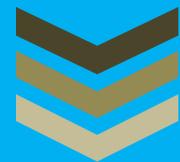


Referencer for Quick Revision



Final Course Paper-3: Advanced Auditing and Professional Ethics

A compendium of subject-wise capsules published in the
monthly journal "The Chartered Accountant Student"



**Board of Studies
(Academic)
ICAI**

INDEX

Page No.	Edition of Students' Journal	Topics
1-4	September 2018	<i>Internal Audit, Management Audit and Operational Audit</i>
5-6	September 2018	<i>Due Diligence</i>
7-9	September 2018	<i>Investigation</i>
10-15	September 2018	<i>Professional Ethics</i>
16-21	September 2018	<i>The Auditor's Report on Financial Statements</i>
22-25	November 2018	<i>Audit of Public Sector Undertakings</i>
25-27	November 2018	<i>Peer Review</i>
28-36	March 2019	<i>Audit of Consolidated Financial Statements</i>
37-44	March 2019	<i>Audit under Fiscal Laws</i>
45-47	March 2019	<i>Liabilities of Auditor</i>
48-60	July 2020	<i>Audit Committee and Corporate Governance</i>
61	June 2021	<i>Engagement & Quality Control Standards</i>
62-69	June 2021	<i>SA 200-299: General Principles and Responsibilities</i>
70-75	January 2021	<i>SA 300-499: Risk Assessment and Response to Assessed Risks</i>
76-82	January 2021	<i>SA 500-599: Audit Evidence</i>
83-84	January 2021	<i>SA 600-699: Using Work of Others</i>
85-88	June 2021	<i>SA 700-799: Audit Conclusions and Reporting</i>

ADVANCED AUDITING AND PROFESSIONAL ETHICS

FINAL NEW COURSE PAPER 3- ADVANCED AUDITING AND PROFESSIONAL ETHICS: A CAPSULE FOR QUICK REVISION

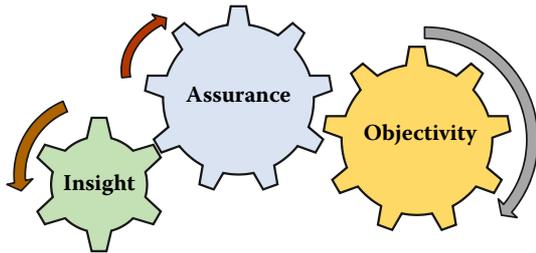
It has always been the endeavour of Board of Studies to provide quality academic inputs to the students of Chartered Accountancy Course.

Keeping in mind this objective, BoS has decided to come out with a Crisp & Concise Capsule of each subject to facilitate students in quick revision before examination.

This series of capsules is on Paper 3: Advanced Auditing & Professional Ethics of Final Course. It may be mentioned that this capsule is a tool for quick revision of some significant areas of Auditing subject, this should not be taken as a substitute for the detailed study of the subject. Students are advised to refer to the relevant Study Material and RTP for comprehensive study & revision.

CHAPTER 17 INTERNAL AUDIT, MANAGEMENT AUDIT AND OPERATIONAL AUDIT

Internal Audit



As defined in scope of the Standards on Internal Audit, Internal Audit means “an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system”.

Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in Rule 13 of Companies(Accounts) Rules, 2014) shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely-

(a) every listed company;

(b) every unlisted public company having-
(i) paid up share capital of **fifty crore rupees or more** during the preceding financial year; or
(ii) turnover of **two hundred crore rupees or more** during the preceding financial year; or

(iii) outstanding loans or borrowings from banks or public financial institutions exceeding **one hundred crore rupees or more** at any point of time during the preceding financial year; or
(iv) outstanding deposits of **twenty five crore rupees or more** at any point of time during the preceding financial year; and

(c) every private company having-
(i) turnover of **two hundred crore rupees or more** during the preceding financial year; or

(ii) outstanding loans or borrowings from banks or public financial institutions exceeding **one hundred crore rupees or more** at any point of time during the preceding financial year.

Who can be Appointed as Internal Auditor: The internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies. The internal auditor may or may not be an employee of the company.

His main responsibility, however, must be

to maintain adequate system of internal control by a continuous examination of accounting procedures, receipts and disbursements and to provide adequate safeguards against misappropriation of assets.

to observe independently accounting staff and must not in any way divest himself of any of the responsibilities placed upon him.

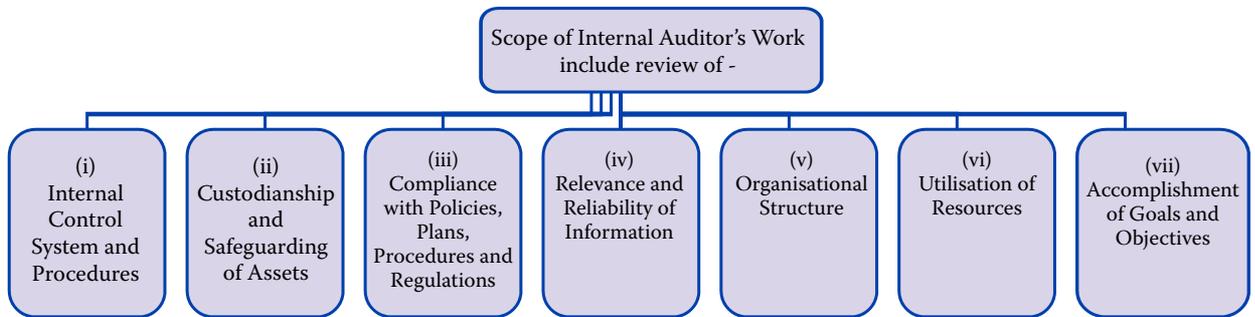
Not to involve himself in the performance of executive functions in order that his objective outlook does not get obscured by the creation of vested interest.

to observe facts and situations and bring them to notice of authorities who would otherwise never know them; also, they critically appraise various policies of the management and draw its attention to any deficiencies, wherever these require to be corrected.

to associate closely with management and his knowledge must be kept up to date by his being kept informed about all important occurrences and events affecting the business, as well as the changes that are made in business policies. He must enjoy an independent status.

In addition, the Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit. It may also be noted that the Central Government may, by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.

ADVANCED AUDITING AND PROFESSIONAL ETHICS ||



The internal auditor should

1. Be straightforward, honest and sincere in his approach to his professional work;
2. Be fair and must not allow prejudice or bias to override his objectivity;
3. Should maintain an impartial attitude. He should not only be independent in fact but also appear to be independent.
4. The internal auditor should not, therefore, to the extent possible, undertake activities, which are or might appear to be incompatible with his independence and objectivity.

Qualifications of Internal Auditor (IA)

1. The internal auditor (IA) should have the special expertise necessary for evaluating management control systems, especially financial and accounting controls.
2. Accounting and finance functions provide basic data for management control of an enterprise. Therefore the IA must have accounting and financial expertise to be able to discharge his duties.
3. The IA is also expected to evaluate operational performance and non-monetary, operational controls. This requires a basic knowledge of the technology and commercial practices of the enterprise.
4. He should also have a basic knowledge of commerce, laws, taxation, cost accounting, economics, quantitative methods and EDP systems.
5. An understanding of management principles and techniques is another essential qualification of an IA as also the ability to deal with people.
6. By his conduct the IA should provide an assurance to the management that confidentiality of such information would be maintained.

Basic Elements of the Internal Audit Report: As per Standard on Internal Audit (SIA) 4 the internal auditor's report includes the following basic elements, ordinarily, in the following layout:

- (a) Title;
- (b) Addressee;
- (c) Report Distribution List;
- (d) Period of coverage of the Report;

- (e) Opening or introductory paragraph;
 - (i) identification of the processes/functions and items of financial statements audited; and
 - (ii) a statement of the responsibility of the entity's management and the responsibility of the internal auditor;
- (f) Objectives paragraph - statement of the objectives and scope of the internal audit engagement;
- (g) Scope paragraph (describing the nature of an internal audit):
 - (i) a reference to the generally accepted audit procedures in India, as applicable;
 - (ii) a description of the engagement background and the methodology of the internal audit together with procedures performed by the internal auditor; and
 - (iii) a description of the population and the sampling technique used.
- (h) Executive Summary, highlighting the key material issues, observations, control weaknesses and exceptions;
- (i) Observations, findings and recommendations made by the internal auditor;
- (j) Comments from the local management;
- (k) Action Taken Report – Action taken/ not taken pursuant to the observations made in the previous internal audit reports;
- (l) Date of the report;
- (m) Place of signature; and
- (n) Internal auditor's signature with Membership Number.

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used - Evaluating the Internal Audit Function:

Evaluation of IA Function includes:

- Appraisal activity.
- Examining / Evaluating/ Monitoring adequacy / effectiveness of internal controls.

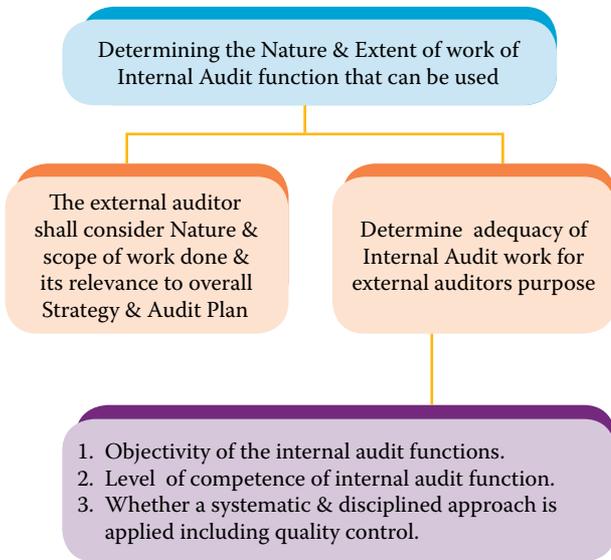
Scope of IA Function

- Monitoring Internal controls.
- Examination of financial & Operating functions.
- Review of regulatory Laws & Compliances.

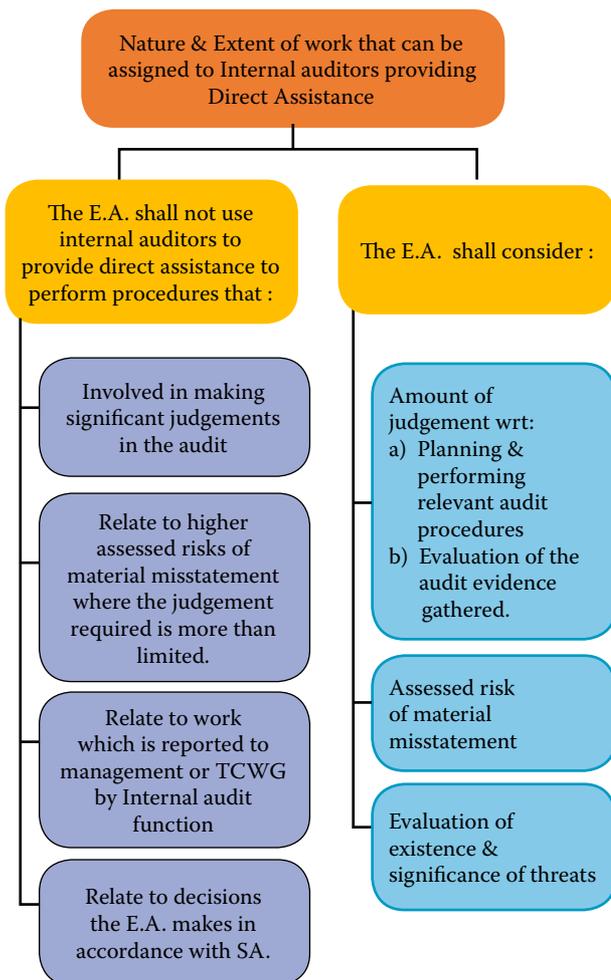
Objective of Evaluation of IA Function

- Assurance to management.
- Evaluate & improve the effectiveness of Risk management.

ADVANCED AUDITING AND PROFESSIONAL ETHICS



Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance



* EA = External Auditor
IA = Internal Auditor

If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:

- The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;
- The basis for the decision regarding the nature and extent of the work performed by the internal auditors;
- Who reviewed the work performed and the date and extent of that review in accordance with SA 230 Audit Documentation;
- The written agreements obtained from an authorised representative of the entity and the internal auditors; and
- The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

Finally, a review of the internal audit function in specified companies has become a statutory responsibility for the statutory auditor.

Management Audit: "In a management audit, the auditor will look to see whether management is getting information relevant to the decisions and actions which it must take. This will require a much more intensive analysis of information needs and the efficiency of the existing system in meeting them. The auditor will not have to decide whether management is making the right strategic and operative decisions but rather whether management has available to it and is using the relevant information and techniques necessary to evaluate rationally the various alternatives that exist".

