where no conclusion conveying assurance is expressed.
- Consulting (or advisory) engagements such as management and tax consulting.
- Engagements covered by Standards for Related Services, such as agreed-upon procedures engagements and compilations of financial or other

information.

Objective of an Agreed-upon Procedures Engagement

The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.

As the auditor simply provides a report of the factual findings of agreed-upon procedures, no assurance is expressed by him in his report.

Instead, users of the report assess for themselves the procedures and the findings reported by the auditor and draw their own conclusions from the work done by the auditor.

The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results. However, it is possible in certain circumstances that the report of the engagement may not be restricted only to those parties that have agreed to the procedures to be performed, but made available to a wider range of entities or individuals, e.g., in case of government organisations.

Requirements

TO MEET ABOVE OBJECTIVE

- General Principles of an Agreed-upon Procedures Engagement
- Defining the Terms of the Engagement
- Planning
- Procedures and Evidence
- Reporting
- Documentation
- Audit Vs. Agreed-upon Procedures

General Principles of an Agreed-upon Procedures Engagement

The auditor should comply with the Code of Ethics, issued by the Institute of Chartered Accountants of India. Ethical principles governing the auditor's professional responsibilities for this type of engagement are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality;
- (e) Professional conduct; and
- (f) Technical standards

Independence is not a requirement for agreed-upon procedures engagement, however, the terms or objective of the

Independence is not a requirement for agreed-upon procedures engagement, however, the terms or objective of the engagement may require the auditor to comply with the independence requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.

Where the auditor is not independent, a statement to that effect should be made in the report of factual findings. The auditor should conduct an agreed-upon procedure engagement in accordance with this SRS and the terms of the engagement

Defining the Terms of the Engagement

The auditor should ensure with representatives of the entity and, ordinarily, other specified parties who will receive copies of the report of factual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement.

Matters to be agreed include the following:

- a. Nature of the engagement including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed.
- b. Stated purpose for the engagement.
- c. Identification of the financial information to which the agreed-upon procedures will be applied.
- d. Nature, timing and extent of the specific procedures to be applied.
- e. Limitations on distribution of the report of factual findings. When such limitation would be in conflict with the legal requirements, if any, the auditor would not accept the engagement.

In certain circumstances, for example, when the procedures have been agreed to between the regulator, industry representatives and representatives of the accounting profession, the auditor may not be able to discuss the procedures with all the parties who will receive the report. In such cases, the auditor may consider, for example, discussing the procedures to be applied with appropriate representatives of the parties involved, reviewing relevant correspondence from such parties.

It is in the interests of both the client and the auditor that the auditor sends an engagement letter documenting the key terms of the appointment. An engagement letter confirms the auditor's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the auditor's responsibilities and the form of reports to be issued.

Matters that would be included in the engagement letter include:

- a. A listing of the procedures to be performed as agreed-upon between the parties.
- b. A statement that the distribution of the report of factual findings would be restricted to the specified parties who have agreed to the procedures to be performed.

Planning

The auditor should plan the work so that an effective engagement will be performed.

Procedures and Evidence

The auditor should carry out the procedures agreed-upon and use the evidence obtained as the basis for the report of factual findings.

The procedures applied in an engagement to perform agreed-upon procedures may include:

- Inquiry and analysis.
- Recomputation, comparison and other clerical accuracy checks.
- Observation.
- Inspection.
- Obtaining confirmations

Reporting

The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed.

The report should also clearly mention that no audit or review has been performed.

The report of factual findings should contain:

- a. Title;
- b. Addressee (ordinarily, the appointing authority);
- c. Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied;
- d. A statement that the procedures performed were those agreed-upon with the recipient;
- e. A statement that the engagement was performed in accordance with the Standard on Related Services applicable to agreed-upon procedures engagements;
- f. Identification of the purpose for which the agreed-upon procedures were performed;
- g. A listing of the specific procedures performed;
- h. A description of the auditor's factual findings including sufficient details of errors and exceptions found;
- i. A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed;
- j. A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported;
- k. A statement that the report is restricted to those parties that have agreed to the procedures to be performed;
- l. A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole;
- m. Date of the report;
- n. Place of signature; and
- o. Auditor's signature

The report should be signed by the accountant in his personal name. Where the firm is appointed, the report should be signed in the personal name of the accountant and in the name of the firm. The partner/proprietor signing the report on agreed-upon procedures should also mention the membership number assigned by the Institute of Chartered Accountants of India

Documentation

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

Audit Vs. Agreed-upon Procedures

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

For example,

an agreed upon procedures engagement to evaluate validity of accounts payable may state the following:

- a. Comparing of names of major suppliers and the amounts outstanding as on a date to the related names and amounts in the trial balance
- b. Obtaining suppliers statements or confirmations from suppliers to confirm balances outstanding on a date
- c. Comparison of such statements or confirmations to the amounts in trial balance

Further, actual findings like variation in balances reflected in trial balance and statements or confirmations are given. The actual findings are reported as such without providing an assurance.

SRS 4410(Revised) Compilation Engagements

Introduction

Scope of this SRS

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

This SRS applies to compilation engagements for historical financial information. The SRS may be applied, adapted as necessary, to compilation engagements for financial information other than historical financial information, and to compilation engagements for non-financial information.

Hereinafter in this SRS, reference to "financial information" means "historical financial information."

When the practitioner is requested to assist management with the preparation and presentation of financial information, appropriate consideration may need to be given to whether the engagement should be undertaken in accordance with this SRS.

Relationship with SQC 1

Quality control systems, policies and procedures are the responsibility of the firm.

SQC 1 applies to firms of professional accountants in respect of a firm's compilation engagements.

The provisions of this SRS regarding quality control at the level of individual compilation engagements are premised on the basis that the firm is subject to SQC 1.

The Compilation Engagement

Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity.

The value of a compilation engagement performed in accordance with this SRS to users of financial information results from the application of the practitioner's professional expertise in accounting and financial reporting and compliance with professional standards, including relevant ethical requirements, and the clear communication of the nature and extent of the practitioner's involvement with the compiled financial information.

Since a compilation engagement is not an assurance engagement, a compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation, or otherwise to gather evidence to express an audit opinion or a review conclusion on the preparation of the financial information.

Management retains responsibility for the financial information and the basis on which it is prepared and presented. That responsibility includes application by management of the judgment required for the preparation and presentation of the financial information, including the selection and application of appropriate accounting policies and, where needed, developing reasonable accounting estimates.

This SRS does not impose responsibilities on management or those charged with governance, or override laws and regulations that govern their responsibilities. An engagement performed in accordance with this SRS is conducted on the premise that management, or those charged with governance where appropriate, have agreed certain responsibilities that are fundamental to the performance of the compilation engagement

Financial information that is the subject of a compilation engagement may be required for various purposes including:

- a. To comply with mandatory periodic financial reporting requirements established in law or regulation, if any; or
- b. For purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example
 - For management or TCWG, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for internal use).
 - For periodic financial reporting undertaken for external parties under a contract or other form of agreement (such as financial information provided to a funding body to support provision or continuation of a grant).
 - For transactional purposes, for example to support a transaction involving changes to the entity's ownership or financing structure (such as for a merger or acquisition).

Different financial reporting frameworks can be used to prepare and present financial information, ranging from a simple entity-specific basis of accounting to established financial reporting standards. The financial reporting framework adopted by management to prepare and present the financial information will depend on the nature of the entity and the intended use of the information

Objectives

The practitioner's objectives in a compilation engagement under this SRS are to:

- a. Apply accounting and financial reporting expertise to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework based on information provided by management; and
- b. Report in accordance with the requirements of this SRS.

Definitions

The Glossary of Terms (the Glossary) includes the terms defined in this SRS and also includes descriptions of other terms found in this SRS, to assist in consistent interpretation.

The following terms have the meanings attributed below for the purposes of this SRS:

Compilation engagement – An engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework, and reports as required by this SRS. Throughout this SRS, the words “compile”, “compiling” and “compiled” are used in this context.

Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.

Misstatement – A difference between the amount, classification, presentation, or disclosure of a reported item in the financial information, and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.

Requirements

- *Conduct of a Compilation Engagement in Accordance with this SRS*
- *Ethical Requirements*
- *Professional Judgment*
- *Engagement Level Quality Control*
- *Engagement Acceptance and Continuance*
- *Communication with Management and Those Charged with Governance*
- *Performing the Engagement*
- *Documentation*
- *The Practitioner's Report*

Conduct of a Compilation Engagement in Accordance with this SRS

The practitioner shall have an understanding of the entire text of this SRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

Complying with Relevant Requirements

The practitioner shall comply with each requirement of this SRS unless a particular requirement is not relevant to the compilation engagement, for example if the circumstances addressed by the requirement do not exist in the engagement.

The practitioner shall not represent compliance with this SRS unless the practitioner has complied with all requirements of this SRS relevant to the compilation engagement.

Ethical Requirements

The practitioner shall comply with relevant ethical requirements.

Under the Code of Ethics, in applying the principle of integrity, a professional accountant is required to not be associated with reports, returns, communications or other information **where he believes** that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information furnished negligently; or
- (c) Omits or obscures any information required to be included where such omission or obscurity would be misleading.

Independence

Independence—Assurance Engagements of the ICAI's Code of Ethics does not apply to compilation engagements, laws or regulations may specify requirements or disclosure rules pertaining to independence.

Professional Judgment

The practitioner shall exercise professional judgment in conducting a compilation engagement.

Engagement Level Quality Control

The engagement partner shall take responsibility for:

- a. The overall quality of each compilation engagement to which that partner is assigned; and
- b. The engagement being performed in accordance with the firm's quality control policies and procedures, by:
 - i. Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements;
 - ii. Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the compilation engagement;
 - iii. Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, and determining the appropriate action if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements;
 - iv. Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
 - v. Taking responsibility for appropriate engagement documentation being maintained.

Engagement Acceptance and Continuance

Continuance of Client Relationships, Engagement Acceptance and Agreeing the Terms of the Engagement

The practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including:

- a. The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable
- b. Identification of the applicable financial reporting framework;
- c. The objective and scope of the compilation engagement;
- d. The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements;
- e. The responsibilities of management for:
 - i. The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users;
 - ii. Design, implementation and maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
 - iii. The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement; and
 - iv. Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement; and
- f. The expected form and content of the practitioner's report.

The practitioner shall record the agreed terms of engagement in an engagement letter or other suitable form of written agreement, prior to performing the engagement

Recurring Engagements

On recurring compilation engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is need to remind management of the existing terms of engagement.

Performing the Engagement

The Practitioner's Understanding

The practitioner shall obtain an understanding of the following matters sufficient to be able to perform the compilation engagement:

- (a) The entity's business and operations, including the entity's accounting system and accounting records; and
- (b) The AFRF, including its application in the entity's industry.

Compiling the Financial Information

The practitioner shall compile the financial information using the records, documents, explanations and other information, including significant judgments, provided by management.

The practitioner shall discuss with management, or TCWG as appropriate, those significant judgments, for which the practitioner has provided assistance in the course of compiling the financial information.

Prior to completion of the compilation engagement, the practitioner shall read the compiled financial information in light of the practitioner's understanding of the entity's business and operations, and of the AFRF.

If, in the course of the compilation engagement, the practitioner becomes aware that the records, documents, explanations or other information, including significant judgments, provided by management for the compilation engagement are incomplete, inaccurate or otherwise unsatisfactory, the practitioner shall bring that to the attention of management and request the additional or corrected information.

If the practitioner is unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested, the practitioner shall withdraw from the engagement and inform management and TCWG of the reasons for withdrawing

If the practitioner becomes aware during the course of the engagement that:

- a. The compiled financial information does not adequately refer to or describe the applicable financial reporting framework;
- b. Amendments to the compiled financial information are required for the financial information not to be materially misstated; or
- c. The compiled financial information is otherwise misleading, the practitioner shall propose the appropriate amendments to management.

If management declines, or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.

If withdrawal from the engagement is not possible, the practitioner shall determine the professional and legal responsibilities applicable in the circumstances.

The practitioner shall obtain an acknowledgement from management or those charged with governance, as appropriate, that they have taken responsibility for the final version of the compiled financial information

Communication with Management and Those Charged with Governance

The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the compilation engagement, all matters concerning the compilation engagement that, in the practitioner's professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate

The Practitioner's Report

An important purpose of the practitioner's report is to clearly communicate the nature of the compilation engagement, and the practitioner's role and responsibilities in the engagement. The practitioner's report is not a vehicle to express an opinion or conclusion on the financial information in any form.

The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements: -

- a. The report title
- b. The addressee(s), as required by the terms of the engagement
- c. A statement that the practitioner has compiled the financial information based on information provided by management
- d. A description of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information
- e. Identification of the applicable financial reporting framework and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information
- f. Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates
- g. A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this SRS, and that the practitioner has complied with relevant ethical requirements
- h. A description of what a compilation engagement entails in accordance with this SRS
- i. Explanations that: -
 - a. Since a compilation engagement is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation and
 - b. Accordingly, the practitioner does not express an audit opinion or a review conclusion on whether the financial information is prepared in accordance with the applicable financial reporting framework.
- j. If the financial information is prepared using a special purpose financial reporting framework, an explanatory paragraph that: -
 - a. Describes the purpose for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information and
 - b. Draws the attention of readers of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the information may not be suitable for other purposes
- k. The date of the practitioner's report
- l. The practitioner's signature and

m. The place of signature.

Documentation

The practitioner shall include in the engagement documentation:

- a. Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner;
- b. A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management; and
- c. A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report.

CHAPTER - 10

Review Of Financial Information

SRE 2400(Revised) Engagements to Review Historical Financial Statements

What is REVIEW?

“Review” is a limited assurance engagement. Limited assurance is the level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the financial statements.

In simpler terms, limited assurance engagement provides lower level of assurance than audit. It involves fewer procedures and, gathers sufficient and appropriate evidence on basis of which limited conclusions can be drawn up. However, “review” is related to financial statements prepared on basis of historical financial information just like an audit.

It is worth remembering that Standards on Quality Control (SQCs) are to be applied for all services covered by Engagement Standards. Standards on review engagements are part of Engagement Standards.

SRE 2400 ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

SRE 2400 deals with: -

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

In a review of financial statements, the practitioner expresses a conclusion that is designed to enhance the degree of confidence of intended users regarding the preparation of an entity’s financial statements in accordance with an applicable financial reporting framework.

Such financial statements may have been prepared using general purpose framework or special purpose framework.

The practitioner’s conclusion is based on the practitioner obtaining limited assurance. The practitioner’s report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.

The practitioner performs primarily inquiry and analytical procedures to obtain sufficient and appropriate evidence as the basis for a conclusion on the financial statements as a whole. If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, he/she designs and performs additional procedures, as he/she considers necessary in the circumstances, to be able to conclude on the financial statements.

SRE 2400 deals with the practitioner’s responsibilities performing a review of historical financial statements when

the practitioner is not the auditor of the entity's financial statements.

Objectives in a review of financial statements in accordance with SRE 2400

The practitioner's objectives in a review of financial statements in accordance with SRE 2400 are as under:

- a. Obtain limited assurance, primarily by making an inquiry and performing analytical procedures, about whether the financial statements as a whole are free from material misstatement, thereby enabling the practitioner to express a conclusion on whether anything has come to his attention that causes him to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework
- b. Report on the financial statements as a whole and communicate, as required by this SRE.

In all cases when limited assurance cannot be obtained and a modified conclusion in the practitioner's report is insufficient in the circumstances, this SRE requires that the practitioner either to disclaim a conclusion in the report issued for the engagement or, where appropriate to withdraw from the engagement if withdrawal is possible under applicable law or regulations.

Compliance with Ethical Requirements and Engagement Level Quality Control

The practitioner shall comply with relevant ethical requirements, including those pertaining to independence and the engagement partner is responsible for overall quality of each review engagement

Factors affecting Acceptance and Continuance of Client Relationships and Review Engagements:

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

- a. The practitioner is not satisfied:
 - i. **That there is a rational purpose for the engagement.** Assurance engagements may only be accepted when the engagement exhibits certain characteristics that are conducive to achieving the practitioner's objectives specified for the engagement. It may be unlikely that there is a rational purpose for the engagement if, for example, there is a significant limitation on the scope of work or the practitioner suspects association of the practitioner's name with the financial statements in an inappropriate manner. Similarly, when the engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited, there is no rational purpose for such a review engagement.
 - ii. **That a review engagement would be appropriate in the circumstances.** When the practitioner's preliminary understanding of the engagement circumstances indicates that accepting a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example, believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude the performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.

- b. The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied.
- c. The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable.
- d. The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review or
- e. Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes that the limitation will result in the practitioner disclaiming a conclusion on the financial statements.

Preconditions for Accepting a Review Engagement

- a. Acceptability of financial reporting framework applied in preparation of financial statements.
- b. Agreement of management in acknowledging and understanding its responsibility for preparation of financial statements and internal control.
- c. Providing access to all information to the practitioner for the purpose of review and unrestricted access to persons within the entity.

Prior to accepting a review engagement, the practitioner shall: -

- a. Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users, and;
- b. Obtain the agreement of management that it acknowledges and understands its responsibilities:
 - i. For the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation.
 - ii. For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - iii. To provide the practitioner with: -
 - A. Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - B. Additional information that the practitioner may request from management for the purpose of the review; and
 - C. Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence

If the practitioner is not satisfied as to any of the matters set out above as preconditions for accepting a review engagement, the practitioner shall discuss the matter with the management or TCWG.

If changes cannot be made to satisfy the practitioner as to those matters, the practitioner shall not accept the proposed engagement unless required by law or regulation to do so.

However, an engagement conducted under such circumstances does not comply with this SRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this SRE.

If it is discovered after the engagement has been accepted that the practitioner is not satisfied as to any of the above

preconditions, the practitioner shall discuss the matter with the management or TCWG and shall determine:

- (a) Whether the matter can be resolved
- (b) Whether it is appropriate to continue with the engagement and
- (c) Whether and, if so, how to communicate the matter in the practitioner's report.

Agreeing to the Terms of Engagement

The practitioner shall agree to the terms of the engagement with the management or those charged with governance, as appropriate, prior to performing the engagement. The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement.

On recurring review engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is a need to remind management or those charged with governance, as appropriate, of the existing terms of engagement. The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. If, prior to completing the review engagement, the practitioner is requested to change the engagement to an engagement for which no assurance is obtained, the practitioner shall determine whether there is reasonable justification for doing so. If the terms of engagement are changed during the course of the engagement, the practitioner and the management or those charged with governance, as appropriate, shall agree on and record the new terms of engagement in an engagement letter or any other suitable form of written agreement.

Overview of performing the review engagement after its acceptance in accordance with SRE2400

- i. Determine materiality for financial statements as a whole
- ii. Obtain understanding of entity and applicable financial reporting framework to identify areas of possible material misstatements
- iii. Design and perform "Inquiry" and "Analytical procedures"
- iv. Perform procedures to address specific circumstances
- v. Perform other procedures, if necessary, in circumstances

(i) Materiality in a Review of Financial Statements

The practitioner shall determine materiality for the financial statements as a whole and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures.

The practitioner's judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by a practitioner as the basis for expressing the conclusion on the financial statements.

The practitioner shall revise materiality for the financial statements as a whole in the event of becoming aware of any information during the review that would have caused the practitioner to have determined a different amount initially.

(ii) Obtaining Understanding of the Entity

The practitioner shall obtain an understanding of the entity and its environment and the AFRF to identify areas in

the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas.

(iii) *Designing and Performing Procedures*

In obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, the practitioner shall design and perform **inquiry and analytical procedures**: –

- (a) To address all material items in the financial statements, including disclosures and
- (b) To focus on addressing areas in the financial statements where material misstatements are likely to arise.

The requirements relating to designing and performing of inquiry and analytical procedures, and procedures addressing specific circumstances, are designed to **enable the practitioner to achieve the objectives of this SRE**. The circumstances of review engagements vary widely and, accordingly, there may be circumstances where the practitioner may consider it effective or efficient to design and perform other procedures. For example, if in the course of obtaining an understanding of the entity, the practitioner becomes aware of a significant contract the practitioner may choose to read the contract. The fact that the practitioner may deem it necessary to perform other procedures does not alter the practitioner's objective of obtaining limited assurance in relation to the financial statements as a whole.

The practitioner may consider, reviewing the accounting records with a view to identifying significant or unusual transactions that may require specific attention in the review.

(a) Inquiry:

In a review, inquiry includes seeking information from management and other persons within the entity, as the practitioner considers appropriate in the engagement circumstances. Inquiries may include matters such as those relating to making of accounting estimates, identification of related parties, about significant, complex or unusual transactions, existence of any actual, suspected or alleged fraud, events occurring between the date of the financial statements and practitioner's report, basis for management's assessment of the entity's ability to continue as a going concern, events or conditions that appear to cast doubt on the entity's ability to continue as a going concern, material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements including disclosures and material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration.

The practitioner may also extend inquiries to obtain non-financial data if appropriate. Evaluating the responses provided by the management is integral to the inquiry process.

Depending on the engagement circumstances, inquiries may also include inquiries about:

- Actions taken at meetings of owners, those charged with governance and committees thereof, and proceedings at other meetings, if any, that affect the information and disclosures contained in the financial statements.
- Communications the entity has received, or expects to receive or obtain, from regulatory agencies.
- Matters arising in the course of applying other procedures.

When performing further inquiries in relation to identified inconsistencies, the practitioner considers the reasonableness and consistency of management's responses in light of the results obtained from other procedures,

and the practitioner's knowledge and understanding of the entity and the industry in which it operates.

(b) Analytical procedures:

In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are adequate for the purpose of performing the analytical procedures.

In a review, the practitioner mainly focuses upon inquiry and analytical procedures for obtaining sufficient appropriate evidence as the basis for conclusion on financial statements as a whole.

Why "Inquiry" and "Analytical procedures" are important in Review?

Evidence obtained through inquiry is often the principal source of evidence about management intent. However, information available to support management's intent may be limited.

In that case, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry.

Application of professional scepticism in evaluating responses provided by management is important to enable the practitioner to evaluate whether there are any matters that would cause the practitioner to believe the financial statements may be materially misstated.

Performing inquiry procedures also assists the practitioner in obtaining or updating the practitioner's understanding of the entity and its environment, to be able to identify areas where material misstatements are likely to arise in the financial statements.

In a review of financial statements, performing analytical procedures assists the practitioner in:

- **Obtaining or updating the practitioner's understanding of the entity and its environment**, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- **Identifying inconsistencies or variances** from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- **Providing corroborative evidence** in relation to other inquiries or analytical procedures already performed.
- **Serving as additional procedures** when the practitioner becomes aware of matters that cause the practitioner to believe that the financial statements may be materially misstated.

An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across profit centers, branches or other components of the entity, to provide evidence about financial information contained in line items or disclosures made in the financial statements.

Various methods may be used to perform analytical procedures ranging from performing simple comparisons to performing complex analysis using statistical techniques.

The practitioner may, for example, apply analytical procedures to evaluate the financial information underlying the financial statements and assessment of results for consistency with expected values. Expectations may be developed by the practitioner on information obtained from relevant sources like information regarding the industry in which entity operates.

(iv) *Procedures to Address Specific Circumstances*

□ **Related parties:**

During the review, the practitioner shall remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that the management has not previously identified or disclosed to the practitioner. If the practitioner identifies significant transactions outside the entity's normal course of business during the course of review, the practitioner shall inquire with the management about the nature of those transactions, possible involvement of related parties and the business rationale (or lack thereof) of those transactions.

□ **Fraud and non-compliance with laws or regulations:**

When there is an indication that fraud or non-compliance with laws or regulations, or suspected fraud or non-compliance with laws or regulations, has occurred in the entity, the practitioner shall communicate that matter to the appropriate level of senior management or those charged with governance as appropriate and request management's assessment of the effects, if any, on the financial statements. The practitioner has to consider the effect, if any, of management's assessment of the effects of fraud or non-compliance with laws or regulations communicated to him on his conclusion on the financial statements and on his report and determine whether there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity.

□ **Going concern:**

A review of financial statements includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall:

- a. Inquire of management about plans for future actions affecting the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes that the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern.
- b. Evaluate the results of those inquiries, to consider whether management's responses provide a sufficient basis to:
 - i. Continue to present the financial statements on the going concern basis if the AFRF includes the assumption of an entity's continuance as a going concern or
 - ii. Conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern and
- c. Consider management's responses in light of all relevant information of which the practitioner is aware as a result of the review

□ **Use of work performed by others:**

In performing the review, it may be necessary for the practitioner to use work performed by other practitioners, or the work of an individual or organization possessing expertise in a field other than accounting or assurance. If the practitioner uses work performed by another practitioner or an expert in the course of performing the review, the practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the practitioner's purposes.

When the practitioner is engaged to review the financial statements of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the practitioner's objectives for the review engagement in accordance with this Standard but in the context of the group financial statements.

(v) **Additional procedures when the practitioner becomes aware that the financial statements may be materially misstated:**

If the practitioner becomes aware of matters that causes the practitioner to believe that the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

- (a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated or
- (b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

Additional procedures are required under this SRE if the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated. The practitioner's response in undertaking additional procedures with respect to an item the practitioner has cause to believe may be materially misstated in the financial statements will vary, depending on the circumstances, and is a matter for the practitioner's professional judgment.

Additional procedures focus on obtaining sufficient appropriate evidence to enable the practitioner to form a conclusion on matters that the practitioner believes may cause the financial statements to be materially misstated. The procedures may be:

- Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e. amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements); or
- Other types of procedures, for example, substantive test of details or external confirmations.

Subsequent events

If the practitioner becomes aware of events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements, the practitioner shall request management to correct those misstatements. The practitioner has no obligation to perform any procedures regarding the financial statements after the date of the practitioner's report. However, if, after the date of the practitioner's report but before the date the financial statements are issued, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend the report, the practitioner shall: -

- (a) Discuss the matter with management or those charged with governance, as appropriate
- (b) Determine whether the financial statements need amendment and
- (c) If so, inquire how management intends to address the matter in the financial statements.

