

INTERMEDIATE (IPC) COURSE STUDY MATERIAL

AUDITING PRONOUNCEMENTS



**BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

The objective of this material is to provide teaching material to the students to enable them to obtain knowledge and skills in the subject. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Director of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, this material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

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A WORD ABOUT AUDITING PRONOUNCEMENTS

The audit of financial statements add credibility to financial statements prepared by the management of the entity and ensure that the financial statements are prepared in accordance with the legal and regulatory requirements applicable to the entity and are free from any material misstatement.

For ensuring quality in audits, it is essential to have auditing standards for auditors which are at par with globally accepted auditing standards. The Engagement and Quality Control Standards developed by the Auditing and Assurance Standards Board of the ICAI and issued under the authority of the Council of the ICAI are harmonized with the globally recognized International Standards issued by the International Auditing and Assurance Standards Board (IAASB).

In respect of audit engagements, these Standards cover the important aspects such as planning, documentation, risk assessment, fraud considerations, evidence, reporting, etc. Separate Standards deal with other assurance engagements, review engagements and related services. These Standards are principle based and mandatory in nature.

On many occasions, guidance is required on certain procedural aspects of audits of financial statements, which may not, per se, specifically be dealt with by the Standards or they might need additional guidance on carrying out assurance engagements in terms of requirements of some specific laws or regulations. These Guidance Notes are recommendatory in nature.

Keeping all this in view, it has been decided to publish a separate book namely Auditing Pronouncements for the students. This book is quite handy and will be highly useful for the students since they will get all the relevant auditing pronouncements at one place for easy reference.

This handbook has been divided into two parts for the convenience of the students.

- First part contains the Authority and Preface, Glossary of Terms, Standards on Quality Control, Framework for Assurance engagements and Standards on Auditing.
- Second part of the book carries the applicable Guidance Notes prescribed at CA Intermediate (IPC) Level which is given in CD.

Happy Reading and Best Wishes!

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PART II

GUIDANCE NOTES (Given in CD)

Announcements of the Council Regarding Status of Various Documents Issued by the Institute of Chartered Accountants of India

A. Clarification regarding Authority Attached to Documents Issued by the Institute¹

1. The Institute has, from time to time, issued 'Guidance Notes' and 'Statements' on a number of matters. With the formation of the Accounting Standards Board and the Auditing Practices Committee², 'Accounting Standards' and 'Statements on Standard Auditing Practices'³ are also being issued.

2. Members have sought guidance regarding the level of authority attached to the various documents issued by the Institute and the degree of compliance required in respect thereof. This note is being issued to provide this guidance.

3. The 'Statements' have been issued with a view to securing compliance by members on matters which, in the opinion of the Council, are critical for the proper discharge of their functions. 'Statements' therefore are mandatory. Accordingly, while discharging their attest function, it will be the duty of the members of the Institute:

- (a) to examine whether 'Statements' relating to accounting matters are complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the 'Statements', it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations; and
- (b) to ensure that the 'Statements' relating to auditing matters are followed in the audit of financial information covered by their audit reports. If, for any reason, a member has not been able to perform an audit in accordance with such 'Statements', his report should draw attention to the material departures therefrom.

¹ Published in the December, 1985 issue of the 'The Chartered Accountant'.

² The Auditing Practices Committee of the Institute of Chartered Accountants of India was established in 1982 with, *inter alia*, the objectives of preparing the Statements on Standard Auditing Practices (SAPs), Guidance Notes on matters related to auditing, etc. At its 226th meeting held on July 2, 2002 at New Delhi, the Council of the Institute of Chartered Accountants of India approved the recommendations of the Auditing Practices Committee to strengthen the role being played by it in the growth and development of the profession of chartered accountancy in India. The Council also approved renaming of the Committee as, "Auditing and Assurance Standards Board" (AASB) with immediate effect to better reflect the activities being undertaken by the Committee. Apart from changes designed to strengthen the process for establishing auditing and assurance standards, such a move would bring about greater transparency in the working of the Auditing Practices Committee now known as the Auditing and Assurance Standards Board (AASB).

The Council also approved the renaming of the Statements on Standard Auditing Practices (SAPs) as, "Auditing and Assurance Standards" (AASs). The ICAI in 2007 issued the 'Revised Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services'. Pursuant to issuance of Revised Preface, the Auditing and Assurance Standards (AAS) have been renamed as 'Engagement and Quality Control Standards'. The Engagement Standards comprise:

- *Standards on Auditing (SAs)* - To be applied in the audit of historical financial information.
- *Standards on Review Engagements (SREs)* - To be applied in the review of historical financial information.
- *Standards on Assurance Engagements (SAEs)* - To be applied in assurance engagements, other than audits and reviews of historical financial information.
- *Standards on Related Services (SRSs)* - To be applied to engagements involving application of agreed-upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.

³ *ibid.*

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4. A list of 'Statements' issued by the Institute and currently in force is given at the end of this note.⁴
5. 'Guidance Notes' are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary.
6. There are however a few guidance notes in case of which the Council has specifically stated that they should be considered as mandatory on members while discharging their attest function. A list of these guidance notes is given below:
 - (i) Guidance Note on Treatment of Interest on Deferred Payments read along with the pronouncement of the Council, published in 'The Chartered Accountant', March 1984.⁵
 - (ii) Provision for Depreciation in respect of Extra or Multiple Shift Allowance, published in 'The Chartered Accountant', May 1984.⁶
7. The 'Accounting Standards' and 'Statements on Standard Auditing Practices'⁷ issued by the Accounting Standards Board and the Auditing Practices Committee⁸, respectively, establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards and that auditors carry out their audits in accordance with the generally accepted auditing practices. They become mandatory on the dates specified either in the respective document or by notification issued by the Council.⁹
8. There can be situations in which certain matters are covered both by a 'Statement' and by an

⁴ An updated list of mandatory statements on auditing is included in the 'List of Mandatory Statements and Standards' given after this clarification. It may also be noted that besides statements on accounting and auditing, the Institute has issued statements on other aspects also, namely, Statement on Peer Review and Statement on Continuing Professional Education.

⁵ The nomenclature of this document was changed by the Council of the Institute at its 133rd meeting held in April, 1988. The new nomenclature was 'Statement on Treatment of Interest on Deferred Payments'. In view of para 8 of this 'Clarification', with Accounting Standard (AS) 10 on 'Accounting for Fixed Assets', becoming mandatory (see Announcement II) in respect of accounts for periods commencing on or after 1.4.1991, the 'Statement on Treatment of Interest on Deferred Payments' stands automatically withdrawn except in the case of certain specified non-corporate entities where it stands withdrawn in respect of accounts for periods commencing on or after 1.4.1993 (see Announcements III, V and VI in this regard). It may be noted that pursuant to the issuance of Accounting Standard (AS) 16 on 'Borrowing Costs', which came into effect in respect of accounting periods commencing on or after 1-4-2000, paragraph 9.2 and paragraph 20 (except the first sentence) of AS 10, relating to treatment of finance costs including interest, stand withdrawn from that date.

