

CA FINAL AUDIT AMENDMENTS

MAY 2023

Based on ICAI Amendment Update for May 2023



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**ICAI Amendments - CA Final - AUDIT
Relevant for May 2023**

(Students of AUDIT Regular Batch / Simplified Batch (Latest Ones) have all these amendments already UPDATED in there lectures / GD)


S.N.	Chapter	Amendment - Brief	Covered in
✓ 1	Chapter 5 - Company Audit	Small Company Limits Revised to <u>4 / 40 Crore</u> (<u>Paid Up Capital and Turnover</u>)	Refer <u>Note 1</u>
→ 2	Chapter 7 - Audit Committee & Corporate Governance	Same as applicable for Nov 2022, given again in this update	Refer Note 2
3 (3)	Chapter 11 - Audit of NBFC	Layer based framework now introduced for NBFC wef 01 October 2022	Refer Note 1
✓ 4	Chapter 16 - Forensic Accounting	All references to <u>Forensic Audit</u> now replaced to <u>Forensic Accounting</u>	No video needed
5 (1)	Chapter 17, Unit 1 - Peer Review	Various Changes	Refer Note 3
6 (2)	Chapter 18 - Professional Ethics	Amendments in NOCLAR, Relative Size and Tax Audit to Clients	Refer Note 1 and 4
Note 1	Amendment video 1 shared on YT - https://youtu.be/MGUwBLOG_-Q		
Note 2	No new changes for May23. To cover the amendments made for Nov22, suggest watch this quick revision video of whole chapter covering all amendments - https://youtu.be/C7Rcz24TONQ . However, the AUDIT SIMPLIFIED and AUDIT REGULAR Batches have already covered these amendments in class itself		
Note 3	Refer Amendment video 2		
Note 4	Surprisingly ICAI has given amendments of topic Relative Size and Tax Service to Audit Clients . These topics are not at all included in the ICAI SM. The amendment video 1 hence also has explanation of these topics and separately highlights the amendment made by law. However, NOCLAR Topic is given in ICAI Module and its discussion video is available in GD classes or can be accessed here https://youtu.be/VZLbV7duOoM		

AMENDMENTS NOT COVERED FOR MAY 2023 IN ICAI AMENDMENT UPDATE

(These amendments are given in Amendment Video 1, as the law has changed relating to it before 31 October 2022 but ICAI has not included them in the amendment update)

1	Chapter 18 - Professional Ethics	ICAI - Social Media / Social Networking Websites - Ethical Requirements + DERIVATIVE TRADING	Note 5
2	Chapter 5 - Company Audit	Books of Accounts - S. 128 and Rule 3 - Electronic records related	Note 5
3	Chapter 5 - Company Audit	NFRA Penalty	Note 5
4	Chapter 9	Audit of Banks - DTL Composition related amendment	Note 5
Note 5	All above amendments are minor. The amendment video 1 covers all these amendments. Students may skip to watch, unless ICAI comes up with a corrigendum / additional update for same.		

By CA. Sarthak Jain - FAST Education - Download from www.fast.edu.in or t.me/SarthakJainCA

As per Peer Review Guidelines, 2022 (PRG) 
(Guideline on PU non-compliance will attract disqualification under clause 1, P-II, S-II to CA Act)

1 OBJECTIVES

- a Comply with Technical, Professional and Ethical Standards as applicable including Audit Quality Maturity Model wherever applicable or any other regulatory requirements as may be prescribed by the Council or any Committee (AQMM-OR) and
- b Have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services.

PEER REVIEW PERIOD - Means 3 years preceding the year in which the practice unit is selected or such other period or any period as may be prescribed by the Peer Review Board for conducting a Peer Review.

MEMBERS - Means a member as stated in section 2(2) of the CA Act, 1949.

Peer Review Board - means the Board constituted by the Council in terms of this Guideline from time to time. The expression "Peer Review Board" is hereinafter referred to as "Board".

UDIN- Unique Document Identification Number (UDIN) means a 18- Digit system generated random unique number which is to be generated through UDIN Portal by every full time Practising Chartered Accountant for every document/report certified/attested by them.

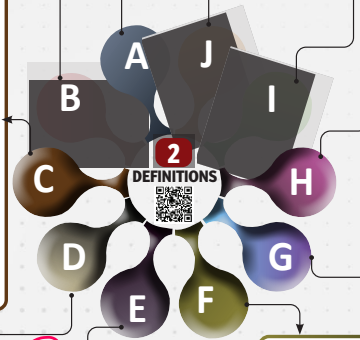
PRACTICE UNIT - Means Firm of Chartered Accountants or a Member in Practice, practicing whether in an individual name or a trade name or such other entity as recognised by the ICAI from time to time.

TENDER MONITORING GROUP - Means Tender Monitoring Group with the objective to monitor and standardize the tenders floated by various organizations for professional services rendered by Chartered Accountants.

New Unit - means a firm whose :
> date of establishment is less than 12 months immediately preceding the date of receipt of application of Peer Review and which may or may not have rendered any assurance service during the said period or
> a Practice Unit in existence for a period exceeding 12 months but not rendering any assurance services - Clause 2(12) of PRG

TECHNICAL, PROFESSIONAL AND ETHICAL STANDARDS MEANS -

- Accounting Standards issued by ICAI that are applicable for entities other than companies,
- Accounting Standards prescribed under section 133 of the Companies Act; 2013 by the Central Government
- Indian Accounting Standards prescribed under section 133 of the Companies Act 2013 by the Central Government
- Standards issued by the ICAI (example- Engagement & Quality Control Standards, Statements, Guidance Notes, SIA, Guidelines, Notifications, etc.)
- Framework for the preparation and presentation of FS, framework or statements and SAs, SAE, SQC and Framework for Assurance Engagements.
- Provisions of the various relevant statutes and /or rules or regulations which are applicable in the context of the specific engagements being reviewed.
- Any other Technical, Professional, Ethical Standards and other Standards issued by any authority governing the profession of Chartered Accountancy



REVIEWER - means a member duly approved and empanelled by the Board on fulfilling the qualifications prescribed for a Reviewer as per Guideline 26 of these Guidelines - Clause 2(19) of PRG

"BRANCH PEER REVIEWER" - means a Reviewer appointed to conduct the Peer Review of the Branch of a Practice Unit. The qualifications and other obligations and duties of the Branch Peer Reviewer shall be the same as that of the Reviewer - Clause 2(5) of PRG