If management does not amend the financial statements in circumstances where the practitioner believes they need to be amended, and the practitioner's report has already been provided to the entity, the practitioner shall notify management and those charged with governance not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the practitioner shall take appropriate action to prevent reliance on the practitioner's report.

Written Representations

Written representations are an important source of evidence in a review engagement. If management modifies or does not provide the requested written representations, it may alert the practitioner to the possibility that one or more significant issues may exist.

Further, a request for written, rather than oral, representations in many cases may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations.

The practitioner shall request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement. The written representation shall include that: -

- a. Management has fulfilled its responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and has provided the practitioner with all relevant information and access to information as agreed in the terms of the engagement; and
- b. All transactions have been recorded and are reflected in the financial statements.

If law or regulation requires management to make written public statements about its responsibilities, and the practitioner determines that such statements provide some or all of the representations required above, the relevant matters covered by such statements need not be included in the written representation.

In addition to the written representations required under this SRE, the practitioner may consider it necessary to request other written representations about the financial statements. These may be needed, for example, to complete the practitioner's evidence with respect to certain items or disclosures reflected in the financial statements where the practitioner considers such representations to be important in forming a conclusion on the financial statements on either a modified or unmodified basis.

The practitioner shall also request management's written representations that management has disclosed to the practitioner: -

- a. The identity of the entity's related parties and all the related party relationships and transactions of which management is aware;
- b. Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;
- c. Known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's financial statements;
- d. All information relevant to use of the going concern assumption in the financial statements;
- e. That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed;
- f. Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures;
- g. Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration.

If management does not provide one or more of the requested written representations, the practitioner shall: -

- a. Discuss the matter with management and those charged with governance, as appropriate;
- b. Re-evaluate the integrity of management, and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
- c. Take appropriate actions, including determining the possible effect on the conclusion in the practitioner's report in accordance with this SRE.

The practitioner shall disclaim a conclusion on the financial statements, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, as appropriate, if: -

- a. The practitioner concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable or
- b. Management does not provide the required representations in respect of its responsibilities for preparation of

financial statements and recording of all transactions in financial statements.

Evaluating evidence obtained from the procedures performed

The practitioner shall evaluate whether sufficient appropriate evidence has been obtained from the procedures performed and, if not, the practitioner shall perform other procedures judged by the practitioner to be necessary in the circumstances to be able to form a conclusion on the financial statements.

In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the design of primarily inquiry and analytical procedures and procedures addressing specific circumstances.

In these circumstances, the practitioner considers that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the financial statements.

The practitioner may:

- Extend the work performed or
- Perform other procedures judged by the practitioner to be necessary in the circumstances.

Where neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion and is required by this SRE to determine the effect on the practitioner's report, or on the practitioner's ability to complete the engagement.

If the practitioner is not able to obtain sufficient appropriate evidence to form a conclusion, the practitioner shall discuss with management and those charged with governance, as appropriate, the effects such limitations have on the scope of the review.

Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the practitioner is able to obtain sufficient appropriate evidence by performing other procedures. Limitations on the scope of the review imposed by management may have other implications for the review, such as for the practitioner's consideration of areas where the financial statements are likely to be materially misstated, and engagement continuance.

Forming the practitioner's conclusion on the financial statements In forming conclusion, the practitioner shall also consider the impact of: -

- a. Uncorrected misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole
- b. Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

If the financial statements are prepared using a fair presentation framework, the practitioner's consideration shall also include: -

- i. The overall presentation, structure and content of the financial statements in accordance with the AFRF and
- ii. Whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation or gives a true and fair view, as appropriate, in the context of the financial statements as a whole.

The practitioner's conclusion on the financial statements, whether unmodified or modified, shall be expressed in the

appropriate form in the context of the financial reporting framework applied in the financial statements.

Unmodified Conclusion:

The practitioner shall express an unmodified conclusion in the practitioner's report on the financial statements as a whole when the practitioner has obtained limited assurance to be able to conclude that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.

When the practitioner expresses an unmodified conclusion, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate: -

- a. "Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or
- b. "Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).

Modified Conclusion:

The practitioner shall express a modified conclusion in the practitioner's report on the financial statements as a whole when:

- a. The practitioner determines, based on the procedures performed and the evidence obtained, that the financial statements are materially misstated or
- b. The practitioner is unable to obtain sufficient and appropriate evidence in relation to one or more items in the financial statements that are material in relation to the financial statements as a whole.

When the practitioner modifies the conclusion expressed on the financial statements, the practitioner shall:

- a. Use the heading "Qualified Conclusion," "Adverse Conclusion" or "Disclaimer of Conclusion," as appropriate, for the conclusion paragraph in the practitioner's report and
- b. Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, "Basis for Qualified Conclusion," "Basis for Adverse Conclusion" or "Basis for Disclaimer of Conclusion," as appropriate) in a separate paragraph in the practitioner's report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph).

Financial statements are materially misstated.

If the practitioner determines that the financial statements are materially misstated, the practitioner shall express:

- a. A qualified conclusion, when the practitioner concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements; or
- b. An adverse conclusion, when the effects of the matter(s) giving rise to the modification are both material and pervasive to the financial statements.

When the practitioner expresses a qualified conclusion on the financial statements because of a material misstatement, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate: -

- a. "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework) or
- b. "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).

When the practitioner expresses an adverse conclusion on the financial statements, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:

- a. "Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or
- b. "Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).

In the basis for conclusion paragraph, in relation to material misstatements that give rise to either a qualified conclusion or an adverse conclusion, the practitioner shall: -

- a. Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state;
- b. Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or
- c. Describe the nature of omitted information if the material misstatement relates to the non disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so.

Narrative accounting disclosures are an integral part of the corporate financial reporting package. They are deemed to provide a view of the company "through the eyes of management". The narratives represent management's construal of corporate events and are largely discretionary.

Inability to obtain sufficient and appropriate evidence:

If the practitioner is unable to form a conclusion on the financial statements due to the inability to obtain sufficient appropriate and evidence, the practitioner shall:

- a. Express a qualified conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive or
- b. Disclaim a conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The practitioner shall withdraw from the engagement if the following conditions are present: -

- a. Due to a limitation on the scope of the review imposed by management after the practitioner has accepted the engagement, the practitioner is unable to obtain sufficient appropriate and evidence to form a conclusion on the financial statements;
- b. The practitioner has determined that the possible effects on the financial statements of undetected misstatements are material and pervasive and
- c. Withdrawal is possible under applicable law or regulation.

When the practitioner expresses a qualified conclusion on the financial statements due to inability to obtain sufficient and appropriate evidence, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:

- a. "Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects) in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or
- b. "Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).

When disclaiming a conclusion on the financial statements the practitioner shall state in the conclusion paragraph that:

- a. Due to the significance of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements; and
- b. Accordingly, the practitioner does not express a conclusion on the financial statements.

In the basis for conclusion paragraph, in relation to either the qualified conclusion due to inability of obtaining sufficient and appropriate evidence or when the practitioner disclaims a conclusion, the practitioner shall include the reason(s) for the inability to obtain sufficient and appropriate evidence.

(ix) The Practitioner's Report

The practitioner's report for the review engagement shall be in writing and shall contain the following elements: –

- a. A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement
- b. The addressee(s), as required by the circumstances of the engagement
- c. An introductory paragraph that:
 - i. Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement
 - ii. Refers to the summary of significant accounting policies and other explanatory information and
 - iii. States that the financial statements have been reviewed
- d. A description of the responsibility of management for the preparation of the financial statements, including an explanation that management is responsible for:
 - i. Their preparation in accordance with the applicable financial reporting framework including, where relevant,

- their fair presentation;
- ii. Such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- e. If the financial statements are special purpose financial statements:
 - i. A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information; and
 - ii. If management has a choice of financial reporting frameworks in the preparation of such financial statements, a reference within the explanation of management's responsibility for the financial statements to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances
- f. A description of the practitioner's responsibility to express a conclusion on the financial statements including reference to this SRE and, where relevant, applicable law or regulation.
- g. A description of a review of financial statements and its limitations, and the following statements:
 - i. A review engagement under this SRE is a limited assurance engagement.
 - ii. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained and
 - iii. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing (SAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements.
- h. A paragraph under the heading "Conclusion" that contains:
 - i. The practitioner's conclusion on the financial statements as a whole as appropriate and
 - ii. A reference to the applicable financial reporting framework used to prepare the financial statements.
- i. When the practitioner's conclusion on the financial statements is modified:
 - i. A paragraph under the appropriate heading that contains the practitioner's modified conclusion as appropriate and
 - ii. A paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification
- j. A reference to the practitioner's obligation under this SRE to comply with relevant ethical requirements
- k. The date of the practitioner's report: The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements, including being satisfied that: -
 - i. All the statements that comprise the financial statements under the applicable financial reporting framework, including the related notes where applicable, have been prepared and
 - ii. Those with the recognized authority have asserted that they have taken responsibility for those financial statements.
- l. The practitioner's signature and
- m. The place of signature.

Emphasis of Matter and Other Matter Paragraphs in the Practitioner's Report

The practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In such cases, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report, provided the practitioner has obtained sufficient appropriate evidence to conclude that the matter is not likely to be materially misstated as presented in the financial statements. Such paragraph shall refer only to the information presented or disclosed in the financial statements.

The practitioner shall include an Emphasis of Matter paragraph immediately after the paragraph that contains the practitioner's conclusion on the financial statements under the heading "Emphasis of Matter," or other appropriate heading.

If the practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the practitioner's judgment, is relevant to users' understanding of the review, the practitioner's responsibilities or the practitioner's report and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the practitioner's report with the heading "Other Matter" or other appropriate heading.

Other Reporting Responsibilities

A practitioner may be requested to address other reporting responsibilities in the practitioner's report on the financial statements that are in addition to the practitioner's responsibilities under this SRE to report on the financial statements. In such situations, those other reporting responsibilities shall be addressed by the practitioner in a separate section in the practitioner's report headed "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the context of the section, following the section of the report headed "Report on the Financial Statements."

Documentation

The preparation of documentation for the review provides evidence that the review was performed in accordance with this SRE along with legal and regulatory requirements where relevant and a sufficient and appropriate record of the basis for the practitioner's report.

The practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:

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

While documenting the nature, timing and extent of procedures performed as required in this SRE, the practitioner shall record:

- i. Who performed the work and the date such work was completed and
- ii. Who reviewed the work performed for the purpose of quality control for the engagement, and the period and extent of the review.

The practitioner shall also document discussions with the management, those charged with governance, and others as relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters.

If, in the course of the engagement, the practitioner identified information that is inconsistent with the practitioner's findings regarding significant matters affecting the financial statements, the practitioner shall document how the inconsistency was addressed.

Audit Vs. Review

An audit engagement has many similarities with a review engagement. However, there are certain important areas of distinction relating to the nature of engagement, its performance, objective and reporting highlighted under: -

Overview of distinctive areas between Audit and Review

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

SRE 2410 REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY

SRE 2410 deals with the auditor's professional responsibilities when the auditor undertakes an engagement to review the interim financial information of an audit client and on the form and content of the report. In other words, SRE 2410 applies when review of interim financial information is performed by the independent auditor of the financial statements of the entity.

What is Interim Financial Information?

Interim financial information is financial information that is prepared and presented in accordance with an applicable financial reporting framework and comprises either a complete or a condensed set of financial statements for a period that is shorter than the entity's financial year. For example, interim financial information may relate to financial statements of a quarter of financial year.

Objective of an Engagement to Review Interim Financial Information in Accordance with SRE 2410

The objective of an engagement to review interim financial information is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework. The auditor makes inquiries and performs analytical and other review procedures in order to reduce to a moderate level risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.

The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with Standards on Auditing (SAs). A review of interim financial information does not provide a basis for expressing an opinion on whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

SRE 2410 applies when review of interim financial information is performed by the independent auditor of the financial statements of the entity.

Agreeing the Terms of the Engagement

The auditor and the client should agree on the terms of the engagement. The agreed terms of the engagement are ordinarily recorded in an engagement letter. Such communication helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities,

the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report.

Understanding the Entity and its Environment including its Internal Control

The auditor should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement so as to be able to:

- a. Identify the types of potential material misstatement and consider the likelihood of their occurrence and
- b. Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

The auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of annual financial information that was sufficient to conduct the audit.

In planning a review of interim financial information, the auditor updates this understanding. The auditor also obtains a sufficient understanding of internal control as it relates to the preparation of interim financial information as it may differ from internal control as it relates to annual financial information.

Some of the procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:

- Reading the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period interim financial information.
- Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements.
- Reading the most recent annual and comparable prior period interim financial information.
- Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.
- Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.
- Considering significant financial accounting and reporting matters that may be of continuing significance such as material weaknesses in internal control.
- Considering the results of any audit procedures performed with respect to the current year's financial statements.
- Considering the results of any internal audit performed and the subsequent actions taken by the management.
- Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
- Inquiring of management about the effect of changes in the entity's business activities.
- Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of interim financial information.
- Inquiring of management of the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or

reconciled.

In order to plan and conduct a review of interim financial information, a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with SAs, should obtain an understanding of the entity and its environment, including of its internal control, as it relates to the preparation of both annual and interim financial information. Besides, the auditor determines the nature of the review procedures, if any, to be performed for components and, where applicable, communicates these matters to other auditors involved in the review.

Inquiries, Analytical and other Review procedures

The auditor should make inquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of interim financial information are ordinarily limited to making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures, rather than corroborating information obtained concerning significant accounting matters relating to the interim financial information.

The auditor's understanding of the entity and its environment including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the interim financial information, affects the nature and extent of the inquiries made, and analytical and other review procedures applied.

The auditor ordinarily performs the following procedures: -

- Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.
- Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
- Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant components.
- Inquiring of members of management responsible for financial and accounting matters, and others as appropriate about the following:
 - Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework.
 - Whether there have been any changes in accounting principles or in the methods of applying them.
 - Whether any new transactions have necessitated the application of a new accounting principle.
 - Whether the interim financial information contains any known uncorrected misstatements.
 - Unusual or complex situations that may have affected the interim financial information, such as a business combination or disposal of a segment of the business.
 - Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.
 - Whether related party transactions have been appropriately accounted for and disclosed in the interim

- Significant assumptions that are relevant to the fair value measurement of subsidiaries and management's intention and ability to carry out specific courses of action on behalf of the entity.
- Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.
- Significant changes in commitments and contractual obligations.
- Significant changes in contingent liabilities including litigation or claims.
- Compliance with debt covenants.
- Matters about which questions have arisen in the course of applying the review procedures.
- Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period.
- Knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the interim financial information.
- Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others.
- Knowledge of any actual or possible non-compliance with laws and regulations that could have a material effect on the interim financial information.
- Applying analytical procedures to the interim financial information designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial information.
- Reading the interim financial information, and considering whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the interim financial information. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the interim period.

Performing some of the review procedures earlier in the interim period also permits early identification and consideration of significant accounting matters affecting the interim financial information.

The auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of interim financial information.

A review of interim financial information ordinarily does not require corroborating the inquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an inquiry letter to the entity's lawyer.

Direct communication with the entity's lawyer with respect to litigation or claims may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework, and the auditor believes the entity's lawyer may have pertinent information.

The auditor may obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim financial information to:

- a. The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
- b. Other supporting data in the entity's records as necessary.

The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information. It is not necessary for the auditor to perform other procedures to identify events occurring after the date of the review report.

The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. When, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:

- a. Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation and
- b. Consider the adequacy of the disclosure about such matters in the interim financial information.

Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial statements or may be identified as a result of inquiries of management or in the course of performing other review procedures.

When such events or conditions come to the auditor's attention, the auditor inquires of management as to its plans for future action, such as its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor also inquires as to the feasibility of management's plans and whether management believes that the outcome of these plans will improve the situation. However, it is not ordinarily necessary for the auditor to corroborate the feasibility of management's plans and whether the outcome of these plans will improve the situation.

When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial information to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report.

For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel, or reading the sales contract.

Evaluation of Misstatements

The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information.

Misstatements which come to the auditor's attention, including inadequate disclosures, are evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

The auditor exercises professional judgment in evaluating the materiality of any misstatements that the entity has not corrected.

Management representations

The auditor should obtain written representation from management that: –

- i. It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error
- ii. The interim financial information is prepared and presented in accordance with the applicable financial reporting framework
- iii. It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations
- iv. It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity
- v. It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud
- vi. It has disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects are to be considered when preparing the interim financial information; and
- vii. It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.

Auditor's Responsibility for Accompanying Information

The auditor should read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information.

If the auditor identifies a material inconsistency, the auditor considers whether the interim financial information or the other information needs to be amended.

If an amendment is necessary in the interim financial information and management refuses to make such amendment, the auditor considers the implications for the review report.

If an amendment is necessary in the other information and management refuses to make such amendment, the auditor considers including in the review report an additional paragraph describing the material inconsistency, or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, management may present alternative measures of earnings that more positively portray results of operations than the interim financial information, and such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial information such that they are confusing and potentially misleading. If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management.

While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (i.e., information, not related to matters appearing in the interim financial information, that is incorrectly stated or presented).

When discussing the matter with the entity's management, the auditor considers the validity of the other information and management's responses to the auditor's inquiries, whether valid differences of judgment or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, the auditor considers taking further action as appropriate, such as notifying those charged with governance and obtaining a legal advice.

Communication

When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should communicate this matter as soon as practicable to the appropriate level of management.

When, in the auditor's judgment, management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance. The communication is made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of such communications. If the information is communicated orally, the auditor documents the communication.

When, in the auditor's judgment, those charged with governance do not respond appropriately within a reasonable period, the auditor should consider:

- (a) Whether to modify the report or
- (b) The possibility of withdrawing from the engagement and
- (c) The possibility of resigning from the appointment to audit the annual financial statements.

When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations, the auditor should communicate the matter as soon as practicable to the appropriate level of management. The determination of which level of management is the appropriate one is affected by the likelihood of collusion or the involvement of a member of management. The auditor also considers the need to report such matters to those charged with governance and considers the implication for the review.

The auditor should communicate relevant matters of governance interest arising from the review of interim financial information with those charged with governance. As a result of performing the review of the interim financial information, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. The auditor communicates such matters to those charged with governance.

Reporting

the Nature, Extent and Results of the Review of Interim Financial Information

The auditor should issue a written report that contains the following: - Content of Written Report:

- i. An appropriate title.
- ii. An addressee, as required by the circumstances of the engagement.
- iii. Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.
- iv. If the interim financial information comprises a complete set of general-purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that

management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.

- v. In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.
- vi. A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.
- vii. A statement that the review of the interim financial information was conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and a statement that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.
- viii. A statement that a review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.
- ix. If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework.
- x. In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework
- xi. The date of the report.
- xii. Place of Signature.
- xiii. The auditor's signature and membership number assigned by the Institute of Chartered Accountants of India (ICAI).
- xiv. The Firm's registration number of the member of the Institute, wherever applicable, as allotted by ICAI.

Besides, UDIN has also to be generated and stated for review engagement as it is also in nature of an assurance engagement. UDIN has to be stated for engagements performed in accordance with SRE 2400 or SRE 2410.

Departure from the Applicable Financial Reporting Framework

The auditor should express qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

If matters have come to the auditor's attention that cause the auditor to believe that the interim financial information is or may be materially affected by a departure from the applicable financial reporting framework, and management does not correct the interim financial information, the auditor modifies the review report. The modification describes the nature of the departure and, if practicable, states the effects on the interim financial information.

If the information that the auditor believes is necessary for adequate disclosure is not included in the interim financial information, the auditor modifies the review report and, if practicable, includes the necessary information in the review report.

The modification to the review report is ordinarily accomplished by adding an explanatory paragraph to the review report and qualifying the conclusion. When the effect of the departure is so material and pervasive to the interim financial information that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial information, the auditor expresses an adverse conclusion.

Limitation on Scope

A limitation on scope ordinarily prevents the auditor from completing the review. When the auditor is unable to complete the review, the auditor should communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed and consider whether it is appropriate to issue a report

Limitation on Scope Imposed by Management

The auditor does not accept an engagement to review the interim financial information if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by the management of the entity.

If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor requests the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor communicates such matters.

The auditor also considers the legal and regulatory responsibilities, including whether there is a requirement for the auditor to issue a report. If there is such a requirement, the auditor disclaims a conclusion, and provides in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor also communicates such a matter in the report.

Other Limitations on Scope

A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgment pervasive to the interim financial information. In such circumstances, the auditor modifies the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with this SRE, and by qualifying the conclusion.

The auditor may have expressed a qualified opinion on the audit of the latest annual financial statements because of a limitation on the scope of that audit. The auditor considers whether that limitation on scope still exists and, if so, the implications for the review report.

Going Concern and Significant Uncertainties

If, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.

The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty.

If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.

Other Considerations

The terms of the engagement include management's agreement that where any document containing interim financial information indicates that such information has been reviewed by the entity's auditor, the review report will also be included in the document. If management has not included the review report in the document, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances.

If the auditor has issued a modified review report and management issues the interim financial information without including the modified review report in the document containing the interim financial information, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial statements

Interim financial information consisting of a condensed set of financial statements does not necessarily include all the information that would be included in a complete set of financial statements, but may rather present an explanation of the events and changes that are significant to an understanding of the changes in the state of affairs and performance of the entity since the annual reporting date. This is because it is presumed that the users of the interim financial information will have access to the latest audited financial statements, such as is the case with listed entities.

In other circumstances, the auditor discusses with management the need for such interim financial information to include a statement that it is to be read in conjunction with the latest audited financial statements. In the absence of such a statement, the auditor considers whether, without a reference to the latest audited financial

statements, the interim financial information is misleading in the circumstances, and the implications for the review report

Documentation

The auditor should prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and to provide evidence that the review was performed in accordance with this SRE and applicable legal and regulatory requirements.

CHAPTER - 11

Prospective Financial Information And Other Assurance Services

SAE 3400 The Examination of Prospective Financial Information

Introduction

The purpose of this Standard on Assurance Engagement (SAE) is to establish standards and provide guidance on engagements to examine and report on prospective financial information including examination procedures for best-estimate and hypothetical assumptions.

Further, the principles laid down in the other Standards on Auditing, issued by the Institute of Chartered Accountants of India, should be used by the auditor, to the extent practicable, in applying this SAE.

In an engagement to examine prospective financial information, the auditor should obtain sufficient appropriate evidence as to whether:

- a. management's best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information;
- b. the prospective financial information is properly prepared on the basis of the assumptions;
- c. the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and
- d. the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.

"Prospective financial information" means financial information based on assumptions about events that may occur in the future and possible actions by an entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgment. Prospective financial information can be in the form of a forecast, a projection, or a combination of both, for example, a one year forecast plus a five year projection.

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

A "projection" means prospective financial information prepared on the basis of:

- i. hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or
- ii. a mixture of best-estimate and hypothetical assumptions. Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur (a "what-if" scenario).

Prospective financial information can include financial statements or one or more elements of financial statements and may be prepared:

- i. as an internal management tool, for example, to assist in evaluating a possible capital investment; or
- ii. for the distribution/submission to third parties in, for example:
 - o a prospectus to provide potential investors with information about future expectations.

- an annual report to provide information to shareholders, regulatory bodies and other interested parties.
- a document, for example, cash flow forecasts, for the information of lenders.

Management is responsible for the **preparation and presentation of the prospective financial information**, including the **identification and disclosure of the sources of information, the basis of forecasts and the underlying assumptions**. The auditor may be asked to examine and report on the prospective financial information to enhance its credibility, whether it is intended for use by third parties or for internal purposes

The guidance provided in this Standard is in line with the provisions of clause (3) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 [as amended by the Chartered Accountants (Amendment) Act, 2006].

This clause provides that a chartered accountant in practice shall be deemed to be guilty of professional misconduct “if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast.”

As per the opinion of the Council while finalising the Guidance Note on Accountant's Report on Profit Forecasts and/or Financial Forecasts, a chartered accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts and so long as he does not vouch for the accuracy of the forecasts.

The Council has further opined that the same opinion would also apply to projections made on the basis of hypothetical assumptions about future events and management actions which are not necessarily expected to take place so long as the auditor does not vouch for the accuracy of the projection. (emphasis added)

The term “auditor” is used throughout this SAE when describing services involving examination of prospective financial information. Such reference is not intended to imply that a member performing such services need necessarily be the statutory auditor of the entity's financial statements.

The Auditor's Assurance Regarding Prospective Financial Information

Prospective financial information relates to events and actions that have not yet occurred and might not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the examination of historical financial information. **The auditor is, therefore, not in a position to express an opinion as to whether the results shown in the prospective financial information will be achieved.**

Further, given the types of evidence available in assessing the assumptions on which the prospective financial information is based, it may be difficult for the auditor to obtain a level of satisfaction sufficient to provide a positive expression of opinion that the assumptions are free of material misstatement. Consequently, in this SAE, when reporting on the reasonableness of management's assumptions, the auditor provides only a moderate level of assurance. (nothing has come to our attention, which causes us to believe that assumptions do not provide a reasonable basis for the forecast)

Acceptance of Engagement

Before accepting an engagement to examine prospective financial information, the auditor would consider, amongst other things:

- the intended use of the information;
- whether the information will be for general or limited distribution;
- the nature of the assumptions, that is, whether they are best-estimates or hypothetical assumptions;
- the elements to be included in the information; and
- the period covered by the information.

The auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use.

In accordance with SA 210, "Terms of Audit Engagement", it is necessary that the auditor and the client should agree on the terms of the engagement. It is in the interest of both client and auditor that the auditor sends an engagement letter to help in avoiding misunderstandings regarding the engagement. An engagement letter would address the matters in above paragraph and set out the management's responsibilities for the assumptions and for providing the auditor with all relevant information and source data used in developing the assumptions.

