

Chp 9 Audit Engagement.

* Meaning of Audit Engagement →

- An audit engagement is a formal agreement b/w an auditor and an organization to conduct an audit, outlined in audit engagement letter. It details the Audit's
 scope
 fees
 conditions

* offer & acceptance of audit engagement →

offer

↓
audit work

co. offers to auditor, incl. terms like scope, fees & timeline.

Acceptance

↓

The Auditor accepts the offer, possibly adding conditions such as access to records @ presenting findings to audit committee.

- once agreed, engagement is formalized with necessary paperwork

* steps for auditor apptn on one-to-one basis →

① screening the auditee: The auditor assesses the risks related to client such as:

- client acceptance Risk
- Performance Risk
- Engagement contract Risk.
- Reputation Risk
- Commercial considerations

② communicating willingness: Auditor informs the mgt of their willingness to take audit assignment.

③ Pre-engagement meeting: Auditor meets with mgt to discuss:

- Terms of engagement
- Prior audit results
- Biz understanding, incl. internal controls
- Audit process / timelines & milestones
- any conflict of interest etc
- confidentiality.

④ Engagement letter: Auditor signs the engagement letter with mgt & issues a certificate before accepting the audit.

* Steps for auditor apptⁿ through tendering process:

① Pre-bid meeting: Auditor meets with mgt to discuss the tender, audit scope, terms, biz understanding etc.

② Submit technical bid: Auditor then submits technical bid following the tender document requirements.

③ Sign engagement letter: once selected, auditor signs the engagement letter with mgt.

④ Auditor's certificate: Before accepting the audit, auditor provides a certificate confirming:

✓ *
Compliance with
audit limits
set by ICSI

↓ *
No conflict
of interest
with auditee

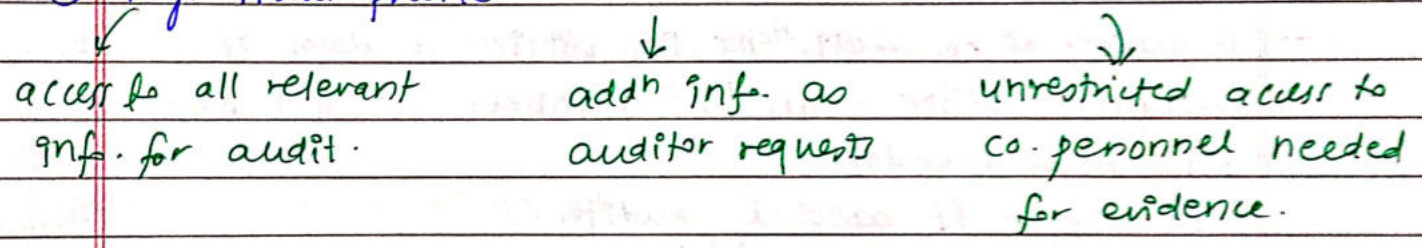
↓ *
No restrictions
on providing
professional
services

↓ *
Not debarred
from conduc-
ting audit
by any law
OR under discipli-
nary action by
ICSI.

* Pre-conditions for accepting / continuing an Audit Engagement →

Before accepting an audit, auditor must ensure the following →

- ① The reporting framework for preparing & auditing the statements must be acceptable.
- ② management must acknowledge its responsibility for preparing the statements fairly, in line with reporting framework.
- ③ mgt must ensure internal controls are in place to prevent material misstatements.
- ④ mgt must provide -

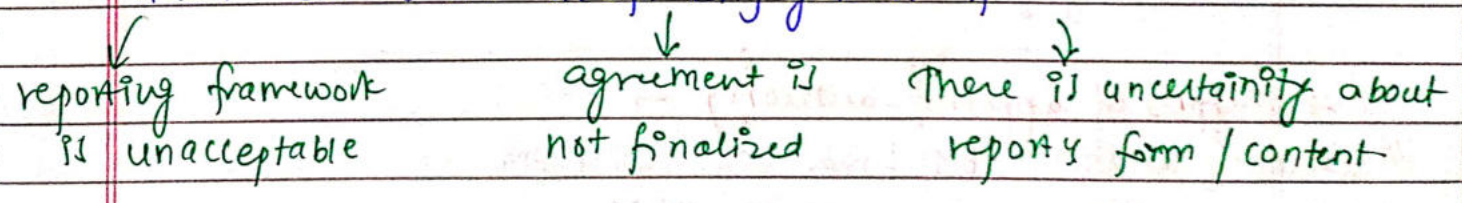


* limitation of scope →

- Auditor should NOT accept an engagement if scope is limited in a way that prevents giving an opinion on statements, unless required by law.