⁶ The nomenclature of this document was changed by the Council of the Institute at its 133rd meeting held in April, 1988. The new nomenclature was 'Statement on Provision for Depreciation in respect of Extra or Multiple Shift Allowance'. This statement has been withdrawn in respect of accounting periods commencing on or after 1.4.1989, as per the Guidance Note on Accounting for Depreciation in Companies, issued in pursuance of amendments in the Companies Act, 1956, through Companies (Amendment) Act, 1988.

⁷ Refer footnote 2. 'Statements on Standard Auditing Practices' have been renamed as 'Engagement and Quality Control Standards'.

⁸ Refer footnote 2. The 'Auditing Practices Committee' has been renamed as 'Auditing and Assurance Standards Board'.

⁹ Subsequent to the publication of this Clarification, the Council has made various Accounting Standards mandatory. The Announcements made by the Council in this regard are reproduced hereafter.

'Accounting Standard'/Statement on Standard Auditing Practices'¹⁰. In such a situation, the 'Statement' shall prevail till the time the relevant 'Accounting Standard'/Statement on Standard Auditing Practices'¹¹ becomes mandatory. It is clarified that once an 'Accounting Standard'/Statement on Standard Auditing Practices'¹² becomes mandatory, the concerned 'Statement' or the relevant part thereof shall automatically stand withdrawn.

9. List of statements issued by the Institute and which are mandatory in nature.

1. Statement on Companies (Auditor's Report) Order, 2003 (Revised 2005)
2. Statement on Reporting under Section 227(1A) of the Companies Act, 1956.

B. Use of Bold Type Face/ Normal Type Face in Auditing and Assurance Standards

- I. As the members are aware, the Institute of Chartered Accountants of India has till date issued 35 (thirty five) Auditing and Assurance Standards (AASs). It may be reiterated that all the Standards are mandatory in nature. This means that while carrying out an attest function, it will be the duty of the members of the Institute to ensure that these AASs are followed in the audit of financial information covered by their audit reports. If for any reason a member has not been able to perform an audit in accordance with the AASs, his report should draw attention to the material departures therefrom.
- II. Further, it might have been noted by the members that in case of AAS 1 to AAS 15, the entire text of the Standards appears in normal type face, except for the headings and sub headings therein. On the other hand, in case of AAS 16 to AAS 35, certain text in the Standards is appearing in **bold type** face and certain portion of the text appearing in normal type face. Normally, in these Standards, the **bold type** face has been used to facilitate distinction between the principles *vis-a-vis* the application/ procedural aspects, which have been written in normal type face. In any case, however, the entire text of the Standard is mandatory, irrespective of the fact whether such distinction is made in the Standard or not.

The New Format (applicable from 1st April, 2008)¹³

- III. Members may also note that recently, the Council of the Institute of Chartered Accountants of India has approved the **Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services**. The said Preface introduces a totally new format of writing Standards, in line with that adopted by the International Auditing and Assurance Standards Board pursuant to its Clarity Project. According to the new format the Standards on Auditing (SAs) would now contain two distinct sections, one, the Requirements section and, two, the Application Guidance section.
- IV. The fundamental principles of the Standard are contained in the Requirements section and represented by use of "shall". Hitherto, the word, "should" was used in the Standards, for this purpose. Further, this format also does away with the need to present the principles laid down by the Standard in bold text. The application and other explanatory material contained in a Standard on Auditing (SA) is an integral part of the SA as it provides further explanation of, and

¹⁰ Refer footnote 2. 'Statements on Standard Auditing Practices' have been renamed as 'Engagement and Quality Control Standards'.

¹¹ *ibid.*

¹² *ibid.*

¹³ The "Preface to Standards on Quality control, auditing, Review, Other Assurance and Related Services" and the document containing the reclassification and renumbering of the Auditing and Assurance Standards issued by the Institute have been published in July 2007 issue of the Journal.

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guidance for carrying out, the requirements of an SA, along with the background information on the matters addressed in the SA. It may include examples of procedures, some of which the auditor may judge to be appropriate in the circumstances. Such guidance is, however, not intended to impose a requirement. In view of this format of writing, the **standard portion or principles enunciated in a Standard would no longer be given in bold face.**

- V. The new presentation format has, however, not as yet been followed in drafting the Standards on Quality Control and other Standards.
- VI. **There is no change in the authority attached to the Standards, i.e., they are mandatory in nature, notwithstanding the new format of writing the Standards.**

C. Announcements/ Clarifications

1. Clarification on the Auditors' Rights Where Clients and Other Auditors Seek Access to their Audit Working Papers*

- I. Auditing and Assurance Standard (AAS) 1¹⁴, "Basic Principles Governing An Audit", states in para 6, "The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose". Auditing and Assurance Standard (AAS) 3¹⁵, "Documentation" (Paragraph 13), states, "Working papers are the property of the auditor. The auditor may, at his discretion, make portions of or extracts from his working papers available to his client." AAS 3 further requires (paragraph 14), *inter alia*, that the "auditor should adopt reasonable procedures for custody and confidentiality of his working papers."
- II. Part I of the Second Schedule to the Chartered Accountants Act, 1949 provides that "A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he –
"Discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of his client or otherwise than as required by any law for the time being in force."
- III. Requests are sometimes received by the members of the Institute, who have/had been performing the duties as the auditors of an enterprise, to provide access to their audit working papers. The requests may be made by the clients or other auditors of the enterprise or its related enterprise such as a parent enterprise.
- IV. It is hereby clarified that except to the extent stated in para 5 below, an auditor is not required to provide the client or the other auditors of the same enterprise or its related enterprise such as a parent or a subsidiary, access to his audit working papers. The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors. In the case of a company, the statutory auditor has to consider the report of the branch auditor and has a right to seek clarifications and/or to visit the branch if he deems it necessary to do so for the performance of the duties as auditor. An auditor can rely on the work of another auditor, without having any right of access to the audit working papers of the other auditor¹⁶. For this purpose, the term 'auditor' includes 'internal auditor'.
- V. As stated in para 4, the client does not have a right to access the working papers of the auditor.

* Published in May, 2000 issue of 'The Chartered Accountant'.

¹⁴ Now known as Standard on Auditing (SA) 200.

¹⁵ Now known as Standard on Auditing (SA) 230.

¹⁶ Reference in this regard may be made to Standard on Auditing (SA) 600, "Using the Work of Another Auditor" and Standard on Auditing (SA) 610, "Relying on the Work of Internal Auditor."