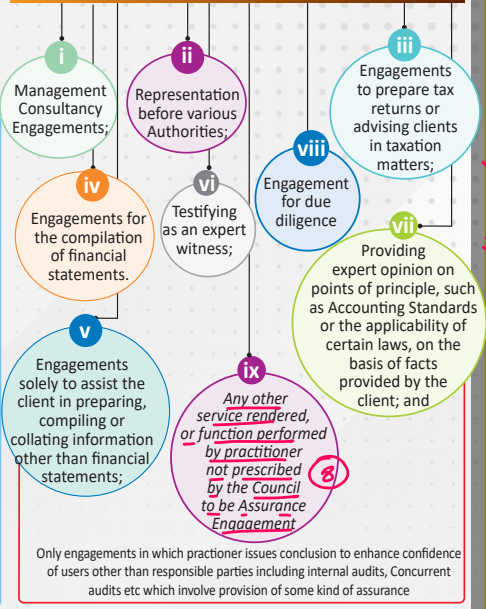
QUALIFIED ASSISTANT - Means a member who is an Associate of the Reviewer either as a partner or as a paid assistant as per the records of the ICAI.

PEER REVIEW - Means an examination and review of the systems and procedures to determine whether the same have been put in place by the Practice Unit for ensuring the quality of assurance services as envisaged by the Technical, Professional and Ethical Standards as applicable including AQMM-OR and whether the same were consistently applied during the period under review. (clause 2(14) of PRG)

Overall Objectives:

- Primary object is not to find deficiencies but to improve quality of services.
- To ensure adherence to various statutory and regulatory requirements & to recommend measures to improve procedures.
- To identify and address patterns of non-compliance with quality control standards, and not to identify isolated cases of engagement failure.
- It is primarily directed towards ensuring as well as enhancing the quality of audit and assurance services of CAIP.

4 AREAS NOT TO BE EXAMINED IN PEER REVIEW



3

- (i) Compliance with Technical, Professional and Ethical Standards
- (ii) Quality of reporting
- (iii) Systems and procedures for carrying out assurance services
- (iv) Self-evaluation under Audit Quality Maturity Model or any other guideline issued by the Centre for Audit Quality CAQ

SCOPE OF PEER REVIEW
(Only Assurance engagements covered)

- (v) Training programmes for staff (including articulated and audit assistants) concerned with assurance functions, including availability of appropriate infrastructure
- (vi) Compliance with directions and / or guidelines issued by the Council to the Members, including Fees to be charged, Number of audits undertaken, Register for Assurance Engagements conducted during the year and such other related records
- (vii) Compliance with directions and / or guidelines issued by the Council in relating to article assistants and / or audit assistants, including attendance register, work diaries, stipend payments, and such other related records

5 PU SUBJECT TO REVIEW

- PR Mandate Implementation - Clause 5, PRG**
- Mandatory** - PR can be mandated for such PU as may be decided by the Council (See Below) or,
 - Voluntary** - Any PU may, suo motu, apply to the Board for conduct, or,
 - Special Case** - The Board, based on specific information received from Secretary, ICAI or DD or any other Regulator, which in Board's opinion requires a special PR of PU, may conduct a special PR for period as determined by the Board.
 - New Unit** (As defined) - PR of New Unit is to be conducted based on the antecedents of partners (3 or 4 or 5 or more) and policy parameters announced by the Practice Unit for conduct of attest function. The Reviewer has to verify the same from the Application cum Questionnaire submitted by the Practice Unit in Form 1 as well as an onsite visit to the Practice Unit which shall be restricted to 1 day.

Mandatory PR:		
Phase	Category of firms covered for Mandatory PR	Date from which PR is Mandatory
I	Listed Entities - PU which propose to undertake Statutory Audit of enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI (LODR), 2015. (PR is already mandatory by SEBI for such PU)	1st April 2022 - Pre-requisite of having PR Certificate by PU
II	Unlisted Entities - PU which propose to undertake Statutory Audit of unlisted public companies having paid-up capital of >=500 crores or annual turnover of >=1000 crores or in aggregate, outstanding loans, debentures and deposits of >=500 crores as on the 31st March of immediately preceding financial year OR PU rendering attestation services and having 5 or more partners* - Pre-requisite of having PR Certificate before accepting any Statutory audit. (*Earlier clarified any time in preceding FY.)	1st April 2023 - Pre-requisite of having PR Certificate by PU
III	PU which propose to undertake the Statutory Audit of: (a) Entities which have raised funds from public or banks or financial institutions of > 50 Crores during the period under review or (b) Any body corporate including trusts which are covered under public interest entities PIE. OR PU rendering attestation services and having 4 or more partners - Pre-requisite of having PR Certificate before accepting any Statutory audit.	1st April 2024 - Pre-requisite of having PR Certificate.
IV	PU which propose to undertake audits of branches of Public Sector banks OR PU rendering attestation services and having 3 or more partners - Pre-requisite of having PR Certificate before accepting any Statutory audit.	1st April 2025 - Pre-requisite of having PR Certificate.

PR Certificate is a pre-requisite at each stage and should be available and valid at the time of accepting as well as the time of completion of attestation services. **PIE** -> Listed, BK, Ins Co + others is defined as PIE by COE-Vol. 1 regulators or classified based on size, no. of employees or nature of biz, no. of stake holders.

5A PEER REVIEW BOARD

Constitution: -The Board shall be constituted by the Council. Minimum 6, Maximum 12 members with Min. 50% members shall be from Council.

i) Term of the members - The term of 2/3 members shall be for 3 years or end of the term of the member in the Council whichever is earlier, or such other period as may be prescribed.

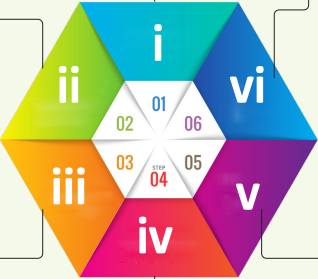
ii) Rotation: -The Chairman and the Vice-Chairman of the Board may be rotated every year by the Council of the Institute.

iii) Casual vacancy: Casual vacancies on the Board shall be filled by the Council.

iv) Restriction: -A Member of the Disciplinary Committee or the Disciplinary Board of the ICAI shall not be a member of the Board.

vi) Reporting: The Board shall submit a report to the Council prior to the date of every meeting of the Council.

v) Meeting- Quorum, etc.
Provisions related to the time, place and quorum of Meetings of the Peer Review Board as well as procedure for transaction of business shall be governed by the Chartered Accountants Regulation, 1988



8 ELIGIBILITY TO BE A REVIEWER

₹ Fee | Decided by Board | Paid by P.U.