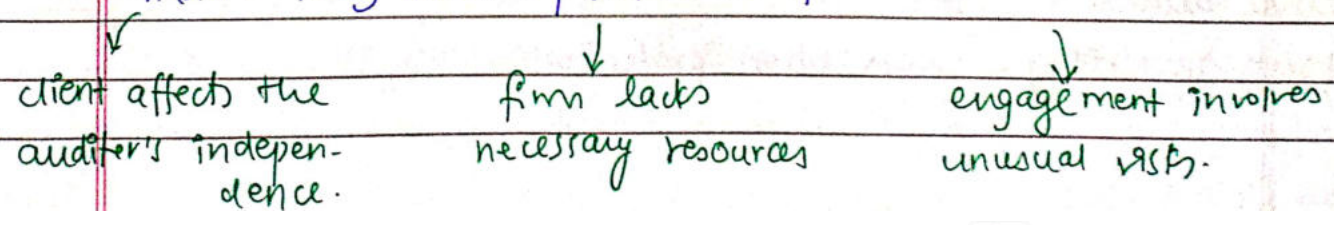
* factors affecting engagement acceptance →

- Auditor should not accept engagement if :



* criteria for declining / withdrawing from engagement →

- Auditor may decline / withdraw if -



Tribunal / official liquidator: tribunal / official liquidator.

Depository participant: Director / DP, depending on type of organisation.

Internal audit of stock brokers: Depends on type of auditee.

* Sun Moon case study →

- BOD of Sun moon Ltd appointed M.V. RR & associates for audit. However, Mr. Abhinav (S/N) challenged the app^{tn}, claiming SEBI should appoint the auditor.

- court found that SEBI Reg. did not specify who should appoint the auditor but confirmed that co. must appoint an auditor. The court ruled that BOD has an authority to do so and hence, app^{tn} was declared VALID!

* Terms & conditions of Audit Engagement →

Include the following key points -

- ① objective / purpose of audit
- ② Responsibilities of auditor
- ③ Responsibilities of mgt / auditee
- ④ audit risk
- ⑤ audit limitations
- ⑥ audit plan.

key points
in engagement
letter.

- Both { auditor / auditee } must agree on these terms, which should be documented in an engagement letter / written agreement.

- If law changes during audit, auditor should consider the impact & document any adjustments to terms accordingly!

* Audit fees →

- ① Audit fees are determined by factors like
 ↳ co. size
 ↳ biz type
 ↳ audit scope
 ↳ frequency.
- ② Fees should reflect the work done and should NOT depend on specific results.
- ③ Auditors should avoid undercharging as it can impact their independence & audit quality.
- ④ For statutory auditors: fees are determined at GM & auditors can claim expⁿ
- ⑤ For Secretarial / internal audit - fees are set by Board / Audit committee.

R. Swarup Reddy case - Court ^{ruled} that auditor's fees of ₹ 36.16 lakh was reasonable due to work involved, incl. investigations.

* ICSI Guidance on Audit engagement →

- CSAs - 1 applies to PCs conducting audits under Indian laws.
- It doesn't apply to voluntary audits, but it's recommended to follow guidelines.
- For audits apptd by court/^{tribunal/regulator}: CSAs - 1 applies as ~~much~~ much as possible with terms set by the authority!

Following is an illustrative list of Audits which may be undertaken by CS under various statutes:

Type of Audit	Act / Reg.	Section	Auditee.
Secretarial Audit	Co. Act 2013	204	Company
Secretarial Audit	SEBI (LODR) Reg. 2015	20 A	Listed entities

Type of Audit	Act / Reg.	Section	Auditee.
Internal Audit	Co. Act 2013	13e	company.
Audit of DP/audit	SEBI (D & P) Reg, 2012	76	Sole prop. / partnership / LLP / company.
Internal audit of Stock brokers.	SEBI (Stock brokers & sub-brokers) Reg, 1993	-	" "
Internal Audit of investment advisors	SEBI (IA) Reg, 2013	19(3)	" "
Internal Audit of portfolio mgr	SEBI (PM) Reg, 1993	-	Body corporate.
Internal audit of credit rating agencies.	SEBI (CRA) Reg, 1999	-	Public FI, Sch. comm. Bank, foreign bank operating with RBI app., foreign CRA recognised by any law, company, Body corporate.
Internal audit of Research analysts.	SEBI (Research Analyst) Reg, 2014	25(3)	Sole prop. / partnership / LLP / company.