However, the auditor may, at his discretion, in cases considered appropriate by him, make portions of or extracts from his working papers available to the client.

2. Format of Review Report under Clause 41 of the Listing Agreement**

- I. As the members are aware, the Institute had in March 2005, issued Auditing and Assurance Standard (AAS) 33¹⁷, Engagements to Review Financial Statements, applicable to all review engagements relating to accounting periods beginning on or after April 1, 2005. Appendix 3 to the said AAS contains an illustrative format of review report in respect of balance sheet. The illustrative format given in the AAS is different from the format of the review report required to be given under clause 41 of the Listing Agreement in that it is in respect of review of financial results and not a balance sheet.
- II. In view of the above, the members are requested to note that in so far as review carried out in terms of clause 41 of the Listing Agreement is concerned, the members are expected to submit their review report in accordance with the format prescribed by the Securities and Exchange Board of India in clause 41 of the Listing Agreement.

3. Audit in Situations of Missing or Incomplete Records***

- I. Members of the Institute while carrying out audit assignments might come across a situation where the records of the client are incomplete or destroyed (partially or completely) on account of a natural calamity or otherwise. While guidance on reporting responsibilities of the members in such cases has been provided to the members by way of publications such as Auditing and Assurance Standard (AAS) 28¹⁸, The Auditor's Report on Financial Statements", the Statement on Qualifications in Auditor's Report, opinions of the Expert Advisory Committee, and a publication titled, "Study on Audit and Certification in Case of Missing Records", issued by the Institute, the Council, for the benefit of the members, wishes to reiterate the guidance in the following paragraphs.
- II. The auditor should, first, obtain a representation from the management that the original accounts are not available for audit. The letter should also include the fact whether the accounts of the entity have been reconstructed by the management. If yes, the extent thereof (partial or complete) and the details of the items of financial statements that have been reconstructed should also be specified in the said letter. In case the accounts have been reconstructed, the members must consider the limitation of scope in audit imposed by the circumstances. Limitation on scope of audit can be of two types, firstly, inability of the management to reconstruct some or all of the items of the financial statements either for the whole financial year or for a certain period during the financial year and secondly, lack of corroborative evidence to support certain or all the entries in the reconstructed accounts. In case of completely reconstructed accounts, the lack of supporting evidence will pose a greater risk of limitation on scope, whereas, for partially reconstructed accounts, both types of limitations, i.e., inability of the management to reconstruct accounts and lack of supporting evidence, can be material. While auditing the reconstructed accounts (partial as well as complete), the auditor should analyse the limitation imposed on application of audit procedures required to be applied in the given situation and use his professional judgment to determine whether to issue an unqualified opinion, qualified opinion or disclaimer of

** Issued in July, 2005.

¹⁷ Now known as Standard on Review Engagements (SRE) 2400.

*** Issued in October, 2006.

¹⁸ Now known as Standard on Auditing (SA) 700.

opinion. Further, the fact of scope limitation must clearly be mentioned in the scope paragraph of the audit report. The AAS 28, "The Auditor's Report on Financial Statements", in its paragraphs 43 and 44 reproduced below, provides the guidance for the auditor in case of a scope limitation:

"43. A scope limitation may be imposed by circumstances, for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories. It may also arise when, in the opinion of the auditor, **the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed to be desirable. In these circumstances, the auditor would attempt to carry out reasonable alternative procedures to obtain sufficient appropriate audit evidence to support an unqualified opinion.** (emphasis added)

44. When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed."

- III. Guidance in respect of the matter discussed in the two paragraphs above has been explained in paragraph 45 of the AAS 28 by way of illustrative examples of the scope paragraphs in the audit reports in the cases of qualified opinion and disclaimer of opinion:

In situations of Qualified Opinion

"We have audited

Except as discussed in the following paragraph, we conducted our audit in accordance with

We did not observe the counting of the physical inventories as at 31st March 2XXX since that date was prior to the time we were appointed as auditors of(Name of the entity). Owing to the nature of the entity's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures."

In situations of Disclaimer of Opinion

"The paragraph discussing the scope of the audit would either be omitted or amended according to the circumstances. (emphasis added)

(Add a paragraph discussing the scope limitation as follows:)

We were not able to observe all physical inventories and confirm accounts receivable due to limitations placed on the scope of our work by the entity."

- IV. Paragraph 10 of AAS 13¹⁹, "Audit Materiality", reproduced below, states that the auditor while auditing the reconstructed accounts must consider the concept of materiality and the audit risk involved with specific account balances and classes of transactions:

"10. *There is an inverse relationship between materiality and the degree of audit risk, that is, the higher the materiality level, the lower the audit risk and vice versa. For example, the risk that a particular account balance or class of transactions could be misstated by an extremely large amount might be very low, but the risk that it could be misstated by an extremely small amount might be very high. The auditor takes the inverse relationship between materiality and audit risk into account when determining*

¹⁹ Now known as Standard on Auditing (SA) 320.

the nature, timing and extent of audit procedures. For example, if, after planning for specific audit procedures, the auditor determines that the acceptable materiality level is lower, audit risk is increased. The auditor would compensate for this by either:

- (a) reducing the assessed degree of control risk, where this is possible, and supporting the reduced degree by carrying out extended or additional tests of control; or*
- (b) reducing detection risk by modifying the nature, timing and extent of planned substantive procedures.”*

- V. While auditing the reconstructed accounts, since the auditor would normally find it difficult to obtain internally generated corroborative evidences supporting the reconstructed accounts, the auditor should apply alternative audit procedures such as inquiry and external confirmation as outlined in paragraphs 14 and 15 of the AAS 5²⁰, “Audit Evidence”, reproduced below:

“Inquiry and Confirmation

- 14. *Inquiry consists of seeking appropriate information from knowledgeable persons inside or outside the entity. Inquiries may range from formal written inquiries addressed to third parties to informal oral inquiries addressed to persons inside the entity. Responses to inquiries may provide the auditor with information which he did not previously possess or may provide him with corroborative evidence.*
- 15. *Confirmation consists of the response to an inquiry to corroborate information contained in the accounting records. For example, the auditor requests confirmation of receivables by direct communication with debtors.”*

For assessing the reliability of the evidence obtained by the auditor from various sources, the auditor is guided by the principles enunciated in paragraph 7 of AAS 5.