A PEER REVIEWER SHALL

- i** Be a member in practice with at least 7 years of assurance practice experience
- ii** In case a member has moved from industry to practice and is currently in practice he should have at least 10 years of audit experience in industry and at least 3 years audit experience in practice.
- iii** Have undergone requisite training and cleared the requisite test for Peer Review prescribed by the Board
- iv** Furnish a declaration prescribed by Board at the time of Empanelment as a Peer Reviewer.
- v** Furnish a declaration of Confidentiality while giving consent for appointment as a Peer Reviewer.

FOR BEING A REVIEWER OF PRACTICE UNIT, MEMBER SHOULD NOT HAVE

- i** Any disciplinary action/proceedings pending against him
- ii** Been found guilty of professional or other misconduct by the council or Disciplinary Board or committee at any time
- iii** Being convicted by competent court of an offence involving moral turpitude and punishable with imprisonment
- iv** He has undergone training/ articleship under any of the partner of Practice Unit.
- v** Any obligation or conflict of interest in practice unit / partners/ personnel
- vi** Not to accept any professional assignment from practicing unit for 2 years before or next 2 years after date of appointment

8A PEER REVIEW OF AUDITORS

PEER REVIEW OF ATTEST FUNCTION HAS A SPECIAL SIGNIFICANCE.

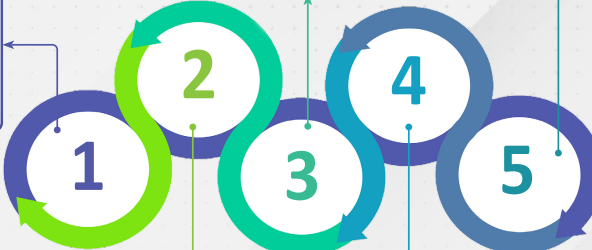
Performance satisfaction: -The question of whether an auditor has performed his function satisfactorily or not is arising more frequently now. There is a considerable gap between what the society as a whole expects the auditors to do and what the auditors are actually required perform; by law and as per the terms of their engagement.

Mandatory: -It is important to note that in spite of the advantages of peer review, not many professional bodies have implemented the concept effectively. In this background, it is very creditable that ICAI has, over a period, made peer review compulsory for all auditors.

No disturbance: -The nature of work is such that it can be easily subjected to peer review. It is possible to review the work subsequent to its completion; without disturbance of work.

Dynamic Environment: - The business environment is changing so fast that it is necessary for an auditor to keep improving his audit techniques and seek a stamp of approval about his competence.

First line of defense: - If the work of any auditor is questioned, the auditor's first line of defense would be that the work has happened as per auditing practices which have been peer reviewed.



6 CONFIDENTIALITY

Strict confidentiality shall be maintained by all those involved in the Peer Review process, namely, Reviewers, members of the Board, any Qualified Assistants or Practice Unit. All persons governed by the secrecy provisions:

(a) Shall at all times preserve and aid in preserving secrecy with regard to any matter arising in the performance or in assisting in the performance of any function, directly or indirectly related to the process and conduct of Peer Reviews;

(b) Reviewer shall not make use of or disclose the contents of Review report or any confidential information about the process of Review except as required by the Board or the Council.

- > Non-compliance with the secrecy provisions in the above clause shall amount to professional misconduct as defined under Sec.22 of the CA Act,1949.
- > A Declaration of Confidentiality shall be signed by the persons who are responsible for the conduct of Peer Review i.e., Reviewers and his Qualified Assistants and be filed with the Board.
- > All members of the Board and Board's Secretariat shall also sign a declaration of Confidentiality (Form 4) in a manner as may be prescribed by the Board.



7 OBLIGATIONS

OF PEER REVIEWER

- Shall not take any extracts of Practising Units clients file or record examined by him, as a part of his working paper.
- Complete the review within time frame and submit the report to the Board.
- The Reviewer shall document all his working papers and submit a copy of his working papers to the Board, if called for by the Board within 18 months of submission of Review Report.

OF PRACTICE UNITS

- In addition to furnishing information :
- Produce/allow access to any record/document/register maintained by PU to PR.
 - Provide explanation or further particulars as reviewer specifies.
 - Provide all assistance to the reviewer in connection to review.
 - Where any information or matter relevant to a Practice Unit is recorded otherwise than in a legible form, provide any such information or matter, or of the relevant part of it in a legible form with translation, if not in Hindi/English. PU responsible and accountable for accuracy and truthfulness of the translations

10

REVIEW PROCESS

START Cooperate to complete in 20 days (7 days in case of new unit) **END**

A. Procedure for initiating PR (Clause 6):

- 1 PUs which desire to get PRed - Make application in the Application cum Questionnaire, Form 1
- 2 PR is initiated by the Board - Form 1 should be submitted by PU on request of PRB-Secretary.
- 3 The Application received by the Board shall be duly numbered.
- 4 On receipt of Form 1 names of 3 Recommended PRs shall be recommended by Board to PU within 3 working days.
- 5 PU shall select 1 out of the 3 recommended PRs and intimate the Board within 1 working day of receipt of names.
- 6 The Board shall appoint the PR selected by the PU in accordance with these Guidelines.
- 7 The Board shall intimate the Reviewer to submit a Declaration of Confidentiality in Form 2 to the PU within 2 working days from the receipt of choice of name of the Reviewer from the PU.
- 8 The PU shall also provide a copy Form 1 submitted to the Board to the Reviewer within 2 working days of the appointment of the Reviewer.

C

PROCEDURES-EXECUTION

Carry out compliance review of

- Independence
- Maintenance of Professional Skills and Standards
- Outside consultation
- Staff recruitment, Supervision and Development
- Office administration