* CSAs - 1 overview →

Scope: CSAs - 1 outlines auditor's responsibilities when agreeing to audit terms & entering into agreement with mgt.

Types of audit engagements:

- ① New engagement - 1st time audit ② when a different auditor conducted the previous audit.
- ② Recurring engagement - For auditors continuing from a previous period, a fresh engagement letter is required if terms expire / or conditions change.
- ③ changes in terms - If terms change mid-audit, a revised engagement letter must be issued.

Definitions:

- ① Auditor: member of ICSI with a valid certificate of practice including firms / LLP's with ICSI members.
- ② management: BoD / those entrusted with governance responsibilities, incl. KMP and senior mgt as per Co. Act / SEBI Regulations.
- ③ KMP: means

→ CEO / MD of Co.	→ CFO
→ CS	→ other offices as
→ whole time Director	may be prescribed
- ④ Senior mgt: personnel of Co. who are members of core mgt team ~~incl.~~ excl. BoD comprising all members of mgt one level below executive directors incl. functional heads.
- ⑤ Predecessor auditor: Previous auditor who completed / started the most recent audit assignment.

* Audit Engagement process →

① Pre-engagement meeting -

- Auditor & auditee discuss the audit terms, past findings, business operations & timelines.
- auditor must disclose any conflicts of interest & keep info. confidential.

② Appointment - Auditor is apptd based on applicable laws / guidelines. If no specific manner is prescribed, the appointing authority determines the method.

- Before accepting the engagement, auditor must provide a certificate confirming -

↓ (a)	↓ (b)	↓ (c)	↓ (d)
no. of audit is within prescribed limits.	No conflict of interest exists.	There are no restrictions on rendering services	The auditor is <u>NOT</u> debarred from undertaking an audit.

③ Acceptance - Auditor accepts the engagement by signing the audit engagement letter, which includes a resolution from appointing authority. Acceptance can be via (letter / email).

* Audit Engagement letter →

- It outlines terms of audit b/w auditor & auditee. It is essential to avoid misunderstandings regarding audit's scope, responsibilities & expectations.

Responsibilities of AUDITOR

- conduct audit as per engagement audit terms
- maintain ethics + professionalism
- ensure confidentiality
- No trade in securities with UPSI

depute (appoint) personnel with knowledge

Responsibilities of AUDITEE } provide access to records / docs
 } appoint a reasonable official
 } depute a person to provide timely info.
 } provide written mgt representations
 } provide details of previous auditor.

AUDIT LIMITATIONS

engagement letter may note inherent limitations such as possibility that some non-compliance may not be detected.

If the audit scope is limited, by apptn authority: auditor may not accept engagement if it reduces the level of assurance required.

3rd party involvement

letter should mention if 3rd parties / experts will be involved in certain audit aspects.

- Audit engagement letter should be reviewed annually & updated if necessary, particularly if audit's scope changes.

Prohibitions

PCS

cannot share professional fees with any person other than:

- member of ICSI
- Retired partner
- deceased partner's spouse

cannot accept fees as % (or) contingent to any findings during audit.

ye liya to : professional misconduct and disciplinary action will be taken by ICSI.

* Communication to previous auditor →

- When a new auditor is appointed, they must inform the previous auditor about their engagement.
- previous auditor is one who completed the audit (or) was engaged but did not finish it.
- The new auditor does not need a NOC but must communicate with the predecessor.
- Inform the previous auditor via
 mail
 courier
 email.
- wait 7 days before accepting the audit.
- keep the predecessor's info. confidential.

Solution: Arrange meeting b/w new & old auditors to share info. and clarify any questions.

