

CA FINAL PAPER 3 ADVANCED AUDITING & PROFESSIONAL ETHICS

UPDATES FOR MAY 2021 via ICAI Study Material for May 2021

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KEY TOPICS UPDATED FOR MAY 2021

- **CARO ,2020** (DEFERRED TO 01.04.2021 by MCA) Not applicable for May 2021
- **CODE OF ETHICS 2020 (OVERVIEW) & Professional Ethics Additions**
- **PEER REVIEW**
- **QUALITY REVIEW (New Syllabus Only)**
- **MISCELLANEOUS Topics (Companies Amendment Act,2020,NBFCs ,GST Audit, Tax Audit)**

**MINOR
ADDITIONS IN
FEW CHAPTERS**

- (i) Risk Assessment- Risk Assessment and Steps for Risk Based Audit Approach
- (ii) Internal Audit-Integrity , objectivity and Independence and Internal Audit Report
- (iii) Audit of Banks- Stress Testing and BASEL III Framework
- (iv) Audit of LIC- Commission Payable to Agents
- (v) Corporate Governance and Audit Committee
- (vi) Audit of NBFC- Reporting to RBI excluded

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1. Reporting Under CARO, 2020

In exercise of the powers conferred by section 143(11) of the Companies Act, 2013, the Central Government, after consultation with the National Financial Reporting Authority constituted under section 132 of the Companies Act, 2013, has issued the Companies (Auditor's Report) Order, 2020, (CARO, 20) dated 25th February 2020. Its applicability is from ~~FY 2020-21 onwards~~. **(MCA deferred its applicability to 01.04.2021 instead of 01.04.2020) Not Applicable for May 2021 Examination**

2. OVERVIEW OF THE CODE OF ETHICS

The revised Code of Ethics contains the following material:

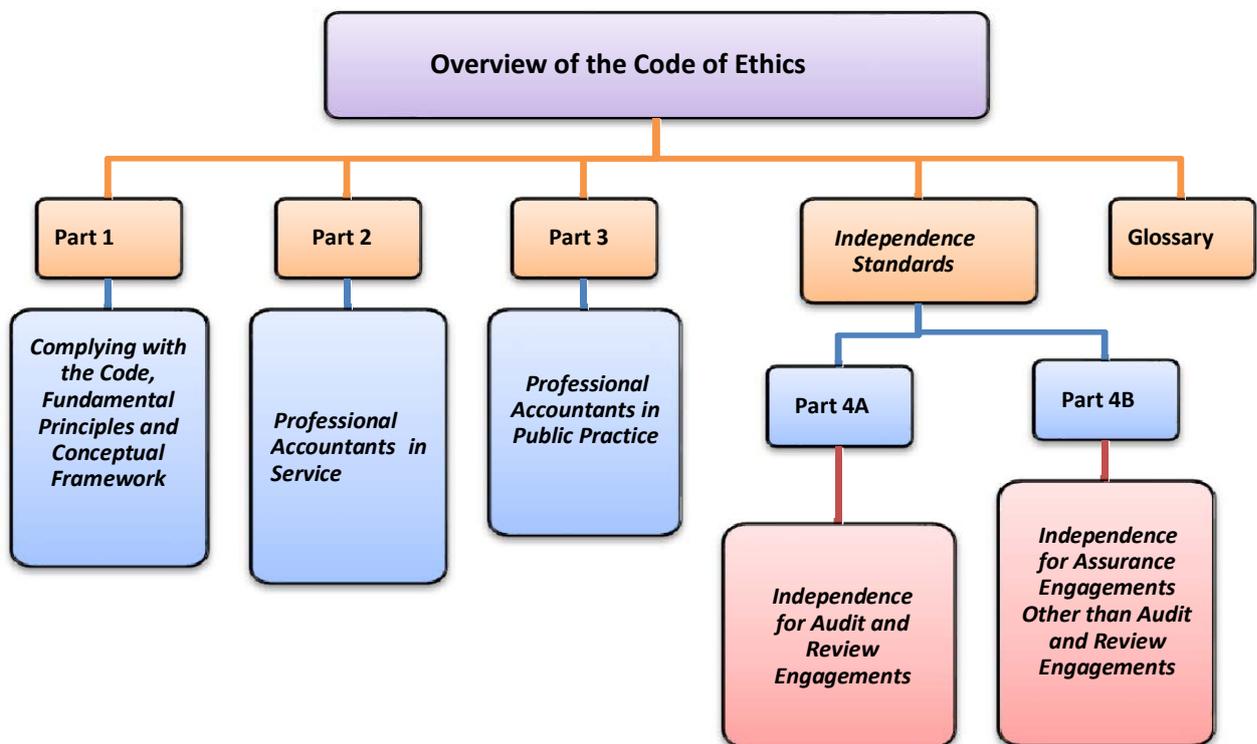
- **Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework**, which includes the fundamental principles and the conceptual framework and is applicable to all professional accountants.
- **Part 2 – Professional Accountants in Service**, which sets out additional material that applies to professional accountants in service when performing professional activities. Professional accountants in service include professional accountants employed, engaged or contracted in an executive or non-executive capacity in, for example:
 - o Commerce, industry or service.
 - o The public sector.
 - o Education.
 - o The not-for-profit sector.
 - o Regulatory or professional bodies.

Part 2 is also applicable to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm as an employee.

- **Part 3 – Professional Accountants in Public Practice**, which sets out additional material that applies to professional accountants in public practice when providing professional services.
- **Independence Standards**, which sets out additional material that applies to professional accountants in public practice when providing assurance services, as follows:
 - o **Part 4A – Independence for Audit and Review Engagements**, which applies when performing audit or review engagements.

o **Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements**, which applies when performing assurance engagements that are not audit or review engagements.

- Glossary, which contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. For example, as noted in the Glossary, in Part 4A, the term “audit engagement” applies equally to both audit and review engagements. The Glossary also includes lists of abbreviations that are used in the Code and other standards to which the Code refers.



The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics.

Each section of the Code is structured, where appropriate, as follows:

- **Introduction** – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
- **Requirements** – establish general and specific obligations with respect to the subject matter addressed.

- ▮ **Application material** – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.

2.1 Fundamental Principles

In order to achieve the objectives of the Accountancy profession, professional accountants have to observe a number of prerequisites or fundamental principles. The fundamental principles as discussed in Code of Ethics of ICAI, to be complied, are given below:



(a) Integrity – Subsection 111

1.A professional accountant shall comply with the principle of integrity, **which requires an accountant to be straightforward and honest** in all professional and business relationships. Integrity implies fair dealing and truthfulness.

2.A professional accountant shall not knowingly be **associated with** reports, returns, communications or other information where the accountant believes that the information:

- (a) Contains a materially false or misleading statement.
- (b) Contains statements or information provided negligently; or

(c) Omits or obscures required information where such omission or obscurity would be misleading.

However, a professional accountant **will not be considered** to be in breach of matters mentioned above in paragraph 2 **if the professional accountant provides a modified report in respect of such above mentioned matter.**

3. When a professional accountant becomes aware of having been associated with information described in paragraph 2, **the accountant shall take steps to be disassociated from that information.**

(a) Objectivity- Subsection 112

A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others.

A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

(b) Professional Competence and Due Care – Subsection 113

1. A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:
 - (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (b) act diligently in accordance with applicable technical and professional standards.
2. Serving clients and employing organizations **with professional competence** requires **the exercise of sound judgment** in applying **professional knowledge** and **skill** when undertaking professional activities.
3. **Maintaining professional competence** requires a **continuing awareness** and an **understanding** of relevant **technical, professional and business developments**.
4. **Continuing professional development** enables a professional accountant to **develop** and **maintain** the **capabilities** to perform competently within the professional environment.
5. **Diligence** encompasses the **responsibility to act** in accordance with the

requirements of an assignment, **carefully, thoroughly** and on a **timely** basis.

6. In **complying** with the **principle of professional competence and due care**, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.

Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

(c) Confidentiality- Subsection 114

1. A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and employment relationships. An accountant shall:

Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;

Maintain confidentiality of information within the firm or employing organization;

Maintain confidentiality of information disclosed by a prospective client or employing organization;

Not disclose confidential information acquired as a result of professional and employment relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;

Not use confidential information acquired as a result of professional and employment relationships for the personal advantage of the accountant or for the advantage of a third party;

Not use or disclose any confidential information, either acquired or received as a result of a professional or employment relationship, after that relationship has ended; and

Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

2. Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

(a) **Disclosure is required by law, Example :**

- Production of documents or other provision of evidence in the course of legal

proceedings.

- Disclosure to the appropriate public authorities of infringements of the law that come to light
- (b) Disclosure is **permitted by law and is authorized by the client** or the employing organization;
- (c) There is a **professional duty or right to disclose**, when not prohibited by law:
 - (i) To comply with the requirements of Peer Review or Quality Review of the Institute;
 - (ii) To **respond** to an inquiry or investigation by a professional or regulatory body;
 - (iii) To **protect** the professional interests of a professional accountant in legal proceedings; or
 - (iv) To **comply with technical and professional standards**, including ethics requirements.

3. In deciding whether to disclose confidential information, professional accountants should consider the following points:

a) Whether the interests of any party, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant;
b) Whether all the relevant information is known and substantiated, to the extent it is practicable; and
c) The proposed type of communication, and to whom it is addressed;
d) Whether the parties to whom the communication is addressed are appropriate recipients.

4. A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or employment relationship.

(d) Professional Behaviour- Subsection 115

1. A professional accountant shall comply with the principle of professional behaviour, which requires an accountant to comply with relevant laws and regulations and avoid any **conduct** that accountant knows or should know might discredit the profession.

Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

A professional accountant shall not knowingly engage in any employment, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

2. When promoting himself and his work, a professional accountant shall not bring the profession into disrepute. A professional Accountant is required to conduct his affairs in a manner that he remains outside the boundaries of professional and other misconduct. A professional accountant shall be honest and truthful and should not make:

- (a) Exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
- (b) Disparaging references or unsubstantiated comparisons to the work of others.
- (c) **Any direct or indirect measures to advertise any professional/other facts which are in violation of Advertisement Guidelines issued by the Council of the Institute from time to time.**

The professional accountant should ensure that the contents of an advertisement are true to the best of his knowledge and belief, and are in conformity with the Advertisement Guidelines, and be aware that the Institute does not own any responsibility, whatsoever, for such contents or claims by him. **However, if a professional accountant is in doubt about whether a form of proposed advertising is appropriate, the accountant is encouraged to consult with the Ethical Standards Board of ICAI.**

A professional accountant shall comply with each of the fundamental principles.

The fundamental principles of ethics establish the standard of behaviour expected of a professional accountant.

The conceptual framework establishes the approach which an accountant is required to apply to assist in complying with those fundamental principles.