Organising the Management Audit

- Devising the statement of policy
- Location of audit function within the organisation
- Allocation of personnel
- Staff training programme
- Time and other aspects
- Frequency

Brief Steps w.r.t Audit Report

Planning the Audit Report	Supporting information	Preparing draft report	Writing and issuing the final report	Follow-up of the audit report	Action / Response of Management on Audit Report
Before starting the report, the auditor should ask himself, "What do I want to tell the reader about this audit? The answer will enable him to communicate effectively."	The management auditor should supplement his report by such documents and data which adequately and convincingly support the conclusions. Supporting information may include the relevant standards or regulations.	Before writing the final report, the auditor should prepare a draft report.	The final report should be written only when the auditor is completely satisfied with the draft report.	The management auditor should review whether follow-up action is taken by management on the basis of his report. If no action is taken within a reasonable time, he should draw management's attention to it.	Where management has not acted upon his suggestions or not implemented his recommendations, the auditor should ascertain the reasons therefor.

Operational Audit : Operational auditing is a systematic process involving logical, structured and organised series of procedures.

Qualities of Operational Auditor

1. In areas beyond accounting and finance, his knowledge ordinarily would be rather scanty and this is a reason which should make him even more inquisitive.
2. He should ask the who, why, how of everything.
3. He should try to see everything as to whether that properly fits in the business frame and organisational policy. He should be persistent and should possess an attitude of skepticism.
4. He should not give up or feel satisfied easily. He should imbibe a constructive approach rather than a fault-finding approach.
5. If the auditor succeeds in giving a feeling of help and assistance through constructive criticism, he will be able to obtain co-operation of the persons who are involved in the operations.

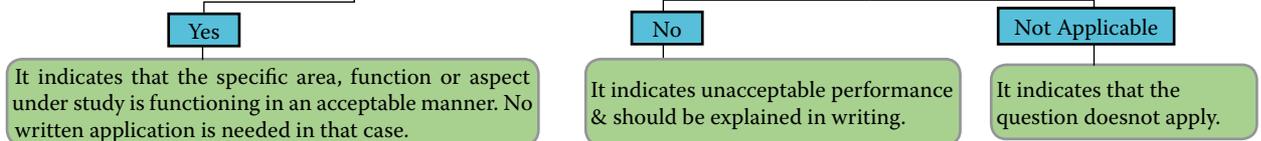
Type of Operational Audits

Functional Audits	Functions are a means of categorising the activities of a business, such as the billing function or production function. There are many ways to categorise and subdivide functions. A functional audit has the advantage of permitting specialisation by auditors.	Objectives of Operational Audit <ul style="list-style-type: none"> Appraisal of Controls Evaluation of Performance Appraisal of Objectives and Plans Appraisal of Organisational Structure 	(i) Is the organisational structure in conformity with management objectives?
Organisational Audits	An operational audit of an organisation deals with an entire organisational unit, such as a department, branch, or subsidiary.		(ii) Whether the organisational structure is drawn up on the basis of matching of responsibility and authority?
Special Assignments	In operational auditing, special assignments arise at the request of management. There are a wide variety of such audits.		(iii) Whether the line of responsibility from the top to the bottom is clearly discernible from the structure?
			(iv) Whether the delegation of responsibility and authority at each stage is clear and overlapping are avoided?

Management Audit Questionnaire: A management audit questionnaire is an important tool for conducting the management audit. It is through these questionnaires that the auditors make an inquiry into important facts by measuring current performance. Such questionnaires aim at a comprehensive and constructive examination of an organisation's management and its assigned tasks.

Management Audit Questionnaire

Its primary objective is to highlight weaknesses and deficiencies of the organisation. It includes a review of how well or badly the management functions of planning, organising, directing and controlling are being performed. The questionnaire provides a means for evaluating an organisation's ongoing operations by examining its major functional areas. There are three possible answers to the management audit questions



Thus, management audit questionnaire for this part of the audit not only serves as a management tool to analyse the current situation; more importantly, it enables the management auditors to synthesise those elements that are causing organisational difficulties and deficiencies.

CHAPTER 18 DUE DILIGENCE INVESTIGATION AND FORENSIC AUDIT

UNIT 1 -DUE DILIGENCE

Due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business opportunity. It involves review of financial and non-financial records as deemed relevant and material.



There are many reasons for carrying out due diligence including:

- To confirm that the business is what it appears to be;
- To identify potential 'deal killer' defects in the target and avoid a bad business transaction;
- To gain information that will be useful for valuing assets, defining representations and warranties, and/or negotiating price concessions; and
- To verify that the transaction complies with investment or acquisition criteria.

Classification of Due-Diligence

Commercial or Operational Due Diligence

Performed by the concerned acquire enterprise involving an evaluation from commercial, strategic and operational perspectives.

Financial Due Diligence

- Perform after completion of commercial due diligence.
- Analyse the books of accounts and other information pertaining to financial matters of the entity.

Tax Due Diligence

Pertains to all taxation and related matters of the entity.

Legal Due Diligence

This may be required where legal aspects of functioning of the entity are reviewed.

Environmental Due Diligence

To study the entity's environment, its flexibility and adaptiveness to the acquirer entity.

Personnel Due Diligence

To ascertain that the entity's personnel policies are in line or can be changed to suit the requirements of the restructuring.

Financial Due Diligence

In order to achieve its objective, the due diligence process can include any or all of the following objectives for individual areas of the verification:

- Brief description of the history of business
- The background of promoters
- Accounting policies and practices
- Management information systems
- Details of management structure
- Trading results, both past and the recent past
- Assets and liabilities as per latest balance sheet
- Current status of Income tax assessments including appeals pending against tax liabilities assessed by tax authority
- Cash flow patterns
- The projection of future profitability

The objective of the Due Diligence exercise will be to look specifically for any hidden liabilities or over-valued assets.

Hidden Liabilities

- The company may not show any show cause notices which have not matured into demands, as contingent liabilities. These may be material and important.
- The company may have given "Letters of Comfort" to banks and financial institutions. Since these are not "guarantees", these may not be disclosed in the Balance sheet of the target company.
- The Company may have sold some subsidiaries/businesses and may have agreed to take over and indemnify all liabilities and contingent liabilities of the same, prior to the date of transfer. These may not be reflected in the books of accounts of the company.
- Product and other liability claims; warranty liabilities; product returns/discounts; liquidated damages for late deliveries etc., and all litigation.
- Tax liabilities under direct and indirect taxes.
- Long pending sales tax assessments.
- Pending final assessments of customs duty where provisional assessment only has been completed.
- Agreement to buy back shares sold at a stated price.
- Future lease liabilities.
- Environmental problems/claims/third party claims.
- Unfunded gratuity/superannuation/leave salary liabilities; incorrect gratuity valuations.
- Huge labour claims under negotiation when the labour wage agreement has already expired.

Over-Valued Assets

- ♣ Uncollected/uncollectable receivables.
- ♣ Obsolete, slow non-moving inventories or inventories valued above NRV; huge inventories of packing materials etc., with name of company.
- ♣ Underused or obsolete Plant and Machinery and their spares; asset values which have been impaired due to sudden fall in market value etc.
- ♣ Assets carried at much more than current market value due to capitalisation of expenditure/foreign exchange fluctuation, or capitalisation of expenditure mainly in the nature of revenue.
- ♣ Litigated assets and property.
- ♣ Investments carried at cost though realisable value is much lower.
- ♣ Investments carrying a very low rate of income / return.
- ♣ Infructuous project expenditure/deferred revenue expenditure etc.
- ♣ Group Company balances under reconciliation etc.
- ♣ Intangibles of no value.

Work Approach to Due diligence : The purchase of business in many instances is the largest and most expensive assets purchase in life time and therefore some caution should be exercised through the due diligence process. Therefore, assessing the businesses fair value passes through.

Reviewing and reporting on the financials submitted by the target company.

Assessing the business first hand by a site visit (if applicable).

Working through the due diligence process with the acquisition company or investor by defining the key areas.

Helping prepare an offer based on completion of due diligence.

How to Conduct Due Diligence



Start with an open mind. Do not assume that anything wrong will be found and look for it. What needs to be done is to identify trouble spots and ask for explanations.

Get the best team of people. If you do not have a group of people inside your firm that can do the task (e.g. lack of staff, lack of people who know the new business because you are acquiring a business in an unrelated areas, etc.), there are due diligence experts that you can hire. When hiring such professionals, look for their experience record in the industry.



Get help in all areas like finance, tax accounting, legal, marketing, technology, and any others relevant to the assignment so that you get a 360-degree view of the acquisition candidate.

Talk to customers, suppliers, business partners, and employees are great resources.



Take a risk management approach. So, while you want to do your research, you also want to make sure that you do not antagonise the team of people of the target company by bogging them down with loads of questions.

Prepare a comprehensive report detailing the compliances and substantive risks/issues.



Contents of a Due Diligence Report: The contents of a due diligence report will always vary with individual circumstances. Following headings are illustrative:

Example of Headings of a Due Diligence Report

Executive Summary	Comments on properties, terms of leases, lien and encumbrances
Introduction	Assessment of operating results
Background of Target	Assessment of taxation and statutory liabilities
Objective of due diligence	Assessment of possible liabilities on account of litigation and legal proceedings against the company
Terms of reference and scope of verification	Assessment of net worth
Brief history of the company	Interlocking investments and financial obligations with group / associates companies, amounts receivables subject to litigation, any other likely liability which is not provided for in the books of account
Share holding pattern	SWOT Analysis
Observations on the review	Comments on future projections
Assessment of management structure	Status of charges, liens, mortgages, assets and properties of the company
Assessment of financial liabilities	Suggestion on ways and means including affidavits, indemnities, to be executed to cover unforeseen and undetected contingent liabilities
Assessment of valuation of assets	Suggestions on various aspects to be taken care of before and after the proposed merger/acquisition.

UNIT 2 : INVESTIGATION

Basis of Difference	Investigation	Audit
(i) Objective	An investigation aims at establishing a fact or a happening or at assessing a particular situation.	The main objective of an audit is to verify whether the financial statements display a true and fair view of the state of affairs and the working results of an entity.
(ii) Scope	The scope of investigation may be governed by statute or it may be non-statutory.	The scope of audit is wide and in case of statutory audit the scope of work is determined by the provisions of relevant law.
(iii) Periodicity	The work is not limited by rigid time frame. It may cover several years, as the outcome of the same is not certain.	The audit is carried either quarterly, half-yearly or yearly.
(iv) Nature	Requires a detailed study and examination of facts and figures.	Involves tests checking or sample technique to draw evidences for forming a judgement and expression of opinion.
(v) Inherent Limitations	No inherent limitation owing to its nature of engagement.	Audit suffers from inherent limitation.
(vi) Evidence	It seeks conclusive evidence.	Audit is mainly concerned with <i>prima-facie</i> evidence.
(vii) Observance of Accounting Principles	It is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts.	Is governed by compliance with generally accepted accounting principles, audit procedures and disclosure requirements.
(viii) Reporting	The outcome is reported to the person(s) on whose behalf investigation is carried out.	The outcome is reported to the owners of the business entity.

Steps in Investigation: As investigation involves a variety of situations, it is not possible to lay down any standardised procedure. However, usually, an investigation requires the following steps in order of sequence:

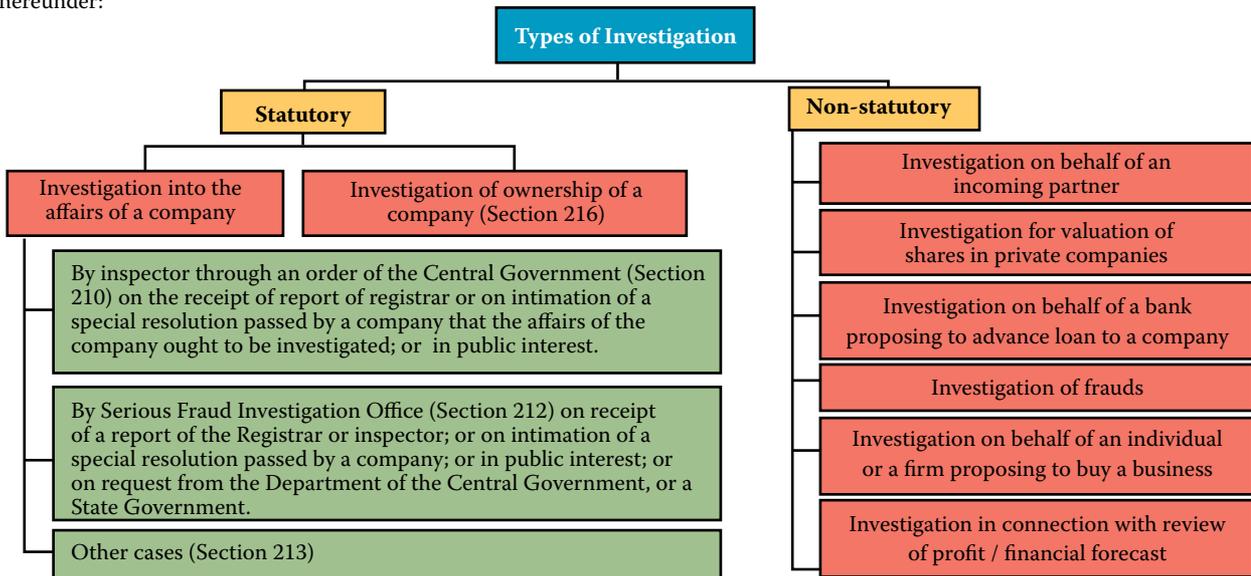
1. Determination of objectives and establishment of scope of investigation.
2. Formulation of the investigation programme.
3. Examination and study of various records by reference to appropriate evidence.
4. Analysis, processing and interpretation of findings.
5. Preparation of report and drawing up of conclusions.

