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## Quality Control

### SQC - 1

#### “Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information and Other Assurance & Related Services Engagements”

- Firm should establish a system of Q.C. designed to provide it with reasonable assurance that (a) firm & its personnel comply with professional standards & regulatory and legal requirements and (b) reports issued by firm or EP (s) are appropriate.
- Firm's system of Q.C. should include policies and procedures addressing the following elements:

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

#### Leadership Responsibilities for Q.C.

- Establish policies & procedures designed to promote internal culture based on recognition that quality is essential in performing engagements.
- Such policies & procedures require firm CEO/managing partners, to assume ultimate responsibility for firm's system of Q.C.
- Any person assigned operational responsibility for firm's Q.C. system should have sufficient & appropriate experience & ability and necessary authority, to assume that responsibility.

#### Considerations while upholding quality of firm

- Firm assigns its management responsibilities so that commercial considerations do not override quality of work performed.
- Firm's policies and procedures in relation to its personnel are designed to demonstrate its overriding commitment to quality.
- Firm devotes sufficient resources for development & documentation of its QC policies & procedures.
- Firm before accepting an engagement should acquire vital information about client. Such information help firm to decide about integrity of Client, promoters & KPM, competence (including capabilities, time & resources) to perform engagement and compliance with ethical requirements.

#### Independence

Policies & procedures should enable:

- Communication of independence requirements to personnel & others.
- Identify and evaluate circumstances & relationships that create threats to independence.
- Take appropriate action for elimination of threats or reduce them to acceptable level/withdrawal from engagement.
- Promptly notify firm of circumstances and relationships that create a threat to independence, for appropriate action.

#### Other Points

- Firm should obtain Annual written confirmation as to compliance with independence requirements.
- Create policies to reduce Familiarity threat, e.g. rotation of EP atleast every 7 years in case of audit of listed entities.

#### Ethical Requirements

Establish policies & procedures to reasonable assure that Firm & personnel comply with relevant ethical requirements of:

- Integrity.
- Objectivity.
- Professional competence & due care.
- Confidentiality.
- Professional behaviour.

Fundamental principles should be emphasized by:

- Actions of the leadership of the firm
- Spreading awareness and training
- Monitoring
- A process for dealing with non-compliance.

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### Client Acceptance/Continuance

Before accepting an engagement, Firm should acquire vital information about client. Such an information should help firm to decide about:

- (a) Integrity of Client, promoters and KMP.
- (b) Competence (including capabilities, time and resources) to perform engagement.
- (c) Compliance with ethical requirements.

**Establish policies w.r.t. withdrawal from engagement that include the following:**

- (a) Discussing with appropriate level of mngt. & TCWG regarding appropriate action that the firm might take.
- (b) If firm determines that it is appropriate to withdraw, discuss with mngt. & TCWG, withdrawal from engagement and reasons for withdrawal.
- (c) Considering whether there is any requirement for firm to report withdrawal to regulatory authorities.
- (d) Documenting significant issues, consultations, conclusions and the basis for the conclusions.

#### Considerations as to integrity of Clients

1. Identity & business reputation of principal owners, key mngt., related parties and TCWG.
2. Nature of client's operations, including its business practices.
3. Information concerning attitude of principal owners, key mngt. & TCWG towards matters as aggressive interpretation of ASs & IC environment.
4. Whether client is aggressively concerned with maintaining firm's fees as low as possible.
5. Indications of inappropriate limitation in scope of work.
6. Indications that client might be involved in money laundering or other criminal activities.
7. Reasons for proposed appointment and non-reappointment of previous firm.

**Matters be considered to determine whether firm has capabilities, competence, time & resources to undertake engagement**

1. Firm personnel have knowledge of relevant industries or subject matters;
2. Firm personnel have experience with relevant regulatory or reporting requirements, or ability to gain necessary skills & knowledge effectively;
3. Firm has sufficient personnel with necessary capabilities and competence;
4. Experts are available, if needed;
5. Individuals meeting the criteria and eligibility requirements to perform EQCR are available, where applicable; and
6. Firm would be able to complete engagement within reporting deadline.

### Human Resources

Establish policies/procedures to assure that Firm has sufficient personnel with capabilities, competence & commitment to ethical principles.

- Identity & role of EP communicated to key members of client's management and TCWG;
- EP has appropriate capabilities, competence, authority & time to perform the role; and
- Responsibilities of EP clearly defined and communicated to that partner.

### Engagement Performance

#### Important aspects of engagement performance

- Direction, Supervision and Review
- Consultation
- Differences of opinion
- Engagement Q. C. review (EQCR)
- Engagement documentation

#### Review

EP shall review work performed by team members and consider whether:

- (a) 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;
- (d) There is a need to revise the NTE of work performed;
- (e) Work performed supports the conclusions reached and is appropriately documented;
- (f) Evidences obtained are sufficient and appropriate to support the report; and
- (g) Objectives of engagement procedures have been achieved.

#### Consultation

- Consultation should take place in difficult matters pertaining to engagement and includes discussion with individuals within or outside the firm having specialized expertise.
- Complete and proper documentation should be maintained on issues involved and results of consultation.

#### Differences of opinion

- There might be difference of opinion within ET, with those consulted and between EP and EQC reviewer.
- Report should only be issued after resolution of such differences.

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# “Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information and Other Assurance & Related Services Engagements”

### Engagement Performance

#### EQCR

- Firm should establish policies and procedures that
  - (1) Require QC review for all audits of F.S. of listed companies.
  - (2) Require completion of engagement before QC review.
- EQC reviewer should be 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.
- Ensure objectivity of reviewer; participation in engagement or making decisions for ET is to be avoided at all costs.
- Firm’s policies should provide for replacement of EQC reviewer where ability to perform an objective review may be impaired.

#### Matters considered in EQCR for audit of F.S. of Listed Entities

- (1) ET evaluation of firm’s independence.
- (2) Significant risks identified during engagement & its responses.
- (3) Judgments made, particularly w.r.t. materiality and significant risks.
- (4) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult matters & conclusions reached.
- (5) Significance and disposition of corrected and uncorrected misstatements identified during engagement.
- (6) Matters to be communicated to mngt., TCWG & other parties.
- (7) Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.
- (8) Appropriateness of the report to be issued.

#### Engagement Documentation

- Establish policies & procedures for assembly of final engagement files on timely basis.
- Engagement files should be completed in not more than 60 days after date of auditor’s report.
- Establish policies & procedures to maintain confidentiality, safe custody, integrity, accessibility & retrievability of engagement documentation.
- Unless otherwise specified by law or regulation, engagement documentation is property of firm.
- Engagement documentation has to be retained for sufficient period; in specific case of audit engagements, retention period ordinarily is no shorter than 7 years from date of auditor’s report.

### Monitoring

Establish Policies & procedures to reasonable assure that QC policies/ procedures are relevant, adequate, operating effectively, complied within practice.

#### Factors considered in monitoring of QC

- (i) Deciding whether QC system has been appropriately designed & effectively implemented.
- (ii) Examining whether new developments in professional standards, legal and regulatory requirements have been reflected in QC policies.
- (iii) Entrusting responsibility of monitoring to a partner or other persons with sufficient and appropriate experience and authority in firm.
- (iv) Dealing with complaints & allegations against firm or employees.
- (v) Taking remedial actions against personnel who did not conform to QC policies.
- (vi) Taking action when deficiencies in design or operation of QC policies and procedures, or non-compliance with QC system are identified.

### Complaints and Allegations

- Firm should establish policies and procedures to deal appropriately with:
  - (a) Complaints & allegations that work performed by firm fails to comply with professional standards and regulatory and legal requirements; and
  - (b) Allegations of non-compliance with firm’s system of quality control.
- Complaints and allegations may originate from within or outside the firm; may be made by firm personnel, clients or others; may be received by ET members or other firm personnel.
- Firm shall investigate such complaints and allegations in accordance with established policies.
- Complaints, allegations and responses to them shall be documented.
- Where results of investigations indicate deficiencies in design or operation of firm’s Q.C. policies and procedures, or non-compliance with the firm’s system of quality control by an individual or individuals, firm shall take appropriate action.

## SA – 220 “Quality Control for an audit of F.S.”

**Objective:** Implement QC Policies at Engagement Level that provide assurance that audit complies with Professional Standards & Regulatory & Legal Requirements and audit report issued is appropriate.

SA-220 is premised on the basis that the firm is subject to SQC 1.

<b>Independence</b>	<pre> graph LR     A[Form a conclusion on compliance with applicable independence] --&gt; B[Obtain relevant information from Firm]     B --&gt; C[Identify &amp; Evaluate circumstances &amp; Relationship that threatens independence]     C --&gt; D[Evaluate information on identified breaches.]     D --&gt; E[Determine if these threaten independence]     E --&gt; F[Take appropriate action to eliminate such threats or Promptly report inability to take appropriate action to firm.]             </pre>
<b>Acceptance / Continuance of Client relationship</b>	<ul style="list-style-type: none"> <li>Be satisfied that appropriate procedures regarding client acceptance/continuance have been followed.</li> <li>Determine whether conclusions reached are appropriate.</li> <li>If EP obtains <b>information</b> that would have caused firm to withdraw the engagement, communicate information promptly to firm.</li> </ul> <div style="border: 1px solid black; padding: 10px; margin-top: 10px; text-align: center;"> <p style="color: red; margin: 0;"><b>Examples of Information</b></p> <ol style="list-style-type: none"> <li style="color: red;">1. Integrity of Principal Owners, Mngt &amp; TCWG</li> <li style="color: red;">2. Competency of ET to perform engagement.</li> <li style="color: red;">3. Availability of necessary capabilities, including time &amp; resources.</li> <li style="color: red;">4. Compliance with relevant ethical requirements.</li> <li style="color: red;">5. Significant matters that arise during the current or previous audit engagement.</li> </ol> </div>
<b>Engagement Performance</b>	<p>EP has the responsibility for the following:</p> <ol style="list-style-type: none"> <li>Direction, supervision and performance of audit engagement;</li> <li>Issue of appropriate Auditor’s report.</li> <li>Review of audit documentation before issue of audit report.</li> <li>Ensuring that SAAE has been obtained to support the conclusions reached.</li> <li>Undertaking appropriate consultation on difficult matters.</li> </ol> <div style="background-color: yellow; text-align: center; padding: 5px; margin: 10px 0;"> <p><b>Engagement Quality Control Review (EQCR)</b></p> </div> <p>For audits of F.S. of listed entities, EP shall:</p> <ol style="list-style-type: none"> <li>Determine that an EQC Reviewer has been appointed.</li> <li>Discuss significant matters arising during the audit engagement.</li> <li>Not date the auditor’s report until the completion of the EQCR.</li> </ol> <p><b>Matters to be evaluated by EQC Reviewer:</b></p> <p>EQC reviewer shall perform an objective evaluation of significant judgments made by ET, and the conclusions reached in formulating the auditor’s report. This evaluation shall involve:</p> <ol style="list-style-type: none"> <li>Discussion of significant matters with the EP;</li> <li>Review of the F.S. and the proposed auditor’s report;</li> <li>Review of selected audit documentation relating to the significant judgments; and</li> <li>Evaluation of conclusions reached in formulating the auditor’s report and consideration of whether the proposed auditor’s report is appropriate.</li> </ol> <p><b>Additional Considerations in audit of F.S. of Listed Entities:</b></p> <ul style="list-style-type: none"> <li>ET’s evaluation of firm’s independence in relation to audit engagement.</li> <li>Whether appropriate consultation has taken place on matters involving differences of opinion/difficult matters &amp; conclusions arising from consultations.</li> <li>Whether audit documentation selected for review reflects the work performed w.r.t. significant judgments made &amp; supports the conclusions reached.</li> </ul>

## SQC 1 vs. SA 220

SQC 1	SA 220
SQC 1 applies to entire firm & fixes responsibility of firm to be assumed by CEO or Managing Partners.	SA 220 applies to particular audit engagement & EP takes responsibility of the same.
SQC 1 is applicable to audits, reviews of historical financial Information, other assurance & related services engagements.	SA 220 is applicable to audit engagements only.
SQC 1 relates to setting up of a quality control system consisting of policies and procedures for firm as a whole.	SA 220 deals with ET responsibilities to implement QC procedures that are applicable to audit.
SQC 1 pertains to establishing a system of QC designed to provide firm with a reasonable assurance that a firm and its personnel comply with professional standards & regulatory & legal requirements so that reports issued by firm/EPs are appropriate.	SA 220 is premised on the basis that firm is subject to SQC 1. Therefore, SQC 1 is a <i>sine qua non</i> for applicability of SA 220.

## Mechanism for Review of Quality Control

<b>Peer Review Board (PRB)</b>	<p><b>Constituted by Council.</b> Objective is to ensure that, in carrying out assurance assignments:</p> <p>(a) Technical, professional &amp; ethical standards including regulatory requirements are complied with by members of ICAI.</p> <p>(b) Proper systems are in place including documentation thereof.</p> <p><b>Once a PU is subjected to Peer review, its assurance engagement records are subject to examination &amp; review by Peer Reviewer. On completion, "Peer Review Certificate" is issued in case of unqualified report. In case of qualified report, it is informed to PU that same cannot be issued along with reasons therefor as well as inform about due date for conducting a follow-on review as decided by the Board.</b></p>
<b>Quality Review Board (QRB)</b>	<ul style="list-style-type: none"> <li>• <b>Set up by C.G., and consists of members nominated by C.G. &amp; Council of ICAI.</b></li> <li>• Functions of QRB are: <ul style="list-style-type: none"> <li>(a) To make recommendations to Council regarding quality of services provided by members;</li> <li>(b) To review quality of services provided by members including audit services; and</li> <li>(c) To guide members to improve quality of services and adherence to statutory and other regulatory requirements.</li> </ul> </li> <li>• Statutory auditors are identified for their audit quality review based upon risk-based approach and Review is carried out by technical reviewers (empanelled by QRB).</li> </ul>
<b>NFRA</b>	<ul style="list-style-type: none"> <li>• Constituted in terms of Sec. 132(1) of Companies Act, 2013.</li> <li>• Duties of NFRA include the following: <ul style="list-style-type: none"> <li>(a) Monitor &amp; enforce compliance with ASs and auditing standards.</li> <li>(b) Oversee quality of service of associated professions.</li> </ul> </li> <li>• NFRA also has power to undertake investigation of auditors of listed companies, insurance and banking companies and other companies as provided for in Rule 3 of NFRA Rules, 2018.</li> <li>• <b>Overseeing quality of audit services of <u>listed companies</u> falls under purview of NFRA. QRB can review quality of audit services only in respect of entities other than those specified under Rule 3 of NFRA Rules &amp; those referred to QRB by NFRA.</b></li> </ul>

**"Do the best you can, until you know better; Then when you know better, do better." — Maya Angelou**

# 2

## General Auditing Principles & Auditor Responsibilities

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

#### Characteristics of Fraud

Fraud, whether fraudulent financial reporting or misappropriation of assets, involves:

- **Incentive or pressure to Commit Fraud:** Arises when mngt is under pressure to achieve an unrealistic target.
- **Perceived opportunity to do so:** Arises when individual believes that IC can be overridden.
- **Rationalization to do so:** Arises when an individual possesses an attitude or character that allows them knowingly and intentionally to commit a dishonest act.

#### Responsibility for Prevention & Detection of Fraud

- Primary responsibility for prevention and detection of fraud rests with both TCWG & Mngt.
- To ensure prevention of fraud, Mngt. must have a commitment to create a culture of honesty and ethical behaviour.

#### Risk associated for non-detection of material misstatements

- Due to Inherent limitations, there is always an unavoidable RoMM in F.S. due to Fraud.
- Risk of non-detecting a material misstatement resulting from fraud is higher than the risk of non-detecting one resulting from error.
- RoMM due to Mngt. Fraud is higher than due to Employee Fraud.

#### Possible Sources of Misstatements

Misstatement may result from:

A	<b>Fraudulent Financial Reporting</b> <ol style="list-style-type: none"> <li>1. Recording fictitious journal entries to manipulate operating results.</li> <li>2. Inappropriate assumptions.</li> <li>3. Changing judgments to estimate account balances.</li> <li>4. Omitting, advancing or delaying recognition of events and transactions occurred during the year.</li> <li>5. Concealing facts that affect the amount recorded in F.S.</li> <li>6. Engaging in Complex Transactions that are structured to misrepresent the financial position or financial performance.</li> <li>7. Altering records relating to significant transactions.</li> </ol>
B	<b>Misappropriation of Assets</b> <ol style="list-style-type: none"> <li>1. Embezzling receipts.</li> <li>2. Stealing physical assets.</li> <li>3. Causing an entity to pay for goods and services not received.</li> <li>4. Using entity assets for personal use.</li> </ol>

#### Auditor's Duties

- To obtain reasonable assurance that F.S. as a whole are free from material Misstatements.
- Maintain an attitude of Professional Skepticism.
- If circumstances indicate existence of MM, consider whether such misstatement is an indication of Fraud.
- If Fraud identified, communicate to Mngt. & TCWG (also to Regulatory & Enforcement authorities, if required by Law).
- Sec. 143(12) of Companies Act, 2013 read with Rule 13 of CAAR, 2014 requires that if auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ₹ 1 Cr. or above, is being or has been committed against company by its officers or employees, he shall report the matter to C.G.
- Para 3(xi) of CARO, 2020 also requires auditor to report whether any fraud by company or any fraud on company by its officers or employees has been noticed or reported during the year; If yes, nature and amount involved is to be indicated.

## SA - 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of F.S."

### Risk Assessment Procedures

- When performing RAP & related activities, perform procedures to obtain information for use in identifying the RoMM due to fraud like:
  - (a) inquiries of mngt. and others within entity,
  - (b) obtaining understanding as to how TCWG exercise oversight of mngt. processes for identifying and responding to risks of fraud in entity and IC that mngt. has established to mitigate these risks and
  - (c) evaluation of unexpected relationships identified in performing analytical procedures which may indicate RoMM due to fraud.
- Evaluate whether information obtained from other RAP and related activities performed indicates that one or more fraud risk factors are present.

### Responses to Assessed Risks

#### Overall Responses

Auditor shall:

- (a) Assign & supervise personnel as per their capability;
- (b) Evaluate whether a/cing policies indicate fraudulent financial reporting resulting from mngt. effort to manage earnings; and
- (c) Incorporate surprise element in selection of NTE of audit procedures.

#### Responses to Risks Related to Mngt. Override of Controls

- Management is in a unique position to perpetrate fraud because of Mngt. ability to manipulate accounting records and prepare fraudulent F.S. by overriding controls.
- It is a RoMM due to fraud and thus a significant risk.
- Determine whether auditor needs to perform extra audit procedures.

#### Designing and performing Audit Procedures

- (a) Test appropriateness of journal entries recorded in GL & other adjustments made in preparation of F.S.
- (b) Review accounting estimates for biases & evaluate whether circumstances producing bias, if any, represent a RMM due to fraud.
- (c) For significant transactions, outside normal course of business, or that otherwise appear to be unusual, evaluate whether business rationale (or the lack thereof) of transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

### Auditor Unable to Complete Engagement

If it is concluded that it is not possible to continue performing audit as a result of misstatement resulting from fraud or suspected fraud, auditor should:

- (i) Consider professional & legal responsibilities including whether there is a requirement for him to report to person who made audit appointment or, in some cases, to regulatory authorities;
- (ii) Consider possibility of withdrawing from engagement; and
- (iii) If auditor withdraws:
  - discuss with appropriate level of mngt. & TCWG, withdrawal from engagement & reasons for withdrawal; &
  - consider whether there is a professional or legal requirement to report to person who made appointment or, in some cases, to regulatory authorities, withdrawal from engagement & reasons for withdrawal.

### Management Representation

Auditor shall obtain WRs from Mngt. and, where applicable, TCWG that:

- (a) They acknowledge their responsibility for design, implementation & maintenance of IC to prevent and detect fraud;
- (b) They have disclosed to auditor, results of Mngt. assessment of risk that F.S. may be materially misstated as a result of fraud;
- (c) They have disclosed to auditor their knowledge of fraud or suspected fraud affecting entity involving Mngt., employees who have significant roles in IC or others where the fraud could have a material effect on the F.S.; and
- (d) They have disclosed to auditor their knowledge of any allegations of fraud, or suspected fraud, affecting entity's F.S. communicated by employees, former employees, analysts, regulators or others.

## SA - 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of F.S."



### Fraud Risk Factors

Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. E.g.:

- (a) Need to meet expectations of 3<sup>rd</sup> parties to obtain addl. equity financing may create pressure to commit fraud;
- (b) Granting of significant bonuses if unrealistic profit targets are met may create an incentive to commit fraud; &
- (c) Control environment that is not effective may create an opportunity to commit fraud.

	Examples of Fraud Risk Factors relating to Misstatements arising from Fraudulent Financial reporting	Examples of Fraud Risk Factors relating to Misstatements arising from Misappropriation of Assets
<b>Incentives/ Pressures</b>	<p>Financial stability or profitability is threatened by economic, industry, or entity operating conditions, such as:</p> <ul style="list-style-type: none"> <li>(a) High degree of competition or market saturation, accompanied by declining margins.</li> <li>(b) High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates.</li> <li>(c) Significant declines in customer demand and increasing business failures.</li> <li>(d) Operating losses making threat of bankruptcy, foreclosure, or hostile takeover imminent.</li> <li>(e) Recurring negative cash flows from operations or an inability to generate cash flows from operations.</li> <li>(f) Rapid growth or unusual profitability.</li> <li>(g) New accounting, statutory or regulatory requirements.</li> </ul>	<p>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:</p> <ul style="list-style-type: none"> <li>(a) Known or anticipated future employee layoffs.</li> <li>(b) Recent or anticipated changes to employee compensation or benefit plans.</li> <li>(c) Promotions, compensation, or other rewards inconsistent with expectations.</li> </ul>
<b>Opportunities</b>	<p>Nature of industry or entity operations provides opportunities to engage in Fraudulent FR that can arise from:</p> <ul style="list-style-type: none"> <li>(a) Significant RP transactions not in ordinary course of business.</li> <li>(b) Strong financial presence or ability to dominate a certain industry sector.</li> <li>(c) Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate.</li> <li>(d) Significant, unusual or highly complex transactions, to period end.</li> <li>(e) Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist.</li> <li>(f) Significant bank accounts or subsidiary or branch operations in tax haven jurisdictions.</li> </ul>	<p>Opportunities to misappropriate assets increase in case of:</p> <ul style="list-style-type: none"> <li>(a) Large amounts of cash in hand.</li> <li>(b) Inventory items that are small in size, of high value.</li> <li>(c) Easily convertible assets, such as bearer bonds.</li> <li>(d) Fixed assets which are small in size or marketable.</li> </ul> <p>Inadequate IC over assets may increase susceptibility of misappropriation of assets, e.g.:</p> <ol style="list-style-type: none"> <li>1. Inadequate segregation of duties.</li> <li>2. Inadequate oversight of Senior Mngt. Expenditures.</li> <li>3. Inadequate job applicant screening of employees.</li> <li>4. Inadequate record keeping with respect to assets.</li> <li>5. Inadequate system of authorization and approval of transactions.</li> <li>6. Inadequate physical safeguards over cash, investments, inventory, or fixed assets.</li> <li>7. Lack of complete and timely reconciliations of assets.</li> <li>8. Lack of timely documentation of transactions.</li> <li>9. Lack of mandatory vacations for employees.</li> </ol>
<b>Attitudes/ Rationalizations</b>	<ul style="list-style-type: none"> <li>(a) Communication, implementation or enforcement of entity's values or ethical standards that are not effective.</li> <li>(b) Non-financial Mngt. excessive participation in selection of a/cing policies or determination of significant estimates.</li> <li>(c) Known history of violations of securities laws or other laws and regulations.</li> <li>(d) Excessive interest by Mngt. in maintaining or increasing entity's stock price.</li> <li>(e) Management failing to correct known material weaknesses in IC on a timely basis.</li> <li>(f) Low morale among senior management.</li> <li>(g) Dispute between shareholders in a closely held entity.</li> <li>(h) Relationship between Mngt. and current or predecessor auditor is strained.</li> </ul>	<ul style="list-style-type: none"> <li>(a) Disregard need for monitoring or reducing risks related to misappropriations of assets.</li> <li>(b) Disregard IC over misappropriation of assets by overriding existing controls or by failing to correct known IC deficiencies.</li> <li>(c) Behaviour indicating displeasure or dissatisfaction with the entity.</li> <li>(d) Changes in behaviour or lifestyle that may indicate assets have been misappropriated.</li> <li>(e) Tolerance of petty theft.</li> </ul>

# SA - 250 "Consideration of Laws and Regulation in an Audit of F.S."

## Management Responsibilities

Compliance of L&R is duty of Mngt. & TCWG & may be performed through:

1. Monitoring legal requirements & ensuring that operating procedures are designed to meet these requirements.
2. Instituting & operating appropriate systems of IC.
3. Developing, publicising and following a code of conduct.
4. Ensuring employees are properly trained & understand code of conduct.
5. Monitoring compliance with code of conduct & take actions to discipline employees who fail to comply with it.
6. Engaging legal advisors to assist in monitoring legal requirements.
7. Maintaining a register of significant L & R with which entity has to comply.

## Potential effects of inherent limitations on auditor's ability to detect MM

In context of L&R, potential effects of inherent limitations on auditor's ability to detect MM are greater for following reasons:

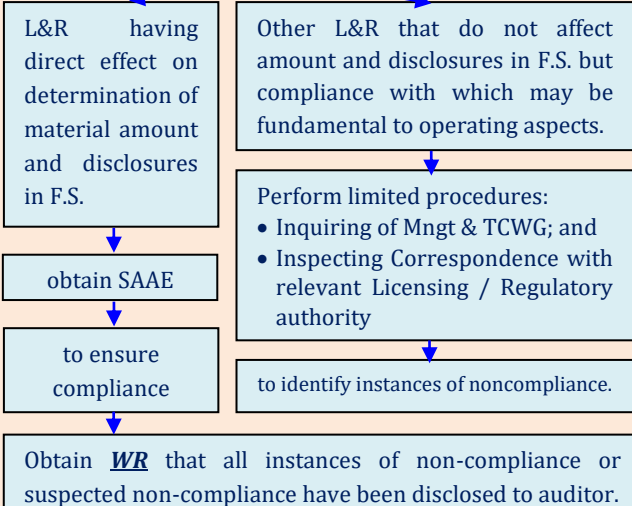
- Many L&R (relating principally to operating aspects) do not affect F.S. and are not captured by entity's information systems relevant to FR.
- Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, mngt. override of controls or intentional misrepresentations being made to auditor.
- Whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of law.

## Auditor's Responsibilities

### Basic Responsibilities

- Obtain general understanding of
- Legal & Regulatory Framework applicable
  - Compliance by Entity with that Framework.

### Specific Responsibilities w.r.t.

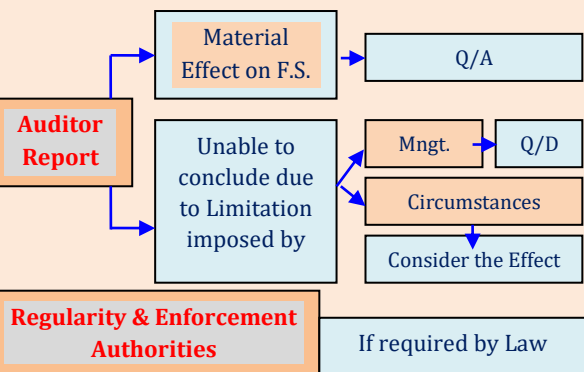


### Auditor Procedure in case any Non-Compliance is identified / Suspected

1. Obtain understanding of nature of Act and circumstances in which it is occurred.
2. Evaluate possible effects on F.S.
3. Discuss the matter with Mngt. & TCWG.
4. If info not provided, consider need to obtain legal advice;
5. Evaluate lack of SAAE on the Auditor's Opinion.
6. Evaluate implications on other aspects of audit.

### Reporting responsibilities

- To TCWG**
- Matters involving non-compliance.
  - If TCWG is involved, communicate to Higher Level, if any
  - Otherwise, obtain Legal Advice



### Indicators considered by Auditor

1. Investigations by regulatory bodies.
2. Payment of fines or penalties.
3. Payments for unspecified services to consultants, RP etc.
4. Excessive Sales commissions or agent's fees.
5. Purchasing at prices significantly above or below market price.
6. Unusual payments in cash.
7. Unusual payments towards legal and retainership fees.
8. Payments without proper exchange control documentation.
9. Existence of an information system which fails, to provide an adequate audit trail or sufficient evidence.
10. Unauthorised or improperly recorded transactions.
11. Adverse media comment.

## SA - 260 "Communication with TCWG"

### Auditor's Responsibilities

- Determine appropriate person to whom communication is to be made.
- Determine need to communicate with Governing body, if communicates with subgroup.