- VI. The auditor, if he himself was not the auditor in the immediately preceding financial year, must apply the principles laid down in AAS 22²¹, “Initial Engagements - Opening Balances” while verifying the figures of opening balances.
- VII. Paragraph 4 of the AAS 28, “The Auditor’s Report on Financial Statements”, provides that the auditor’s report should contain a clear written expression of opinion on the financial statements taken as a whole. An unqualified opinion can be expressed only if the auditor is able to satisfy himself, by way of application of sufficient appropriate compliance and substantive procedures, that the financial statements give a true and fair view. The scope limitation imposed by lack of supporting evidence implies a particular emphasis on obtaining alternative corroborative evidence. However, if the auditor concludes that an unqualified opinion can not be expressed but the limitation on scope is not so material and pervasive as to require a disclaimer of opinion, a qualified opinion should be expressed. Further, a disclaimer of opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and is, accordingly, unable to express an opinion on the financial statements. Paragraph 45 of AAS 28 illustrates the principles enunciated here above. Having regard to the above, two illustrative formats of reporting by the auditor are given in

²⁰ Now known as Standard on Auditing (SA) 500.

²¹ Now known as Standard on Auditing (SA) 510.

the paragraphs 8 and 10 below for guidance of the members.

VIII. Illustrative audit report where the auditor decides to express a qualified opinion about the true and fair view of the financial statements:

I. (Where accounts have been reconstructed for some or all of the items for the whole financial year)

“We have audited the attached Balance Sheet of (name of the client), as at 31st March 2XXX, and also the Profit and Loss Account and the cash flow statement for the year ended on that date annexed thereto. We have been informed by the management that because of ____ (give reason) _____ the original accounts are not available for audit and hence these financial statements have been prepared from the reconstructed accounts prepared by the management. The accounts as well as the financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit of the accounts.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have not been able to obtain corroborative audit evidence supporting following items of the financial statements while auditing the accounts of the entity:

(State the areas for which the corroborative evidences were not available along with their quantification, to the extent possible and also their resultant effect on the financial statements.)

Subject to the above, the financial statements give a true and fair view:

- (i) in the case of the balance sheet, of the state of the _____ (name of the client) affairs as at the end of its financial year;
- (ii) in the case of the profit and loss account, of the profit or loss for its financial year; and
- (iii) In the case of the cash flow statement, of the cash flows for the year ended on that date.”

(ii) (where accounts have been reconstructed only for certain period during the year)

“We have audited the attached Balance Sheet of (name of the client), as at 31st March 2XXX, and also the Profit and Loss Account and the cash flow statement for the year ended on that date annexed thereto. We have been informed by the management that because of ____ (give reason) _____ the original accounts are not available for audit and hence these financial statements have been prepared from the reconstructed accounts prepared by the management for the period from ____ to ____ during the financial year. The accounts as well as the financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit of the accounts.

(Other paragraphs shall be same as in the format given in Part I above.)

- IX. If the auditor is satisfied after obtaining a representation letter from the management and considering the results of sufficient appropriate audit procedures that the reconstruction of the accounts of the entity is not possible, he has no other option but to issue a disclaimer of opinion. The auditor should issue a report to the shareholders mentioning therein that it is not possible for him to express any opinion. The format of audit report to express disclaimer of opinion has been suggested in the following paragraph for guidance of the members.

- X. Illustrative audit report in situations where the reconstruction of the accounts is not possible:

“We were engaged to audit the Balance Sheet of (name of the client), as at 31st March 2XXX, and also the Profit and Loss Account and the cash flow statement for the year ended on that date. The financial statements are the responsibility of the company’s management. The management of _____(name of the client) has informed us that owing to _____ (state the reason for unavailability of records), the books of account and/ or other related records and documents of the _____ (name of the client) have been completely destroyed. The management has also informed us that the reconstruction of the accounts is also not possible.

Since we have not been able to examine the books of account as well as the financial statements of _____(name of the client), we are unable to form any opinion on the financial statements.”

- XI. Members’ attention is also invited to the opinion given by the Expert Advisory Committee in September 1988 in situation of an audit where the records etc., had been seized by the income tax authorities and released after four years and records were reconstructed for the interregnum. The Committee, apart from the opinion on the type of the opinion to be expressed by the auditor in such cases, has also opined that the auditor should not normally rely on the management’s certificate as to the opening balances unless the information therein can be corroborated by other supporting document.

4. Amendment to SQC 1 - Retention Period for Engagement Documentation* (Working Papers)

Paragraph 83 of the 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*, states as follows:

“83. *The needs of the firm for retention*

.....

.....

*In the specific case of audit engagements, the retention period ordinarily is **no shorter than ten years** from the date of the auditor’s report, or, if later, the date of the group auditor’s report.” (emphasis added)*

The Council of the Institute of Chartered Accountants of India, at its 289th meeting held on August 19, 2009 at New Delhi, pursuant to the provisions of Rule 12 of the Chartered Accountants (Procedures of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, has decided to amend paragraph 83 of the SQC 1 as follows:

* Issued in August, 2009.

“83. *The needs of the firm for retention*

.....
.....

*In the specific case of audit engagements, the retention period ordinarily is **no shorter than seven years** from the date of the auditor’s report, or, if later, the date of the group auditor’s report.” (emphasis added)*

5. Requirement to include the registration number of the firm as allotted by ICAI, in the audit reports signed by members of the ICAI*

The Council of the Institute of Chartered Accountants of India (ICAI), at its 292nd meeting held on January 13, 2010 has decided to require the members of the Institute of Chartered Accountants of India to:

- Include, in addition to the other requirements relating to signature on the audit report, as prescribed under the relevant Standard on Auditing, the registration number of the firm as allotted by ICAI, in the audit reports signed by them ; and
- Ensure that the resolution passed by the company regarding appointment of the statutory auditor of the company under section 224 of the Companies Act, 1956, also contain the registration number of the firm of the auditor(s) with the ICAI.
- These requirements would come into effect from April 1, 2010.

6. Amendment to SA 230- Retention Period for Engagement Documentation (Working Papers)**

Consequential Amendment to Audit Documentation Retention Period in Standard on Auditing (SA) 230, Audit Documentation

The Council of the Institute of Chartered Accountants of India had in August 2009, pursuant to the provisions of Rule 12 of the Chartered Accountants (Procedures of Investigations of Professional and Other Misconduct and Cases) Rules, 2007 had amended the audit documentation retention period appearing as ten years in paragraph 83 of Standard on Quality Control 1 to seven years.

As a consequence of the above decision of the Council, with the issuance of this announcement by the Auditing and Assurance Standards Board, the audit documentation retention period appearing as ten years in paragraph A23 of the Standard on Auditing (SA) 230, Audit Documentation, issued in January 2009, shall also stand amended to seven years.

7. Requirement to mention the firm registration number allotted by ICAI in all reports issued, including certificates, by members of the ICAI***

Attention of the members is invited to the announcement regarding requirement relating to mentioning the firm registration number in the audit reports and resolution passed by the company for appointment of statutory auditors, published on page 1312 of the February 2010 issue of the Journal.