Diagram showing Sequence of Steps for Investigation

The important issues to be kept in mind by the investigator while preparing his report are as follows:

- (i) The report should not contain anything which is not relevant either to highlight the nature of the investigation or the final outcome thereof.
- (ii) Every word or expression used should be properly considered so that the possibility of arriving at a different meaning or interpretation other than the one intended by the investigator can be minimised.
- (iii) Relevant facts and conclusions should be properly linked.
- (iv) Bases and assumptions made should be explicitly stated.
- (v) The report should clearly spell out the nature and objective of the assignment accepted its scope and limitations, if any.
- (vi) The report should be made in paragraph form with headings for the paragraphs. Any detailed data and figures supporting any finding may be given in Annexures.
- (viii) The opinion of the investigator should appear in the final paragraph of the report.

Types of Investigation: The different types of investigation that a chartered accountant is usually called upon to carry out are given hereunder:



Who can be appointed as an Inspector - A firm, body corporate or other association cannot be appointed as an inspector. Thus, a firm of professional accountant cannot be appointed as inspector but an individual accountant can be so appointed.

PROCEDURE, POWERS ETC., OF INSPECTORS – Section 217 of the Companies Act, 2013 states the procedures, powers of the Inspectors as follows:

Duty of officers and employees of the company towards inspector to preserve and to produce all books and papers relating to the company or the person; and to provide assistance in connection with the investigation which they are reasonably able to give.

Inspector may ask information from any body corporate

Not to keep Books and Papers in custody for more than 180 days

Examine on oath

Inspector to possess all the Powers of Civil Court under the Code of Civil Procedure, while trying a suit in respect of specified matters.

Assistance of Officers of Government to Inspector to provide necessary assistance to the inspector for the purpose of inspection, investigation etc.

Evidence from place outside India: If in the course of an investigation into the affairs of the company, an application is made to the competent court in India by the inspector stating that evidence may be available in a country or place outside India, such court may issue a letter of request to a court or an authority in such country or place for seeking such evidence.

It may be noted that the letter of request shall be transmitted in such manner as the Central Government may specify in this behalf.

INSPECTOR'S REPORT - Under section 223 of the Companies Act, 2013, an inspector shall, if so directed by the Central Government, submit interim reports to that Government, and on the conclusion of the investigation, shall submit a final report to the Central Government. Every report made, shall be in writing or printed as directed by the Central Government. A copy of the report may be obtained by making an application to the Central Government.

Investigation under sections 210 and 213 do not call for any special approach. Approach/Steps for pursuing the investigation are:

(i) **Clarity of Terms of Reference:** The inspector should ensure that the terms of reference are clear, unambiguous and in writing.

(ii) **Scope of Investigation:** Next step is to determine the scope of the investigation on the basis of the terms of reference.

(iii) **Period for investigation:** He should also have regard to the period over which the investigation should stretch.

(iv) **Framing of Programme:** The next step is the investigator/inspector should frame his programme for investigation in a systematic manner.

(v) **Using the work of Experts:** He should also consider whether assistance of other experts like engineers, lawyers, etc., is necessary.

(vi) **Legal requirements and investigation Report:** Only after he has completed the steps in the investigation programme and has marshaled all the information that he needed should he prepare his report. He, however, can also make interim report as provided under section 223 of the Companies Act. Before he makes his final report he should obtain and keep on record the evidence relied upon by him. He should make his report in accordance with the provisions of the section 223 of the Companies Act, 2013.

Investigation of Frauds: In the Companies Act, 2013 meaning of fraud has been considered in two specific sections viz. Section 143(10), where the SAs specified by the ICAI are deemed to be the auditing standards for purposes of the Act, which, *inter alia*, define fraud, and in section 447, where punishment for fraud has been prescribed.

Fraud has been defined in paragraph 11(a) of SA 240, "The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements" as 'an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.'

In the context of stating the provisions for punishment for fraud, section 447 of the Act has explained the term 'fraud' as "fraud in relation to affairs of a company or any body corporate, includes any act, omission, concealment of fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss."

Types of Frauds: Frauds may broadly be categorised as –

Fraudulent Financial Reporting	Mis-appropriation of Assets
<ul style="list-style-type: none"> ♣ Alteration or falsification of records & documents. ♣ Misrepresentation in or intentional omission of events, transactions or information. ♣ Intentional misapplication of accounting principles. ♣ Fictitious Journal Entries. ♣ Adjusting assumptions and changing Judgments. ♣ Omitting, advancing or delaying the recognition of events or transactions. 	<ul style="list-style-type: none"> ♣ Embezzlement of receipts in respect of written-off accounts. ♣ Stealing physical assets or intellectual properties. ♣ Introduction of fictitious vendors. ♣ Payment of factitious employees. ♣ Using entities assets for personal use.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

Fraudulent Entries	Sales Frauds	Collection Frauds	Expenses Frauds
<ul style="list-style-type: none"> ◆ Late entry ◆ No entry ◆ Part entry ◆ Inserting wrong entries to divert attention 	<ul style="list-style-type: none"> ◆ Price enhancement ◆ Omission to make receipt of sale of scrap. ◆ Billing and sales reversals in amusement parks. ◆ Food production yield ratio in hotels and suppression of Revenue. ◆ Using or hiring assets of the company in lean period. ◆ Omission in preparation of dispatch note for sale. ◆ Sale of Assets recorded as Income. 	<ul style="list-style-type: none"> ◆ Defalcation of contributions to charity funds ◆ Crediting donation to loan accounts 	<ul style="list-style-type: none"> ◆ Entering ineligible discount ◆ Overcharging expenses ◆ Falsification of documents ◆ Untimely payment ◆ Introduction of fictitious vendor

Payroll Frauds	Data Frauds
<ul style="list-style-type: none"> ◆ Extra number of employees ◆ Extra hours ◆ Calculation of net pay by transferring rounding off amount to personal account ◆ Not deactivating the retired employees' IDs 	<ul style="list-style-type: none"> ◆ Change in computer data ◆ Destroy, suppress or insert records ◆ Using open fields in computerised accounting system

Technology related Frauds	Banking related Frauds	Others
<ul style="list-style-type: none"> ♣ Employing hostile software programs or malware attacks ♣ Phishing mails ♣ Vishing – Voice Mail ♣ SMSishing - Text messages ♣ Whaling – Targeted phishing on high net worth individuals ♣ Card duplications ♣ Stealing confidential data 	<ul style="list-style-type: none"> ♣ Forged Signatures ♣ Cheque Frauds - Alteration in amounts, alteration in accounts titles, Kite flying ♣ Cash lending during working hours ♣ Missing notes in bundles ♣ Use of same notes bundles by two branches ♣ Wrong posting in other accounts ♣ Misuse of sensitive stationery ♣ ATM transaction misuse ♣ Using PINs of debit card/credit card holder ♣ Advances - Car, Xerox Machine, inflated stock statements, inflated projections, forged/duplicate land documents, L/Cs 	<ul style="list-style-type: none"> ♣ Teaming and Lading ♣ Process houses mixing inferior quality material to sale good quality material ♣ Pilferage and theft in super markets ♣ Selling classified information, ♣ Withholding information from customer about free product schemes, discount and concession ♣ Enhancement of performance ♣ Taking advantage of disaster or natural calamity ♣ Trust FDs ♣ Fictitious journal entries to inflate expenses or income

Indicators of Fraud

Several indications of possible frauds can be listed as follows :-

- i. Discrepancies in Accounting Records including non-recording or partial recording or incorrect recording or delayed recording of amounts, misclassifications, etc.
- ii. Conflicting or missing evidence including missing documents, altered documents, significant unexplained items in reconciliations, discrepancies between entity's records and confirmations received etc.
- iii. Unacceptable management responses such as – denial of access to records/facilities/employees, undue time pressure to resolve complex issues, unusual delays in providing requested information, denial for use of Computer Assisted Audit Techniques, unwillingness to address identified deficiencies in internal control etc.
- iv. Other indications such as – Accounting Policies in variance with Industry Norms, Frequent changes in accounting estimates etc.

Responses to Fraud : SA 330 states the auditor's responses to assessed risks. Response to the risks related to management override of controls includes testing the appropriateness of journal entries and other adjustments made in preparation of the Financial Statements, review of accounting estimates for biases and also review the significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.

Auditor needs to assess fraud risk factors for material misstatement or misappropriation of assets due to fraud, such as incentive / pressures, opportunities and attitudes / rationalisations.

The responses to fraud will include **communications to management and those charged with governance, communication to regulatory and enforcement authorities and appropriate documentation on his assessment of the risks of material misstatement.**

Auditor's ability to detect fraud depends on factors such as –

- the skillfulness of the perpetrator
- the frequency & extent of manipulation
- the degree of collusion involved
- the relative size of individual amounts manipulated; and
- the seniority of those individuals involved

Detection of Fraud depends upon effectiveness of Audit Procedure. Detection risk, however, can only be reduced, not eliminated.

CHAPTER 20 PROFESSIONAL ETHICS

Our Institute's Motto – '*Ya Esha Supteshu Jagrati*' is adopted from *Kathopanishad* and it denotes 'eternal vigilance' – awakening when the world is asleep.

Chartered Accountants as professionals are engaged in building trust to vast variety of users, whether shareholders, government, banks, investors, employees or others, which imposes a public interest responsibility on their profession. Like other professionals, Chartered Accountants also have some set of code of ethics. This Code of Ethics establishes ethical requirements for Professional Accountants.



A Chartered Accountant, either in practice or in service, has to abide by these ethical behaviours. They are expected to follow the fundamental principles of professional ethics while performing their jobs. Any deviation from the ethical responsibilities brings the disciplinary mechanism into action against the Chartered Accountants.

Fundamental Principles: The fundamental principles as discussed in Code of Ethics of ICAI, to be complied, are given below:



Member in Practice Prohibited from using a Designation Other Than Chartered Accountant

(i) The member of the Institute are now permitted to use the word 'CA' as prefix before their name irrespective of the fact that they are in practice or not.

(ii) Under section 7 of the Chartered Accountants Act, 1949 a member in practice cannot use any designation other than that of a Chartered Accountant, nor can he use any other description, whether in addition thereto or in substitution therefor, but a member who is not in practice and does not use the designation of a Chartered Accountant may use any other description. Nevertheless a member in practice may use any other letters or description indicating membership of Accountancy Bodies which have been approved by the Council or of bodies other than Accountancy Institutes so long as such use does not imply adoption of a designation and/or does not amount to advertisement or publicity.

For example, though a member cannot designate himself as a Cost Accountant, he can use the letters A.I.C.W.A. after his name, when he is a member of that Institute.

Maintenance of Branch Offices : In terms of section 27 of the Act, if a Chartered Accountant in practice or a Firm of Chartered Accountants has more than one office in India, each one of such offices should be in the separate charge of a member of the Institute. However, exemption has been given to members practicing in hill areas subject to certain conditions. The conditions are:

(1) Temporary offices in a city in the plains for a limited period not exceeding 3 months in a year.

(2) The regular office need not be closed during this period and all correspondence can continue to be made at the regular office.

(3) The name board of the firm in the temporary office should not be displayed at times other than the period such office is permitted to function as above.

(4) The temporary office should not be mentioned in the letterheads, visiting cards or any other documents as a place of business of the member/firm.

(5) Before commencement of every winter it shall be obligatory on the member/firm to inform the Institute that he/it is opening the temporary office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to the office of the Institute by registered post.

It is necessary to mention that the Chartered Accountant in-charge of the branch of another firm should be associated with him or with the firm either as a partner or as a paid assistant. If he is a paid assistant, he must be in whole time employment with him. However, a member can be in-charge of two offices if they are located in one and the same Accommodation. In this context some of the Council's decisions are as follows:

(1) With regard to the use of the name-board, there will be no bar on putting up of a name-board in the place of residence of a member with the designation of Chartered Accountant, provided it is a name-plate or a name-board of an individual member and not of the firm.

(2) The exemption may be granted to a member or a firm of Chartered Accountants in practice to have a second office without such second office being under the separate charge of a member of the Institute, provided-

(a) the second office is located in the same premises, in which the first office is located or,

(b) the second office is located in the same city, in which the first office is located or,

(c) the second office is located within a distance of 50 km. from the municipal limits of a city, in which the first office is located.

A member having two offices of the type referred to above shall have to declare, which of the two offices is his main office, which would constitute his professional address.

KYC Norms for CA in Practice: The financial services industry globally is required to obtain information of their clients and comply with Know Your Client Norms (KYC Norms). In light of this background, the Council of ICAI approved the following KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attest functions.