Knowledge of the Business

The auditor should obtain a sufficient level of knowledge of the business to be able to evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified.

The auditor should consider the extent to which reliance on the entity's historical financial information is justified

Period Covered

The auditor should consider the period of time covered by the prospective financial information. Since assumptions become more speculative as the length of the period covered increases, as that period lengthens, the ability of management to make best-estimate assumptions decreases

Examination Procedures

When determining the nature, timing and extent of examination procedures, the auditor should consider matters such as:

- a. the knowledge obtained during any previous engagements;
- b. management's competence regarding the preparation of prospective financial information;
- c. the likelihood of material misstatement;
- d. the extent to which the prospective financial information is affected by the management's judgment;
- e. the sources of information considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, such as industry statistics, to support the assumptions;
- f. the stability of entity's business; and
- g. the engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information.

The auditor would assess the source and reliability of the evidence supporting management's best-estimate assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and

The auditor would assess the source and reliability of the evidence supporting management's best-estimate assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity.

Examples of external sources are government publications, industry publications, economic forecast, existing or proposed legislation, and reports of changing technology.

Examples of internal sources are budgets, project of the entity, wage agreements, patents, royalty agreements and records, sales backlog records, and, debt agreements, etc.

The auditor would consider whether, when hypothetical assumptions are used, all significant implications of such assumptions have been taken into consideration. For example, if sales are assumed to grow beyond the entity's current plant capacity, the prospective financial information will need to include the necessary investment in the additional plant capacity or the costs of alternative means of meeting the anticipated sales, such as subcontracting production.

The auditor would need to be satisfied that the hypothetical assumptions are consistent with the purpose of the prospective financial information and that there is no reason to believe they are clearly unrealistic.

The auditor will need to be satisfied that the prospective financial information is properly prepared from management's assumptions by, for example, making checks such as recomputation

The auditor should obtain written representations from management regarding the intended use of the prospective financial information, the completeness of significant management assumptions and management's acceptance of its responsibility for the prospective financial information. The management is also responsible for identification and disclosure of uncontrollable factors, outstanding litigations, commitments, or any other material factors that are likely to affect the prospective financial information

Presentation and Disclosure

When assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, the auditor will need to consider whether:

- a. the presentation of prospective financial information is **informative and not misleading**;
- b. the accounting policies are clearly disclosed in the notes to the prospective financial information;
- c. the assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed;
- d. the date as of which the prospective financial information was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time;
- e. the basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a

range; and

- f. there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements and whether reason for the change and the effect of such change on the prospective financial information has been adequately disclosed.

Report on Examination of Prospective Financial Information

The report by an auditor on an examination of prospective financial information should contain the following:

- a. Title;
- b. Addressee;
- c. Identification of the prospective financial information;
- d. Reference to the Standards on Auditing applicable to the examination of prospective financial information;
- e. Statement that management is responsible for the prospective financial information including the underlying assumptions;
- f. When applicable, a reference to the purpose and/or restricted distribution of the prospective financial information;
- g. Statement that the examination procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecast or projection;
- h. Statement of negative assurance as to whether the assumptions provide a reasonable basis for the prospective financial information;
- i. Opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework;
- j. Appropriate caveats concerning the achievability of the results indicated by the prospective financial information;
- k. Date of report (which should be the date procedures have been completed);
- l. Place of signature; and
- m. Signature

Such a report would

- State whether, based on the examination of the evidence supporting the assumptions, anything has come to the auditor's attention, which causes the auditor to believe that the assumptions do not provide a reasonable basis for the prospective financial information.
- Express an opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework.
- State that:
 - Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Likewise, when the prospective financial information is expressed as a range, it would be stated that there can be no assurance that actual results will fall within the range; and
 - In the case of a projection, the prospective financial information has been prepared for (intended use), using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that the prospective financial information should not be used for purposes other than the abovementioned intended use.

When the auditor believes that one or more significant assumptions do not provide a reasonable basis for the prospective financial information prepared on the basis of best-estimate assumptions or that one or more significant assumptions do not provide a reasonable basis for the prospective financial information given the hypothetical

assumptions, the auditor should either express an adverse opinion setting out the reasons in the report on the prospective financial information, or withdraw from the engagement.

When the examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, the auditor should either withdraw from the engagement or disclaim the opinion and describe the scope limitation in the report on the prospective financial information

When the auditor believes that the presentation and disclosure of the prospective financial information is not adequate, the auditor should express a qualified or adverse opinion in the report on the prospective financial information, or withdraw from the engagement as appropriate

Documentation

The auditor should document matters, which are important in providing evidence to support his report on examination of prospective financial information, and evidence that such examination was carried out in accordance with this SAE.

The working papers will include the sources of information, basis of forecasts and the assumptions made in arriving the forecasts, hypothetical assumptions, evidence supporting the assumptions, management representations regarding the intended use and distribution of the information, completeness of material assumptions, management's acceptance of its responsibility for the information, audit plan, the nature, timing and extent of examination procedures performed, and, in case the auditor expresses a modified opinion or withdraws from the engagement, the reasons forming the basis of such decision.

SAE 3402 Assurance Reports on Controls at a Service Organisation

Scope of this SAE

This Standard on Assurance Engagements (SAE) deals with assurance engagements undertaken by a professional accountant in public practice to provide a report for use by user entities and their auditors on the controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting. It complements SA 402, in that reports prepared in accordance with this SAE are capable of providing appropriate evidence under SA 402.

This SAE applies only when the service organization is responsible for, or otherwise able to make an assertion about, the suitable design of controls. This SAE does not deal with assurance engagements:

- a. To report only on whether controls at a service organization operated as described, or
- b. To report only on controls at a service organization other than those related to a service that is likely to be relevant to user entities' internal control as it relates to financial reporting (for example, controls that affect user entities' production or quality control).

What is a Service Organisation?

Service organization refers to a third-party organization (or segment of a third-party organization) that provides services to user entities that are likely to be relevant to user entities internal control as it relates to financial reporting. User entity refers to an entity that uses a service organization.

Why controls of a service organization are important to a user entity's internal controls relating to financial reporting?

Controls related to a service organization's operations and compliance objectives may be relevant to a user entity's internal control as it relates to financial reporting. Such controls may pertain to assertions about presentation and disclosure relating to account balances, classes of transactions, or disclosures, or may pertain to evidence that the user auditor evaluates or uses in applying auditing procedures.

For example, a company has outsourced its payroll processing functions to a service organization. The service organization is responsible for the accurate preparation of payrolls and timely remittance of statutory dues to government authorities on behalf of the company. Payroll processing service organization's controls related to the timely remittance of payroll deductions to government authorities may be relevant to the company (user entity) as late remittances could result in interest and penalties resulting in liabilities for the user entity.

"Controls at the service organization" includes aspects of user entities' information systems maintained by the service organization, and may also include aspects of one or more of the other components of internal control at a service organization.

For example, such controls at a service organization may include aspects of a service organization's control environment, monitoring, and control activities when they relate to the services provided. It does not, however, include controls at a service organization that are not related to the achievement of the control objectives stated in the service organization's description of its system, for example, controls related to the preparation of the service organization's own financial statements.

The determination of whether controls at a service organization related to operations and compliance are likely to be relevant to user entities' internal control as it relates to financial reporting is a matter of professional judgment, having regard to the control objectives set by the service organization and the suitability of the criteria.

User Auditor and Service Auditor

User auditor refers to an auditor who audits and reports on the financial statements of a user entity.

Service auditor refers to a professional accountant in public practice who, at the request of the service organization, provides an assurance report on controls at a service organization.

Objectives of Service Auditor in Accordance with SAE 3402

The objectives of the service auditor are: -

a. To obtain reasonable assurance about whether, in all material respects, based on suitable criteria: -

- i. The service organization's description of its system fairly presents the system as designed and implemented throughout the specified period (or in the case of a type 1 report, as at a specified date)
- ii. The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period (or in the case of a type 1 report, as at a specified date)
- iii. Where included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved throughout the specified period.

b. To report on the matters in (a) above in accordance with the service auditor's findings.

Type 1 Report & Type 2 Report

Type 1 report is a report that comprises:

- (i) The service organization's description of its system;
- (ii) A written assertion by the service organization that, in all material respects, and based on suitable criteria:
 - a. The description fairly presents the service organization's system as designed and implemented at the specified date
 - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date and
- (iii) A service auditor's assurance report that conveys reasonable assurance about the matters referred to in (ii)

Type 2 report is a report that comprises:

- (i) The service organization's description of its system
- (ii) A written assertion by the service organization that, in all material respects, and based on suitable criteria:
 - a. The description fairly presents the service organization's system as designed and implemented throughout the specified period
 - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period and
 - c. The controls related to the control objectives stated in the service organization's description of its system operated

suitably designed throughout the specified period and

c. The controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period and

(iii) A service auditor's assurance report that: -

a. Conveys reasonable assurance about the matters in (ii) and

b. Includes a description of the tests of controls and the results thereof.

Type 1 report is a report on the description and design of controls at a service organization whereas type 2 report is a report on the description, design and operating effectiveness of controls at a service organization.

How such an Engagement is Proceeded with?

a. **Compliance with ethical requirements:** The service auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to assurance engagements.

b. **Determination of Management and those charged with governance and communication with them:** The service auditor shall inquire of, request representations from, communicate with, or otherwise interact with the service organization wherever required. The service auditor shall determine the appropriate persons within the service organization's management or governance structure with whom to interact.

c. **Acceptance and changes in terms of engagement:** Before, accepting such an engagement, it has to be ensured by service auditor that necessary capabilities and competence to carry out such engagement are possessed by him. It also needs to be ensured that the criteria to be applied by the service organization to prepare the description of its system will be suitable and available to user entities and their auditors and the scope of the engagement and the service organization's description of its system will not be so limited that they are unlikely to be useful to user entities and their auditors. If the service organization requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall be satisfied that there is a reasonable justification for the change.

d. **Assessing of suitability of the Criteria:** The service auditor shall assess whether the service organization has used suitable criteria in preparing the description of its system, in evaluating whether controls are suitably designed, and, in the case of a type 2 reports, in evaluating whether controls are operating effectively.

e. **Determination of Materiality:** When planning and performing the engagement, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of controls.

f. **Obtaining an understanding of the Service organization's system:** The service Auditor shall obtain an understanding of the service organization's system, including controls that are included in the scope of engagement.

g. **Obtaining evidence regarding the description:** The service auditor shall obtain and read the service organization's description of its system and evaluate whether those aspects of the description included in the scope of engagement are fairly presented.

h. **Obtaining evidence regarding the design of controls:** The service auditor shall determine which of the controls at the service organization are necessary to achieve the control objectives stated in the service organization's description of its system and shall assess whether those controls were suitably designed.

- i. **Obtaining evidence regarding operating effectiveness of controls:** When providing a type 2 report, the service auditor shall test those controls that the service auditor has determined are necessary to achieve the control objectives stated in the service organization's description of its system, and assess their operating effectiveness throughout the period.
- j. **Understanding the internal audit function:** If the service organization has an internal audit function, the service auditor shall obtain an understanding of the nature of the responsibilities of the internal audit function and of the activities performed in order to determine whether the internal audit function is likely to be relevant to the engagement in order for the service auditor to use specific work of the internal auditors.
- k. **Asking for Written Representations:** The service auditor shall request the service organization to provide written representations: -
 - Asking for Written Representation from the service organization -
 - A. That reaffirm the assertion accompanying the description of the system
 - B. That it has provided the service auditor with all relevant information and access agreed to and
 - C. That it has disclosed to the service auditor any of the following of which it is aware:-
 - i. Non-compliance with laws and regulations, fraud, or uncorrected deviations attributable to the service organization that may affect one or more user entities
 - ii. Design deficiencies in controls
 - iii. Instances where controls have not operated as described and
 - iv. Any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report
- l. **Subsequent Events:** The service auditor shall inquire whether the service organization is aware of any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report.

Reporting The service auditor's assurance report shall include the following basic elements: -

- a. A title that clearly indicates the report is an independent service auditor's assurance report.
- b. An addressee
- c. Identification of:
 - i. The service organization's description of its system, and the service organization's assertion, which includes the matters for a type 2 report, or for a type 1 report.
 - ii. Those parts of the service organization's description of its system, if any, that are not covered by the service auditor's opinion.
 - iii. If the description refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the service organization's description of its system can be achieved only if complementary user entity controls are suitably designed or operating effectively, along with the controls at the service organization.
 - iv. If services are performed by a subservice organization, the nature of activities performed by the subservice organization as described in the service organization's description of its system.
- d. Identification of the criteria, and the party specifying the control objectives.
- e. A statement that the report and, in the case of a type 2 report, the description of tests of controls are intended only for user entities and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements.

- f. A statement that the service organization is responsible for: -
 - i. Preparing the description of its system, and the accompanying assertion, including the completeness, accuracy and method of presentation of that description and that assertion;
 - ii. Providing the services covered by the service organization's description of its system;
 - iii. Stating the control objectives (where not identified by law or regulation, or another party, for example, a user group or a professional body) and
 - iv. Designing and implementing controls to achieve the control objectives stated in the service organization's description of its system.
- g. A statement that the service auditor's responsibility is to express an opinion on the service organization's description, on the design of controls related to the control objectives stated in that description and, in the case of a type 2 report, on the operating effectiveness of those controls, based on the service auditor's procedures.
- h. A statement that the engagement was performed in accordance with SAE 3402, "Assurance Reports on Controls at a Service Organization," which requires that the service auditor comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the service organization's description of its system is fairly presented and the controls are suitably designed and, in the case of a type 2 report, are operating effectively.
- i. A summary of the service auditor's procedures to obtain reasonable assurance and a statement of the service auditor's belief that the evidence obtained is sufficient and appropriate to provide a basis for the service auditor's opinion, and, in the case of a type 1 report, a statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and therefore no opinion is expressed thereon.
- j. A statement of the limitations of controls and, in the case of a type 2 report, of the risk of projecting to future periods any evaluation of the operating effectiveness of controls.
- k. The service auditor's opinion, expressed in the positive form, on whether, in all material respects, based on suitable criteria:
 - i. In the case of a type 2 report: -
 - a. The description fairly presents the service organization's system that had been designed and implemented throughout the specified period;
 - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; and
 - c. The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.
 - ii. In the case of a type 1 report: -
 - a. The description fairly presents the service organization's system that had been designed and implemented as at the specified date and
 - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date.
- l. The date of the service auditor's assurance report, which shall be no earlier than the date on which the service auditor has obtained sufficient appropriate evidence on which to base the opinion.
- m. Signature - The report should be signed by the practitioner.
- n. The place of signature - the report should name specific location, which is ordinarily the city where the report is signed.

Additional matters requiring reporting in type 2 report:

In the case of a type 2 report, the service auditor's assurance report shall include a separate section after the opinion, or an attachment, that describes the tests of controls that were performed and the results of those tests.

In describing the tests of controls, the service auditor shall clearly state which controls were tested, identify whether the items tested represent all or a selection of the items in the population, and indicate the nature of the tests in

sufficient detail to enable user auditors to determine the effect of such tests on their risk assessments.

If deviations have been identified, the service auditor shall include the extent of testing performed that led to identification of the deviations (including the sample size where sampling has been used), and the number and nature of the deviations noted.

The service auditor shall report deviations even if, on the basis of tests performed, the service auditor has concluded that the related control objective was achieved.

Modified Opinions

If the service auditor concludes that:

- a. The service organization's description does not fairly present, in all material respects, the system as designed and implemented;
- b. The controls related to the control objectives stated in the description were not suitably designed, in all material respects
- c. In the case of a type 2 report, the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved, did not operate effectively, in all material respects or
- d. The service auditor is unable to obtain sufficient appropriate evidence, the service auditor's opinion shall be modified, and the service auditor's assurance report shall contain a clear description of all the reasons for the modification.

Documentation

The service auditor shall prepare documentation that is sufficient to enable an experienced service auditor, having no previous connection with the engagement, to understand:

- a. The nature, timing, and extent of the procedures performed to comply with this SAE and applicable legal and regulatory requirements
- b. The results of the procedures performed, and the evidence obtained and
- c. Significant matters arising during the engagement, and the conclusions reached thereon and significant professional judgments made in reaching those conclusions

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

Introduction Scope of this SAE

This Standard on Assurance Engagements (SAE) deals with reasonable assurance engagements undertaken by a practitioner to report on the responsible party's compilation of pro forma financial information included in a prospectus.

The SAE applies where:

- Such reporting is required by securities law or the regulation of the securities exchange ("relevant law or regulation") in the jurisdiction in which the prospectus is to be issued; or
- This reporting is generally accepted practice in such jurisdiction.

Applicable criteria – The criteria used by the responsible party when compiling the pro forma financial information. Criteria may be established by an authorized or recognized standard-setting organization or by law or regulation. Where established criteria do not exist, they will be developed by the responsible party.

Nature of the Practitioner's Responsibility

In an engagement performed under this SAE, the practitioner has no responsibility to compile the pro forma financial information for the entity; such responsibility rests with the responsible party. The practitioner's sole responsibility is to report on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

This SAE does not deal with non-assurance engagements in which the practitioner is engaged by the entity to compile its historical financial statements.

Purpose of Pro Forma Financial Information Included in a Prospectus

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. This is achieved by applying pro forma adjustments to the unadjusted financial information. Pro forma financial information does not represent the entity's actual financial position, financial performance, or cash flows

Pro forma financial information – Financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. In this SAE, it is presumed that pro forma financial information is presented in columnar format consisting of

- (a) the unadjusted financial information;
- (b) the pro forma adjustments; and

(c) the resulting pro forma column

Compilation of Pro Forma Financial Information

The compilation of pro forma financial information involves the responsible party gathering, classifying, summarizing and presenting financial information that illustrates the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at the selected date. Steps involved in this process include:

- Identifying the source of the unadjusted financial information to be used in compiling the pro forma financial information, and extracting the unadjusted financial information from that source;
- Making pro forma adjustments to the unadjusted financial information for the purpose for which the pro forma financial information is presented; and
- Presenting the resulting pro forma financial information with accompanying disclosures.

Nature of Reasonable Assurance Engagement

In such an engagement performed under this SAE, the practitioner has no responsibility to compile the pro forma financial information for the entity. Such responsibility rests with the responsible party. The practitioner's sole responsibility is to report on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

It is a reasonable assurance engagement to report on the compilation of pro forma financial information involving performing the procedures to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction.

Objectives

The objectives of the practitioner are:

- a. To obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria; and
- b. To report in accordance with the practitioner's findings

Steps involved in such an Engagement

Engagement acceptance

Planning and performing the engagement

Written Representations

Forming the opinion

Preparing the assurance report

Engagement Acceptance

- Before agreeing to accept an engagement to report on whether pro forma financial information included in a prospectus has been compiled, in all material respects, on the basis of the applicable criteria, the practitioner shall:
- a. Determine that the practitioner has the capabilities and competence to perform the engagement
 - b. On the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, determine that the applicable criteria are suitable and that it is unlikely that the pro forma financial information will be misleading for the purpose for which it is intended;
 - c. Evaluate the wording of the opinion prescribed by the relevant law or regulation, if any, to determine that the practitioner will likely be able to express the opinion so prescribed based on performing the procedures specified in this SAE;
 - d. Where the sources from which the unadjusted financial information and any acquiree or divestee financial information have been extracted have been audited or reviewed and a modified audit opinion or review conclusion has been expressed, or the report contains an Emphasis of Matter paragraph, consider whether or not the relevant law or regulation permits the use of, or reference in the practitioner's report to, the modified audit opinion or review conclusion or the report containing the Emphasis of Matter paragraph with respect to such sources;
 - e. If the entity's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the entity and its accounting and financial reporting practices to perform the engagement;
 - f. If the event or transaction includes an acquisition and the acquiree's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement; and
 - g. Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for:
 - i. Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available;
 - ii. Compiling the pro forma financial information on the basis of the applicable criteria; and
 - iii. Providing the practitioner with:
 - Access to all information (including, when needed for purposes of the engagement, information of the acquiree(s) in a business combination), such as records, documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria
 - Additional information that the practitioner may request from the responsible party for the purpose of the engagement;
 - Access to those within the entity and the entity's advisors from whom the practitioner determines it necessary to obtain evidence relating to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; and
 - When needed for purposes of the engagement, access to appropriate individuals within the acquiree(s) in a business combination.

Planning and Performing the Engagement

- The practitioner shall assess whether the applicable criteria are suitable, as required by the Framework for Assurance Engagements
- When planning and performing the engagement, the practitioner shall consider materiality with respect to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.
- An understanding of how the responsible party has compiled the pro forma financial information and other engagement circumstances
- The practitioner shall obtain evidence about the appropriateness of the source from which the unadjusted financial information has been extracted
- If there is no audit or review report on the source from which the unadjusted financial information has been extracted, the practitioner shall perform procedures to be satisfied that the source is appropriate.
- The practitioner shall determine whether the responsible party has appropriately extracted the unadjusted financial information from the source.
- The practitioner shall obtain evidence about the appropriateness of the pro forma adjustments. In relation to unadjusted financial information, Pro forma adjustments include:
 - a. Adjustments to unadjusted financial information that illustrate the impact of a significant event or transaction as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration and
 - b. Adjustments to unadjusted financial information that are necessary for the pro forma financial information to be compiled on a basis consistent with the applicable financial reporting framework of the reporting entity and its accounting policies under that framework.
- The practitioner shall evaluate the presentation of pro forma financial information.
- The practitioner shall read the other information included in the Prospectus containing the pro forma financial information to identify material inconsistencies, if any, with pro forma financial information.

Written Representations

The practitioner shall request written representations from the responsible party that:-

- a. In compiling the pro forma financial information, the responsible party has identified all appropriate pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration and
- b. The pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

Opinion

Unmodified Opinion

The practitioner shall express an unmodified opinion when the practitioner concludes that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

Modified Opinion

- i. Where the relevant law or regulation precludes publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner concludes that a modified opinion is nevertheless appropriate in accordance with the Framework for Assurance Engagements, the practitioner shall discuss the matter with the responsible party.

If the responsible party does not agree to make the necessary changes, the practitioner shall: - Withdraw from the engagement or Consider seeking legal advice.

- i. Where the relevant law or regulation may not preclude publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner determines that a modified opinion is appropriate in accordance with the Framework for Assurance Engagements, the practitioner shall apply the requirements in the Framework for Assurance Engagements regarding modified opinions

Emphasis of Matter Paragraph

In some circumstances, the practitioner may consider it necessary to draw the user's attention to a matter presented or disclosed in the pro forma financial information or the accompanying explanatory notes. This would be the case when, in the practitioner's opinion, the matter is of such importance that it is fundamental to the user's understanding of whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.

In such circumstances, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report provided that the practitioner has obtained sufficient appropriate evidence that the matter does not affect whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. Such a paragraph shall refer only to information presented or disclosed in the pro forma financial information or the accompanying explanatory notes.

Basic elements of Assurance Report

- a. A title that clearly indicates that the report is an independent assurance report
- b. An addressee(s), as agreed in the terms of engagement
- c. Introductory paragraphs that identify: -
 - i. The pro forma financial information
 - ii. The source from which the unadjusted financial information has been extracted and whether or not an audit or review report on such a source has been published
 - iii. The period covered by, or the date of, the pro forma financial information and

- iv. A reference to the applicable criteria on the basis of which the responsible party has performed the compilation of the pro forma financial information, and the source of the criteria
- d. A statement that the responsible party is responsible for compiling the pro forma financial information on the basis of the applicable criteria
- e. A description of the practitioner's responsibilities, including statements that: -
 - i. The practitioner's responsibility is to express an opinion about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria
 - ii. For purposes of this engagement, the practitioner is not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor has the practitioner, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information and
 - iii. The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration.
Accordingly, the practitioner does not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented
- f. A statement that the engagement was performed in accordance with SAE 3420, 'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus', which requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the responsible party has compiled, in all material respects, the pro forma financial information on the basis of the applicable criteria
- g. Statements that: -
 - i. A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction and to obtain sufficient appropriate evidence about whether: - The related pro forma adjustments give appropriate effect to those criteria; and The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information
 - ii. The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the entity, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances and
 - iii. The engagement also involves evaluating the overall presentation of the pro forma financial information
- h. Unless otherwise required by law or regulation, the practitioner's opinion using one of the following phrases, which are regarded as being equivalent: -
 - i. The pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria or
 - ii. The pro forma financial information has been properly compiled on the basis stated.
- i. The practitioner's signature
- j. The date of the report and
- k. The place of signature.

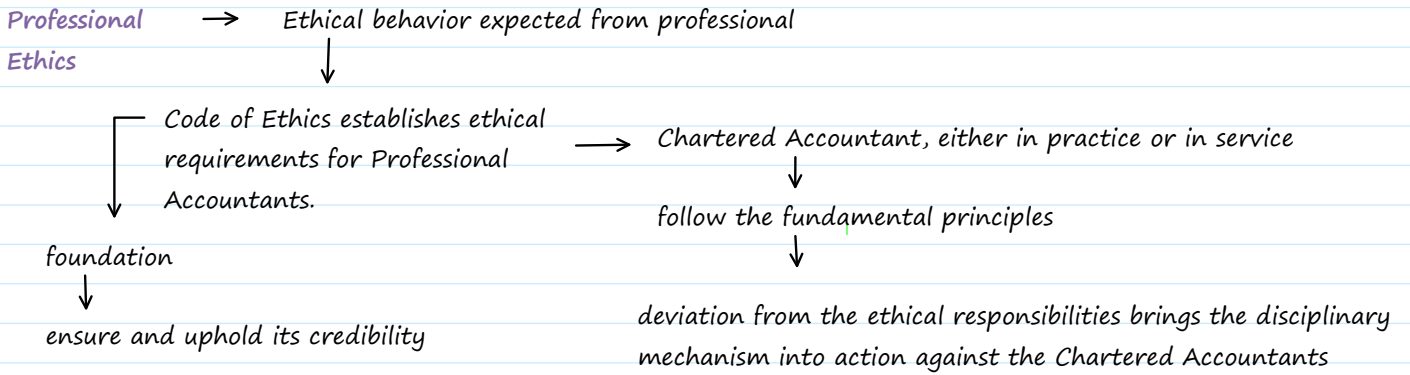
Documentation

As in case of all assurance engagements, documentation has to be ensured by the practitioner while performing engagement under SAE 3420.