The Council of the Institute of Chartered Accountants of India, in terms of the decision taken at the 296th meeting held in June 2010 has decided to extend the requirement to mention the firm registration number to all reports issued pursuant to any attestation engagement, including certificates, issued by

* Issued in January, 2010.

** Issued in May, 2010.

*** Issued in August, 2010.

the members as proprietor or/ partner in the said firm. The requirement shall apply where such firm registration number has been allotted by the Institute of Chartered Accountants of India.

The Council further decided to make this requirement effective for all attestation reports/ certificates issued on or after 1st October, 2010.

8. Manner of Reporting by the Auditors on Prudential Regulatory Treatment Prescribed by RBI In Respect of Pension and Gratuity Liability of Public Sector Banks*

1. As the members are aware, the Reserve Bank of India on 9th February 2011 had issued a circular (no. DBOD.BP.BC.80/21.04.018/2010-11) on *Re-opening of Pension Option to Employees of Public Sector Banks and Enhancement in Gratuity Limits – Prudential Regulatory Treatment*. In terms of the said circular, “the banks may take the following course of action in the matter:
 - a. The expenditure, as indicated in paragraph 2 above, may, if not fully charged to the Profit and Loss Account during the financial year 2010-11, be amortised over a period of five years {subject to (b) and (c) below} beginning with the financial year ending March 31, 2011 subject to a minimum of 1/5th of the total amount involved every year.
 - b. Consequent upon the introduction of International Financial Reporting Standards (IFRS) from April 1, 2013 for the banking industry as scheduled, the opening balance of reserves of banks will be reduced to the extent of the unamortised carry forward expenditure.
 - c. The unamortised expenditure carried forward as aforementioned shall not include any amounts relating to separated/retired employees.
 - d. Appropriate disclosures of the accounting policy followed in this regard may be made in the Notes to Accounts to the financial statements.
.....”
2. The Council of the Institute of Chartered Accountants of India at its 304th meeting held on 23rd March 2011 considered the prudential regulatory treatment prescribed by the Reserve Bank of India vide its above mentioned circular *vis a vis* the impact thereof on the auditor’s report since the said treatment is a departure from the requirements of the Accounting Standard (AS) 15, *Employee Benefits*.
3. On a consideration of the matter, the Council of the Institute decided that since the accounting treatment for such expenditure is prescribed under the prudential regulatory framework of the Regulator, the auditors need not qualify their audit report on account of this. The matter should, however, be brought out by the auditors in the audit report by way of an “Emphasis of Matter Paragraph” in accordance with the Standard on Audit (SA) 706, “*Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*”, provided the matter of departure from the requirements of AS 15 pursuant to the aforesaid circular of RBI is appropriately disclosed, with quantification, by the bank by way of the notes to the accounts in the financial statements.

* Issued in April, 2011.

4. An illustrative Emphasis of Matter Paragraph in the audit report is as follows:

“Emphasis of Matter

Without qualifying our opinion, we draw attention to Note X to the financial statements, which describes deferment of pension and gratuity liability of the bank to the extent of Rs. YYY pursuant to the exemption granted by the Reserve Bank of India to the public sector banks from of application of the provisions of Accounting Standard (AS) 15, Employee Benefits vide its circular no. DBOD. BP.BC/80/21.04.018/2010-11 on Re-opening of Pension Option to Employees of Public Sector Banks and Enhancement in Gratuity Limits – Prudential Regulatory Treatment.”

5. Members may note that the aforesaid disclosure in the Notes to the Accounts would normally include:

- Quantification of the actual amount of pension liability arising on account of exercise of the pension option by the employees of the bank who had not opted for pension earlier;
- Quantification of the actual amount of additional liability arising on account of the amendment to the Payment of Gratuity Act, 1972; and
- Impact on the financial statements of application of the provisions of AS 15 in the given circumstances had such circular not been issued by RBI.

An illustrative Note to Accounts in this regard is as follows:

“During the year, the Bank reopened the pension option for such of its employees who had not opted for the pension scheme earlier. As a result of exercise of which by BBB (number of employees), the bank has incurred a liability of Rs. XXX. Further, during the year, the limit of gratuity payable to the employees of the banks was also enhanced pursuant to the amendment to the Payment of Gratuity Act, 1972. As a result the gratuity liability of the Bank has increased by Rs. ZZZ.

In terms of the requirements of the Accounting Standard (AS) 15, Employee Benefits, the entire amount of Rs. AAA (ie. Rs. XXX + Rs. ZZZ) is required to be charged to the Profit and Loss Account. However, the Reserve Bank of India has issued a circular no. DBOD.BP.BC.80/21.04.018/2010-11) on Re-opening of Pension Option to Employees of Public Sector Banks and Enhancement in Gratuity Limits – Prudential Regulatory Treatment, dated 9th February 2011. In accordance with the provisions of the said Circular, the Bank would amortise the amount of Rs. AAA over a period of five years. Accordingly, Rs. CCC (representing one-fifth²² of Rs. AAA) has been charged to the Profit and Loss Account. In terms of the requirements of the aforesaid RBI circular, the balance amount carried forward, ie., Rs. YYY (Rs. AAA – Rs. CCC) does not include any employees relating to separated/ retired employees.

Had such a circular not been issued by the RBI, the profit of the bank would have been lower by Rs. YYY pursuant to application of the requirements of AS 15.”

²² The said RBI circular requires that the amount of amortisation should be at least one-fifth of the total amount involved every year.

9. Compliance with Paragraphs 61 and 62 of the Standard on Review Engagements (SRE) 2410*

1. The Council of the Institute of Chartered Accountants of India, at its 308th meeting, considered an issue relating to difficulties being faced by the members of the Institute in compliance with paragraphs 61 and 62 of the SRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, raised by the Auditing and Assurance Standards Board of the Institute.
2. The Council noted that paragraphs 61 and 62 of SRE 2410 require as under:

“61. The terms of the engagement include management’s agreement that where any document containing interim financial information indicates that such information has been reviewed by the entity’s auditor, the review report will also be included in the document. If management has not included the review report in the document, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances.

62. If the auditor has issued a modified review report and management issues the interim financial information without including the modified review report in the document containing the interim financial information, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial statements.”
3. The Council noted that a number of entities were publishing interim financial results with a declaration that the “results have been approved by the Board of Directors at its meeting held on xxxxx and have been subjected to limited review by the statutory auditors.” The companies, however, were not publishing the review report along with such published results. Accordingly, it was either that the auditors had not obtained an agreement with the management that they would publish the review report along with the reviewed results or that despite the said agreement, the management had not complied therewith. The Council noted that in the latter cases, the auditor would be penalised under the requirements of SRE 2410 even when the default/ breach had been committed by the management.
4. The Council was of the view that it is not practically feasible for the auditor to ensure that every document released by the management containing the interim financial information indicating that such information has been reviewed by the entity’s auditor, the review report has been included in the said document.
5. On a consideration of the matter, the Council is of the opinion that paragraphs 61 and 62 did not envisage the auditor to take steps to ensure that on every occasion when the review results were published by the management, it also published the review report therewith. The responsibility of the auditor was upto issuance of the review report on the results, at most till the time the interim results, along with the review report, were filed by the company with the concerned stock exchange. Further, since such filing led to the concerned interim results and the review report thereon becoming available in the public domain, the same would be construed as sufficient compliance by the auditor with the requirements of paragraphs 61 and 62 of SRE 2410.