D

REPORTING BY PEER REVIEWER

- 1 Unmodified Opinion - After completing on-site review, submit PR Report to Board along with Form 9 if in his opinion, the PU has adequate systems and procedures in compliance with the Technical, Professional and Ethical Standards. A copy also be forwarded to the PU.
- 2 Preliminary Report (In case of Modified Opinion) - In case, in the opinion of the Peer Reviewer, the systems and procedures of the PU are (a) deficient or non-compliant with reference to any matter that has been noticed by him, or (b) if there are other matters where he wants to seek clarification, he shall communicate his findings to the PU, in a Preliminary Report issued by him.
- 3 Response to Preliminary Report - PU shall, within 2 working days of the date of receipt of the findings, make its submissions or representations, in writing to the Reviewer.
 - (a) Satisfactory Response - If the Reviewer is satisfied with the reply received from the PU, he shall submit an unqualified PR Report to the Board along with Form 9. A copy of the report shall also be forwarded to the PU.
 - (b) Not Satisfactory Response - Reviewer shall submit a Qualified Report to the Board incorporating his reasons for the same along with Form 9. A copy of the report shall also be forwarded to the PU.
- 4 PR Report should state
 - (a) System of quality control for the assurance services of the PU for the period under review has been designed so as to carry out the assurance services in a manner that ensures compliance with TPE Standards.
 - (b) Reviewer to submit the following documents along with the PR Report:
 - Annexures to the Report as prescribed by the Board
 - Copy of Questionnaire as received from the PU
 - List of samples selected by him in accordance with the criteria prescribed by the Board
 - Preliminary Report, if issued, along with PU's submissions on the same.
 - (c) The PU as well as the Reviewer shall ensure that all documents submitted to Board are duly dated, signed and complete in all aspects.
 - (d) Mutually co-operate to complete entire process within 20 working days from the date of receipt of application / notifying PU about its selection. In case of new PU, within 7 working days from the date of receipt of application cum questionnaire from the PU for being peer reviewed.
5. Review of report by the PR Secretariat under the supervision and directions of PRB, Secretary
 - The Peer Review Board Secretary shall ensure that the Peer Review report is accompanied by all the documents and complete in all respect (as mentioned under Clause 9 (7) of the Guidelines)
 - In case of a qualified report, the Peer Review Board Secretary shall place the report before the Board for consideration. The Board may decide for a "Follow On" Review after a period of one year from the date of issue of report by PRer. (Board may reduce 1 year but cannot be less than 6 months from date of issue of the report)
 - All reports shall be placed before the Board or its Sub-Committee for its consideration and issuance of Peer Review Certificate.

B. Procedure to be followed by the PRer:

- 1 Declaration of confidentiality is furnished to the PU and acknowledgement of receipt thereof is obtained before PR.
- 2 On receiving Form 1 from the PU, the PRer shall initiate PR & intimate PU of proposed visit and proposed samples selected (in Form 5) to be kept ready by the PU.
- 3 The Reviewer may seek further/ additional clarification in Form 6 from the PU on the information furnished/ not furnished by the PU in the Questionnaire. The PU shall provide this additional information within 1 working day.
- 4 The Reviewer shall, within 2 working days of receiving the information from the PU select assurance service engagements that he would like to review and intimate the same to the PU and the PR Board in Form 5.
- 5 Sample size - Number of assurance service engagements to be Reviewed shall depend upon:
 - (i) The standard of quality controls generally prevailing
 - (ii) The size and nature of assurance service engagements undertaken by PU
 - (iii) The methodology generally adopted by the PU in providing assurance services
 - (iv) The number of partners / members involved in assurance service engagements in PU
 - (v) The number of locations / branch offices of the PU
 - (vi) The fees charged / received / GST paid by the PU.
- 6 The Reviewer shall plan for an "on-site review" visit for initial meeting in consultation with the PU. The Reviewer shall give the PU at least 2 working days to keep ready necessary records of the selected assurance services in Form 5.
- 7 The Reviewer may enlarge the initial sample size of assurance service engagements for review if the Reviewer deems fit.
- 8 The Reviewer visits will be conducted at the Practice Unit's head office or /and branch(es) or any other locations. This on-site review should not extend beyond 6 working days based on the size of the Practice Unit.

9

QUALIFIED ASSISTANT

Only 1 Qualified Assistant

He shall be CA (from the firm of the reviewer as a partner or paid assistant as per records of ICAI.)

He is not Disqualified under 5.8 or S.21 of CA Act, 1949

Name of QA should be informed to the Board as well as practice unit in advance

He is required to sign declaration of confidentiality

No direct interface with Board or P.U.

Q.9A CA S has been appointed as peer reviewer of JS & Associates, a Level-I CA Firm. CA S wants to appoint CA K as his assistant, as he has working experience in a Level-I CA Firm. What aspects CA S should take care of before appointing CA K as Assistant, for the peer review of JS & Associates? (Dec-21-Old) Hint: See point '9'

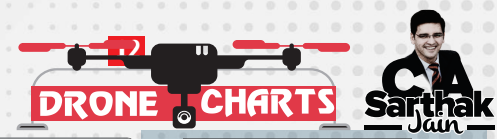
Q.9B CA. Manoj has been appointed as Peer Reviewer of M/s UV Associates, a Chartered Accountant firm consisting of 18 partners. As a Practicing unit what are the obligations that are to be complied by M/s UV associates in addition to furnishing the questionnaire, statements and such other Particulars as the Board may deem fit? (Dec-21-New) Hint: See point '9'

Q.9C AB & Co., Chartered Accountants, is a large firm based in Mumbai. AB & Co. is subject to peer review. For the peer review of the financial year ended March 31, 2021, the firm got an intimation on June 30, 2021. X & Co., Chartered Accountants, were appointed to undertake the peer review process. Upon completion of the peer review, X & Co., observed certain non-compliance with auditing standards. X & Co., did not share any of observations with AB & Co. and submitted its final report to the Peer Review Board of the Institute of Chartered Accountants. Comment. (Nov-22) Hint: See point '10-D-B'

Q.7 Write a short note on "Reporting" stage in Peer Review. (June-09) (MTP-N-20)- Hint: See point '10-D'
Q.8 Write a short note on: Selection of sample by the reviewer in case of peer review. (RTP-N-20) Hint: See point '10-B'

Q.9 CA S has been appointed as peer reviewer of Shivam & Co. LLP. Shivam & Co. LLP submitted a list of its assurance and due diligence services for the peer review. CA S is in the process of deciding as to how many assurance services should be reviewed. Guide CA S in deciding the number of assurance services engagement to be reviewed. (Jan-21-New) Hint: See point '10-C-iii'

PEER REVIEW



04

The reviewer may follow a combination of compliance procedures and substantive procedures throughout the peer review process as per his professional judgment.