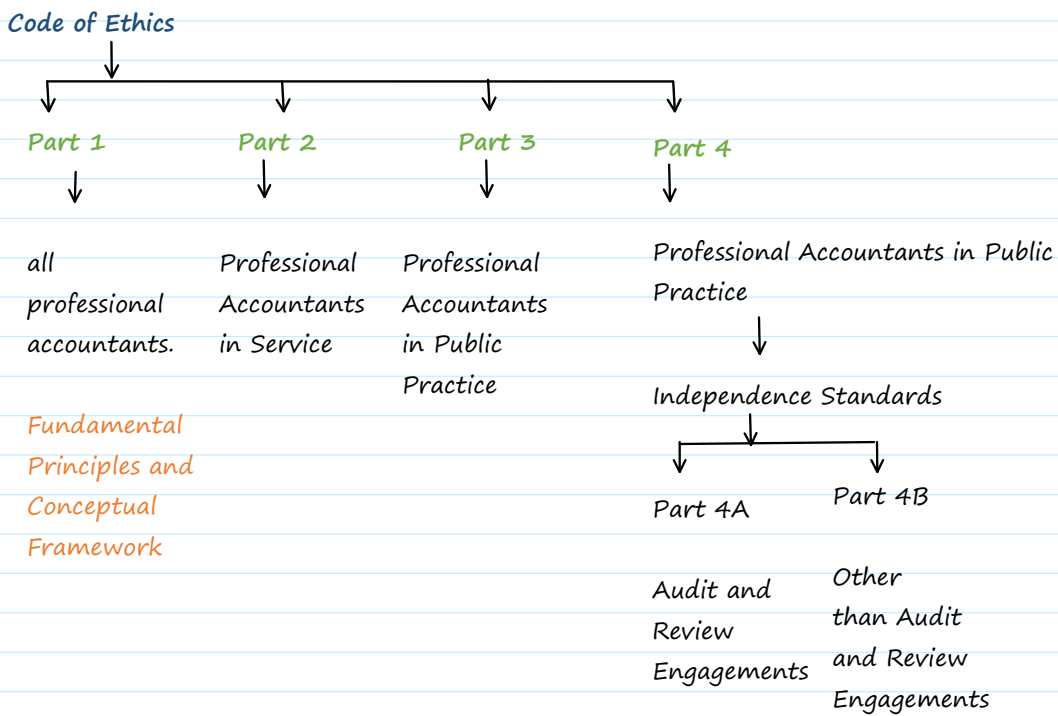
CHAPTER - 12 (ICAI CHAPTER 19)

Professional Ethics
And
Liabilities Of Auditors

Professional Ethics



Our Institute's Motto - 'Ya Esha Supteshu Jagrati' is adopted from Kathopanishad and it denotes 'eternal vigilance' - awakening when the world is asleep



Fundamental Principle

Integrity

A professional accountant shall comply with the principle of integrity, which requires an accountant to be **straightforward and honest**

A professional accountant shall **not knowingly be associated** with reports, returns, communications or other information where the accountant believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided negligently; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

However, a professional accountant will not be considered to be in breach of matters mentioned above in paragraph if the professional accountant provides a modified report in respect of such above mentioned matter.

When a professional accountant becomes aware of having been associated with information described in above paragraph the accountant shall take steps to be disassociated from that information

Objectivity

A professional accountant shall comply with the principle of objectivity, which requires an accountant **not to compromise professional or business judgment because of bias, conflict of interest** or undue influence of others

A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity

Professional Competence and Due Care

A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

1. Attain and **maintain professional knowledge and skill** at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
2. act diligently in accordance with applicable **technical and professional standards**

Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill

Maintaining professional competence requires a **continuing awareness** and an understanding of relevant technical, professional and business developments.

Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, **carefully, thoroughly and on a timely basis**.

In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure **that those working in a professional capacity under the accountant's authority have appropriate training and supervision**.

Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, **aware of the limitations inherent** in the services or activities

Confidentiality

professional accountant shall comply with the principle of confidentiality

An accountant shall:

Maintain confidentiality of information disclosed by a prospective client or employing organization

Not disclose confidential information acquired as a result of professional and employment relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose

Not use confidential information acquired as a result of professional and employment relationships for the personal advantage of the accountant or for the advantage of a third party

Not use or disclose any confidential information, either acquired or received as a result of a professional or employment relationship, after that relationship has ended;

and Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality

Following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate

(a) Disclosure is required by law

(b) Disclosure is permitted by law and is authorized by the client or the employing organisation

(c) There is a professional duty or right to disclose, when not prohibited by law:

(i) To comply with the requirements of Peer Review or Quality Review of the Institute;

(ii) To respond to an inquiry or investigation by a professional or regulatory body;

(iii) To protect the professional interests of a professional accountant in legal proceedings; or

(iv) To comply with technical and professional standards, including ethics requirement

Professional Behaviour

A professional accountant shall comply with the principle of professional behaviour, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that accountant knows or should know might discredit the profession.

A professional Accountant is required to conduct his affairs in a manner that he remains outside the boundaries of professional and other misconduct. A professional accountant shall be honest and truthful and should not make:

1. Exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
2. Disparaging references or unsubstantiated comparisons to the work of others.
3. Any direct or indirect measures to advertise any professional/other facts which are in violation of Advertisement Guidelines issued by the Council of the Institute from time to time

A professional accountant shall comply with each of the fundamental principles.

The fundamental principles of ethics establish the standard of behaviour expected of a professional accountant.

The conceptual framework establishes the approach which an accountant is required to apply to assist in complying with those fundamental principles.

A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider

consulting, with:

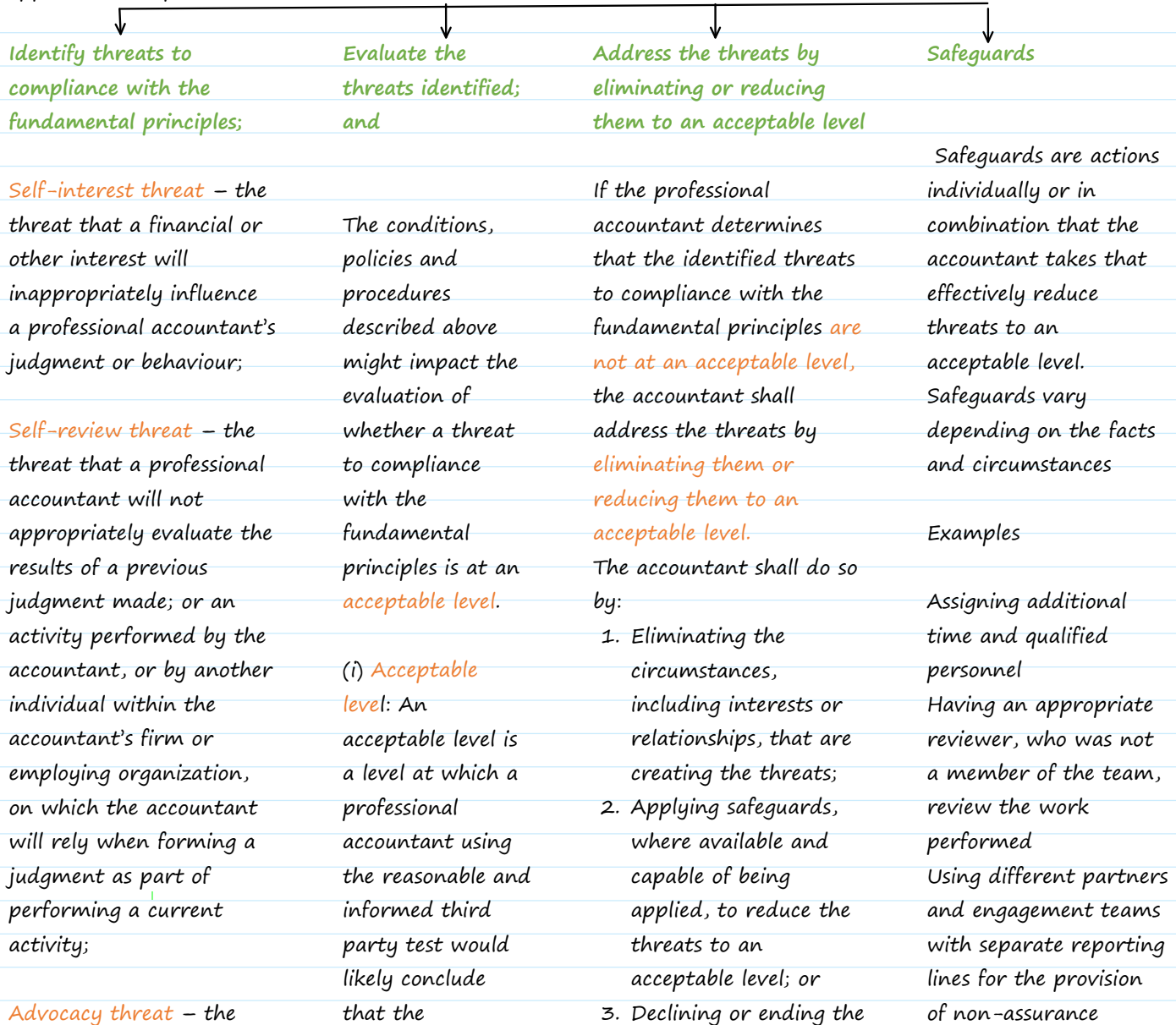
- Others within the firm or employing organization.
- Those charged with governance.
- The Institute
- Legal counsel

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions

Conceptual framework

approach for a professional accountant



<p>Advocacy threat – the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised;</p>	<p>likely conclude that the accountant complies with the fundamental principles.</p>	<p>acceptable level; or 3. Declining or ending the specific professional activity</p>	<p>lines for the provision of non-assurance services to an assurance client Involving another firm to perform or re-perform part of the engagement Separating teams when dealing with matters of a confidential nature</p>
<p>Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and</p>	<p>(ii) Reasonable and Informed Third Party : The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party</p>	<p>Actions to Eliminate Threats : Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level</p>	
<p>Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.</p>			

MEMBERSHIP OF THE INSTITUTE

On acceptance of application by the Council, the applicant's name shall be entered in the Register and a certificate of membership in the appropriate Form shall be issued to the applicant

Disabilities for the Purpose of Membership Section 8 of the Chartered Accountants Act, 1949

enumerates the circumstances under which a person is debarred from having his name entered in or borne on the Register of Members, as follows:

1. If he has not attained the age of 21 years at the time of his application for the entry of his name in the Register; or
2. If he is of unsound mind and stands so adjudged by a competent court; or
3. If he is an undischarged insolvent; or
4. If he, being a discharged insolvent, has not obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part; or

4. If he, being a discharged insolvent, has not obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part; or
5. If he has been convicted by a competent Court whether within or without India, of an offence involving moral turpitude and punishable with transportation or imprisonment or of an offence, not of a technical nature, committed by him in his professional capacity unless in respect of the offence committed he has either been granted a pardon or, on an application made by him in this behalf, the Central Government has, by an order in writing, removed the disability; or
6. If he has been removed from membership of the Institute on being found on inquiry to have been guilty of professional or other misconduct;

It may be noted that a person who has been removed from membership for a specified period, shall not be entitled to have his name entered in the Register until the expiry of such period.

In addition, failure on the part of a person to disclose the fact that he suffers from any one of the disabilities aforementioned would constitute professional misconduct. The name of the person, who is found to have been subject at any time to any of the disabilities aforementioned, can be removed from the Register of Members by the Council

Classes of Members of the Institute

Associates

Any person, whose name has been entered in the Register, shall be deemed to have become an Associate of the Institute and shall also be entitled to use the letters A.C.A. after his name to indicate that he is an Associate Member of the Institute

Fellows

The name of following types of members shall be entered into the Register as a Fellow of the Institute, on payment of such fees along with the application made and granted in the prescribed manner-

- (i) An associate member who has been in continuous practice in India for at least 5 years,
- (ii) A member who has been an associate for a continuous period of not less than 5 years and who possesses such qualifications as may be prescribed by the Council with a view to ensuring that he has experience equivalent to the experience normally acquired as a result of continuous practice for a period of 5 years as a Chartered Accountant.

The abovementioned members shall be entitled to use the letters F.C.A. after his name to indicate that he is a Fellow Member of the Institute

Significance of the Certificate of Practice

Section 6 of the Chartered Accountants Act, 1949 provides that: -

- (1) No member of the Institute shall be entitled to practise whether in India or elsewhere unless he has obtained from the Council a certificate

of practice: .

(2) Every such member shall pay such annual fee for his certificate as may be determined, by notification, by the Council [..]

(3) The certificate of practice obtained under sub-section (1) may be cancelled by the Council under such circumstances as may be prescribed.

A member who is not in practice is precluded from accepting engagement to render services of any of the types normally prescribed for a Chartered Accountant, even though for doing so, he does not require special qualifications.

The Council of the institute is of view that-

1. Once the person concerned becomes a member of the Institute, he is bound by the provisions of the Chartered Accountants Act and its Regulations. If and when he appears before the Income-tax Tribunal as an Income-tax representative after having become a member of the Institute, he could so appear only in his capacity as a Chartered Accountant and a member of the Institute. Having, as it were, brought himself within the jurisdiction of the Chartered Accountants Act and its Regulations, he could not set them at naught by contending that even though he continues to be a member of the Institute and has been punished by suspension from practice as a member, he would be entitled, in substance, to practice in some other capacity.
2. A member of the Institute can have no other capacity in which he can take up such practice, separable from his capacity to practice as a member of the Institute."

Therefore, in nutshell, a Chartered Accountant whose name has been removed from the membership for professional and/or other misconduct, during such period of removal, will not appear before the various tax authorities or other bodies before whom he could have appeared in his capacity as a member of this Institute.

Members - deemed to be in Practice

A member of the Institute shall be deemed "to be in practice" when individually or in partnership with Chartered Accountants in practice, or in partnership with members of such other recognised professions as may be prescribed, he, in consideration of remuneration received or to be received

1. engages himself in the practice of accountancy; or
2. offers to perform or performs service involving the auditing or verification of financial transactions, books, accounts or records, or the preparation, verification or certification of financial accounting and related statements or holds himself out to the public as an accountant; or
3. renders professional services or assistance in or about matters of principle or detail relating to accounting procedure or the recording, presentation or certification of financial facts or data; or
4. renders such other services as, in the opinion of the Council, are or may be rendered by a Chartered Accountant in practice;

Explanation - An associate or a fellow of the Institute who is a salaried employee of a Chartered Accountant in practice or a firm of such Chartered Accountants or firm consisting of one or more chartered accountants and members of any other professional body having prescribed qualifications shall, notwithstanding such employment, be deemed to be in practice for the limited purpose of the training of Articled Assistants

"Management Consultancy and other Services" shall include the following-

1. Financial management planning and financial policy determination.*
2. Capital structure planning and advice regarding raising finance.*
3. Working capital management.*
4. Preparing project reports and feasibility studies.*
5. Preparing cash budget, cash flow statements, profitability statements, statements of sources and application of funds etc.
6. Budgeting including capital budgets and revenue budgets.
7. Inventory management, material handling and storage.
8. Market research and demand studies.
9. Price-fixation and other management decision making.
10. Management accounting systems, cost control and value analysis.
11. Control methods and management information and reporting.
12. Personnel recruitment and selection.
13. Setting up executive incentive plans, wage incentive plans etc.
14. Management and operational audits.
15. Valuation of shares and business and advice regarding amalgamation, merger and acquisition. Acting as Registered Valuer under the Companies Act, 2013 read with The Companies (Registered Valuers and Valuation) Rules, 2017
16. Business Policy, corporate planning, organisation development, growth and diversification.
17. Organisation structure and behaviour, development of human resources including design and conduct of training programmes, work study, job-description, job evaluation and evaluation of workloads
18. Systems analysis and design, and computer related services including selection of hardware and development of software in all areas of services which can otherwise be rendered by a Chartered Accountant in practice and also to carry out any other professional services relating to EDP.
19. **Acting as advisor or consultant to an issue, including such matters as:**
 - a. Drafting of prospectus and memorandum containing salient features of prospectus. Drafting and filing of listing agreement and completing formalities with Stock Exchanges, Registrar of Companies and SEBI.
 - b. Preparation of publicity budget,
 - c. Advice regarding selection of various agencies connected with issue, namely Registrars to Issue, printers and advertising agencies.
 - d. Advice on the post issue activities
 - e. **Explanation - For removal of doubts, it is hereby clarified that the activities of broking, underwriting and portfolio management are not permitted.**
20. Investment counselling in respect of securities [as defined in the Securities Contracts (Regulation) Act, 1956 and other financial instruments.] (In doing so, the relevant provisions of the Code of Ethics must be kept in mind).
21. Acting as registrar to an issue and for transfer of shares/other securities. (In doing so, the relevant provisions of the Code of Ethics must be kept in mind).
22. Quality Audit.
23. Environment Audit.
24. Energy Audit.
25. Acting as Recovery Consultant in the Banking Sector.
26. Insurance Financial Advisory Services under the Insurance Regulatory & Development Authority Act, 1999, including Insurance Brokerage.
27. Acting as Insolvency Professional in terms of Insolvency and Bankruptcy Code, 2016
28. Administrative Services.
 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.
 Such services require little to no professional judgment and are clerical in nature.

Pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949, read with Regulation 191 of Chartered Accountants Regulations, 1988

a member shall be deemed to be in practice if he, in his professional capacity and neither in his personal capacity nor in his capacity as an employee, acts as a liquidator, trustee, executor, administrator, arbitrator, receiver, adviser or representative for costing, financial or taxation matters or takes up an appointment made by the Central Government or a State Government or a court of law or any other legal authority or acts as a Secretary unless his employment is on a salary-cum-full-time basis.

It is necessary to note that a person is deemed to be in practice not only when he is actually engaged in the practice of accountancy but also when he offers to render accounting services whether or not he in fact does so. In other words, the act of setting up of an establishment offering to perform accounting services would tantamount to being in practice even though no client has been served. It may also be noted that a member of the Institute is deemed to be in practice during the period he renders 'service with armed forces'.

The above provisions need to be correlated with the provisions of section 144 of the Companies Act, 2013 which prohibits an auditor of the company from rendering certain services directly or indirectly to the company or its holding company or its subsidiary company

Removal of Name from the Register As per section 20 of the Act,

the Council may remove, from the Register, the name of any member of the Institute in the following cases-

1. who is dead; or
2. from whom a request has been received to that effect; or
3. who has not paid any prescribed fee required to be paid by him; or
4. who is found to have been subject at the time when his name was entered in the Register, or who at any time thereafter has become subject, to any of the disabilities mentioned in Section 8, or who for any other reason has ceased to be entitled to have his name borne on the Register.
5. The Council shall remove the name of any member from the Register in respect of whom an order has been passed under this Act removing him from membership of the Institute

Restoration of Membership In addition to the provisions of the section 20 of the Chartered Accountants Act, 1949 (as discussed in above Para), Regulation 19 of the Chartered Accountants Regulations, 1988,

states that the name of the member may be restored by the Council in the Register on an application, in the appropriate Form, received in this behalf whose name has been removed from the Register for non-payment of prescribed fee as required to be paid by him, if he is otherwise eligible to such membership, on his paying the arrears of annual membership fee, entrance fee and additional fee determined by the Council under the Act. However, the effective date in case of restoration of cancelled membership, in different situations, shall be in the following manner:

Application for restoration and requisite fees are made within the same year of removal

Restoration shall be with effect from the date on which it was removed from the Register

Removal of name under the orders of the Board of Discipline or the Disciplinary Committee or the Appellate Authority or the High Court

Restoration shall be in accordance with such orders.

In other cases

Restoration shall be with effect from the date on which the application and fee are received.

Penalty for Falsely Claiming to be a Member etc. Section 24 of the Chartered Accountants Act, 1949 provides that any person who -

1. not being a member of the Institute;
 - a. represents that he is a member of the Institute; or
 - b. uses the designation Chartered Accountant;
 2. being a member of the Institute, but not having a certificate of practice, represents that he is in practice or practices as a Chartered Accountant,
- shall be punishable on first conviction with fine which may extend to 1000, and on any subsequent conviction with imprisonment which may extend to 6 months or with fine which may extend to 5,000, or with both

Companies not to Engage in Accountancy Section 25 of the Chartered Accountants Act, 1949 provides that:

1. No company, whether incorporated in India or elsewhere, shall practise as chartered accountants. Here, the term "company" shall include any limited liability partnership which has company as its partner for the purpose of this section.
2. If any company contravenes this provision then, without prejudice to any other proceedings which may be taken against the company, every director, manager, secretary and any other officer thereof who is knowingly a party to such contravention shall be punishable with fine which may extend on first conviction to 1,000 and on any subsequent conviction to 5,000.
3. In addition, as per section 141(2) of the Companies Act, 2013, where a firm (including a limited liability partnership) is appointed as an auditor of a company, then, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm. Though the LLPs are allowed to be appointed as an auditor in accordance with the Companies Act, 2013, however, it can not be engaged into practice, if it has company as its partner, as per the Chartered Accountants Act, 1949. Therefore, it can be inferred that the LLP not having any company as its partner, can be engaged into practicing and thus take audit assignments

Member in Practice Prohibited from using a Designation Other Than Chartered Accountant

Members of the Institute are now permitted to use the word 'CA' as prefix before their name irrespective of the fact that they are in practice or not.

Under Section 7 of the Chartered Accountants Act, 1949 a member in practice cannot use any designation other than that of a Chartered Accountant, nor he can use any other description, whether in addition thereto or in substitution therefor,

but a member who is not in practice and does not use the designation of a Chartered Accountant may use any other description.

Nevertheless a member in practice may use any other letters or description indicating to membership of such other Institute of accountancy, whether in India or elsewhere, as may be recognised in this behalf by the Council, or any other qualification that he may possess so long as such use does not imply adoption of designation

Merchant Banker / Advisor to an issue: The members may apply for and obtain registration as category IV Merchant Banker under the SEBI's rules and regulations and act as Advisor or Consultant to an issue. In client Companies' offer documents and advertisements regarding capital issue, name and address of the Chartered

Accountant or firm of Chartered Accountants acting as Advisor or Consultant to the Issue could be indicated under the caption "Advisor/Consultant to the Issue". However, the name and address of such Chartered Accountant/firm of Chartered Accountants should not appear prominently.

Directors of Companies, Members of political parties, position in clubs, etc.: The members of the Institute who are also Directors in Companies, members of Political parties or Chartered Accountants Cells in the political parties, holding different positions in clubs or other organisations are not permitted to mention these positions as these would be violative of the provisions of Section 7 of the Act.

Members who are also Cost Accountants: Though a member cannot designate himself as a Cost Accountant, he can use the letters A.C.M.A (Associate) or F.C.M.A (Fellow) after his name, when he is a member of that Institute.
Permission to mention qualifications of certain Institutions:

The members are permitted to **mention membership of a foreign Institute of Accountancy, which has been recognized by the Council** through a Memorandum of Understanding (MoU) / Mutual Recognition Agreement (MRA) with the said Institute

It is **improper for a Chartered Accountant to state on his professional documents that he is an Income-tax Consultant, Cost Accountant, Company Secretary, Cost Consultant or a Management Consultant.** Member are allowed to appear before the various authorities including Company Law Board, Income Tax Appellate Tribunal, Sales Tax Tribunal where the law has permitted the same, so far as the designation "Corporate Lawyer" is concerned, the Council was of the view that as per the existing provisions of law, a Chartered Accountant in practice is not entitled to use the designation "Corporate Lawyer".

Further, the members are **not permitted to use the initials 'CPA'** (standing for Certified Public Accountant) on their visiting cards. Members of the Institute in practice who are otherwise eligible may also practice as Company Secretaries and/or Cost Accountants. Such members shall, however, not use designation/s of the aforesaid Institute/s simultaneously with the designation "Chartered Accountant"

Maintenance of Branch Offices In terms of Section 27 of the Act, if a Chartered Accountant in practice or a Firm of Chartered Accountants has more than one office in India, each one of such offices should be in the **separate charge of a member of the Institute.**

Failure on the part of a member or a firm to have a member in charge of its branch and a separate member in case of each of the branches, where there is more than one, would constitute professional misconduct.

It is necessary to mention that the Chartered Accountant in-charge of the branch of another firm should be associated with him or with the firm **either as a partner or as a paid assistant.** If he is a paid assistant, he must be in whole time employment with him

The requirement of Section 27 in regard to a member being in charge of an office of a Chartered Accountant in practice or a firm of such Chartered Accountants shall be satisfied only if the member is **actively associated** with such office. Such association shall be deemed to exist if the member resides in the place where the office is situated for a period of **not less than 182 days in a year**

However, exemption has been given to members practicing in hill areas subject to certain conditions. The conditions are

1. Such members/firm be allowed to open temporary offices in a city in the plains for a limited period not

exceeding 3 months in a year.