* ICSI mandates that a PCS must inform previous auditor before accepting any of following assignments:

- ✓ ① Signing annual return (MGT 7) under Co. Act 2013.
- ✓ ② Certifying annual return (MGT 8) under Co. Act 2013.
- ✓ ③ Issuing secretarial audit report under Co. Act 2013.
- ✓ ④ Issuing secretarial audit report for material unlisted subsidiaries of listed entities & under SEBI Regulations
- ✓ ⑤ Issuing Annual secretarial compliance report for listed entities under SEBI Regulations.
- ✓ ⑥ Certifying director's compliance with SEBI Regulations regarding disqualification.
- ✓ ⑦ Certifying share certificate issuance under SEBI Reg.
- ✓ ⑧ conducting internal audit for dep. part- under Depositories Act.
- ✓ ⑨ Reconciliation of SC audit as per SEBI circular.
- ✓ ⑩ issuing AR for unlisted public co. under SEBI Reg.
- ✓ ⑪ Diligence reporting for banks with multiple Banking / consortium.

* format of intimation →

CS (Name).

(Address)

Dear Sir / Madam,

Sub: Intimation under clause 8 of CS Act, 1980.

I, CS Dharmi Lathani, M/S DD firm, have been approached by ABC Ltd to provide Audit Report and Reconciliation of share capital audit for financial year 24-25 as per their letter no. 001 dated 19th December, 2024. These services were previously provided by your firm during FY 23-24.

Please consider this as the required intimation under Clause 8 of CS Act, 1980.

Regards,

CS Dharmi Lathani

Membership no. 77719

COP no. 77710W

For DD & Co., Company Secretaries

Firm code: 0019

Date:

Place:

* limit on Audit Engagements →

Audit limits: Auditors must follow legal / professional limits on no. of audits. Violating these limits can lead to disciplinary action.

Secretarial Audit limit : $\left\{ \begin{array}{l} 10 \text{ audits per partner / PCS} \\ \text{and} \\ \text{an extra 5 audits for peer-reviewed units.} \end{array} \right.$

Secretarial compliance report limits : $\left\{ \begin{array}{l} 5 \text{ reports per partner per year} \\ \text{extra 5 reports for peer reviewed units.} \end{array} \right.$

Peer review requirement : $\left. \begin{array}{l} \rightarrow \text{top 100 co. - 1st April '2020} \\ \rightarrow \text{top 500 co. - 1st April '2021} \\ \rightarrow \text{All listed co. - 1st April '2022} \\ \rightarrow \text{All co. - 1st April '2023.} \end{array} \right\}$

* conflict of interest \rightarrow [secretarial / internal audit etc.]

no conflict of interest

auditor can accept
Audit engagement.

Conflict of Interest.

disclose in writing before accepting audit
engagement @ as soon as you are aware
of it.

no substantial conflict

Substantial conflict

- Auditor holding not more than 2% of PSC (or) shares of nominal value ₹ 50,000 w.e. lower @ not more than 2% voting power
- Auditor indebted to auditee for amt. not more than ₹ 500,000
- Auditor was in employment of Auditee more than 2 years ago.

Auditor can accept after disclosing conflict.

opposite

Auditor cannot
accept audit
engagement.

Note → The 2% limit of holding in PSC, shares (worth ₹ 50,000) or voting power applies to combined holdings of the auditor and his

- partner
- spouse
- parents
- siblings
- children.

— Ind. Those financially dependent on Auditor / their spouse.

Exception

- The limit of ₹ 500,000 (indebtedness) applies to combined debt of audit firm & its partners.
- "ordinary course of business" is subjective for eg - Bank
- lending money to its auditor at standard terms isn't a
- conflict of interest.

- Auditor has to disclose any financial conflict before accepting the audit.

- If auditor was employed by auditee @ its holding / subsidiary and less than 2 years have passed since they stopped working there = substantial conflict of interest.

- PCS / partner of PCS cannot audit an entity where they were previously employed unless 2 years have passed since leaving. PCS must disclose if less than 2 years have passed since their employment ended.

partner cannot take assignment in a co. or its holding / subsidiary for 2 years after cessation in same co.