Compliance Procedures

Check whether P&P sufficient to ensure compliance of TPE standards & well communicated to staff

Substantive Procedures

Evaluate whether working papers document findings & conclusions + report is as per findings and conclusions

03

Consider enquiring from the concerned persons about policies and procedures (P&P) for accepting a particular engagement, where such P&P do not exist in record form. Further check compliance of such P&P

02

Decide number of assurance engagement to be reviewed from evaluation of replies given in the questionnaire and the size of the practice unit. Obtain cross section of clients. Focus on large clients

01

The reviewer should gain an understanding of the engagement letter defining nature and scope. Focus to be on key engagement matters. Materiality of matters to be considered

05

Finally, the reviewer while evaluating records may consider the following to determine:

(i) Any significant issues, matters, problems that arose during the course of the engagement have been appropriately considered, resolved and documented

(ii) Adequate audit evidence in relation to the engagement is obtained to support the reasonableness of the conclusions drawn; and

(iii) Significant decisions relating to the engagement, use of professional judgement, resolution of significant matters have been properly documented

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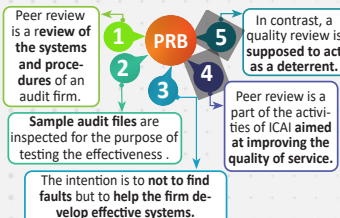
Stepwise APPROACH OF THE REVIEWER

COLLECTION OF EVIDENCE BY PEER REVIEWER

A Peer Reviewer collects evidence by applying the following methods:

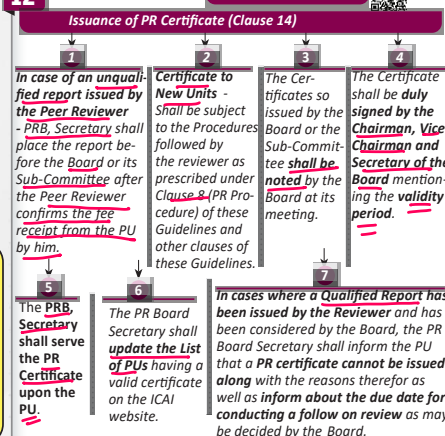
- Inspection:** It includes scrutiny of documentation and other records of the practicing unit
- Observation:** He observes the procedures/ processes followed in the production unit
- Enquiries:** He enquires and collect required information from the responsible person of practice unit.

17 DIFFERENCE BETWEEN PEER REVIEW AND QUALITY REVIEW



- Quality Review Board (QRB) is constituted by the CG & is independent of ICAI.
- As per Sec. 28A of the CA's Act, the CG has the authority to constitute a QRB.
- QRB carries out supervisory and disciplinary functions.
- The main objective quality review is to find errors or inadequacies
- Serious errors detected in quality review lead to disciplinary action against the member.

12 CERTIFICATE



- A PU cannot continue with the existing certificate, whose validity has expired.
- All documents signed by the PU during the intervening period will be invalid.
- It is the responsibility of the PU to complete the Peer Review of the firm & submit all necessary documents at least 1 month before the date of expiry of the previous certificate.

Validity of PR Certificate (Clause 15)

- 3 years or such other period as may be decided by the Board commencing from the date of receipt of PR report by the Board. The validity of Certificate to New Units shall be decided by the Board.
- Extension - Council may for such reasons as may be prescribed by it, extend the validity of existing PR certificate granted to a PU on an Application by PU in Form 8 requesting for extension of validity.
- Where PR Report received before expiry of earlier Certificate, the new Certificate commencement date shall be the date following the date of expiry of the earlier Certificate.

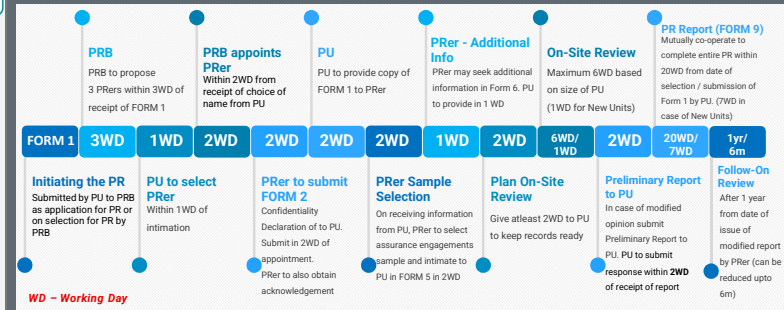
FOLLOW ON AUDIT

In case of a Modified Report, The Board shall order for a "Follow on Review" after a period of One Year from the date of issue of report as mentioned in (b) above. If the Board so decides, the period of one year may be reduced but shall not be less than Six Months from the date of issue of the report.

14 INHERENT LIMITATIONS OF REVIEW

- The reviewer conducts the review in accordance with the Statement on Peer Review.
- The review would not necessarily disclose all weaknesses in compliance of technical standards and maintenance of quality of assurance services since it would be based on selective tests.
- As there are inherent limitations in the effectiveness of any system of quality control which happens to be subject-matter of review, departure from the system may occur and may not be detected.

PEER - REVIEW TIME LINE



15 INDEPENDENCE OF PU

- Does the PU have policy to ensure independence, objectivity and integrity on the part of partners and staff? who is responsible for this policy?
- Does the PU communicate these policies and the expected standards of professional behaviour to all staff?
- Does the PU monitor compliance with policies and procedures relating to independence?
- Does the PU periodically review its association with clients to ensure objectivity and independence.

15 CA FINAL AUDIT : PEER REVIEW

Q.10 Explain the stepwise approach adopted by the Peer reviewer. (M-15)(RTP-N-18) - Hint: See point '11'
 Q.11 What are the inherent limitations of Peer Review? (SM)(N-18-New) - Hint: See point '14'
 Q.12 Briefly explain: Collection of evidences by Peer reviewer.(N-09) Hint: See point '16'

13. A, a practicing Chartered Accountant is appointed to conduct the peer review of another practicing unit. What areas A should review in the assessment of independence of the practicing unit? (RTP-Dec-21)(SM)(Jan-21-Old)(MTP-N18/N19) (M-16) Hint: See point '15'

14. Briefly explain the difference between Peer Review and Quality Review. (MTP-M-21) - Hint: See point '17'

Audit Quality Maturity Model (AQMM)

1. Centre for Audit Quality (CAQ) set up by ICAI in Jaipur, in its Centre of Excellence
2. AQMM and its implementation guide issued in July 2021. AQMM under recommendatory phase. Mandatory for specified firms from 01 April 2023.
3. Implementation guide serves as a tool for implementing AQMM by the Professional Accounting Firm and to measure their audit maturity levels
4. Self-evaluation model where firms to self-evaluate their Audit Maturity Rating and take steps to improve it further.
5. Ratings to be made available for any inspections, and for review by Peer Review under PRG, 2022
6. The firms auditing the following types of entities are to mandatorily assess their level of AQM using the AQMM from 1st April 2023:

- (a) A listed entity; or
 - (b) Banks other than co-operative banks (except multi-state co-operative banks); or
 - (c) Insurance Companies
- } PIE

However, firms doing only branch audits are not covered.

The scores and the level obtained by the firms shall be reviewed by the peer reviewer alongside the peer review cycle.