1. Where Client is an Individual/ Proprietor

- A. General Information
 - Name of the Individual
 - PAN No. or Aadhar Card No. of the Individual
 - Business Description
 - Copy of last Audited Financial Statement
- B. Engagement Information
 - Type of Engagement

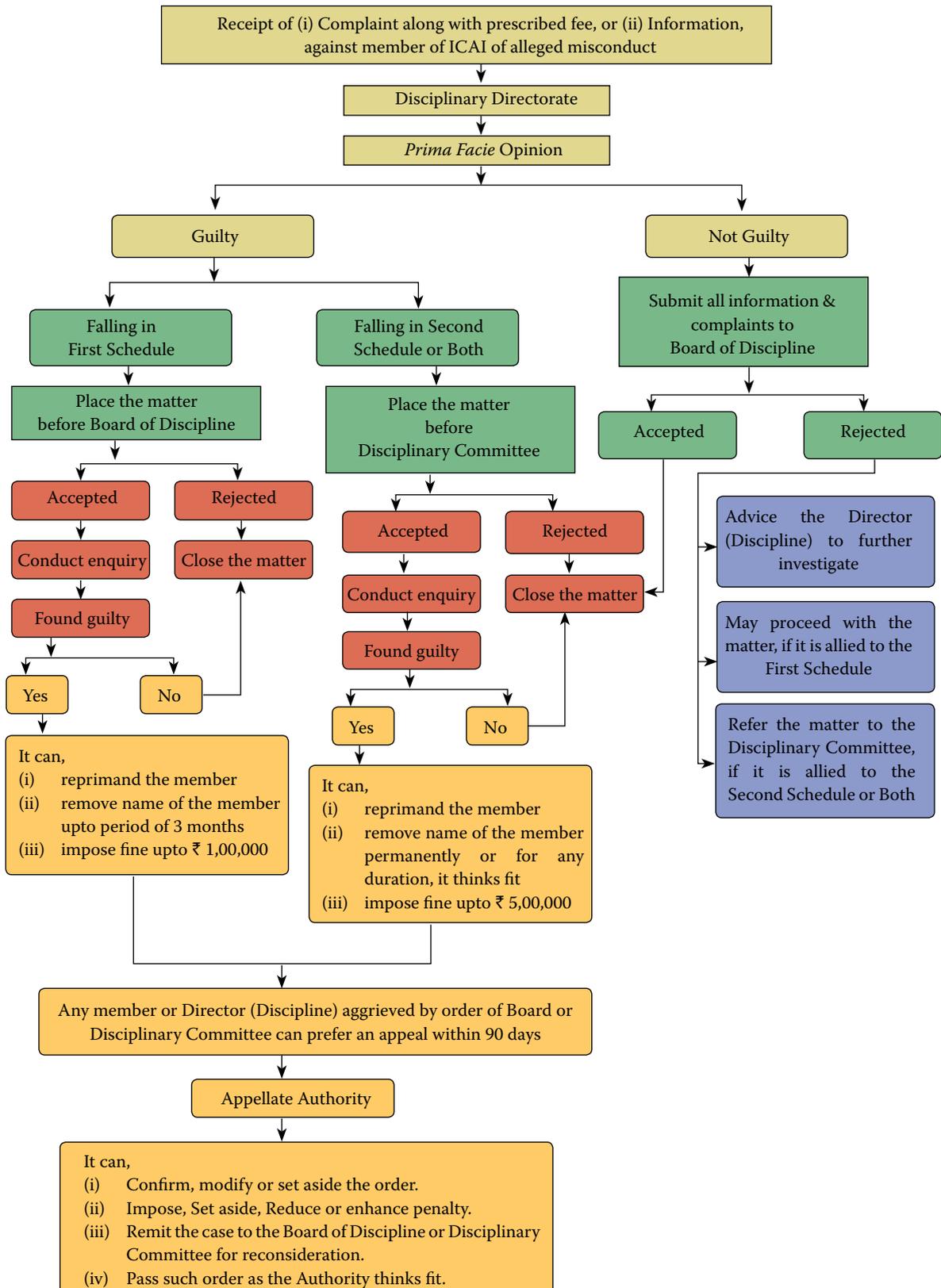
2. Where Client is a Corporate Entity

- A. General Information
 - Name and Address of the Entity
 - Business Description
 - Name of the Parent Company in case of Subsidiary
 - Copy of last Audited Financial Statement
- B. Engagement Information
 - Type of Engagement
- C. Regulatory Information
 - Company PAN No.
 - Company Identification No.
 - Directors' Names & Addresses
 - Directors' Identification No.

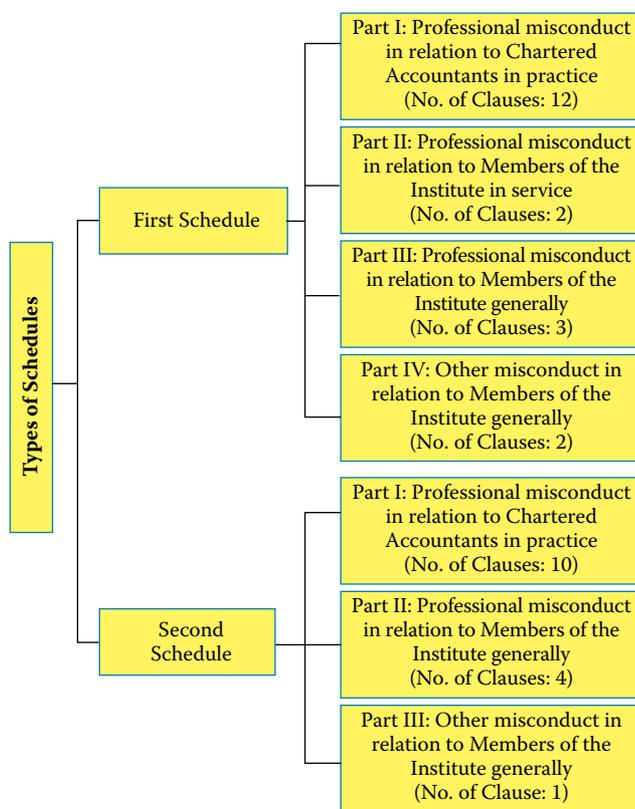
3. Where Client is a Non-Corporate Entity

- A. General Information
 - Name and Address of the Entity
 - Copy of PAN No.
 - Business Description
 - Partner's Names & Addresses (with their PAN/Aadhar Card/DIN No.)
 - Copy of last Audited Financial Statement
- B. Engagement Information
 - Type of Engagement

Flow Chart of Discipline Procedure Mechanism



SCHEDULES TO THE ACT



The implications of the different clauses in the schedules are discussed below:

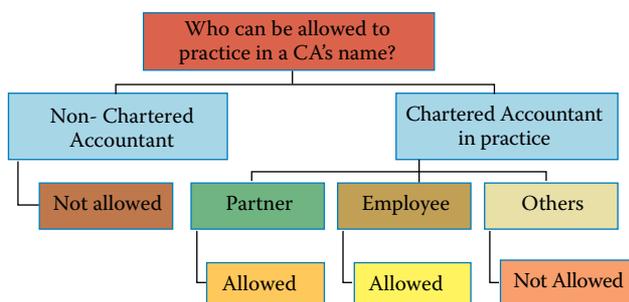
THE FIRST SCHEDULE

Where the Director (Discipline) is of the opinion that member is guilty of any professional or other misconduct mentioned in the First Schedule; he shall place the matter before the Board of Discipline.

PART I - Professional misconduct in relation to Chartered Accountants in practice

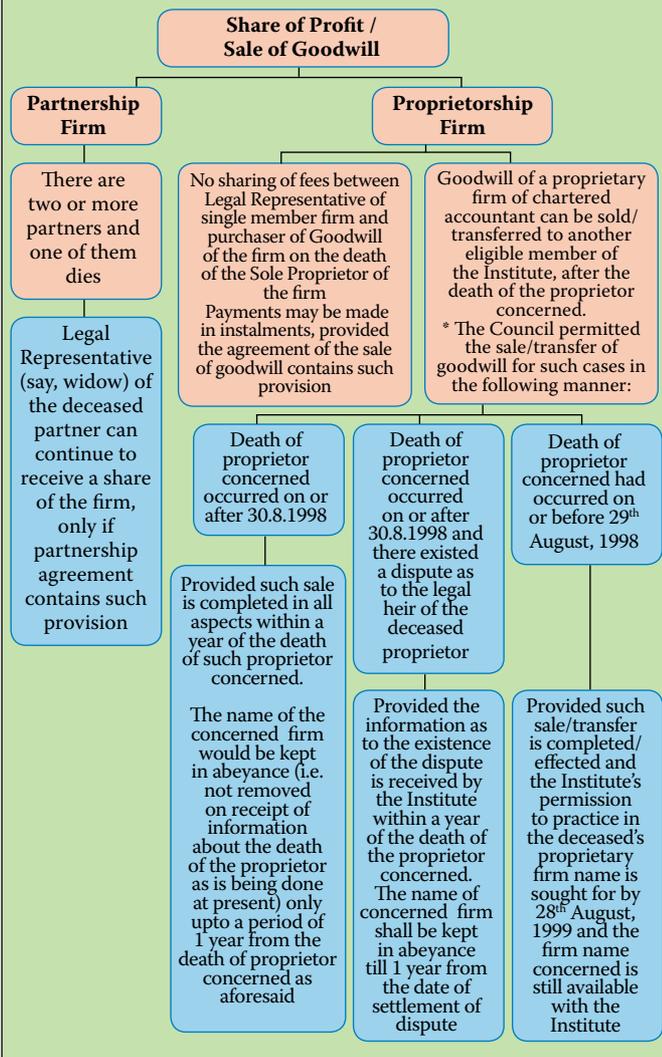
A Chartered Accountant in practice is deemed to be guilty of professional misconduct if he:

Clause (1) allows any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him.



Clause (2) pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

Treatment of Goodwill –



* In case of a partnership firm when all the partners die at the same time, the above Council decision would also be applicable.

Clause (3) accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute.

Clause (4) enters into partnership, in or outside India, with any person other than Chartered Accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (V) of sub-section (1) of section 4 or whose qualifications are recognised by the Central Government or the Council for the purpose of permitting such partnerships.

Clause (5) Secures either through the services of a person who is not an employee of such Chartered Accountant or who is not his partner or by means which are not open to a Chartered Accountant, any professional business.

Provided that nothing herein contained shall be construed as prohibiting any agreement permitted in terms of item (2), (3) and (4) of this part.

Clause (6) Solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Provided that nothing herein contained shall be construed as preventing or prohibiting -

(i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or

(ii) A member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence.

However, as per the guideline issued by the Council of the Institute of Chartered Accountants of India, a member of the Institute in practice shall not respond to any tender issued by an organisation 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.

Clause (7) Advertises his professional attainments or services, or uses any designation or expressions other than the Chartered Accountant on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of the Institute of Chartered Accountants or of any other institution that has been recognised by the Central Government or may be recognised by the Council.

Provided that a member in practice may advertise through a write up, setting out the service provided by him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council.

Clause (8) Accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Clause (9) Accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of section 225 of the Companies Act, 1956, in respect of such appointment have been duly complied with.

(Now section 139 and 140 read with section 141 of the Companies Act, 2013. Students may note that till the time Code of Ethics etc. bare documents get updated from Ethical Standard Board of ICAI in pursuance of the Companies Act, 2013, students are required to understand the basic nature of the provision and quote the same along with the new corresponding provisions.)

Clause (10) Charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act.

The Council of the Institute has however framed Regulation 192 which exempts members from the operation of this clause in certain professional services. The said Regulation 192 is reproduced -

Regulation 192. Restriction on fees - No Chartered Accountant in practice shall charge or offer to charge, accept or offer to accept, in respect of any professional work, fees which are based on a percentage of profits, or which are contingent upon the findings or results of such work, provided that:

- In the case of a receiver or a liquidator, the fees may be based on a percentage of the realisation or disbursement of the assets;
- In the case of an auditor of a co-operative society, the fees may be based on a percentage of the paid up capital or the working capital or the gross or net income or profits;
- In the case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of property valued;
- In the case of certain management consultancy services as may be decided by the resolution of the Council from time to time, the fees may be based on percentage basis which may be contingent upon the findings, or results of such work;
- In the case of certain fund raising services, the fees may be based on a percentage of the fund raised;
- In the case of debt recovery services, the fees may be based on a percentage of the debt recovered;
- In the case of services related to cost optimisation, the fees may be based on a percentage of the benefit derived; and
- Any other service or audit as may be decided by the Council.

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

Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a company (Not being managing director or a whole time director) unless he or any of his partners is interested in such company as an auditor.

Clause (12) Allows a person not being a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

PART II - Professional misconduct in relation to members of the Institute in service

A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person:

Clause (1) pays or allows or agrees to pay directly or indirectly to any person any share in the emoluments of the employment undertaken by him.

Clause (2) accepts or agrees to accept any part of fees, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification

[Note: A member in the foregoing circumstances would be guilty of misconduct regardless of the fact that he was in whole-time or part-time employment or that he was holding Certificate of Practice along with his employment.]

PART III - Professional misconduct in relation to members of the Institute generally

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

Clause (1) not being a fellow of the Institute, acts as a fellow of the Institute.

Clause (2) does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority.