* Issued in October, 2011.

6. The Council, however, felt that if, subsequent to the issuance of the review report, the auditor became aware of situations where the management had not published the review report especially where the review report contained auditor's reservations, he would need to bring the same to the attention of the management and, if considered necessary, take legal advice.

10. Statutory Auditor's Reporting Responsibilities in Respect of Depositing of Cess Pursuant to Clause 4(ix)(a) of the Companies (Auditor's Report) Order, 2003 and Section 227(3)(g) of the Companies Act, 1956*

1. The Council of the Institute, at its 312th meeting held on December 25 - 27, 2011, noted that paragraph 4(ix)(a) of the Companies (Auditor's Report) Order, 2003 required the statutory auditor to report on the matter relating to regularity of the company in depositing undisputed statutory dues as follows:

"Is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.[Paragraph 4(ix)(a)]"

2. The Council also noted that paragraph 63(g) of the Statement on the Companies (Auditor's Report) Order, 2003, issued by the Institute of Chartered Accountants of India states as follows:

*It may be noted that at present, no Rules relating to the amount of cess for rehabilitation or revival or protection of assets of sick industrial companies, payable by a company under section 441A of the Act have been notified by the Central Government. Thus, it would not be possible for the auditor to comment on the regularity or otherwise about the cess till the time relevant rules or regulations are issued. **However, till the time such Rules are prescribed, the auditor should also state in his report under this clause that the Government has not notified any Rules under section 441A of the Companies Act, 1956 and, therefore, the auditor is unable to comment on this particular issue.** (emphasis added)*

3. The Council noted that till date the Central Government had not notified the effective date of section 441A of the Companies Act, 1956. Consequently, no Rules thereunder had also been prescribed by the Central Government. Accordingly, there was no question of reporting thereon under the Companies (Auditor's Report) Order, 2003. The Council, therefore, decided that in view of the aforementioned situation, the statutory auditor need not report in respect of cess payable under section 441A of the Companies Act, 1956 as envisaged under paragraph 63(g) of the Statement on the Companies (Auditor's Report) Order, 2003. The Council, therefore, decided to modify paragraph 63(g) of the said Statement as follows:

"It may be noted that at present, no Rules relating to the amount of cess for rehabilitation or revival or protection of assets of sick industrial companies, payable by a company under section 441A of the Act have been notified by the

* Issued in January, 2012.

Central Government. Thus, it would not be possible for the auditor to comment on the regularity or otherwise about the cess till the time relevant rules or regulations are issued. ~~However, till the time such Rules are prescribed, the auditor should also state in his report under this clause that the Government has not notified any Rules under section 441A of the Companies Act, 1956 and, therefore, the auditor is unable to comment on this particular issue.~~ However, till the time such Rules are prescribed, the auditor need not make any comment in respect of the Cess under section 441A of the Companies Act, 1956 in his report under paragraph 4(ix)(a) of CARO 2003.

4. The Council, incidentally, also noted that section 227(3)(g) of the Companies Act, 1956 required the statutory auditor's report to state, "Whether the cess payable under section 441A has been paid and if not, the details of amount of cess not so paid." It was also noted that the operative date of even section 227(3)(g) had not yet been notified by the Central Government.
5. Accordingly, as a corollary to the Council's views on auditor's reporting responsibilities on cess under section 441A of the Companies Act, 1956, pursuant to clause 4(ix)(a) of CARO, 2003, the Council was of the view that the statutory auditor's report need not contain any comment on section 227(3)(g) of the Companies Act, 1956.

11. Important Announcement on revised Effective Date/ Applicability of three Standards on Auditing, namely:*

- SA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements";
- SA 705, "Modifications to the Opinion in the Independent Auditor's Report";
- SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"

During the last few weeks, the President and Vice-President, during their interaction with members especially statutory central and branch auditors of banks, business community and Council Members, have been urged that concerted efforts be made by the Institute by way of regular CPE and other programmes to familiarise the practicing members with the requirements of the following three Standards on Auditing namely:

- SA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements";
- SA 705, "Modifications to the Opinion in the Independent Auditor's Report";
- SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"

which were issued in 2010 to be effective/applicable for audits of financial statements for the periods beginning on or after 1.4.2011 and only after ensuring adequate education, publicity and familiarization, the said standards, be made mandatory.

The above concerns were shared by the President and Vice-President among other Council colleagues and thereafter based on the view emerged, the President directed the office to circulate a proposal, under Regulation 165, among Council Members for taking a decision on postponement by one year of the applicability of aforementioned Standards on Auditing.

Accordingly, a proposal for postponement by one year of the effective date/applicability of the

* Issued in April, 2012.

above mentioned three Standards on Auditing was circulated among Council Members for taking a decision in the matter, in accordance with the applicable provisions of Regulation 165 of the Chartered Accountants Regulations 1988. The decision so taken by the Council is as follows:

“The Council, in partial modification of the decision taken by it at its 291st meeting held in December, 2009, decided that the effective date/applicability of the following Standards on Auditing –

- a) SA 700 (Revised), “Forming an Opinion and Reporting on Financial Statements”;
- b) SA 705, “Modifications to the Opinion in the Independent Auditor’s Report”;
- c) SA 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”

be postponed by one year and consequently the said Standards shall now be effective/applicable for audits of financial statements for periods beginning on or after 1st April, 2012 (instead of audits of financial statements for periods beginning on or after 1st April, 2011 as was earlier decided and referred to above).

The suggestion of some members on issue of suitable clarification in respect of those members who have since issued the audit reports in consonance with the said Standards i.e. under new format, shall be brought before the Council at its next meeting for addressing the same appropriately.”

This is for information and compliance of all concerned.