7. The level of the firm obtained through self-evaluation using AQMM **should not be publicized or mentioned in any public domain** as it may amount to solicitation
8. However, the level of the **firm assessed using AQMM and reviewed by the Peer Reviewer / AQMM Reviewer shall be hosted on the website of the ICAI** alongside the date of expiry of the Peer Review Certificate.

9. Firm Maturity Rating Matrix

Section Reference	Total Possible Points
Section 1. Practice Management – Operation	75 % 280 ✓
Section 2. Human Resource Management	75 % 240 ✓
Section 3. Practice Management - Strategic/Functional	30 % 80 ✓
Total	600

Basis of Rating:

Score in each section ->	<=25%	>25% <= 50%	>50% <= 75%	>75%
Firm Categorisation ->	<u>Level 1 Firm</u>	<u>Level 2 Firm</u>	<u>Level 3 Firm</u>	<u>Level 4 Firm</u> ✓
Interpretation -> <i>Indicates that the firm -</i>	Is very nascent, take immediate steps to upgrade its competency	has made some progress -will have to fine-tune further ✓	has made substantial progress will have to fine-tune further	made significant adoption of standards & procedures - Should focus optimizing further

10. AQMM requires points to be awarded based on existence of various parameters under different sections. The parameters range from questions like whether major revenue is from assurance services, whether company has and follows a vision mission statement, whether it is inspections implemented as per SQC 1 and more....

9/16/19

FORM	PEER REVIEW FORMS -	Submitted By	Submitted To
1 ✖	Application cum Questionnaire	PU	PRB & later to selected PRer (2WD of appointment of PRer)
2 ✖	Declaration of Confidentiality	PRer	PU (2WD)
3	Application for enrolment as a Peer Reviewer + Declaration of confidentiality to PRB	Person proposing to empanel as PRer	PRB
4	Declaration of Confidentiality	Signed by all PRB members & Board's Secretariat	ICAI
5 ✖	Selection of Assurance Engagement Sample to Review	PRer	PRB & PU (2WD of receipt of information from PU)
6 ✖	Further/additional clarification	PRer	PU (PU to submit information demanded to PRer in 1WD)
7	Seeking additional time for completion of Peer Review	Joint application by PU and PRer	PRB
8	Seeking extension to validity of Peer Review Certificate	PU	PRB
9 ✖	Letter to submit PRer Report	PRer	PRB & copy to PU (mutually cooperate to complete in 20WD from date of intimation / selection for PR)
10	Notice in case of revocation of Peer Review Certificate	PRB	PU

All applications to PRB addressed to Secretary of PRB

CODE OF ETHICS - VOLUME 1

Part I - Code of Ethics : Provisions made applicable w.e.f. 1st October 2022

SM of Provision
A.
BOS amendment only notify

Are all the provisions of Code of Ethics applicable now?

A. Yes. All provisions were effective pending 3, which have been made applicable from 1st October 2022 with certain amendments. These three provisions are: -

(1) Responding to Non-Compliance with Law and Regulations (NOCLAR) - Sections 260 and 360

(2) Fees - Relative Size - Paragraphs 410.3 to R410.6

(3) Tax Services to Audit Clients - Subsection 604

→ ICAI on SM of provisions

→ Amendment → ICAI notified 1-10-22

→ BOS amended prov. applic. May 23

(1) Responding to Non-Compliance with Law and Regulations (NOCLAR) - Sections 260 and 360

INTRODUCTION

Where a professional accountant in public practice or senior professional accountant identifies any non-compliance with laws and regulations to comply with the principles of integrity and professional behaviour it may have to report such non-compliance by alerting management / TCWG and take further actions as appropriate like reporting to regulatory bodies or withdrawing from engagement.

PROVISIONS AMENDED & RELATED PROVISIONS

Q. APPLICABILITY

Are the professional accountants in public practice required to comply with the provisions of NOCLAR with regard to all professional assignments?

A. Provisions of NOCLAR from the standpoint of professional accountants in public practice are applicable to Audit engagements of entities, the shares of which are listed on recognized stock exchanges(s) in India and have a net worth of INR 250 crores or more (earlier all listed entities).

→ not debt

→ not outside India

“Audit” or “Audit engagement”?

(+)

Shall mean a reasonable assurance engagement in which a professional accountant in public practice expresses an opinion on whether financial statements give a true fair view by an applicable financial reporting framework (specifically separate definition of Audit added for NOCLAR).

Listed entity?

Entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

Q. Whether the provisions of Responding to NOCLAR apply to all professional accountants in service?

A. As per the revised provisions of Section 260 of Volume -1 of the Code of Ethics, provisions of NOCLAR with reference to professional accountants in service apply only to the senior professional accountants employed with listed entities (earlier all employees of listed entities).

Senior professional accountants in service?

Refers to the Key Managerial Personnel (reference to KMP added). They are directors, officers, or senior employees able to exert significant influence over and make decisions regarding, the acquisition, deployment, and control of the employing organization’s human, financial, technological, physical, and intangible resources. There is a greater expectation for such individuals to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance than other professional accountants within the employing organization. This is because of senior professional accountants’ roles, positions, and spheres of influence within the employing organization.

Measures to be take in case of imminent breach Provisions repealed (withdrawn)

(2) Fees – Relative Size – Paragraphs 410.3 to R410.6

INTRODUCTION

Where the total fees generated from an audit client represent a large proportion of the total fees it creates a **self-interest or intimidation threat**. The level of such threats depends in several factors and various safeguards can be built to address such threats. However, if the fees from a single client (& its related parties) is in excess the prescribed amended threshold, then same is to be reported to the Institute.

Q. What are the threats in case of fee dependence from a single Audit client?

A. According to provisions of paragraph 410.3 A1 of Volume-1 of the Code of Ethics, when the total fees generated from an Audit client by the firm expressing the audit opinion represent a **large proportion of the total fees of that firm**, the dependence on the client and concern about losing the client **create a self-interest or intimidation threat**.

Q. What is the threshold percentage of gross annual professional fees (i.e. limit beyond which there will be threats) received for an audit client which is not and is a public interest entity?

A. Threshold percentage of gross annual professional fees (i.e total fees) received from an audit client which is:

- **not a public interest entity (non-PIE) and its related entities** is **40%** for **2 consecutive years** (earlier 15%)
- **is a public interest entity (PIE) and its related entities** is **20%** for **2 consecutive years** (earlier 15%)

then disclosure is required.

Q. What measures shall be taken by the firm if the fees received from an Audit client represent more than 40% (in case of Non-PIE) or 20% (PIE) of the total fees for two consecutive years?