- ee can undertake same co. ✓

↓
exception

- agar you ~~join~~ join any firm as employee

* Effect on substantial interest →

- Co Act, 1980 prohibits Co from expressing opinions on reports where they / their firm have a substantial conflict of interest.
- Co Act 2013 does not define "substantial interest" - leaving it to professional's judgement to ensure no compromise to independence.
- Conflict of interest occurs when a professional's duty to one client conflicts with their duty towards another @ with their own interests. This can impair objectivity.
- Examples of conflict of interest :
 - ① providing advisory services to a client who is attempting to purchase / acquire a company that is already an audit client of same professional firm.
 - ② Auditing 2 competing clients in same transaction.
 - ③ Auditing clients in a legal dispute.
 - ④ Providing audit services to a licensor while advising the licensee.
- When conflicts arise, professionals must assess if a reasonable 3rd party would find the principles compromised.
- When conflict is "unresolvable" professionals must decline / terminate the engagement if conflict cannot be resolved.
- Auditor must identify potential conflicts by examining its interest & nature of service before accepting new clients @ engagements.
- conflict of interest must be disclosed to client before accepting the engagement.

* Confidentiality →

- ① Auditors must keep all info. confidential obtained during audit.
- ② Auditors should ensure their team respects confidentiality & follows proper procedure.
- ③ Confidentiality applies within the audit firm, incl. info. from potential clients.
- ④ Auditors must avoid accidentally disclosing confidential info. in social situations.
- ⑤ Auditors cannot use confidential info. for personal advantage or share it with others without permission.
- ⑥ Info. can be disclosed if the auditee gives explicit consent or if required by law.
- ⑦ Disclosing audit info. without consent is misconduct, unless required by law.
- ⑧ Only authorised individuals (eg. BOD / designated persons) can give permission for disclosure.
- ⑨ Mentioning audit evidence in reports is not a breach if done as a part of auditor's duties.
- ⑩ Auditors must ensure their team understands confidentiality & signs NDA
- ⑪ proper safeguards must be in place to protect confidential info. during the audit

* Change in terms of engagement →

- Auditors should not agree to changes in audit terms unless there are valid reasons.
- any changes must be agreed upon in writing, usually through a revised engagement letter.
- changes may be needed due to circumstances like a shift in service requirements or restrictions on audit scope. The auditor must assess the reason for the change.

- changes are reasonable if they align with auditee's needs but unreasonable if they result from incomplete / incorrect info. [eg. trying to avoid a modified audit opinion]

* - PRECAUTIONS :

Do not accept the changes that reduce the audit scope required by law.

Avoid changes that may lead to modified audit report.

Reject changes meant to avoid an unfavourable audit report/opinion.

Do not disregard evidence obtained before changes in terms.

* certificate of eligibility as Secretarial Auditor →

Date :

To

The Board of Directors,

Sub: consent for apptn as Secretarial Auditor.

Dear Sir,

I, acknowledge your request to be appointed as Secretarial Auditor for FY 24-25 and give my consent.

I confirm :

1. I am eligible & not disqualified under CS Act, 1980 and ICSI Rules.
2. The appointment is within ICSI limits.
3. I have no substantial conflict of interest as per ICSI standards.
4. I have no conflict of interest \odot if any, details are provided below :

Thankyou,
Yours sincerely,
CS Dharmi Lathani.

* Audit Engagement letter *

To,
ABC & Associates (Audit fees)
Company secretaries (Address)

Dear Sir,

This letter confirms the engagement of ABC & Associates for auditing XYZ Ltd for the financial year 24-25.

① Scope of work :

The audit will cover - secretarial audit u/s 204 of Co. Act, 2013.

② Auditor's ^{Responsibilities} ~~Remuneration~~ :

The auditor will conduct the audit with integrity, following applicable laws & standards.

③ Auditee's Responsibilities :

The auditee must maintain proper records & provide the auditor with access to docs & information.

④ Timeline :

The audit report will be submitted 30 days after the FY end. A quarterly / half-yearly review report may also be provided.

⑤ fees :

Audit fees is ₹ 100,000 plus taxes, billed as work progresses. out-of-pocket expⁿ will be reimbursed.

⑥ Confidentiality :

The auditor will not disclose any audit info. without proper authority / legal obligation.

⑧ Indemnity: Both parties agree to ~~ident~~ indemnify each other against claims / damages caused by negligence / breach of the engagement terms. Liability will be limited to the audit fees paid.

⑨ other terms: Any addⁿ terms agreed upon by both parties.

For xyz Ltd

Date:

Place:

Director 1

Director 2