12. Manner of Reporting by the Statutory Auditors on Accounting for Liabilities Arising on Dismantling of Indian Motor Third Party Insurance Pool (IMTPIP) Prescribed by IRDA*

1. As the members are aware, the Insurance Regulatory and Development Authority (IRDA) had *vide* its Order No. IRDA/NL/ORD/MPL/277/12/2011 dated 23rd December 2011 had directed the dismantling of the Indian Motor Third Party Insurance Pool (IMTPIP) with effect from 31st March 2012.
2. Subsequently, *vide* its Order No. IRDA/F&A/ORD/MTPP/070/03-2012 dated 22nd March 2012, in exercise of its powers under section 34 of the Insurance Act, 1938, prescribed, *inter alia*, the following accounting treatment in respect of the “transitional liabilities” relating to the financial years 2009-10, 2010-11 and 2011-12, arising on account of such dismantling as follows:

“3. The IMPTPIP liabilities upon estimation/re-estimation of actuarially determined liabilities relating to the financial years (accounting years as the practice is) 2009-10, 2010-11 and 2011-12 following the dismantling of the IMTPIP shall be determined and such determined liabilities (Transitional Liabilities) shall be recognized by insurers by making an irrevocable choice to recognize the said transitional liabilities:

- a. *Immediately in the financial year ending March, 2012; or*
- b. *As an expense on a straight-line basis over upto the three years beginning with the financial year ending March, 31, 2012.*
- c. *An insurer opting for (b) above, shall:*

* Issued in May, 2012.

- (i) *Disclose at the end of each financial year the amount of transitional liabilities that remains unrecognized; and the amount recognized in the financial year; and*
 - (ii) *Shall ensure that the expense to be recognized in subsequent years shall not be less than the expense that shall fall due on a straight-line basis; and*
 - (iii) *In case the actual liability in respect of past years i.e. underwriting years until March, 31, 2012 being more than the amount on straight-line basis, such additional liabilities shall be recognized in full, in addition to the amount falling due for recognition on straight-line basis."*
3. The Council of the Institute of Chartered Accountants of India at its 316th meeting held from 15th to 17th May 2012 considered the accounting treatment prescribed under paragraph 3(b) of the above mentioned Order of IRDA *vis a vis* the impact thereof on the auditor's report since non-recognition of the said liability where an insurer exercises the option under paragraph 3(b) is not in accordance with accounting principles generally accepted in India.
4. On a consideration of the matter, the Council of the Institute noted that the aforesaid accounting treatment has been prescribed by the IRDA in exercise of its powers under section 34 of the Insurance Act, 1938. Accordingly, the statutory auditors need not qualify their audit report on account of such accounting treatment followed by the insurance company. The matter should, however, be brought out by the auditors in the audit report by way of an "Emphasis of Matter Paragraph" in accordance with the Standard on Audit (SA) 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report, provided the non-recognition of the said liability pursuant to the aforesaid order of IRDA is appropriately disclosed, with quantification, by the insurer by way of the notes to the accounts in the financial statements.
5. An illustrative Emphasis of Matter Paragraph in the audit report is as follows:

"Emphasis of Matter Without qualifying our opinion, we draw attention to Note X to the financial statements, which describes deferment of the liability on dismantling of the Indian Motor Third Party Insurance Pool by the Company to the extent of Rs. YYY pursuant to the exercise of the option for the accounting treatment for the same prescribed under paragraph 3(b) of Insurance Regulatory and Development Authority Order no. IRDA/F&A/ORD/MTAP/070/03/2012 dated 22nd March 2012. "
6. Members may note that the aforesaid disclosure in the Notes to the Accounts would normally include.
 - Quantification of the actual amount of the total liability on dismantling.
 - amount of transitional liabilities that remains unrecognized; and
 - the amount recognized in the financial year;
7. Further, pursuant to dismantling of the IMTPIP by the IRDA, the insurance company's accounting policy for recognition of liability incurred by it in respect of third party risks of specified commercial motor vehicles (specified risks) would also undergo a change. Accordingly, the Company would also need to appropriately disclose such change in accounting policy in its Notes to Accounts. An illustrative disclosure in this respect is this regard is also given below.

8. An illustrative Notes to Accounts in respect of treatment of liability arising on account of dismantling of IMTPIP for the financial years 2007-08 and 2008-09 and the transitional liability in respect of the financial years 2009-10, 2010-11 and 2011-12 is as follows:

“During the year, the Insurance Regulatory and Development Authority *vide* its Orders No. IRDA/NL/ORD/MPL/277/ 12/2011 dated 23rd December 2011 directed the dismantling of the Indian Motor Third Party Insurance Pool (IMTPIP).

Subsequently, the IRDA *vide its Order* No. IRDA/F&A/ORD/ MTPP/070/03-2012 dated 22nd March 2012, in exercise of its powers under section 34 of the Insurance Act, 1938, prescribed, the following accounting treatment in respect of the liability arising on account of the dismantling of the IMTPIP:

“2. The additional IMPTPIP liabilities upon re-estimation of actuarially determined liabilities relating to underwriting years 2007-08 and 2008-09 shall be accounted for and recognized in full in the financial year ending March 31, 2012 itself. The Pool Manager shall quantify the liability in respect of each insurer for this purpose.

3. The IMPTPIP liabilities upon estimation/re-estimation of actuarially determined liabilities relating to the financial years (accounting years as the practice is) 2009-10, 2010-11 and 2011-12 following the dismantling of the IMTPIP shall be determined and such determined liabilities (Transitional Liabilities) shall be recognized by insurers by making an irrevocable choice to recognize the said transitional liabilities:

- (a) *Immediately in the financial year ending March, 2012; or*
 (b) *As an expense on a straight-line basis over upto the three years beginning with the financial year ending March, 31, 2012.”*

As a result of dismantling of the IMTPIP, the Company has incurred the following liability:

2007 – 08	:	Rs. DDD	(as quantified by the Pool Manager)
2008 – 09	:	Rs. GGG	(as quantified by the Pool Manager)
Total		(A): Rs. JJJ	

Transitional Liability

2009-10	:	Rs. PPP
2010-11	:	Rs. QQQ
2011-12	:	Rs. TTT
Total Transitional liability (B):		Rs. AAA

TOTAL LIABILITY ON ACCOUNT

OF DISMANTLING (A) + (B) : Rs. HHH

Accordingly, in terms of the requirements of paragraph 2 of IRDA’s Order of 22nd March 2012, an amount of Rs. JJJ has been charged to the Profit and Loss Account for the current financial year ended 31st March 2012.

Further, the Company has decided to exercise the option given under paragraph 3(b) of the aforesaid Order of IRDA in respect of the accounting treatment of

Transitional Liability amounting to Rs. AAA and, thus, would amortize the amount of Rs. AAA over a period of three years. Accordingly, Rs. CCC (representing one-third of Rs. AAA) has been charged to the Profit and Loss Account for this financial year. Further, in terms of the requirements of paragraphs 3(b) and (c) of the aforesaid Order of IRDA, the balance amount carried forward is Rs. YYY (Rs. AAA – Rs. CCC).