A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, with:

- **Others within the firm or employing organization**
- **Those charged with Governance(TCWG)**
- **The Institute**
- **Legal Counsel**

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

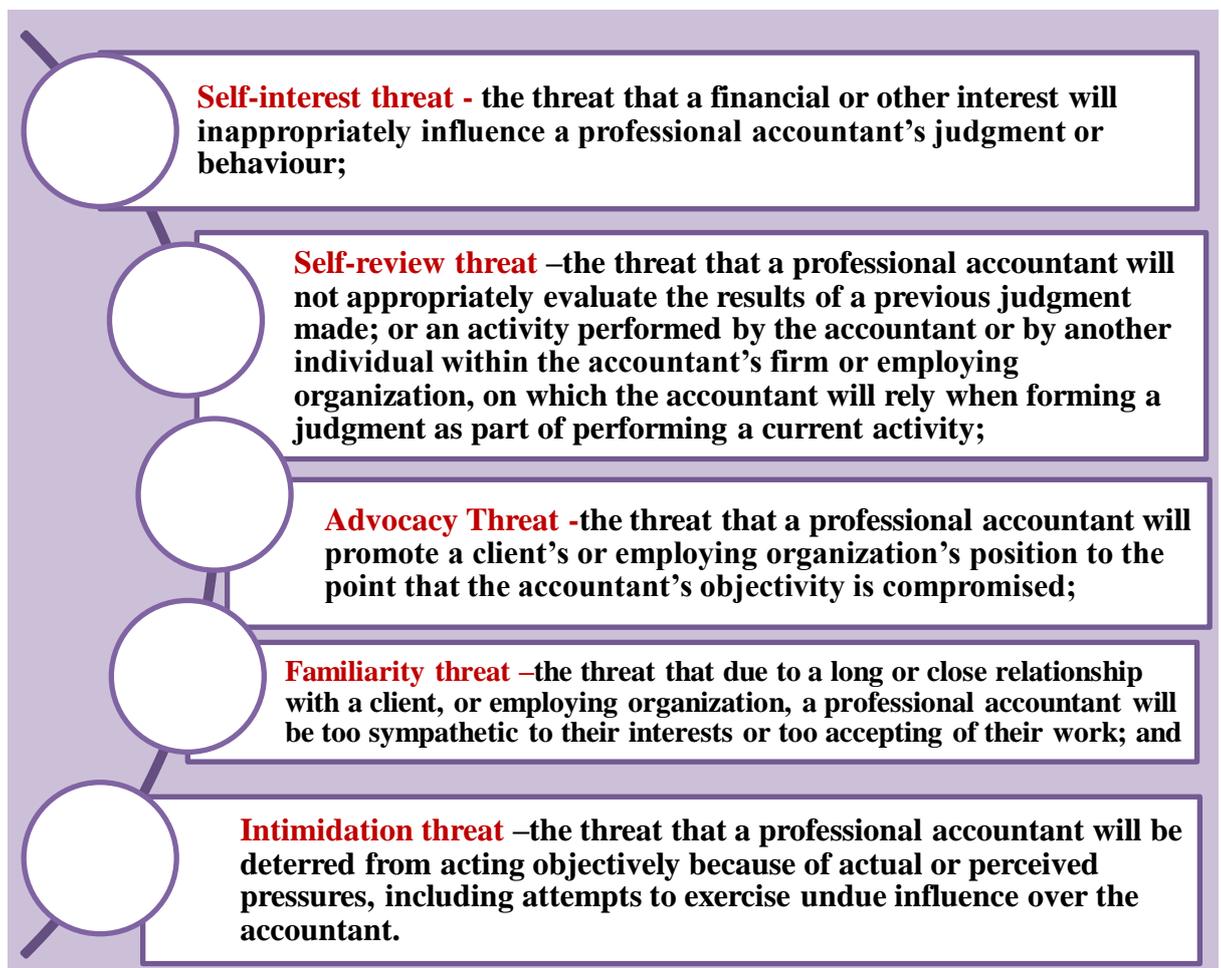
2.2 Threats, Evaluation of Threats and Safeguards

The conceptual framework specifies an approach for a professional accountant to:

- (i) Identify threats to compliance with the fundamental principles;
- (ii) Evaluate the threats identified; and
- (i) Address the threats by eliminating or reducing them to an acceptable level.

A. Threats

Threats to compliance with the fundamental principles fall into one or more of the following categories:



Circumstances that may create self-interest threats

- Having a direct **financial interest** in a client
- **Undue dependence** on total fees from a client.
- Having a **close business relationship** with a client.
- Concern about the **possibility of losing** a client.
- **Potential employment** with a client.
- Having access to confidential information of the client that **might be used for personal gain**.

Examples of Circumstances that may create Self Review Threat

- A loan to or from an assurance client or any of its directors or officers
- A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
- A professional accountant participating in incentive compensation arrangements offered by the employing organization.
- A professional accountant having access to corporate assets for personal use.
- A professional accountant being offered a gift or special treatment from a supplier of the employing organization.

Examples of circumstances that may create advocacy threats:

- Promoting shares in an **entity** when that entity is a financial statement audit client.
- Acting as an advocate on behalf of an assurance client in **litigation or disputes** with third parties.
- Lobbying in favor of legislation on behalf of a client.

Examples of circumstances that may create familiarity threats

1. A member of the engagement team having a **close or immediate family relationship** with a director or officer of the client.
2. A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.
3. A former partner of the firm being a director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement.
4. Long association of an audit team member with the audit client.

Examples of circumstances that may create intimidation threats

- Being threatened with dismissal or replacement in relation to a client engagement because of a disagreement about a professional matter.
- Being feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- Being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.

Specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats cannot be categorized. In either professional or business relationships, a professional accountant in public practice should always be on the alert for such circumstances and threats.

B. Evaluation of Threats:

The conditions, policies and procedures described above might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.

- (i) **Acceptable level** : An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.
- (ii) **Reasonable and Informed Third Party** : The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

C. Addressing Threats

If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

- (i) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (ii) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (iii) Declining or ending the specific professional activity.

Actions to Eliminate Threats : Depending on the facts and circumstances, a

threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

D. Safeguards : Safeguards are actions individually or in combination that the accountant takes that effectively reduce threats to an acceptable level. Safeguards vary depending on the facts and circumstances. **Examples of actions that in certain circumstances might be safeguards to address threats include:**

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a **self-interest threat**.
- Having an appropriate reviewer, who was not a member of the team, review the work performed or advise as necessary might address a **self-review threat**.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address **self-review, advocacy or familiarity threats**.
- Involving another firm to perform or re-perform part of the engagement might address **self-interest, self-review, advocacy, familiarity or intimidation threats**.
- Separating teams when dealing with matters of a confidential nature might address a **self-interest threat**.

Professional Ethics Additions

1. Members - deemed to be in Practice Section 2(2)(iv)

“Management Consultancy and other Services” shall include the following :

(xv) Valuation of shares and business and advice regarding amalgamation, merger and acquisition. **Acting as Registered Valuer under the Companies Act, 2013 read with The Companies (Registered Valuers and Valuation) Rules, 2017.**(incorporated pursuant to decision of Council at its 388th Meeting)

(xxvii) **Acting as Insolvency Professional in terms of Insolvency and Bankruptcy Code, 2016**
(incorporated pursuant to decision of Council at its 362nd Meeting).

(xxviii) **Administrative Services.** (incorporated pursuant to decision of Council at its **388th Meeting**) Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.

Examples of administrative services include:

- Word processing services.
- Preparing administrative or statutory forms for client approval.

- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates, and advising an audit client of those dates.

For example, the functions of a GST practitioner as specified under Rule 83(8) of Central Goods and Services Tax Rules, 2017:-

- ✓ furnish the details of outward and inward supplies;
- ✓ furnish monthly, quarterly, annual or final return;
- ✓ make deposit for credit into the electronic cash ledger;
- ✓ file a claim for refund;
- ✓ file an application for amendment or cancellation of registration;
- ✓ furnish information for generation of e-way bill;
- ✓ furnish details of challan in form GST ITC-04;
- ✓ file an application for amendment or cancellation of enrolment under rule 58; and
- ✓ file an intimation to pay tax under the composition scheme or withdraw from the said scheme.

2. Member in Practice Prohibited from using a Designation Other Than Chartered Accountant Section 7

Members to act as a Merchant Banker / Advisor to an issue:

The members may apply for and obtain registration as **category IV Merchant Banker under the SEBI's** rules and regulations and act as Advisor or Consultant to an issue. In client Companies' offer documents and advertisements regarding capital issue, name and address of the Chartered Accountant or firm of Chartered Accountants acting as Advisor or Consultant to the Issue could be indicated under the caption "Advisor/Consultant to the Issue". **However, the name and address of such Chartered Accountant/firm of Chartered Accountants should not appear prominently.**

3. Clause 6 Solicitation of Clients or Professional work

Some forms of soliciting work which the Council has prohibited are discussed below:

- 1) **Advertisement for Silver, Golden, Platinum or Centenary celebrations** : It is not permitted to advertise the events organized by a Firm of Chartered Accountants. However, considering the need of interpersonal socialization/relationship of the members ,it **may be published** in newspaper or newsletter.
- 2) **Sponsoring Activities**
 - (a) A member in practice or a Firm of Chartered Accountants is **not permitted to sponsor an event**. However, such member or Firm may sponsor an event conducted by a Programme Organizing Unit (PoU) of the ICAI, provided such event has the prior approval of Continuing Professional Education

(CPE) Directorate of the ICAI.

(b) Members sponsoring activities relating to **Corporate Social Responsibility** may mention their individual name with the prefix “CA”. **However, the mention of Firm name or CA Logo is not permitted.**

3) **Advertisement of Teaching/Coaching activities by members** : The members engaged in teaching /coaching activities, while advertising such teaching /coaching activities, shall comply with the Regulation 190A of the Chartered Accountants Regulations, 1988(discussed in the Chapter in Clause 11).

Keeping in view the broad purview of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, **an advertisement of Coaching /teaching activities by a member in practice may amount to indirect solicitation**, and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule.

Such members are advised to **abstain from advertising** their association with Coaching /teaching activities through hoardings, posters, banners and by any other means, failing which they may be liable for disciplinary action.

Such members **may put**, outside their Coaching/ teaching premises, sign board mentioning the name of Coaching/teaching Institute, contact details and subjects taught therein only. As regards the size and type of sign board, the Council Guidelines as applicable to Firms of Chartered Accountants would apply.

4) **Educational Videos**: While the videos of educational nature may be uploaded on the internet by members, **no reference should be made to the Chartered Accountants Firm** wherein the member is a partner/ proprietor. Further, **it should not contain any contact details or website address.**

4. Clause 9 Accepting appointment without compliance of Section 139,140 of the Companies Act,2013

The following guidelines have been issued for the Board for looking into the cases of Removal of Auditors:

A. Where an auditor resigns his appointment as an auditor of a Company or does not offer himself for reappointment as auditor of such Company, he shall send a communication, in writing, to the Board of Directors of the Company giving reasons therefor, if he considers that there are professional reasons connected with his resignation or not offering himself for re-appointment which, in his opinion, **should be brought to the notice of the Board of Directors**, and shall send a copy of such communication to the Institute.

It shall be obligatory on the incoming auditor, before accepting appointment, to obtain a copy of such communication from the Board of Directors and consider the same before accepting the appointment.

B. Where an auditor, though willing for re-appointment has not been reappointed, **he shall file with the Institute a copy of the statement which he may have sent to the management of the Company for circulation among the shareholders.** It shall be obligatory on the incoming auditor before accepting the appointment, to obtain a copy of such a communication from the Company and consider it, before accepting the appointment.

C. **The Ethical Standards Board**, on a review of the communications referred to in paras (A) and (B), may call for such further information as it may require from the incoming

auditor, the outgoing auditor and the Company and make a report to the Council in cases where it considers necessary.

D. The above procedure is also followed in the case of removal of auditors by the government and other statutory authorities.

5.Clause 10 Charging fees on % basis

Regulation 192 -Restriction on fees (addition of Point h) whereby a member can charge fees on % basis

- h) any other service or audit as may be decided by the Council. [Following activities have been decided by the Council under “h” above :-(i) Acting as Insolvency Professional;(ii) Non-Assurance Services to Non-Audit Clients]

6.Clause (11) Engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage

General Permission of Council

Member in practice in a HUF doing business: “A member of the Institute can acquire interest in family business in any of the following manner:

- (i) as a proprietary firm
- (ii) as a partnership firm
- (iii) in the name and style of Hindu Undivided Family as its Karta or a member.

It would be necessary for the members to provide evidence that interest in the family business concern devolved on him **as a result of inheritance/succession/partition of the family business**. It is also necessary for the member to show that he was not actively engaged in carrying on the said business and that the family business concern in question was not created by himself.

To establish his case, the member should furnish a declaration in the prescribed format and the documents evidencing above for consideration to the concerned Decentralized Office.”

COUNCIL GUIDELINES

Chapter X Appointment of an auditor when he is indebted to a concern

A member of the Institute in practice or a partner of a firm in practice or a firm **or a relative of such member or partner** shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, **for limits fixed in the statute and in other cases for amount exceeding ₹ 100,000/-**

Chapter XIII Guidelines on Tenders

A member of the Institute in practice **shall not respond** to any tender issued by an organization or user of professional services in areas of services **which are exclusively reserved for chartered accountants**, such as audit and attestation services.

However, **such restriction shall not be applicable where minimum fee of the assignment is prescribed** in the tender document itself or **where the areas are open to other professionals along with the Chartered Accountants.**

Chapter XIV Unique Document Identification Number (UDIN) Guidelines

Whereas, to curb the malpractice of false certification/attestation by the unauthorized persons & to eradicate the practice of bogus certificates and to save various regulators, banks, stakeholders etc. from being misled, the Council of the Institute decided to implement an innovative concept to **generate Unique Document Identification Number (UDIN) mandatorily for all kinds of the certificates/GST and Tax Audit Reports and other attest function in phased manner**, for which members of the ICAI were notified.