### Matters to be Communicated

(a)	<b>Auditor's responsibilities</b> in relation to F.S. Audit.
(b)	<b>Planned scope &amp; timing of audit</b>
(c)	<b>Significant findings from audit:</b> <ul style="list-style-type: none"> <li>• Auditor's views about qualitative aspects of entity's accounting practices, including accounting policies, accounting estimates and F.S. disclosures.</li> <li>• <b>Significant difficulties</b>, if any, encountered during audit;</li> <li>• <b>Significant matters</b>, arising from audit, discussed with management; and</li> <li>• <b>WR</b>, auditor is requesting.</li> <li>• Circumstances that affect form and content of auditor's report, if any.</li> <li>• Other significant matters that in auditor's professional judgment are significant to oversight of FR process.</li> </ul>
(d)	<b>Auditor Independence:</b> In case of listed entities, auditor shall communicate with TCWG: <ul style="list-style-type: none"> <li>(a) Statement that ET &amp; Others has complied with relevant ethical requirements regarding independence;</li> <li>(b) All relationships &amp; other matters between firm, network firms, and entity that bear on independence; and</li> <li>(c) Related safeguards applied to eliminate identified threats or reduce them to an acceptable level.</li> </ul>

### Examples of Significant difficulties

- Significant delays or an unwillingness by mngt to provide necessary information.
- Unnecessarily brief time within which to complete the audit.
- Extensive unexpected effort required to obtain SAAE.
- Unavailability of expected information.
- Restrictions imposed on auditor.
- Mngt. unwillingness to make or extend its assessment of entity's ability to continue as a going concern when requested.

### Examples of Significant matters

- Significant events or transactions occurred during the year.
- Business conditions affecting entity, business plans & strategies that may affect RoMM.
- Concerns about mngt. consultations with other accountants on a/cing or auditing matters.
- Discussions w.r.t. initial or recurring appointment of auditor regarding accounting practices, application of auditing standards, or fees for audit or other services.
- Matters on which there was disagreement with mngt., except for initial differences because of incomplete facts or preliminary information that are later resolved by auditor obtaining additional relevant facts or information.

### Circumstances in which auditor consider it necessary to include additional information in auditor's report in accordance with the SAs

- Auditor expects to modify opinion in auditor's report in accordance with SA 705.
- Material uncertainty related to going concern is reported in accordance with SA 570.
- KAM are communicated in accordance with SA 701.
- Auditor considers it necessary to include an EoM Para or OM Para in accordance with SA 706 or is required to do so by other SAs.
- Auditor has concluded that there is an uncorrected material misstatement of Other Info. in accordance with SA 720.

## SA - 299 “Joint Audit of Financial Statements”

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

<b>Audit Planning and Allocation of Work</b>		<b>Responsibility of Joint Auditors</b>
<b>1</b>	<p><b>Development of Audit Plan</b></p> <p>In developing joint audit plan, joint auditors shall:</p> <ol style="list-style-type: none"> <li>a. Identify division of audit areas &amp; common audit areas amongst joint auditors that define scope of work of each joint auditor;</li> <li>b. Ascertain reporting objectives of engagement to plan the timing of audit and nature of communications required;</li> <li>c. Consider &amp; communicate among all joint auditors, factors that are significant in directing ET efforts;</li> <li>d. Consider results of preliminary engagement activities.</li> <li>e. Ascertain NTE of resources necessary.</li> </ol>	<ul style="list-style-type: none"> <li>• In respect of audit work divided among joint auditors, each joint auditor shall be responsible only for work allocated to him including execution of audit procedures.</li> <li>• All joint auditors shall be jointly &amp; severally responsible for:                             <ol style="list-style-type: none"> <li>b. audit work which is not divided;</li> <li>c. decisions taken by all joint auditors under audit planning in respect of common audit areas concerning NTE of audit procedures to be performed.</li> <li>d. matters brought to notice of joint auditors by any one of them;</li> <li>e. examining that F.S. comply with the requirements of relevant statutes;</li> <li>f. presentation and disclosure of the F.S. as required by the applicable FRF;</li> <li>g. ensuring that audit report complies with requirements of statutes, applicable SAs and other relevant pronouncements.</li> </ol> </li> <li>• It shall be responsibility of each joint auditor to determine NTE of audit procedures to be applied in relation to areas of work allocated to said joint auditor.</li> <li>• It is individual responsibility of each joint auditor to study &amp; evaluate prevailing IC System and assessment of risk relating to areas of work allocated to said joint auditor.</li> </ul>
<b>2</b>	<p><b>Allocation of Work</b></p> <ul style="list-style-type: none"> <li>• Joint auditors should, by mutual discussion, divide audit work among themselves.</li> <li>• Division of work would usually be in terms of audit of identifiable units or specified areas.</li> <li>• In some cases, due to nature of business of entity, such a division of work may not be possible. In such situations, division of work may be with reference to items of assets or liabilities or income or expenditure.</li> <li>• Certain areas of work, owing to their importance or owing to nature of work involved, would often not be divided and would be covered by all joint auditors.</li> </ul> <p style="text-align: center; background-color: #fff9c4;"><b>Documentation of Work Allocated</b></p> <ul style="list-style-type: none"> <li>• Work allocation document shall be signed by all joint auditors &amp; same shall be communicated to TCWG.</li> <li>• Documentation of allocation of work helps in avoiding any dispute or confusion which may arise among joint auditors regarding scope of work to be carried out by them.</li> <li>• Communication of allocation of work to entity helps in avoiding any dispute or confusion.</li> </ul>	

<b>Audit Conclusion and Reporting</b>	
<b>Reporting Requirements</b>	<b>Review of work by Other joint auditor</b>
<ul style="list-style-type: none"> <li>• Joint auditors are required to issue common audit report.</li> <li>• However, in case of any disagreement with regard to opinion or any matters to be covered by audit report, they shall express their opinion in a separate audit report.</li> <li>• A joint auditor is not bound by views of majority of joint auditors regarding opinion or matters to be covered in the audit report.</li> <li>• In case of separate reports, audit report(s) issued by joint auditor(s) shall make a reference to separate report(s) issued by other joint auditor(s). Such reference shall be made under heading “Other Matter Paragraph” as per SA 706.</li> </ul>	<ul style="list-style-type: none"> <li>• Each joint auditor is entitled to assume that other joint auditors have carried out their part of the audit work and the work has actually been performed in accordance with the SAs.</li> <li>• It is not necessary for a joint auditor to review the work performed by other joint auditors.</li> <li>• Each joint auditor is entitled to assume that the other joint auditors have brought to said joint auditor’s notice any departure from applicable FRF or significant observations that are relevant to their responsibilities noticed in the course of the audit.</li> </ul>

## SA - 402 "Audit Considerations relating to an Entity Using a Service Organisation"

### Factors to be considered related to FR in case of user entities using services of SO

SO services are part of user entity's Info system, including related business processes, relevant to FR if these services affect any of the following:

- Classes of transactions that are significant to the user entity's F.S.;
- Procedures, within both IT & manual systems, by which user entity's transactions are initiated, recorded, processed, corrected & transferred to GL and reported in F.S.;
- Accounting records (electronic or manual), supporting info. & specific accounts in user entity's F.S. that are used to initiate, record, process and report the user entity's transactions;
- How user entity's Info. system captures events & conditions, other than transactions, that are significant to F.S.;
- FR process used to prepare user entity's F.S., 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.

### Obtaining understanding of services provided by SO

User auditor shall obtain an understanding of how user entity uses services of SO in user entity operation, including:

- Nature of service provided by S.O. and significance of services to user entity.
- Nature and materiality of transactions processed or FR processes affected by SO.
- Degree of interaction between activities of S.O. and those of user entity.
- Nature of relationship between user entity and SO including relevant contractual terms for the activities undertaken by the

### User Auditor's considerations

- Evaluate design and implementation of relevant controls of user entity that relate to services provided by SO.
- Determine whether sufficient understanding of nature & significance of services provided by SO and their effect on user entity IC relevant to audit has been obtained.
- If unable to obtain a sufficient understanding from user entity, obtain that understanding from following procedures:
  - Obtaining a Type 1 or Type 2 Report, if available.
  - Contacting SO, through user entity.
  - Visiting SO and performing procedures that will provide necessary info above relevant controls at SO.
  - Using another auditor to perform procedures that will provide the necessary Info about relevant controls at S.O.

### Reporting by User Auditor

- ⇒ Modify opinion if unable to obtain SAAE, regarding services provided by SO, relevant to audit of User Entity F.S.
- ⇒ Do not refer to report of Service auditor unless required by Law & Regulation.
- ⇒ If reference is required by L&R, user auditor's report shall indicate that reference does not diminish user auditor's responsibility for audit opinion.
- ⇒ If reference to work of service auditor is relevant to understanding of a modification to user auditor's opinion, user auditor's report shall indicate that such reference does not diminish user auditor's responsibility for that opinion.

### Using Type 1 or Type 2 Report

- In determining sufficiency and appropriateness of audit evidence provided by Type 1 or Type 2 report, user auditor shall be satisfied as to:
  - Service auditor's professional competence and independence from SO; and
  - Adequacy of standards under which Type 1 or Type 2 report was issued.
- If user auditor plans to use a Type 1 or Type 2 report as audit evidence to support understanding about design and implementation of controls at SO, he shall:
  - Evaluate whether description & design of controls at SO is at a date or for a period that is appropriate for his purposes;
  - Evaluate sufficiency & appropriateness of evidence provided by report for understanding of user entity's IC relevant to the audit; and
  - Determine whether complementary user entity controls identified by SO are relevant to user entity and, if so, obtain an understanding of whether user entity has designed and implemented such controls.

**When user auditor's risk assessment includes an expectation that controls at SO are operating effectively, he shall obtain audit evidence about operating effectiveness of those controls from following procedures:**

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

## Audit Planning, Strategy and Execution

### 3.1 - Audit Planning

#### Introductory Topics

##### Meaning

Establishing Overall Audit Strategy & developing an Audit Plan.

##### Importance of planning

1. To devote attention to important areas
2. Identify & resolve potential problems.
3. Organized and managed audit.
4. Selection of suitable ET.
5. Coordination of work done
6. Direction & supervision of ET.

##### Factors affecting Nature & Extent of Planning

1. Size and Complexity of Auditee (Client).
2. Past Experience
3. Changes in Circumstances

##### Contents of an Audit Plan

Audit plan shall include a description of:

- NTE of planned RAP, as determined under SA 315.
- NTE of planned FAP at assertion level, as determined under SA 330.
- Other planned audit procedures required to be carried out.

##### Factors to be considered in development of Overall Plan

1. Terms of engagement
2. Nature & timing of reports
3. Legal or statutory requirements.
4. Accounting policies & changes therein.
5. Effects of new accounting/auditing pronouncements.
6. Identification of significant audit areas.
7. Setting of materiality levels.
8. Degree of reliance on internal control.
9. Nature & Extent of Audit Evidence to be obtained.
10. Establishing & Coordinating Staffing Requirements.

#### Planning – a continuous process

Planning is not a discrete phase of an audit but a continuous process. It often begins shortly after completion of previous audit and continues until completion of current audit engagement.

Planning, includes consideration of timing of certain activities & audit procedures that need to be completed prior to performance of FAP. For example, planning includes need to consider, prior to auditor's identification & assessment of RoMM, such matters as:

- Analytical procedures to be applied as RAP.
- Obtaining a general understanding of legal & regulatory framework applicable to entity and how entity is complying with that framework.
- Determination of materiality.
- Involvement of experts.
- Performance of other RAP.



#### Preliminary Engagement Activities

Auditor shall undertake following activities at beginning of current audit engagement:

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

#### Changes to Planning decisions

- Auditor shall update & change overall audit strategy and audit plan as necessary during course of audit.
- Auditor may need to modify overall audit strategy and audit plan as a result of:
  - ⇒ unexpected events,
  - ⇒ changes in conditions, or
  - ⇒ audit evidence obtained from results of audit procedures.
- Based on revised consideration of assessed risks, auditor need to modify the NTE of further audit procedures.

## 3.2 – Audit Strategy



Auditor shall establish an overall audit strategy that sets scope, timing & direction of audit, and guides development of audit plan. In establishing overall audit strategy, auditor shall:

- Identify characteristics of engagement that define its scope;
- Ascertain reporting objectives of engagement to plan timing of audit & nature of communications required;
- Consider factors that are significant in directing ET efforts;
- Consider results of preliminary engagement activities; and
- Ascertain NTE of resources necessary to perform.

### Benefits of Audit Strategy

1. Employment of Qualitative Resources.
2. Allocation of appropriate quantity of resources.
3. Determining timing of deployment of resources.
4. Better Mngt. of resources in terms of direction, supervision, timing of team meetings etc.

### Relationship - Audit Strategy & Audit Planning

- Audit strategy and audit plan are inter-related to each other because change in one would result into change in other.
- Audit strategy is prepared before audit plan. Audit plan contains more details than overall audit strategy.
- Audit strategy provides guidelines developing audit plan.

## 3.3 – Audit Programming and Stages of Audit Execution



### Audit Programme

Detailed plan of work, comprises of techniques and procedures, may also contain objectives for each audit step.

#### Matters to be considered

- Nature of business.
- Overall Plan
- System of IC & accounting procedures.
- Size & structure of organization.
- Info. regarding organization.
- Accounting policies followed.

#### Circumstances requiring Changes

1. Substantial increase in Volume of turnover.
2. Significant changes in accounting procedures.
3. Observation w.r.t. ineffective internal control.
4. Substantial increase in book debts or inventory.
5. Suspicion as to misappropriation of assets.

### Sample Audit Programme - Movie Theatre Complex

- (1) Peruse MOA & AOA.
- (2) Ensure object clause permits entity to engage in this business.
- (3) **Income from sale of tickets:**
  - Ensure collections are properly accounted.
  - Verify system of online booking of various shows.
  - Check that there is overall system of reconciliation of collections with number of seats available.
- (4) Verify IC system & its effectiveness relating to income from café, shops, pubs, game zone etc.
- (5) Verify system of control relating to income from advertisements.
- (6) Verify system of collection from the parking areas.
- (7) Verify payments to distributors.
- (8) Verify system of payment of salaries and other benefits to the employees.

### Stages of Audit Execution

#### Stage I - Execution Planning

Consider manpower requirement, qualification of members of ET, time factor etc.

#### Stage II - Risk & Control Evaluation

Conduct a detailed assessment of risk & control as per requirements of SA 315.

#### Stage III - Testing

- Test operating effectiveness of IC to determine whether controls are operating as designed.
- Perform appropriate substantive procedures (ToD and SAP) so as to collect SAAE w.r.t. completeness, accuracy and validity of accounting data.

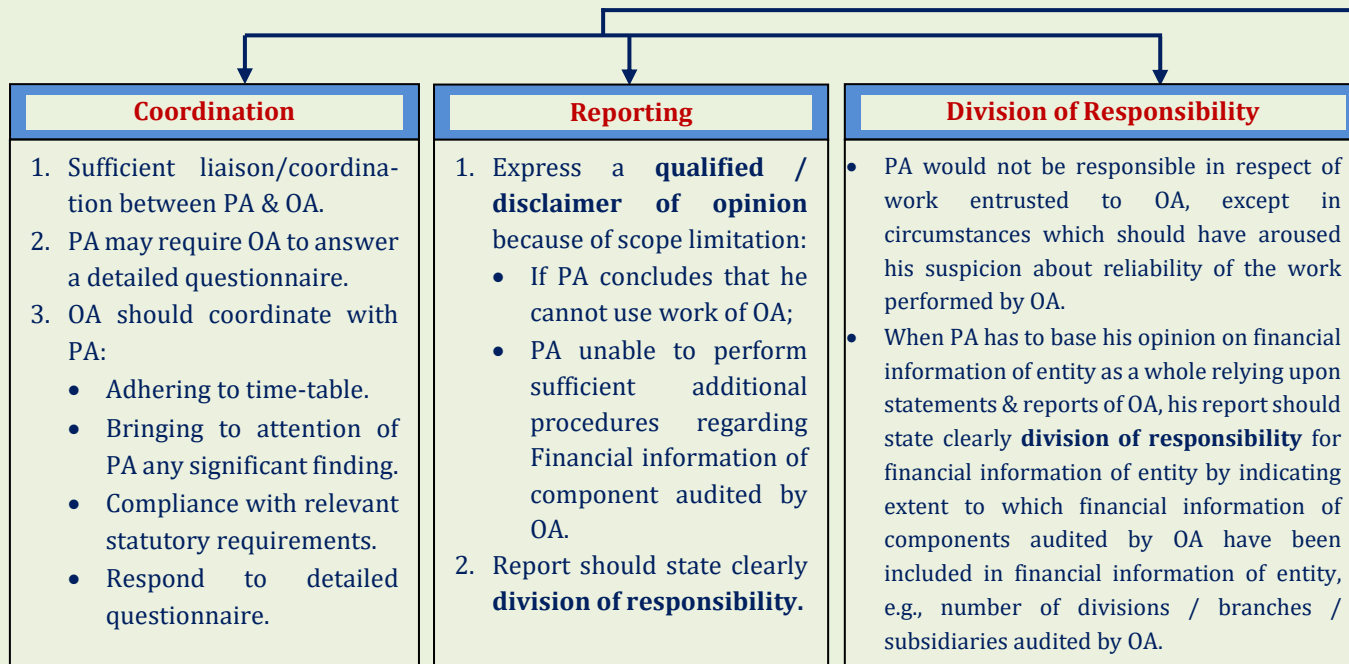
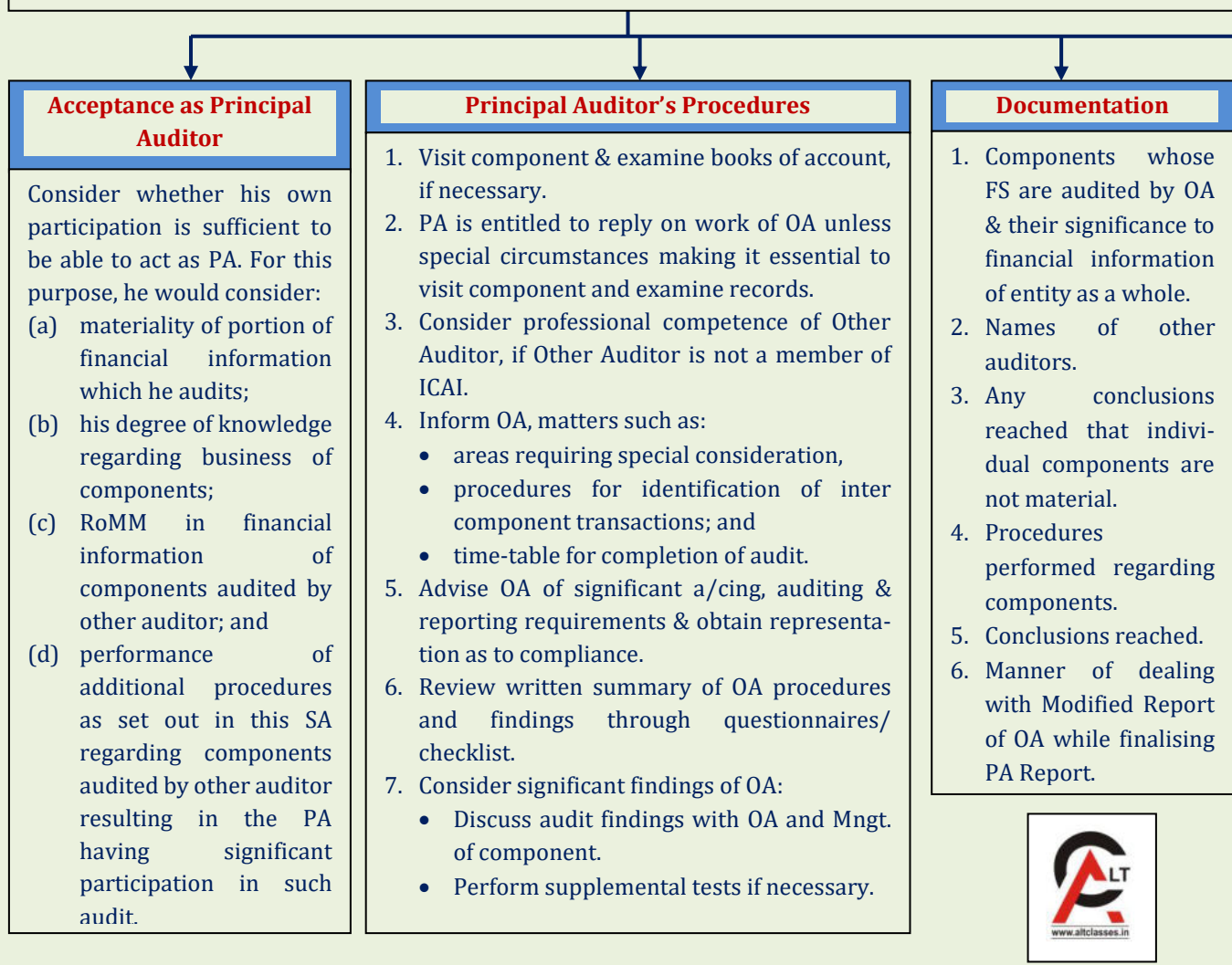
#### Stage IV - Reporting

- Review & assess conclusions drawn from audit evidence obtained as basis for expression of an opinion on F.S.
- Opinion so formed should be expressed in form of audit report as required by SA 700.

### 3.4 - SA 600 "Using the Work of Another Auditor"

**Applicability:** In situation where an auditor (principal auditor - PA), reporting on the financial information of an entity, uses the work of another auditor (other auditor - OA) w.r.t. to the financial information of one/more components (Division, Branch subsidiary, J. V. etc.), included in the financial information of the entity.

**Non-applicability:** (a) Joint auditors (b) Auditor's relationship with a predecessor auditor.



## 3.5 - SA 610 "Using the Work of Internal Auditors (IA)"

**Meaning & scope of Internal Audit Function**

Function of an entity that performs assurance & consulting activities designed to evaluate & improve effectiveness of entity's governance, risk management & IC processes.

**Scope of Internal Audit**

1	Activities relating to governance.
2	Activities relating to Risk Management
3	Activities relating to IC: <ul style="list-style-type: none"> <li>• Evaluation of IC</li> <li>• Examination of Financial &amp; operating information</li> <li>• Review of Operating Activities</li> <li>• Review of Compliance with L &amp; R.</li> </ul>



**External Auditor's Procedures w.r.t. Evaluation of Internal Audit Function**

**Determine Adequacy of Internal Audit Work for External Auditor's Purpose**

↓ by evaluating the following

- Objectivity of the internal auditors;
- Level of competency;
- Application of Systematic & disciplined approach

**If Not Satisfactory**

Do not use work of internal Audit function.

**If Satisfactory**

Determine Nature & extent of work of internal audit function that can be used.

**Using the work of internal Audit Function**

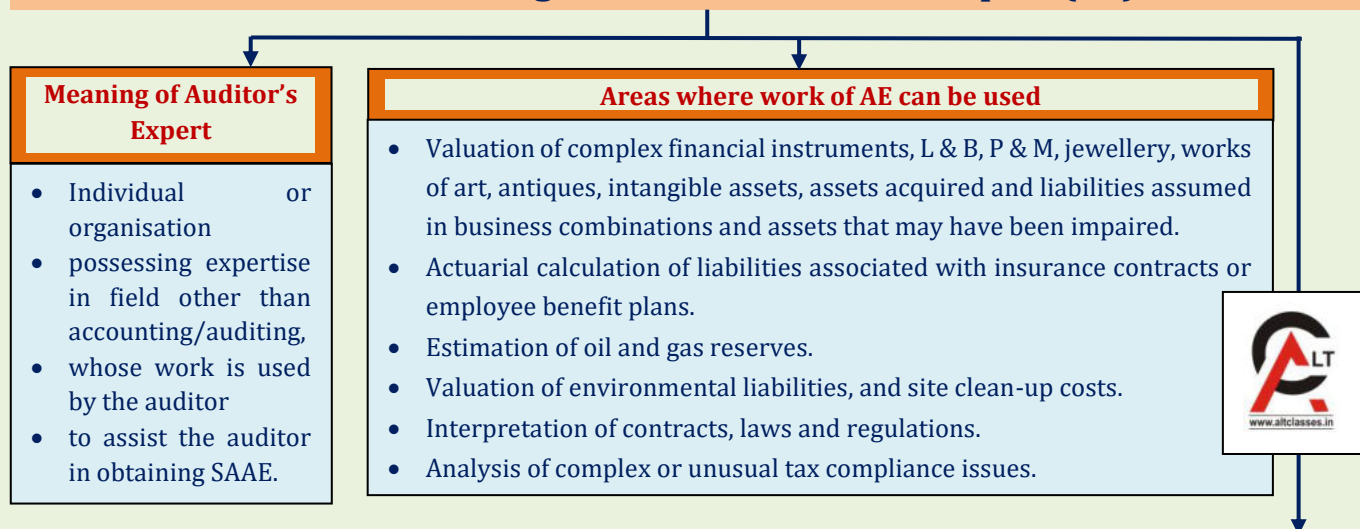
1. Discuss planned use of work of internal Auditor.
2. Read reports of internal audit function relating to work of function that external auditor plans to use to obtain an understanding of nature and extent of audit procedures it performed and the related findings.
3. Perform sufficient audit procedures on work of internal audit function as a whole that external auditor plans to use to determine its adequacy for purposes of the audit.
4. Evaluate whether external auditor's conclusions regarding internal audit function and determination of the nature and extent



### Using Direct Assistance (DA) of Internal Auditors (IA)

<p><b>1 Determining whether IA can be used to provide DA</b></p> <p>If not prohibited by law or regulation, external auditor may use an internal auditor to provide direct assistance if:</p> <p>(a) There are no significant threats to objectivity of internal auditor; &amp;</p> <p>(b) Internal auditor is sufficiently competent to perform proposed work.</p> <p><b>2 Determining Nature &amp; Extent of Work that can be assigned to IA</b></p> <p>IA shall not be used to provide DA to perform procedures that:</p> <p>(a) Involve making <b>significant judgments</b> in the audit;  <b>Significant judgments include the following:</b></p> <ul style="list-style-type: none"> <li>• Assessing the risks of material misstatement;</li> <li>• Evaluating the sufficiency of tests performed;</li> <li>• Evaluating appropriateness of management's use of going concern assumption;</li> <li>• Evaluating significant accounting estimates; and</li> <li>• Evaluating the adequacy of disclosures in the F.S., and other matters affecting the auditor's report</li> </ul> <p>(b) Relate to higher assessed risks of material misstatement;</p> <p>(c) Relate to work with which IA have been involved; or</p> <p>(d) Relate to decisions, external auditor makes in accordance with this SA w.r.t. IA function &amp; use of its work or direct assistance.</p>	<p><b>3 Using Direct Assistance of Internal Auditor</b></p> <ol style="list-style-type: none"> <li>1. Prior to using internal auditors to provide direct assistance for purposes of audit, external auditor shall:                     <ol style="list-style-type: none"> <li>(a) Obtain written agreement from entity that IA will be allowed to follow external auditor's instructions, &amp; that entity will not intervene in work, IA performs; &amp;</li> <li>(b) Obtain written agreement from IA that they will keep confidential specific matters as instructed by external auditor &amp; inform external auditor of any threat to their objectivity.</li> </ol> </li> <li>2. External auditor shall direct, supervise &amp; review work performed by IA on engagement in accordance with SA 220.</li> <li>3. Direction, supervision &amp; review by external auditor of work performed by IA shall be sufficient in order for external auditor to be satisfied that IA have obtained SAAE to support conclusions based on that work.</li> </ol>
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## 3.6 - SA 620 "Using the Work of Auditor's Expert (AE)"