2. The regular office need not be closed during this period and all correspondence can continue to be made at the regular office.
3. The name board of the firm in the temporary office should not be displayed at times other than the period such office is permitted to function as above.
4. The temporary office should not be mentioned in the letterheads, visiting cards or any other documents as a place of business of the member/firm.
5. Before commencement of every winter it shall be obligatory on the member/firm to inform the Institute that he/it is opening the temporary office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to the office of the Institute by registered post

The exemption may be granted to a member or a firm of Chartered Accountants in practice to have a second office without such second office being under the separate charge of a member of the Institute, provided-

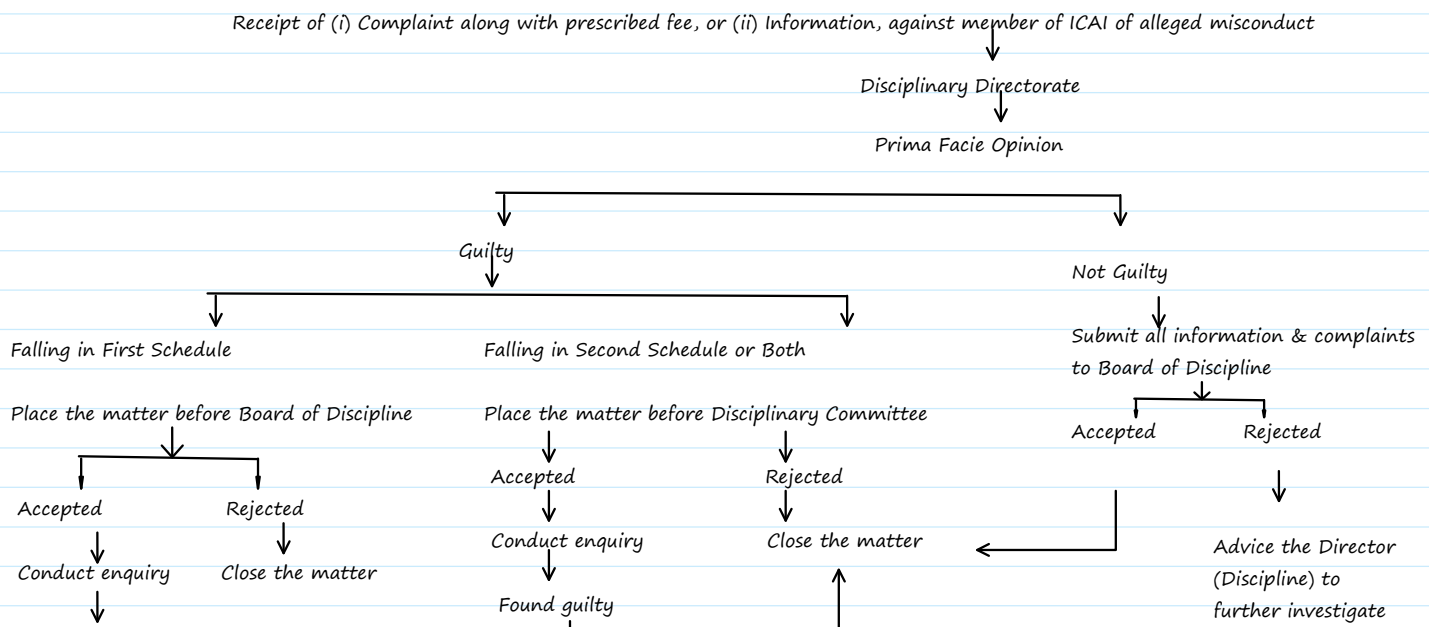
1. the second office is located in the same premises, in which the first office is located or,
2. the second office is located in the same city, in which the first office is located or,
3. the second office is located within a distance of 50 km. from the municipal limits of a city, in which the first office is located.

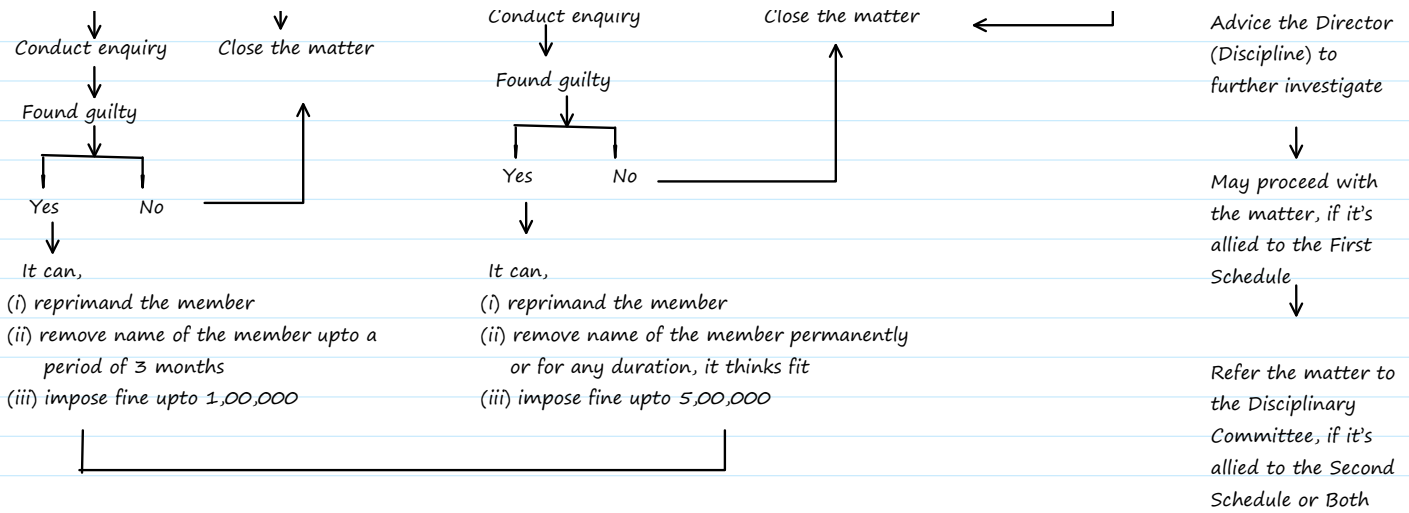
A member having two offices of the type referred to above shall have to declare, which of the two offices is his main office, which would constitute his professional address.

With regard to the use of the name-board, there will be no bar to the putting up of a name board in the place of residence of a member with the designation of Chartered Accountant, provided it is a name-plate or a name-board of an individual member and not of the firm

DISCIPLINARY PROCEDURE

Sections 21 the Chartered Accountants Act read with The Chartered Accountants Rules, 2007 have laid down the following procedure in regard to the investigation of misconduct of members which has been summarized as under





Any member or Director (Discipline) aggrieved by order of Board or Disciplinary Committee can prefer an appeal within 90 days

↓
Appellate Authority

↓
It can,
(i) Confirm, modify or set aside the order.
(ii) Impose, Set aside, Reduce or enhance penalty.
(iii) remit the case to the Board of Discipline or Disciplinary Committee for reconsideration.
(iv) Pass such order as the Authority thinks fit

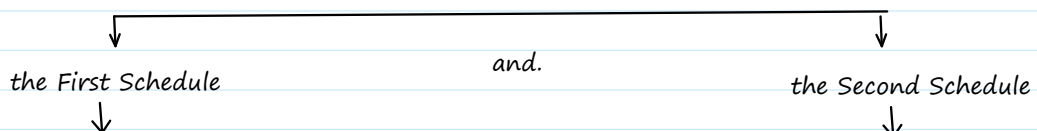
Professional Misconduct

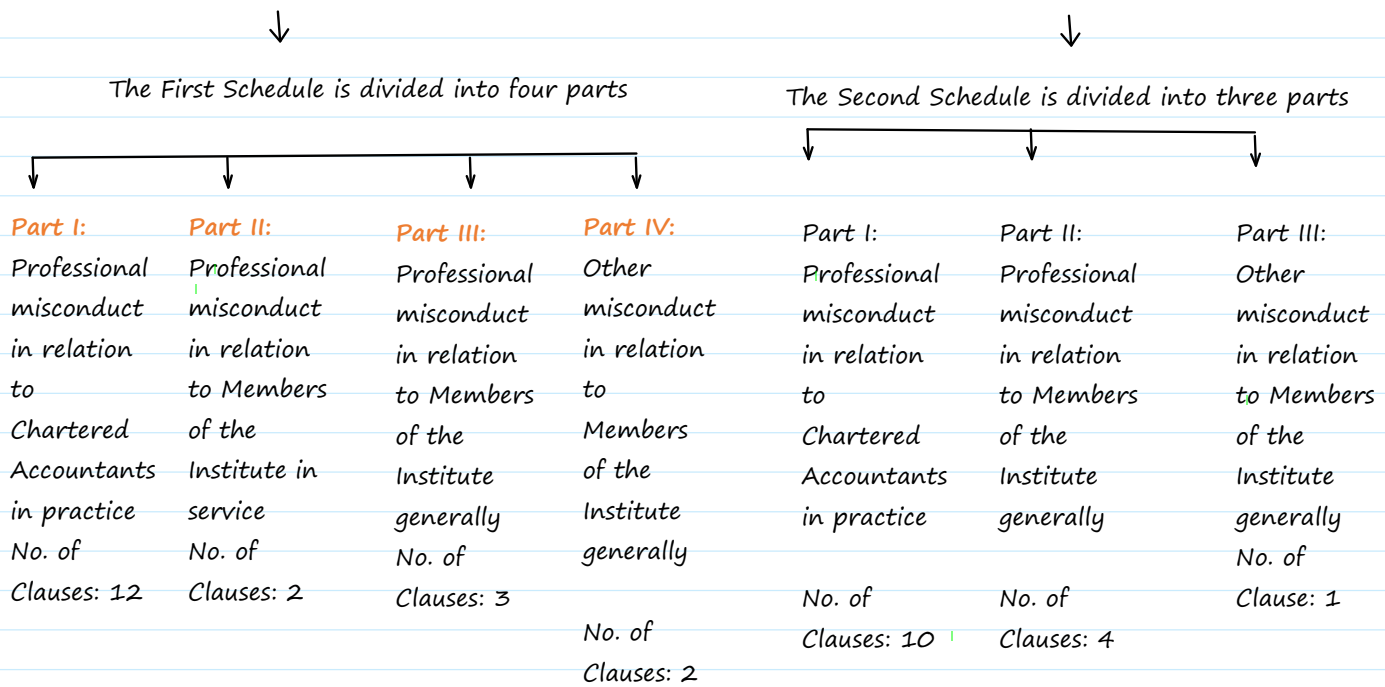
Professional misconduct has been defined in part I, II and III of the First Schedule; and part I and II of the Second Schedule. A member who is engaged in the profession of accountancy whether in practice or in service should conduct/restrict his actions in accordance with the provisions contained in the respective parts of the schedules. If the member is found guilty of any of the acts or omissions stated in any of the respective parts of the Schedule, he/she shall be deemed to be guilty of professional misconduct.

Other Misconduct

Other misconduct has been defined in part IV of the First Schedule and part III of the Second Schedule. These provisions empower the Council to inquire into any misconduct of a member even it does not arise out of his professional work. This is considered necessary because a chartered accountant is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards, even in his non-professional work, would expose him to disciplinary action

SCHEDULES TO THE ACT Acts or omissions which comprise professional misconduct within the meaning of Section 22 of the Chartered Accountants Act are defined in two Schedules viz.





THE FIRST SCHEDULE

PART I - Professional Misconduct in relation to Chartered Accountants in Practice

A Chartered Accountant in practice is deemed to be guilty of professional misconduct if he

Clause (1):

allows any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him

Justification

The above clause is intended to safeguard the public against unqualified accountant practicing under the cover of qualified accountants. It ensures that the work of the accountant will be carried out by a Chartered Accountant who may be his partner or his employee and would work under his control and supervision.

Clause (2):

pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India

Justification

The above clause ensure that CA acquires work through his competency and not through services of agents and relatives because in such assignments there may be threats which may affect fundamental code of ethics

- In this item, "partner" includes a person residing outside India with whom a chartered accountant in practice has entered into partnership which is not in contravention of item (4) of this Part

The Council has prescribed the professional bodies, which are as under: -

1. The Institute of Company Secretaries of India established under the Company Secretaries Act, 1980.
2. The Institute of Cost & Works Accountants of India established under the Cost & Works Accountants Act, 1959.
3. Bar Council of India established under the Advocates Act, 1961.
4. The Indian Institute of Architects established under the Architects Act, 1972.
5. The Institute of Actuaries of India established under the Actuaries Act, 2006.

Further, the Council has also prescribed the persons qualified in India, which are as under: Regulation 53A (3)

1. Company Secretary within the meaning of the Company Secretaries Act, 1980;
2. Cost Accountant within the meaning of the Cost and Works Accountants Act, 1959;
3. Actuary within the meaning of the Actuaries Act, 2006;
4. Bachelor in Engineering from a University established by law or an Institution recognised by law;
5. Bachelor in Technology from a University established by law or an institution recognised by law;
6. Bachelor in Architecture from a University established by law or an institution recognised by law;
7. Bachelor in Law from a University established by law or an institution recognised by law;
8. Master in Business Administration from Universities established by law or technical institutions recognised by All India Council for Technical Education

Issue

certain amount of audit fee is payable to the concerned Government

The Council considered the issue and while noting that the Government is asking auditors to deposit such percentage of their audit fee for recovering the administrative and other expenses incurred in the process, the Council decided that as such there is no bar in the Code of Ethics to accept such assignment

In case of death of member

Legal Representative (say, widow) of the deceased partner can continue to receive a share of the firm if the partnership agreement contains such provision - Yes
Otherwise - No

Sole Proprietorship

Fees - No sharing of fees (Between purchaser and seller)

Goodwill -

Death of proprietor concerned occurred on or after 30.8.1998 Provided such sale is completed in all aspects within a year of the death of such proprietor concerned. The name of the concerned firm would be kept in abeyance only upto a period of 1 year from the death of proprietor concerned as aforesaid (NO DISPUTE)

Death of proprietor concerned occurred on or after 30.8.1998 and there existed a dispute as to the legal heir of the deceased proprietor Provided the information as to the existence of the dispute is received by the Institute within a year of the death of the proprietor concerned. The name of concerned firm shall be kept in abeyance till 1 year from the date of settlement of dispute

Death of proprietor concerned had occurred on or before 29th August, 1998 Provided such sale/transfer is completed/effectuated and the Institute's permission to practice in the deceased's proprietary firm name is sought for by 28th August, 1999 and the firm name concerned is still available with the Institute

Clause (3):

accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute. Provided that nothing herein contained shall be construed as prohibiting a member from entering into profit sharing or other similar arrangements, including receiving any share commission or brokerage in the fees, with a member of such professional body or other person having qualifications, as is referred to in **item (2) of this part.**

The Council has prescribed the professional bodies, which are as under: -

1. The Institute of Company Secretaries of India established under the Company Secretaries Act, 1980.
2. The Institute of Cost & Works Accountants of India established under the Cost & Works Accountants Act, 1959.
3. Bar Council of India established under the Advocates Act, 1961.
4. The Indian Institute of Architects established under the Architects Act, 1972.
5. The Institute of Actuaries of India established under the Actuaries Act, 2006.

Further, the Council has also prescribed the persons qualified in India, which are as under:

1. Company Secretary within the meaning of the Company Secretaries Act, 1980;
2. Cost Accountant within the meaning of the Cost and Works Accountants Act, 1959;
3. Actuary within the meaning of the Actuaries Act, 2006;
4. Bachelor in Engineering from a University established by law or an Institution recognised by law;
5. Bachelor in Technology from a University established by law or an institution recognised by law;
6. Bachelor in Architecture from a University established by law or an institution recognised by law;
7. Bachelor in Law from a University established by law or an institution recognised by law;
8. Master in Business Administration from Universities established by law or technical institutions recognised by All

Issue

Referral fees amongst members: It is not prohibited for a member in practice to charge Referral Fees, being the fees obtained by a member in practice from another member in practice in relation to referring a client to him

Clause (4):

enters into partnership, in or outside India, with any person other than Chartered Accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (v) of sub section (1) of section 4 or whose qualifications are recognized by the Central Government or the Council for the purpose of permitting such partnerships

The Council has prescribed Regulation 53A (3) (as discussed under clause (2) of this part) and Regulation 53B of the Chartered Accountants Regulations, 1988 for the persons qualified and the professional bodies.

The Regulation 53B prescribes the membership of following professional bodies for entering into partnership:

1. Company Secretary, member, The Institute of Company Secretaries of India, established under the Company Secretaries Act, 1980;
2. Cost Accountant, member, The Institute of Cost and Works Accountants of India established under the Cost and Works Accountants Act, 1959;
3. Advocate, member, Bar Council of India established under the Advocates Act, 1961;
4. Engineer, member, The Institution of Engineers, or Engineering from a University established by law or an institution recognized by law.
5. Architect, member, The Indian Institute of Architects established under the Architects Act, 1972;
6. Actuary, member, The Institute of Actuaries of India, established under the Actuaries Act, 2006.

Clause (5)

Secures either through the services of a person who is not an employee of such Chartered Accountant or who is not his partner or by means which are not open to a Chartered Accountant, any professional business. Provided that nothing herein contained shall be construed as prohibiting any agreement permitted in terms of item (2), (3) and (4) of this part

Clause (6)

Solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Provided that nothing herein contained shall be construed as preventing or prohibiting –

1. Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or
2. A member from responding to tenders or enquiries issued by various users of professional services or

organizations from time to time and securing professional work as a consequence.

However, as per the guideline issued by the Council of the Institute of Chartered Accountants of India, a member of the Institute in practice shall not respond to any tender issued by an organization or user of professional services in areas of services which are exclusively reserved for chartered accountants, such as audit and attestation services.

However, such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

Further, keeping in view the broad purview of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949,

an advertisement of Coaching/teaching activities by a member in practice may amount to indirect solicitation, as well as solicitation by any other means, and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949. However, it may be noted that subject to the above prohibition, such members may put, outside their Coaching/teaching premises, sign board mentioning the name of Coaching/teaching Institute, contact details and subjects taught therein only. As regards the size and type of sign board, the Council Guidelines as applicable to Firms of Chartered Accountants would apply

Justification

The members should not adopt any indirect methods to adventure their professional practice with a view to gain publicity and thereby solicit clients or professional work. Such a restraint must be practiced so that members may maintain their independence of judgment and may be able to command the respect of their prospective clients. An advertisement is not a key to success in the profession. It is the quality service, which attracts and retains the clients

Some forms of soliciting work which the Council has prohibited are discussed below:

(a) Advertisement and note in the press –

Members should not advertise for soliciting work or advertise in a manner which could be interpreted as soliciting or offering to undertake professional work. Personal canvassing or canvassing for clients of previous employer through the help of the employees are also not permitted.

The exceptions to the above rule are:

- a. A member may request another Chartered Accountant in practice for professional work
- b. a member may advertise changes in partnerships or dissolution of a firm, or of any change in address of practice and telephone numbers. Such announcements should be limited to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the newspaper or magazine and number of insertions.
- c. a member is also permitted to issue a classified advertisement in the journal/ newsletter of the Institute intended to give information for sharing professional work on assignment basis or for seeking partnership or salaried employment of an accountancy nature, provided it only contains the accountant's name, address or telephone number, fax number, e-mail address and address(es) of social Networking sites of members. However, mere factual position of experience and area of specialization, relevant to seek response to the advertisement, are permissible.

(b) Application for empanelment for allotment of audit and other professional work –

The Government departments, government companies/Corporations, courts, co-operative societies and banks and other similar institutions prepare panels of chartered accountants for allotment of audit and other professional work. Where the existence of such a panel is within the knowledge of a member, he is free to write to the concerned organization with a request to place his name on the panel. However, it would not be proper for the Chartered Accountant to make roving enquiries by applying to any such organization for having his name included in any such panel.

It is permissible to quote fees on enquiries being received from such bodies, which maintain such panel.

(c) Responding to Tenders, Advertisements and Circulars :

It is not prohibited to the members to respond to tenders and requests made by users of professional work. This is however subject to conditions that may be issued by the Council from time to time. The Council has issued Guidelines which stipulate that a member of the Institute in practice shall not respond to any tender issued by an organization or user of professional services in areas of services which are exclusively reserved for Chartered Accountants, such as audit and attestation services.

However, such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants. The “minimum fee” for this purpose should be such that it commensurates with size, value, volume, manpower requirement and nature of work.

(d) Publication of Books, Articles or Presentation:

It is not permissible for a member to mention in a book or an article published by him, or a presentation made by him, any professional attainment(s), whether of the member or the firm of chartered accountants, with which he is associated.

However, he may indicate in a book, article or presentation the designation “Chartered Accountant” as well as the name of the firm.

(e) Issue of Greeting Cards or Invitations :

The Council does not approve of the issue of greeting cards or personal invitations by members indicating their professional designation, status and qualifications etc.

However, the Council is of the view that the designation “Chartered Accountant” as well as the name of the firm may be used in greeting cards, invitations for marriages and religious ceremonies and any invitations for opening or inauguration of office of the members, change in office premises and change in telephone numbers, provided that such greeting cards or invitations etc. are sent only to clients, relatives and friends of the members concerned.

(f) Advertisement for Silver, Golden, Platinum or Centenary celebrations :

It is not permitted to advertise the events organised by a Firm of Chartered Accountants.

However, considering the need of interpersonal socialization/relationship of the members through such get together occasions, the advertisement for Silver, Golden, Diamond, Platinum or Centenary celebrations of the Chartered

Accountants Firms may be published in newspaper or newsletter.

(g) Sponsoring Activities

1. A member in practice or a Firm of Chartered Accountants is not permitted to sponsor an event.
2. However, such member or Firm may sponsor an event conducted by a Programme Organizing Unit (PoU) of the ICAI, provided such event has the prior approval of Continuing Professional Education (CPE) Directorate of the ICAI.
3. Members sponsoring activities relating to Corporate Social Responsibility may mention their individual name with the prefix "CA". However, the mention of Firm name or CA Logo is not permitted.

(h) Advertisement of Teaching/Coaching activities by members :

The members engaged in teaching /coaching activities, while advertising such teaching /coaching activities, shall comply with the Regulation 190A of the Chartered Accountants Regulations, 1988 (discussed in the Chapter in Clause 11).

Keeping in view the broad purview of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, an advertisement of Coaching /teaching activities by a member in practice may amount to indirect solicitation, as well as solicitation by any other means, and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949. In view of the above, such members are advised to abstain from advertising their association with Coaching /teaching activities through hoardings, posters, banners and by any other means, failing which they may be liable for disciplinary action, as per the provisions of Chartered Accountants Act, 1949 and Rules/Regulations framed thereunder. Subject to the above prohibition, such members may put, outside their Coaching/ teaching premises, sign board mentioning the name of Coaching/teaching Institute, contact details and subjects taught therein only. As regards the size and type of sign board, the Council Guidelines as applicable to Firms of Chartered Accountants would apply.

(i) Sharing Firm Profile with prospective Client :

It is not permitted to share Firm profile with a prospective Client unless it is in response to a proposed client's specific query, and otherwise not prohibited to be used by the client.

(j) Television or Movie Credits :

While sharing name of the member or Firm of Chartered Accountants for inclusion in Television or Movie Credits , it must be taken care of that exhibition of name is not made differently as compared to other entries in the credits.

(k) Soliciting professional work by making roving enquiries:

It is not permissible for a member to address letters, emails or circulars specifically to persons who are likely to require services of a Chartered Accountant since it would tantamount to advertisement.

(l) Seeking work from Professional Colleagues :

The issue of an advertisement or a circular by a Chartered Accountant, seeking work from professional colleagues on

any basis whatsoever except as provided above would be in violation of this clause.

(m) Scope of representation which an auditor is entitled to make under Section 225(3) of the Companies Act, 1956 (Section 140(4) of the Companies Act, 2013) :

The right to make representation does not mean that an auditor has any prescriptive right or a lien to an audit. The wording of his representation should be such that, apart from the opportunity not being abused to secure needless publicity, it does not tantamount directly or indirectly to canvassing or soliciting for his continuance as an auditor. The letter should merely set out in a dignified manner how he has been acting independently and conscientiously through the term of office and may, in addition, indicate if he so chooses, his willingness to continue as auditor if reappointed by the shareholders.

(n) Acceptance of original professional work by a member emanating from the client introduced to him by another member:

The Council has decided that a member should not accept the original professional work emanating from a client introduced to him by another member. If any professional work of such client comes to him directly, it should be his duty to ask the client that he should come through the other member dealing generally with his original work.

(o) Giving Public Interviews:

While giving any interview or otherwise furnishing details about themselves or their firms in public interviews or to the press or at any forum, the members should ensure that, it should not result in publicity. Due care should be taken to ensure that such interviews or details about the members or their firms are not given in a manner highlighting their professional attainments. Any detail which is given must, in addition to meeting the above requirements, be given only as a response to a specific question, and of factual nature only.

(q) Educational Videos:

While the videos of educational nature may be uploaded on the internet by members, no reference should be made to the Chartered Accountants Firm wherein the member is a partner/ proprietor. Further, it should not contain any contact details or website address

Some of the decisions of the Council/High Courts on this clause are given below:

Solicitation –

A chartered accountant sent a printed circular to a person unknown to him offering his services in profit planning and profit improvement programmes. The circular conveyed the idea that it was meant for strangers only. Held, the chartered accountant was guilty of professional misconduct under the clause as he used the circulars to solicit clients and professional work.

A chartered accountant wrote several letters to Assistant Registrars/ Registrars of Co-operative Societies, Government of West Bengal requesting for allotment of audit work and to enrol his name on panel of auditors. Held

he was guilty of professional misconduct under the clause. The activities of the chartered accountant went much beyond the instructions of the Council to the effect that **roving enquiries should not be made** with the Government Department for empanelling the name unless it had been ascertained in advance that specific panel was being maintained.

An advertisement was published in a newspaper containing the member's photograph wherein he was congratulated on the occasion of the opening ceremony of his office. He was found guilty by the Council and later, by High Court of violating the Clause (soliciting work by advertisement). The following observations of the High Court may be relevant.

1. The advertisement which had been put in by the member is a noticeable one and the profession of Chartered Accountancy should maintain high standards of integrity, professional ethics and efficiency.
2. If soliciting of work is allowed the independence and forthrightness of a Chartered Accountant in the discharge of duties cannot be maintained and therefore some discipline must be maintained by the profession.

A member who got an advertisement published in a newspaper offering his "services in matters of Accounts, Income Tax, Labour laws, Law matters and Management Services" was found guilty in terms of this clause as also under Clause (7).