A member of the Institute in practice shall generate Unique Document Identification Number (UDIN) for all kinds of the certification, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions undertaken/signed by him which made mandatory from the following dates through announcements published on the website of the ICAI www.icaai.org at the relevant time: -

- For all Certificates w.e.f. 1st February, 2019.
- For all GST and Tax Audit Reports w.e.f. 1st April, 2019.
- For all other Audit, Assurance and Attestation functions w.e.f. 1st July, 2019.

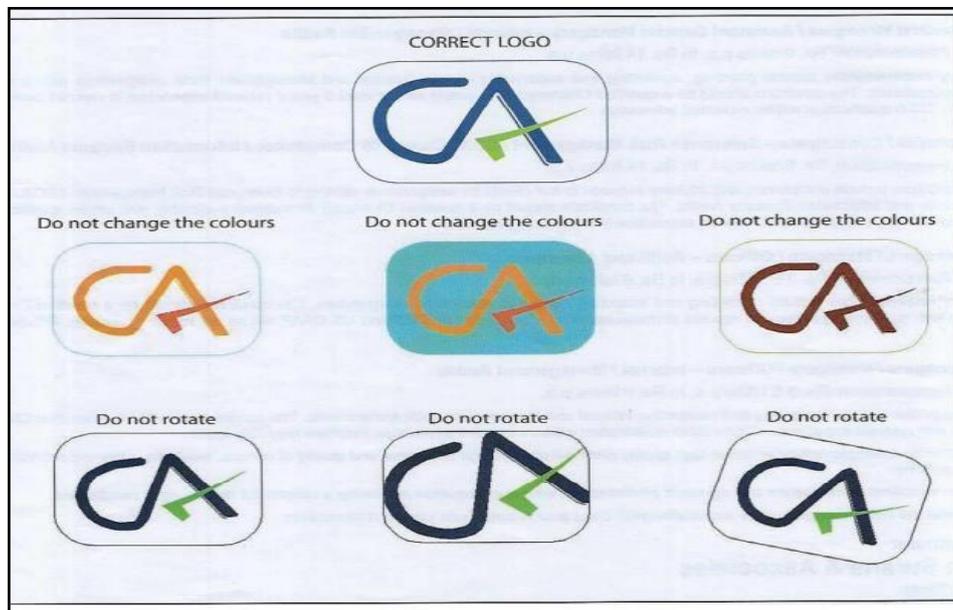
Chapter XV Guidelines for Networking

Note : This concept is already covered in main concept book.

Chapter XVI Logo Guidelines

- ✓ The logo consists of letter 'CA' with a tick mark inside a rounded rectangle with **white background**.
- ✓ The letters CA have been put in **blue, the corporate colour** which not only stands out on the background but also denotes creativity, innovativeness, knowledge, integrity, trust, truth, stability and depth.
- ✓ The upside-down tick mark typically used by Chartered Accountants, has been used to symbolize **the wisdom and value of the professional**.
- ✓ The **green color** in the tick mark signifies growth, prosperity, harmony and freshness.

- ✓ Members are encouraged to use the new logo, as published here as it is. **Do not change the design and colours, including the white background. Refrain from rotating or tilting the logo. The correct and incorrect usage of the logo is explained as under:**



Chapter XVII Guidelines for Corporate Form of Practice

- ❑ The Council decided to allow members in practice to hold the office of Managing Director, Whole-time Director or Manager of a body corporate within the meaning of the Companies Act provided that **the body corporate is engaged exclusively in rendering Management Consultancy and Other Services permitted by the Council in pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949.**
- ❑ The members can retain full time Certificate of Practice besides being the Managing Director, Whole-time Director or Manager of such Management Consultancy Company.
- ❑ There will be no restriction on the quantum of the equity holding of the members, either individually and/ or along with the relatives, in such Company. Such members shall be regarded as being in **full- time practice** and therefore can continue to do attest function either in individual capacity or in Proprietorship/Partnership firm in which capacity they practice and wherein they are also entitled to train articled/audit assistants.
- ❑ **On abundant caution, it may be clarified that no audit practice can be done in Corporate Form.** The consultancy practice hitherto done in Individual or Firm Status alone is now intended to be permitted in **Corporate Form also.**

Ethical Compliance: (i) Once the **Management Consultancy Company** is Registered with the Institute as per the Guidelines, it will be necessary for such a Company to comply with the following requirements: -

(a) If the individual practitioner/sole-proprietorship firm/partnership firm is the statutory auditor of an entity then the Management Consultancy Company should not accept the internal audit or book-keeping or such other professional assignments, which are prohibited for the statutory auditor firm.

(b) Ceiling on Non-audit fees is applicable in relation to a Management Consultancy Company.

(c) The Management Consultancy Company shall comply with clauses (6) & (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 and such other directives as may be issued by the Institute from time to time.

Object of Management Consultancy Company: The Management Consultancy Company shall give an undertaking that it shall render only Management Consultancy & Other Services prescribed by the Council pursuant to powers under **section 2 (2)(iv) of the Chartered Accountants Act, 1949.**

COUNCIL GUIDELINES FOR ADVERTISEMENT, 2008

1. Online Third-Party Platforms

A number of non-Chartered Accountants' firms, corporates including banks, finance Companies and newspapers have **set up their own Websites providing advisory services on taxation and other areas** where **Chartered Accountants are rendering professional service.** Some of such Websites may request Chartered Accountants or Chartered Accountants' firms to provide consultation and advice through their Websites.

No other service, besides consultancy and advice can be rendered through such websites, This would be permitted subject to the condition that on the Website, contact address of the Chartered Accountant concerned is not provided nor such Website will contain any material which advertises professional achievements or status of such Chartered Accountant except making a statement that they are Chartered Accountants. The name of Chartered Accountants' firm with suffix "Chartered Accountants" would not be permitted.

2. Publication of Name or Firm Name by Chartered Accountants in the Telephone or other Directories published by Telephone Authorities or Private Bodies

The Chartered Accountants and Chartered Accountants Firms may have entries made in a Telephone Directory (in printed and electronic form) either **by making a special request or by means of an additional payment** subject to the following additional restrictions :-

- (i) **Category only under 'Chartered Accountants'.**
- (ii) **Member/firm should belong to same town/city as of directory.**
- (iii) **The order of the entries must be alphabetical.**
- (iv) **The entry should not be made giving the impression of publicity/advertisement.**
- (v) **Entries open to all Cas in a particular city/town.**
- (vi) **The members can also include their names in trade/ social directories.**

3. Application based Service provider Aggregators

It is not permissible for members to list themselves with **online Application based service provider Aggregators**, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed.

4. Specialised Directories for limited circulation

The name, description and address of member (or firm) may appear in any directory or list of members of a particular body in which the names are listed alphabetically. For a specialized directory or a publication such as a “Who’s Who” (including those compiled on purely local basis),

a member should use his discretion in supplying information, bearing in mind the nature and purpose of the publications. In addition to his name, description and address and those of his firm, a member may give where appropriate, **directorships held and reasonable personal details and may state his outside interests. He should not, however, give the names of any of his clients.**

5. Exemptions

1. A special exemption has been made as regards publication of the name and address of a member or that of his firm, **in an advertisement appearing in the press in the following circumstances**, provided that the advertisement is not displayed more prominently than is usual for such advertisements or the name of the member or that of his firm with the designation Chartered Accountant(s) appears in type not bolder than the substance of the advertisement:-

- (a) Advertisement for **recruiting staff** in the member’s own office.
- (b) Advertisement inserted **on behalf of clients requiring staff** or wishing to acquire or dispose of business or property.
- (c) Advertisement for the **sale of a business or property by a member acting in a professional capacity as trustee, liquidator or receiver.**

2. When advertising for staff, it is desirable that members should avoid the expression such as “**a well-known firm**”, since this would savour of advertisement. Similar considerations apply to advertisements for articled assistants. The advertisements should not contain any promotional element nor should there be any suggestion that the services offered by the Chartered Accountant or his firm are **superior to those offered by other accountants.**

3. PEER REVIEW

Key points of Peer Review updated for May,2021

- **“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 other regulatory requirements thereto and whether the same were consistently applied during the period under review.”
- **"Reviewer"** means a member duly approved and empaneled by the Board on fulfilling the qualifications prescribed for a Reviewer.
- **"Practice Unit"** means a firm of Chartered Accountants or a member in Practice, practicing whether in an individual name or a trade name or such other entity as recognized by the Institute of Chartered Accountants of India from time to time.
- **Peer Review Board** means the Board constituted by the Council in terms of this Statement from time to time. The expression “Peer Review Board” is hereinafter referred to as “Board”. **The Peer Review Board (the Board) was established in March 2002 and the Statement on Peer Review has been revised in April’2020.**

The Statement on Peer Review shall be deemed to be a guideline of the Council under **clause (1) of Part II of Second Schedule** to the Act and it is obligatory for the Practice Unit to comply with the provisions contained in this Statement.

PEER REVIEW OF AUDITORS

Peer review of attest function has a special significance.

- First of all, 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; which means that one does not get disturbed while doing the work because of the peer review.
- Secondly, 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.
- And thirdly, 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. Therefore, 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.

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.**

SCOPE OF PEER REVIEW (IMP)

The Statement of Peer Review aims to confine the scope of review **to preceding three years** since this would establish the consistency or deviations, if any, in respect of procedures followed by the practice unit.

Revised Scope of Technical, Professional and Ethical Standards

As per the Statement, **Technical, Professional and Ethical Standards** – means

- (i) Accounting Standards issued by ICAI that are applicable for entities other than companies under the Companies Act, 2013;
- (ii) Accounting Standards prescribed under **section 133** of the Companies Act; 2013 by the Central Government based on the recommendation of ICAI and in consultation with the National Financial Reporting Authority (NFRA) and notified as Accounting Standards Rules 2006, as amended from time to time;
- (iii) Indian Accounting Standards prescribed under section 133 of the Companies Act 2013 by the Central Government based on the recommendation of ICAI and in consultation with NFRA and notified as Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time;
- (iv) Standards :

Standards issued by the Institute of Chartered Accountants of India including-

- | | |
|--|---|
| <ol style="list-style-type: none"> (a) Engagement standards (b) Statements (c) Guidance notes | <ol style="list-style-type: none"> (d) Standards on Internal Audit. (e) <i>Guidelines/ Notifications / Directions / Announcements / Pronouncements / Professional Standards issued from time to time by the Council or any of its Committees.</i> |
|--|---|

- (v) Framework for the preparation and presentation of financial statements, Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Framework for Assurance engagements;
- (vi) Provisions of the relevant statutes and / or rules or regulations which are applicable in the context of the specific engagements being reviewed including instructions, guidelines, notifications, directions

issued by regulatory bodies as covered in the scope of assurance engagements.

APPLICABILITY OF PEER REVIEW (IMP)

Practice Units subject to Review

1. Every Practice Unit including its branches, based on their category as determined below will be subject to Peer Review in accordance with this Statement.