### Procedures to be followed while using the work of auditor's expert

<b>1</b>	<b>Determining need for an Auditor's Expert</b>	
	<p>An auditor's expert may be needed to assist the auditor for the following:</p> <ul style="list-style-type: none"> <li>Obtaining an understanding of entity &amp; its environment, including IC.</li> <li>Identifying &amp; assessing RoMM.</li> <li>Determining &amp; implementing overall responses to assessed risks.</li> <li>Designing &amp; performing FAPs to respond to assessed risks.</li> <li>Evaluating sufficiency and appropriateness of audit evidence obtained.</li> </ul>	
	<b>Factors influencing auditor's decision w.r.t. use of AE when Mngt. had used a management expert:</b>	
	<ol style="list-style-type: none"> <li>1. Nature, scope &amp; objectives of management's expert's work.</li> <li>2. Whether Mngt. expert is employed by entity, or is a party engaged by it to provide relevant services.</li> <li>3. Extent to which mngt. can exercise control or influence over work of management's expert.</li> <li>4. Management's expert's competence and capabilities.</li> <li>5. Whether Mngt. expert is subject to technical performance standards or other professional or industry requirements.</li> <li>6. Any controls within entity over the management's expert's work.</li> </ol>	
<b>2</b>	<b>Evaluate Competence, Capability and Objectivity of the Expert</b>	
	<b>Matters that may be relevant for evaluation of Competency</b>	<b>Evaluating the objectivity of the expert</b>
	<ul style="list-style-type: none"> <li>Relevance of expert's competence to matter for which that expert's work will be used, including any areas of specialty within that expert's field.</li> <li>Auditor's expert's competence with respect to relevant accounting &amp; auditing requirements.</li> <li>Whether unexpected events, changes in conditions, or audit evidence obtained from results of audit procedures indicate that it may be necessary to reconsider initial evaluation of competence, capabilities &amp; objectivity of expert as audit progresses.</li> </ul>	<p>(a) Inquire of entity about any known interests or relationships the entity has with auditor's external expert that may affect that expert's objectivity.</p> <p>(b) Discuss with expert applicable safeguards; &amp; evaluate whether safeguards are adequate to reduce threats to an acceptable level.</p> <p style="color: red;"><b>Interests and relationships that may be relevant to discuss with the auditor's expert include:</b></p> <ul style="list-style-type: none"> <li>Financial interests.</li> <li>Business and personal relationships.</li> <li>Provision of other services by expert.</li> </ul> <p>Obtain WR from auditor's external expert about any interests or relationships with entity of which that expert is aware.</p>
<b>3</b>	<b>Obtain an understating of expert work</b>	
	<ul style="list-style-type: none"> <li>To enable auditor to determine nature, scope &amp; objectives of that expert's work for auditor's purposes.</li> <li>Evaluate adequacy of that work for the auditor's purposes.</li> </ul>	



## SA 620 “Using the Work of Auditor’s Expert (AE)”



### Procedures to be followed while using the work of auditor’s expert

<p><b>4 Agreement with Auditor’s Expert</b></p> <p>Need to be in writing and cover following:</p> <ul style="list-style-type: none"> <li>• Nature, scope &amp; Objectives of AE work.</li> <li>• Respective Role &amp; Responsibilities of Auditor and AE.</li> <li>• NTE of Communication including form of report.</li> <li>• Confidentiality requirements to be observed by AE.</li> </ul> <p style="background-color: yellow;"><b>Factors suggesting need for detailed &amp; written agreement with AE</b></p> <ol style="list-style-type: none"> <li>1. AE will have access to sensitive or confidential entity information.</li> <li>2. Respective roles or responsibilities of auditor and AE are different from those normally expected.</li> <li>3. Multi-jurisdictional legal or regulatory requirements apply.</li> <li>4. Matter to which AE work relates is highly complex.</li> <li>5. Auditor has not previously used work performed by that expert.</li> <li>6. Greater the extent of AE, and its significance in context of the audit.</li> </ol>	<p><b>5 Evaluate appropriateness of Expert work</b></p> <ul style="list-style-type: none"> <li>• <b>Finding &amp; Conclusion</b> – Relevance, Reasonableness &amp; Consistency with other A.E.</li> <li>• <b>Assumptions and Methods</b> – Relevance and Reasonableness.</li> <li>• <b>Source Data</b> – Relevance, Completeness and accuracy.</li> </ul> <p style="background-color: yellow;"><b>Specific procedures to evaluate adequacy of AE work for auditor’s purposes</b></p> <ol style="list-style-type: none"> <li>(a) Inquiries of the auditor’s expert.</li> <li>(b) Reviewing the auditor’s expert’s working papers and reports.</li> <li>(c) Corroborative procedures, such as:                         <ul style="list-style-type: none"> <li>• Observing auditor’s expert’s work;</li> <li>• Examining published data, such as statistical reports from reputable, authoritative sources;</li> <li>• Confirming relevant matters with 3<sup>rd</sup> parties;</li> <li>• Performing detailed APs; and</li> <li>• Re-performing calculations.</li> </ul> </li> <li>(d) Discussion with another expert with relevant expertise when, e.g., findings or conclusions of AE are not consistent with other audit evidence.</li> <li>(e) Discussing AE report with management.</li> </ol>	<p><b>6 Expert work not adequate for audit purposes</b></p> <p>If Auditor concludes that work of AE is not adequate for the auditor’s purposes &amp; auditor cannot resolve matter through the additional audit procedures, it may be necessary to express a modified opinion.</p>
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### Nature, Timing and Extent of Audit Procedures

While determining NTE of procedures to be performed w.r.t. the requirements SA 620, auditor shall consider matters including:

- (a) Nature of matter to which that expert’s work relates;
- (b) RoMM in the matter to which that expert’s work relates;
- (c) Significance of that expert’s work in the context of the audit;
- (d) Auditor’s knowledge of & experience with previous work performed by that expert.

**Factors suggesting need for different or extensive procedures**

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

### Reference to the Auditor’s Expert in the Auditor’s Report

- No reference required in case of unmodified Audit Report unless required by L & R.
- In case of modified reports, it may be appropriate to refer to auditor’s expert, to explain nature of modification. In such case, auditor may need permission of auditor’s expert before making such a reference.



## 3.7 - SA 540 "Auditing Accounting Estimates (AE), including Fair Value Accounting Estimates and Related Disclosures"

**Objective of Auditor: To obtain SAAE whether (a) AE including Fair Value AE are reasonable; and (b) related disclosures in the F.S. are adequate.**



### Meaning & Nature of Accounting Estimates

#### Accounting estimate

"An approximation of a monetary amount in absence of a precise means of measurement". This term is used for an amount measured at fair value where there is estimation uncertainty.

#### Estimation Uncertainty

Susceptibility of an accounting estimate & related disclosures to an inherent risk of precision in its measurement.

#### Examples of Accounting Estimates

- ⇒ Provision for Bad Debt,
- ⇒ Inventory loss,
- ⇒ Warranty Obligations,
- ⇒ Depreciation,
- ⇒ Provision against carrying amount of investments, etc.

#### Examples of Fair Value A.E.

- ⇒ Share Based Payments,
- ⇒ Assets held for disposal,
- ⇒ Financial Instruments,
- ⇒ Assets acquired in business combinations.

#### Estimates with low estimation uncertainty

- ⇒ Accounting estimates arising in entities that engage in business activities that are not complex.
- ⇒ Accounting estimates that are frequently made and updated (routine transactions).
- ⇒ Accounting estimates derived from data that is readily available.
- ⇒ Fair value accounting estimates where method of measurement prescribed by applicable FRF is simple and applied easily to asset or liability requiring measurement at fair value.

- ⇒ Fair value accounting estimates where model used to measure accounting estimate is well-known or generally accepted.

#### Estimates with high estimation uncertainty

- ⇒ Accounting estimates relating to outcome of litigation.
- ⇒ Fair value accounting estimates for derivative financial instruments not publicly traded.
- ⇒ Fair value accounting estimates for which a highly specialised entity-developed model is used or for which there are assumptions or inputs that cannot be observed in the market place.



### Risk Assessment Procedures & Related

1. Obtain an understating of:
  - Requirements of applicable FRF
  - How mngt identifies transactions, events and conditions that give rise to need for accounting estimates **(through inquiry from mngt.)**
  - Estimation making process adopted by mngt.

#### Estimation making process

- Methods/Model used in making accounting estimates.
- Relevant Controls
- Use of Management Expert.
- Changes in the methods from the prior period along with reasons.
- Assessment of effect of estimation uncertainties.

2. Review of outcome of accounting estimates of prior period.

#### Inquiries of management about changes in circumstances

- (i) Whether entity has engaged in new types of transactions that may give rise to accounting estimates.
- (ii) Whether terms of transactions that gave rise to accounting estimates have changed.
- (iii) Whether a/cing policies relating to accounting estimates have changed, as a result of changes to requirements of applicable FRF or otherwise.
- (iv) Whether regulatory or other changes outside control of mngt. have occurred that may require mngt. to revise, or make new, accounting estimates.
- (v) Whether new conditions or events have occurred that may give rise to need for new or revised accounting estimates.

#### Matters that auditor may consider in obtaining an understanding of assumptions

- (1) Nature of assumptions, including which of the assumptions are likely to be significant assumptions.
- (2) How management assesses whether assumptions are relevant & complete.
- (3) Where applicable, how mngt. determines that assumptions used are internally consistent.
- (4) Whether assumptions relate to matters within control of mngt., & how they conform to entity's business plans & external environment, or to matters that are outside its control.
- (5) Nature & extent of documentation, if any, supporting assumptions.

## 3.7 - SA 540 "Auditing Accounting Estimates (AE), including Fair Value Accounting Estimates and Related Disclosures"

### Risk Assessment Procedures & Related

#### Review of outcome of accounting estimates

- Nature & extent of auditor's review takes whether information obtained from review would be relevant to identifying & assessing RoMM of accounting estimates made in current period F.S.
- Review is not intended to call into question judgments made in prior periods that were based on information available at that time.
- Outcome of an accounting estimate will often differ from accounting estimate recognised in prior period F.S. By performing RAP to identify & understand reasons for differences, auditor may obtain:
  - (a) Information regarding effectiveness of Mngt. prior period estimation process.
  - (b) Audit evidence that is pertinent to re-estimation, in current period, of prior period accounting estimates.
  - (c) Audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in F.S.
- Review of prior period accounting estimates may also assist auditor, in current period, in identifying circumstances or conditions that increase susceptibility of accounting estimates to, or indicate presence of, possible management bias.

### Estimation Uncertainty

For accounting estimates that give rise to significant risks, auditor shall evaluate:

- (a) How mngt. has considered alternative assumptions or outcomes, and why it has rejected them.
- (b) Whether significant assumptions used by mngt. are reasonable.
- (c) Where relevant to reasonableness of significant assumptions used by mngt. or appropriate application of applicable FRF, mngt. intent to carry out specific courses of action and its ability to do so.

#### Factors Influencing Degree of Estimation Uncertainty

- (i) Extent to which accounting estimate depends on judgment.
- (ii) Sensitivity of accounting estimate to changes in assumptions.
- (iii) Existence of recognised measurement techniques that may mitigate estimation uncertainty.
- (iv) Length of forecast period, & relevance of data drawn from past events to forecast future events.
- (v) Availability of reliable data from external sources.
- (vi) Extent to which accounting estimate is based on observable or unobservable inputs.

### Management Bias

- Lack of neutrality by mngt. in preparation and presentation of information.
- Auditor shall review judgments & decisions made by mngt. in making of accounting estimates to identify whether there are indicators of possible mngt. bias.

#### Indicators of possible management bias

- Changes in accounting estimate or method for making it, where mngt. has made a subjective assessment that there has been a change in circumstances.
- Use of entity's own assumptions for FV 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.

### Written Representations

Obtain WRs as to whether mngt. believes significant assumptions used by it in making accounting estimates are reasonable.

WRs about accounting estimates may include representations:

- (a) About appropriateness of measurement processes, including related assumptions models, used by mngt. in determining accounting estimates in context of applicable FRF, and consistency in application of processes.
- (b) That assumptions appropriately reflect mngt. intent & ability to carry out specific courses of action on behalf of entity, where relevant to accounting estimates and disclosures.
- (c) That disclosure related to accounting estimates are complete and appropriate under the applicable FRF.
- (d) That no subsequent event requires adjustment to accounting estimates & disclosures included in the F.S.



## 3.8 - SA 520 "Analytical Procedures"

### Meaning and Nature of Analytical Procedures


Evaluation of financial information  
↓  
through analysis of relationships  
↓  
among both financial & non-financial data.  
AND  
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.


#### Analytical Procedures

Consideration of Comparisons of Financial Information	Consideration of relationships among
with comparable information for prior periods.  or  with anticipated results of the entity  or  Auditor's expectations  or  Similar industry information.	Elements of financial information  or  Financial information and relevant non-financial information.

### Auditor's Procedures

- 1 Determine the suitability of particular substantive analytical procedures (SAPs)**
  - Following factors requires consideration:

    1. SAPs more suitable to large volumes of transactions tending to be predictable over time.
    2. But suitability of AP influenced by:
      - Nature of assertion.
      - Auditor's assessment of APs effectiveness to identify material misstatement.
    3. In some cases, unsophisticated predictive models may be useful.
    4. Different types of APs provide different levels of assurance.
    5. Particular SAP may be considered suitable when Tests of Details are performed on same assertion.
- 
- 2 Evaluate the reliability of data**
  - Following factors affects the reliability:

    - Source of the information available.
    - Comparability of the information available.
    - Nature and relevance of the information available, and
    - Controls over the preparation of the information
- 
- 3 Develop an expectation of recorded amounts or ratios** and evaluate whether the expectation is sufficiently precise to identify material misstatement.
  - 4 Determine the amount of any difference of recorded amounts from expected values** that is acceptable without further investigation.
  - 5 Investigating Results of Analytical Procedures**
  - If auditor identified fluctuations or relationships that are inconsistent with other relevant information or differ from expected values by a significant amount, the auditor shall investigate such differences by:

    - (a) Inquiring of management; and
    - (b) Performing other audit procedures as necessary in the circumstances.

Audit evidence relevant to management's responses may be obtained by evaluating those responses taking into account the auditor's understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit.

# 4

## Materiality, Risk Assessment & Internal Control

### 4.1 - Audit Risk

#### Components of Audit Risk

##### Inherent Risk

- Susceptibility of account balance or class of transaction to a material misstatement assuming that there are no IC.
- **Causes:** Inherent risk generally arise from entity's objectives, nature of operations, regulatory environment and size and complexity.

##### Examples of inherent Risks with which auditors to be concerned with

1. Complex calculations which could be misstated;
2. High value inventory;
3. Accounting estimates that are subject to significant measurement uncertainty;
4. Lack of sufficient working capital to continue operations;
5. Declining or volatile industry with many business failures; &
6. Technological developments that might make a particular product obsolete.

##### Control Risk

- Risk that material misstatements will not be prevented or detected and corrected on a timely basis by IC system.
- Some risk will always exist because of inherent limitation of any internal control system.

##### Detection Risk

- Risk that substantive procedures performed by auditor fails to detect material misstatements.
- Some detection risk would always be present even if an auditor was to examine 100% of the account balance or class of transaction.
- In designing & evaluating results of performing procedures, auditor should consider possibility of:
  - (a) Selecting inappropriate audit procedure;
  - Misapplying appropriate audit procedure; or
  - Misinterpreting results from an audit procedure.

#### Relationship between components of Audit risk

IR & CR

- IR & CR are highly interrelated as in many cases mngt reacts to IR by designing a/cing & IC system to prevent or detect & correct misstatements.
- As a result, auditor needs to make a combined assessment of IR & CR as RoMM.

RMM & DR

- Inverse relationship between RoMM & DR.
- When RoMM is high, DR needs to be low to reduce audit risk to an acceptable low level.
- When RoMM is low, auditor can accept a higher DR.
- Mathematically  $AR = IR \times CR \times DR$

#### Steps for Risk Identification

1. Assess significance of assessed risk, impact of its occurrence.
2. Determine likelihood for assessed risk to occur & its impact on our auditing procedures.
3. Document assertions that are affected.
4. Consider impact of risk on each of assertions relevant to the account balance, class of transactions, or disclosure.
5. Identify degree of significant risks that would require separate attention and response by the auditor.
6. Enquire & document mngt. response.
7. Consider nature of IC system in place and its possible effectiveness in mitigating risks involved.
8. Consider unique characteristics of risk.
9. Consider existence of inherent risks in class of transactions, account balance or disclosure that need to be addressed in designing FAPs.

## 4.2 - Risk Based Audit

### Meaning of Risk based Audit

- Audit approach that:
  - analyzes audit risks,
  - sets materiality thresholds based on audit risk analysis, &
  - develops audit programmes that allocate a larger portion of audit resources to high risk areas.
- It is essential element of financial audit, both in attest audit of F.S. and in audit of financial systems & transactions including evaluation of ICs.



### General Steps in conduct of Risk based Audit

#### Step 1: Risk Assessment

In this phase of audit, auditor assesses the risk of material misstatements.

##### Aspects Involved

1. Performing client acceptance or continuance procedures;
2. Planning overall engagement;
3. Performing RAPs to understand business & identify inherent & control risks;
4. Identifying relevant IC procedures & assessing their design & implementation;
5. Assessing RoMM in the F.S.;
6. Identifying significant risks that require special audit consideration & those risks for which substantive procedures alone are not sufficient;
7. Communicating material weaknesses in design & implementation of IC to mngt. and TCWG; and
8. Making informed assessment of RoMM at F.S. level and at assertion level.

#### Step 2: Risk Response

- In this phase, auditor designed & perform FAPS that respond to assessed RoMM & will provide evidence necessary to support audit opinion.
- Audit procedures designed to address assessed risks could include a mixture of:
  1. Tests of operational effectiveness of ICs; and
  2. Substantive procedures such as TOD & APs.

##### Matters to be considered while planning audit procedures

1. Assertions that cannot be addressed by substantive procedures alone.
2. Existence of IC that, if tested, could reduce need/scope for other substantive procedures.
3. Potential for SAPs that would reduce need for other types of procedures.
4. Need to incorporate element of unpredictability in procedures performed.
5. Need to perform FAPs to address potential for mngt. override of controls or other fraud scenarios.
6. Need to perform specific procedures to address "significant risks" that have been identified.

#### Step 3: Reporting

- Final phase which requires assessment of audit evidences & determine whether they are sufficient & appropriate to reduce RoMM to acceptably low level.
- It is important to determine:
  - (1) Change in assessed level of risk;
  - (2) Conclusions drawn are appropriate; and
  - (3) Any suspicious circumstances have been encountered.
- When all procedures have been performed & conclusions reached:
  - (a) Audit findings should be reported to mngt. & TCWG; and
  - (b) Audit opinion should be formed & decision made on appropriate wording for auditor's report.



### 4.3 - Internal Control

Control objective of A/cing Control System	Internal control structure
<ol style="list-style-type: none"> <li>1. Whether all txns. are recorded;</li> <li>2. Whether recorded txns. are real;</li> <li>3. Whether all recorded txns. are properly valued;</li> <li>4. Whether all txns. are recorded timely;</li> <li>5. Whether all txns. are properly posted;</li> <li>6. Whether all txns. are properly classified and disclosed;</li> <li>7. Whether all txns. are properly summarized.</li> </ol>	<p>Policies &amp; procedures established by entity to provide reasonable assurance that objectives are achieved. Such Policies and Procedures cover the followings:</p> <ol style="list-style-type: none"> <li>(1) <b>Segregation of duties:</b> No one person can carry through completion of a transaction from start to finish. Following functions are segregated:                             <ul style="list-style-type: none"> <li>• authorization of transactions;</li> <li>• execution of transactions;</li> <li>• physical custody of related assets; and</li> <li>• maintenance of records and documents.</li> </ul> </li> <li>(2) <b>Authorisation of Transactions:</b> necessary to establish procedures which provide assurance that authorizations are issued by persons acting within scope of their authority, and that transactions conform to terms of authorizations.</li> <li>(3) <b>Adequacy of records and documents:</b> Accounting controls should ensure that:                             <ul style="list-style-type: none"> <li>• Transactions &amp; other events are promptly recorded at correct amounts.</li> <li>• Recording of transaction facilitate maintaining accountability for assets.</li> </ul> </li> <li>(4) <b>Accountability &amp; safeguarding of assets:</b> 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.</li> <li>(5) <b>Independent checks:</b> Independent verification of control systems, designed &amp; implemented by mngt., involves periodic or regular review by independent persons to ascertain whether control procedures are operating effectively or not.</li> </ol>



### 4.4A - Components of Internal Control



#### 5 Components

<p><b>1 Control Environment</b></p> <p>Sets tone of an organization, influencing control consciousness of its people &amp; includes:</p> <ol style="list-style-type: none"> <li>(1) Communication &amp; enforcement of integrity &amp; ethical values</li> <li>(2) Commitment to competence</li> <li>(3) Participation by TCWG</li> <li>(4) Management's philosophy &amp; operating style</li> <li>(5) Organisational structure</li> <li>(6) Assignment of authority and responsibility</li> <li>(7) HR policies &amp; practices</li> </ol>	<p><b>3 Control Activities relevant to Audit</b></p> <p>Policies and procedures that help ensure that mngt. directives are carried out and may pertain to following:</p> <ol style="list-style-type: none"> <li>1. Performance Reviews</li> <li>2. Information processing</li> <li>3. Physical controls</li> <li>4. Segregation of Duties</li> </ol>
<p><b>2 Entity Risk Assessment process</b></p> <p>It forms basis for how mngt. determines risks to be managed. If process is appropriate, it assists auditor in identifying RoMM.</p> <p>Risk can arise or change due to:</p> <ol style="list-style-type: none"> <li>1. Changes in operating environment</li> <li>2. New personnel</li> <li>3. New or revamped information systems</li> <li>4. Rapid growth</li> <li>5. New technology</li> <li>6. New business models, products or activities</li> <li>7. Corporate restructurings</li> <li>8. Expanded foreign operations</li> <li>9. New accounting pronouncements</li> </ol>	<p><b>4 Information System and Communication</b></p> <p>Info. system consists of infrastructure (physical &amp; hardware components), software, people, procedures and data. Info. system relevant to FR objectives includes accounting system, consists of the procedures &amp; records that:</p> <ol style="list-style-type: none"> <li>(a) Identify &amp; record all valid transactions.</li> <li>(b) Describe on timely basis transactions in sufficient detail to permit proper classification of transactions for FR.</li> <li>(c) Measure value of transactions in a manner that permits recording their proper monetary value in F.S.</li> <li>(d) Determine time period in which transactions occurred to permit recording of transactions in the proper accounting period.</li> <li>(e) Present properly the transactions and related disclosures in the financial statements.</li> </ol>
	<p><b>5 Monitoring of Controls</b></p> <p>Process to assess effectiveness of IC performance over time.</p>

## 4.4B – Internal Check

Meaning	Objectives	Considerations for effective internal check
<p>→ Checks on day to day transactions,</p> <p>→ which operate continuously as a part of routine system,</p> <p>→ whereby work of one person is proved independently to work of another,</p> <p>→ the object being prevention and earlier detection of error or fraud.</p>	<ol style="list-style-type: none"> <li>1. To detect fraud and error with ease.</li> <li>2. Avoid &amp; minimize possibility of occurrence of fraud &amp; error.</li> <li>3. Increase efficiency of staff.</li> <li>4. Protect integrity of business.</li> <li>5. Prevent misappropriation of cash &amp; falsification of accounts.</li> </ol>	<ol style="list-style-type: none"> <li>1. No single person should have an Independent Control.</li> <li>2. Duties of staff members should be changed from time to time.</li> <li>3. Every member should be encouraged to go on leave atleast once.</li> <li>4. Persons having physical custody of assets must not be allowed access to books of account.</li> <li>5. Implement Budgetary control procedures.</li> <li>6. Judicious distribution of financial and administrative powers.</li> <li>7. Procedures should be laid down for physical verification.</li> <li>8. Accounting procedures should be reviewed periodically.</li> </ol>

## 4.5 – Techniques of Evaluation of Internal Control

Methods of collecting information	
<div style="text-align: center;">  </div> <div style="text-align: center; background-color: #f4a460; padding: 5px;"><b>Internal Control Questionnaire</b></div> <p>Set of questions designed to provide a thorough view of state of IC in an organisation. Evaluation through IC questionnaire now forms an important part of any audit with the following purposes:</p> <ul style="list-style-type: none"> <li>• Identification of weaknesses in IC system.</li> <li>• Determination of extent of substantive checking.</li> <li>• Selection of samples in rational manner.</li> <li>• Suitable modifications in audit programmes.</li> </ul> <div style="background-color: yellow; padding: 5px; text-align: center;"> <b>Assumptions presumed about elements of good control while using standardized IC questionnaire</b> </div> <ol style="list-style-type: none"> <li>1. Certain procedures in general used by most business concerns are essential in achieving reliable IC.</li> <li>2. Extensive division of duties &amp; responsibilities within organisation.</li> <li>3. Separation of accounting function with custodial function.</li> <li>4. No single person is entrusted with responsibility of completing a transaction all by himself.</li> <li>5. There should always be evidence to identify person who has done the work whether involving authorisation, implementation or checking.</li> <li>6. Work performed by each one is expected to come under review of another in usual course of routine.</li> <li>7. There is proper documentation &amp; recording of the transactions.</li> </ol>	<div style="text-align: center;">  </div> <div style="text-align: center; background-color: #f4a460; padding: 5px;"><b>Check List</b></div> <ul style="list-style-type: none"> <li>• Series of instructions or questions on IC which auditor must follow or answer.</li> <li>• Check list is more in nature of a reminder to auditor about matters to be checked for testing IC system.</li> <li>• While a questionnaire is basically a set of questions put to client, a check list which may be in a form of instructions, questions or just points to be checked may be meant for auditor's own staff.</li> </ul> <div style="text-align: center; background-color: #f4a460; padding: 5px;"><b>Flow-chart</b></div> <ol style="list-style-type: none"> <li>1. Graphic presentation of IC of various sections full with lines &amp; symbols.</li> <li>2. Most concise &amp; comprehensive way to review IC.</li> <li>3. Properly drawn up flow chart provide a neat visual picture of whole activities involving flow of documents and activities. More specifically it can show:             <ul style="list-style-type: none"> <li>• at what point a document is raised internally or received from external sources;</li> <li>• number of copies in which a document is raised;</li> <li>• intermediate stages set sequentially through which the document &amp; activity pass;</li> <li>• distribution of documents to various sections or departments;</li> <li>• checking authorisation and matching at relevant stages;</li> <li>• filing of the documents; &amp;</li> <li>• final disposal by sending out or destruction.</li> </ul> </li> </ol>

## 4.6 – Other Aspects related to Internal Control



### Manual & Automated Elements in Internal Controls

- Entity's system of IC contains manual elements & often contains automated elements. Use of manual or automated elements affects manner in which transactions are initiated, recorded, processed, and reported.
- Mix of manual and automated elements in IC varies with nature & complexity of entity's use of IT.
- Manual elements in IC may be more suitable where judgment & discretion are required, for example:
  - (a) Large, unusual or non-recurring transactions.
  - (b) Circumstances where errors are difficult to define, anticipate or predict.
  - (c) In changing circumstances that require control response outside scope of existing automated control.
  - (d) In monitoring effectiveness of automated controls

### Key components to assess and evaluate the control environment (Standard Operating Procedures – SOPs)

1. **Enterprise Risk Management:** Organization having robust processes to identify & mitigate risks across the entity & its periodical review will assist in early identification of weaknesses in IC and taking effective control measures.
2. **Segregation of Job Responsibilities:** Segregation of duties is an important element of control which ensures that no two commercial activities should be conducted by the same person.
3. **Job Rotation in Sensitive Areas:** In key commercial functions, job rotation is regularly followed to avoid degeneration of controls.
4. **Documents of delegation of Financial Powers:** Document on delegation of powers allows controls to be clearly operated without being dependant on individuals.
5. **IT based Controls:** In an IT Environment, it is much easier to embed controls through the system instead of being human dependant. The failure rate for IT embedded controls is likely to be low, is likely to have better audit trail and is thus easier to monitor.



### Letter of weakness

As per SA 265, auditor shall include in written communication of significant deficiencies in IC:

- (a) Description of deficiencies and explanation of their potential effects; and
- (b) Sufficient information to enable TCWG and Mngt. to understand context of communication.

This communication should be, preferably, in writing through a letter of weakness. Important points with regard to such a letter are:

- (a) It lists down area of weaknesses in IC system and recommends suggestions for improvement.
- (b) It should clearly indicate that this letter covers only weaknesses which have come to attention of auditor during his evaluation of IC for purpose of determining NTE of FAPs.
- (c) Letter should clearly indicate that his examination of IC has not been designed to determine adequacy of IC for mngt.
- (d) This letter serves as a significant means for mngt & governing body for purpose of improving system and its strict implementation.
- (e) Letter may also serve to minimize legal liability in event of a major defalcation or other loss resulting from a weakness in IC.

## 4.7 - SA 265 "Communicating Deficiencies in IC to TCWG & Management"



### Meaning of deficiency in internal control

- (a) Inability of I.C to prevent detect & correct misstatement;  
or  
(b) Absence of control necessary to prevent, detect & correct misstatements

### Auditor's Responsibilities

#### Identification of deficiencies in Internal Control

Determine whether on the basis of work done any deficiency in internal control is identified

Determine whether individually or in combination they constitute **significant deficiencies**

#### Indicators of Significant Deficiencies

1. Evidence of ineffective aspects of control environment.
2. Entity's Risk assessment process – Absent/ineffective.
3. Ineffective response to identified significant Risks.
4. Correction of prior period misstatements arising due to fraud/error.
5. Management inability to oversee F.S. Preparation.
6. Misstatements detected by the auditor's procedures were not prevented, or detected and corrected by the entity I.C.