A. The firm shall **disclose the fact to the Institute** (earlier ICWG) in case the fees received from an Audit client for **two consecutive years** represents more than the mentioned limits.

If the fees continues to exceed mentioned limits, the firm shall **in each such year disclose** this fact to the Institute.

Reporting format-

Ethical Standards Board of the Institute shall define the framework and mechanism of reporting.

Exceptions-

A. Firms exempted - where the **total fees received by the firm does not exceed Rs. 20lakhs** (earlier 5Lacs) in respect of a firm including fees received by the firm for other services rendered through the medium of a different firm or firms in which such member or firm may be a partner or proprietor to all audit clients above thresholds are not applicable.

B. Audit Clients exempted - Provisions of Fees-relative size are not applicable in the case of **audit of government Companies, public undertakings, nationalized banks, and public financial institutions, or where appointments of auditors are made by Government or Regulators** (added).

Public interest entity (PIE) -

As per the Code of Ethics, Public interest entities include: -

(a) A listed entity; or

(b) An entity:

(i) **Defined by regulation or legislation** as a public interest entity; or

(ii) For which the **audit is required by regulation or legislation** to be conducted in compliance with the same independence requirements that apply to the **audit of listed entities**. Such regulation might be

promulgated by any relevant regulator, including an audit regulator. For purpose of this definition, it may be noted that *Banks and Insurance Companies are to be considered as Public Interest Entities.*

“Related entity”-

“Related entity” refers to an entity that has **any of the following relationships** with the client:-

- (a) An entity that has **direct or indirect control** over the client if the client is material to such entity (*Parent*);
- (b) An entity with a **direct financial interest** in the client if that entity has **significant influence** over the client and the interest in the client is material to such entity (*Investor in client being an associate*);
- (c) An entity over which the **client has direct or indirect control** (*Subsidiary*);
- (d) An entity in which the **client, or an entity related to the client under (c) above**, has a direct financial interest that gives it **significant influence** over such entity and the interest is material to the client and its related entity in (c); and (*Associates and Associates of subsidiaries*)
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity. (*Fellow subsidiary if material to the parent entity*)

(3) Tax Services to Audit Clients - Subsection 604

INTRODUCTION

Providing tax services to an **audit client** might create a **self-review or advocacy threat**. **This subsection includes requirements that prohibit firms and network firms from providing certain tax services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.** Tax services comprise a broad range of services and if provided to audit clients create following threats and are hence either prohibited or restricted:

1) Tax return preparation

- Does not usually create a threat

2) Tax calculations for the purpose of preparing the accounting entries

- Creates a self-review threat. Not permitted if PIE if has material effect on FS. For non-PIE (or PIE where it has no material effect on FS) permitted if adequate safeguards built to address the threat)

3) Tax planning and other tax advisory services

- **Might create self-review or advocacy threat.** Hence may provide depending on the level of threat and safeguards that can be built. However when **Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation**, not to provide such services if there is a reasonable doubt about the suggested accounting treatment and it has material effect on FS

4) Tax services involving valuations

- **Might create self-review or advocacy threat.**
 - Valuation result not having a direct effect on the financial statements – May provide if valuation has no material effect on FS or valuation is subject to external review by tax authorities
 - Valuation result having a direct effect on the financial statements – Provisions of sub section 603 on providing valuation services to audit clients apply.

5) Assistance in the resolution of tax disputes

- **Might create self-review or advocacy threat.**

- A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client if: (a) The services involve acting as an advocate for the audit client before a court; and (b) The amounts involved are material to the FS.
- Ethics does not preclude a firm or network firm from having a **continuing advisory role** in relation to the matter that is being heard before a court, for example responding to specific requests for information, providing factual accounts or testimony, assisting client in analyzing the tax issues related to the matter. **For the purpose of this subsection, "Court" does not include a Tribunal (Amendment clarified).**

Company Audit and Accounts		
<i>Definition - Small Company</i>	<i>Small Cos Definition</i>	Companies (Specification of definition details) Rules, 2014, Section 2(85) of the Act small company limits changed to: (a) paid up capital \leq Rs. 4 crore and (b) turnover \leq <u>Rs 40 crores (Earlier 2/20)</u>

Forensic Accounting		
<i>Replace Terms</i>	<i>Forensic Audit</i>	<i>Forensic Accounting</i>
	<i>Forensic Auditor</i>	<i>Forensic Accountant</i>

NBFC – Framework for Scale Based Regulation (SBR)

Guidelines issued are effective from 01 October, 2022

1. Regulatory Structure for NBFCs

1.1 Regulatory structure for NBFCs shall comprise of four layers based on their size, activity, and perceived riskiness. NBFCs in the lowest layer shall be known as NBFC - Base Layer (NBFC-BL). NBFCs in middle layer and upper layer shall be known as NBFC - Middle Layer (NBFC-ML) and NBFC - Upper Layer (NBFC-UL) respectively. The Top Layer is ideally expected to be empty and will be known as NBFC - Top Layer (NBFC-TL).

Base Layer

1.2 The Base Layer shall comprise of

- (a) non-deposit taking NBFCs below the asset size of ₹1000 crore and
- (b) NBFCs undertaking the following activities-

- (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P),
- (ii) NBFC-Account Aggregator (NBFC-AA),
- (iii) Non-Operative Financial Holding Company (NOFHC) and
- (iv) NBFCs not availing public funds and not having any customer interface.

Middle Layer

1.3 The Middle Layer shall consist of

- (a) all deposit taking NBFCs (NBFC-Ds), irrespective of asset size,
- (b) non-deposit taking NBFCs with asset size of ₹1000 crore and above and
- (c) NBFCs undertaking the following activities

- (i) Standalone Primary Dealers (SPDs),
- (ii) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs),
- (iii) Core Investment Companies (CICs), (CARO)
- (iv) Housing Finance Companies (HFCs) and
- (v) Infrastructure Finance Companies (NBFC-IFCs).

- The remaining NBFCs, viz., Investment and Credit Companies (NBFC-ICC), Micro Finance Institution (NBFC-MFI), NBFC-Factors and Mortgage Guarantee Companies (NBFC-MGC) could lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.
- Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be. They will not be placed in the Upper Layer till further notice.

Upper Layer

1.4 The Upper Layer shall comprise of those NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

Top Layer

1.5 The Top Layer will ideally remain empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.

2. Scale Based Regulatory Framework

2.1 References to from October 01, 2022, all references to

- (a) NBFC-ND shall mean NBFC-BL and
- (b) all references to NBFC-D and NBFC-ND-SI shall mean NBFC-ML or NBFC-UL.