Level I: A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review **shall be treated a Level I entity:**

- (i) Central Statutory Audit of Public Sector Banks, Private Sector Banks, Foreign Banks, Cooperative Banks and Public Financial Institutions;
- (ii) Central Statutory Audit of Central or State Public Sector Undertakings and Central Cooperative Societies based on criteria such as turnover or paid-up capital etc. as may be decided by the Board;
- (iii) Central Statutory Audit of Insurance Companies;
- (iv) Statutory Audit of asset management companies or mutual funds;
- (v) Statutory Audit of enterprises whose equity or debt securities are listed in India or abroad;
- (vi) Statutory audit of any body corporate including trusts which are covered under public interest entities.**
- (vii) Statutory Audit of Entities which have raised funds from public or banks or financial institutions of over **Rupees Fifty Crores** during the period under Review;
- (viii) Statutory Audit of Entities which have **raised donations and / or contributions over Rupees Fifty Crores during the period** under Review;
- (ix) Statutory Audit of entities having net worth of more than two Hundred and Fifty Crores rupees (>₹250 CR) at any time during the period under Review.**
- (x) Statutory Audit of entities which have been funded by Central and / or State Government(s) schemes of over Rupees Fifty Cores during the period under Review.
- (xi) Statutory Audit of Non – Banking Financial Companies (NBFCs) as may be defined by the Board.**
- (xii) Central Statutory Audit of Regional Rural Banks.**
- (xiii) Statutory Audit of parent, subsidiary, associate, and joint venture of the above entities.**

Level II: A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review **shall be treated as Level II entity:**

- (i) Statutory / Internal / Concurrent / Systems / Tax audit and / or Departmental Review of Branches / Offices of -
 - (a) **Public Sector undertaking**
 - (b) Public Sector or Private Sector and / or Foreign Banks
 - (c) Insurance Companies
 - (d). Co-operative Banks
 - (e). **Regional Rural Banks**
 - (ii) **Statutory Audit of Non – Banking Financial Companies (NBFCs) as may be defined by the Board.**
 - (iii) Statutory Audit of entities having Net Worth of over **Five Crores rupees or an annual turnover of more than Fifty Crores rupees during the period under Review.**
 - (iv) **UDIN's generated by the Practice Units more than the specified number determined by the Board from time to time.**
 - (v) **Statutory Audit of entities which have raised funds from public or banks or financial institutions of more than Twenty-Five Crores rupees but less than Fifty Crores rupees during the period under review.**
 - (vi) **Any other Practice Unit providing assurance or other services not covered under (i) (ii), (iii), (iv) and (v) hereinabove.**
- 2 **Special case review : The Board, based on specific information received from Secretary, ICAI or any other Committee of the Institute including Disciplinary directorate or any other Regulator , which in the opinion of the Board requires a special review of the Practice Unit, may conduct a special review of the Practice Unit.**
 - 3 Any Practice Unit not selected for Peer Review, may suo moto apply to the Board for the conduct of its Peer Review. The Board shall act upon the same **within 30 days** from the date of receipt of such request.
 - 4 An auditee (Client) may request the Board for the conduct of Peer Review of its auditor (Practice Unit). The Board shall act upon the same within 30 days from the date of receipt of such request.
 - 5 **The Board may, with the approval of the Council, modify any of the above criteria.**

Periodicity of Peer Review

The Periodicity of Peer Review will be:

- | |
|---|
| (a) Level - I Practice Units – Once in 3 years. |
| (b) Level - II Practice Units – Once in 4 years |

However, if the Board so decides or otherwise at the request of the Practice Unit, the Peer Review for a Practice Unit can be conducted at shorter intervals.

PEER REVIEW BOARD (IMP)

The Board shall be constituted by the Council. The Board shall consist of a maximum of **twelve members** to be appointed by the Council, of whom not less than 50% shall be from amongst the members of the Council as defined in Section 9 of the Chartered Accountants Act, 1949.

- 1) **Term of the members** - The term of **two third members** shall be for **three years or end of the term of the member in the Council whichever is earlier**, or such other period as may be prescribed by the Council from time to time. The Chairman and the Vice-Chairman of the Board may be **rotated every year** by the Council of the Institute.
- 2) Casual vacancies on the Board shall be filled by the Council. A Member of the Disciplinary Committee or the Disciplinary Board of the Institute of Chartered Accountants of India shall not be a member of the Board.
- 3) **Meeting (Quorum) Requirement** : No business shall be transacted at any meeting of the Board unless there are present **at least one third members of the Board** but not **less than three members**, including the Chairman or, in his absence, the Vice-Chairman. In the absence of quorum within half an hour of the time fixed for the meeting, the meeting shall stand adjourned to a date, time and place fixed by the Chairman or, in this absence, the Vice-Chairman. The Board shall meet as and when required for transaction of the business before it. However, **at least one meeting shall be held in every three months**.
- 4) **Reporting**: The Board shall submit a report to the Council prior to the date of every meeting of the Council.

ELIGIBILITY TO BE A REVIEWER (IMP)

A Peer Reviewer shall: -

- (a) Shall be a member in practice with at least 10 years of experience for Level I entities and 7 years of experience for Level II entities.
 - (b) In case a member has moved from industry to practice and is currently in practice he should have at least 15 years of experience in industry and at least 5 years' experience in practice for Level I entities and an experience of at least 10 years in industry and at least 3 years' experience in practice, for Level II entities.
 - (c) Should have undergone the requisite training and cleared the requisite test for Peer Review as prescribed by the Board.
 - (d) Should have conducted audit of Level I Entities for at least 7 years or got his entity audited for at least 7 years which should be a Level I entity to be eligible for conducting Peer Review of Level I Entities.
- 2 A member on being appointed as a Reviewer shall be required to -
- (a) furnish a declaration as prescribed by the Board, at the time of acceptance of Peer Review appointment.
 - (b) sign a Declaration of Confidentiality as per Annexure A to this Statement .
- 3 A member shall not be eligible for being appointed as a Reviewer, if -
- (i) any disciplinary action / proceeding is pending against him
 - (ii) he has been found guilty of professional or other misconduct by the Council or the Board of Discipline or the Disciplinary Committee at any time
 - (iii) he has been convicted by a competent court whether within or outside India, of an offence involving moral turpitude and punishable with imprisonment
 - (iv) he or his partners or personnel has any obligation or conflict of interest in the Practice Unit.
4. A Reviewer shall not accept any professional assignment from the Practice Unit for a period **two years from the date of appointment.** Further, he should not have accepted any professional assignment from the Practice Unit **for a period of two years before the date of appointment as reviewer** of that Practice Unit.

OBLIGATIONS OF THE PRACTICE UNIT

Any Practice Unit, in addition to the prescribed information to be furnished including the questionnaire, statements and such other particulars as the Board may deem fit, shall comply with the following.

- (i) Produce to the Reviewer or allow access to, any record, document or prescribed register maintained by the Practice Unit .
- (ii) Provide to the Reviewer such explanation or further particulars/ information if asked.
- (iii) Provide to the Reviewer all assistance in connection with Peer Review;

- (iv) Where any information or matter relevant to a Practice Unit is recorded otherwise than in a legible form, the Practice Unit shall provide and present to the Reviewer a reproduction of any such information or matter, or of the relevant part of it in a legible form, with a translation in English or Hindi, if the matter is in any other language, and if such translation is requested for by the Reviewer. The Practice Unit shall be responsible and accountable for the accuracy and truthfulness of the translation so provided.

Obligations of the Peer Reviewer

- (i) The Reviewer shall not take any extracts of the Practice Units clients' file or records examined by him while conducting Peer Review, as a part of his working papers.
- (ii) The Reviewer shall complete the Review within the prescribed time frame.

Certain additional changes in Peer Review

- **Selection of Practice Unit & appointment of Reviewer**-A declaration in the form approved by the Board shall be submitted by the Practice Unit within **seven days** from the date the Practice Unit (PU) has been notified by the Board so that Reviewer to be allotted from the Panel of three reviewers can be identified by the Board as per Level submitted by Practice Unit, in the declaration form.
- **Peer Review Visits**: Peer Review 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 seven to fifteen working days** based on the size of the Practice Unit.
- **Illustrative Qualifications in Reporting by the Reviewer (2 examples added)**
 - 1) It was observed during examination of engagement files that **the staff deployed lacked industry expertise and was, in general, inexperienced**. The PU does not have a system of supporting and encouraging its resources to undergo relevant professional education necessary to execute audits of entities in specialised industries. Moreover, there was no evidence in the working papers prepared by articled assistants of any review performed by a senior resource.
 - 2) No evaluation of the control environment of the entities audited was seen to have been done to identify risks due to deficiencies or weaknesses in the audited entities internal control in accordance with SA 315, Identifying and Assessing the Risk of Material Misstatement through Understanding of the Entity and its Environment.
Moreover, **no attempt was made to test internal control over financial reporting** in order to determine if the controls are implemented and operating effectively in accordance with SA 330, The Auditor's Response to Assessed Risks.
- **Peer Review Certificate**
On receipt of the Peer Review Report, the Board shall **within three months**:
 - (a) Issue a Peer Review Certificate to the Practice Unit mentioning the next due date for Review.

(b) Inform the Practice Unit that a Peer Review certificate cannot be issued along with the reasons therefor as well inform the Practice Unit about the due date for conducting a **follow- on review**.

➤ **Validity of Peer Review Certificate**

A Practice Unit cannot continue with the existing certificate, whose validity has expired. **All documents signed by the Practice Unit during the intervening period (i.e., expiry of previous certificate and issuance of new certificate) will be invalid.** Therefore, it is the responsibility of the Practice Unit to complete the Peer Review of the firm and submit all necessary documents **at least one month before the date of expiry of the previous certificate.**

DIFFERENCE BETWEEN PEER REVIEW AND QUALITY REVIEW

Peer review is a review of the systems and procedures of an audit firm. Although sample audit files are inspected by the peer reviewer, **it is done for the purpose of testing the effectiveness of the systems and procedures. The intention is to not to find faults but to help the firm develop effective systems.** It is a kind of mentoring process. Peer review is a part of the activities of ICAI aimed at improving the quality of service.

In contrast, a **quality review is supposed to act as a deterrent. Quality Review Board (QRB) is constituted by the Central Government and is independent of ICAI.** As per Section 28A of the Chartered Accountant's Act, the Central Government has the authority to constitute a Quality Review Board. QRB carries out **supervisory and disciplinary functions.** A quality review normally **pertains to one particular audit conducted by an audit firm.** The main objective quality review is to find errors or inadequacies, if any, committed by the auditor while conducting the audit. Serious errors detected in quality review led to disciplinary action against the member.

4. QUALITY REVIEW

1. INTRODUCTION

'Quality means doing it right when no one is looking.' Henry Ford

The quality control policies and procedures should be documented and communicated to the firm's personnel. Such communication describes the quality control policies and procedures and the objectives. In addition, the firm recognizes the importance of **obtaining feedback on its quality control system from its personnel.**

Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters. (Para 8 of Standard on Quality Control (SQC) 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements).

EXAMPLES ARE IMPORTANT

Example of important areas as per Quality Review Report 2018-19 in accordance with Standard on Quality Control -1 are

- 1) Whether the audit firm **establishes and implements policies** and procedure on all the element of system of quality control
- 2) Whether the **engagement quality control reviewer review at an appropriate time** for the planning of an audit, significant audit judgement, and expressions of an audit opinion.
- 3) Whether the audit firm assigns as the person responsible for the monitoring of the system of quality control a person with **appropriate experience** for the role, vest the assigned person with sufficient and appropriate authority.
- 4) Whether the audit firm obtain, **at least annually, a confirmation letter** concerning compliance with policies and procedure for the maintenance of independence .
- 5) Whether the audit firm perform the **independence confirmation procedure** set forth in its internal rules before acceptance and continuance of an audit engagement, and when issuing the auditor's report appropriately confirms that there was no change in the status of independence.
- 6) Whether the audit firm **develop and provides education/ training program** that fully take into account the knowledge, experience, competence and capabilities of the professional staff.

2. Constitution and Composition of Quality Review Board

- ✓ The Board comprises of a Chairperson and 10 other members.
- ✓ Central Government nominates the Chairperson and 5 members.
- ✓ Remaining 5 members are nominated by the **Council of the ICAI**.
- ✓ 6 out of 11 Members of the Board, including Chairperson, are nominated by the Central Government.
- ✓ Members are nominated from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy.

3. QUALITY REVIEW IF REFERENCE MADE BY NFRA ONLY (IMP)

The Ministry of Corporate Affairs vide letter F.No.7/1/2019-CL-1 dated 30th January 2019, has clarified to **the Quality Review Board** that in view of Sec.132

(2) of the Companies Act, 2013 r/w Rule 9(4) of NFRA Rules, 2018, **the issue of ORB reviewing audits of the companies/bodies corporate specified under Rule 3 of the NFRA Rules, 2018 will only arise in case a reference is so made to ORB by NFRA, and not otherwise.**

Rule 3 (1) of NFRA Rules 2018, as notified by Central Government on 13 November 2018, inter alia, provides that the Authority (read NFRA) shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service under sub-section (2) of section 132 or undertake investigation under sub-section (4) of such section of the auditors of the following class of companies and bodies corporate, namely:-

- (a) companies whose securities are **listed** on any stock exchange in India or outside India;
- (b) **unlisted public companies** having
 - ✓ **paid-up capital** of not less than **₹ 500 crores** or
 - ✓ **having annual turnover** of not less than **₹ 1000 crores** or
 - ✓ **having, in aggregate, outstanding loans, debentures and deposits** of not less than **₹ 500 crores** as on the 31st March of immediately preceding financial year;
- (c) insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force or bodies corporate incorporated by an Act in accordance with clauses (b), (c), (d), (e) and (f) of sub-section (4) of section 1 of the Act;
- (d) anybody corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the Authority by the Central Government in public interest; and
- (e) a body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d), **if the income or net-worth of such subsidiary or associate company exceeds twenty percent of the consolidated income or consolidated net-worth of such company or the body corporate**, as the case may be, referred to in clauses (a) to (d).