#### Communication of deficiencies

##### Mode of communication

In writing

To TCWG

To Mngt.

Significant deficiencies

Significant deficiencies and other deficiencies

##### Content of communication

- (a) Description of deficiencies  
(b) Explanation of their potential effect  
(c) Sufficient information to explain:
- that purpose of audit is to express an opinion
  - IC is evaluated to design FAPs.
  - Matters reported are limited to deficiencies that auditor has identified during audit and are of importance to merit being reported to TCWG.

### Examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency

- (1) Likelihood of deficiencies leading to material misstatements in F.S. in future.
- (2) Susceptibility to loss or fraud of the related asset or liability.
- (3) Subjectivity and complexity of determining estimated amounts, such as F.V. accounting estimates.
- (4) Financial statement amounts exposed to deficiencies.
- (5) Volume of activity that has occurred or could occur in account balance or class of transactions exposed to deficiency or deficiencies.
- (6) Importance of controls to financial reporting process; for example:
  - General monitoring controls (such as oversight of management).
  - Controls over prevention and detection of fraud.
  - Controls over selection and application of significant accounting policies.
  - Controls over significant transactions with related parties.
  - Controls over significant transactions outside the entity's normal course of business.
  - Controls over period-end FR process (such as controls over non-recurring journal entries).
- (7) Cause and frequency of exceptions detected as a result of deficiencies in controls.
- (8) Interaction of deficiency with other deficiencies in internal control.



## 4.8 - SA 330 "Responses to Assessed Risks"

**Objective: To obtain Sufficient and Appropriate Audit Evidence about Assessed Risk of Material Misstatement through design and implementing Appropriate Responses**

### Tests of Controls

Auditor shall design and perform ToC to obtain SAAE as to operating effectiveness of relevant controls when:

- (a) he expects that controls are operating effectively, or
- (b) substantive procedures alone cannot provide SAAE evidence at assertion level.

In designing and performing ToC, auditor shall:

- (a) Perform other audit procedures in combination with inquiry to obtain audit evidence about operating effectiveness of controls, including:
  - How controls were applied at relevant times during audit.
  - Consistency with which they are applied.
  - By whom or by what means they were applied.
- (b) Determine whether controls to be tested depend upon other controls (indirect controls) & if so, whether it is necessary to obtain audit evidence supporting effective operation of those indirect controls.

### Substantive Procedures

Procedures designed to detect material misstatements at assertion level.

It comprises of:

- a) Test of details (of classes of transactions, Account Balances and Disclosures); &
- b) Substantive Analytical Procedures

### Matters to be considered to determine extent of ToC

- (i) Frequency of performance of control by entity.
- (ii) Length of time during audit period that auditor is relying on operating effectiveness of the control.
- (iii) Expected rate of deviation from a control.
- (iv) Relevance & reliability of audit evidence to be obtained regarding operating effectiveness of control at assertion level.
- (v) Extent to which audit evidence is obtained from tests of other controls related to assertion.

### Special Considerations

#### Using Audit Evidence obtained in Interim Period

- Obtain audit Evidence for significant changes subsequent to Interim Period.
- Determine the additional Evidence to be obtain for remaining period.

#### Factors in determining additional audit evidence to be obtained about controls that were operating during period remaining after an interim period

- (i) Significance of assessed RoMM at assertion level.
- (ii) Specific controls that were tested during interim period & significant changes to them since they were tested, including changes in info system, processes & personnel.
- (iii) Degree to which audit evidence about operating effectiveness of controls was obtained.
- (iv) Length of remaining period.
- (v) Extent to which auditor intends to reduce further substantive procedures based on reliance of controls.
- (vi) Control environment.

#### Using Audit Evidence obtained during previous audits

Establish Continuing relevance of that evidence by determining significant changes subsequent to previous audit

- **Changes occurs:** Test the controls in current audit
- **No Change Occurs:** Test controls atleast once in every three audits and shall test some controls in each audit.

#### Factors warranting retest of controls

1. Deficient control environment.
2. Deficient monitoring of controls.
3. Significant manual element to relevant controls.
4. Personnel changes that significantly affect the application of control.
5. Changing circumstances that indicate the need for changes in the control.
6. Deficient general IT-controls.

## 4.9 – Frameworks of Internal Control



### COSO Framework

- COSO Framework is designed to be used by organizations to assess effectiveness of system of IC to achieve objectives as determined by mngt.
- Framework lists 3 categories of objectives:
  - (a) **Operations Objectives:** Related to effectiveness & efficiency of entity's operations, including operational & financial performance goals & safeguarding of assets.
  - (b) **Reporting Objectives:** Related to internal & external financial & non-financial reporting to stakeholders, which would encompass reliability, timeliness, transparency, or other terms as established by regulators, standard setters, or entity's policies.
  - (c) **Compliance Objectives:** Related to entity's compliance with applicable L&R.

### COBIT

- COBIT stands for **Control Objectives for Information and Related Technology**.
- COBIT framework is created by ISACA (**Info. Systems Audit & Control Association**) for IT governance & mngt.
- It is meant to be a supportive tool for managers & allows bridging crucial gap between technical issues, business risks & control requirements.
- Business managers are equipped with a model to deliver value to organization & practice better risk management practices associated with IT processes.
- It is a control model that guarantees integrity of Info system. Today, COBIT is used globally by all managers responsible for IT business processes.
- Overall, COBIT ensures quality, control and reliability of Info systems in organization, which is most important aspect of every modern business.

### CoCo Framework

- CoCo framework was published by **Canadian Institute of Chartered Accountants**.
  - CoCo framework outlines 20 criteria for effective control in following four areas:
    - Purpose
    - Commitment
    - Capability
    - Monitoring and Learning
- In order to assess whether controls exist and are operating effectively, each criterion would be examined to identify controls that are in place to address them.

### Turnbull Report

- Combined Code of Committee on Corporate Governance published by London Stock Exchange & agreed by ICAEW. Key principles of the Code are:
- (1) Board should maintain sound system of IC to safeguard shareholders' investment & company's assets.
  - (2) Directors should, at least annually, conduct review of effectiveness of group's system of IC & should report to shareholders that they have done so. Review should cover all controls, including financial, operational and compliance controls and risk management.
  - (3) Companies which do not have internal audit function should from time to time review need for one.

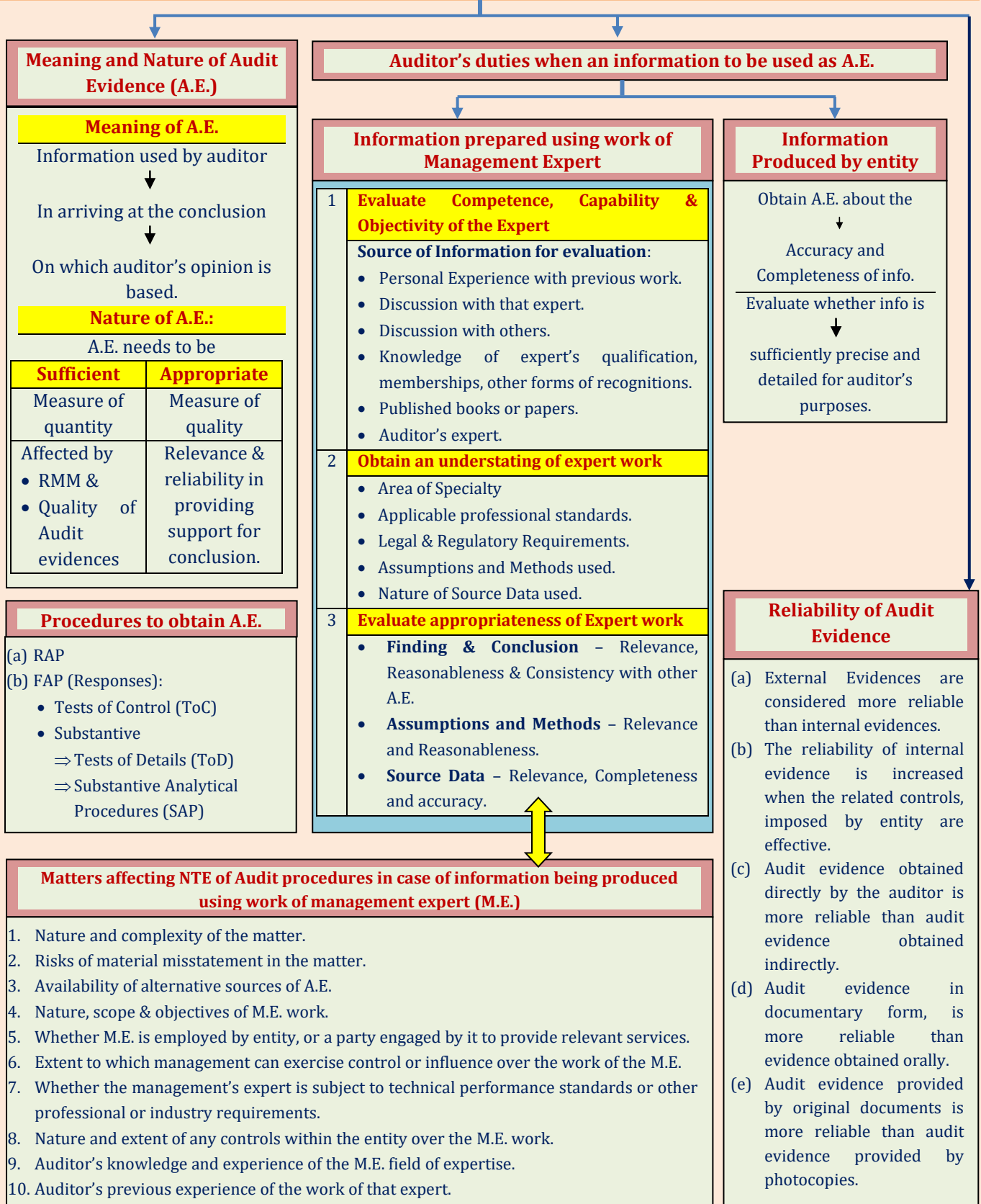
### SOX – Sec. 404

- Sec. 404 of Sarbanes Oxley Act mandates that all publicly traded companies must establish ICs and procedures for FR & must document, test and maintain those controls and procedures to ensure their effectiveness.
- Purpose is to reduce possibilities of corporate fraud by increasing the stringency of procedures and requirements for financial reporting.
- SEC rules & PCAOB standard require that:
  1. Mngt perform a formal assessment of its controls over FR including tests that confirm design & operating effectiveness of the controls.
  2. Mngt include in its annual report an assessment of ICoFR.
  3. External auditors provide two opinions as part of a single integrated audit of the company:
    - An independent opinion on effectiveness of system of ICoFR.
    - Traditional opinion on F.S.



# Audit Evidence

## 5.1 - SA 500 "Audit Evidence"



# SA 501 "Audit Evidence – Specific Considerations for Selected Items"



## Inventory – Existence & Condition

### General Procedures

When inventory is material to the F.S.  
 ↓  
 the auditor shall obtain SAAE  
 ↓  
 regarding **existence & condition** by

- (a) Attendance at physical inventory counting, unless impracticable, to:
- Evaluate mngt. instructions & procedures for recording & controlling the results of the entity's physical inventory counting;
  - Observe the performance of management's count procedures;
  - Inspect the inventory;
  - Perform test counts;
- (b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

### Special Procedures

- |   |   |
|---|---|
| 1 | <p><b>Inventory counting conducted at date other than B/S date</b></p> <p>Perform audit procedures to obtain audit evidence<br/>                 ↓<br/>                 about whether changes in inventory between the count date and the date of the F.S. are properly recorded.</p>   |
| 2 | <p><b>Auditor unable to attend Inventory Count</b></p> <p>Make or observe some physical counts on an alternative date,<br/>                 ↓<br/>                 and perform audit procedures on intervening transactions</p>   |
| 3 | <p><b>Attendance at inventory count is impracticable</b></p> <p>Perform alternative audit procedures to obtain S.A.A.E. regarding existence and condition of inventory.<br/>                 ↓<br/>                 If it is not possible to do so, modify the opinion in the auditor's report in accordance with SA 705.</p> |
| 4 | <p><b>Inventory under custody and control of Third Party</b></p> <p>Obtain S.A.A.E by performing the following:</p> <p>(a) Request confirmation from third party.<br/>                 (b) Perform Inspection/other audit procedure.</p>  |

### Litigation & Claims – Completeness

Auditor is required to identify litigation and claims by following procedures:

- **Inquiry:** of Mngt. & others within entity, including in house legal counsel.
- **Review** – minutes of meetings of TCWG, communication between entity & external legal counsel.
- **Review** – legal expenses account.

**If management refuses to permit auditor to communicate with legal counsel / external legal counsel refuses / auditor unable to collect SAAE by performing alternate procedures**  
 ↓  
**Modify Opinion in accordance with SA 705**

### Segment Reporting – Presentation & Disclosures

Obtain SAAE regarding presentation & disclosure of segment information in accordance with the applicable FRF by:

(a) Obtaining an understanding of the methods used by management in determining segment information, and

- Evaluate whether such methods are likely to result in disclosure in accordance with the applicable FRF; and
- Where appropriate, testing the application of such methods; and

(b) Performing analytical procedures or other audit procedures appropriate in the circumstances.

**Examples of Matters relevant in obtaining an understanding of methods used by management for determining segment information**

- (1) Sales, transfers and charges between segments, and elimination of intersegment amounts.
- (2) Comparisons with budgets and other expected results, for example, operating profits as a percentage of sales.
- (3) The allocation of assets and costs among segments.
- (4) Consistency with prior periods, and the adequacy of the disclosures with respect to inconsistencies.

## SA - 505 "External Confirmation"

The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.



### Meaning & Type of E.C.

**Audit Evidence obtained as a direct written response to auditor from 3<sup>rd</sup> Party in**  
 ⇒ Paper  
 ⇒ Electronic  
 ⇒ Other form.

2 Types	
+ ve Request	- ve request
Request that 3 <sup>rd</sup> Party respond directly to auditor	Request that 3 <sup>rd</sup> Party respond directly to auditor
indicating whether it agrees or disagrees	only if it disagrees
With the info in request or providing requested info.	with the information in the request

- Areas where External Confirmation may be obtained:**
- (a) Bank balance & Other confirmation from bankers
  - (b) Account Receivable/Account Payable Balances
  - (c) Stock Lying with Third Parties
  - (d) Property Title Deed held by third parties
  - (e) Investments Purchased but delivery not taken.
  - (f) Loan from Lenders
  - (g) Terms of agreement or Transaction with Third Parties

#### External Confirmation Procedures

Determining the information to be confirmed.

↓

Selecting the Appropriate Third Party.

↓

Designing the confirmation request.

↓

Sending the request including follow up.

---

**Factors to be considered while designing E.C. request:**

- Assertions being addressed.
- Specific identified RMM.
- Layout and presentation of request.
- Prior Experience of audit.
- Method of Communication.
- Management Authorization.
- Ability of confirming party to provide the requested information

#### Audit Procedures in Special Circumstances

**Mngt. refuses to allow the auditor to send request**

- Inquire the reasons
- Evaluate the implications on RMM
- Perform Alternative Audit procedure.

• Refusal appears to be unreasonable	• Communicate to TCWG.
• Unable to collect audit evidence	• Determine its effect on Opinion

**Responses to E.C. request**

• Creates Doubt	Obtain Further Evidences
• Not Reliable	Consider its effect on NTE of other procedures
• No Response	Perform Alternative procedure
• Unable to collect evidence	Determine its effect on Opinion
• Exception occurs	Investigate to determine misstatement

#### Limited use of -ve Request

-ve confirmation request provides less persuasive evidence than the positive Confirmation request.

↓

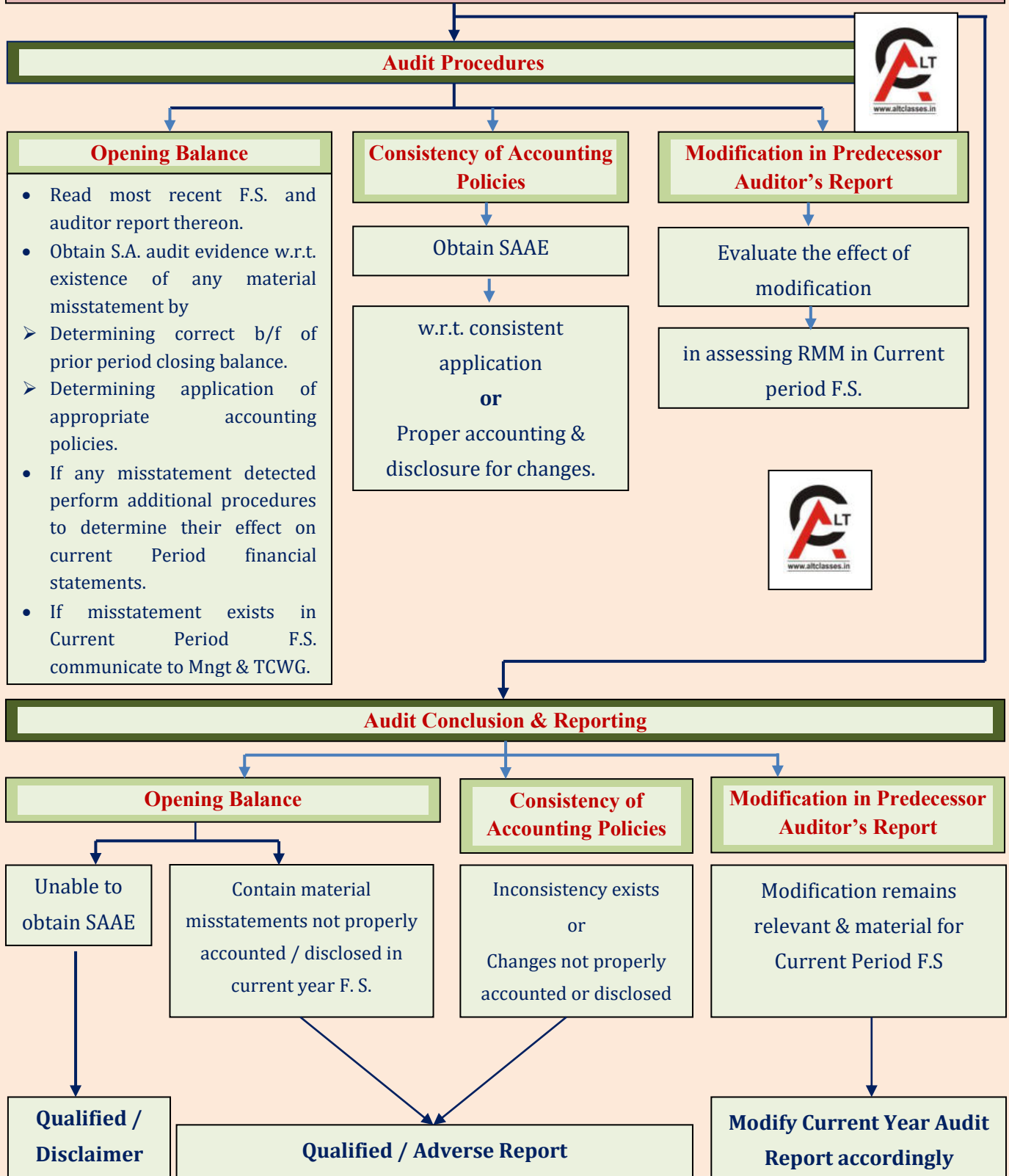
**Circumstances in which negative request may be used as sole substantive procedure:**

- Low RMM.
- Population consists of large number of small, homogeneous account balances.
- Expectation of low exception rate.
- Auditor not aware of circumstances that 3<sup>rd</sup> party disregard request.

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

**Meaning of Initial Audit Engagement:** An Engagement in which financial statements for prior period are not audited or were audited by predecessor auditor.

**Meaning of Opening balance -** A/c balance that exist at beginning of period & also includes disclosures exists at beginning of period.



# SA 530 "AUDIT SAMPLING"



## Sampling Risk

Risk that auditor's conclusion based on a sample may be different from conclusion if the entire population were subjected to same audit procedure.

## Non Sampling Risk

Risk that auditor reaches an erroneous conclusion for any reason not related to sampling risk.

### Test of controls

Controls are more effective than they actually are

Controls are less effective than they actually are

### Tests of details

Material misstatements does not exist when in fact it does.

Material misstatement exists when in fact it does not

Affects **audit effectiveness** & is more likely to lead to inappropriate audit opinion.

Affects **audit efficiency** as it would lead to additional work to establish that initial conclusions were incorrect.

## Stratification and its Uses

Process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics.

### Uses of Stratification

- (i) Improved Audit efficiency. Stratification reduces variability of items within each stratum & hence allow sample size to be reduced without increasing sampling risk.
- (ii) When performing TODs, population is often stratified by monetary value. This allows greater audit effort to be directed to larger value items, as these items may contain greatest potential misstatement in terms of overstatement.
- (iii) Results of audit procedures applied to sample of items within a stratum can only be projected to items that make up that stratum. To draw a conclusion on entire population, auditor will need to consider RoMM in relation to whatever other strata make up entire population.
- (iv) If a class of transactions or account balance has been divided into strata, misstatement is projected for each stratum separately. Projected misstatements for each stratum are then combined when considering possible effect of misstatements on total class of transactions or account balance.

## Auditor's Duties

- 1 **Sample design, size and selection of items**
  - (i) While designing, consider purpose of audit procedure and characteristics of population.
  - (ii) Sample size should be sufficient to reduce sampling risk to an acceptably low level.
  - (iii) Selection should be in such a way that each sampling unit in population has a chance of selection.
- 2 **Perform audit procedures**
  - (i) Perform audit procedures, appropriate to the purpose, on each item selected.
  - (ii) If audit procedure is not applicable to selected item, perform procedure on a replacement item.
  - (iii) If auditor is unable to apply designed audit procedures/alternative procedure to a selected item, consider that item as a deviation.
- 3 **Evaluation of results of audit sampling**
  - Evaluate results of sample and determine whether use of audit sampling has provided a reasonable basis for conclusions about population that has been tested.
  - If any error or misstatement identified, investigate its nature & cause, & evaluate their possible effect on purpose of audit procedure and other areas of audit.
  - In analysing deviations and misstatements identified, auditor would also need to consider qualitative aspects of the misstatements identified by him.

# SA 550 "Related Parties (RP)"



## Auditor's Duties

### Risk Assessment procedures

- 1 Understanding the Entity's RP relationship and Transactions**
- a. Auditor to inquire management regarding:
    - Identity of entity's RP, changes from prior period.
    - Nature of relationships between entity and RP.
    - Type & purpose of transactions with RP.
  - b. Obtain understanding whether management has established controls to:
    - Identify, account for & disclose RP relationships & transactions.
    - Authorise & approve significant transactions with RP.
    - Authorise & approve significant transactions outside normal course of business.

- 2 Maintaining Alertness for RP Information when Reviewing Records/Documents**
- Auditor to remain alert when inspecting records w.r.t. info indicating existence of RP relationships or transactions not previously identified or disclosed.
  - If auditor identifies significant transactions outside entity's normal course of business, inquire of management about (a) Nature of these transactions, and (b) Whether RP could be involved.

#### Possible Sources for identification of RP Information:

1	Income Tax Returns	7	Shareholder's Register
2	Internal Audit Report	8	Life insurance Policies
3	Contracts with Management	9	Statement of conflict of interest
4	Contracts outside normal course of business	10	Information supplied to regulatory authorities
5	Contracts renegotiated	11	Specific Invoices from advisors
6	Register of Investments		

#### Examples of transactions outside the entity's normal course of business:

1. Complex equity transactions, such as corporate restructurings or acquisitions.
2. Transactions with offshore entities in jurisdictions with weak corporate laws.
3. The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.
4. Sales transactions with unusually large discounts or returns.
5. Transactions with circular arrangements, e.g., sales with commitment to repurchase.
6. Transactions under contracts whose terms are changed before expiry.

- 3 Identifying Fraud risk factors**
- Domination of management by a single person or small group without compensating controls is a fraud risk factor.
- Indicators of dominant influence:**
- RP has vetoed significant business decisions taken by management or TCWG.
  - Significant transactions are referred to RP for final approval.
  - No/little debate among mgmt./TCWG regarding business proposal initiated by RP.
  - Transactions involving RP are rarely independently reviewed / approved.

### Responses to Assessed Risks

- 1 Identification of unidentified / undisclosed RP or RP transaction.**
- Communicate to other members of ET.
  - Request management to identify the transactions with the newly identified RP.
  - Inquire for mgmt. failure to identify RP/disclose RP relationship & transactions.
  - Reconsider risk that other unidentified RP or undisclosed RP transactions may exist.
  - If non-disclosure appears intentional, evaluate implications for audit.
- 2 Identified significant RP Transactions outside Entity's Normal course of Business.**
- Inspect underlying contracts to evaluate business rationale.
  - Examine the terms on which transactions takes place.
  - Collect evidences w.r.t. approval and authorisation of transaction.
  - Collect evidences for appropriate accounting & disclosure in compliance of FRF.
- 3 Assertions that RP Transactions were conducted on arm Length price.**
- Collect SAAE w.r.t. management assertion of Arm's length transaction.
  - Compare transaction prices with prices for identical transactions prevailing in ordinary course of business.
  - Engage expert to determine market value.

## ET Discussions

SA 315 & SA 240 require ET Team discussion.

### Matters to be addressed in ET Discussion

- Matters include:
  - ⇒ Nature & extent of entity's relationships & transactions with RPs.
  - ⇒ Emphasis on maintaining professional skepticism throughout audit w.r.t. potential for material misstatement associated with RPs relationships & transactions.
  - ⇒ Circumstances that may indicate existence of RP relationship & transaction that mgmt. has not identified or disclosed to auditor.
  - ⇒ Records or documents that indicate existence of RP relationship or transactions.
  - ⇒ Importance that mgmt. & TCWG attach to identification, appropriate a/cing for, and disclosure of RP relationship & transaction and related risk of mgmt. override of relevant controls.
- In addition, discussion in context of fraud may include specific consideration of how RPs may be involved in fraud. For example:
  - ⇒ How special-purpose entities controlled by mgmt. might be used to facilitate earnings mgmt.
  - ⇒ How transactions between entity & known business partner of a key member of mgmt. could be arranged to facilitate misappropriation of assets.

# Completion and Review

## SA 560 "Subsequent Events"

### Auditor's Duties

#### Events occurring between the date of F.S. and the date of Auditor's report

- (i) Perform procedures to obtain SAAE that all events which require adj. / disclosure have been identified.
- (ii) For purpose of determining nature & timing of procedures, auditor may:
  - (a) Obtain **understanding of procedures** applied by mngt. for identification of significant events.
  - (b) **Inquire Mngt.** as to occurrence of subsequent events which may affect F.S.
  - (c) Read **Minutes of Meetings** that held after B/S date.
  - (d) Study **Interim F.S.**, if any.
- (iii) If auditor identifies any event which require any adj. / disclosure, **ensure its appropriate treatment.**
- (iv) Obtain **WR from Mngt.** that all known events have been appropriately adjusted/disclosed.

#### Facts that become known to Auditor after date of Auditor's report

##### Before issue of F.S.

1. In general, auditor has no obligation.
2. However, in case of significant matter
  - ⇒ Discuss with Mngt.;
  - ⇒ Determine need to amend F.S.; and
  - ⇒ Inquire how mngt intends to address matter in F.S.
3. If Mngt. amend F.S., auditor shall-
  - ⇒ extend procedures to date of new report, and
  - ⇒ provide new auditor report on amended F.S.

or

  - ⇒ amend audit report to include an additional date restricted to that amendment & include an EOM/OMP.
4. If mngt refuses to amend F.S.-
  - ⇒ Modify report if not yet provided to entity.
  - ⇒ If report already issued, notify to mngt & TCWG not to issue F.S. to third parties.
  - ⇒ If mngt still issues F.S., take appropriate action to prevent reliance on auditor's report.

#### Specific Inquiries to be made from management

1. Whether new commitments, borrowings or guarantees have been entered into.
2. Whether sales or acquisitions of assets have occurred or are planned.
3. Whether there have been increases in capital or issuance of debt instruments.
4. Whether any assets have been appropriated by government or destroyed.
5. Whether there have been any developments regarding contingencies.
6. Whether any unusual accounting adjustments have been made.
7. Whether any events have occurred that will bring into question appropriateness of a/cing policies used in F.S.
8. Whether any events have occurred that are relevant to measurement of estimates or provisions made in F.S.
9. Whether any events have occurred that are relevant to the recoverability of assets.