Had the Company chosen to exercise the option given under paragraph 3(a) of the aforesaid Order of the IRDA, the Company would have been required to recognise the entire amount of Transitional Liability of Rs. AAA in its Profit and Loss Account for the year 2011-12. Accordingly, the profit of the company would have been lower by Rs. YYY pursuant to recognition of the said liability in the year of dismantling of IMTPIP.”

9. An illustrative Notes to Account in respect of change in the accounting policy in respect of third party risks of specified commercial motor vehicles is as follows:

“Till the financial year 2010-11, the Company had the following accounting policy in respect of respect of third party risks of specified commercial motor vehicles (specified risks):

(state the policy hitherto being followed by the company)

Pursuant to the dismantling of the IMTPIP by the IRDA with effect from 31st March 2012, with effect from 1st April, 2012, it would not be possible for the Company to transfer the risks incurred by it on account of third party risks of specified commercial motor vehicles by way of reinsurance of same through IMTPIP. Accordingly, the Company would be required to provide for the entire amount of related liability and also recognize the entire amount of other related expenditure in the financial statements of the relevant financial year.”

D. List of Mandatory Statements and Standards on Auditing

I. List of Statements on Auditing as on 01.07.2013

1. Statement on the Companies (Auditor's Report) Order, 2003 (Revised 2005).²³
2. Statement on Reporting under section 227 (1A) of the Companies Act, 1956²⁴.

II. List of Engagement and Quality Control Standards as on 01.07.2013

Quality Control						
Standard Number (SQC) (1-99)	Standards on Quality Control (SQC)	Published in Journal	Date from which effective			
			April 1, 2008	April 1, 2009	April 1, 2010	April 1, 2011
1	Quality Control for Firms that	October		✓		

²³ Issued in April, 2004 pursuant to the issuance of the Companies (Auditor's Report) Order, 2003. The revised edition issued in April 2005 pursuant to the issuance of the Companies (Auditor's Report) (Amendment) Order, 2004.

²⁴ The Council, at its 269th meeting held from July 18, 2007 to July 20, 2007, decided to withdraw the Statement on Qualifications in Auditor's Report except paragraphs 2.1 to 2.30 dealing with reporting under section 227 (1A) of the Companies Act, 1956 and to rename the Statement as 'Statement on Reporting under section 227 (1A) of the Companies Act, 1956'.

20 Auditing Pronouncements

	Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	2007				
Audits and Reviews of Historical Financial Information						
Standard Number (SA) (100-999)	Standards on Auditing (SAs)		Date from which effective			
			April 1, 2008	April 1, 2009	April 1, 2010	April 1, 2011
100-199	Introductory Matters					
200-299	General Principles and Responsibilities					
200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	March 2010			✓	
210	Agreeing the Terms of Audit Engagements	September 2009			✓	
220	Quality Control for an Audit of Financial Statements	March 2010			✓	
230	Audit Documentation	January 2009		✓		
240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	December 2007		✓		
250	Consideration of Laws and Regulations in an Audit of Financial Statements	December 2008		✓		
260	Communication with Those Charged with Governance	December 2008		✓		
265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	December 2009			✓	
299	Responsibility of Joint Auditors		Effective for all audits related to accounting periods beginning on or after April 1, 1996			
300-499	Risk Assessment and Response to Assessed Risks					
300	Planning an Audit of Financial Statements	December 2007	✓			

315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment	February 2008	✓			
320	Materiality in Planning and Performing an Audit	August 2009			✓	
330	The Auditor's Responses to Assessed Risks	February 2008	✓			
402	Audit Considerations Relating to an Entity Using a Service Organisation	August 2009			✓	
450	Evaluation of Misstatements Identified during the Audit	August 2009			✓	
500-599	Audit Evidence					
500	Audit Evidence	April 2009		✓		
501	Audit Evidence - Specific Considerations for Selected Items	March 2010			✓	
505	External Confirmations	March 2010			✓	
510	Initial Audit Engagements—Opening Balances	March 2009			✓	
520	Analytical Procedures	March 2010			✓	
530	Audit Sampling	February 2009		✓		
540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	February 2009		✓		
550	Related Parties	March 2009			✓	
560	Subsequent Events	January 2009		✓		
570	Going Concern	December 2008		✓		
580	Written Representations	October 2008		✓		
600-699	Using Work of Others					
600	Using the Work of Another Auditor		Effective for all audits related to accounting periods beginning on or after April 1, 2002			
610	Using the Work of Internal Auditors	August 2009			✓	

22 Auditing Pronouncements

620	Using the Work of an Auditor's Expert	March 2010			✓	
700-799	Audit Conclusions and Reporting					
700*	Forming an Opinion and Reporting on Financial Statements	February 2010				✓
705*	Modifications to the Opinion in the Independent Auditor's Report	February 2010				✓
706*	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	February 2010				✓
710	Comparative Information - Corresponding Figures and Comparative Financial Statements	April 2010				✓
720	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements	April 2009			✓	
800-899	Specialized Areas					
800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks	April 2010				✓
805	Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	April 2010				✓
810	Engagements to Report on Summary Financial Statements	April 2010				✓

* The Council of the ICAI, in partial modification of the decision taken by it at its 291st meeting held in December 2009, has decided that the effective date/applicability of the three standards viz SA 700 (Revised), SA 705 and SA 706 be postponed by one year and consequently the said Standards shall now be effective/applicable for audits of financial statements for periods beginning on or after 1st April, 2012 (instead of audits of financial statements for periods beginning on or after 1st April, 2011 as was earlier decided). The complete text of the Announcement is published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

Standard Number (SRE) (2000-2699)	Standards on Review Engagements (SREs)	Published in Journal	Date from which effective			
			April 1, 2008	April 1, 2009	April 1, 2010	April 1, 2011
2400	Engagements to Review Financial Statements	May 2010			✓	
2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	May 2010			✓	
Assurance Engagements Other Than Audits or Reviews of Historical Financial Information						
Standard Number (SAE) (3000-3699)	Standards on Assurance Engagements (SAEs)	Published in Journal	Date from which effective			
			April 1, 2008	April 1, 2009	April 1, 2010	April 1, 2011
3000-3399	Applicable to all Assurance Engagements					
3400-3699	Subject Specific Standards					
3400	The Examination of Prospective Financial Information		Effective in relation to reports on projections/ forecasts, issued on or after April 1, 2007			
3402	Assurance Reports on Controls at a Service Organisation	April 2011				✓
Related Services						
Standard Number (SRS) (4000-4699)	Standards on Related Services (SRSs)	Published in Journal	Date from which effective			
			April 1, 2008	April 1, 2009	April 1, 2010	April 1, 2011
4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information		Applicable to all agreed upon procedures engagements beginning on or after April 1, 2004			
4410	Engagements to Compile Financial Information		Applicable to all compilation engagements beginning on or after April 1, 2004			