Rule 9(4) of NFRA Rules, 2018 provides that the Authority (read NFRA) may refer cases with regard to overseeing the quality of service of auditors of companies or bodies corporate referred to in rule 3 to **the Quality Review Board constituted under the Chartered Accountants Act, 1949 (38 of 1949)** or call for any report or information in respect of such auditors or companies or bodies corporate from such Board as it may deem appropriate.

Accordingly, QRB would now be able to initiate reviews of quality of audit services provided by members of the Institute **only in respect of entities other than those specified under Rule 3(1) of NFRA Rules, 2018, namely,**

- ✓ private limited companies,
- ✓ unlisted public companies below the thresholds specified under Rule 3(1) of NFRA Rules, 2018 and
- ✓ other entities not specified under Rule 3(1) of NFRA Rules, 2018; and
- ✓ **those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018.**

However, in the meanwhile, QRB has also been completing its on-going reviews of top listed and other public interest entities which were in process.

4. Coverage of Services for Quality Review

The Quality Review would involve assessment of the **work of statutory auditors** while carrying out statutory audit so that the Board is able to assess:-

- (a) Quality of statutory audit and reporting by statutory auditors; and
- (b) Quality control framework adopted by the AFUR (Audit Firm under Review) in conducting statutory audit.

Exclusions: This Procedure would not extend to:

- (i) Review of **internal audit, tax audit, GST audit and other such special purpose audits** conducted by the members of the Institute which may be covered by the Board at a later stage or unless otherwise specified; and
- (ii) **Review of services provided by the members of the Institute in employment.**

5. SELECTION OF AUDIT FIRMS

The Board may decide the audit firms to be included in the selection during each stage. Such selection of audit firms for review may be made on the basis of one or more of the following criteria:-

(a) Criteria based on Entities Audited:

- (i) The entities other than those specified under Rule 3(1) of NFRA Rules, 2018 may be selected on the basis of one or more of the following:-
 - ✓ **risk based selection** including regulatory concerns pointing towards stakeholder risks.
 - ✓ on account of being part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports.
 - ✓ reported **fraud** or likelihood of fraud.
 - ✓ **serious accounting irregularities** in the financial statements highlighted by the media and other reports.
 - ✓ **major non-compliances** under relevant statutes highlighted in past reviews.
- (ii) In case of joint audits, if required, **all joint auditors may be reviewed**, as may be decided by the Board on case-to-case basis.

- (iii) The Board may also review the quality of the statutory audit services of AFUR with a view to assessing the quality of statutory audit and reporting by the statutory auditors and their quality control framework on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs, National Financial Reporting Authority (NFRA) under Rule 9(4) of NFRA Rules, 2018 etc.
- (iv) The Board shall not consider cases of complaints received from individuals, firms, companies, other entities and their partners, directors and other officers etc. which shall be continued to be dealt with in accordance with the mechanism available under the Chartered Accountants Act, 1949. Cases of complaints from only regulatory bodies and other media reports involving serious accounting irregularities shall be considered by the Board for the purpose of initiating the review.
- (v) The selection for suo moto quality reviews may, however, be done using methods such as random sampling, selection of particular class or classes of entities/audit firms, in the manner as specified at (i) above.
- (vi) The QRB secretariat should place the details of the entities and audit firms, which may be selected for quality review before the Board for its consideration. The Board, at this stage, may consider whether the case warrants a quality review by a TR and may refer the cases selected for quality review to the relevant TRs.

The Board will obtain the Annual Report of the entity concerned in terms of the 'Chartered Accountants Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board Rules, 2006'.

(b) Criteria based on Audit Firms:

Selection of audit firms should also be made for quality review of their statutory audit work **on random basis**, the volume of work handled by them represented by the number and nature of clients, sectors that may be identified as facing high risk, or on account of fraud or likelihood of fraud.

(c) Quality Review Cycle:

- (i) The following quality review cycle of Audit firms may be followed generally or as may be decided by the Board:
- Once in **3 years** for Audit firms having **20 or more Partners**
 - Once in **4 years** for Audit firms having **10 or more but less than 20 Partners**
 - Once in **5 years** for Audit firms having **less than 10 Partners**.
- (ii) Up to **3 audit engagements** of an AFUR may be selected by the Board, as may be considered appropriate, during a particular quality review cycle covering entities of varied industries, size, geographical spread and regulatory concerns. However, **in the absence of any adverse finding in a past review, not more than**

one audit engagement of the same engagement partner/ proprietor of an AFUR may be selected for quality review by the Board during a particular quality review cycle

- (iii) However, in case of **any adverse findings in past review/s** or in any other situation, QRB may conduct quality review of any particular audit firm or of a particular engagement partner at **more frequent interval and/or select more than 3 audit engagements.**

6. Composition of the Review Team

- ✓ It depends on the size of the AFUR/entity/(ies) under review.
- ✓ The composition of the team, mandatorily headed by a TR empaneled with the Quality Review Board, may also include up to 5 Assistants engaged by the TR, as may be fixed by the Board in each case on need basis.
- ✓ However, **no firm of Chartered Accountants may be included as a member of the review team.**

7. Independence of Assistant (Qualified Assistance)

4 additional points have been added to ensure assistant is independent.

- (f) He should not have been associated with the AFUR and the concerned entity, whose audit is being reviewed, during **last three financial years and/or thereafter.**
- (g) He should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against him during **last three financial years and/or thereafter;**
- (h) He should not be a member of current QRB/ICAI's Central Council/Regional Council/Branch level Management Committee; and
- (i) He should not himself be empanelled as a TR with the Quality Review Board.

The Board may also obtain services of relevant industry experts, if needed, on such criteria as may be specified by the Board.

5. MISCELLANEOUS TOPICS

I. Companies' Amendment Act, 2020

1. Dividend Note Added regarding AS 4/IND-AS 10

As per Accounting Standards (AS) 4 (amended)- Contingencies and Events Occurring After the Balance Sheet Date and Ind AS 10- Events after the Reporting Period, **if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognised as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes.**

Audit Procedure to check compliance of AS 4 /IND-AS 10

If dividends are declared after the balance sheet date but before the financial statements are approved for issue, check that the dividends have not been recognized as a liability as per Accounting Standard (AS) 4 (amended)- Contingencies and Events Occurring After the Balance Sheet Date and Ind AS 10- Events after the Reporting Period, but **whether a disclosure of the same has been made in the notes.**

II. Audit of NBFCs

1. Compliance with CARO 2020

As per CARO 2020, the auditor is required to report that –

I. Loans , Advances, guarantee or security

(a) Whether during the year the company has made **investments in**, provided any **guarantee or security** or granted **any loans or advances** in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, If so,

(b) Whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided **are not prejudicial to the company's interest;**

(c) in respect of loans and advances in the nature of loans, whether **the schedule of repayment of principal and payment of interest** has been stipulated and whether the repayments or receipts are regular;

(d) if the amount is overdue, state **the total amount overdue for more than ninety days**, and whether reasonable steps have been taken by the company for recovery of the principal and interest;

(f) whether the company has granted any **loans or advances** in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted,

aggregate amount of loans **granted to Promoters, related parties** as defined in clause (76) of section 2 of the Companies Act, 2013; [Paragraph 3(iii)]

(II) Registration of NBFCs

(a) Whether the company is required to be registered under section 45 -IA of the Reserve Bank of India Act, 1934 and if so, whether the **registration** has been obtained.

(b) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid **Certificate of Registration (CoR)** from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;

(c) Whether the company is a **Core Investment Company (CIC)** as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;

(d) Whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group; [Paragraph 3(xvi)]

III. GST Audit (IMP)

1. AUDIT BY THE TAX AUTHORITIES UNDER SECTION 65

Audit under section 65 is a routine audit by the tax office at the place of business of registered person or in tax office.

- Notice for audit by Tax Authorities:** The registered person shall be informed by way of a notice **not less than 15 working days** prior to the conduct of audit in such manner as may be prescribed. [Rule 101, FORM GST ADT-01]
- Completion period of audit:** The audit by tax authorities shall be completed **within a period of 3 months** from the date of commencement of the audit, and such period is further **extendable for a period of 6 months** by **Commissioner** for the reasons to be recorded in writing.

In this regard, “**commencement of audit**” shall mean the date on which the records and other documents, called for by the tax authorities, are made available by the registered person or the actual institution of audit, **whichever is later**.

- Co-operation with Proper Office for Timely Completion of Audit:** During the course of audit, the authorised officer may require the registered person, to afford him the necessary facility to verify the books of account or other documents as he may require and to furnish such information and render assistance for timely completion of the audit.
- Findings to be Communicated to Registered Person:** On conclusion of audit, the proper officer shall, **within 30 days**, inform the registered person, whose records are audited, about the findings, his rights and obligations and the reasons for such findings in such manner as may be prescribed. [Rule 101,

FORM GST ADT-02]**Illustration 1.**

M/s. Mehtab & Co. a registered person received notice of audit in FORM GST ADT-01 on 15-Nov- 2020, stating therein that the audit team from the department will visit their office on 21 -Nov-2020 to conduct audit. The RP is expected the specified documents must be kept ready for audit. As a consultant of M/s. Mehtab & Co. what advise you will give to your client?

Solution: As a consultant of M/s. Mehtab & Co. we will advise that notice for audit by tax authorities shall be given for **not less than 15 working days** prior to the conduct of audit in FORM GST ADT-01. Therefore, the RP must intimate to the tax authorities that he may be given appropriate time before the necessary books of accounts and other records may be kept ready for the purposes of audit.

2.SPECIAL AUDIT UNDER SECTION 66

Special audit wherein the registered person can be directed to get his records including books of account examined and audited by a chartered accountant or a cost accountant during any stage of scrutiny, inquiry, investigation or any other proceedings; depending upon the nature and complexity of the case [Section 66 read with rule 102] on order of Assistant Commissioner or above with prior approval of the Commissioner.

Illustration 2.

M/s. Ramaya Bhola (P) Ltd., a registered person is issued a notice in FORM GST ADT-03 for conduct of a special audit by M/s. Rohit & Associates, Chartered Accountants. The company claims that he is already subject to statutory audit by his regular CA under the Companies Act as well as tax audit under the Income Tax Act. Whether the special audit is still applicable on the company?

Solution: Considering the special nature of GST audit under section 66 the audit having been conducted under other proceedings or under other laws; do not preclude the proper officer from exercising option under section 66.

3.AUDIT OF ACCOUNTS [SECTION 35(5) READ WITH SECTION 44(2) AND RULE 80]**Who is liable to GST Audit?**

Every registered person must get his accounts audited by a chartered accountant or a cost accountant if his aggregate turnover during a FY exceeds ₹ 2 crores. (For FY 2018-19 and FY 2019-20: ₹ 5 crores)

Such registered person is required to furnish electronically through the common portal along with Annual Return a copy of:

- Audited annual accounts
- A reconciliation statement, duly certified, in prescribed **FORM GSTR- 9C**.

Every registered person whose aggregate turnover during the financial years **2018 -2019 and 2019-20 exceeds five crore rupees** shall get his accounts audited as specified under sub- section (5) of section 35 and he shall furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in FORM GSTR-9C for the financial years 2018-2019 and 2019-20, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.

Financial Year (FY)	Aggregate Turnover (in ₹)
2017-18	2 crores
2018-19	5 crore (NN-16/2020)
2019-20	5 crore (NN-79/2020)

Note: Where a taxpayer has **multiple branches** registered under GST in different States/ Union Territories, **the total aggregate turnover of all such branches is considered while calculating the threshold limit.** So, if the cumulative turnover of all the branches exceed threshold limit, then the GST audit is applicable to each of these branches, **irrespective of whether the turnover of a particular branch is less than the threshold.**

In such cases, one can appoint either one dedicated auditor for all branches or separate auditor for each branch. Where multiple branches have different auditors, the **Standard on Auditing: SA 299 —“Joint Audit of Financial Statements”** may apply for the purpose of reporting GST audit observations & reporting.

Example : if the aggregate turnover (PAN based) is at ₹ 5.50 crores and the registered person is carrying on business in two different States having a turnover of ₹ 4.75 crores and 0.75 crores respectively, **the law mandates that audit is required to be carried out in both the States.**

Illustration 3.