Where a Chartered Accountant had sent a letter to another firm of Chartered Accountants, in which he had introduced his firm as pioneer in liasoning with Central Government Ministries and its allied Departments for getting various Government clearances for which he had claimed to have expertise and had given a list of his existing clients and details of his staff etc. Held that he was guilty under the clause.

Where a Chartered Accountant had addressed an undated but signed letter to a bank requesting for empanelment of his firm as auditor along with the particulars of his firm showing the past experience and other details of the firm; and a Member of Parliament had also sent a letter to the bank recommending the name of the said Chartered Accountant's firm for immediate empanelling for Internal Audit/Inspection Audit/Management Audit, Expenditure Audit. Held that the member was guilty under Clause (6) of Part I of the First Schedule.

Where a Chartered Accountant had sent a letter on the letterhead of his firm to a non-member introducing himself as a chartered accountant giving details of services rendered by him and the schedule of his fees for rendering various kinds of services. Held that he was guilty under the clause.

A Chartered Accountant sent New Year Greeting Cards bearing his name, qualification, the name and address of his firm and also contain: "List of super hit books written by Suresh D. Chauhan. Guide to win girls – Income-Tax raid. Contact for any type of bank for institutional loans or deposits". Held that the Chartered Accountant contravened Clause (6) & (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 in having solicited assignment relating to any type of bank or institutional loans or deposits.

Website of the CA Firms

The Council has approved the detailed **guidelines for posting the particulars on Website** by Chartered Accountant(s) in practice and firm(s) of Chartered Accountants in practice :-

1. Firms would be free to create their own Website. (standard format of the Website is not prescribed)
2. The Chartered Accountants and/or Chartered Accountants' Firms would ensure that their Websites are **run on a "pull" model** and not a "push" model of the technology
3. The Chartered Accountants and/or Chartered Accountants' Firms should ensure that **none of the information contained in the Website be circulated on their own** or through E-mail or by any other mode or technique except on

a specific "pull" request.

4. The Chartered Accountants would also not issue any circular or any other advertisement or any other material of any kind whatsoever by virtue of which they solicit people to visit their Website.
5. The Chartered Accountants would, however, be permitted to mention their Website address on their professional stationery and email.
6. The following information may be allowed to be displayed on the Firms/Members' Websites:

(i) Member/Trade/Firm name	(ii) Year of establishment.
(iii) Member/Firm's Address (both Head Office and Branches) Tel. No(s) Fax No(s) E-mail ID(s)	(iv) Nature of services rendered (to be displayable only on specific "pull" request)
(v) Partners Name Year of Qualification Other Qualification(s) Tel.. Off.- Direct Res. Mobile E-mail address Area of Experience (to be displayable only on specific "pull" request)	(vi) Details of Employees - Professional, Others, Name, Designation, Area of experience (to be displayable only on specific "pull" request)
(vii) Job vacancies for the Chartered Accountant/firm of Chartered Accountants (including articleship).	(viii) No. of articled assistants. (to be displayable only on specific "pull" request).
(ix) Nature of assignments handled (to be displayable only on specific "pull" request). Names of clients and fee charged cannot be given.	

While the mention of names of clients is not permissible, members may take note of the following with regard to website of the Firm:-

Note: Disclosure of names of clients and/or fees charged, on the website is permissible only where it is required by a regulator, whether or not constituted under a statute, in India or outside India, provided that such disclosure is only to the extent of requirement of the regulator and is made only till such period that the member works under the purview of such Regulator/ such requirements of the Regulator are in force. Where such disclosure of names of clients and/or fees charged is made on the website, the member/ firm shall ensure that it is mentioned on the website [in italics], below such disclosure itself, that "This disclosure is in terms of the requirement of [name of the regulator] having jurisdiction in [name of the country/ area where such regulator has jurisdiction] vide [Rule/ Directive etc. under which the disclosure is required by the Regulator]."

7. Display of Passport style photograph is permitted.
8. The members may include articles, professional information, bulletin boards, professional updation and other matters of larger importance or of professional interest on the website. Educational videos on topics of professional relevance are permissible.
9. The chat rooms can be provided which permit chatting amongst members of the ICAI and between Firms and its clients. The confidentiality protocol would have to be observed. The Firms can provide document management facility with distinct log in and password facility to the clients to access copies of their documents on the Firm website.
10. The Firm can provide link of its page on Social Networking site. However, the members should not solicit people to visit or like their respective page(s) on such social Networking site.
11. The members/firms can provide on line advice to their clients who specifically request for the advice whether free of charge or on payment.
12. The details in the Website should be so designed that it does not amount to soliciting client or professional work.
13. The Website should ensure adequate secrecy of the matters of the clients handled through Website.
14. No Advertisement in the nature of banner or any other nature will be permitted on the Website.
15. The Website may provide a link to the Website of ICAI, its Regional Councils and Branches and also the Website of Govt./Govt. Departments/Regulatory authorities/other Professional Bodies.
16. The Website address should be as near as possible to the individual name/trade name, firm name of the Chartered Accountant in practice or firm of Chartered Accountants in practice. But it should not amount to soliciting clients
17. The Website should mention the information which is not at material variance from the information as per the

ICAI's records.

Clause (7)

Advertises his professional attainments or services, or uses any designation or expressions other than the Chartered Accountant on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a University established by law in India or recognized by the Central Government or a title indicating membership of the Institute of Chartered Accountants or of any other institution that has been recognized by the Central Government or may be recognized by the Council.

Provided that a member in practice may **advertise through a write up**, setting out the service provided by him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council.

This clause prohibits advertising of professional attainments or services of a member.

However, the services can be advertised in a restricted way through a write up subject to the Guidelines of the Council issued from time to time. It also restrains a member from using any designation or expression other than that of a Chartered Accountant in documents through which the professional attainments of the member would come to the notice of the public.

Other Designations: It is improper for a Chartered Accountant in practice to state on his professional documents that he is an Income-tax Consultant, Cost Accountant, Company Secretary, Cost Consultant or a Management Consultant.

While noting that it had already allowed its members to appear before the various authorities including Company Law Board, Income Tax Appellate Tribunal, Sales Tax Tribunal where the law has permitted the same, so far as the designation "Corporate Lawyer" is concerned, the Council was of the view that as per the existing provisions of law, a Chartered Accountant in practice is not entitled to use the designation "Corporate Lawyer". A member must not use the designation such as 'Member of Parliament', 'Municipal Councilor' nor any other functionary in addition to that of Chartered Accountant.

A member empanelled as Insolvency Professional or Registered Valuer can mention "Insolvency Professional" or "Registered Valuer" respectively on his visiting card and letter head.

Permission to mention qualifications of certain Institutions : The members are permitted to mention a title on their visiting cards to indicate membership of a foreign Institute of Accountancy, which has been recognised by the Council

Date of setting-up practice:

The date of setting up the practice by a member or the date of establishment of the firm on the letter heads and other professional documents etc. should not be mentioned.

Practice as Advocate :

Members of the Institute in practice who are otherwise eligible may practise as advocates subject to the permission of the Bar Council but in such case, they should not use designation 'Chartered Accountant' in respect of the matters involving the practice as an advocate. In respect of other matters they should use the designation 'Chartered Accountant' but they should not use the designation 'Chartered Accountant' and 'Advocate' simultaneously.

Practice as Company Secretary/Cost Management Accountant :

Members of the Institute in practice who are otherwise eligible may also practice as Company Secretaries and/or Cost Management Accountants. Such members shall, however, not use designation/s of the aforesaid Institute/s simultaneously with the designation "Chartered Accountant". It is clarified that in the event of the permission being granted to a member in practice to also hold COP of sister Institute(s)/Bar Council, such a member be treated as a member in full-time practice.

Mention of Firm name except on Professional Documents :

It is not proper for a Firm of Chartered Accountants to use the designation 'Chartered Accountant' except on professional documents, visiting cards, letter heads or sign boards and under the circumstances clarified under Clause (6). However, an individual member may use the prefix "CA" with his name.

Notice in the Press relating to the Success in an Examination:

Notice in the press relating to the success in an examination of an individual candidate, should not contain any element of undesirable publicity either in relation to the articled/audit assistant or an employee or the member or the firm with whom he was served. It is usual for local papers to publish details of the examination success of local candidates. Some biographical information is often included. The rule aforementioned is not intended to discourage the printing of news of local interest but is intended to indicate the need for restraint. The candidate's name and address, school and local background, examination passed with details of any prize or place gained, the name of the principal, firm and town in which the principal practices may be published.

Appearance of Chartered Accountants on Electronic Media (including Internet) :

Members may appear on television, films and Internet and agree to broadcast in the Radio or give lectures at forums and may give their names and describe themselves as Chartered Accountants.

Special qualifications or specialised knowledge directly relevant to the subject matter of the programme may also be given.

Firm name may also be mentioned, however, any exaggerated claim or any kind of comparison is not permissible. What he may say or write must not be promotional of him or his firm but must be an objective professional view of the topic under consideration.

Publicity is permitted for appointments to positions of local or national importance or for the views of members on matters of similar importance. Mention of the membership of the Institute is desirable in such cases. What should be aimed at is to achieve suitable publicity for the Institute and its members generally.

Members giving talks or lectures or attending conference may describe themselves as Chartered Accountants only when they are acting in their capacity as Chartered Accountants. However, reference to the professional firm of the member should not be given.

Organising Training Courses, Seminars etc. for his staff: A Chartered Accountant in practice holding training courses, seminars etc. for his staff may also invite the staff of other Chartered Accountants and clients to attend the same. However, undue prominence should not be given to the name of the Chartered Accountant in any booklet or document issued in connection therewith.

Writing Articles or Letters to the Press:

Members writing articles or letters to the Press on subjects connected with the profession may give their names

and use the description Chartered Accountants.

Size of Sign Board:

With regard to the size of sign board for his office that a member can put up, it is a matter in which the members should exercise their own discretion and good taste while keeping in mind the appropriate visibility and illumination (limited to the sake of visibility). However, use of glow signs or lights on large-sized boards as is used by traders or shop-keepers is not permissible.

A member can have a name board at the place of his residence with the designation of a Chartered Accountant, provided it is a name plate or name board of an individual member and not of the firm.

Public Announcements with details of Directors:

The Council's attention has been drawn to the fact that more and more Companies are appointing Chartered Accountants as Directors on their Boards. The prospectus or public announcements issued by these Companies often publish descriptions about the Chartered Accountant's expertise, specialisation and knowledge in any particular field or add appellations or adjectives to their names.

Attention of the members in this context is invited to the provisions of Clause (6) and (7) of Part I of the First Schedule to the Chartered Accountants Act.

In order that the inclusion of the name of a member of the Institute in the prospectus or public announcements or other public communications issued by the Companies in which the member is a director does not contravene the above noted provisions, it is necessary that the members should take necessary steps to ensure that such prospectus or public announcements or public communications do not advertise his professional attainments and also that such prospectus or public announcements or public communications do not directly or indirectly amount to solicitation of clients for professional work by the member.

While it may be difficult to lay down a rigid rule in this respect, the members must use their good judgement, depending upon the facts and circumstances of each case to ensure that the above noted provisions are complied with both in letter and spirit. It is advisable for a member that as soon as he is appointed as a director on the Board of a Company, he should specifically invite the attention of the management of the Company to the aforesaid provisions and should request that before any such prospectus or public announcements or public communication mentioning the name of the member concerned, is issued, the material pertaining to the member concerned should, as far as practicable be got approved by him. The use of the expression 'Chartered Accountant' is permissible. However, the member must ensure that descriptions about his expertise, specialisation and knowledge in any particular field or other appellations or adjectives are not published with his name. Particulars about directorships held by the member in other Companies can, however, be given, but the name of the firm of Chartered Accountants in which the member is a partner, should not be given.

Network Firms and Networking Guidelines :

The Council has permitted Network amongst the Firms registered with the Institute. A member of the Network may advertise to the extent permitted by the Advertisement Guidelines issued by Institute.

Use of Logo :

the Council decided that the use of logo/monogram of any kind/form/ style/design/colour etc. whatsoever on any display material or media e.g. paper stationery, documents, visiting cards, magnetic devices, internet, sign board, by the members in practice and/or the firm of Chartered Accountants, be prohibited.

the logo consists of the letters 'CA' in blue colour with a tri colour tick mark (upside down) with white

background. The blue colour not only stands out on any background but also denotes creativity, innovativeness, knowledge, integrity, trust, truth, stability, and depth. The upside-down tick mark, typically used by Chartered Accountants, has been included to symbolise the wisdom and value of the professional. 'India' is also added in the logo, as it epitomizes the Institute's connection to India First approach and commitment to the serve the Indian economy in public interest..

Common CA Logo :

To promote the brand of CA profession and responding to the long felt need to have a symbol of CA Profession in India, ICAI came up with a unique logo which could be used by all members, whether in practice or not. Encapsulating the current beliefs, attitudes and values of the profession, the CA Logo seeks to enhance the identity of the members.

Where a Chartered Accountant allegedly propagating his services subsequent to demonetization, an objective of Government of eradicating black money, through mass SMS along with his mobile number offering his services towards conversion of cash with minimum tax liability. Held guilty of Professional Misconduct falling within the meaning of Clause (6) & (7) of Part I and "Other Misconduct" falling within the meaning of Clause (2) of Part IV of First Schedule

Write up -

The Members may advertise through a write up setting out their particulars or of their firms and services provided by them subject to the following Guidelines and must be presented in such a manner as to maintain the profession's good reputation, dignity and its ability to serve the public interest.

The Member(s)/Firm(s) should ensure that the contents of the Write up are true to the best of their knowledge and belief and are in conformity with these Guidelines

The write-up shall comply with the following conditions:-

18. It shall be **honest and truthful.**
19. There shall be **no exaggerated claims** for the services offered by the member or the Firm, or the qualifications or experience of the member or any of the partners or any other person associated with the Firm.
20. It must not make any unsubstantiated comparisons to the work of others.
21. It should not contain testimonials or endorsements concerning Member(s) or names of clients (both the past and present) or the fees charged.
22. It should not contain any information about achievements /awards (except the awards given by the Central or State Governments or Regulatory bodies) or any other position held , or accreditation(s) granted by any organisation.
23. Monogram of any kind or use of any kind of catch words is not permissible.
24. The Membership No./FRN (as may be applicable) is mandatory to be mentioned in the write-up.
25. It should not be of font size exceeding 14.
26. It must not be violative of any provisions of Chartered Accountants Act, 1949, Chartered Accountants Regulations, 1988, Code of Ethics, 2020 or any Guideline of the Council

Advertisement through write-up

While advertising the services or details of Firms, the write-up may include only the following information:

(A) For Members

(i) CA.....Name	(ix) Telephone/Mobile/Fax N	(xv) Details of Employees (Nos. -) (a) Chartered Accountants - (b) Other Professionals - (c) Articles/Audit Assistants (d) Other Employees
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(ii) Membership No. with Institute	(x) Professional Address	(xvi) Names of the employees and their particulars on the lines allowed for a member
(iii) Age	(xi) Website	(xvii) Services provided (a) (b) (c)
(iv) Date of becoming ACA	(xii) E-mail	(xviii) Position held as Director or Managing Director in a Management Consultancy Company registered with the Institute
(v) Date of becoming FCA	(xiii) CA Logo	
(vi) Date from which COP held	(xiv) Passport style photograph	
(vii) Recognized qualifications		
(viii) Languages known		

(B) For Firms

(i) Name of the Firm Chartered Accountants	(v) Working Hours	(ix) Name of the proprietor/partners and their particulars on the lines allowed for a member as stated above including passport style photograph
(ii) Firm Registration No. with Institute	(vi) Tel. No(s)/Mobile No./Fax No(s)	(x) Professional Address(s) registered with the Institute (both Head Office and Branches)
(iii) Year of establishment	(vii) E-mail	(xi) Details of Employees (Nos. -) (a) Chartered Accountants - (b) Other professionals - (c) Articles/Audit Assistants (d) Other employees
(iv) CA Logo	(viii) No. of partners	(xii) Names of the employees of the firm and their particulars on the lines allowed for a member as stated above.
		(xiii) Services provided: (a) (b)
		(xiv) Affiliation with a Network registered with the Institute

The write-up may have the Signature, Name of the Member/ Name of the Partner signing on behalf of the firm, Place and Date

Clause (8)

accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing. It must be pointed out that professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant who is a member of the Institute or a certified auditor.

The underlying objective is that

- the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest,
- the legitimate interest of the public and
- the independence of the existing accountant.
- that professional courtesy

It is not intended, in any way, to prevent or obstruct the change. When making the inquiry from the retiring auditor, the one proposed to be appointed or already appointed should primarily find out whether there are any professional or other reasons why he should not accept the appointment.

in the case of an undisputed audit fees for carrying out the statutory audit under the Companies Act, 2013 or various other statutes having not been paid, the incoming auditor should not accept the appointment unless such fees are paid.

In respect of other dues, the incoming auditor should in appropriate circumstances use his influence in favour of his predecessor to have the dispute as regards the fees settled.

The professional reasons for not accepting an audit would be:

1. Non-compliance of the provisions of Sections 139 and 140 of the Companies Act, 2013 as mentioned in Clause (9) of the Part - I of First Schedule to The Chartered Accountants Act, 1949 ; and
2. Non-payment of undisputed Audit Fees by auditees other than in case of Sick Units for carrying out the Statutory Audit under the Companies Act, 2013 or various other statutes; and
3. Issuance of a qualified report.

In the first two cases, an auditor who accepts the audit would be guilty of professional misconduct.

undisputed audit fee - In the said Guidelines, Council has explained that the provision for audit fee in accounts signed by both the auditee and the auditor along with other expenses, if any, incurred by the auditor in connection with the audit, shall be considered as "undisputed audit fee" and

"sick unit" shall mean a unit registered for not less than five years, which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

In the last case, however, he may accept the audit if he is satisfied that the attitude of the retiring auditor was not proper and justified. If, on the other hand, he feels that the retiring auditor had qualified the report for good and valid reasons, he should refuse to accept the audit.

Where the Previous Auditor is not available for accepting payment of undisputed audit fees, and it is not otherwise possible to transfer the payment to him electronically, the Incoming Auditor may advise the client to purchase Demand Draft of the amount equivalent to undisputed Audit Fees of retiring auditor, and may accept the Audit assignment after verifying the same.

What should be the correct procedure to adopt when a prospective client tells you that he wants to change his auditor and wants you to take up his work? There being two persons involved, the Company and the old auditor, the former should be asked whether the retiring auditor had been informed of the intention to change. If the answer is in the affirmative, then a communication should be addressed to the retiring auditor. If, however, it is learnt that the old auditor has not been informed, and the client is not willing to make the first move, it would be necessary to ask him the reason for the proposed change. If there is no valid reason for a change, it would be healthy practice not to accept the audit. If he decides to accept the audit he should address a communication to the retiring auditor. As stated earlier, the object of the incoming auditor, in communicating with the retiring auditor is to ascertain from him whether there are any circumstances which warrant him not to accept the appointment.

The Council has taken the view that a mere posting of a letter "under certificate of posting" is not sufficient to

establish communication with the retiring auditor unless there is some evidence to show that the letter has in fact reached the person communicated with.

Evidence of the fact that the communication addressed to the outgoing auditor by the incoming auditor reached his hands. Certificate of posting of a letter cannot, in the circumstances, be taken as a positive proof of its delivery to the addressee”.

Members should therefore communicate with a retiring auditor in such a manner as to retain in their hands positive evidence of the delivery of the communication to the addressee.

In the opinion of the Council, the following would in the normal course provide such evidence:-

1. Communication by a letter sent through “Registered Acknowledgement due”, or
2. By hand against a written acknowledgement, or
3. Acknowledgement of the communication from retiring auditor’s vide email address registered with the Institute or his last known official email address, or
4. Unique Identification Number (UDIN) generated on UDIN portal (subject to separate guidelines to be issued by the Council in this regard)

Premises found Locked :

The communication received back by the Incoming Auditor with “Office found Locked” written on the Acknowledgement Due shall be deemed as having been delivered to the retiring auditor.

Firm not found at the given Registered address :

If the Communication sent by the Incoming auditor is received back with remarks “No such office exists at this address”, and the address of communication is the same as registered with the Institute on the date of dispatch, the letter will be deemed to be delivered, unless the retiring auditor proves that it was not really served and that he was not responsible for such non-service.

Special Audit under Income Tax Act, 1961 :

It would be a healthy practice if a Tax Auditor appointed for conducting special audit under the Income Tax Act, 1961 communicates with the member who has conducted the Statutory Audit.

Communication required for all kinds of audit :

The requirement for communicating with the previous auditor being a Chartered Accountant in practice would apply to all types of Audit viz., Statutory Audit, Tax Audit, GST Audit, Internal Audit, Concurrent Audit or any other kind of audit.

Communication in case of Assignments done by other professionals:

A Communication is mandatorily required for all types of Audit/Report where the previous auditor is a Chartered Accountant. In case of assignments done by other professionals not being Chartered Accountants, it would also be a healthy practice to communicate.

Lack of time in acceptance of Government Audits:

Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of audit of government Companies/ banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case the time schedule given for the assignment is such that there is no time to wait for the reply

from the outgoing auditor, the incoming auditor may give a **conditional acceptance** of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause.

In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.

The provision of Clause (8) requiring a communication with the previous auditor is absolute and applicable even in respect of an appointment by the Government agencies and even in case where the member is aware that the previous auditor had been made aware of the appointment.

Clause (9)

accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 and 140 read with section 141 of the Companies Act, 2013, in respect of such appointment have been duly complied with.

Under this clause **it is obligatory on the incoming auditor to ascertain from the Company** that the appropriate procedure in the matter of his appointment has been duly complied with so that no shareholder or retiring auditor may, at a later date, challenge the validity of such appointment

The word "ascertain" means "to find out for certain". This would mean that the incoming auditor should find out for certain as to whether the Company has complied with the provisions of Sections 139 and, 140 of the Companies Act, 2013.

In this respect, **it would not be sufficient for the incoming auditor to accept a certificate from the management of the Company that the provisions of the above sections have been complied with.**

It is necessary for the incoming auditor to verify the relevant records of the Company and ascertain as to whether the Company has, in fact, complied with the provisions of the above sections. If the Company is not willing to allow the incoming auditor to verify the relevant records in order to enable him to ascertain as to whether the provisions of the above sections have been complied with, the incoming auditor should not accept the audit assignment

auditor should verify as to

- whether the Board of Directors have passed the resolution
- proper notice convening the general meeting has been issued
- Board of Directors have powers
- approval of the Central Government

Clause (10)

Charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act

Justification

Justification

It is obvious that a person who is to receive payment in direct proportion to the benefit received by his client, may be tempted to exaggerate the advantage of his service or may adopt means that are not ethical. It will have the effect of undermining his integrity and impairing his independence. Therefore, members are prohibited from charging or accepting any remuneration based on a percentage of the profits or on the happening of a particular contingency such as, the successful outcome of an appeal in revenue proceedings

However, fees should not be regarded as being contingent if fixed by a court or other public authority.

The Council of the Institute has however framed Regulation 192 which exempts members from the operation of this clause in certain professional services. The said Regulation 192 is reproduced

1. "In the case of a receiver or a liquidator, the fees may be based on a percentage of the realization or disbursement of the assets
2. In the case of an auditor of a co-operative society, the fees may be based on a percentage of the paid up capital or the working capital or the gross or net income or profits;
3. In the case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of property valued;
4. in the case of certain management consultancy services as may be decided by the resolution of the Council from time to time, the fees may be based on percentage basis which may be contingent upon the findings, or results of such work;
5. in the case of certain fund raising services, the fees may be based on a percentage of the fund raised;
6. in the case of debt recovery services, the fees may be based on a percentage of the debt recovered;
7. in the case of services related to cost optimisation, the fees may be based on a percentage of the benefit derived; and
8. any other service or audit as may be decided by the Council. [Following activities have been decided by the Council under "h" above :-
 - (i) Acting as Insolvency Professional;
 - (ii) Non-Assurance Services to Non-Audit Clients]

Clause (11)

Engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage.

Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a company (Not being managing director or a whole time director) unless he or any of his partners is interested in such company as an auditor

The objective is to restrain members from carrying on any other business in conjunction with the profession of accountancy and combining such work with any business, which is not in keeping with the dignity of the profession. Another reason for the introduction of such prohibition is that a chartered accountant, if permitted to enter into all kinds of business, would be able to advertise for his other business and thereby secure an unfair advantage in his professional practice.

The Council, on a very careful consideration of the matter, has formulated Regulation, 190A and 191 which are reproduced below, specifying the activities with which a member in practice can associate himself with or without the permission of the Council

Regulation 190A. Chartered Accountant in practice not to engage in any other business or occupation. "A chartered accountant in practice not to engage in any other business or occupation other than the profession of accountancy except with the permission granted in accordance with a resolution of the Council".