#### After issue of F.S.

1. In general Auditor has no obligation.
2. However, in case of significant matter
  - ⇒ Discuss with Management
  - ⇒ Determine need to amend F.S.
  - ⇒ Inquire how mngt intends to address matter in F.S.
3. If Mngt. amend F.S. auditor shall:
  - ⇒ Carry out procedures on amended F.S.
  - ⇒ Review steps taken by mngt to ensure that recipient of F.S. are informed of situation.
  - ⇒ Extend audit procedures to date of new auditor's report; and
  - ⇒ provide new auditor report on amended F.S.
4. In amended auditor's report, an EOM Para referring to a note to F.S. that discussed reason of amendment in F.S., should be included.

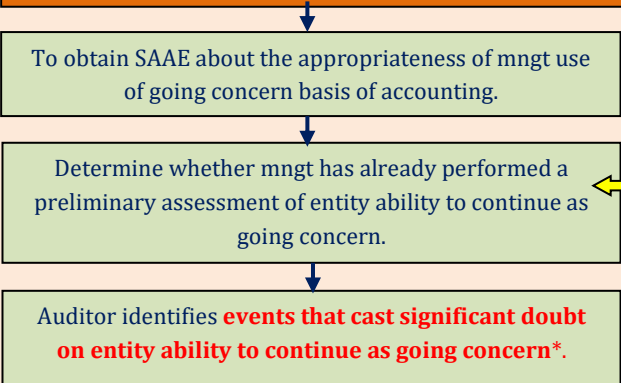
# SA 570 "Going Concern"



## Mngt. Responsibilities

- Assess entity's ability to continue as a going concern.
- General purpose F.S. are prepared on a going concern basis unless mngt. intends to liquidate entity or to cease operation.
- In case F.S. are not prepared on going concern basis, fact would need to be appropriately disclosed.

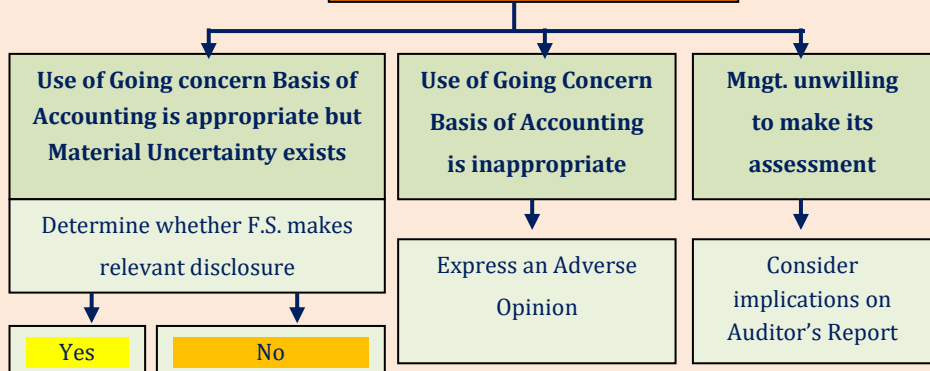
## Auditor's Duties



For this purpose, auditor is required to:

- a) Cover the same period as that used by mngt.
- b) Consider whether mngt has considered all relevant info. of which auditor is aware.

## Perform additional procedures



**Express Qualified or Adverse Opinion; & in Basis for Qualified (Adverse) Opinion section, state that a material uncertainty exists that may cast significant doubt on entity's ability to continue as a going concern and that F.S. do not adequately disclose this matter.**

**Express unmodified opinion & include a separate section "Material Uncertainty Related to Going Concern" to:**

- (a) Draw attention to note in F.S. that discloses the matters; and
- (b) State that these events or conditions indicate that material uncertainty exists that may cast significant doubt on entity's ability to continue as a going concern & that auditor's opinion is not modified in respect of matter.

1. Where mngt has not yet performed assessment of entity's ability to continue as a going concern, requesting mngt to make its assessment.
2. Evaluating mngt. plans for future actions, whether outcome of these plans is likely to improve situation & whether these plans are feasible in the circumstances.
3. Where entity has prepared a cash flow forecast, evaluate reliability of underlying data used to prepare forecast & determine whether there is adequate support for assumptions underlying forecast.
4. Considering whether any additional facts or information have become available since date on which mngt. made its assessment.
5. Requesting WR from mngt. & TCWG, regarding their plans for future actions and feasibility of these plans.

## \*Conditions that may cast doubt about G.C. Assumption

Financial Conditions	Operating Conditions	Others
<ol style="list-style-type: none"> <li>1. Net Liability position.</li> <li>2. Non-renewal of borrowings.</li> <li>3. Withdrawal of Financial Support.</li> <li>4. Adverse Financial Ratios.</li> <li>5. Inability to pay creditors.</li> <li>6. Substantial Losses.</li> <li>7. Inability to arrange finances.</li> <li>8. Negative Operating cash flow.</li> <li>9. Deterioration in value of assets.</li> <li>10. Discontinuation of dividend.</li> </ol>	<ol style="list-style-type: none"> <li>1. Management intention to liquidate the entity.</li> <li>2. Loss of KMP.</li> <li>3. Loss of a major market, key customer, franchise etc.</li> <li>4. Labour Difficulties.</li> <li>5. Shortage of Important Supplies.</li> <li>6. Emergence of successful competitor.</li> </ol>	<ol style="list-style-type: none"> <li>1. Non-compliance of Statutory Requirements.</li> <li>2. Pending legal proceedings against the entity.</li> <li>3. Changes in Law or regulation.</li> <li>4. Uninsured or underinsured assets.</li> </ol>

# SA 580 "Written Representation"



## Meaning and Nature of WR

A written statement by Management provided to auditor to confirm certain matters or to support other audit evidence.

- WR recognized as audit evidence as a response to inquiries.
- WR do not provide SAAE

WR should be in the form of a representation letter addressed to Auditor.

## Matters for which WR may be obtained

1	<b>Management responsibilities</b>	<p>(a) <b>Preparation and presentation of F.S.:</b> In accordance with applicable FRF.</p> <p>(b) <b>Information provided to Auditor:</b> As agreed in terms of engagement</p> <p>(c) <b>Description of management Responsibilities:</b> In the manner as described in terms of engagement</p>
2	<b>Others</b>	<p>As required by other SA <span style="padding-left: 150px;">Or</span> Where auditor determines that it is necessary to obtain one or more WR.</p>

## Date of & Period(s) Covered by WR

- Date of WR shall be as near as practicable to date of auditor's report. However, it should not be after date of auditor's report.
- WR shall be for all F.S. & period(s) referred to in auditor's report.
- In some circumstances it may be appropriate for auditor to obtain a WR about a specific assertion in F.S. during course of the audit. In such case, it may be necessary to request an updated WR.
- WR are for all periods referred to in auditor's report because management needs to reaffirm that WR it previously made w.r.t. prior periods remain appropriate.
- Situations may arise where current mngt. was not present during all periods referred to in auditor's report. Such persons may assert that they are not in a position to provide some or all of WR because they were not in place during the period; in such cases also requirement for auditor to request WR still applies.

## Auditor Responses in different Situations

### Management refuses to provide WR

- Discuss matter with management.
- Re-evaluate reliability & integrity of mngt.
- Determine possible effect on opinion.
- Issue disclaimer of opinion.

### Reliability of WR is doubtful

- In case of having concerns about competence & integrity of mngt, determine their effect in reliability of WR & other audit evidence in general.
- IF WR inconsistent with other evidences, perform additional procedures.
- If conclude that WR is not reliable, determine possible effect on audit opinion.
- In case of sufficient doubt over integrity of management, issue a disclaimer of opinion.

# Reporting

## 7.1 - SA 700 "Forming an Opinion and reporting on Financial Statements"

### Forming an Opinion on the F.S.

Auditor shall form an opinion on whether F.S. are prepared in all material respects in accordance with applicable FRF. To form opinion, auditor needs to conclude as to whether he has obtained **reasonable assurance** that FS as a whole are free of material misstatements, whether due to fraud or error. The conclusion shall take into account:

- (a) Auditor's conclusion, in accordance with SA 330, whether SAAE has been obtained;
- (b) Auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate; and
- (c) Evaluations mentioned below:
  1. Whether F.S. are prepared, in all material respects, in accordance with requirements of applicable FRF.
  2. Whether, in view of requirements of applicable FRF:
    - F.S. adequately disclose significant accounting policies selected and applied;
    - Accounting policies selected and applied are consistent with applicable FRF & are appropriate;
    - Accounting estimates are reasonable;
    - Information presented in F.S. is relevant, reliable, comparable & understandable;
    - F.S. provide adequate disclosures to understand effect of material transactions and events on information conveyed in F.S., and
    - Terminology used in F.S., including title of each F.S., is appropriate.

### Elements of an Unmodified Audit Report

1	<b>Title</b>	"Independent Auditor's Report" – so as to distinguish from reports issued by others.	
2	<b>Addressee</b>	Auditor's Report shall be addressed as appropriate. Generally, it is addressed to those for whom it is prepared.	
3	<b>Opinion Section</b>	<b>Fair Presentation Framework</b>	In our opinion, the F.S. present fairly in all material respects in accordance with [applicable FRF]; Or In our opinion, the F.S. gives a true and fair view of _____ in accordance with [applicable FRF]
		<b>Compliance Framework</b>	In our opinion, the F.S. present, in all material respect in accordance with [applicable FRF]
		Opinion Para shall also cover the following: <ul style="list-style-type: none"> <li>• Identify Entity.</li> <li>• Identify title of each financial statement.</li> <li>• Specify period/date covered by each F.S.</li> <li>• State that F.S. have been audited.</li> </ul>	
4	<b>Basis for Opinion</b>	<ul style="list-style-type: none"> <li>• States that audit was conducted in accordance with SAs.</li> <li>• Refer to Section of Auditor's report that describes auditor's responsibilities.</li> <li>• Compliance of Ethical requirements including independence.</li> <li>• Auditor's believing that they had obtained SAAE to provide a basis for opinion.</li> </ul>	



# SA 700 "Forming an Opinion and reporting on Financial Statements"



## Elements of an Unmodified Audit Report

5	<b>Going Concern</b>	Where applicable, auditor shall report in accordance with SA 570.	<ol style="list-style-type: none"> <li>1. State objective of auditor to obtain reasonable assurance that F.S. as a whole are free from material misstatements &amp; issue auditor's report that includes an auditor's opinion.</li> <li>2. Explanation w.r.t. reasonable assurance &amp; application of concept of materiality.</li> <li>3. Statement that auditor exercises professional judgment &amp; maintain professional skepticism throughout audit.</li> <li>4. State auditor's responsibilities w.r.t.:                             <ul style="list-style-type: none"> <li>• Identifying &amp; assessing the RoMM.</li> <li>• Design &amp; perform audit procedures responsive to assessed risks.</li> <li>• Obtain SAAE.</li> <li>• Understanding of Internal Control.</li> <li>• Expressing opinion on adequacy and operating effectiveness of IFC.</li> <li>• Evaluation of appropriateness of Accounting policies &amp; reasonableness of accounting estimates.</li> <li>• Conclude on appropriateness of management use of Going Concern basis of accounting.</li> <li>• Evaluate overall presentation, structure &amp; content of F.S.</li> </ul> </li> <li>5. State Auditor's responsibilities w.r.t.:                             <ul style="list-style-type: none"> <li>• Matters communicated to TCWG.</li> <li>• Providing statement to TCWG on compliance of Ethical requirements.</li> <li>• Determining KAM out of matters communicated to TCWG.</li> </ul> </li> </ol>
6	<b>Key Audit Matter</b>	In case of Listed Entity, auditor shall communicate KAM in accordance with SA 701.	
7	<b>Management Responsibilities for the F.S.</b>	<ul style="list-style-type: none"> <li>• To prepare F.S. in accordance with applicable FRF.</li> <li>• Maintenance of adequate records for safeguarding of assets and prevention and detection of fraud.</li> <li>• Making reasonable &amp; prudent judgments and estimates.</li> <li>• Design, Implementation &amp; maintenance of IC.</li> <li>• Assessing appropriateness of Going Concern basis of accounting.</li> <li>• Overseeing financial reporting process.</li> </ul>	
8	<b>Auditor's responsibilities for the Audit of F.S.</b>		
9	<b>Other Reporting responsibilities</b>	<ul style="list-style-type: none"> <li>• Heading: "Reporting on Other Legal and Regulatory Requirements".</li> <li>• Will include reporting of CARO, 2020, reporting u/s 143(3) of Companies Act, 2013, Rule 11 of CAAR, 2014.</li> </ul>	
10	<b>Signature</b>	In personal name & name of firm, along with membership number and FRN.	
11	<b>Place</b>	City where audit report is signed.	
12	<b>Date</b>	Should not be earlier than date on which audit evidences are collected.	

### Auditor's report for Audits Conducted as per SAs & ISAs

Auditor may be required to conduct an audit in accordance with International Standards on Auditing, in addition to SAs issued by ICAI. In such case, auditor's report may refer to SAs in addition to ISAs, but he shall do so only if:

- (a) There is no conflict between requirements in ISAs and those in SAs that would lead auditor:
- to form a different opinion, or
  - not to include an EOM Para or OM Para that, in particular circumstances, is required by SAs; and
- (b) Auditor's report includes, at a minimum, each of elements set out in Auditor's Report Prescribed by Law or Regulation.

When auditor's report refers to both ISAs and SAs issued by ICAI, auditor's report shall clearly identify the same including jurisdiction of origin of other auditing standards.

### Supplementary Information Presented with F.S.

If Supplementary Info. is presented with audited F.S., but not required by FRF, auditor shall:

- Evaluate whether Supplementary Info. is clearly differentiated from audited F.S.
- If not, ask mngt. to change presentation of unaudited Supplementary Information.
- If mngt. refuses, explain in Auditor's Report that Supplementary Info. is unaudited.

If such Supplementary Info. is nevertheless integral part of FS due to its nature, auditor is required to cover, in his audit opinion, how it is presented.

## 7.2 - SA 701 “Communicating Key Audit Matters in the Independent Auditor’s Report”

**Key Audit Matters (KAM):** Those matters that in the auditor’s judgment were of most significance in audit of F.S. of current period. These are selected from matters communicated with TCWG.

### Scope of SA 701

- ⇒ SA 701 deals with auditor’s responsibility to communicate KAM in auditor’s report.
- ⇒ Communicating KAM in auditor’s report is not a:
  - (a) substitute for disclosures in F.S. that applicable FRF requires to make or that are otherwise necessary;
  - (b) substitute for auditor expressing a modified opinion when required by SA 705;
  - (c) substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on entity’s ability to continue as a going concern; or
  - (d) separate opinion on individual matters.
- ⇒ SA 705 prohibits auditor from communicating KAM when auditor disclaims opinion on F.S., unless such reporting is required by L&R.

### Purpose of Communicating KAM

- (a) Enhance communicative value of auditor’s report by providing greater transparency.
- (b) Provide additional information to intended users of F.S. to assist them in understating those matters that in auditor’s judgment were of most significance.
- (c) Assist intended users in understanding the entity & areas of significant mmgt. judgment.
- (d) Provide a basis to further engage with mngt. and TCWG about certain matters relating to the entity.

### Considerations for determining KAM

- KAM are to be determined from matters communicated to TCWG, Considering the following:
- (a) Areas of higher assessed RoMM.
  - (b) Significant auditor judgment relating to F.S. that involved mngt. judgment. E.g. Accounting estimates having high estimation uncertainty.
  - (c) Effect of significant event or transactions occurred during the year.
- Auditor shall determine which of the matters so determined above were of most significance in audit of F.S. of current period and therefore are KAM.

### Circumstances in which a matter determined to be KAM is not communicated

- ⇒ L&R precludes public disclosure about matter; or.
- ⇒ Auditor determines that matter should not be communicated in auditor’s report because adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit of such communication.
- ⇒ It will not be applied if entity has publicly disclosed information about the matter.

### Manner of Reporting

- ⇒ Use separate section titled as “Key audit Matter’s”
- ⇒ Use introductory language in this section as – “Key audit Matters are those matters that in auditor’s judgment, were of most significance in audit of F.S. of current period and these matters were addressed in context of audit of F.S. as a whole & auditor does not provide a separate opinion on these matters”.
- ⇒ Description of each KAM shall follow introduction.
- ⇒ Description of KAM shall address reason why matter was considered as KAM.

### Modified opinion Vs. Going concern Vs. KAM

- ⇒ KAM is not a substitute for modified opinion under SA 705 or reporting required under SA 570 w.r.t. existence of material uncertainty as to events that cast significant doubt on an entity ability to continue as Going Concern.
- ⇒ Auditor shall report modification / Going concern in accordance with applicable SA & include a reference to basis for Qualified (Adverse) opinion or material ascertaining related to going concern section in KAM Section.

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



### Types of Modified Opinion

<b>Qualified</b>	<p>Issued when:</p> <ul style="list-style-type: none"> <li>F.S. are misstated having material but not pervasive effect.</li> </ul> <p style="text-align: center;">Or</p> <ul style="list-style-type: none"> <li>Auditor not been able to collect SAAE for transactions that are having material but not pervasive effect.</li> </ul>
<b>Adverse</b>	Issued when F.S. are misstated having material & pervasive effect.
<b>Disclaimer</b>	Issued when auditor not been able to collect SAAE for transactions that are having material and pervasive effect.

### Limitation after Auditor has accepted the Engagement

- If, after accepting engagement, mngt. imposed limitation on scope, auditor shall request mngt. to remove limitation.
- If mngt. refuses, communicate to TCWG & determine whether it is possible to perform alternative procedures to obtain SAAE.
- If unable to obtain SAAE, modify the opinion (Q/D).
- Consider withdrawal, where practicable and possible.

#### Circumstances where withdrawal is not permitted

As per directives contained in SEBI Circular, if auditor proposes to resign:

- within 45 days from end of any quarter of a period covered under appointment, then auditor shall, before such resignation, issue audit/limited review report for such quarter.
- after 45 days from end of any quarter of a period covered under appointment, then auditor shall, before such resignation, issue audit/Limited review report for such quarter as well as next quarter.
- If Limited review report has been issued for first three quarters, then auditor shall issue audit report for full year before resigning.

### Considerations while issuing modified Opinion

#### Opinion Section

Use the heading:

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion.

Wordings of Opinion:

<b>Qualified</b>	Except for effects of matters prescribed in "Basis of Qualified Opinion" section, F.S. have been prescribed fairly in all material respects in accordance with [applicable FRF]
<b>Adverse</b>	In auditor's opinion, because of significance of matters described in "Basis of Adverse Opinion" section, F.S. does not give a true and fair view of _____ in accordance with [applicable FRF].
<b>Disclaimer</b>	Because of significance of matters described in "Basis for Disclaimer of Opinion" section, auditor has not been able to obtain SAAE to provide a basis for audit opinion on F.S.

#### Basis for Opinion Section

Amend the heading: Basis for Qualified Opinion  
Basis for Adverse Opinion  
Basis for Disclaimer of Opinion.

- Include description of matter giving rise to modification.

Cause of Modification	Description
<b>Material Misstatement in Amount</b>	<ul style="list-style-type: none"> <li>Description of Misstatement.</li> <li>Quantification of financial effect, if determinable.</li> <li>If not determinable, state the fact.</li> </ul>
<b>Material Misstatement in Disclosure</b>	Explanation how the disclosures are misstated.
<b>Material Misstatement due to non-disclosure of required information</b>	Describe nature of omitted information. And Include the omitted disclosure provided it is practicable.
<b>Inability to obtain SAAE</b>	State the reason for inability.

- Amend statement w.r.t. auditor believing that audit evidences are sufficient and appropriate to provide basis for "Qualified Opinion" or "Adverse Opinion".
- In case of disclaimer, auditor's report shall not include reference to section of auditor's report that describes auditor's responsibilities and statement w.r.t. auditor's believing that SAAE obtained.

#### Auditor's Responsibility Section

When auditor disclaims opinion, he shall amend description of auditor's responsibilities to include only the following:

- Statement that auditor's responsibility is to conduct audit in accordance with SAs & to issue Auditor's Report.
- Statement that because of significance of matters described in basis for disclaimer of opinion section, auditor was not able to obtain SAAE to provide a basis for audit opinion.
- Statement about auditor's independence & other ethical requirements.



## 7.4 - SA 706 “Emphasis of Matter Paragraph & Other Matter Paragraph in the Independent Auditor’s Report”



### Emphasis of Matter (EOM) Para

1	<b>Meaning</b>
	Para included in Auditor’s report that refers to a matter appropriately reflected/disclosed in F.S. that in auditor’s judgment is of such significance that it is fundamental to user’s understanding of F.S.
2	<b>Requirements</b>
	<ul style="list-style-type: none"> <li>• Auditor shall include EOM Para in auditor’s report provided:                             <ul style="list-style-type: none"> <li>(a) Auditor would not be required to modify opinion as per SA 705 as a result of the matter; and</li> <li>(b) When SA 701 applies, matter has not been determined to be a KAM.</li> </ul> </li> <li>• When auditor includes EOM Para in auditor’s report, he shall:                             <ul style="list-style-type: none"> <li>(a) Include Para within a separate section with appropriate heading that includes term “Emphasis of Matter”;</li> <li>(b) Include in Para a clear reference to matter being emphasized &amp; to where relevant disclosures that fully describe matter can be found in F.S.;</li> <li>(c) Para shall refer only to information presented or disclosed in F.S.; and</li> <li>(d) Para shall indicate that auditor’s opinion is not modified in respect of matter emphasized.</li> </ul> </li> </ul>
3	<b>Requirements in other SAs requiring EOM Para</b>
	<ul style="list-style-type: none"> <li>• FRF prescribed by L &amp; R would be unacceptable but for fact that it is prescribed by L &amp; R. (SA 210)</li> <li>• To alert users that F.S. are prepared in accordance with a special purpose framework. (SA 800)</li> <li>• When facts become known to auditor after date of auditor’s report and auditor provides a new or amended auditor’s report (<i>i.e.</i>, subsequent events). (SA 560)</li> </ul>
4	<b>Circumstance when EOM Para can be issued</b>
	<ul style="list-style-type: none"> <li>(a) Uncertain situation as to future outcome of an exceptional litigation.</li> <li>(b) Significant subsequent events.</li> <li>(c) Early application of new AS in advance of its effective date.</li> <li>(d) Occurrence of major catastrophe that may have a significant effect on entity financial position.</li> </ul>
5	<b>Location in Audit Reports</b>
	<ul style="list-style-type: none"> <li>• When EOM para relates to FRF, auditor may consider it necessary to place Para <b>immediately following Basis of Opinion section</b> to provide appropriate context to the auditor’s opinion.</li> <li>• When KAM section is presented in report, EOM para may be presented either directly <b>before or after KAM section</b>, based on auditor’s judgment as to relative significance of info. included in EOM para.</li> <li>• Auditor may also add further context to heading “Emphasis of Matter”, such as “Emphasis of Matter – Subsequent Event”, to differentiate EOM Para from individual matters described in KAM section.</li> </ul>

### Other Matter Para

1	<b>Meaning</b>
	Para included in Auditors Report that refers to a matter other than presented/disclosed in F.S. that in auditor’s judgment is relevant for users understanding of audit, auditor’s responsibilities or auditor’s report.
2	<b>Requirements</b>
	<ul style="list-style-type: none"> <li>• OM Para should be included in audit report in a separate section termed as “Other Matter”.</li> <li>• Auditor shall include Other Matter paragraph in auditor’s report, provided:                             <ul style="list-style-type: none"> <li>⇒ not prohibited by L &amp; R; and</li> <li>⇒ when SA 701 applies, matter has not been determined to be a KAM to be communicated in auditor’s report.</li> </ul> </li> </ul>

## 7.5 - SA 710 "Comparative Information - Corresponding Figures & Comparative F.S."



### Meaning & Types of Comparative Information

- 1 Comparative Information**  
Amounts & disclosures included in F.S. in respect of one or more prior periods in accordance with applicable FRF.
- 2 Corresponding Figures**  
Comparative information where amounts & other disclosures for prior period, are included as **integral part of current period F.S.** & are intended to be read only in relation to amounts and other disclosures relating to current period.
- 3 Comparative F.S.**  
Comparative information where amounts & other disclosures for prior period, are included for **comparison with F.S. of current period** but, if audited, are referred to in auditor's opinion.

### Audit Procedures

- 1 Determine**
  - (a) Whether F.S. include Comparative information required by FRF, &
  - (b) Whether such information is classified appropriately.
- 2 Evaluate**
  - (a) Whether comparative information agrees with amounts & other disclosures presented in prior period; &
  - (b) Whether accounting policies reflected in comparative information are consistent with those applied in current period.
  - (c) Whether, changes in accounting policies, if any, have been properly accounted for & adequately presented and disclosed.
- 3 Doubt over existence of misstatement**  
Perform additional audit procedures to obtain SAAE to determine existence of material misstatement.  
**Note: SA 560 "Subsequent Event" also applies if auditor had audited the prior period F.S.**
- 4 Obtain WR**  
From mngt. to reaffirm that the WR it previously made with respect to prior period remain appropriate.

### Audit Reporting

#### Corresponding Figures

- Opinion shall not refer to corresponding figures except:
  - (a) If AR of previous period contains modified opinion.
  - (b) If auditor is of opinion, & he has sufficient evidence in this regard, that a material misstatement exists in the F.S. of prior period, which was not addressed earlier.
- If prior period F.S. are not audited, auditor should obtain sufficient audit evidence that the opening balance does not contain any material misstatement.

#### Comparative F.S.

1. Audit opinion to refer to each period for which F.S. are presented.
2. If opinion on prior period F.S. expressed in current period differs from opinion expressed in relevant prior period, give substantive reason for difference in Other Matter Para.
3. If auditor concludes that a material misstatement is present in previously audited figures of F.S., report it to appropriate level of mngt. and request that predecessor auditor be informed.

#### Common Reporting Requirements

- 1 Prior Period F.S. Audited by Another Auditor**  
Audit report to contain Other Matter para, stating that:
  - FS of prior period were audited by predecessor auditor.
  - Type of opinion expressed by him.
  - Date of that report.
- 2 Prior Period F.S. are Unaudited**  
Include Other Matters para:
  - That corresponding FS are unaudited.

But this does not relieve auditor from need to obtain SAAE that opening balances do not contain misstatements that can potentially affect current period F.S.

## 7.6 - SA 720 "The Auditor's Responsibilities relating to Other Information"

**Scope:** SA 720 deals with auditor's responsibilities relating to other information, whether financial or non-financial information included in entity's annual report. Auditor's opinion on F.S. does not cover other information, nor does this SA require auditor to obtain audit evidence beyond that required to form an opinion on the F.S.



### Auditor's Procedures

<b>1</b>	<p><b>Obtaining the Other Information</b></p> <p>Auditor shall:</p> <p>(a) Determine, through discussion with mngt, which documents comprises annual report &amp; entity's planned manner &amp; timing of issuance of such documents;</p> <p>(b) Make appropriate arrangements with mngt. to obtain in a timely manner &amp; if possible, prior to date of auditor's report, final version of documents comprising annual report; &amp;</p> <p>(c) When some or all of the documents determined above will not be available until after date of auditor's report, request mngt. to provide a WR that final version of documents will be provided to auditor when available &amp; prior to its issuance by entity, such that auditor can complete procedures required by this SA.</p>
<b>2</b>	<p><b>Reading &amp; Considering Other information</b></p> <p>Auditor shall read other information &amp; consider</p> <p>(a) whether there is a material inconsistency between other information &amp; F.S., &amp;</p> <p>(b) whether there is a material inconsistency between other information &amp; auditor's knowledge obtained in audit, in context of audit evidence obtained &amp; conclusions reached in the audit.</p> <p>While reading other information, auditor shall remain alert for indications that other information not related to F.S. or auditor's knowledge obtained in audit appears to be materially misstated.</p>

### Auditor's Responses

<b>1</b>	<p><b>When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated</b></p> <p>If auditor identifies that a material inconsistency appears to exist (or becomes aware that other information appears to be materially misstated), auditor shall discuss matter with mngt. &amp; if necessary, perform other procedures to conclude whether:</p> <p>(a) A material misstatement of other information exists;</p> <p>(b) A material misstatement of F.S. exists; or</p> <p>(c) Auditor's understanding of entity &amp; its environment needs to be updated.</p>
<b>2</b>	<p><b>When auditor concludes that a Material Misstatement of Other Information exists</b></p> <ul style="list-style-type: none"> <li>• If auditor concludes that a material misstatement of other information exists, he shall request mngt to correct other information. If mngt.:             <ul style="list-style-type: none"> <li>(a) Agrees to make correction, auditor shall determine that correction has been made; or</li> <li>(b) Refuses to make correction, auditor shall communicate matter with TCWG and request that correction be made.</li> </ul> </li> <li>• If auditor concludes that a material misstatement exists in other information obtained prior to date of auditor's report, and other information is not corrected after communicating with TCWG, auditor shall take appropriate action, including:             <ul style="list-style-type: none"> <li>(a) Considering implications for auditor's report &amp; communicating with TCWG about how auditor plans to address material misstatement in auditor's report,</li> <li>(b) Withdrawing from engagement, where withdrawal is possible under applicable L &amp; R.</li> </ul> </li> <li>• If auditor concludes that a material misstatement exists in other information obtained after date of auditor's report, auditor shall:             <ul style="list-style-type: none"> <li>(a) If other information is corrected, perform procedures necessary in the circumstances; or</li> <li>(b) If other information is not corrected after communicating with TCWG, take appropriate action considering auditor's legal rights &amp; obligations, to seek to have uncorrected material misstatement appropriately brought to attention of users for whom the auditor's report is prepared.</li> </ul> </li> </ul>
<b>3</b>	<p><b>When a Material Misstatement in F.S. Exists or Auditor's Understanding of Entity &amp; Environment needs to be updated</b></p> <p>If, as a result of performing procedures, auditor concludes that a material misstatement in F.S. exists or auditor's understanding of entity and its environment needs to be updated, auditor shall respond appropriately in accordance with the other SAs.</p>

**Reporting**

- Auditor's report shall include a separate section with heading "Other Information", when, at date of auditor's report:
  - (a) For audit of F.S. of a listed entity, auditor has obtained, or expects to obtain, other information; or
  - (b) For audit of F.S. of an unlisted corporate entity, auditor has obtained some or all of other information.
- When auditor's report is required to include an Other Information section, it shall include:
  - (a) A statement that mnngt. is responsible for other information;
  - (b) An identification of:
    - (i) Other information, if any, obtained by auditor prior to date of auditor's report; and
    - (ii) For an audit of F.S. of a listed entity, other information, if any, expected to be obtained after date of the auditor's report;
  - (c) A statement that auditor's opinion does not cover other information & accordingly, that auditor does not express an audit opinion;
  - (d) Description of auditor's responsibilities relating to reading, considering & reporting on other information as required by this SA; and
  - (e) When other information has been obtained prior to date of the auditor's report, either:
    - (i) A statement that auditor has nothing to report; or
    - (ii) If auditor has concluded that there is uncorrected material misstatement of other information, a statement that describes uncorrected material misstatement of other information.
- When auditor expresses a qualified or adverse opinion in accordance with SA 705, auditor shall consider implications of matter giving rise to modification of opinion for statement required in above para.