Mr X, an articled trainee in JSA Associates, is assigned a GST Audit of Flex Industries, a branch in Delhi. He is confused with the applicability of GST audit on Flex Industries considering the definition of turnover in section 35(5). Flex Industries is a company with operations spread across India with aggregate turnover amounting to ₹ 8 crores (this turnover is spread across various cities) during the FY ended 31 March 2019. Will GST audit be applicable on Flex Industries? If yes, substantiate section 35(5) in context of rule 80(3).

Solution: GST Audit will be applicable on Flex Industries. As per section 35(5) read with rule 80(3), the total turnover calculation for the applicability of GST audit must be done on a PAN India basis, which means that once the turnover under the PAN India level is more than ₹ 5 crores, all business entities registered under GST for that PAN will be liable for GST audit for the FY.

Illustration 4.

Krishna Enterprises, a textile shop with registered GST premises in Delhi, is having turnover of ₹ 1.55 crores, ₹ 1.45 crores and ₹ 1.50 crores for the quarters 2, 3 and 4 respectively of the FY 2018-19. He did not have good fortune in quarter 1 of 2018-19 for which his turnover was ₹ 70 lakhs. Mr. Vasudev, a chartered accountant, is appointed as tax consultant of Krishna Enterprises. He is perplexed whether GST audit is applicable for his client. If so, substantiate with relevant section.

Solution: GST audit will be applicable to Krishna Enterprises. As per section 35(5) read with

rule 80(3), if the annual turnover of a registered taxpayer is more than ₹ 5 crores during the year ended 31 March 2019, he is required to get his accounts audited by a chartered accountant or cost accountant. **In the given case, the aggregate turnover during the year ended 31 March 2019 was above ₹ 5 crores, hence, GST audit would be applicable to Krishna Enterprises.**

Illustration 5.

SSM & Co. is a leading electronics company having multiple branches registered under GST in different States. The aggregate turnover of all such branches exceeded ₹ 5 crores during the FY ended 31 March 2019. However, the Delhi branch had a turnover of ₹3.75 crores. Pankaj Gupta, Finance Officer of Delhi branch, contended that GST audit would not be applicable on Delhi branch as the turnover for that branch did not surpass the threshold. Whether the contention of Mr. Pankaj Gupta was correct or not. Substantiate.

Solution: GST audit would be applicable on Delhi branch. As per section 35(5) read with rule 80(3), the aggregate turnover calculation must be PAN based, which means that once the turnover under the PAN is more than ₹ 5 crores, all business entities registered under GST for that PAN will be liable for GST audit for that FY. **Contention of Mr. Pankaj, Finance Officer, was incorrect.**

Illustration 6.

Mr. Anuj, a Chartered Accountant by profession, has been appointed as GST auditor for ABC Ltd. The management has asked Mr. Anuj for GST audit and to file GSTR-3B for the months of July and August 2019 and filing of annual return in FORM GSTR-9. Mr. Anuj contended that he has been appointed only for GST audit and the above are his scope limitations and cannot be conducted as the compliances and returns are to be filed by the management. In context of above dispute, you have to suggest whether the contention of Mr. Anuj is correct or not. Justify.

Solution: GST auditor's prime responsibility on this engagement is limited to GST audit, audit of reconciliation statement between books of accounts vis-a-vis GST returns prepared by the Company. The GST auditor is, however, not responsible for any compliances like uploading GST periodic returns for the relevant audit period. Since, in the given situation, Management has asked the auditor Mr. Anuj to conduct besides GST Audit filing of GSTR-3B for the months of July and August 2019 and filing of annual return in FORM GSTR-9. Accordingly, Mr. Anuj has rightly refused that his scope is limited to GST Audit and the scope does not cover any of the management functions. In view of above, Contention of Management to Anuj is not tenable as preparation of annual returns and its filing was the responsibility of management.

Note on treatment of Branch Transfer : Under AS-9 Revenue Recognition, branch transfers are not recognized as revenue whereas under GST, it tantamount to supply as per Schedule I to CGST Act.

4.TAX AUDIT UNDER SECTION 44AB

1.Applicability –

Every person -

- (a) carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business **exceeds one crore rupees** in any previous year.

Note has been added : With effect from assessment year 2020-21, the threshold limit, for a person carrying on business, has been **increased from ₹ 1 crore to ₹ 5 crores in case **when cash receipts and payments made during the year does not****

exceed 5% of total receipt or payment, as the case may be. In other words, 95% or more of the business transactions should be done through banking channels.

Applicability of Tax Audit Provisions

Example 1. DB Pvt. Ltd. has total turnover of ₹ 525 lacs for the FY 2020-21.

DB Pvt. Ltd has to conduct the Audit of Books of Accounts under section 44AB of the Act for the FY 2020-21 as the turnover exceeds ₹ 5 crores.

Example 2. ABC & Co. (a partnership firm) engaged in trading of electronic goods is expecting a turnover of ₹ 165 lacs for the FY 2020-21. (Assume the partnership firm would not be able to ensure that the aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment).

Section 44AD would be applicable to Partnership Firm. Thus, ABC & Co. can declare the minimum profit @ 8% of the turnover as its turnover during the PY 2020-21 is not expected to exceed ₹ 2 crores. If the firm do not opt for presumptive income scheme under section 44AD, it has to get books of accounts audited u/s 44AB of the Act.

Example 3. Mr. Anand Khater, a Commission Agent is expecting commission receipts of ₹ 137 lacs during the FY 2020-21 (Assume he would not be able to ensure that the aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment).

Though Section 44AD is applicable to an Individual, it is not applicable to Commission income. In the given case, since, Mr. Anand earns the commission income, he cannot take the benefit of section 44AD. His total turnover during the FY 2020-21 in respect of commission income is expected to exceed ₹ 1 crore, he would have to get his books of accounts audited u/s 44AB of the Act.

Example 4. Mr. Vishal Raka, owning an Agency of Samsung Mobile for the city of Pune and expects the turnover of ₹ 87 lacs during the FY 2020-21.

Though Section 44AD is applicable to an Individual, it is not applicable to Commission income. In the given case, since, Mr. Vishal earns the commission income, he cannot take the benefit of section 44AD. His total turnover during the FY 2020-21 in respect of commission income is not expected to exceed ₹ 1 crore, therefore, he need not get his books of accounts audited u/s 44AB of the Act.

2.Note : While issuing the tax audit report under section 44AB of the Income Tax Act 1961, the Auditor should generate appropriate UDIN (**Unique Document Identification Number**) and refer the same in its report.

3.Clause (8A), The new clause inserted in part A of the form 3CD requires the assessee to state whether the assessee has opted for taxation under any of the sections 115BA, 115BAA and 115BAB.

It may be noted that all the above sections i.e.115BA, 115BAA and 115BAB are applicable to the **company assesses only**.

4. Clause 18: Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form:-

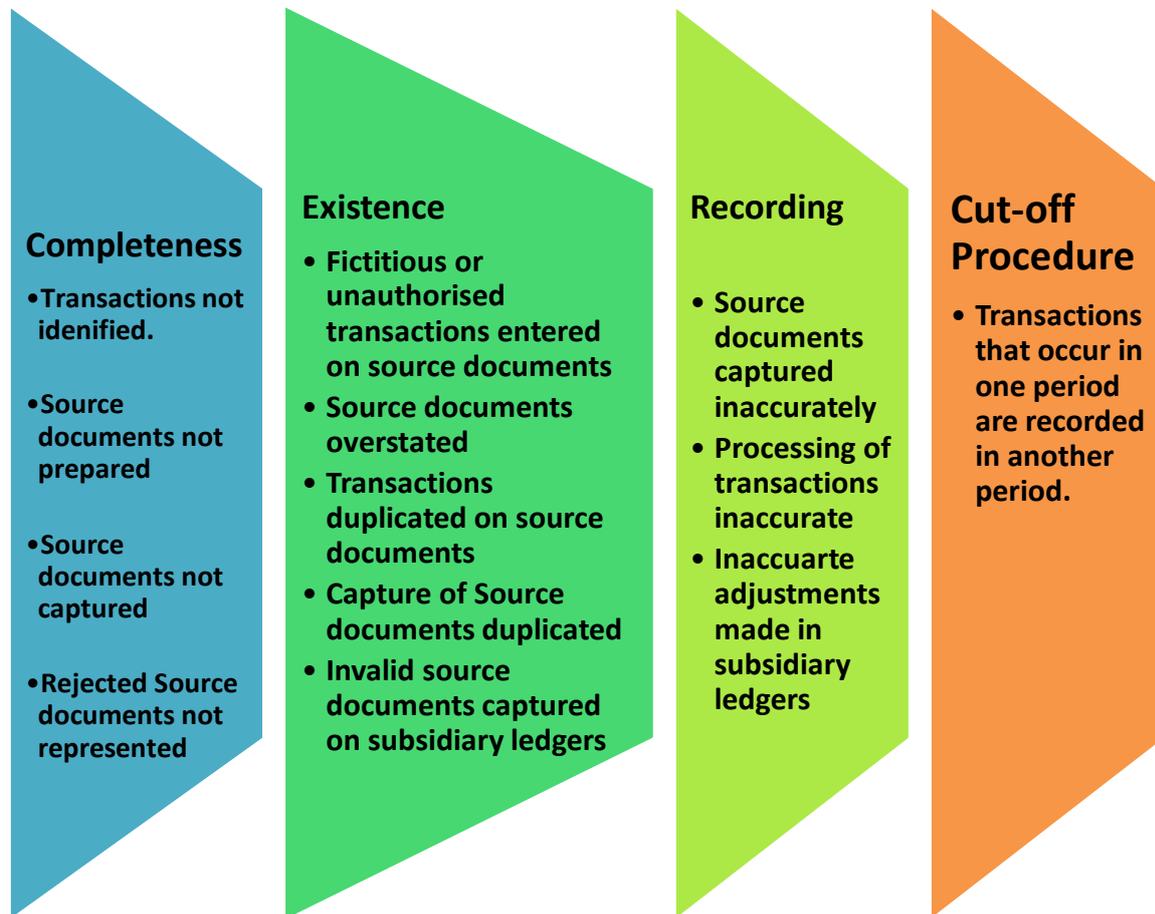
- (a) Description of asset/block of assets.
- (b) Rate of depreciation.
- (c) Actual cost or written down value, as the case may be.
- (ca) Adjustment made to the written down value under section 115BAA (for assessment year 2020-21 only)
- (cb) Adjusted written down value
- (d) Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of –
 - (i) Central Value Added Tax credits claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,
 - (ii) Change in rate of exchange of currency, and
 - (iii) Subsidy or grant or reimbursement, by whatever name called.
- (e) Depreciation allowable.

6.Risk Assessment and Internal Control

6.1 Steps for Risk Identification (NEW ADDITION)

- **Assess the significance** of the assessed risk, impact of its occurrence and also revise the materiality accordingly for the specific account balance.
- Determine the **likelihood for assessed risk** to occur and its impact on our auditing procedures.
- **Document** the assertions that are effected.
- Consider **the impact** of the risk on each of the assertions
- (completeness, existence, accuracy, validity, valuation and presentation) relevant to the account balance, class of transactions, or disclosure.
- Identify the **degree of Significant risks** that would require separate attention and response by the auditor. Planned audit procedures should directly address these risks.
- Enquire and document the management's response.
- **Consider the nature of the internal control system in place and its possible effectiveness in mitigating the risks involved. Ensure the controls :**
 - ❖ **Routine in nature (occur daily) or periodic such as monthly.**
 - ❖ **Designed to prevent or detect and correct errors.**
 - ❖ **Manual or automated.**
- Consider any unique characteristics of the risk.
- Consider the existence of any particular characteristics (inherent risks) in the class of transactions, account balance or disclosure that need to be addressed in designing further audit procedures.
- Examples could include **high value inventory, complex contractual agreements, absence of a paper trail on certain transaction streams or a large percentage of sales coming from a single customer.**

Possible potential misstatements – Indicators (NEW ADDITION)



6.2 General Steps in the Conduct of Risk Based Audit (Revised)

The auditor's objective in a risk-based audit is to obtain reasonable assurance that no material misstatements whether caused by fraud or errors exist in the financial statements.