Regulation 191. Part-time employment a Chartered Accountant in practice may accept. "Notwithstanding anything contained in Regulation 190A but subject to the control of the Council, a Chartered Accountant in practice may act as a liquidator, trustee, executor, administrator, arbitrator, receiver, adviser or representative for costing, financial or taxation matter, or may take up an appointment that may be made by the Central Government or a State Government or a court of law or any other legal authority or may act as a Secretary in his professional capacity, provided his employment is not on a salary-cum-full-time basis

Permission granted generally -

Members of the Institute in practice be generally permitted to engage in the following categories of occupations, for which no specific permission from the Council would be necessary in individual cases:

1. Employment under Chartered Accountants in practice or firms of such chartered accountants.
2. Private tutorship.
3. Authorship of books and articles.
4. Holding of Life Insurance Agency License for the limited purpose of getting renewal commission.
5. Attending classes and appearing for any examination.
6. Holding of public elective offices such as M.P., M.L.A. and M.L.C.
7. Honorary office leadership of charitable-educational or other non-commercial organisations.
8. Acting as Notary Public, Justice of the Peace, Special Executive Magistrate and the like.
9. Part-time tutorship under the coaching organisation of the Institute.
10. Valuation of papers, acting as paper-setter, head-examiner or a moderator, for any examination.
11. Editorship of professional journals.
12. Acting as Surveyor and Loss Assessor under the Insurance Act, 1938 provided they are otherwise eligible.
13. Acting as recovery consultant in the banking sector
14. Owning agricultural land and carrying out agricultural activity

Specific Resolution -

Members of the Institute in practice may engage in the following categories of business or occupations, after obtaining the specific and prior approval of the Council in each case:

1. Full-time or part-time employment in business concerns provided that the member and/or his relatives do not hold "substantial interest" in such concerns.
2. Full-time or part-time employment in non-business concern.
3. Office of managing director or a whole-time director of a body corporate within the meaning of the Companies Act, 1956 (now Companies Act, 2013) provided that the member and/or any of his relatives do not hold substantial interest in such concern.
4. Interest in family business concerns (including such interest devolving on the members as a result of inheritance / succession / partition of the family business) or concerns in which interest has been acquired as a result of relationships and in the management of which no active part is taken

5. Interest in an educational institution.
6. Part-time or full-time lectureship for courses other than those relating to the Institute's examinations conducted under the auspices of the Institute or the Regional councils or their branches.
7. Part-time or full-time tutorship under any educational institution other than the coaching organization of the Institute.
8. Editorship of journals other than professional journals.
9. Any other business or occupation for which the Executive Committee considers that permission may be granted.

auditor of a Subsidiary Company can't be a Director of its Holding Company, as it will affect the independence of an auditor

Promoter/Promoter Director - There is no bar for a member to be a promoter / signatory to the Memorandum and Articles of Association of any company. There is also no bar for such a promoter / signatory to be a Director Simplicitor of that company

The Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part time or full-time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should not exceed 25 hours a week in order to be able to undertake attest functions.

Clause (12)

Allows a person not being a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

This clause is to be read in conjunction with Section 26 of the Chartered Accountants Act, 1949 which stipulates that 'No person other than a member of the Institute shall sign any document on behalf of a Chartered Accountant in practice or a firm of Chartered Accountants in his or its professional capacity

The financial statements and the reports referred to in this clause obviously means the financial statements and reports as ultimately finalized and submitted to the outside authorities.

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the following instances and such delegation will not attract provisions of this clause:

1. Issue of audit queries during the course of audit.
2. Asking for information or issue of questionnaire.
3. Letter forwarding draft observations/financial statements.
4. Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.
5. Acknowledging and carrying on routine correspondence with clients.
6. Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.
7. Issuing acknowledgements for records produced.
8. Raising of bills and issuing acknowledgements for money receipts.
9. Attending to routine matters in tax practice

PART II- Professional Misconduct in relation to members of the Institute in service

A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person

Clause (1)

pays or allows or agrees to pay directly or indirectly to any person any share in the emoluments of the employment undertaken by him.

However, this clause does not restrict such sharing or commitments among relatives, dependents, friends etc., if there is no relationship in procuring or retaining the job and payment is not a consideration for job procurement or retainership.

The clear verdict of this clause is that job must be procured and retained with own professional capabilities and not by any financial deal impairing professional dignity.

Clause (2)

accepts or agrees to accept any part of fees, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

The objective is that when a member is in employment, he must maintain high level of ethics and should not accept any other amount from anyone for which he is not entitled from employer under contractual agreement of service.

[Note: A member in the foregoing circumstances would be guilty of misconduct regardless of the fact that he was in whole-time or part-time employment or that he was holding Certificate of Practice along with his employment.]

PART III - Professional misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he -

Clause (1)

not being a fellow of the Institute, acts as a fellow of the Institute.

Clause (2)

does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority.

Clause (3)

while inviting professional work from another chartered accountant or while responding to tenders or enquiries or while advertising through a write up, or anything as provided for in items (6) and (7) of Part I of this Schedule, gives information knowing it to be false.

PART IV- Other misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he -

Clause (1)

is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term not exceeding six months.

Clause (2)

in the opinion of the Council, brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work

Some illustrative examples, where a member may be found guilty of "Other Misconduct", under the aforesaid provisions, rendering himself unfit to be member are:

1. Where a chartered accountant retains the books of account and documents of the client and fails to return these to the client on request without a reasonable cause.
2. Where a chartered accountant makes a material misrepresentation.
3. Where a chartered accountant uses the services of his articled or audit assistant for purposes other than professional practice.
4. Conviction by a competent court of law for any offence under Section 8 (v) of the Chartered Accountants Act 1949.
5. Misappropriation of money by office-bearer of a Regional Council of the Institute and utilisation thereof for his personal use.
6. Not replying within a reasonable time and without a good cause to the letter of the public authorities.
7. Where certain assessment records of income tax department belonging to a client of a Chartered Accountant were found in the almirah of the bed-room of the chartered accountant.
8. Where a chartered accountant had adopted coercive methods on a bank for having a loan sanctioned to him.

THE SECOND SCHEDULE

Part I - Professional Misconduct in relation to Chartered Accountants in Practice

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he

Clause (1)

Discloses Information acquired in the course of his professional engagement to any person other than his client so engaging him without the consent of his client or otherwise than as required by any law for the time being in force.

The accountant's duty not to disclose continues even after the completion of his assignment.

An auditor is not required to provide the client or other auditors of the same enterprise or its related enterprise such as a parent or a subsidiary, access to his audit working papers.

There is a difference between sharing of working papers and sharing of information. So far as the information is concerned, he can provide the same to the client or to a Regulatory body after obtaining the consent of the client.

students may note that as per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within 60 days of his knowledge and after following the prescribed procedure.

Clause (2)

Certifies or submits in his name or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice.

It has been introduced to ensure that the work entrusted to him has been carried out by the member either directly or under his supervision before he renders his report.

An exception however has been made in respect of an examination carried out by another chartered accountant in practice. This enables two or more members to accept a joint assignment or enables a member also to carry out the examination of financial statements by or with the assistance of all or either any chartered accountant in practice.

Clause (3)

Permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in manner which may lead to the belief that he vouches for the accuracy of the forecast.

a chartered accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report the

- sources of information,
- the basis of forecasts and
- also the major assumptions made in arriving at the forecasts and
- so long as he does not vouch for the accuracy of the forecasts

Clause (4)

Expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

1. If the opinions of auditors are to command respect and the confidence of the public, it is essential that it must be free of any interest which is likely to affect their independence.
2. The words "financial statements" used in this clause would cover both reports and certificates usually given after an examination of the accounts or the financial statement or any attest function under any statutory enactment or for purposes of income-tax assessments. This would not, however, apply to cases where such statements are prepared by members in employment purely for the information of their respective employers in the normal course of their duties and not meant to be submitted to any outside authority.
3. Public conscience is expected to be ahead of the law. Members, therefore, are expected to interpret the requirement as regards independence much more strictly than what the law requires and should not place themselves in positions which would either compromise or jeopardise their independence.
4. In this connection, the Council has decided not to permit
 - a Chartered Accountant in employment to certify the financial statements of the concern in which he is employed, or of a concern under the same management as the concern in which he is employed, even though he holds certificate of practice and that such certification can be done by any Chartered Accountant in practice.
 - Auditor to accept the Auditor-ship of a college, if he is working as a part-time lecturer in the college.
 - Auditor to accept the Auditor-ship of a Trust where his partner is either an employee or a trustee of the Trust.

The Council has, in this connection, issued the following guidelines:

Requirements of Clause applicable to all Attest Functions

Many new areas of professional work have been added, e.g., Tax Audit, GST Audit, Concurrent Audit of Banks, Concurrent Audit of Borrowers of Financial institutions, Audit of non-corporate borrowers of Banks and Financial Institutions, Audit of Stock Exchange, Brokers, etc. The Council wishes to emphasize that the aforesaid requirement of Clause (4) are equally applicable while performing all types of attest functions by the members.

other statutory prohibitions are discussed below for the guidance of members:-

- Where the member, his firm or his partner or his relative has substantial interest in the business or enterprise (not being a company).
- An enterprise/concern of which a member is either an owner or a partner
- Where the partner or relative of a member has substantial interest
- Where the member or his partner or relative is a director or in the employment of an Officer or an Employee of the Company.
- Where the member is not holding a position in the Company, but holding any security or interest
- Where the partner of the member is an officer or employee of a company
- Where the partner of the member is holding any security or interest in the Company
- Where the relative of the member is a director or is in the employment of the Company as a director or key managerial person

It is not permissible for a member to undertake the assignment of certification, wherein the client is relative of the member. The "relative" for this purpose would refer to the definition mentioned in Accounting Standard (AS)-18.

Members not to write Books of Account for auditee clients

Statutory auditor not to be the Internal Auditor simultaneously

Internal auditor not to be the Tax auditor simultaneously

Cooling off period after completion of tenure as Director: A member shall not accept the assignment of audit of a Company for a period of two years from the date of completion of his tenure as Director, or resignation as Director of the said Company.

Clause (5)

Fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity

The word "financial statements" used in this clause would cover both reports and certificate usually given after an examination of the accounts or of financial statements under any statutory enactment, or/for purposes of income tax assessments.

This would not however, apply to cases where such statements are prepared by members in employment purely for the information of their respective employers in the normal course of their duties and not meant to be submitted to any outside authority

Some of the decisions of the Courts on this clause are briefly given below

Where a Chartered Accountant failed to report to the shareholders of a company about the non creation of a sinking fund in accordance with the Debenture Trust Deed and did not make clear that the amounts shown as towards sinking fund were borrowed from the managing agents of the company—Held, that the chartered accountant was duty bound to see that the nature and subject matter of the charge over a security and the nature and mode of valuation of the sinking fund investment were disclosed in the Balance Sheet in accordance with Form F and he was found guilty of misconduct

Where a Chartered Accountant had not disclosed the fact that a large amount of loan have been given out of the funds of an Employees Provident Fund to the Employer Company in contravention of the Rules of the Provident Fund and had failed to report on the default in clearing the cheques received in re-payment of the loan Held by the Supreme Court on appeal that it was no defence for the chartered accountant to say that he had disclosed the irregularities to the company as it was his duty to have made a disclosure thereof to the beneficiaries of the Provident Fund in the statement of accounts signed by him as the legal position of the auditor in the present case was similar to that of the auditor appointed under the Companies Act. He was therefore guilty of professional misconduct under Clause (5).

Clause (6)

Fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity

A Company did not provide for depreciation as required by Section 205 and Section 350 of the Companies Act, 1956 (now Section 123 read with Schedule III of the Companies Act, 2013) and although the Chartered

Accountant was aware that the Company had underprovided depreciation, he did not bring out this fact in his report- Held the Chartered Accountant was guilty of professional misconduct under the clause

Submitting Information as Authorised Representative: Chartered Accountant would not be held liable for professional misconduct.

Clause (7)

Does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

An auditor is not bound to be a detective, or, as was said, to approach his work with suspicion or with a foregone conclusion that there is something wrong. He is a watchdog but not a bloodhound. If there is anything calculated to excite suspicion he should probe it to the bottom; but in the absence of anything of that kind he is only bound to be reasonably cautious and careful."

Some of the decisions of the DC/Courts on this clause are briefly mentioned below:

Where a Chartered Accountant failed to indicate the mode of valuation of investments in shares as required by the Companies Act and also to draw attention to the inclusion of uniforms in the depreciation account- Held that he was guilty under Clause (7)

Where a Chartered Accountant wrongly certified the increase in Paid-up Share Capital of a Private Limited Company in the Balance Sheet without proper evidence. Held guilty of professional misconduct

A certificate issued by a Chartered Accountant to a proprietor of a firm in respect of the turnover of betel nuts to enable the firm, which was not dealing in betel nuts, to obtain import license without checking the books and documents himself, but relying on his articled clerk for its correctness. Held he was guilty of gross negligence

Where a Chartered Accountant failed in his duty to check the bank balances with the pass books of the banks and failed to obtain certificates of balances from the bankers in respect of those balances. The Council found him guilty of misconduct under Clauses (7) & (8) of Part I of the Second Schedule

Where a chartered accountant gave clean reports on the balance sheets whereas the reports on the special audit conducted subsequently revealed certain irregularities which amounted to failure to examine the pass book and to verify the cash balance. Held he was guilty under Clause (7)

Where a Chartered Accountant had not completed his work relating to the audit of the accounts of a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirement in this regard. Held, he was guilty of professional misconduct under Clause (7)

A Chartered Accountant adopted arbitrary valuation of closing stock and no verification at all was done by him

A Chartered Accountant was charged under Clauses (5), (6), (7) and (8) of Part I of Second Schedule in regard to a loss of ` 1.84 lakhs in a bank of sale of some investments out of which only a sum of ` 21,500 was written off by the bank. The value of investment in the balance sheet was inflated and it did not exhibit the correct position and the profit and loss account did not show a true balance of profit and loss. Held, the respondent was guilty of misconduct so as to render him unfit to be a member of the institute

Clause (8):

Fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion

The chartered accountant should not express an opinion before obtaining the required data and information. The latter part of the clause enjoins that where due to inadequacy of information or data the report has to be circumscribed to an extent that it would cease to be of any expression of a categorical opinion, the auditor should clearly express his disclaimer in no uncertain terms

A Chartered Accountant without examination of stock register and other relevant matters issued a wrong consumption certificate on the basis of which licence of higher value, for which the unit was not entitled, was issued by Controller of Imports & Exports. The examination done by the Chartered Accountant was so restricted that he could not have obtained the information necessary to warrant the expression of an opinion regarding consumption of raw material and components. Held the chartered accountant was guilty of professional misconduct under Clause (8)

Clause (9)

Fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

What constitutes "generally accepted audit procedure" would depend upon the facts and circumstances of each case, but guidance is available in general terms from the various pronouncements of the Institute issued by way of Engagement and Quality Control Standards, Statements, General Clarifications, Guidance Notes Technical Guides, Practice Manuals, Studies and Other Papers

Audit of Listed Companies :

Pursuant to SEBI Notification, Statutory Audit of Listed Companies under the Companies Act, 2013 shall be done by only those auditors who have subjected themselves to the Peer Review process of the Institute, and hold a valid certificate issued by the Peer Review Board of the ICAI

FRN and Membership No. :

The members are required to mention the Membership number and Firm registration number to all reports issued pursuant to any attestation engagements, including certificates, issued by them as proprietor of/ partner in the said firm.

Unique Document Identification Number (UDIN) :

The members may note that UDIN is mandatory from 1st July, 2019 on all Corporate/ Non - Corporate Audit, Attest and Assurance Functions. Thus, a member of the Institute in practice shall generate Unique Document Identification Number (UDIN) for all kinds of the certification, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions undertaken/signed by him

Where a Chartered Accountant did not conduct sample checking of the bank accounts in relation to the accounts of the company and did not carry out vouching with respect to the transactions reflected in the accounts of the company and depended upon his assistant who was a Chartered Accountant and experienced clerk who were entrusted with the auditing work. Held he was guilty under Clauses (7), (8) and (9).

Where a Chartered Accountant failed to verify the actual disbursement of the amount by examining the various

items of purchases and insisting for the bills to be produced in respect of the various items before issuing his certificate as mere payment would not constitute utilization of the amount for the purpose for which it was meant. Held he was guilty under Clauses (7), (8) and (9).

A Chartered Accountant had checked the cash book totals but not the bank column totals, had verified all the transactions in the bank columns but not the contra-entries, had taken the casting only of personal ledger and that too not of all accounts, had resorted to test check when there was no system of internal check, had not seen the pay-in-slips, had not checked the bank reconciliation statements for all the months. Held he was guilty of professional misconduct under Clauses (7), (8) and (9).

Clause (10)

fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time

In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client, it would be his duty to deposit them in a separate banking account, and to utilize such funds only in accordance with the instructions of the client or for the purposes intended by the client

In this connection the Council has considered some practical difficulties of the members and the following suggestions have been made to remove these difficulties:

1. An advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule.
2. Moneys received for expenses to be incurred, for example, payment of prescribed statutory fees, purchase of stamp paper etc., which are intended to be spent within a reasonably short time need not be put in a separate bank account. For this purpose, the expression; "reasonably short time", would depend upon the circumstances of each case.
3. Moneys received for expenses to be incurred which are not intended to be spent within a reasonably short time as aforesaid, should be put in a separate bank account immediately.
4. Moneys received by a Chartered Accountant, in his capacity as trustee, executor liquidator, etc. must be put in a separate bank account immediately.

PART II - Professional misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he -

Clause (1)

contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the Council.

The Regulations under which cases of contravention have generally come to the notice of the Council are the following:

Regulation 43 Engagement of Articled Assistant

Regulation 46 Registration of Articled Assistant

Regulation 47 Premium from Articled Assistant

Regulation 48 Stipend to Articled Assistant

Regulation 56 Termination or assignment of Articles

Regulation 65 Articled Assistant not to engage in any other occupation

Regulation 67 Complaint against the employer (from Articled Assistant)

Regulation 68 to 80 Audit Assistant

Regulation 190 Register of offices and firms

Regulation 190-A Chartered Accountants not to engage in any other business or occupation

Regulation 191 Part time employment's a Chartered Accountant may accept

Regulation 192 Restriction on fees

Some of the decisions of the Courts under this clause are mentioned below:

A Chartered Accountant certified that an audit clerk was in service with him while he was also, employed elsewhere with another employer between 11 A.M. and 5 P.M. and attended the office of the Chartered Accountant thereafter until 8 P.M. Held he was guilty of misconduct for making a misstatement to the institute in regard to the discharge of his professional duties

A Chartered Accountant was found guilty of professional misconduct in terms of Clause (1) of Part II of the Second Schedule to the Act for contravention of Section 6 of the Act for having issued a certificate in respect of a consumption statement of a concern as a Chartered Accountant in practice on a date when he had not even applied for a certificate of practice to the Institute

A Chartered Accountant took loan from a firm in which the articled clerk and his father were both Interested, against the provisions of the Chartered Accountants Regulations, 1988 which prohibit 'taking of loan or deposit etc. from the articled clerk.' Held the Chartered Accountant was guilty of professional misconduct under the clause

A Chartered Accountant did not pay stipend to his articled clerk, in accordance with Regulation 48 of the Chartered Accountants Regulations 1988

Where the Respondent had accepted audit while the amount of undisputed audit fee of ₹38,606/- was not paid

to the Complainant till date of signing of report. As per Council Guidelines No.1-CA(7)/02/2008, dated 8th August, 2008, "A member of the Institute in practice shall not accept the appointment as auditor of an entity in case the undisputed audit fee of another Chartered Accountant for carrying out the statutory audit under the Companies Act, 1956 or various other statutes had not been paid." Thus, the Respondent was expected not to accept the Audit of the Company till the outstanding audit fees was cleared by the Company. Hence, the Respondent was held guilty of professional misconduct falling within the meaning of Clause (1) of Part-II of Second Schedule to the Chartered Accountants Act, 1949

A Chartered Accountant had conducted 468 Tax Audits U/s 44AB of the Income Tax Act i.e. more than the limit prescribed by the Council of the ICAI (Guidelines No. 1 - CA (7)/02/2008, "Tax Audit Assignments under Section 44AB of the Income Tax Act, 1961). The said Council Guidelines state that a Member of the Institute in practice shall not accept, in a Financial Year, more than the "specified number" of Tax Audit Assignments under Section 44AB of the Income Tax Act 1961. The Respondent was held guilty of professional misconduct falling within the meaning of Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949

Clause (2)

being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment except as and when required by any law for the time being in force or except as permitted by the employer

Clause (3)

Includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false

Clause (4)

Defalcates or embezzles money received in his professional capacity

Part III - Other misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding six months

COUNCIL GUIDELINES

Maintenance of books of account

A member of the Institute in practice or the firm of Chartered Accountants of which he is a partner, shall maintain and keep in respect of his / its professional practice, proper books of account including the following-

(i) a Cash Book; (ii) a Ledger.

Tax Audit assignments under Section 44AB of the Income-tax Act, 1961

A member of the Institute in practice shall not accept, in a financial year, more than the "specified number of tax audit assignments" under Section 44AB of the Income-tax Act, 1961.

Provided also that the audits conducted under Section 44AD, 44ADA and 44AE of the Income Tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments"

For the above purpose, "the specified number of tax audit assignments" means -

(a) in the case of a Chartered Accountant in practice or a proprietary firm of Chartered Accountant, **60 tax audit assignments, in a financial year, whether in respect of corporate or non-corporate assesses.

(b) in the case of firm of Chartered Accountants in practice, **60 tax audit assignments per partner in the firm, in a financial year, whether in respect of corporate or non-corporate assesses

Signing - According to a clarification on Tax Audit Assignments by Committee on Ethical Standards Board) of the Institute, if there are 10 partners in a firm of Chartered Accountants in practice, then all the partners of the firm can collectively sign 600 tax audit reports. This maximum limit of 600 tax audit assignments may be distributed between the partners in any manner whatsoever.

A Chartered Accountant in practice shall maintain a record of the tax audit assignments accepted by him in each assessment year in the format as may be prescribed by the Council

Provided that in the case of a firm of Chartered Accountants in practice, the "specified number of tax audit assignments" shall be construed as the specified number of tax audit assignments for every partner of the firm.

Provided further that where any partner of the firm is also a partner of any other firm or firms of Chartered Accountants in practice, the number of tax audit assignments which may be taken for all the firms together in relation to such partner shall not exceed the "specified number of tax audit assignments" in the aggregate

Appointment of an Auditor in case of non-payment of undisputed fees

A member of the Institute in practice shall not accept the appointment as auditor of an entity in case the undisputed audit fee of another Chartered Accountant for carrying out the statutory audit under the Companies Act, 2013 or various other statutes has not been paid: Provided that in the case of sick unit, the above prohibition of acceptance shall not apply.

Explanation 1: For this purpose, the provision for audit fee in accounts signed by both - the auditee and the auditor along with other expenses, if any, incurred by the auditor in connection with the audit, shall be considered as "undisputed audit fees".

Explanation 2: For this purpose, "sick unit" shall mean a unit registered for not less than five years, which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

Specified number of audit assignments

A member of the Institute in practice shall not hold at any time appointment of more than the "specified number of audit assignments" of Companies under Section 141 of the Companies Act 2013

For the above purpose, the "specified number of audit assignments" means –

1. in the case of a Chartered Accountant in practice or a proprietary firm of Chartered Accountant, 30 audit assignments whether in respect of private Companies or other Companies, with the exception of one person Companies and dormant companies.
2. in the case of Chartered Accountants in practice, 30 audit assignments per partner in the firm, whether in respect of private Companies or other Companies, with the exception of One person Companies and dormant companies

A Chartered Accountant in practice as well as firm of Chartered Accountants in practice shall maintain a record of the audit assignments accepted

the audit of the head office and branch offices of a Company by one Chartered Accountant or firm of such Chartered Accountants in practice shall be regarded as one audit assignment.

the number of partners of a firm on the date of acceptance of audit assignment shall be taken into account.

A Chartered Accountant in practice, whether in full-time or part time employment elsewhere, shall not be counted for the purpose of determination of "specified number of audit of Companies" by firms of Chartered Accountants. A Chartered Accountant being a part time practicing partner of a firm shall not be taken into account for the purpose of reckoning the audit assignments of the firm.

Appointment as Statutory auditor

A member of the Institute in practice shall not accept the appointment as statutory auditor of Public Sector Undertaking(s)/ Government Company(ies)/Listed Company(ies) and other Public Company(ies) having turnover of ` 50 crores or more in a year where he accepts any other work(s) or assignment(s) or service(s) in regard to the same Undertaking(s)/ Company(ies) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same Undertaking/company.

Provided that in case appointing authority(ies)/regulatory body(ies) specify(ies) more stringent condition(s)/restriction(s), the same shall apply instead of the conditions/restrictions specified under these Guidelines. The above restrictions shall apply in respect of fees for other work(s) or service(s) or assignment(s) payable to the statutory auditors and their associate concern(s) put together

For the above purpose,

(i) the term "other work(s)" or "service(s)" or "assignment(s)" shall include Management Consultancy and all other professional services permitted by the Council pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 but shall not include:–

- (a) audit under any other statute;
- (b) certification work required to be done by the statutory auditors; and
- (c) any representation before an authority;

(ii) the term "associate concern" means any corporate body or partnership firm which renders the Management Consultancy and all other professional services permitted by the Council wherein the proprietor and/or partner(s) of the statutory auditor firm and/or their "relative(s)" is/are Director/s or partner/s and/or jointly or severally hold

“substantial interest” in the said corporate body or partnership;

Appointment of an auditor when he is indebted to a concern

A member of the Institute in practice or a partner of a firm in practice or a firm or a relative of such member or partner shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in other cases for amount exceeding ` 100,000/-.

Directions in case of unjustified removal of auditors

A member of the Institute in practice shall follow the direction given, by the Council or an appropriate Committee or on behalf of any of them, to him being the incoming auditor(s) not to accept the appointment as auditor(s), in the case of unjustified removal of the earlier auditor(s).

Guidelines on Tenders

Unique Document Identification Number (UDIN) Guidelines

Online Third Party Platforms

A number of non-Chartered Accountants' firms, corporates including banks, finance Companies and newspapers have set up their own Websites providing advisory services on taxation and other areas where Chartered Accountants are rendering professional service. Some of such Websites may request Chartered Accountants or Chartered Accountants' firms to provide consultation and advice through their Websites. No other service, besides consultancy and advice can be rendered through such websites, This would be permitted subject to the condition that on the Website, contact address of the Chartered Accountant concerned is not provided nor such Website will contain any material which advertises professional achievements or status of such Chartered Accountant except making a statement that they are Chartered Accountants. The name of Chartered Accountants' firm with suffix “Chartered Accountants” would not be permitted.

Application based Service provider Aggregators

It is not permissible for members to list themselves with online Application based service provider Aggregators, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed.