**Examples of amounts or other Items that may be included in the "Other Information"**

**1 Amounts**

1. Items in a summary of key financial results, such as net income, EPS, dividends, sales & other operating revenues & purchases & operating expenses.
2. Selected operating data, such as income from continuing operations by major operating area, or sales by geographical segment or product line.
3. Special items, such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions & restructuring & reorganization expenses.
4. Liquidity & capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations.
5. Capital expenditures by segment or division.
6. Amounts involved in, and related financial effects of, off-balance sheet arrangements.
7. Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies.
8. Financial measures or ratios, such as gross margin, return on average capital employed, return on shareholders' equity, current ratio, interest coverage ratio and debt ratio.

**2 Other Items**

1. Explanations of critical accounting estimates & related assumptions.
2. Identification of RP and descriptions of transactions with them.
3. Descriptions of nature of off-balance sheet arrangements.
4. Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases.
5. Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations.
6. General descriptions of the business environment and outlook.
7. Descriptions of trends in market prices of key commodities or raw materials.
8. Contrasts of supply, demand and regulatory circumstances between geographic regions.

## 7.8 - Notes on Accounts & Qualification; Audit Report & Certificate



### Notes on Accounts vs. Qualifications

Notes on Accounts	Qualifications
Notes represents mngt. stand on a matter & assessment on all matters involving difference of opinion between them and auditors.	Qualification represents auditor disagreement on the matters with Management.
Notes of a qualificatory nature appear in accounts and forms part of F.S.	Qualifications are stated by auditor in the auditor's report.
Mngt. may insist upon auditor for not modifying audit opinion considering that mngt. has disclosed full facts & assessment of matter through notes on F.S.	Auditor needs to exercise his professional judgment to determine whether disclosures in notes alone would suffice or a qualification is needed in audit report.
Notes includes info. which is necessary to make F.S. understandable by users.	Qualification must be expressed by Auditor in a clear & unambiguous manner.

### Report and Certificates

**Audit Report:** Formal statement usually made after an enquiry, examination or review of specified matters under report & includes reporting auditor's opinion thereon.

**Certificate:** Written confirmation of accuracy of facts stated therein & does not involve any estimate or opinion.

Report	Certificate
Expression of opinion on true & fair view of F.S. and books of account.	Confirmation of correctness & accuracy of subject matter for which certificate is being issued.
Based on practitioner professional judgment.	Based on actual facts and figures.
Scope of audit is wide & generally cover opinion on complete set of F.S.	Scope of certificate is narrow & restricted to subject matter only.
Audit report is generally issued annually as per requirements of statute.	Certificates are issued as per specific requirements of law.
Auditor's responsibility in case any misstatement is not being identified, is subject to his negligence in performance of his duties.	In case of wrong certification, auditor is held liable irrespective of due diligence.

## 7.9 - Duties of Company Auditor (Sec. 143)



### Inquire into Propriety Matters - Sec. 143(1)

- Loans and advances are properly secured and terms are prejudicial.
- Book entries are prejudicial.
- Shares, debentures and other securities are sold at a price less than acquisition cost in case of non-banking and non-investment company.
- Loans and advances made are shown as deposits.
- Personal expenses charged to revenue account.
- Cash has actually been received on shares allotted for cash, if not received, correct position shown in books and balance sheet.

### Reporting u/s 143(3)

- Whether auditor has obtained all necessary info. and explanations for audit.
- Whether proper books of account have been maintained.
- Whether branch audit report has been received & manner of dealing with it.
- Whether B/S and P & L Account agree with books of account.
- Whether Financial statements comply with AS.
- Comments on financial transactions or matter having any adverse effect on functioning of the company.
- Whether any director is disqualified u/s 164(2).
- Qualification or adverse remarks w.r.t. maintenance of accounts.
- Whether IFC with reference to F.S. are in place and effectively operated.

**Exception: not apply to a private company:**

- which is a one-person company or a small company; or
- which has turnover less than ₹ 50 crores as per latest audited F.S. & which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during FY less than ₹ 25 Cr.

(j) Other matters as prescribed. (Rule 11)

## 7.9 - Duties of Company Auditor (Sec. 143)



### Rule 11

- (a) Whether impact of pending litigations on financial position is disclosed.
- (b) Whether provisions for material Foreseeable losses on long term contracts made.
- (c) Whether there is any delay in transferring amounts to IEPF.
- (d) **Omitted**
- (e) Whether mngt. represented that no funds have been advanced/invested to or in any other entity with understanding, that it shall, lend/invest in other entities identified in any manner by or on behalf of the company or provide any guarantee, security or the like on behalf of Ultimate Beneficiaries.**  
*Whether mngt. represented that no funds have been received from any entity with understanding that it shall lend/invest in other entities identified in any manner by or on behalf of the Funding Party or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries. Auditor consideration that mngt. representations made under this Rule does not contain any material mis-statement.*
- (f) Whether dividend declared or paid during the year is in compliance with section 123 of the Companies Act, 2013.**
- (g) Whether company has used accounting software which has a feature of recording audit trail (edit log) facility and same has been operated throughout year for all transactions recorded in software and audit trail feature has not been tampered with and it has been preserved for record retention.**

### Reporting requirements as to managerial remuneration u/s 197(16)

Auditor shall in his report u/s 143, make a statement as to

- whether remuneration paid by company to its directors is in accordance with provisions of Sec. 197;
- whether remuneration paid to any director is in excess of limit laid down u/s 197; and
- give such other details as may be prescribed.

**Note: This matter is to be covered in the auditor's report under the Section "report on Other Legal and Regulatory Requirements".**

### Reporting of Fraud – Sec. 143(12) & Sec. 143(13)

<b>A</b>	<b>Reporting to Central Government</b>
	<i>If auditor has reason to believe that an offence of fraud involving amount of &gt; ₹ 1 Cr., is committed, in company by its officers or employees, he shall report matter to C.G.</i>
	<b>Manner of Reporting (Rule 13)</b>
	⇒ <b>Fraud Reported to Audit Committee/BOD within 2 days; seeking their reply within 45 days</b>
	⇒ <b>If reply received, forward his report, reply and comments on reply to C.G. within 15 days</b>
	⇒ <b>If reply not recd., forward his report to C.G. along with a note that reply not recd.</b>
	⇒ <b>Report shall be sent to Secretary, MCA in sealed cover by R.P.A.D. or Speed Post followed by e-mail in confirmation.</b>
	⇒ <b>Report shall be on letter-head of auditor containing postal address, e-mail &amp; mobile number and signed by auditor with his seal and shall indicate his Membership Number.</b>
	⇒ <b>Report shall be in Form ADT-4.</b>
<b>B</b>	<b>Reporting to the Audit Committee or Board</b>
	<ul style="list-style-type: none"> <li>• <i>In case of a fraud &lt; 1 Cr., auditor shall report matter to audit committee or Board immediately but not later than 2 days of his knowledge of fraud, specifying following:</i> <ul style="list-style-type: none"> <li>⇒ <i>Nature of Fraud with description;</i></li> <li>⇒ <i>Approximate amount involved; and</i></li> <li>⇒ <i>Parties involved.</i></li> </ul> </li> <li>• <i>Disclosures in Board's Report (Rule 13):</i>  <i>Following details of each fraud reported to A.C. or Board shall be disclosed in Board's Report:</i> <ul style="list-style-type: none"> <li>⇒ <i>Nature of Fraud with description;</i></li> <li>⇒ <i>Approximate Amount involved;</i></li> <li>⇒ <i>Parties involved, if remedial action not taken; and</i></li> <li>⇒ <i>Remedial actions taken.</i></li> </ul> </li> </ul>
<b>C</b>	<b>Applicability of Sec. 143 – Sec. 143(14)</b>
	<i>Provision regarding reporting of fraud shall also apply, mutatis mutandis, to Cost Auditor and a Secretarial Auditor.</i>
<b>D</b>	<b>Penalty for Non-Compliance – Sec. 143(15)</b>
	<p><i>If auditor, cost accountant or CS in practice does not comply with provisions of Sec. 143(12), he shall be liable to a penalty of</i></p> <ul style="list-style-type: none"> <li>• <i>₹ 5 lakh in case of a listed company and</i></li> <li>• <i>₹ 1 lakh in case of any other company.</i></li> </ul>

## 7.10 – CARO, 2020

CARO, 2020 apply to all companies including foreign companies except the following

- (a) Banking Company
- (b) Insurance Company
- (c) Company licensed to operate u/s 8
- (d) One Person Company
- (e) Small Company
- (f) Private limited Company (not being a subsidiary or holding of public co.)
  - Paid up capital + Reserves & Surplus  $\leq$  1Cr. (as on Balance Sheet Date)
  - +
  - Total borrowings from Bank & F.I.  $\leq$  1Cr. (at any point of time during the FY)
  - +
  - Total revenue as disclosed in Schedule III  $\leq$  10 Cr. (for the FY)



### Important Notes

1. CARO not apply over audit report on Consolidated F.S. except Para 3 (xxi).
2. A company if covered under the definition of small company, it will remain exempted from applicability of the Order even if it falls under any of the criteria specified for private company.

Note: Small company means a company, other than a public company:

- (a) paid-up share capital of which does not exceed ₹ 4 crore; and
- (b) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed ₹ 40 crore.




### Matters to be reported under CARO 2020

Para No.	Reporting Area	Reporting Requirements
<b>3(i)</b>	<b>Fixed Assets</b>	<ul style="list-style-type: none"> <li>• Whether proper records maintained.</li> <li>• Whether physical verification has been conducted at reasonable intervals by mngt.</li> <li>• Whether material discrepancies noticed and if so, whether dealt properly in books.</li> <li>• Title deeds of immovable properties are held in name of Co., if not provide details.</li> <li>• <b>Whether company has revalued its PPE or intangible assets or both during year &amp;, if so, whether revaluation is based on valuation by a Regd. Valuer; specify amount of change, if change is <math>\geq</math>10% in aggregate of net carrying value of each class of PPE or intangible assets.</b></li> <li>• <b>Whether any proceedings have been initiated or are pending against company for holding any benami property under Benami Transactions (Prohibition) Act, 1988 &amp; its rules; if so, whether company has appropriately disclosed details in its F.S.</b></li> </ul>
<b>3(ii)</b>	<b>Inventories</b>	<ul style="list-style-type: none"> <li>• Whether physical verification has been conducted at reasonable intervals by mngt.</li> <li>• <b>Whether coverage &amp; procedure of verification by mngt. is appropriate; whether any discrepancies of <math>\geq</math>10% in aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in books of account;</b></li> <li>• <b>Whether company has been sanctioned working capital limits <math>&gt;</math> ₹ 5 crores, in aggregate, from banks or FI on basis of security of current assets; whether quarterly returns or statements filed by the company with such banks or FI are in agreement with the books of account of the Company, if not, give details.</b></li> </ul>

Para No.	Reporting Area	Reporting Requirements
3(iii)	Investments, Guarantee/ Security, Loans or Advances	<p><i>Whether company made investments in, provided any guarantee or security or granted any loans or advances in nature of loans, secured or unsecured, to companies, firms, LLPs or any other parties, if so,</i></p> <p><i>(a) whether company has provided loans or provided advances in nature of loans, or stood guarantee, or provided security to any other entity, if so, indicate:</i></p> <p><i>(A) aggregate amount during year &amp; balance o/s at balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, JVs and associates;</i></p> <p><i>(B) aggregate amount during year &amp; balance outstanding at balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, JVs and associates;</i></p> <p><i>(b) whether investments made, guarantees provided, security given and terms and conditions of grant of all loans and advances in nature of loans and guarantees provided are not prejudicial to company's interest;</i></p> <p><i>(c) in respect of loans &amp; advances in nature of loans, whether schedule of repayment of principal &amp; payment of interest has been stipulated &amp; whether repayments or receipts are regular;</i></p> <p><i>(d) if amount is overdue, state total amount overdue for &gt; 90 days, &amp; whether reasonable steps have been taken by company for recovery of principal &amp; interest;</i></p> <p><i>(e) whether any loan or advance in nature of loan granted which has fallen due during year, has been renewed or extended or fresh loans granted to settle overdues of existing loans given to same parties, if so, specify aggregate amount of such dues renewed or extended or settled by fresh loans and percentage of aggregate to total loans or advances in nature of loans granted during year [not applicable to companies whose principal business is to give loans];</i></p> <p><i>(f) whether company has granted any loans or advances in nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify aggregate amount, percentage thereof to total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in Sec. 2(76) of the Companies Act, 2013.</i></p>
3(iv)	Compliance of Provisions of Secs. 185 & 186	<ul style="list-style-type: none"> <li>In respect of loans, investments, guarantees, and security</li> <li>If not, provide the details thereof.</li> </ul>
3(v)	Public Deposits	<ul style="list-style-type: none"> <li>Directives by RBI and Secs. 73 to 76 complied with. If not - nature of contravention.</li> <li>Order passed by CLB/RBI/Court/Tribunal-Whether complied with or not.</li> </ul>
3(vi)	Cost Records	<ul style="list-style-type: none"> <li>Whether Specified u/s 148(1);</li> <li>If yes, whether accounts and records made and maintained.</li> </ul>
3(vii)	Statutory Dues	<ul style="list-style-type: none"> <li>Whether undisputed GST, PF, ESI, IT, ST, Custom, Excise, VAT, cess &amp; Other – paid regularly. If not outstanding &gt;6 months as on Balance Sheet Date.</li> <li>W.r.t. disputed statutory dues – state amount involved &amp; forum where dispute is pending.</li> </ul>
3(viii)	Unrecorded Income	<ul style="list-style-type: none"> <li><i>Whether any transactions not recorded in books of account have been surrendered or disclosed as income during the year in the tax assessments under the I-tax Act, 1961,</i></li> <li><i>if so, whether previously unrecorded income has been properly recorded in books of a/c during the year.</i></li> </ul>
3(ix)	Repayment of Dues	<p><i>(a) Whether co. defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and amount of default to be reported.</i></p> <p><i>(b) Whether company is a declared wilful defaulter by any bank or F.I. or other lender;</i></p> <p><i>(c) Whether term loans were applied for 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;</i></p> <p><i>(d) Whether funds raised on short term basis have been utilised for long term purposes, if yes, nature and amount to be indicated;</i></p> <p><i>(e) Whether company has taken any funds on account of or to meet obligations of its subsidiaries, associates or JVs, if so, details thereof with nature of such transactions and amount;</i></p> <p><i>(f) whether company has raised loans during year on pledge of securities held in its subsidiaries, JVs or associate companies, if so, give details thereof and also report if company has defaulted in repayment of such loans raised.</i></p>



Para No.	Reporting Area	Reporting Requirements
3(x)	<i>Money raised by public issue &amp; term loans</i>	<ul style="list-style-type: none"> <li>• Whether moneys raised by way of IPO or FPO applied for purposes for which those are raised, if not, details together with delays or default &amp; subsequent rectification, if any.</li> <li>• Whether Co. has made preferential allotment or private placement of shares or convertible debentures during year and if so, whether requirements of sec. 42 and 62 of Companies Act, 2013 have been complied with and funds raised have been used for purposes for which funds were raised, if not, provide details in respect of amount involved &amp; nature of non-compliance.</li> </ul>
3(xi)	<i>Fraud</i>	<ul style="list-style-type: none"> <li>• Whether any fraud by company or any fraud on Company has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.</li> <li>• Whether any report u/s 143(12) of Companies Act has been filed by auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with C.G.;</li> <li>• Whether auditor has considered whistle-blower complaints received by company.</li> </ul>
3(xii)	<i>Nidhi Companies</i>	<ul style="list-style-type: none"> <li>• Whether Nidhi Co. has complied with Net Owned Fund to Deposits in ratio of 1:20;</li> <li>• Whether Nidhi Company is maintaining 10% unencumbered term deposits to meet out liability.</li> <li>• Whether there has been any default in payment of interest on deposits or repayment thereof and if so, the details thereof.</li> </ul>
3(xiii)	<i>Transaction with Related Parties</i>	<ul style="list-style-type: none"> <li>• Whether all transactions with RP are in compliance with Secs. 177 &amp; 188 of Companies Act, 2013; and</li> <li>• details have been disclosed in the F.S. as required by the applicable ASs.</li> </ul>
3(xiv)	<i>Internal Audit System</i>	<ul style="list-style-type: none"> <li>• Whether company has internal audit system commensurate with size &amp; nature of business;</li> <li>• Whether reports of Internal Auditors were considered by statutory auditor.</li> </ul>
3(xv)	<i>Non-cash transactions with Directors</i>	<ul style="list-style-type: none"> <li>• Whether co. has entered into any non-cash transactions with directors or persons connected with him;</li> <li>• If so, whether provisions of Section 192 of Companies Act, 2013 have been complied with.</li> </ul>
3(xvi)	<i>Registration with RBI</i>	<p>(a) Whether regn. is required u/s 45-IA of RBI Act, 1934 and if so, whether regn. has been obtained.</p> <p>(b) Whether company has conducted any Non-Banking Financial or Housing Finance activities without a valid CoR from the RBI;</p> <p>(c) Whether company is a Core Investment Company (CIC), if so, whether it continues to fulfil criteria of a CIC, and in case company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;</p> <p>(d) Whether Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;</p>
		
3(xvii)	<i>Cash Losses</i>	<ul style="list-style-type: none"> <li>• Whether company has incurred cash losses in the FY and in the immediately preceding FY,</li> <li>• If so, state the amount of cash losses;</li> </ul>
3(xviii)	<i>Considerations of issues raised by outgoing auditor</i>	<ul style="list-style-type: none"> <li>• Whether there has been any resignation of the statutory auditors during the year,</li> <li>• If so, whether auditor has considered issues, objections or concerns raised by the outgoing auditors.</li> </ul>
3(xix)	<i>Existence of Material uncertainty as to company ability to meet its liabilities</i>	<i>On basis of financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying F.S., auditor's knowledge of BOD and management plans, whether auditor is of opinion that no material uncertainty exists as on date of audit report that company is capable of meeting its liabilities existing at date of balance sheet as &amp; when they fall due within a period of 1 year from the balance sheet date.</i>
3(xx)	<i>Transfer of unspent CSR amount</i>	<ul style="list-style-type: none"> <li>• Whether, in respect of other than ongoing projects, company has transferred unspent amount to Fund specified in Schedule VII to Companies Act within a period of 6 months of expiry of FY in compliance with 2<sup>nd</sup> proviso to Sec. 135(5) of the said Act;</li> <li>• Whether any amount remaining unspent u/s 135(5), pursuant to any ongoing project, has been transferred to special account in compliance with provision of Sec. 135(6) of said Act.</li> </ul>
3(xxi)	<i>Remarks in CARO Reports of group companies</i>	<ul style="list-style-type: none"> <li>• Whether there have been any qualifications or adverse remarks by respective auditors in CARO reports of companies included in consolidated F.S.,</li> <li>• If yes, indicate details of companies and paragraph no. of CARO report containing qualifications or adverse remarks.</li> </ul>

# Specialised Areas

## 8.1 - SA 800 "Special Considerations – Audit of F.S. prepared in accordance with SPF"

Scope: SA 800 deals with Special considerations in application of SAs in audit of F.S. (Complete set) prepared in accordance with SPF. It does not override requirements of other SAs.

### Meaning & Nature of Special Purpose Framework (SPF)

#### Meaning of SPF

FRF designed to meet financial information need of specific users.

#### Nature of SPF

It may be Fair presentation or Compliance.

#### Examples of SPF

- Cash receipts and disbursements basis of accounting
- Financial reporting provisions established by a regulator to meet requirements of that regulator.
- FR provisions of a contract such as loan agreement.

### Auditor's Considerations

#### Engagement Acceptance

1. Determine acceptability of FRF as per SA 210.
2. Obtain understanding of:
  - Purpose for which F.S. are prepared;
  - Intended users; and
  - Steps taken by Mngt. to determine acceptability of applicable FRF.
3. Consider financial information needs of users in determining acceptability of FRF.
4. Applicable FRF may encompass FR standards established by an organization that is authorized to promulgate standards for SPFS.
5. In case any conflict exists in between FR standards & legislative requirements, auditor need to take action as prescribed in SA 210.
6. In case FRF encompass FR provisions of contract, acceptability of FRF is determined by considering whether FRF exhibits attributes normally exhibited by acceptable FRF as described in SA 210.



### Planning & Performing an Audit Engagement Acceptance

1. Determine whether **application of SAs** requires special consideration in circumstances of engagement. For example, in SA 320, judgments about matters that are material need to be based on a consideration of financial information needs of intended users.
2. Auditor is required to consider Requirement of SA 200 on applicability of SAs. SA 200 requires the auditor to comply with
  - relevant ethical requirements, and
  - all SAs relevant to the audit.

Auditor is required to comply with each requirement of an SA unless entire SA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist.
3. If Special Purpose F.S. are prepared as per requirements of contract, mngt. may agree with intended users on a threshold below which misstatements identified during audit will not be corrected. Existence of such threshold does not relieve auditor from requirement to determine materiality in accordance with SA 320.
4. In case of Special Purpose F.S., TCWG may not have a responsibility of overseeing preparation of F.S. prepared as per requirements of SPF. In such cases, requirements of SA 260 may not be relevant to the audit of Special Purpose F.S.

### Forming an Opinion & Reporting

Apply requirements of SA 700.

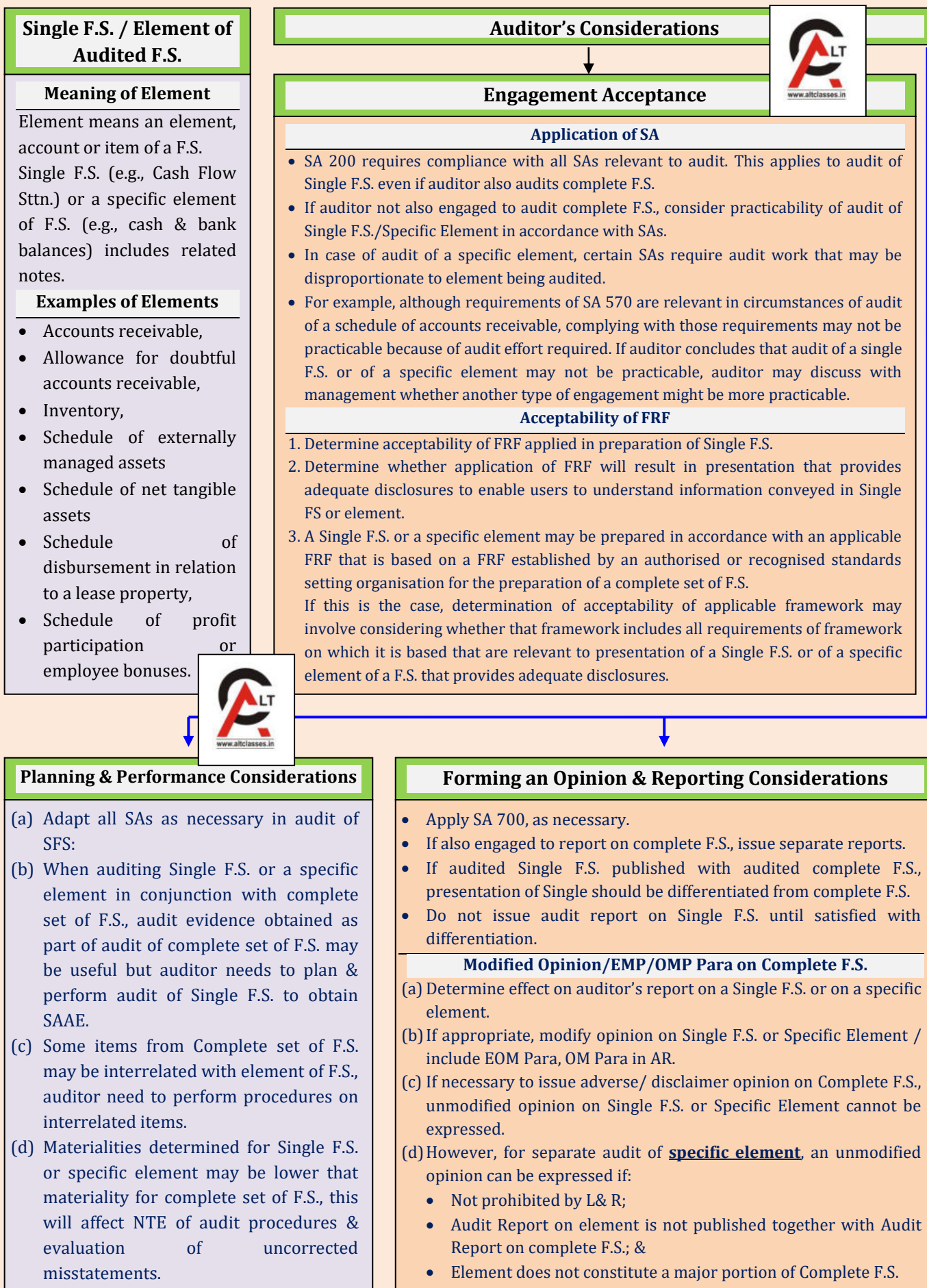
Auditor's Report to include:

- (a) Purpose for which F.S. are prepared & Intended users.
- (b) Mngt. responsibility w.r.t. F.S. and selection of FRF.
- (c) EOM Para to alert users w.r.t. allocation of Special purpose F.S. and as such F.S. may not be suitable for another purpose.

#### Restriction on Distribution or Use

- In addition to alert as discussed above, auditor may consider it appropriate to indicate that AR is intended solely for specific users.
- Depending on L & R applicable, this may be achieved by restricting distribution or use of AR. In these circumstances, paragraph alerting readers may be expanded to include these other matters & heading modified accordingly.

## 8.2 - SA 805 "Special Considerations – Audits of Single F.S. and Specific Elements, Accounts or Items of a F.S."



## 8.3 - SA 810 “Engagements to Report on Summary Financial Statements (SFS)”

- **Scope:** SA 810 deals with auditor’s responsibilities, when engaged to report, on SFS, derived from F.S. audited in accordance with SA, by same auditor.
- **Meaning of Summary F.S. (SFS):** Historical financial info that is derived from F.S., but contains less detail than F.S., while still providing structured representation consistent with that provided by entity’s F.S.

### Engagement Acceptance

- (a) Accept engagement only when also engaged to audit, those F.S., from which SFS have been derived.
- (b) Before accepting Engagement, auditor shall:
1. Determine acceptability of applied criteria.
  2. Obtain agreement of mngt. that acknowledges & understands its responsibilities:
    - For preparation of SFS in accordance with applied criteria;
    - To make audited F.S. available to intended users of SFS without undue difficulty; and

To include auditor’s report on SFS in any document that contains SFS & that indicates that auditor has reported on them.