This involves the following three key steps:

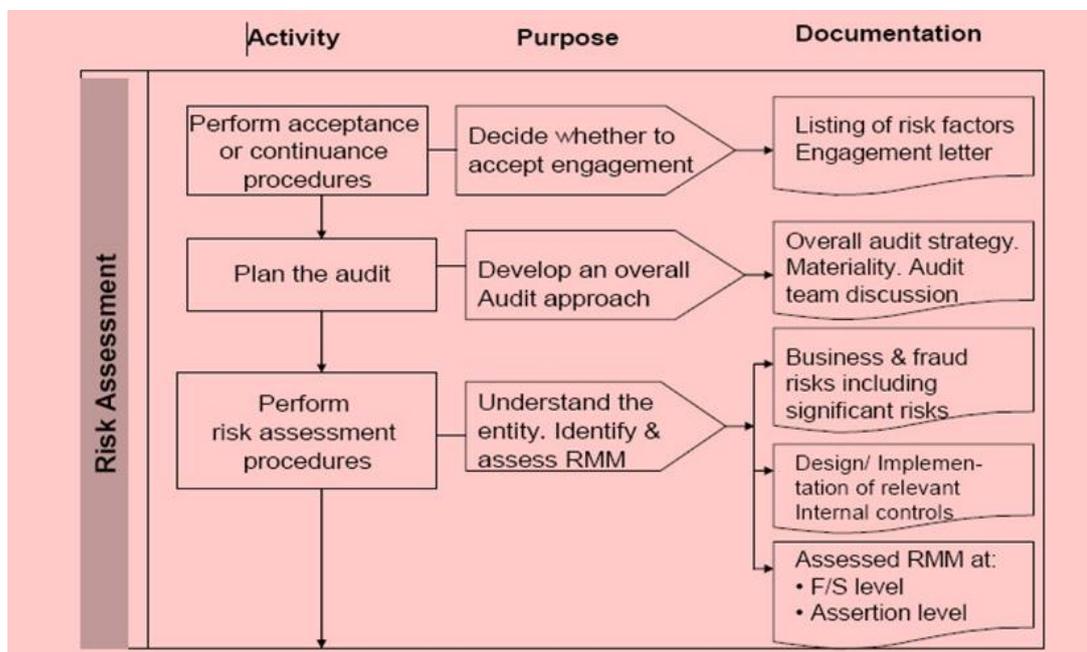
- 1) Assessing the risks of material misstatement in the financial statements
- 2) Designing and performing further audit procedures that respond to assessed risks and reduce the risks of material misstatements in the financial statements to an acceptably low level; and
- 3) Issuing an appropriate audit report based on the audit findings.

The risk-based audit process is presented in three distinct phases: **Risk assessment, Risk response; and Reporting.**

1. Risk Assessment

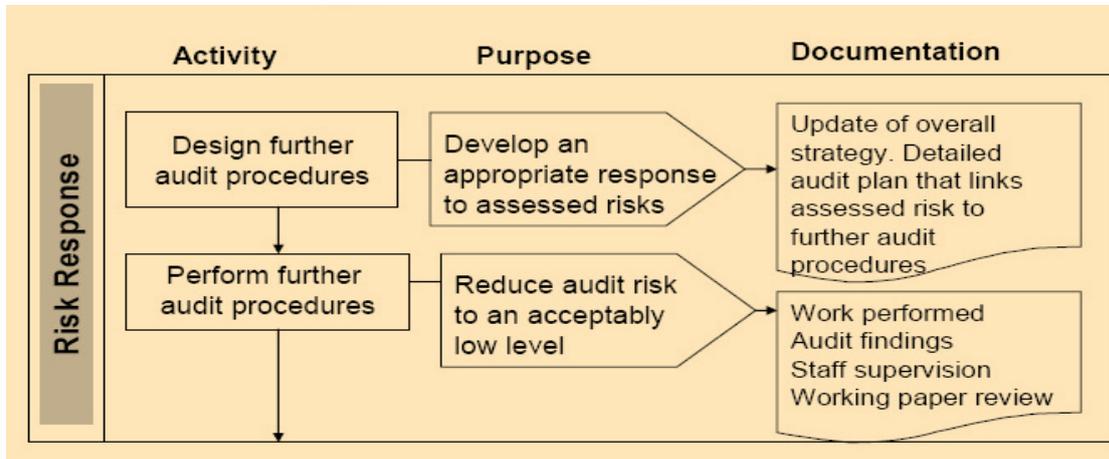
The risk assessment phase of the audit involves the following steps:

- Performing client acceptance or continuance procedures;
- Planning the overall engagement;
- **Performing risk assessment procedures** to understand the business and identify inherent and control risks;
- Identifying **relevant internal control procedures** and assessing their design and implementation (those controls that would prevent material misstatements from occurring or detect and correct misstatements after they have occurred);
- Assessing the **risks of material misstatement** in the financial statements;
- Identifying the significant risks that require special audit consideration and those risks for which substantive procedures alone are not sufficient;
- Communicating any material weaknesses in the design and implementation of internal control to management and those charged with governance; and
- Making an informed assessment of the risks of material misstatement at the financial statement level and at the assertion level.



2. Risk response

This phase of the audit is to design and perform further audit procedures that respond to the assessed risks of material misstatement and will provide the evidence necessary to support the audit opinion.



Some of the matters the auditor should consider when planning the audit procedures include:

- Assertions that cannot be addressed by substantive procedures alone. This can occur where there is highly automated processing of transactions with little or no manual intervention.
- Existence of internal control that, if tested, could reduce the need/scope for other substantive procedures.
- The potential for substantive analytical procedures that would reduce the need/scope for other types of procedures.
- The need to incorporate an element of unpredictability in procedures performed.
- The need to perform further audit procedures to address the potential for management override of controls or other fraud scenarios.
- The need to perform specific procedures to address “significant risks” that have been identified.

Audit procedures designed to address the assessed risks could include a mixture of:

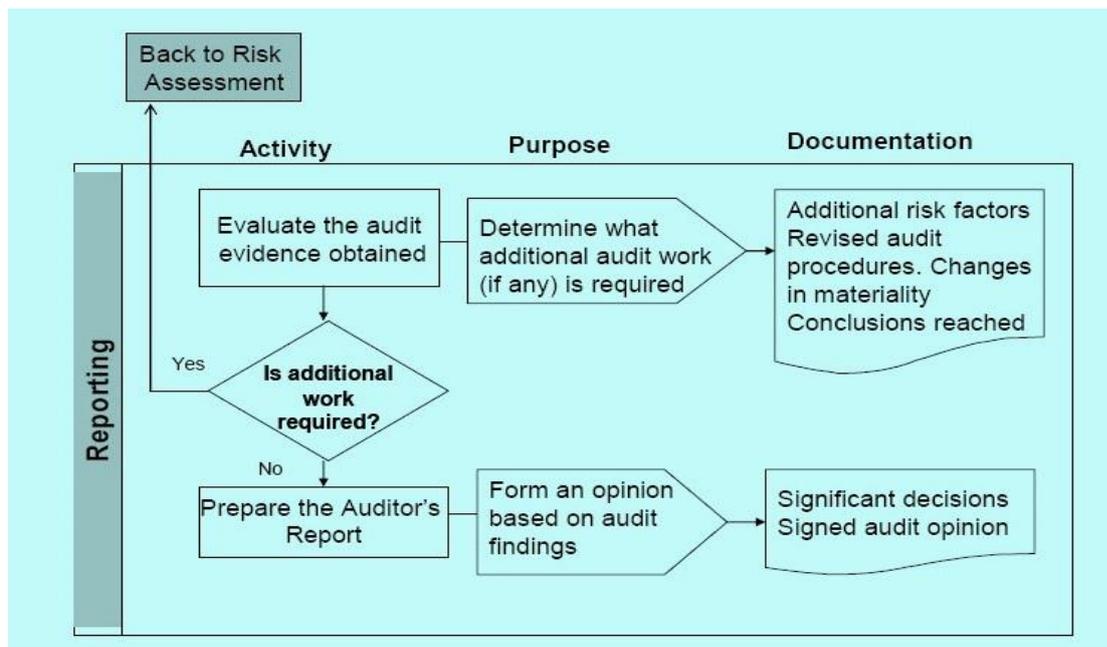
- Tests of the operational effectiveness of internal control; and

- Substantive procedures such as tests of details and analytical procedures.



Before the conclusion of the audit, based on the results of substantive procedures and other audit evidence obtained by the auditor, the auditor should consider whether the assessment of control risk is confirmed. In case of deviations from the prescribed accounting and internal control systems, the auditor would make specific inquiries to consider their implications. Where, on the basis of such inquiries, the auditor concludes that the deviations are such that the preliminary assessment of control risk is not supported, he would amend the same unless the audit evidence obtained from other tests of control supports that assessment. Where the auditor concludes that the assessed level of control risk needs to be revised, he would modify the nature, timing and extent of his planned substantive procedures.

3. Reporting



The final phase of the audit is to **assess the audit evidence** obtained and determine whether it is sufficient and appropriate to reduce the risks of material misstatement in the financial statements to an acceptably low level.

It is important at this stage to determine:

- If there had been a change in the assessed level of risk;
- Whether conclusions drawn from work performed are appropriate; and
- If any suspicious circumstances have been encountered.

Any additional risks should be appropriately assessed, and further audit procedures performed as required.

When all procedures have been performed and conclusions reached:

- Audit findings should be reported to management and those charged with governance; and
- An audit opinion should be formed, and a decision made on the appropriate wording for the auditor's report.

7. Internal Audit

1. Definition of Internal Audit:

As defined in Framework Governing Internal Audits, “Internal Audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives.”

The Framework also indicates the nature of internal audit services may go beyond assurance to include an advisory (consulting) role. Further, the internal auditing need not to be confined financial transactions only. The objectives and scope of Internal Audit Function as per SA 610, “Using the Work of an Internal Auditor” may include:

- *Monitoring of internal controls;*
- *Examination of financial and operating information*
- *Review of operating activities*
- *Review of compliance with laws and regulations*
- *Risk management*
- *Governance*

2. INTEGRITY, OBJECTIVITY AND INDEPENDENCE OF INTERNAL AUDITOR

There is a set of core principles fundamental to the internal audit function and activities. These basic principles of internal audit are critical to achieving the desired objectives as set out in the Definition of Internal Audit. The Basic Principles of Internal Audit are a set of core principles fundamental to the function and activity of internal audit.

1. The Internal Auditor shall be free from any undue influences which force him to deviate from the truth. This **independence shall be not only in mind but also in appearance**. Also, the internal auditor shall resist any undue pressure or interference

in establishing the scope of the assignments or the manner in which these are conducted and reported, in case these deviate from set objectives.

2. The **independence of the internal audit function** as a whole, and the Internal Auditor within the organisation, plays a large part in establishing the independence of the Internal Auditor. The overall organisation structure of key personnel, the position and reporting of the Chief Internal Auditor within this structure, along with the powers and authority which is derived from superiors further establishes the independence of the Internal Auditor.
3. The Internal Auditor shall be **honest, truthful and be a person of high integrity**.
He shall operate in a highly professional manner and seen to be fair in all his dealings. He shall avoid all conflicts of interest and not seek to derive any undue personal benefit or advantage from his position.

Examples:

- (i) To avoid any conflict of interest, the internal auditor should not review an activity for which he was previously responsible. It is also expected from the management to take steps necessary for providing an environment conducive to enable the internal auditor to discharge his responsibilities independently and also report his findings without any management interference.
- (ii) In the case of a listed company, the internal auditor may be required to report directly to those charged with governance, such as the Audit Committee instead of the Chief Executive Officer or the Chief Financial Officer. The internal auditor should immediately bring any actual or apparent conflict of interest to the attention of the appropriate level of management so that necessary corrective action may be taken.

3. INTERNAL AUDIT REPORT (IMPORTANT)

As per Standard on Internal Audit (SIA) 370 Reporting Results, reporting of internal audit results is generally undertaken in two stages:

At the end of a particular audit assignment, an **“Internal Audit Report”** covering a specific area, function or part of the entity is prepared by the Internal Auditor highlighting **key observations** arising from those assignments. This report is generally issued with details **of the manner in which the assignment was conducted and the key findings** from the audit procedures undertaken. This report is issued to the auditee, with copies shared with local and executive management, as agreed during the planning phase.

On a periodic basis, at the close of a plan period, a **comprehensive report** of all the internal audit activities covering the entity and the plan period is prepared by the **Chief Internal Auditor** (or the Engagement Partner, in case of external service provider). Such reporting is normally done on a **quarterly basis** and submitted to the highest governing authority responsible for internal audits, generally the Audit Committee. Some part of the aforementioned Internal Audit Reports may form part of the periodic (e.g. Quarterly) report shared with the Audit Committee.