Clause (3) while inviting professional work from another chartered accountant or while responding to tenders or enquiries or while advertising through a write up, or anything as provided for in items (6) and (7) of Part I of this Schedule, gives information knowing it to be false.

PART IV- Other misconduct in relation to members of the Institute generally

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

(1) is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term not exceeding six months.

(2) in the opinion of the Council, brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work.

THE SECOND SCHEDULE

Part I - Professional misconduct in relation to chartered accountant in practice

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he:

Clause (1) Discloses information acquired in the course of his professional engagement to any person other than his client so engaging him without the consent of his client or otherwise than as required by any law for the time being in force.

Clause (2) If he certifies or submits in his name or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice.

Clause (3) Permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in manner which may lead to the belief that he vouches for the accuracy of the forecast.

Clause (4) Expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

Clause (5) Fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement not misleading where he is concerned with that financial statement in a professional capacity.

Clause (6) Fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity.

Clause (7) Does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

Clause (8) Fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion.

Clause (9) Fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

Clause (10) Fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

PART II - Professional misconduct in relation to members of the Institute generally

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

Clause (1) Contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the Council.

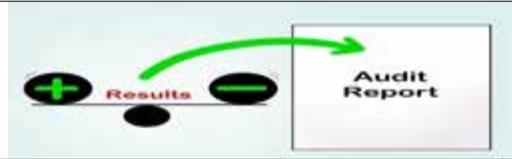
Clause (2) Being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment except as and when required by any law for the time being in force or except as permitted by the employer.

Clause (3) Includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

Clause (4) Defalcates or embezzles money received in his professional capacity.

THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The SA 700 series is purely dedicated to the auditor report to be issued by the auditor. Here, we are discussing SA 700, SA 701, SA 705 and SA 706.



SA-700	Forming an Opinion and Reporting on Financial Statements
Objective	<ul style="list-style-type: none"> Forming opinion on the financial statements. Form and content of the audit report.
Basic Elements of the Auditor's Report: The auditor's report includes the following basic elements, which ordinarily includes in case of Auditors' Report for Audits Conducted in Accordance with Standards on Auditing:	
1. Title	
2. Addressee	shall be addressed as required by the circumstances of the engagement
3. Auditor's Opinion:	<p>The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion."</p> <div style="border: 1px solid black; padding: 5px;"> <p>The Opinion section of the auditor's report shall also:</p> <ul style="list-style-type: none"> (a) Identify the entity whose financial statements have been audited; (b) State that the financial statements have been audited; (c) Identify the title of each statement comprising the financial statements; (d) Refer to the notes, including the summary of significant accounting policies; and (e) Specify the date of, or period covered by, each financial statement comprising the financial statements. </div> <p>If the reference to the applicable financial reporting framework in the auditor's opinion is not to Accounting Standards, the auditor's opinion shall identify the origin of such other framework.</p>
4. Basis for Opinion:	<p>The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:</p> <div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> (a) States that the audit was conducted in accordance with Standards on Auditing; (b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs; (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI (d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion. </div>
5. Going Concern:	Where applicable, the auditor shall report in accordance with SA 570.
6. Key Audit Matters	For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with SA 701.
7. Responsibilities for the Financial Statements:	
This section of the auditor's report shall describe management's responsibility for:	
<p>(a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and</p>	<p>(b) Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.</p>

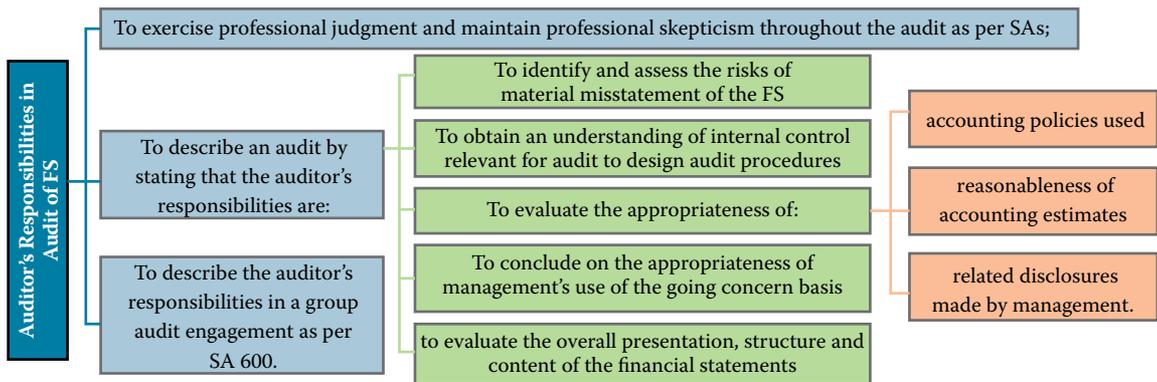
ADVANCED AUDITING AND PROFESSIONAL ETHICS

8. **Auditor's Responsibilities for the Audit of the Financial Statements:** The auditors report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

(I) **This section of the auditor's report shall:**

- (a) **State that the objectives of the auditor are to:**
 - (i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
 - (ii) Issue an auditor's report that includes the auditor's opinion.
- (b) **State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists; and**
- (c) **State that misstatements can arise from fraud or error, and either:**
 - (i) Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements; or
 - (ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework.

(II) **The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further:**



(III) **The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall:**

- (a) **State that the auditor communicates with those charged with governance regarding, among other matters:**
 - ♣ the planned scope and timing of the audit and
 - ♣ significant audit findings,
 - ♣ including any significant deficiencies in internal control that the auditor identifies during the audit;
- (b) **State that the auditor provides those charged with governance with a statement that the auditor has:**
 - ♣ complied with relevant ethical requirements regarding independence and
 - ♣ communicate with them all relationships and
 - ♣ other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards; and
- (c) For audits of financial statements of all such entities **for which key audit matters are communicated in accordance with SA 701**, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.
In accordance with the requirements of SA 701, the auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

9. **Location of the description of the auditor's responsibilities for the audit of the financial statements:** The description of the auditor's responsibilities for the audit of the financial statements required by this SA shall be included:

- (a) Within the body of the auditor's report;
- (b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or
- (c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or the auditing standards expressly permit the auditor to do so.

When the auditor refers to a description of the auditor's responsibilities on a website of an appropriate authority, the auditor shall determine that such description addresses, and is not inconsistent with, the requirements of this SA.

10. Other Reporting Responsibilities

11. Signature of the Auditor: The auditor's report shall be signed.

- ♣ The report is signed by the auditor (i.e. the engagement partner) in his personal name.
- ♣ Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm.
- ♣ The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the audit reports signed by them.

12. Place of Signature: The auditor's report shall name specific location where the audit report is signed.

13. Date of the Auditor's Report: The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that:

(a) All the statements that comprise the financial statements, including the related notes, have been prepared; and

(a) Those with the recognised authority have asserted that they have taken responsibility for those financial statements.

Auditor's Report Prescribed by Law or Regulation: If the auditor is required by law or regulation applicable to the entity to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

- (1) A title.
- (2) An addressee, as required by the circumstances of the engagement.
- (3) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements.
- (4) An identification of the entity's financial statements that have been audited.
- (5) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI.
- (6) Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements of SA 570.
- (7) Where applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements of SA 570 (Revised).
- (8) Where applicable, a section that includes the information required by SA 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that SA 701.

(9) A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with, the requirements.

(10) A reference to Standards on Auditing and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements.

(11) The auditor's signature.

(12) The Place of signature

(13) The date of the auditor's report.

Auditor's Report for Audits Conducted in Accordance with Both Standards on Auditing Issued by ICAI and International Standards on Auditing or Auditing Standards of Any Other Jurisdiction. In this case, the auditor's report may refer to Standards on Auditing in addition to the International Standards on Auditing or auditing standards of such other jurisdiction, but the auditor shall do so only if:

(a) There is no conflict between the requirements in the ISAs or such auditing standards of other jurisdiction and those in SAs that would lead the auditor:

- (i) to form a different opinion, or
- (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by SAs; and

(b) The auditor's report includes, at a minimum, each of the elements set out in Auditor's Report Prescribed by Law or Regulation discussed above when the auditor uses the layout or wording specified by the Standards on Auditing. However, reference to "law or regulation" in above paragraph shall be read as reference to the Standards on Auditing. The auditor's report shall thereby identify such Standards on Auditing.

When the auditor's report refers to both the ISAs or the auditing standards of a specific jurisdiction and the Standards on Auditing issued by ICAI, the auditor's report shall clearly identify the same including the jurisdiction of origin of the other auditing standards.

Supplementary Information Presented with the Financial Statements

If supplementary information that is not required by the applicable financial reporting framework is

presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.

not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

SA-701	Communicating Key Audit Matters in the Independent Auditor's Report
Objective	<ul style="list-style-type: none"> To enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. To assist the user in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.
Definition of Key Audit Matters	Key Audit matter are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.
Scope: Communicating key audit matters in the auditor's report is not:	<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; padding: 5px; background-color: #e0f0ff;">a substitute for disclosures in the financial statements;</div> <div style="border: 1px solid black; padding: 5px; background-color: #fff9c4;">a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705;</div> </div> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="border: 1px solid black; padding: 5px; background-color: #e0ffe0;">a substitute for reporting in accordance with SA 570 or</div> <div style="border: 1px solid black; padding: 5px; background-color: #ffe0e0;">a separate opinion on individual matters.</div> </div>
Applicability of SA 701	<ul style="list-style-type: none"> ♣ It is intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication ♣ This SA applies to audits of complete sets of general purpose financial statements of: <ul style="list-style-type: none"> ◆ listed entities and ◆ circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report and ◆ required by law or regulation to communicate key audit matters in the auditor's report <p><i>However, SA 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.</i></p>

Determining Key Audit Matters: The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

(a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315

(b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.

(c) The effect on the audit of significant events or transactions that occurred during the period.

Communicating Key Audit Matters: The introductory language in this section of the auditor's report shall state that:

(a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and.

(b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

SA-705	Modifications to the Opinion in the Independent Auditor's Report
Scope	<ul style="list-style-type: none"> ♣ This SA deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. ♣ This SA also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion.
Objective	<p>The objective of the auditor is to express clearly an appropriately modified opinion on the financial statement that is necessary when:</p> <ol style="list-style-type: none"> The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Types of Modified Opinion	Types of Modified Opinions as per SA 705:	(i) Qualified Opinion
		(ii) Adverse Opinion
		(iii) Disclaimer of Opinion
<p>The decision regarding which type of modified opinion is appropriate depends upon:</p> <p>(a) The <i>nature of the matter</i> giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and</p> <p>(b) The <i>auditor's judgment about the pervasiveness</i> of the effects or possible effects of the matter on the financial statements.</p>		

Circumstances When a Modification to the Auditor's Opinion is Required:

The auditor shall modify the opinion in the auditor's report when:

The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or	The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
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Determining the Type of Modification to the Auditor's Opinion:

Qualified Opinion: The auditor shall express a qualified opinion when:

- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion: The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion: The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement

The auditor need to express a qualified opinion or to disclaim an opinion on the financial statements and auditor shall request that management remove the limitation.

If management refuses to remove the limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

- (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or
 - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

If the auditor decides to withdraw: When the auditor decides to withdraw then before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion: When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole.

Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with SA 701.

Communication with Those Charged with Governance: When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification.

Nature of Matter Giving Rise to the Modification:	Auditor's judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not pervasive	Material and pervasive
Financial Statements are materially misstated	Qualified Opinion	Adverse Opinion
Inability to obtain Sufficient appropriate audit evidence	Qualified Opinion	Disclaimer of Opinion

SA-706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Scope

- ❖ This SA deals with additional communication in the auditor's report when the auditor considers it necessary to draw users' attention to a matter or matters
 - (a) presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
 - (b) other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Objectives

- ❖ The objective of the auditor, having formed an opinion on the financial statements, is to **draw users' attention**, when in the auditor's judgment it is necessary to do so, by way of **clear additional communication in the auditor's report**, to:
 - ❖ A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is **fundamental to users' understanding** of the financial statements; or
 - ❖ As appropriate, **any other matter that is relevant** to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Definitions

- ❖ **Emphasis of Matter paragraph** : A paragraph included in the auditor's report that refers to **a matter appropriately presented or disclosed** in the financial statements that, in the **auditor's judgment**, is of such importance that it is **fundamental to users' understanding** of the financial statements.
- ❖ **Other Matter paragraph** : A paragraph included in the auditor's report that refers to a matter **other than those presented or disclosed** in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Emphasis of Matter Paragraphs in the Auditor's Report

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- (a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
- (b) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
- (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasised.

Other Matter Paragraphs in the Auditor's Report

If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:

- (a) This is not prohibited by law or regulation; and
- (b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

The auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading.