- (c) Agree with mngt. form of opinion to be expressed on the SFS.
- (d) Do not accept engagement if:
- Criteria are not acceptable; or
  - unable to obtain management agreement.

#### Factors affecting auditor’s determination of acceptability of applied criteria:

- Nature of the entity
- Purpose of Summary F.S.
- Information needs of intended users of Summary F.S.; and
- Whether applied criteria will result in Summary F.S. that are not misleading in the circumstances.

#### Factors affecting auditor’s evaluation whether audited F.S. are available to intended users without undue difficulty

- Whether Summary F.S. describe clearly from whom or where audited F.S. are available.
- Whether audited F.S. are on public record; or
- Whether mngt. has established a process by which intended users of Summary F.S. can obtain ready access to the audited F.S.

### Nature of Procedures

- |   |   |
|---|---|
| 1 | <b>EVALUATE</b>   |
|   | <ul style="list-style-type: none"> <li>(a) Whether SFS adequately disclose their summarised nature &amp; identify audited F.S.</li> <li>(b) If SFS are not accompanied by audited F.S., whether they clearly describe from whom or where audited F.S. are available;</li> <li>(c) Whether SFS adequately disclose applied criteria.</li> <li>(d) Whether SFS are prepared in accordance with applied criteria.</li> <li>(e) Whether SFS contain necessary info &amp; are appropriately aggregated.</li> <li>(f) Whether audited F.S. are available to intended users without undue difficulty.</li> </ul> |
| 2 | <b>COMPARE</b>  |
|   | SFS with related information in audited F.S. to determine whether SFS agree with or can be re-calculated from related information in audited F.S.   |

### Form of Opinion

**Unmodified opinion shall be expressed on Summary F.S. if SFS are consistent, in all material respects, with audited F.S., in accordance with applied criteria.**

#### Special Considerations

<b>Qualified Opinion/ EOM/OM Para in Report on Audited F.S.</b>	<ol style="list-style-type: none"> <li>1. State that audit report on F.S. contains qualified opinion/EOM/OM para <b>AND</b></li> <li>2. Describe:                     <ul style="list-style-type: none"> <li>• Basis for qualified opinion on audited F.S., &amp; that qualified opinion; or EOM/OM para; and</li> <li>• Effect thereof on SFS, if any.</li> </ul> </li> </ol>
<b>Adverse Opinion/ Disclaimer of Opinion on Audited F.S.</b>	<p>Report on SFS is required to include the following:</p> <ol style="list-style-type: none"> <li>1. Statement that audit report contains adverse/disclaimer of opinion;</li> <li>2. Description of basis of such opinion; and</li> <li>3. Statement that as result of adverse/disclaimer of opinion it is inappropriate to express an opinion on SFS.</li> </ol>
<b>Modified Opinion on SFS</b>	Express <u>adverse opinion</u> if SFS are not consistent in all material respects with or are not a fair summary of audited FS in accordance with applied criteria.

### 9.1 - SRS 4400 “Engagements to perform Agreed Upon Procedures”

**Scope of Engagement:** In engagement to perform agreed-upon procedures, auditor is engaged by client to issue report of factual findings, based on specified procedures performed on specified subject matter of specified elements, accounts or items of a F.S.

**Objective of Engagement:** To carry out procedure of audit nature, to which auditor, entity & any appropriate third parties have agreed & to report on factual finding thereon.

#### General Principles of Engagement

Comply with Code of Ethics issued by ICAI. Ethical Principles are:

- (i) Integrity;
- (ii) Objectivity
- (iii) Professional competence & due care;
- (iv) Confidentiality;
- (v) Professional conduct; and
- (vi) Technical standard

**Independence is not a requirement for agreed-upon procedures engagement, however, terms or objective of engagement may require auditor to comply with independence requirements of Code of Ethics issued by ICAI. Where auditor is not independent, a statement to that effect should be made in report of factual findings.**

#### Defining Terms of Engagement

There should be a clear understanding among auditor, client & other specified parties. Terms to be agreed include:

- (a) Nature of engagement
- (b) Purpose
- (c) Identification of financial information
- (d) NTE of specific procedures
- (e) Limitation on distribution of report of factual findings. If limitation are in conflict with legal requirements, auditor would not accept the engagement.



#### Procedures & Evidence

- Auditors should carry out necessary procedures and use the evidence obtained as basis for report of factual findings.
- Procedures applied in engagement to perform agreed-upon procedures may include:
  - (i) Inquiry and analysis
  - (ii) Re computation, comparison and other clerical accuracy checks
  - (iii) Observation
  - (iv) Inspection
  - (v) Obtaining confirmations

#### Reporting

Report of factual findings should contain:

- (a) Title;
- (b) Addressee
- (c) Identification of specific financial or not-financial information to which agreed-upon procedures have been applied
- (d) A statement that procedures performed were those agreed-upon with recipient.
- (e) A statement that engagement was performed in accordance with this standard & terms of engagement.
- (f) Identification of purpose.
- (g) A listing of specific procedures performed
- (h) A description of auditor's factual findings including sufficient details of errors and exceptions found
- (i) A statement that procedures performed do not constitute either an audit or a review & as such, no assurance is expressed.
- (j) A statement that report is restricted to those parties that have agreed to procedures to be performed.
- (k) A statement (when applicable) that report relates only to elements specified & that it does not extend to entity's F.S. as a whole.
- (l) Date of report
- (m) Place of signature
- (n) Auditor's signature.

## 9.2 - SRS 4410 "Compilation Engagement"



**Scope:** SRS 4410 deals with practitioner's responsibilities when engaged to assist mngt. with preparation & presentation of historical financial information without obtaining any assurance on that engagement.

### Compilation Engagement

- Engagement in which a practitioner applies accounting & financial reporting expertise to assist mngt. in preparation & presentation of financial information of an entity in accordance with applicable FRF, & issues a report.
- Since compilation engagement is not an assurance engagement, it does not require practitioner to verify accuracy or completeness of information provided by mngt. for compilation, or otherwise to gather evidence to express an audit opinion or review conclusion on preparation of financial information.
- Financial information that is subject of compilation engagement may be required for various purposes including:
  - To comply with mandatory periodic FR requirements established in law or regulation, if any; or
  - For purposes unrelated to mandatory FR under relevant law or regulation, including for example:
    - For mngt. or TCWG, prepared on a basis appropriate for their particular purposes (internal use).For periodic FR undertaken for external parties under a contract or other form of agreement.  
For transactional purposes, for example to support a transaction involving changes to entity's ownership or financing structure (such as merger or acquisition).

### Practitioner's objectives under SRS 4410

- Apply accounting & financial reporting expertise to assist mngt. in preparation & presentation of financial information in accordance with applicable FRF based on information provided by management; and
- Report in accordance with requirements of this SRS.

### Mngt. Responsibility for Compilation Engagement

- While drafting letter of engagement, practitioner shall include responsibilities of management for:
- Financial information & for preparation & presentation thereof, in accordance with FRF that is acceptable in view of intended use of financial information & intended users;
  - Design, implementation & maintenance of such IC as mngt determines is necessary to enable preparation of F.S. that are free from material misstatement, whether due to fraud or error;
  - Accuracy & completeness of records, documents, explanations & other information provided by mngt. for compilation engagement; and
  - Judgments needed in preparation & presentation of financial information.

### Compiling the Financial Information

- Practitioner shall compile financial information using records, documents, explanations & other information, provided by mngt.
- If, practitioner becomes aware that records, documents, explanations or other information, are incomplete, inaccurate or not unsatisfactory, he shall bring that to attention of mngt. & request additional or corrected information.
- If the practitioner becomes aware that:
  - Compiled financial information does not adequately refer to or describe applicable FRF;
  - Amendments to compiled financial information are required; or
  - Compiled financial information is otherwise misleading,he shall propose appropriate amendments to management.
- If mngt. failed to provide necessary information, as requested; or declines or does not permit practitioner to make proposed amendments to compiled financial information, practitioner shall withdraw from engagement and inform mngt. & TCWG of reasons for withdrawing.

### Documentation

Practitioner shall include in engagement documentation:

- Significant matters arising during compilation engagement & how those matters were addressed by practitioner;
  - A record of how compiled financial information reconciles with underlying records, documents, explanations & other information, provided by management; and
  - A copy of final version of compiled financial information for which mngt. or TCWG, as appropriate, has acknowledged their responsibility, and practitioner's report.
- Practitioner may consider also including in engagement documentation a copy of entity's trial balance, summary of significant accounting records or other information that practitioner used to perform compilation.

# Review of Financial Information

## SRE 2400 - "Engagements to Review Historical Financial Statements"

**Scope:** SRE 2400 deals with practitioner responsibilities when engaged to perform review of Historical F.S. when practitioner is auditor of entity.

**Objectives of Practitioner:** To obtain Limited Assurance primarily by performing Inquiry & Analytical Procedures about whether F.S. as a whole are free from material misstatements, thereby enabling him to express a conclusion on whether anything has come to his attention that causes him to believe that F.S. are not prepared, in all material respects, in accordance with an applicable FRF.

### Acceptance Considerations

#### 1 Factors affecting acceptance

Unless required by L & R, practitioner shall not accept review engagement if:

- (a) Not satisfied that there is a rational purpose for engagement.
- (b) Has reason to believe that relevant ethical requirements, including independence, will not be satisfied.
- (c) Preliminary understanding of circumstances indicates that information needed to perform review engagement is likely to be unavailable or unreliable.
- (d) Has cause to doubt mngt. integrity such that it is likely to affect proper performance of review.
- (e) Mngt. or TCWG impose a limitation on scope.

#### 2 Preconditions for accepting review engagement

Before acceptance, practitioner shall:

- (a) Determine whether FRF applied in preparation of F.S. is acceptable.
- (b) Obtain agreement of mngt. that it acknowledges & understands its responsibilities:
  - (i) For preparation of F.S. as per FRF;
  - (ii) For necessary IC to enable preparation of F.S. that are free from material misstatement; and
  - (iii) To provide practitioner with:
    - a. Access to all information which is relevant to preparation of F.S.;
    - b. Additional information that he may request from mngt. for review; and
    - c. Unrestricted access to persons within entity from whom he determines it necessary to obtain evidence.

If not satisfied as to any of above stated matters, he shall discuss it with mngt. or TCWG.

If changes cannot be made to satisfy him, he shall not accept proposed engagement unless required by L&R.

### Designing and Performing Procedures

In obtaining sufficient appropriate evidence as basis for a conclusion on F.S. as a whole, practitioner shall design & perform *inquiry & analytical procedures*.

#### Inquiry

- Inquiries may include matters such as:
  - (a) making of accounting estimates,
  - (b) identification of related parties,
  - (c) significant, complex or unusual transactions,
  - (d) existence of actual, suspected or alleged fraud,
  - (e) events occurring between date of F.S. & practitioner's report,
  - (f) basis for mngt. assessment of entity's ability to continue as a going concern,
  - (g) events or conditions that appear to cast doubt on entity's ability to continue as a going concern,
- Inquiries may also be extended to obtain non-financial data.
- Inquiries may also include inquiries about:
  - (a) Actions taken at meetings of owners, TCWG and its committees that affect information & disclosures contained in F.S.
  - (b) Communications entity has received, or expects to receive or obtain, from regulatory agencies.
  - (c) Matters arising in course of applying other procedures.

#### Analytical Procedures (Aps)

- In designing APs, practitioner shall consider whether data from entity's accounting system and accounting records are adequate for purpose of performing APs.
- Various methods may be used to perform APs ranging from performing simple comparisons to performing complex analysis using statistical techniques.

## SRE 2400 - "Engagements to Review Historical Financial Statements"

### Additional Procedures When Practitioner Becomes Aware that the F.S. may be Materially Misstated

- If practitioner becomes aware of matters that causes him to believe that F.S. may be materially misstated, he shall design & perform additional procedures sufficient to enable him to:

Conclude that matters are not likely to cause F.S. as a whole to be materially misstated; or Determine that matters cause F.S. as a whole to be materially misstated.

- Additional procedures may be:
  - (a) Additional inquiry or APs being performed in greater detail or being focused on the affected items; or
  - (b) Other types of procedures, for example, substantive test of details or external confirmations.

### Forming Conclusion

- Practitioner shall express unmodified conclusion when he has obtained limited assurance to be able to conclude that nothing has come to his attention that causes him to believe that F.S. are not prepared, in all material respects, in accordance with applicable FRF.
- Practitioner shall express a modified conclusion when he:
  - (a) determines that F.S. are materially misstated; or
  - (b) is unable to obtain sufficient appropriate evidence in relation to one or more items in F.S. that are material.
- If practitioner is unable to form a conclusion due to inability to obtain sufficient appropriate evidence, he shall:
  - (a) Express qualified conclusion if possible effects on F.S. of undetected misstatements, if any, could be material but not pervasive; or
  - (b) Disclaim a conclusion if possible effects on F.S. of undetected misstatements, if any, could be both material and pervasive.

### Withdrawal from Engagement

Withdraw from the engagement if following conditions are present:

- Due to limitation on scope of review imposed by mngt. after practitioner has accepted engagement, practitioner is unable to obtain sufficient appropriate evidence to form a conclusion;
- Practitioner has determined that possible effects on F.S. of undetected misstatements are material and pervasive; and
- Withdrawal is possible under applicable law or regulation.

### Practitioner's Report

It shall be in writing & contain following elements:

- (a) Title, indicating report of independent practitioner for a review engagement;
- (b) Addressee(s).
- (c) Introductory paragraph that identifies F.S. reviewed & states that F.S. have been reviewed;
- (d) Description of responsibility of management for the preparation of F.S.
- (e) If F.S. are special purpose F.S., a description of the purpose for which the F.S. are prepared and the intended users.
- (f) Description of practitioner responsibility to express a conclusion on the F.S.
- (g) Description of review of F.S. & its limitations, & the following statements:
  - Review engagement under this SRE is a limited assurance engagement;
  - Practitioner performs procedures, consisting of making inquiries of mngt. and others and applying analytical procedures. and
  - Procedures performed are substantially less than those performed in an audit and accordingly, the practitioner does not express an audit opinion;
- (h) "Conclusion" that contains:
  - (i) The practitioner's conclusion on the financial statements as a whole, as appropriate; and
  - (ii) A reference to the applicable FRF used to prepare the F.S.
- (i) Date of Report: Practitioner shall date the report no earlier than date on which he has obtained sufficient appropriate evidence as a basis for his conclusion on the F.S., including being satisfied that:
  - All statements that comprise F.S. under applicable FRF, including the related notes where applicable, have been prepared; and
  - Those with the recognized authority have asserted that they have taken responsibility for those F.S.
- (j) Practitioner's signature; and
- (k) Place of signature.



# SRE 2410 “Review of Interim Financial Information performed by Independent Auditor of the Entity”

**Scope:** SRE 2410 deals with auditor responsibilities when engaged to perform a review of Interim financial information (IFI) of entity.

**Objectives of Auditor:** To express a conclusion whether on basis of review anything has come to his attention that causes him to believe that IFI is not prepared in all material respects in accordance with applicable FRF.

## Procedures performed to update understanding of entity & its environment

1. Reading documentation of preceding year's audit & reviews of prior interim period(s) of current year & corresponding interim period(s) of prior year, to enable auditor to identify matters that may affect current-period IFI.
2. Reading most recent annual & comparable prior period IFI.
3. Considering any significant risks, including risk of mngt. override of controls, that were identified in audit of the prior year's FS.
4. Considering materiality with reference to applicable FRF as it relates to IFI to assist in determining nature and extent of procedures to be performed and evaluating effect of misstatements.
5. Considering nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's FS.
6. Considering results of audit procedures performed with respect to current year's FS.
7. Considering results of internal audit performed and subsequent actions taken by management.
8. Inquiring of management about the following:
  - results of mngt. assessment of risk that IFI may be materially misstated as a result of fraud.
  - effect of changes in entity's business activities.
  - any significant changes in IC and potential effect of any such changes on preparation of IFI.
  - process by which the IFI has been prepared and the reliability of the underlying accounting records to which the IFI is agreed or reconciled.

## Inquires, Analytical & Other Review Procedures

Procedures for performing a review of IFI are ordinarily limited to making inquiries and applying analytical and other review procedures.

- (a) Reading minutes of meetings of shareholders, TCWG, and other committees to identify matters that may affect IFI, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the IFI.
- (b) Communicating with other auditors who are performing review of IFI of entity's significant components.
- (c) Inquiring of mngt. & others about the following:
  - Whether IFI has been prepared & presented in accordance with applicable FRF.
  - Whether there have been any changes in accounting principles.
  - Whether any new transactions have necessitated application of a new accounting principle.
  - Whether IFI contains any known uncorrected misstatements.
  - Unusual or complex situations that may have affected the IFI.
  - Whether RP transactions have been appropriately accounted for & disclosed in IFI.
  - Significant changes in commitments and contractual obligations.
  - Significant changes in contingent liabilities including litigation or claims.
  - Knowledge of any fraud or suspected fraud affecting the entity involving mngt., employees who have significant roles in internal control; or others.
  - Knowledge of any allegations of fraud, or suspected fraud.
  - Knowledge of any actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information.
- (d) Applying APs to IFI designed to identify relationships & individual items that appear to be unusual and that may reflect a material misstatement in the IFI.



## Fundamental Principles

<b>Integrity</b>	<ul style="list-style-type: none"> <li>Be <b>straightforward &amp; honest</b> in all professional relationships.</li> </ul>
<b>Objectivity</b>	<ul style="list-style-type: none"> <li>Judgments - not be compromised due to <b>bias, conflict of interest or undue influence</b>.</li> </ul>
<b>Professional Competence &amp; Due Care (PCDC)</b>	<ul style="list-style-type: none"> <li>Continuing duty to <b>attain and maintain professional knowledge and skill</b> required to ensure that client receives competent professional service;</li> <li>Act diligently and in accordance with applicable technical and professional standards.</li> </ul>
<b>Confidentiality</b>	<ul style="list-style-type: none"> <li><b>Respect confidentiality of information acquired</b> as result of professional relationships.</li> </ul>
<b>Professional Behaviour</b>	<ul style="list-style-type: none"> <li><b>Comply with relevant laws &amp; regulations;</b></li> <li>Avoid any conduct that might <b>discredit the profession</b>.</li> </ul>

## Threats, Circumstances creating threats and Related Safeguards

<b>Threats</b>	<b>Self Interest Threats</b>	<p>Threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behaviour.</p> <p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>(a) Having a <b>direct financial interest</b> in a client</li> <li>(b) <b>Quoting a low fee</b> to obtain a new engagement and it might be difficult to perform services as per technical and professional standards for that price.</li> <li>(c) Having a <b>close business relationship</b> with a client.</li> <li>(d) <b>Access to confidential information</b> that might be used for personal gain.</li> </ul>
	<b>Self Review Threats</b>	<p>Threat that a professional accountant will not appropriately evaluate results of a previous judgment made; or an activity performed by the accountant.</p> <p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>(a) Issuing an <b>assurance report on effectiveness of financial systems after implementing</b> the systems.</li> <li>(b) Having <b>prepared the original data</b> used to generate records that are the subject matter of the assurance engagement.</li> </ul>
	<b>Advocacy Threats</b>	<p>Threat that a professional accountant will promote a client to the point that the accountant's objectivity is compromised.</p> <p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>(a) <b>Promoting shares</b> of a client.</li> <li>(b) <b>Acting as an advocate</b> on behalf of a client in litigation or disputes.</li> <li>(c) <b>Lobbying in favor of legislation</b> on behalf of a client.</li> </ul>
	<b>Familiarity Threats</b>	<p>Threat that due to a long or close relationship with a client, a professional accountant will be too sympathetic to their interests.</p> <p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>(a) Having a close or immediate <b>family member - director or officer of the client</b>.</li> <li>(b) <b>Director or officer of the client</b> - in a position to exert <b>significant influence over the subject matter</b> of the engagement.</li> <li>(c) Audit team member having a <b>long association with the audit client</b>.</li> </ul>

	<b>Intimidation Threats</b>	<p>Threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures.</p> <p><b>Examples:</b></p> <p>(a) <b>Threatened with dismissal</b> from engagement.</p> <p>(b) <b>Feeling pressured to agree with the judgment</b> of a client.</p> <p>(c) Being informed that a <b>planned promotion</b> will not occur.</p> <p>(d) Being threatened that <b>acceptance of any gift in past will be made public</b>.</p>
<b>Evaluation of Threats</b>	When professional accountant identifies a threat to compliance with the fundamental principles, the accountant shall <b>evaluate whether such a threat is at an acceptable level</b> .	
<b>Addressing Threats</b>	<p>If identified threats are not at an acceptable level, accountant shall <b>address threats by eliminating them or reducing them to an acceptable level</b> by:</p> <p>(a) <b>Eliminating circumstances</b>, including interests or relationships, that are creating the threats;</p> <p>(b) <b>Applying safeguards</b> to reduce the threats to an acceptable level; or</p> <p>(c) <b>Declining or ending the specific professional activity</b>.</p>	
<b>Safeguards</b>	<p>Actions that professional accountant takes to effectively reduce threats to an acceptable level.</p> <p><b>Examples:</b></p> <p>(a) <b>Assigning additional time and qualified personnel</b> to required tasks - might address a self-interest threat.</p> <p>(b) <b>Having an appropriate reviewer</b> - might address a self-review threat.</p> <p>(c) <b>Using different partners and ETs with separate reporting lines for non-assurance services</b> - might address self-review, advocacy or familiarity threats.</p> <p>(d) <b>Involving another firm to perform part of the engagement</b> - might address self-interest, self-review, advocacy, familiarity or intimidation threats.</p> <p>(e) <b>Separating teams when dealing with matters of a confidential nature</b> - might address a self-interest threat.</p>	

### Non-compliance with Laws and Regulations (NOCLAR)

<b>Meaning</b>	<p>Acts of <b>omission or commission</b>, which are <b>contrary to laws or regulations</b> committed by:</p> <ul style="list-style-type: none"> <li>a client/professional accountant's employing organisation;</li> <li>TCWG/Management of a client or employing organisation;</li> <li>other individuals working for or under the direction of a client/employing organisation.</li> </ul>										
<b>Applicability</b>	<p>⇒ <b>Audits assignment of entities listed in India having NW ≥ 250 Cr.</b></p> <p>⇒ <b>Senior Professional Accountants (KMP)</b>, being <b>employees of listed entities</b>.</p>										
<b>Responsibility of Senior Professional Accountant</b>	<p>(1) Obtaining an <b>Understanding</b> of the Matter;</p> <p>(2) <b>Addressing</b> the Matter;</p> <p>(3) Determining whether <b>further action</b> is needed;</p> <p>(4) <b>Seeking Advice</b>; and</p> <p>(5) Determining Whether to <b>Disclose the Matter to an Appropriate Authority</b>.</p>										
<b>NOCLAR vs. SA 250</b>	<table border="1"> <thead> <tr> <th data-bbox="336 1780 533 1832"></th> <th data-bbox="533 1780 986 1832">SA 250</th> <th data-bbox="986 1780 1476 1832">NOCLAR</th> </tr> </thead> <tbody> <tr> <td data-bbox="336 1832 533 1917"><b>Applicability</b></td> <td data-bbox="533 1832 986 1917">On <b>Audit</b> engagements</td> <td data-bbox="986 1832 1476 1917">On Professional Accountants in <b>service and in practice</b>.</td> </tr> <tr> <td data-bbox="336 1917 533 2076"><b>Scope</b></td> <td data-bbox="533 1917 986 2076">Deals with auditor's responsibilities for laws having direct effect on determination of amounts &amp; disclosures and Other Laws.</td> <td data-bbox="986 1917 1476 2076">NOCLAR also considers <b>non-compliance that causes substantial harm</b> resulting in serious consequences.</td> </tr> </tbody> </table>			SA 250	NOCLAR	<b>Applicability</b>	On <b>Audit</b> engagements	On Professional Accountants in <b>service and in practice</b> .	<b>Scope</b>	Deals with auditor's responsibilities for laws having direct effect on determination of amounts & disclosures and Other Laws.	NOCLAR also considers <b>non-compliance that causes substantial harm</b> resulting in serious consequences.
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	Coverage	Does <b>not define stakeholders</b>	Related to effect of non-compliance on <b>investors, creditors, employees &amp; also general public.</b>
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### Membership of the Institute

<b>Disabilities</b> - Sec. 8	A person shall not be entitled to have his name entered in or borne on the Register if he- (i) has <b>not attained the age of 21 Years</b> ; or (ii) is of <b>unsound mind</b> ; or (iii) is an <b>undischarged insolvent</b> ; or (iv) being a <b>discharged insolvent</b> , has not obtained from the Court prescribed certificate; or (v) has been <b>convicted by a competent Court</b> , of an offence involving moral turpitude; or (vi) has been <b>removed from membership</b> - found guilty of professional or other misconduct.
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### Chartered Accountants in Practice

<b>Sec. 6</b>	<ul style="list-style-type: none"> <li>No member shall be entitled to practice unless he has obtained a COP.</li> <li>Once a person becomes a member, he is <b>bound by provisions of CA Act and its regulations.</b></li> <li>If he appears before Income Tax Tribunal as an Income tax representative after becoming a member he could appear so <b>only in his capacity as a CA and a member of ICAI.</b></li> <li>A member not in practice <b>cannot accept any engagement for services prescribed for a practicing CA.</b> Therefore, if a CA has surrendered his COP due to misconduct, he cannot in any other capacity take up any practice separable from his capacity to practice as a member of the institute.</li> </ul>						
<b>Sec. 2(2)(iv)</b>	<p>A member shall be deemed "to be in practice" if he in consideration of remuneration renders <b>Management Consultancy and other Services</b> as may be rendered by a CA in practice, which shall, among others, include the following:</p> <ul style="list-style-type: none"> <li><b>Personnel recruitment and selection.</b></li> <li>Acting as <b>Registered Valuer</b> under the Companies Act, 2013.</li> <li>Acting as <b>advisor or consultant to an issue.</b></li> </ul> <p><b>Explanation - Activities of broking, underwriting &amp; portfolio management are not permitted.</b></p> <ul style="list-style-type: none"> <li>Acting as <b>Insolvency Professional.</b></li> </ul>						
<b>Sec. 7</b>	<ul style="list-style-type: none"> <li>Every member in practice <b>shall use the designation of a chartered accountant.</b></li> <li>No member using such designation shall use any other description.</li> </ul>						
<b>Sec. 27</b>	<table border="1"> <tr> <td><b>Name Board</b></td> <td>Name board can be put in place of residence of member provided it is a name board of individual member and not of firm.</td> </tr> <tr> <td rowspan="2"><b>Requirement of Separate In-charge</b></td> <td>If a Practicing CA has more than one office, every such offices shall have a <b>separate charge - Member, either partner/employee</b>; actively associated with such office.</td> </tr> <tr> <td colspan="2"><b>Exemption from Separate In-charge</b></td> </tr> </table>	<b>Name Board</b>	Name board can be put in place of residence of member provided it is a name board of individual member and not of firm.	<b>Requirement of Separate In-charge</b>	If a Practicing CA has more than one office, every such offices shall have a <b>separate charge - Member, either partner/employee</b> ; actively associated with such office.	<b>Exemption from Separate In-charge</b>	
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	<b>Second office</b>	If it is situated in: <ul style="list-style-type: none"> <li>• <b>same premises</b> in which first office is situated, or</li> <li>• in the <b>same city</b>, or</li> <li>• within <b>50 kms. from the municipal limits</b> of city in which first office is situated.</li> </ul>		
	<b>Reg. 189 requires that Council need to be informed within one month of opening or closing of a branch office.</b>			
<b>KYC NORMS</b>	Keeping in mind highest standards of CA Profession in India, Council of ICAI recommended KYC norms to be observed by the members of the profession who are in practice.			
		<b>Individual Client</b>	<b>Corporate Entity</b>	<b>Non-Corporate Entity</b>
	<b>General Information</b>	<ul style="list-style-type: none"> <li>• Name of Individual</li> <li>• PAN or Aadhaar No.</li> <li>• Business Description</li> <li>• Last Audited F.S.</li> </ul>	<ul style="list-style-type: none"> <li>• Name and Address</li> <li>• Business description</li> <li>• Name of Parent Company</li> <li>• Copy of Last Audited F.S.</li> </ul>	<ul style="list-style-type: none"> <li>• Name and address</li> <li>• PAN No.</li> <li>• Business Description</li> <li>• Partner's Name &amp; address</li> <li>• Copy of Last Audited F.S.</li> </ul>
	<b>Engagement Information</b>	Type of Engagement	Type of Engagement	Type of Engagement
<b>Regulatory Information</b>		<ul style="list-style-type: none"> <li>• Company PAN No.</li> <li>• Company Identification No.</li> <li>• Director's Name &amp; address</li> <li>• Director's identification No.</li> </ul>		

### First Schedule - Part I - Professional Misconduct for a Member in Practice

A CA in Practice is deemed to be guilty of professional Misconduct if he:

<b>Clause 1</b>	Allows any person to <b>practice in his name as a CA</b> , unless such person is also a Chartered Accountant in practice, and is in partnership with, or employed by himself.		
<b>Clause 2</b>	<p><b>Pays any share, commission or brokerage in fees or profits of professional business</b> to any person other than</p> <ul style="list-style-type: none"> <li>• a member of the Institute, or</li> <li>• partner/retired partner, or</li> <li>• legal representative of deceased partner (If partnership deed provides), or</li> <li>• member of professional bodies (ICSI, ICWAI, Bar Council of India, Indian Institute of Architects, Institute of Actuaries of India) or</li> <li>• persons having prescribed qualifications (CS, CWA, Actuary, B.E. B. Tech, B. Arch, LLB, or MBA).</li> </ul>		
	<table border="1"> <tr> <td><b>Sale of Goodwill</b></td> <td>           Sale of goodwill shall be permitted in case of death of proprietor provided:           <ul style="list-style-type: none"> <li>• <b>ICAI's permission</b> to practice is sought within a year of death.</li> <li>• In case there exist a dispute as to legal heir, information as to existence of dispute is received by the Institute within a year of the death.</li> </ul> </td> </tr> </table>	<b>Sale of Goodwill</b>	Sale of goodwill shall be permitted in case of death of proprietor provided: <ul style="list-style-type: none"> <li>• <b>ICAI's permission</b> to practice is sought within a year of death.</li> <li>• In case there exist a dispute as to legal heir, information as to existence of dispute is received by the Institute within a year of the death.</li> </ul>
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<b>Clause 3</b>	<b>Accepts any part of profits of the professional work of a person</b> who is not a member of ICAI or any other professional bodies (as specified in Cl. 2) or with other persons having prescribed qualifications (as specified in Cl. 2).		
<b>Clause 4</b>	Enters into <b>partnership in or outside India, with any person</b> other than the following: <ol style="list-style-type: none"> <li>1. C.A. in practice, or</li> <li>2. Member of any other professional body having prescribed qualifications, or</li> <li>3. a person whose qualifications are recognized by C.G. or Council.</li> </ol>		

**Persons Qualified in India for purpose of Membership (Regulation 53A):** CS, CWA, Actuary, B.E., B. Tech, B. Arch, LLB or MBA (from recognised Universities or Institutes).