This Standard on Internal Audit (SIA) deals with the internal auditor's responsibility to issue only the first type of reports, the Internal Audit Report pertaining to specific audit assignments and not to the periodic (e.g. Quarterly) reporting for the whole entity as per the Annual/Quarterly audit plan.

On the basis of the internal audit work completed, the Internal Auditor shall issue a clear, well documented Internal Audit Report which includes the following key elements:

(a) An overview of the objectives, scope and approach of the audit assignments;

(b) The fact that an internal audit has been conducted in accordance the Standards of Internal Audit;

(c) An executive summary of key observations covering all important aspects, and specific to the scope of the assignment;

(d) A summary of the corrective actions required (or agreed by management) for each observation; and

(e) Nature of assurance, if any, which can be derived from the observations.

The content and form of the Internal Audit Report are to be established by the Internal Auditor based on his best professional judgement, in consultation with the auditee and, if necessary, with inputs from other key stakeholders. **No internal audit report shall be issued in final form unless a written draft of the report has previously been shared with the auditee.**

The internal audit report shall be issued within a reasonable time frame from the completion of the internal audit work.

1. Basis of Internal Audit Report: Each internal audit report is prepared on the basis of the audit procedures conducted and the analysis of the audit evidence gathered. Conclusions reached shall be based on all the findings rather than on a few deviations or issues noted. Controls operating effectively have their own importance and should be acknowledged, while the risk and significance of observations noted have a role to play in prioritising the matters to be reported.

2. Conducted in Accordance with SIAs: Where the internal audit is conducted in compliance with the Standards of Internal Audit, (within the Framework governing Internal Audits), and the internal auditor can substantiate the same with supporting evidence and documentation, the internal audit report shall include a statement confirming that **“the internal audit was conducted in accordance with the Standards of Internal Audit issued by the Institute of Chartered Accountants of India”**.

3. Content and Format of Internal Audit Report: The manner in which the internal audit report is drafted and presented is a matter of professional judgment and choice and could be influenced by the preferences of the recipients. The SIA does not mandate any particular format or list of contents since the Internal Auditor is expected to exercise his best professional judgement on matters regarding how and what to report. **Where some level of assurance is being provided, the form and content of the report shall be as per SIA 380, “Issuing Assurance Reports”.**

4. Documentation: To confirm compliance of audit procedures with this SIA, the list of documents required is as follows:

(a) Copies of draft and final internal audit reports to be maintained, appropriately cross referenced to specific observations.

(b) If appropriate, management action plans may be counter signed by respective management personnel.

Follow-up

As per **SIA 390 Monitoring and Reporting of Prior Audit Issues**, the Chief Internal Auditor is responsible for continuously monitoring the closure of prior audit issues through timely implementation of action plans included in past audits. This shall be done with a formal monitoring process, elements of which are pre-agreed with management and those charged with governance. **The responsibility to implement the action plans remains with the management.**

In monitoring and reporting of prior audit issues, the responsibility of the Internal Auditor is usually in the form of an **“Action Taken Report (ATR) of previous audits”**.

The term “Monitoring and Reporting” used in this Standard refers to the periodic tracking of issues raised during prior audits and evaluation of the corrective actions undertaken by the auditee to resolve them and **to report any open and pending matters to the management and those charged with governance (e.g. the Audit Committee)**.

8.1 AUDIT OF BANKS

3.1 Stress Testing

RBI has required that all commercial banks (excluding RRBs and LABs) shall put in place a Board approved ‘**Stress Testing framework**’ to suit their individual requirements which would integrate into their risk management systems. **Stress tests are designed to understand whether a bank has enough capital to survive plausible adverse economic conditions and to maintain enough buffer to stay afloat under extreme scenarios.**

3.2 BASEL III Framework

Basel III norms relate to the **Capital Adequacy requirement** compliance which the Bank has to achieve as contained in the BASEL III accord. Basel capital adequacy norms are meant for the **protection of depositors and shareholders** by prescriptive rules for measuring capital adequacy, thereby evolving methods of determining regulatory capital and ensuring efficient use of capital.

Basel III accord strengthens the **regulation, supervision and risk management** of the banking sector. It is global regulatory standard on capital adequacy of banks, stress testing as well as market liquidity risk.

The Basel III accord, aims at:

- (a) improving the banking sector's ability to absorb shocks arising from financial and economic stress, irrespective of reasons thereof;
- (b) improving risk management and governance practices; and
- (c) strengthening banks' transparency and disclosure standards.

8.2 Audit of LIC

Commission payable to Agent:

Insurance business is generally solicited by the Insurance agents. The remuneration of agent is paid by way of **commission which is calculated by applying percentage to premium collected by him**. Agency commission contributes towards significant portion of expenses incurred by the Insurance Commission. Commission is payable towards generation of new business and towards settlement of renewal premium.

Role of Auditor: (IMPORTANT) The Auditor during his review of Commission paid to Agents should mainly consider the following:

- **Review the system** established by the Insurer with respect to calculation of commission to eligible agents accurately and processing the same in timely manner.
- **Review the commission payment system** is in sync with the premium collection system.
- Check whether commission paid is within the limit prescribed under Insurance Act.
- Check whether **commission is clawed-back on the cancelled policies**.
- Check the **completeness of commission processing system**.

9. Audit Committee and Corporate Governance (IMPORTANT)

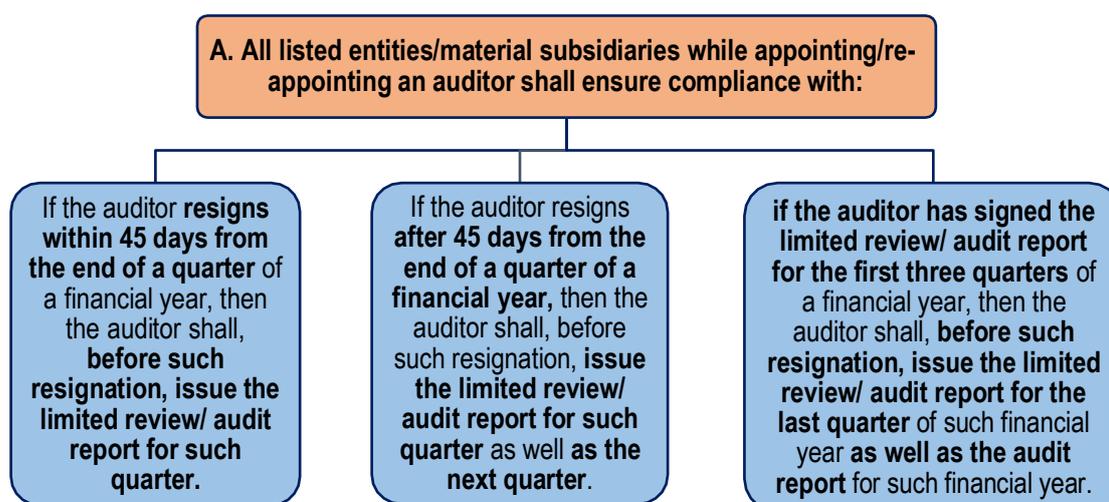
(i) Resignation of Statutory Auditors from Listed Entities and their Material Subsidiaries:

Audit Committee of a listed entity, inter alia, has to make recommendations for the appointment, remuneration and terms of appointment of auditors of a listed entity. Audit Committee is also responsible for reviewing and monitoring the independence and performance of auditors and the effectiveness of the audit process.

Clause A in Part A of Schedule III under Regulation 30(2) of SEBI LODR Regulations requires detailed reasons to be disclosed by the listed entities to the stock exchanges **in case of resignation of the auditor of a listed entity as soon as possible but not later than twenty-four hours of receipt of such reasons from the auditor.**

Regulation 36(5) of the SEBI LODR Regulations lays down certain disclosures to be made part of the notice to the shareholders for an AGM, where the statutory auditors are proposed to be appointed/re-appointed, including their terms of appointment.

In light of the above, the conditions to be complied with upon resignation of the statutory auditor of a listed entity/material subsidiary w.r.t. limited review / audit report as per SEBI LODR Regulations, are as under:



B. Other conditions relating to resignation shall include:

- (i) Reporting of concerns with respect to the listed entity/its material subsidiary to the Audit Committee:
- a. In case of any concern with the management of the listed entity/material subsidiary such as non-availability of information / non-cooperation by the management which may hamper the audit process, **the auditor shall approach the Chairman of the Audit Committee of the listed entity** and the Audit Committee shall receive such concern directly and immediately without specifically waiting for the quarterly Audit Committee meetings.
 - b. **If auditor proposes to resign, all concerns with respect to the proposed resignation, along with relevant documents shall be brought to the notice of the Audit Committee.**

If proposed resignation is due to non-receipt of information/explanation from the company, the auditor shall inform the Audit Committee of the details of information/explanation sought and not provided by the management, as applicable.

- c. On receipt of such information from the auditor relating to the proposal to resign as mentioned above, the Audit Committee/board of directors (In case an entity is not mandated to have an Audit Committee, then the board of directors of the entity shall ensure compliance), shall deliberate on the matter and communicate its views to the management and the auditor.
- (ii) Disclaimer in case of non-receipt of information in accordance with the Standards of Auditing as specified by ICAI/ NFRA.

The listed entity/ material subsidiary shall ensure that the conditions mentioned above in (A) and (B) above are included in the terms of appointment of the statutory auditor at the time of appointing/re-appointing the auditor. In case the auditor has already been appointed, the terms of appointment shall be suitably modified to give effect to (A) and (B) above.

The practicing company secretary shall certify compliance by a listed entity on the above in the prescribed annual secretarial compliance report.

Format of information to be obtained from the statutory auditor upon resignation	
C. Obligations of the listed entity and its material subsidiary:	Co-operation by listed entity and its material subsidiary

		Disclosure of Audit Committee's views to the Stock Exchanges

Above provisions will not apply if the auditor is disqualified due to Section 141 of the Companies Act, 2013.

(ii) Verification regarding Composition of Board [Regulation 17 and 17A]

The auditor shall ensure that the Chairperson of the board of **the top 500 listed entities** is - (a) a non-executive director; (b) not related to the Managing Director or the Chief Executive Officer as per the definition of the term “relative” defined under the Companies Act, 2013.

(iii) OBLIGATIONS WITH RESPECT TO EMPLOYEES INCLUDING SENIOR MANAGEMENT, KEY MANAGERIAL PERSONS, DIRECTORS AND PROMOTERS [REGULATIONS 17(2) TO 17(4), 17A, 25(5), 25(6), 26(1), 26 (2), 26(4) TO 26(6)]

The Board shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings. The quorum for every meeting of the board of directors of the **top 2,000 listed entities** shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director. The participation of the directors by video conferencing or by other audio-visual means shall also be counted for the purposes of such quorum. The top 2,000 entities shall be determined on the basis of market capitalisation, as at the end of the immediate previous financial year.

The independent directors of the listed entity shall hold at least one meeting in a year, without the presence of non-independent directors and members of the management and all the independent directors shall strive to be present at such meeting. [Note: students are advised to refer Obligations with respect to independent directors given in discussed in Chapter 2: The Securities Exchange Board of India Act, 1992, and SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 of CA. Final Paper 4 Corporate and Economic Law Module]

The minimum information to be placed before the Board of Directors is specified in Part A of Schedule II.

(iv) Compliance of SA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements”

It is the management’s responsibility to ensure that company operations are conducted in accordance with laws and regulations. The responsibility for the prevention and detection of non-compliance rests with the management.

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

The auditor shall inquire of the management and, where appropriate, those charged with governance, as to whether the entity is in compliance with other laws and regulations that may have an effect on the financial statements and inspect correspondence, if any, with the relevant licensing or regulatory authorities.

(v) Disclosure of events or information [Regulation 30(1), (5) (8)]

Every listed entity shall make disclosures of any events or information which, in the opinion of the board of directors of the listed company, is material.

Board of directors of the listed entity shall authorize **one or more Key Managerial Personnel for the purpose of determining materiality of an event or information and for the purpose of making disclosures to stock exchange(s) under this regulation and the contact details of such personnel shall be also disclosed to the stock exchange(s) and as well as on the listed entity's website.**

Such disclosures shall be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website.

(v) INFORMATION TO SHAREHOLDERS [REGULATION 36]

The listed entity shall send the soft copy of the full annual report to the shareholders who have registered their email address(es) or hard copies of the salient features of all the documents, as prescribed in section 136 of the Companies Act, 2013 or rules made thereunder (unless the full annual has been specifically requested) where the email address has not been registered, **not less than twenty-one days before the annual general meeting.**