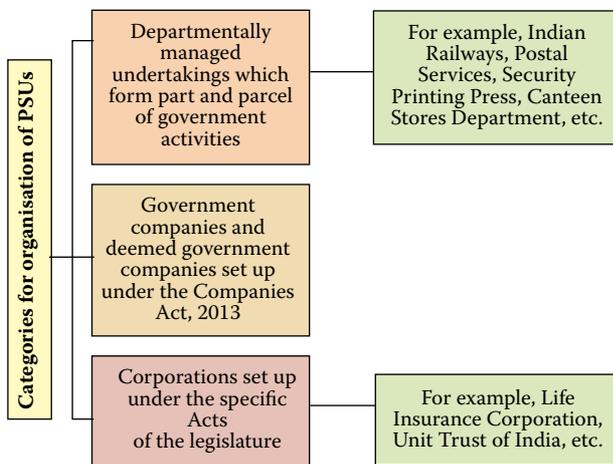
Communication with Those Charged with Governance

If the auditor expects to include an **Emphasis of Matter or an Other Matter paragraph** in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph.

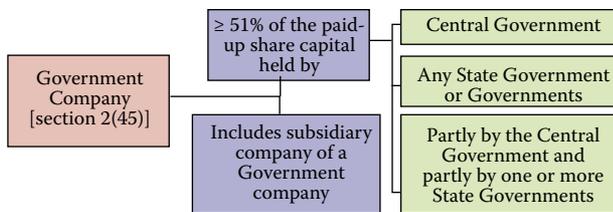
ADVANCED AUDITING AND PROFESSIONAL ETHICS

The September 2018 issue of the Students' Journal had carried a Capsule on Paper 3 Advanced Auditing and Professional Ethics. Some chapters were not considered at that time. Now we are providing herewith a crisp and concise capsule on Chapter 15: Audit of Public Sector Undertakings and Chapter 19 : Peer Review and Quality Review.

Chapter 15 – Audit of Public Sector Undertakings



As defined under section 2(45) of the Companies Act, 2013, a "Government Company" is:



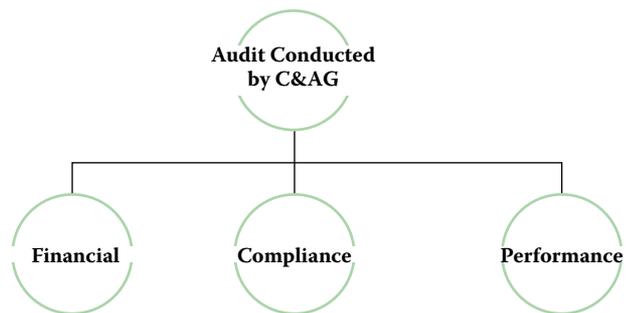
In India, audit of the above government companies is performed by an independent constitutional authority, i.e. Comptroller and Audit General of India (C&AG), through the Indian Audit and Accounts Department. The Constitution of India gives a special status to the C&AG and contains provisions to safeguard his independence.

Article 148 to 151 of the Constitution prescribes the role of C&AG as follows:

Article 148	<ul style="list-style-type: none"> Appointment of C&AG by the President. Special procedure for removal of C&AG, only on the ground of proven misbehaviours or incapacity. Salary and other conditions of service to be determined by the Parliament.
Article 149	<ul style="list-style-type: none"> Perform such duties and exercise such powers in relation to the accounts of the Union and States and of any other authority or body as may be prescribed by or under any law made by the Parliament. The C&AG's (Duties, Powers and Conditions of Service) Act, 1971 defines these functions and powers in detail.
Article 150	<ul style="list-style-type: none"> On the advice of the C&AG, President to prescribe such form in which accounts of the Union and States shall be kept.
Article 151	<ul style="list-style-type: none"> Audit reports of the C&AG relating to the accounts of the Central/ State Government should be submitted to the President/Governor of the State who shall cause them to be laid before Parliament/State Legislative Assemblies.

C&AG's Role – The Comptroller & Auditor General of India plays a key role in the functioning of the financial committees of Parliament and the State Legislatures. He has come to be recognised as a 'friend, philosopher and guide' of the Committees.

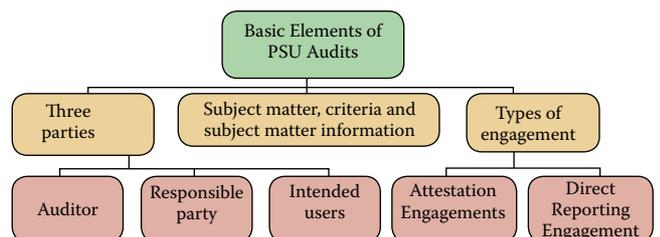
- (i) His Reports generally form the basis of the Committees' working, although they are not precluded from examining issues not brought out in his Reports;
 - (ii) He scrutinises the notes which the Ministries submit to the Committees and helps the Committees to check the correctness of submissions to the Committees and facts and figures in their draft reports;
 - (iii) The Financial Committees present their Report to the Parliament/ State Legislature with their observations and recommendations.
 - (iv) The various Ministries / Department of the Government are required to inform the Committees of the action taken by them on the recommendations of the Committees (which are generally accepted) and the Committees present Action Taken Reports to Parliament / Legislature;
 - (v) In respect of those Audit Reports, which could not be discussed in detail by the Committees, written answers are obtained from the Department / Ministry concerned and are sometimes incorporated in the Reports presented to the Parliament / State Legislature.
- This ensures that the Audit Reports are not taken lightly by the Government, even if the entire report is not deliberated upon by the Committee.



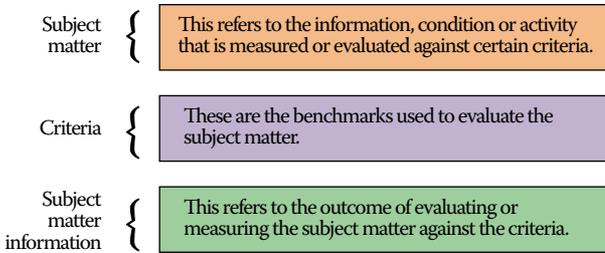
Elements of PSU Audits

Public sector auditing augments the confidence of the intended users by providing relevant information and independent and objective assessments concerning deviations from accepted standards or principles of good governance.

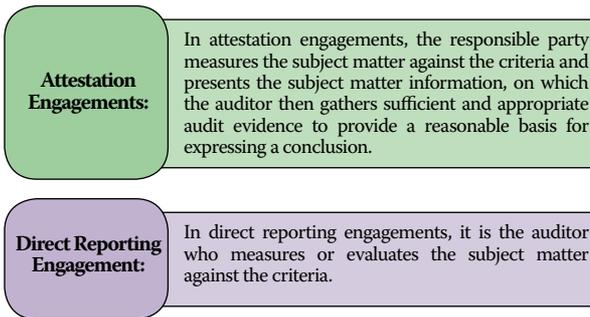
(a) Audit of all public-sector undertakings has the following basic elements:



(b) Subject matter, criteria and subject matter information.



(c) Types of engagement - Attestation Engagements and Direct Reporting Engagement.



Principles of PSU Audits

The principles of PSU Audits constitute the general standards that apply to SAI India's personnel as auditors and are fundamental to the conduct of all types of PSU Audits.

The principles are categorised into two distinct groups as below:

- I. General Principles
- II. Principles related to the Audit Process

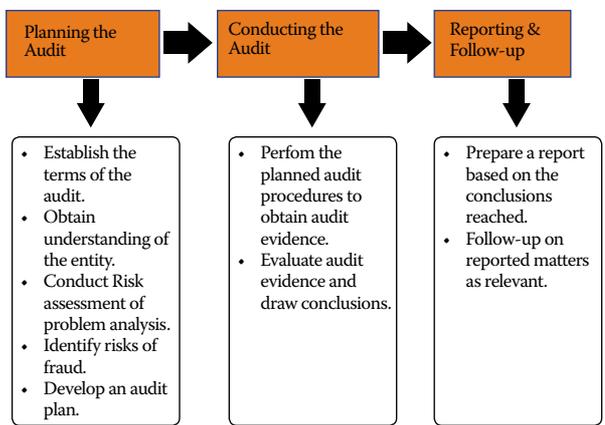
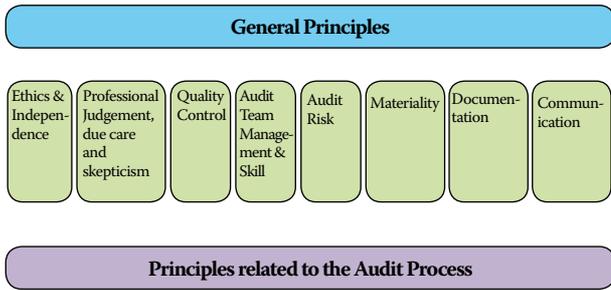
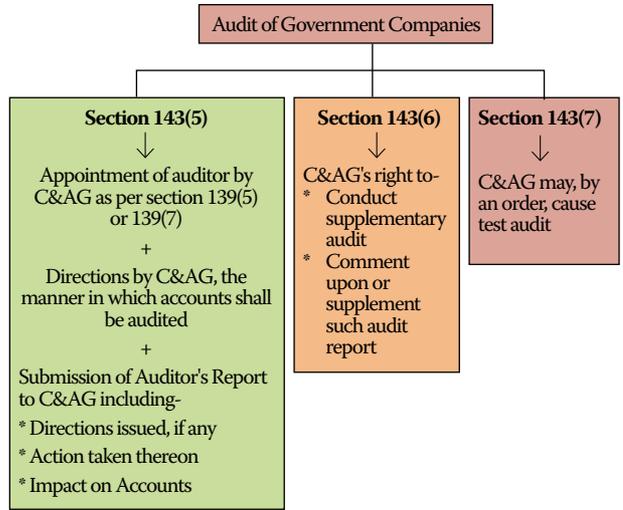


Diagram showing provisions of the Companies Act, 2013 related to Government Audit



Financial audit is primarily conducted to:

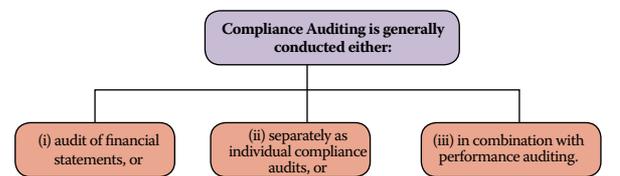
- express an audit opinion on the financial statements; and
- enhance the degree of confidence of intended users in the financial statements.

The C&AG shall express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Compliance audit is the independent assessment of whether a given subject matter is in compliance with the applicable authorities identified as criteria. Compliance audit is concerned with:

<p>Regularity- adherence of the subject matter to the formal criteria emanating from relevant laws, regulations and agreements applicable to the entity.</p>	<p>Propriety- observance of the general principles governing sound financial management and the ethical conduct of public officials.</p>
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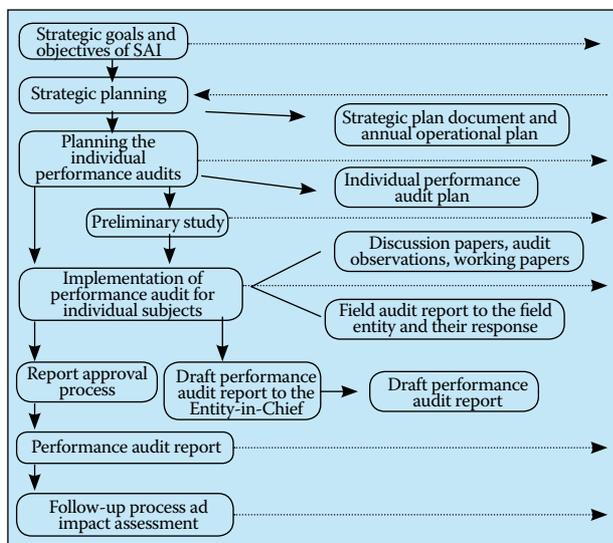
Perspective of Compliance Audit:



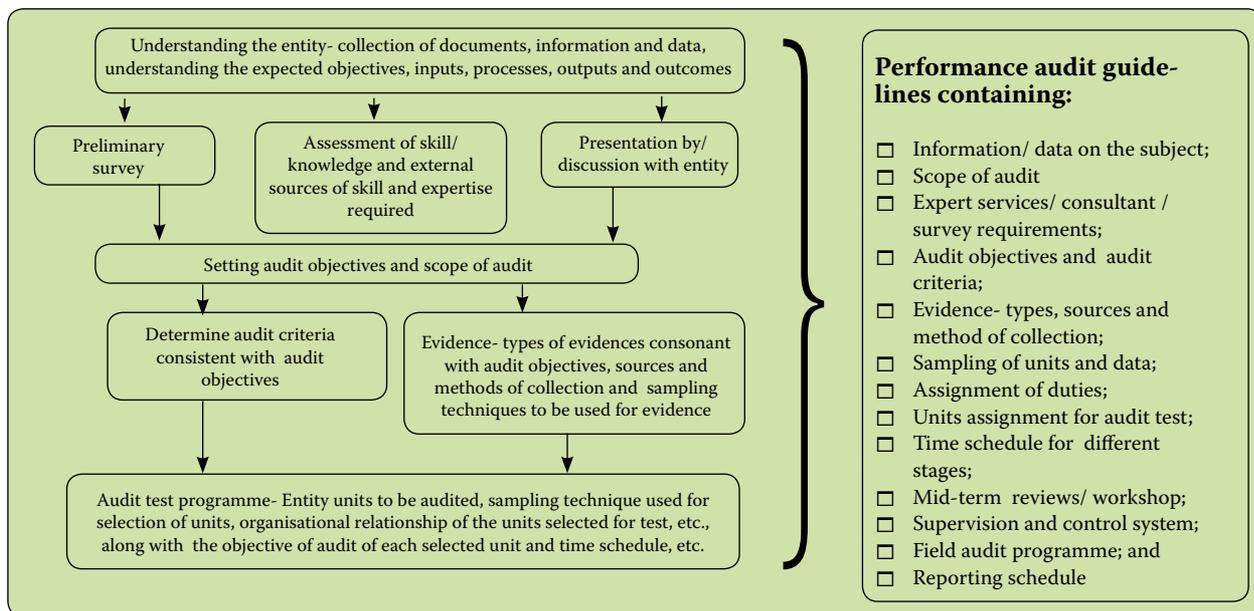
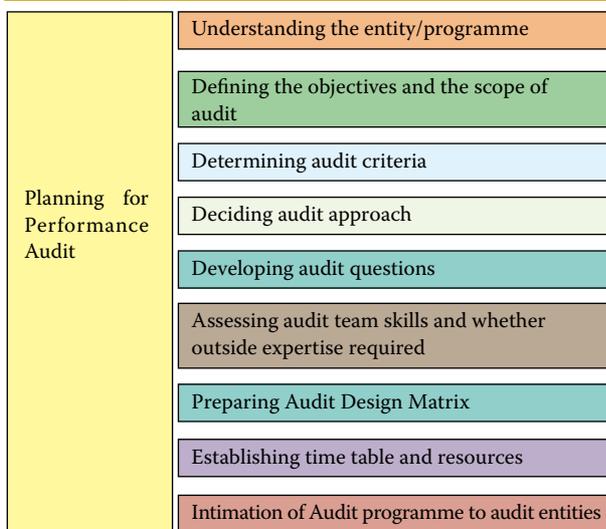
Performance Audit

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organisation, programme, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

Performance Audit Cycle



Planning for Performance Audit



- Performance audit guide-lines containing:**
- Information/ data on the subject;
 - Scope of audit
 - Expert services/ consultant / survey requirements;
 - Audit objectives and audit criteria;
 - Evidence- types, sources and method of collection;
 - Sampling of units and data;
 - Assignment of duties;
 - Units assignment for audit test;
 - Time schedule for different stages;
 - Mid-term reviews/ workshop;
 - Supervision and control system;
 - Field audit programme; and
 - Reporting schedule

Financial audits are always attestation engagements, as they are based on financial information presented by the responsible party. Performance audits and compliance audits are generally direct reporting engagements.

- Some of the issues examined in comprehensive audit are:**
- (a) How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?
 - (b) Have the accepted production or operational outputs been achieved? Has there been under-utilisation of installed capacity or shortfall in performance and, if so, what has caused it?
 - (c) Has the planned rate of return been achieved?
 - (d) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost?
 - (e) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?
 - (f) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?
 - (g) Does the enterprise have research and development programmes? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?
 - (h) If the enterprise has an adequate system of repairs and maintenance?
 - (i) Are procedures effective and economical?
 - (j) Is there any poor or insufficient or inefficient project planning?

Propriety Audit

E. L. Kohler has defined the term propriety as “that which meets the tests of public interest, commonly accepted customs, and standards of conduct, and particularly as applied to professional performance, requirements of law, Government regulations and professional codes”.

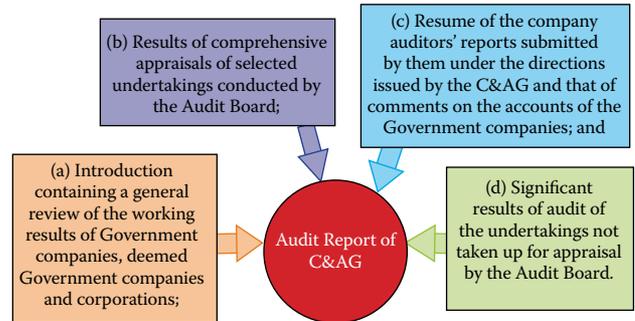
Propriety requires the transactions, and more particularly expenditure, to conform to certain general principles. These principles are:

- (i) that the expenditure is not *prima facie* more than the occasion demands and that every official exercises the same degree of vigilance in respect of expenditure as a person of ordinary prudence would exercise in respect of his own money;
- (ii) that the authority exercises its power of sanctioning expenditure to pass an order which will not directly or indirectly accrue to its own advantage;
- (iii) that funds are not utilised for the benefit of a particular person or group of persons and
- (iv) that, apart from the agreed remuneration or reward, no other avenue is kept open to indirectly benefit the management personnel, employees and others.

It may be stated that it is the responsibility of the executive departments to enforce economy in public expenditure. The function of audit is to bring to the notice of the proper authorities of wastefulness in public administration and cases of improper, avoidable and infructuous expenditure.

Audit Report of the Comptroller and Auditor General

To facilitate a proper consideration, the reports of the C&AG on the audit of PSUs are presented to the Parliament in several parts consisting of the following:



Chapter 19 : Peer Review and Quality Review

Unit 1 : Peer Review



As per the Statement of Peer Review, “Peer Review” means an examination and review of the systems and procedures to determine whether they have been put in place by the practice unit for ensuring the quality of assurance services as envisaged and implied/mandated by the Technical Standards, Ethical Standards and Professional Standards and whether these were effective or not during the period under review”.

- ♣ The examination and review of a practice unit would be carried out by a “reviewer”, i.e., a member, selected from a panel of reviewers maintained by the Board.
- ♣ The term “**practice unit**” means members in practice, whether practising individually or as a firm of Chartered Accountants.
- ♣ The word Board means Peer Review Board.

The main objective of Peer Review is to ensure that in carrying out the assurance service assignments, the members of the Institute-

Objectives of Peer Review

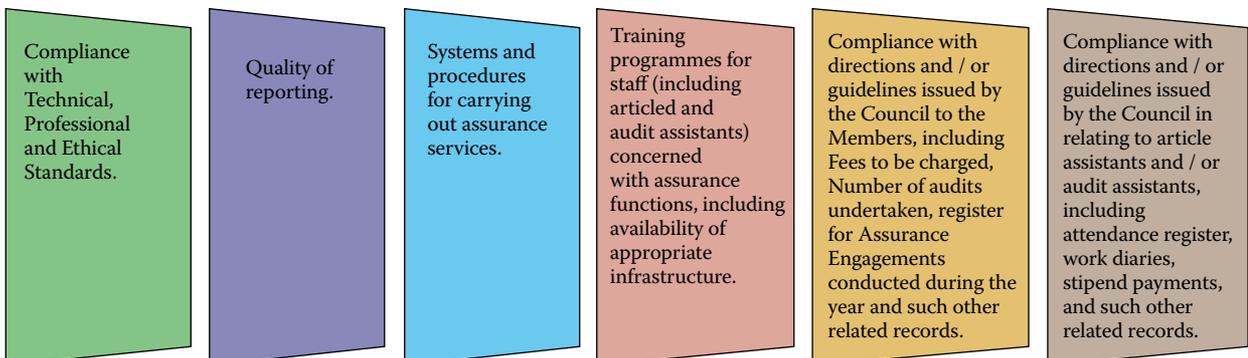
- (a) comply with Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and
- (b) have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services.

Thus, the primary objective of peer review is not to find out deficiencies but to improve the quality of services rendered by members of the profession.

Scope of Peer Review

The Peer Review process shall apply to all the assurance services provided by a Practice Unit.

1. Once a Practice Unit is selected for Review, its assurance engagement records pertaining to the Peer Review Period shall be subjected to Review.
2. The Review shall cover:



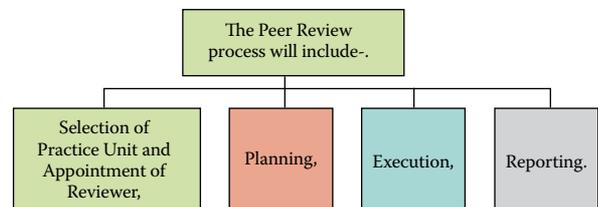
ACADEMIC UPDATES ||

Students may note that assurance services shall not include:	
(i)	Management Consultancy Engagements;
(ii)	Representation before various Authorities;
(iii)	Engagements to prepare tax returns or advising clients in taxation matters;
(iv)	Engagements for the compilation of financial statements;
(v)	Engagements solely to assist the client in preparing, compiling or collating information other than financial statements;
(vi)	Testifying as an expert witness;
(vii)	Providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws, on the basis of facts provided by the client; and
(viii)	Engagement for Due diligence.

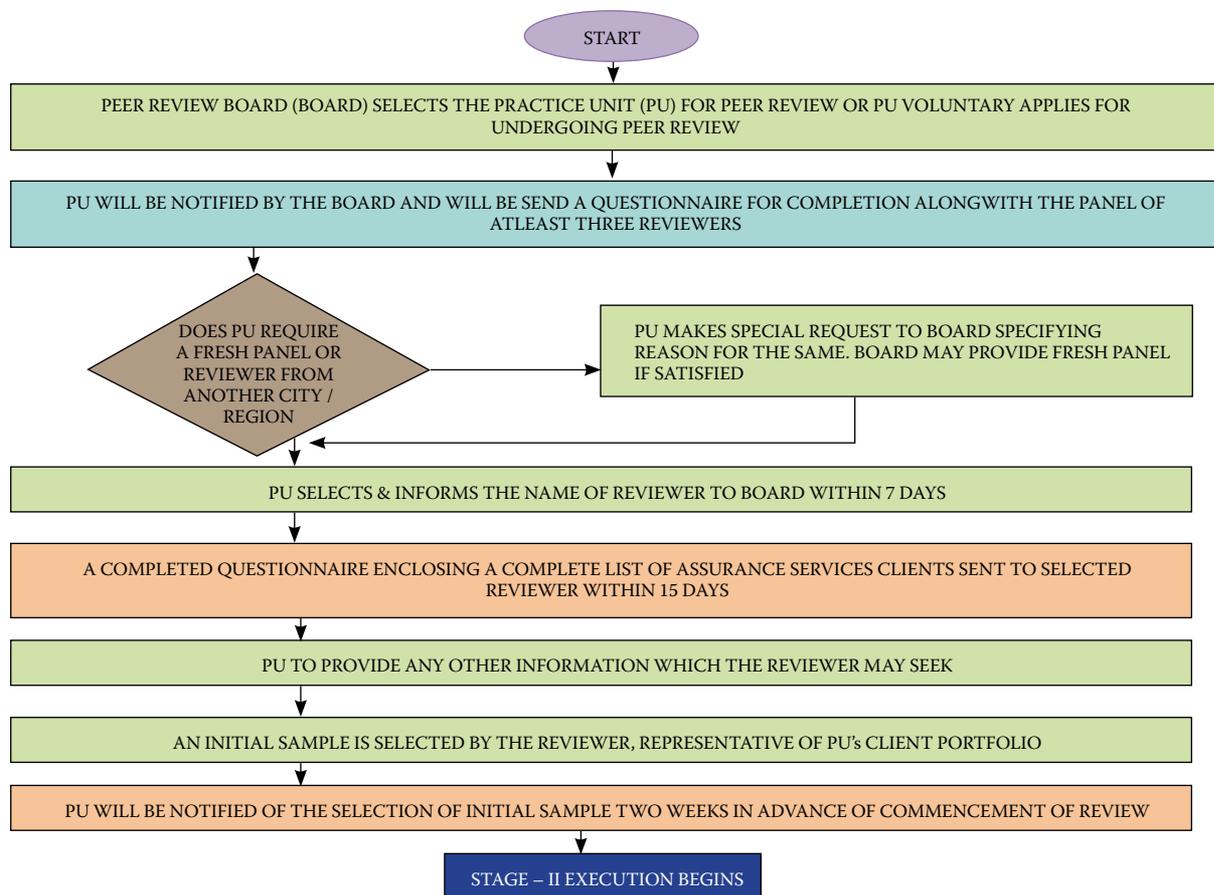
Eligibility to be a Reviewer

1. A Peer Reviewer shall: -	
(a)	Be a member with at least 10 years of experience in practice.
(b)	Is in Practice as per the Chartered Accountants Act, 1949.
(c)	Should have undergone the requisite training as prescribed by the Board.
(d)	Should furnish a declaration as prescribed by the Board, at the time of acceptance of Peer Review appointment.