Exemptions

A special exemption has been made as regards publication of the name and address of a member or that of his firm, with the description Chartered Accountant(s), in an advertisement appearing in the press in the following circumstances, provided that the advertisement is not displayed more prominently than is usual for such advertisements or the name of the member or that of his firm with the designation Chartered Accountant(s) appears in type not bolder than the substance of the advertisement:-

1. Advertisement for recruiting staff in the member's own office.
2. Advertisement inserted on behalf of clients requiring staff or wishing to acquire or dispose of business or property.
3. Advertisement for the sale of a business or property by a member acting in a professional capacity as trustee, liquidator or receiver

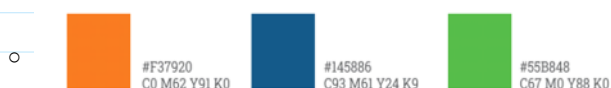
When advertising for staff, it is desirable that members should avoid the expression such as “a well-known firm”

Logo Guidelines

Guidelines issued in 2023 for using the new CA India logo for CA members prescribes that the logo consists of the letters 'CA' in blue colour with a tri colour tick mark (upside down) with white background. The blue colour not only stands out on any background but also denotes creativity, innovativeness, knowledge, integrity, trust, truth, stability, and depth. The upside-down tick mark, typically used by Chartered Accountants, has been included to symbolise the wisdom and value of the professional.

'India' is also added in the logo, as it epitomizes the Institute's connection to India First approach and commitment to the serve the Indian economy in public interest.

- There should be no alteration of the font (colour, bold/unbold, size). Moreover, there should be no change in spacing and dimensions.
- The colour palette is



- Do not change the design and colours including the white background.
- Refrain from rotating or tilting the logo clockwise and anti-clockwise.
- The logo should not be shrunk or distorted changing the original proportion.

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



Guidelines for Corporate Form of Practice

The Council decided to allow members in practice to hold the office of Managing Director, Whole-time Director or Manager of a body corporate within the meaning of the Companies Act provided that the body corporate is engaged exclusively in rendering Management Consultancy and Other Services permitted by the Council in pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 and complies with the conditions(s) as specified by the Council from time to time in this regard.

The members can retain full time Certificate of Practice besides being the Managing Director, Whole time Director or Manager of such Management Consultancy Company. There will be no restriction on the quantum of the equity holding of the members, either individually and/ or along with the relatives, in such Company. Such members shall be regarded as being in full-time practice and therefore can continue to do attest function either in individual capacity or in Proprietorship/Partnership firm in which capacity they practice and wherein they are also entitled to

train articled/audit assistants.

The name of the Management Consultancy Company is required to be approved by the Institute and such Company has to be registered with the Institute

On abundant caution, it may be clarified that no audit practice can be done in Corporate Form. The consultancy practice hitherto done in Individual or Firm Status alone is now intended to be permitted in Corporate Form also

Ethical Compliance:

(i) Once the Management Consultancy Company is Registered with the Institute as per the Guidelines, it will be necessary for such a Company to

comply with the following requirements: -

1. If the individual practitioner/sole-proprietorship firm/partnership firm is the statutory auditor of an entity then the Management Consultancy Company should not accept the internal audit or book-keeping or such other professional assignments, which are prohibited for the statutory auditor firm.
2. The Notification No. 1-CA(7)/60/2002 dated 8th March, 2002 (enclosed) in respect of ceiling on Non-audit fees is applicable in relation to a Management Consultancy Company.
3. The Management Consultancy Company shall comply with clauses (6) & (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 and such other directives as may be issued by the Institute from time to time.

(ii) The Management Consultancy Company shall give an undertaking that it shall comply with clauses (6) & (7) of Part-I of the First Schedule to

the Chartered Accountants Act, 1949 and such other directives as may be issued by the Institute from time to time.

Object of Management Consultancy Company:

The Management Consultancy Company shall engage itself only in Management Consultancy & Other Services. The Management Consultancy Company shall give an undertaking that it shall render only Management Consultancy & Other Services prescribed by the Council pursuant to powers under section 2 (2)(iv) of the Chartered Accountants Act, 1949.

Guidelines for Networking

Firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances

The judgment as to whether the larger structure is a network shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. This judgment shall be applied consistently throughout the network.

Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network.

However, the sharing of immaterial costs does not in itself create a network.

In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network.

Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network.

A larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network. This could be achieved by contract or other means.

Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.

Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives.

A larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a network.

Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is deemed to be a network.

Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records;
- Partners and staff;
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements;
- Audit methodology or audit manuals; and
- Training courses and facilities.

The determination of whether the professional resources shared are significant, and therefore the firms are network firms, shall be made based on the relevant facts and circumstances.

Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

Forms of the Network :

The different forms of Network can be as under:-

1. A network can be constituted as a **mutual entity** which will act as a facilitator for the constituents of the Network. In such a case the Network itself will not carry out any professional practice.
2. A network can be constituted as a **partnership firm** subject to the condition that the total number of partners does not exceed twenty.
3. A network can be constituted as a **Limited Liability Partnership** subject to the provision of the Chartered Accountant Act and Rules and such other laws as may be applicable.
4. A network can be constituted as a **company** subject to the guidelines prescribed by Institute for corporate form of practice and formation of management consultancy services company.

5. Network Firms shall consist of sole Practitioner/proprietor, partnership or any such entity of professional accountants as may be permitted by the Act.
6. A firm is allowed to **join only one network**. Firms having common partners shall join only one Network.

Approval of Name of Network amongst firms registered with Institute:

The Network may have distinct name which should be approved by the Institute. To distinguish a "Network" from a "firm" of Chartered Accountants, the words "& Affiliates" shall be used after the name of the network

application for approval of Name for Network is at Form 'A'

Even if a name is approved and subsequently it is found that the same is undesirable then, the said name may be withdrawn at any time by the Institute

The Institute shall approve or reject the name of the Network and intimate the same to the Network at its address mentioned in Form 'A' within a period which shall not be later than 30 days from the date of receipt of the said Form.

Mere approval of the name of the Network shall not entitle the Network to carry on practice in its own name.

Registration of Network with entities in India

After the name of a Network is approved as per provision, the Institute same shall reserve such name for a period of three (3) months from the date of approval.

The Network shall get itself registered with the Institute by applying in Form B within the period of 3 months, failing which the name assigned shall stand cancelled on the expiry of the said period.

Registration of Network with Institute is mandatory.

If different Indian firms are networked with a common Multinational Accounting Firm, they shall be considered as a part of network.

Listing of Network with entities outside India

The duly authorized representative(s) of the Indian Member firm (s)/Member constituting the Network with entities outside India shall file a declaration with the Institute in Form 'D' for Listing of such Network within 30 days from the date of entering into the Network arrangement.

Proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members as may be permitted by the Act, shall be permitted to join such network with entities outside India provided that the proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members are allowed to **join only one network** and firms having common partners shall join only one such network.

Change in constitution of registered Network:

In case of change in the constitution of registered Network on account of any entry into or exit from the Network, the network shall communicate the same to the Institute by filing Form 'C' within a period of thirty (30) days from the date of change in the constitution.

Ethical Compliance:

Once the relationship of network arises, it will be necessary for such a network to comply with all applicable ethical requirements prescribed by the Institute from time to time in general and the following requirements in particular: -

1. If one firm of the network is the statutory auditor of an entity then the associate [including the networked firm(s)] or the said firm directly/indirectly shall not accept the internal audit or book-keeping or such other professional assignments which are prohibited for the statutory auditor firm.
2. The guidelines of ceiling on Non-audit fees is applicable in relation to a Network as follows: -
 - a. For a Network firm who is doing statutory audit (including its associate concern and/or firm(s) having common partnership), it shall be the same as mentioned in the said notification; and
 - b. For other firms of the same Network collectively, it shall be 3 times of the fee payable for carrying out the statutory audit of the same undertaking/ company.
3. In those cases where rotation of firms is prescribed by any regulatory authority, no member firm of the network can accept appointment as an auditor in place of any member firm of the network which is retiring.
4. The Network may advertise the Network to the extent permitted by the Advertisement Guidelines issued by Institute. The firms constituting the network are permitted to use the words "Network Firms" on their professional stationery.
5. The constituent member firms of a Network and the Network shall comply with all the Ethical Standards prescribed by the Council from time to time.

Framework of Internal Byelaws of Network:

To streamline the networking, a network shall formulate operational bye-laws. Bye-laws may contain the following clauses on which the affiliates of the network may enter into a written agreement among themselves:

- Appointment of a Managing Committee, from among the managing partners of the member firms of the network and the terms and conditions under which it should function. The minimum and maximum number of members of the Managing Committee shall also be agreed upon.
- Administration of the network
- Contribution of membership fees to meet the cost of the administration of the network.
- Identifying a partner of any of the member firms of the network to be responsible for the assignment (engagement partner)
- Dispute settlement procedures through arbitration and conciliation
- Development of training materials for members of the network
- Issue of News-letters for staff and clients
- Development of software for different types of assignments
- Development and maintenance of data bases relevant for different types of assignments
- Library
- Appointment of a technical director to whom references can be made
- Determining the methodology for drawing resources from each member firm
- Determining compensation to member firms for resources to be drawn from them
- Peer review of the member firms

Non-Compliance with Laws and Regulations (NOCLAR)

In the course of providing a professional service to a client or carrying out professional activities for an employer, a Professional accountant may come across an instance of non-compliance with laws and regulations (NOCLAR) or suspected NOCLAR committed or about to be committed by the client or the employer, or by those charged with governance, management or employees of the client or employer.

Non-compliance with laws and regulations (“non-compliance”) comprises of acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by:

- a client/professional accountant’s employing organisation;
- those charged with governance of a client or employing organisation;
- management of a client/ employing organisation; or
- other individuals working for or under the direction of a client/ employing organisation.

However, NOCLAR under Revised Code of Ethics does not address the personal misconduct unrelated to the business activities of the client/ employing organisation and non-compliance by parties other than listed out in the definition of NOCLAR.

As per IESBA, following examples would be covered in NOCLAR:-

- Fraud, corruption and bribery
- Data protection
- Money laundering, terrorist financing and proceeds of crime
- Environmental protection
- Securities markets and trading
- Public health and safety
- Banking and other financial products and services
- Tax and pension liabilities and payments

The objective of NOCLAR is that - turning a blind eye to potential NOCLAR is not an appropriate response from professional accountants, while placing renewed emphasis on the roles of management and those charged with governance in addressing the matter. Further, it increases awareness and understanding among Professional accountant of their legal and regulatory responsibilities when they face NOCLAR.

Some important facts about NOCLAR are given below:

During Course of Providing a Service:

NOCLAR will be applicable if a professional accountant encounters, or is made aware of, non-compliance or suspected non-compliance in the course of providing a professional service to a client. He is not required to investigate, nor responsible for ensuring complete compliance.

Expertise of Laws not Required:

A professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, he is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

Certain Matters Expressly out of Purview:

Matters that are clearly inconsequential, or relating to personal misconduct pertaining to business activities of the client not covered.

Disclosure, which is Contrary to Law not Required:

As per IESBA Code, disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation.

Applicability of NOCLAR in India:

1. Responding to Non-Compliance with Laws and Regulations (NOCLAR) applicable to Professional Accountants in service (Section 260): Applicable to Senior Professional Accountants in service, being employees of listed entities. Senior professional accountants in service ("senior professional accountants") are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources. It is further explained that the senior professional accountants refer to key managerial personnel.
2. Responding to Non-Compliance with Laws and Regulations (NOCLAR) applicable to Professional Accountants in public practice (Section 360) : Applicable to Audit engagements of entities the shares of which are listed on recognized stock exchange(s) in India and have net worth of 250 crores of rupees or more. "For the purpose of Section-360 "Audit" or "Audit engagement" shall mean a reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements give a true and fair view in accordance with an applicable financial reporting framework".

NOCLAR vs. SA 250

SA 250 is applicable only on Audit, and not on other Assurance engagements. However, NOCLAR is applicable on professional accountants in service, and in practice.

SA 250 talks of auditor's responsibilities for laws having direct effect on the determination of material amounts and disclosures in the financial statements (such as tax and labour laws); and other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business. NOCLAR, while being alike to SA 250 till this point, is further ahead of it in that it takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms.

SA 250 does not define stakeholders. NOCLAR is related to affect of non-compliance on investors, creditors, employees as also the general public.

As per NOCLAR, in exceptional circumstances, the professional accountant might become aware of an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the company, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted. This provision is not existent in SA 250.

Responding to NOCLAR

Steps to be taken for responding

- Obtaining an understanding of the matter
- Addressing the matter
- Seeking Advice
- Determining whether further action is needed
- Determining whether to disclose the matter to an Appropriate Authority
- Imminent Breach

- Documentation

It may also be noted that in a situation where disclosure ought to be made by the Auditor, the "Appropriate authority" for the purpose of disclosure will depend on the nature of the matter. For example, the appropriate authority would be SEBI in the case of fraudulent financial reporting. Appropriate alignment has been made in the Code with regard to requirements of Confidentiality, as required under Chartered Accountants Act, 1949.

Provisions of Confidentiality under Chartered Accountants Act, 1949

For Members in practice – Clause (1) of Part –I of Second schedule to The Chartered Accountants Act, 1949 : A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force;

For Members in service – Clause (2) of Part-II to the Second Schedule of the Chartered Accountants Act, 1949 : A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment except as and when required by any law for the time being in force or except as permitted by the employer;

Documentation Requirements in NOCLAR :

Revised Code over and above require the professional accountant to follow the additional documents requirements as under:

- How management / those charged with governance have responded to the matter.
- The course of action the accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the accountant is satisfied that the responsibility of public interest has been fulfilled.

This documentation is in addition to complying with the documentation requirements under applicable auditing standards. SAs, for example, require a professional accountant performing an audit of financial statements to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

RECOMMENDED SELF-REGULATORY MEASURES

The self-regulatory measures are recommendatory. However, considering the spirit underlying these measures, the Council expects that each and every member will effectively implement them. The Council earnestly believes that implementation of these measures would go a long way in ensuring equitable flow of work among the members and would also further enhance the prestige of the profession in the society.

The more important of these recommendations are as under:

Branch Audits

The branch audits of a company should not be conducted by its statutory auditors consisting of ten or more members, but should be conducted by the local firms of auditors consisting of less than ten members. This should not be understood to mean any restriction on the right of the statutory auditors to have access over branch accounts conferred under the Companies Act, 2013.

This restriction may not apply in the following cases.

- (i) where the accounting records of the branches are maintained at the head office of the respective companies, and
- (ii) where significant operations of an undertaking or a company are carried out at its branch office.

Joint Audit

In the case of large companies, the practice of associating a practicing firm with less than five members as Joint auditors should be encouraged. Where a client desires to appoint such a firm as joint auditor, the senior firm should not object to the same.

Ratio Between Qualified and Unqualified Staff

In the Council's view, a practicing firm of Chartered Accountants engaged in audit work should have at least one member for every five non-qualified members of the staff, excluding articled and audit assistants, typists, peons and other persons not engaged directly in such professional work.

Disclosure of Interest by Auditors in other Firms

The Council has decided that as a good and healthy practice, auditors should make a disclosure of the payments received by them for other services through the medium of a different firm or firms in which the said auditor may be either a partner or proprietor.

*Recommended Minimum Scale of Fees

The Institute has issued revised Minimum scale of Fees for the professional assignments of the members of ICAI. The recommended scale of Fees is to be charged as per the work performed for various professional assignments. The Fees has been recommended separately for Class-A, B and C cities.

Fees - Relative Size:

Differentiated disclosure requirements for non public interest entities and public interest entities are following: -

- a. **For non Public Interest Entities (PIE)**-Disclosure is required where for two consecutive years, the gross annual professional fees from an audit client represent more than 40% of the total fees of the firm.
- b. **For public interest entities**- Disclosure is required where for two consecutive years, the gross annual professional fees from an audit client represent more than 20% of the total fees of the firm.

Exemption from applicability of the above provision will be in case where total Fees received by Firm does not exceed 20 lacs of rupees.

In addition, exemption from applicability of the above provision is also given in the case of audit of government Companies, public undertakings, nationalised banks, public financial institutions, regulators or where appointments of auditors are made by the Government.

KYC Norms for CA in Practice

The financial services industry globally is required to obtain information of their clients and comply with Know Your Client Norms (KYC norms). Keeping in mind the highest standards of Chartered Accountancy profession in India, the Council of ICAI issued such norms to be observed by the members of the profession who are in practice.

In light of this background, the Council of ICAI approved the following KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attestation functions. The KYC Norms approved by the Council of ICAI are given below:

- | |
|---|
| <p>1. Where Client is an Individual/ Proprietor</p> <p>A. General Information</p> <ul style="list-style-type: none">o Name of the Individualo PAN No. or Aadhar Card No. of the Individualo Business Descriptiono Copy of last Audited Financial Statement <p>B. Engagement Information Type of Engagement</p> |
| <p>2. Where Client is a Corporate Entity</p> <p>A. General Information</p> <ul style="list-style-type: none">o Name and Address of the Entityo Business Descriptiono Name of the Parent Company in case of Subsidiaryo Copy of last Audited Financial Statement <p>B. Engagement Information</p> <ul style="list-style-type: none">o Type of Engagement <p>C. Regulatory Information</p> <ul style="list-style-type: none">o Company PAN No.o Company Identification No.o Directors' Names & Addresseso Directors' Identification No. |
| <p>3. Where Client is a Non-Corporate Entity</p> <p>A. General Information</p> <ul style="list-style-type: none">o Name and Address of the Entityo Copy of PAN No.o Business Descriptiono Partner's Names & Addresses (with their PAN/Aadhar Card/DIN No.)o Copy of last Audited Financial Statement <p>B. Engagement Information</p> <ul style="list-style-type: none">o Type of Engagement |

Recent Decisions of Ethical Standards Board

1. It is not permissible for member in practice being a statutory auditor to prepare Business Responsibility & Sustainability Reporting (BRSR) study to Audit Clients. However, he may provide advisory services on the same. It is permissible for member in practice being a statutory auditor to be "Assurance provider of BRSR core" (Ref. SEBI circular dt. 12.07.2023) for the same client.
2. Statutory auditor of an entity is not permitted to engage in assignment of compilation engagement, of that entity as per SRS 4410.
3. It is permissible for members in practice to engage in the services assessment/performance audit of the centres of skill development council of Government of India as these are permissible under Management Consultancy and other services issued under section 2(2)(iv) of Chartered Accountants Act, 1949.
4. It is permissible for a member in practice to accept the assignment of Mystery Audit.
5. It is permitted for a member in practice to mention position as promoter/Director on the portal of a Company. However, the member cannot mention his professional attainments and the name of the firm with which he is associated. There should be no violation of clause (6) and Clause (7) of Part-I of First Schedule to the Chartered Accountants Act, 1949 in doing so.
6. It is permissible for a member in practice to become professional director in the Board of Management of a Co-operative Bank.
7. It is permissible for a member to set up practice in IFSC/GIFT city.
8. It is permissible for a member to render professional services to IFSC units from offices outside IFSC.
9. A firm is not permitted to publish its vision or mission statement on letter head, visiting card or stationery etc. The vision and mission statement may be printed on the firm profile and may be provided in response to a specific request.
10. It is not permissible for a member/ firm being the statutory Auditor of a Bank to accept the assignment of ASM of a customer of the same Bank simultaneously. He can accept either of the Assignments at one time.
11. A member in practice cannot be appointed as an Internal Auditor and Procurement officer simultaneously in an organization.
12. It is permissible for members in practice to charge fees on a percentage of utilization amount of an educational Institute for certifying the amount (utilization) spent by an educational Institute out of grant.
13. It is not permissible for a member in practice to accept the appointment of statutory audit of the society wherein immediate family member i.e., spouse or dependent, of member hold honorary position of one of the managing committee of the institutes governed by the society.
14. There is no conflict of interest in a Chartered Accountant, who is a member of a Trust, being the auditor of the said trust. It is subject to the exception where a particular statute governing a Trust prescribes prohibition on the member of the Trust to be its Auditor or otherwise where there is conflict of interest as per the provisions of Code of Ethics.
15. It is not permissible for a member to use Messaging Applications to send messages to make people aware about his practice, and mention the services provided therein.
16. It is permissible for a practicing Chartered Accountant holding Certificate of Practice to become a member of the 'Board of Management' in Primary (Urban) Co-operative Banks. The Ethical Standards Board noted that the position of a member of 'Board of Management' in Primary (Urban) Co-operative banks (UCBs) and the role attached to that position is similar to that of a Director-Simplicitor; where there is no involvement of a member in the day-to-day functioning/operations and not signatory etc. and only sitting fees for the services rendered are provided.
17. Member in practice cannot act as Trademark or Patent Attorney. However, Professional advice in relation to Intellectual Property Rights (IPR) is a routine professional work for a Chartered Accountants in practice and same is permissible under the provisions of the Chartered Accountants Act, 1949.
18. There is no prohibition for internal auditor of a company to acquire/purchase shares of the said Company.
19. A CA Firm may register itself on Udyog Aadhar, a web portal of Ministry Micro, Small and Medium Enterprises.
20. A chartered accountant in practice can provide services through kiosk only if the services provided are

professional activities of a practicing chartered accountant, permitted under the Act.

21. It is permissible for two or more Chartered Accountants in practice collectively to have joint training session for their clients on GST, and share the fees collected from the clients thereof.
22. A Member in practice may be a Non-executive/independent director in a Co-operative Bank, provided he is not involved into day to day activity of the organization, nor he or any of his partners are interested in the Bank as an auditor.
23. A Chartered Accountant in practice being Director Simplicitor in a Company cannot sign ROC Forms of the Company as it is a direct conflict of role.
24. A Chartered Accountant in practice can act as Authorized Representative of a Foreign Company, provided he is not the auditor of the said Company.
25. A Chartered Accountant in service is allowed to take e-return registration if it does not conflict with employment obligation. However, he cannot certify the return.
26. In case where Chartered Accountant in practice is a non-executive director in a company, he or a Firm in which he is a partner, should not accept the appointment as a statutory auditor of a Company which is a joint venture of the original Company, as it would impact independence.
27. A Chartered Accountant in practice may be an equity research adviser, but he cannot publish retail report, as it would amount to other business or occupation.
28. A Chartered Accountant in practice may engage himself as Registration Authority (RA) for obtaining digital signatures for clients.
29. A Chartered accountant can hold the credit card of a bank when he is also the auditor of the bank, provided the outstanding balance on the said card does not exceed Rs 100,000* beyond the prescribed credit period limit on credit card given to him. (*As per the limit of indebtedness existing as on date.)
30. A Chartered Accountant in practice can act as mediator in Court, since acting as a "mediator" would be deemed to be covered within the meaning of "arbitrator"; which is inter-alia permitted to members in practice as per Regulation 191 of the Chartered Accountants Regulations, 1988.
31. A Chartered Accountant in practice is not permitted to accept audit assignment of a bank in case he has taken loan against a Fixed Deposit held by him in that bank.
32. The Ethical Standards Board in 2013 generally apply the stipulations contained in the then amended Rule 11U of Income Tax generally, wherein statutory auditor /tax auditor cannot be the valuer of unquoted equity shares of the same entity. The Board has at its recent Meeting (January, 2017) has reviewed the above, and decided that where law prohibits for instance in the Income Tax Act and the rules framed thereunder, such prohibition on statutory auditor/tax auditor to be the valuer will continue, but where there is no specific restriction under any law, the said eventuality will be permissible, subject to compliance with the provisions, as contained in the Code of Ethics relating to independence.
33. The Ethical Standards Board had in 2011 decided that it is not permissible for a member who has been Director of a Company, upon resignation from the Company to be appointed as an auditor of the said Company, and the cooling period for the same may be 2 years. The Board has at its recent Meeting (January, 2017) has reviewed the above, and noted that the Section 141 of the Companies Act, 2013 on disqualification of auditors does not mention such prohibition; though threats pertaining to the said eventuality have been mentioned in Code of Ethics. Further, the Board was of the view that a member may take decision in such situation based on the provisions of the Companies Act, 2013 and provisions of Code of Ethics.
34. A chartered accountant in practice cannot become Financial Advisors and receive fees/commission from Financial Institutions such as Mutual Funds, Insurance Companies, NBFCs etc.
35. A chartered accountant cannot exercise lien over the client documents/records for non payment of his fees.
36. It is not permissible for CA Firm to print its vision and values behind the visiting cards, as it would result in solicitation and therefore would be violative of the provisions of Clause (6) of Part-I of First Schedule to the Chartered Accountants Act, 1949.
37. It is not permissible for chartered accountants in practice to take agencies of UTI, GIC or NSDL.
38. It is permissible for a member in practice to be a settlor of a trust.
39. A member in practice cannot hold Customs Brokers Licence under section 146 of the Customs Act, 1962 read

with Customs Brokers Licensing Regulations, 2013 in terms of the provisions of Code of Ethics.

40. A Chartered accountant in service may appear as tax representative before tax authorities on behalf of his employer, but not on behalf of other employees of the employer.
41. A chartered accountant who is the statutory auditor of a bank cannot for the same financial year accept stock audit/inspection Audit of the same branch of the bank or any of the branches of the same bank or sister concern of the bank, for the same financial year.
42. A CA Firm which has been appointed as the internal auditor of a PF Trust by a Government Company cannot be appointed as its Statutory Auditor.
43. A concurrent auditor of a bank 'X' cannot be appointed as statutory auditor of bank 'Y', which is sponsored by 'X'.
44. A CA/CA Firm can act as the internal auditor of a company & statutory auditor of its employees PF Fund under the new Companies Act (2013).
45. The Ethical Standards Board while noting that there is requirement for a Director u/s 149(3) of the Companies Act, 2013 to reside in India for a minimum period of 182 days in the previous calendar year, decided that such a Director would be within the scope of Director Simplicitor (which is generally permitted as per ICAI norms) , if he is non -executive director, required in the Board Meetings only , and not paid any remuneration except for attending such Board Meetings.