**OTHER
AMENDMENTS
NOT MADE
APPLICABLE
BY ICAI
FOR MAY 2023
BUT WORTH STUDY**

CAIP – DERIVATIVE TRADING

CA	<u>Equity & Currency Derivatives</u>	<u>Commodity Derivatives</u>
→ CAIP – For self	Generally permitted, no permission required	Not permitted, hence special permission required
→ CAIP – For Clients	Cannot manage client portfolio as prohibited to provide PMS. Can offer advisory services	
→ CA not in Practice	No restriction	No restriction

CA in SOCIAL MEDIA

ICAI RECENT ADVISORY
22 OCTOBER 2022

Professional's or Firm's Account in Social Networking Websites (SNW)

Social Networking Websites	CA FIRM	CAIP representing himself as a proprietor or partner of a firm	Name and Content permitted
Whether can have account / page on SNW like Facebook, LinkedIn etc?	Y	Y	Name permitted. Other content as per Advertisement Guidelines, 2008
Whether can give link of his website or webpage in the SNW?	Y	Y	
Whether can give link of his SNW on his website?	N	NA	As per Website Guidelines

Personal account in SNW:

- No reference of firm name permitted
- Education Videos permitted (without firm name but can use CA as a prefix)
- Value adding content to help the profession grow is also permitted (can use CA prefix)
- Designation / Prefix - Using CA or Chartered Accountant with name on personal SNW – Exercise discretion, maintain dignity. Do not post derogatory or with negative portrayal of the profession. Hence advised strictly to avoid posting such content with CA prefix or Chartered Accountant designation

Recall ICAI's Ambit – There are No limits to ICAI's limits –

A CA can be held guilty of misconduct under Clause (2) of Part-IV of First Schedule to The Chartered Accountants Act, 1949 relating to misconduct of a member resulting from their action, whether or not related to professional work, bringing disrepute to the profession.

Company Audit and Accounts

<i>CARO - Clause 5</i>	<i>Deposit - DPT3</i>	Auditor to now submit a declaration in the form DPT3 which was earlier missing, stating the fact he has audited it
<i>NFRA</i>	<i>NFRA - Penalty for officers etc</i>	113. Punishment in case of non-compliance:- Whoever contravenes any of the provisions of these rules, shall be punishable with fine not exceeding 5000 rupees , and where the contravention is a continuing one , with a further fine not exceeding 500 rupees for every day after the first during which the contravention continues.
<i>Books of Accounts - Electronic Mode</i>	<i>Rule 3 Manner of Books of Account to be Kept in Electronic Mode</i>	(1) The books of account and other relevant books and papers maintained in electronic mode shall remain [accessible in India, at all times so as to be usable for subsequent reference
		(5) Provided that the back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a daily basis .
		Rule 3(6)(e) - Informing ROC on annual basis: (e) where the service provider is located outside India, the name and address of the person in control of the books of account and other books and papers in India
<i>CSR (More Relevant Relevant for FR & Co Law)</i>	<i>CSR - FORM Committee if any unspent account</i>	Company having any amount in its Unspent Corporate Social Responsibility Account shall constitute a CSR Committee and comply with the provisions of the section 135
	<i>Other entities</i>	1) The Board shall ensure that the CSR activities are undertaken by the company itself or through, - (a) a company established under section 8 of the Act, or a registered public trust or a registered society, exempted under sub-clauses (iv), (v), (vi) or (via) of clause (23C) of section 10 or registered under section 12A and approved under 80 G of the Income Tax Act, 1961 (43 of 1961), established by the company, either singly or along with any other company; or (b) a company established under section 8 of the Act or a registered trust or a registered society, established by the Central Government or State Government; or (c) any entity established under an Act of Parliament or a State legislature; or (d) a company established under section 8 of the Act, or a registered public trust or a registered society, exempted under sub-clauses (iv), (v), (vi) or (via) of clause (23C) of section 10 or registered under section 12A and approved under 80 G of the Income Tax Act, 1961, and having an established track record of at least three years in undertaking similar activities. Explanation- For the purpose of clause (c), the term "entity" shall mean a statutory body constituted under an Act of Parliament or State legislature to undertake activities covered in Schedule VII of the Act.
	<i>CSR - Board's Report</i>	Disclosure amendments included
	<i>CSR - Impact Assessment Report - Expense limit updated</i>	Co with CSR obligation of ≥ 10 crores in each of the last 3 years, to get an impact assessment report from an independent agency of their CSR projects with outlays of ≥ 1 crores and completed not less than 1 year before the study. IAR annexed to Board's report + Its exp. (max to be higher of 2% of CSR exp of that year or 50 Lacs), can be part of CSR exp. <i>Earlier - 5% or 50L whichever is less</i>
	<i>CSR</i>	<i>Har ghar tiranga campaign expense - eligible for CSR spends</i>

Company Audit and Accounts

	<p>AOC-4 AND CSR-2</p>	<p>Provided further that for the financial year 2021-2022, Form CSR-2 shall be filed separately on or before 31st March, 2023 after filing Form AOC-4 or AOC-4 XBRL or AOC-4 NBFC (Ind AS), as the case may be</p>
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Bank Audit

<p><i>Bank Audit - DTL for SLR</i></p>	<p><i>Banks - FCNR(B) / NRE term deposits - incremental deposits (1 July 2022 to 4 Nov2022) not to be added to DTL</i></p>	<p>Section 42 of the Reserve Bank of India Act, 1934 and Section 18 and 24 of the Banking Regulation Act, 1949 – FCNR (B)/NRE Term deposits - Exemption from maintenance of CRR/SLR</p> <ol style="list-style-type: none"> 1. At present, banks are required to include all Foreign Currency Non-Resident (Bank) [FCNR (B)] and Non-Resident (External) Rupee (NRE) deposit liabilities for computation of Net Demand and Time Liabilities (NDTL) for maintenance of CRR and SLR 2. With effect from the reporting fortnight beginning July 30, 2022, incremental FCNR (B) deposits as also NRE Term deposits with reference to base date of July 1, 2022, mobilised by banks will be exempt from maintenance of CRR and SLR. 3. The same principle will apply for calculation of NRE Term deposits for exemption from maintenance of CRR/SLR requirements. 4. However, any transfer from Non-Resident (Ordinary) (NRO) accounts to NRE accounts will not qualify for such exemptions. <p><i>The above exemptions are valid for deposits raised till November 04, 2022. The exemption on reserves maintenance will be available for the original deposit amounts till such time the deposits are held in the bank books.</i></p>
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