**Permitted memberships for Partnership (Regulation 53B):** Members of ICSI, ICWAI, Bar Council, Institution of Engineers, IIA, IAI and professional Bodies outside India whose qualifications are recognised.

**Clause 5** **Secures any professional business through the services** of a person who is not an employee or not his partner or by means which are not open to a CA.

**Clause 6** **Solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or by any other means.** However, solicitation is relaxed in following cases:  
 → Securing professional work from another CA in practice.  
 → **Responding to tenders** issued by various users of professional services.

**Council Guidelines w.r.t. Permitted and Prohibited forms of Solicitation**

<b>Empanelment for allotment of audit</b>	⇒ In respect of organisations, where a panel exists, <b>member is free to request to place his name on the panel.</b> ⇒ Roving enquiries for existence of such panel is not permitted.
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<b>Responding to Tenders</b>	⇒ Member shall not respond to any tender in <b>exclusive areas of services.</b> Such restriction shall not be applicable <b>where minimum fee is prescribed.</b> ⇒ <b>EMD/Security Deposit:</b> Council is of the view that interference with practices prevailing for requirement of EMD/Deposit is not required.
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<b>Publication of Books</b>	⇒ Mentioning any <b>professional attainment(s)</b> , whether of member or firm of CAs, with which he is associated – is not permitted. ⇒ Designation “Chartered Accountant” and name of the firm – Permitted.
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<b>Issue of Greetings cards</b>	Use of designation “Chartered Accountant” & Firm’s name in greeting cards, invitations etc. is permitted – if sent to <b>clients, relatives &amp; friends of member.</b>
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<b>Advertisement for celebrations</b>	To advertise the events is not permitted. However, advertisement for such Silver, Golden jubilee celebrations <b>may be published in newspaper or newsletter.</b>
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<b>Sponsoring Activities</b>	Sponsoring permitted only for <b>events conducted by a Programme Organizing Unit (PoU)</b> of the ICAI, provided such event has the prior approval of Continuing Professional Education (CPE) Directorate of the ICAI.
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<b>Roving enquiries</b>	Not permissible
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<b>Scope of Representation u/s 140(4)</b>	⇒ Representation should not be used to <b>secure needless publicity</b> and soliciting for continuance as an auditor. ⇒ May set out in a <b>dignified manner</b> how he has been acting independently through his term of office and his willingness to continue as an auditor.
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<b>Acceptance of original professional work</b>	⇒ Emanating from a client introduced by another member is <b>not permitted.</b> ⇒ However, 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.
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<b>Public Interviews</b>	⇒ Permitted subject to condition that it should not result in publicity.
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**Guidelines for Posting the particulars on Website**

- No standard format is prescribed and no restriction on use of colours.
- Website should run on ‘pull’ model not on ‘push’ model of technology.
- Mention of Website Address on professional stationery is permitted.
- Members are not allowed to use logo (other than prescribed by ICAI) on website.

- *Photographs of any sort (other than passport size photo of member) is not permitted.*
- *Educational videos on topics of professional relevance are permissible.*
- *Chat rooms can be provided which permit chatting amongst members and between Firms and its clients. Confidentiality protocol would have to be observed.*
- *Document management facility with distinct log in & password can be provided to clients.*
- *Firm can provide link of its page on Social Networking site.*
- *Details should be so designed that it does not amount to soliciting client or professional work.*
- *Website may provide a link to the website of ICAI, its regional councils and branches and also to the websites of Government/Government departments/Regulatory Authorities only.*
- *Address of website should be as near as possible to individual name/trade name or firm name.*
- *Name of clients and fees charged is not permitted to be given on website, **except when required by any regulator.***

**Clause 7**

Advertises his **professional attainments or services**, or uses any designation or expressions other than CA on professional documents, visiting cards, letter heads or sign boards.

- (a) *Words like income-tax consultant, cost consultant or management consultant - not allowed.*
- (b) *Member empanelled as Insolvency Professional or Registered Valuer can mention "Insolvency Professional" or "Registered Valuer" respectively on his visiting card and letter head.*
- (c) *Persons eligible otherwise, subject to permission may practice as advocates but can't use designation "Chartered Accountant" and "Advocate" simultaneously.*
- (d) *Name of CA acting as director in the company is permissible to appear in the prospectus of the company, however descriptions regarding his expertise, specialisation and knowledge in any particular field is not permitted.*
- (e) *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 etc. be prohibited.*
- (f) *Common logo is prescribed by ICAI. Any other logo is not permissible.*

**Clause 8**

Accept a position as Auditor, previously held by another CA, without **first communicating** with him, in writing.

- (a) *Professional reasons for not accepting Audit:*
  - (i) *Non-compliance of provisions of Secs. 139 & 140 of Companies Act, 2013.*
  - (ii) *Non-payment of undisputed audit fee (except sick unit).*
  - (iii) *Issuance of a qualified Report.*

*In first two, acceptance of audit amounts to professional misconduct. In (iii), member may accept audit if he thinks that attitude of retiring auditor wasn't proper and justified.*
- (b) *If Previous Auditor is not available for accepting payment of undisputed audit fees, and it is not otherwise possible to transfer payment to him electronically, client may purchase Demand Draft of the amount equivalent to undisputed Audit Fees.*
- (c) *Mode of communication:*
  - *Registered post acknowledgement due;*
  - *By hand against an acknowledgement in writing;*
  - *Acknowledgement of communication from retiring auditor's vide regd. e-mail address; or*
  - *Unique Identification Number (UDIN) generated on UDIN portal.*
- (d) *Mere posting of a letter under certificate of posting is not sufficient.*
- (e) *Communication received back with "Office found Locked" written on A.D. shall be deemed as delivered.*
- (f) *If Communication received back with remarks "No such office exists at this address", and the address is same as registered with Institute, letter will be deemed to be delivered.*
- (g) *Requirement for communicating would apply to all types of audit i.e. statutory audit, tax audit, internal audit, concurrent audit or any other kind of audit.*

<b>Clause 9</b>	Accepts an appointment as auditor of a company, without ascertaining whether requirements of Secs. 139 & 140 read with Sec. 141 of Companies Act 2013, have been duly complied with.
<b>Clause 10</b>	Charges the <b>professional fee</b> which is based on a <b>%age of profits</b> or which are <b>contingent upon findings</b> , or results of such employment, except as permitted under regulations.
<b>Reg. 192</b>	<p>In respect of below mentioned cases fees may be fixed as specified below:</p> <ul style="list-style-type: none"> <li>• <b>Receiver or liquidator</b>: %age of realisation or disbursement of assets.</li> <li>• <b>Co-operative society</b>: %age of PUC or working capital or gross/net income or profits.</li> <li>• <b>Valuer for purposes of direct taxes and duties</b>: %age of value of property valued.</li> <li>• <b>Management consultancy services</b>: %age which may be contingent upon the findings, or results of such work.</li> <li>• <b>Fund raising services</b>: %age of the fund raised;</li> <li>• <b>Debt recovery services</b>: %age of debt recovered.</li> <li>• <b>Services related to cost optimization</b>: %age of the benefit derived.</li> <li>• <b>Other service or audit</b>: as may be decided by the Council - (i) Acting as Insolvency Professional (ii) Non-Assurance Services to Non-Audit Clients.</li> </ul>
<b>Clause 11</b>	Engages in any Business or occupation, <b>other than profession of C.A.</b> , unless permitted by council. <b>Note: A member may become director (not being M.D. or Whole-time director) in a company provided he or any of his partner is not interested in such company as an auditor.</b>
<b>Occupations for which permission granted generally</b>	<ol style="list-style-type: none"> <li>1. Employment under C.A. in practice or firms of such CAs.</li> <li>2. Private tutorship.</li> <li>3. Authorship of Books/Articles.</li> <li>4. Part time tutorship under coaching organization of institute.</li> <li>5. Editorship of professional journal.</li> <li>6. Acting as Surveyor/Loss Assessor under Insurance Act.</li> <li>7. Acting as Recovery Consultant in the Banking Sector.</li> <li>8. Owning agricultural land and carrying out agricultural activity.</li> </ol>
<b>Occupations for which specific and Prior approval is required</b>	<ol style="list-style-type: none"> <li>1. Full time/Part time employment in Business concerns provided he/his relative do not hold substantial interest in such concerns.</li> <li>2. Full time/Part time employment in non-business concern.</li> <li>3. Office of MD/WTD of a body corporate provided that the member and/or any of his relatives do not hold substantial interest in such concern.</li> <li>4. Interest in family business concerns.</li> <li>5. Part time/Full time lectureship for courses other than ICAI Examinations.</li> <li>6. Part time/Full time tutorship under any educational institution other than coaching organisation of institute.</li> <li>7. Editorship of journals other than professional journals.</li> <li>8. Any other Business/Occupation for which Executive Committee considers that permission may be granted.</li> </ol>
<b>General permission (for private tutorship, and part-time tutorship) and specific permission (for part-time or full-time tutorship) is subject to the condition that the direct teaching hours should not exceed 25 hours in a week in order to be able to undertake attest functions.</b>	
<b>Clause 12</b>	Allows a person not being a member of Institute in practice or a member not being his partner, to sign on his behalf or on behalf of his firm, any Balance Sheet, P&L A/c, Report or Financial Statements
	<p>Power to sign routine documents on which a professional opinion or authentication is not required may be delegated and such delegation will not attract provisions of this clause. Examples are:</p> <ol style="list-style-type: none"> <li>(i) Issue of audit queries.</li> <li>(ii) Asking for information or issue of questionnaire.</li> </ol>

- (iii) Letter forwarding draft observations/financial statements.
- (iv) Initiating and stamping of vouchers and of schedules prepared for purpose of audit.
- (v) Acknowledging and carrying on routine correspondence with clients.
- (vi) Issue of memorandum of cash verification and other physical verification.
- (vii) Issuing acknowledgements for records produced.
- (viii) Raising of bills and issuing acknowledgements for money receipts.
- (ix) Attending to routine matters in tax practice.

#### First Schedule - Part II - Professional Misconduct for a Member in Service

A Member in Service, shall be deemed to be guilty of professional misconduct if he:

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|-----------------|--|
| <b>Clause 1</b> | Pays to any person any <b>share in the emoluments of the employment</b> undertaken by him.   |
| <b>Clause 2</b> | Accepts any part of fees, profits or gains from a <b>Lawyer, a CA or broker</b> engaged by employer or <b>agent or customer</b> of employer by way of <b>commission or gratification</b> . |

#### First Schedule - Part III - Professional Misconduct for a Member Generally

A member, whether in practice or not, shall be deemed to be guilty of other misconduct, if he:

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|-----------------|--|
| <b>Clause 1</b> | Not being a fellow of the Institute but <b>acts as a fellow</b> of the Institute.  |
| <b>Clause 2</b> | Does <b>not supply information called for/does not comply with requirements</b> asked for by Institute, Council or its committees, Director (Discipline), Board of Discipline, Disciplinary Committee, QRB or appellate authority. |
| <b>Clause 3</b> | While inviting professional work from another CA or while responding to tenders or while advertising as provided for in clauses (6) & (7) of Part I of this schedule, <b>gives information knowing it to be false</b> .            |

#### First Schedule - Part IV - Other Misconduct for a Member Generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he:

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|-----------------|---|
| <b>Clause 1</b> | is held guilty of offence which is punishable with <b>imprisonment for a term ≤ 6 months</b> .  |
| <b>Clause 2</b> | <b>brings disrepute to the profession</b> or the Institute as a result of his action whether or not related to his professional work.   |
|                 | <b>Illustrative Cases of Other Misconduct</b>   |
|                 | <ol style="list-style-type: none"> <li>1. <i>Retaining of books of account and documents of the client without a reasonable cause.</i></li> <li>2. <i>Misappropriation by office-bearer of a Regional Council, of funds for his personal use.</i></li> <li>3. <i>Adopting coercive methods on a bank for having a loan sanctioned to him.</i></li> <li>4. <i>Non-replying to a letter of public authority without sufficient cause.</i></li> <li>5. <i>Using Article Services for personal work.</i></li> </ol> |

#### Second Schedule - Part I - Professional Misconduct for a Member in Practice)

A CA in Practice is deemed to be guilty of professional Misconduct if he:

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|-----------------|---|
| <b>Clause 1</b> | <b>Discloses information</b> , acquired in course of his professional engagement to any person other than his client - <b>without the consent of his client or otherwise than as required by any law</b> .      |
| <b>Clause 2</b> | Certifies or submits a report of an <b>examination of F.S.</b> unless examination of such statements and related records has been made by him or by a partner or employee or by another CA in practice.         |
| <b>Clause 3</b> | Permits his name to be used in connection with <b>estimate of earnings</b> contingent upon future transactions in manner which may lead to the belief that he <b>vouches for the accuracy of the forecast</b> . |

	<p><b>Participation in preparation of forecasts &amp; their review:</b> SAE 3400 "Examination of PFI" allow to member to participate in preparation of profit or financial forecasts &amp; can review subject to following:</p> <p>(a) Source of information is indicated.</p> <p>(b) Basis of forecasts are indicated.</p> <p>(c) Major assumptions made in arriving at the forecasts are disclosed.</p> <p>(d) It is been stated that no vouch done for the accuracy of the forecasts.</p>
<b>Clause 4</b>	<p>Expresses his <b>opinion, on financial statements</b> of any business or enterprise in which he, his firm or a partner in his firm has a <b>substantial interest</b>.</p> <p>(1) A member cannot express the opinion in the following cases:</p> <p>(a) Where the member himself is owner/partner of concerned business.</p> <p>(b) Where the partner/relative of CA has substantial interest in concerned business.</p> <p>(c) Where the member himself or his partner or relative is a director.</p> <p>(2) A statutory auditor cannot be the internal auditor of the same entity.</p> <p>(3) A member shall not accept the assignment of audit of a Company for a period of 2 years from date of completion of his tenure as Director, or resignation as Director of the said Company.</p>
<b>Clause 5</b>	<b>Fails to disclose a material fact</b> , known to him, <b>not disclosed in F.S.</b> , but disclosure of which is necessary, in making such F.S. not misleading, where he is concerned with F.S. in professional capacity.
<b>Clause 6</b>	<b>Fails to report a material misstatement</b> , known to him, <b>to appear in a financial statement</b> with which he is concerned in a professional capacity.
<b>Clause 7</b>	<b>Does not exercise due diligence, or is grossly negligent</b> in the conduct of his professional duties.
<b>Clause 8</b>	<b>Fails to obtain sufficient information, which is necessary for expression of an opinion or its exceptions are sufficiently material to negate</b> the expression of an opinion.
<b>Clause 9</b>	Fails to invite attention to any <b>material departure from the generally accepted procedure</b> of audit.
<b>Clause 10</b>	<p>Fails to keep client's moneys, other than fees or remuneration, in a <b>separate banking account</b> or to use such moneys <b>for purposes for which they are intended</b> within a reasonable time.</p> <p>(a) Any advance received against services to be rendered does not fall under Clause (10).</p> <p>(b) Moneys received for expenses to be incurred which are intended to be spent within a reasonably short time need not be put in a separate bank account.</p> <p>(c) Moneys received for expenses to be incurred which are not intended to be spent within a reasonably short time, should be put in a separate bank account immediately.</p>

### Second Schedule - Part II - Professional Misconduct for a Member Generally

A member, whether in practice or not, shall be deemed to be guilty of other misconduct, if he:

<b>Clause 1</b>	<p>Contravenes any <b>provisions</b> of this Act or <b>regulations</b> made thereunder or <b>guidelines</b> issued.</p> <p><b>Reg. 47 - Premium from Articled Clerks - prohibited</b></p> <p><b>Reg. 48 - Stipend to Articled Clerks - stipend to be paid on monthly basis.</b></p>
<b>Clause 2</b>	Being <b>an employee, discloses confidential information</b> acquired in course of his employment except as and when required by any law or except as permitted by the employer.
<b>Clause 3</b>	Includes in any <b>information, statement, return or form</b> to be submitted to the Institute, Council or any of its committees, Director (Discipline), Board of Discipline, Disciplinary Committee, QRB or the Appellate Authority, <b>any particulars knowing them to be false</b> .
<b>Clause 4</b>	<b>Defalcates or embezzles money</b> received in his professional capacity.


### Second Schedule - Part III - Other Misconduct for a Member Generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he:

<b>Clause 1</b>	is held guilty of offence which is punishable with <b>imprisonment for a term &gt; 6 months</b> .
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**Council General Guidelines, 2008**

Chapter No.	Heading	Provision										
II	Conduct of a Member being an employee	A member who is an employee shall exercise <b>due diligence</b> and shall <b>not be grossly negligent</b> in the conduct of his duties.										
V	Maintenance of books	A member in practice or firm of CAs of which he is a partner, shall maintain and keep in respect of his/its professional practice, <b>proper books of account</b> including: <b>(a) a Cash Book;</b> <b>(b) a Ledger.</b>										
VI	Tax Audit assignments u/s 44AB of the I-tax Act	<ul style="list-style-type: none"> <li>Specified number of tax audit assignments: (a) in the case of CA in practice or a proprietary firm - <b>60 tax audit assignments.</b> (b) in the case of firm of Cas - 60 tax audit assignments per partner in the firm.</li> <li><b>Any partner in the firm can sign</b> tax audit report on behalf of firm.</li> </ul>										
VII	Appointment in case of non-payment of undisputed fees	<ul style="list-style-type: none"> <li>Member in practice shall <b>not accept appointment as auditor</b> in case undisputed audit fee of another CA for carrying out the statutory audit has not been paid.</li> <li>In the case of <b>sick unit - above prohibition of acceptance shall not apply.</b></li> <li>"Sick unit" - A unit registered for not less than 5 years, which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.</li> </ul>										
VIII	Specified number of audit assignments	<ul style="list-style-type: none"> <li>Specified number of audit assignments: ⇒ in the case of a CA or a proprietary firm - <b>30 audit assignments (Private and Public) - With exception of OPC and dormant companies.</b> ⇒ in the case of CA in practice - 30 audit assignments per partner (Private and Public) - With exception of OPC and dormant companies.</li> <li>Maintain a <b>record of audit assignments</b> in the following format: <table border="1" data-bbox="523 1153 1362 1243"> <thead> <tr> <th>S. No.</th> <th>Name of the Co.</th> <th>Registration No.</th> <th>Date of Appointment</th> <th>Date of Acceptance</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table> </li> </ul>	S. No.	Name of the Co.	Registration No.	Date of Appointment	Date of Acceptance					
S. No.	Name of the Co.	Registration No.	Date of Appointment	Date of Acceptance								
IX	Appointment as St. Auditor	<ul style="list-style-type: none"> <li>A member in practice shall not accept appointment as statutory auditor of <b>PSU/Govt. Co./Listed Co. &amp; Other Public Co. having turnover of ≥ ₹ 50 Cr.</b> if he accepts any other work or assignment or service in same entity on a remuneration which exceeds the fee payable for carrying out the statutory audit.</li> <li>"Other work" or "Service" or "Assignment" shall include Management Consultancy &amp; other professional services pursuant to Sec. 2(2)(iv) of the CA Act.</li> </ul>										
X	Appointment of an auditor when he is indebted	A Member in practice shall not accept appointment as auditor of a concern while <b>indebted to the concern</b> or given any guarantee or provided any security, <ul style="list-style-type: none"> <li>for <b>limits fixed in the statute</b> and</li> <li>in other cases, for amount exceeding <b>₹ 1,00,000.</b></li> </ul>										
XIV	UDIN	A Member in practice shall generate UDIN for all kinds of certification, Tax Audit Reports & other Audit, Assurance and Attestation functions undertaken/signed by him.										
XV	Guidelines for Networking	<ul style="list-style-type: none"> <li>Network is a Larger Structure, that is aimed at Co-operation and aimed at profit; or aimed at sharing of (a) Cost; (b) Ownership, control and management; (c) Quality Control Policies &amp; Procedures;(d) Business Strategies; (e) Common Brand Name; (f) Significant Professional Resources</li> <li>A larger structure aimed only at facilitating referral of work does not create a network. Sharing of Immaterial Costs does not itself create a network. Sharing of only Audit methodology or Audit Manuals; Training Courses or Facilities will not be considered as significant professional resources.</li> </ul>										

		<ul style="list-style-type: none"> <li>✚ A Network can be constituted as a Partnership firm (upto 20 partners), LLP or company. A firm is allowed to join only one network. Firms having common partners shall join only one network.</li> <li>✚ The word “&amp; Affiliates” shall be used after the name of network. Registration of network with the institute is mandatory.</li> <li>✚ <b>Network shall comply with all relevant Ethical requirements prescribed by ICAI in general &amp; in particular in cases, where rotation of firms is prescribed, no member firm of network can accept appointment as an auditor in place of any member firm of network which is retiring.</b></li> </ul>
XVI	LOGO  Guidelines	<ul style="list-style-type: none"> <li>✚ Do not change the design and colours, including the white background.</li> <li>✚ Refrain from rotating or tilting the logo.</li> </ul>
XVII	Guidelines for corporate form of practice	<p>A member in practice is allowed to hold office of <b>MD, WTD or Manager of a body corporate provided engaged exclusively in rendering Management Consultancy &amp; Other Services</b> in pursuant to Sec. 2(2)(iv) subject to following conditions:</p> <ul style="list-style-type: none"> <li>⇒ Management Consultancy Company (MCC) shall have a distinct name which shall be approved by the Institute.</li> <li>⇒ MCC is required to be registered with the Institute.</li> <li>⇒ MCC shall engage itself only in Management Consultancy &amp; Other Services.</li> <li>⇒ MCC shall give an undertaking that it shall comply with clauses (6) &amp; (7) of Part I of the First Schedule to CA Act, 1949 and other directives as issued by the Institute.</li> </ul>

#### Council Guidelines for Advertisement, 2008

Online Third-Party Platforms	<b>Advisory services on taxation and other areas</b> may be provided through websites of others, provided Contact address of CA is not provided nor such Website will contain any material which advertises professional achievements of such CA.
Publication of Name in Telephone Directories	<p>CAs and CA Firms may have entries made in a Telephone Directory either by making a special request or by means of an additional payment, subject to following restrictions:</p> <ul style="list-style-type: none"> <li>(i) Entry should not appear in any other section/category except that of ‘CAs.</li> <li>(ii) Member/firm should belong to town/city in respect of which directory is being published.</li> <li>(iii) Order of the entries should not be in any manner other than alphabetical.</li> <li>(iv) Entry should not be made in a differential or prominent manner.</li> <li>(v) Entries should be open to all the CAs/firms of CAs in particular city/town.</li> </ul>
App-Based Service provider	It is <b>not permissible</b> for members to list themselves with online Application based service provider Aggregators, wherein other categories like businessmen, technicians, maintenance workers, event organisers etc. are also listed.
Exemptions	<p>Publication of name and address of a member, with description CAs, in an advertisement appearing in press is allowed in following circumstances:</p> <ul style="list-style-type: none"> <li>(a) Advt. for <b>recruiting staff in member's own office;</b></li> <li>(b) Advt. <b>on behalf of clients requiring staff</b> or to acquire or dispose of business or property.</li> <li>(c) Advt. for <b>sale of a business or property</b> acting in a professional capacity as trustee, liquidator or receiver.</li> </ul>

#### Self-Regulatory Measures

Branch Audits	<ul style="list-style-type: none"> <li>• Branch audits of a company should not be conducted by its statutory auditors consisting of <math>\geq 10</math> members, but should be conducted by local firms consisting of <math>&lt; 10</math> members.</li> </ul>
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	<ul style="list-style-type: none"> <li>This restriction may not apply in the following cases. <ul style="list-style-type: none"> <li>(a) where accounting records of branches are maintained at the H.O., and</li> <li>(b) where significant operations are carried out at branch office.</li> </ul> </li> </ul>
<b>Joint Audit</b>	In case of large companies, practice of associating a <b>practicing firm with &lt; 5 members</b> as Joint auditors should be encouraged.
<b>Ratio - Qualified &amp; Unqualified Staff</b>	At least <b>1 member for every 5 non-qualified</b> members of the staff, excluding articled and audit assistants, typists, peons and other persons not engaged directly in such professional work.
<b>Disclosure of Fees to ICAI</b>	<p>(i) <b>For Non-Public Interest Entities:</b> Disclosure is required where for 2 consecutive years, gross annual professional fees from an audit client represents <b>&gt; 40% of the total fees</b> of the firm.</p> <p>(ii) <b>For Public Interest Entities (PIE*):</b> Disclosure is required where for 2 consecutive years, gross annual professional fees from an audit client represents <b>&gt; 20% of the total fees</b> of the firm.</p> <p><i>*Listed Entities, Banks and Insurance companies.</i></p> <p><b>Exemptions from Disclosure:</b></p> <ul style="list-style-type: none"> <li>If total Fees received by Firm does <math>\leq</math> ₹ 20 lakh.</li> <li>Audit of Govt Companies, public undertakings, nationalised banks, PFI or regulators.</li> <li>Appointments of auditors made by Govt.</li> </ul>

#### Recent Decisions of Ethical Standard Board

- 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.
- A **Practicing CA being Director Simplictor in a Company cannot sign ROC Forms** of Company.
- If a Practicing CA is a non-executive director in a company, he or his Firm, should not accept appointment as a statutory auditor of a Company which is a joint venture of original Company, as it would impact independence.
- A Practicing CA may be an **equity research adviser, but he cannot publish retail report.**
- A CA can hold credit card of a bank when he is also the auditor, provided outstanding balance on the said card does not exceed ₹ 1,00,000 beyond the prescribed credit period limit on credit card.
- A Practicing CA 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.
- Statutory auditor/tax auditor cannot be the valuer of unquoted equity shares** of the same entity, if prohibited under statute.
- A Practicing CA cannot become Financial Advisors and receive fees/commission from Financial Institutions such as Mutual Funds, Insurance Companies, NBFCs etc.
- A CA **cannot exercise lien over the client documents**/records for non-payment of his fees.
- 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 Clause (6), Part-I of First Schedule.
- A CA in service may appear as tax representative before tax authorities on behalf of his employer, but not on behalf of other employees of the employer.
- A CA who is statutory auditor of a bank cannot for same financial year accept stock 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.
- Concurrent auditor of bank 'X' cannot be appointed as statutory auditor of bank 'Y', which is sponsored by 'X'.
- Resident Director u/s 149(3) of the Companies Act, 2013 would be within scope of Director Simplictor**, if he is non-executive director, required in the Board Meetings only, and not paid any remuneration except for attending such Board Meetings.

*It doesn't matter what others are doing, it matters what you are doing.*