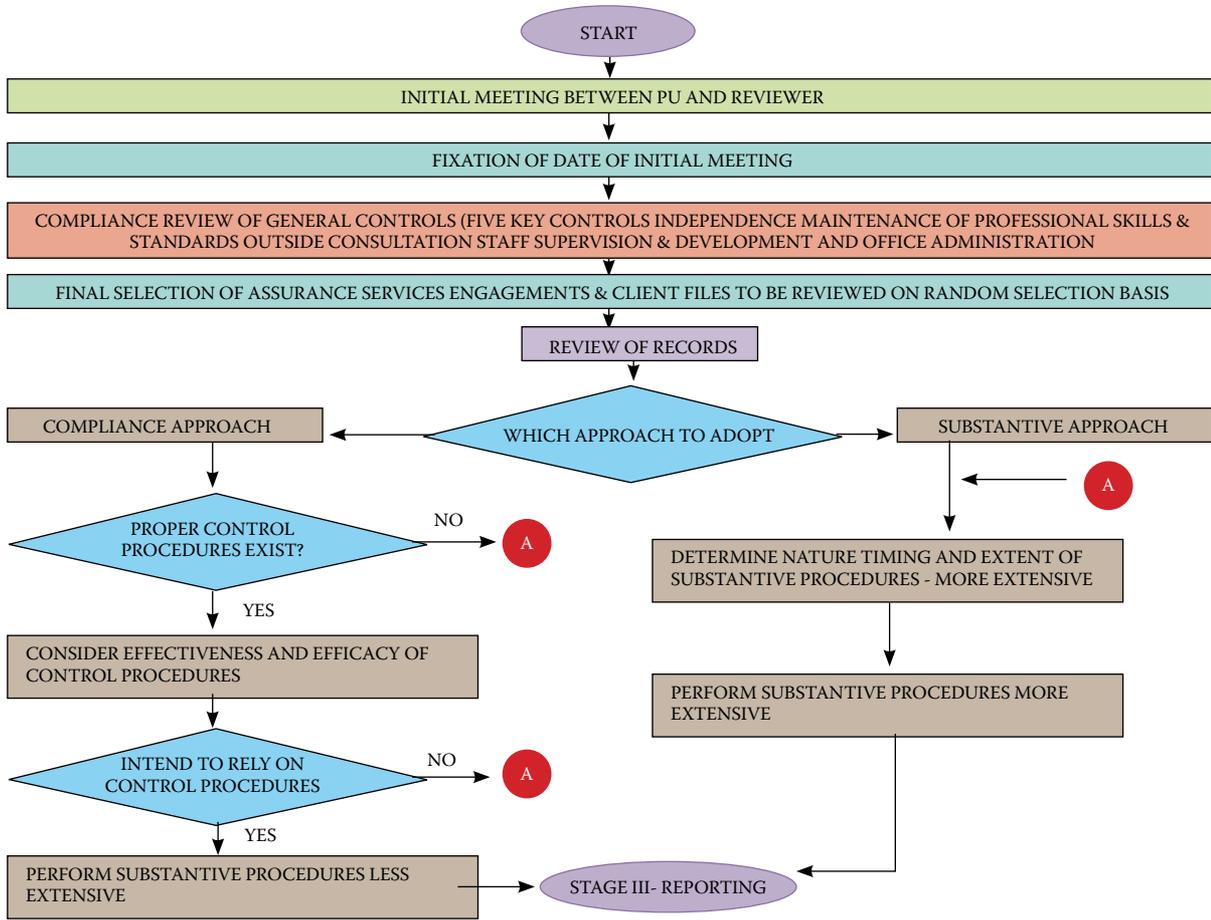
(e)	Should have signed the Declaration of Confidentiality as prescribed by the Board.
(f)	Should have conducted audit of Level I Entities for at least 7 years to be eligible for conducting Peer Review of Level I Entities as referred to in Para II of this Statement.
2. For being a Reviewer a member should not have: -	
(i)	Disciplinary action / proceedings pending against him.
(ii)	been found guilty by the Council or the Disciplinary Board or Committee at any time.
(iii)	been convicted by a Competent Court whether within or outside India, of an offence involving moral turpitude and punishable with transportation or imprisonment.
(iv)	any Obligation or conflict of interest in the Practice Unit or its Partners / Personnel.
3. A Reviewer shall not accept any professional assignment from the Practice Unit for a period two years from the date of appointment.	



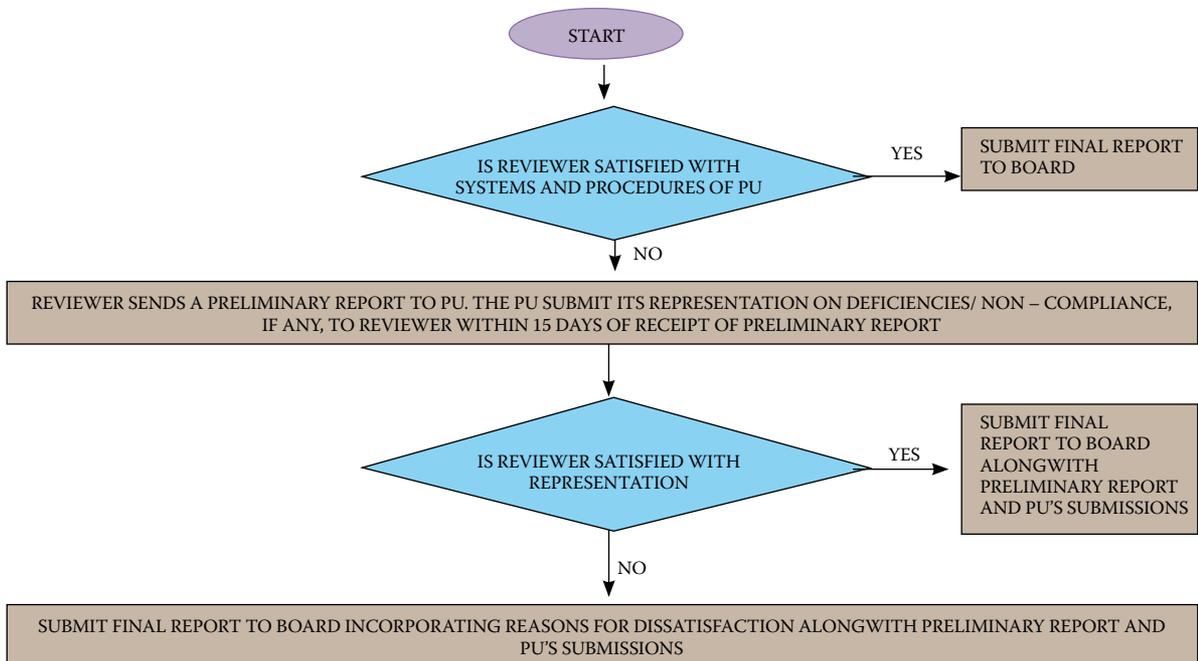
Stage- I: Planning



Stage- II: Execution



Stage- III: Reporting



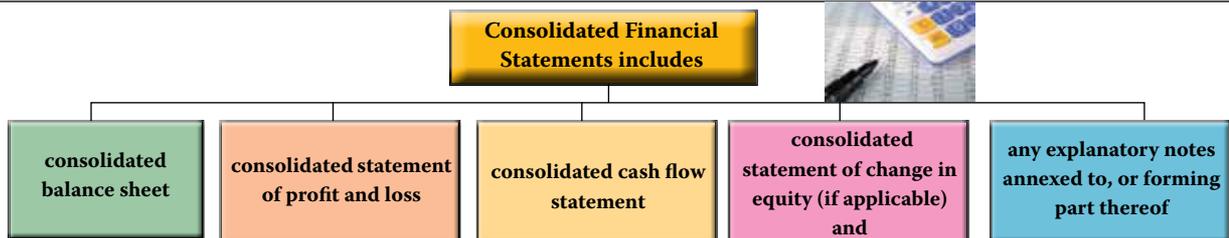
Final Course Paper 3

Advanced Auditing and Professional Ethics: A Capsule for Quick Recap

It has always been the endeavour of Board of Studies to provide quality academic inputs to the students of Chartered Accountancy Course. Keeping in mind this objective, BoS has decided to come out with a Crisp & Concise Capsule of each subject to facilitate students in quick revision before examination. In continuation to September and November, 2018 this capsule is on Paper 3: Advanced Auditing & Professional Ethics of Final Course. It may be mentioned that this capsule is a tool for quick revision of some significant areas of Auditing subject, this should not be taken as a substitute for the detailed study of the subject. Students are advised to refer to the relevant Study Material and RTP for comprehensive study & revision.

Chapter 9 : Audit of Consolidated Financial Statements

AS 21 and Ind AS 110 'Consolidated Financial Statements' (hereinafter referred as CFS) lay down principles and procedures for preparation and presentation of consolidated financial statements under AS and Ind AS respectively.



- CFS are presented, to the extent possible, in the same format as adopted by the parent for its separate financial statements.
- The formats for preparation of balance sheet, statement of profit and loss and a statement of change in equity (if applicable) are prescribed under the Schedule III of the Companies Act, 2013.

CFS- Mandatory under Companies Act, 2013

- Section 129(3) provides where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a CFS of the company and of all the subsidiaries in the same form and manner as that of its own.
- section 129(4) provides that the provisions applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, also apply to the CFS.
- The CFS shall also be approved by the board of directors before they are signed on behalf of the board, along with its own financial statements and shall also be laid before the annual general meeting of the company along with the laying of its own financial statement.
- The company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in Form AOC-1.
- CFS shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards

The requirement related to preparation of consolidated financial statements shall not apply to a company if it meets the following conditions:

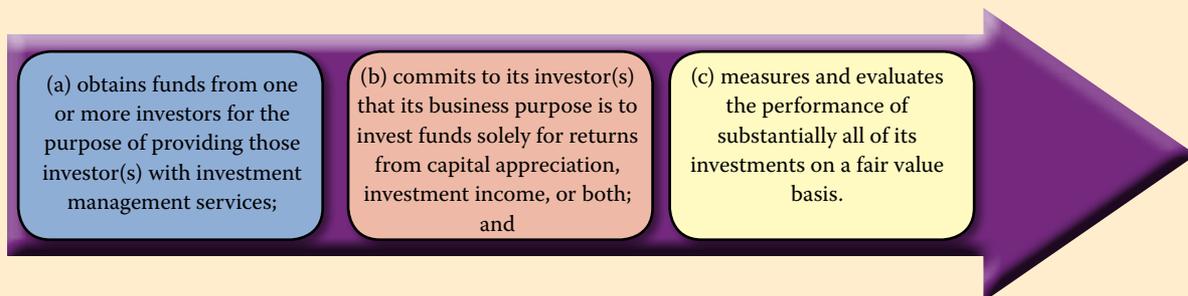
- it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;
- it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; and
- its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards.

As per sub-section 6 of the section 129 of the Companies Act, 2013, the Central Government may exempt any class or classes of companies from complying with any of the requirements of section 129 or the rules made thereunder,

ADVANCED AUDITING AND PROFESSIONAL ETHICS ||

An investment entity need not present CFS if it is required, in accordance with Ind AS 110, to measure all of its subsidiaries at fair value through profit or loss. A parent shall determine whether it is an investment entity.

An investment entity is an entity that:



RESPONSIBILITY OF PARENT

The responsibility for the preparation and presentation of consolidated financial statements, among other things, is that of the management of the parent. This includes:

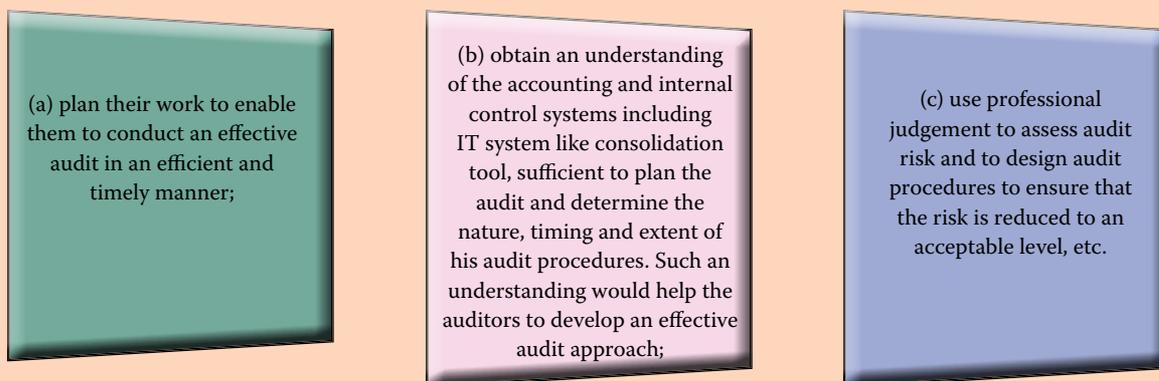
- (a) identifying components, and including the financial information of the components to be included in the consolidated financial statements;
- (b) where appropriate, identifying reportable segments for segmental reporting;
- (c) identifying related parties and related party transactions for reporting;
- (d) obtaining accurate and complete financial information from components;
- (e) making appropriate consolidation adjustments;
- (f) harmonisation of accounting policies and accounting framework; and
- (g) GAAP conversion, where applicable.

Further, the parent ordinarily issues instructions to the management of the component specifying the parent's requirements relating to financial information of the components to be included in the consolidated financial statements. The instructions ordinarily cover the accounting policies to be applied, statutory and other disclosure requirements applicable to the parent, including the identification of and reporting on reportable segments, and related parties and related party transactions, and a reporting timetable.

The auditor's objectives in an audit of CFS are:

(a) to satisfy himself that the consolidated financial statements have been prepared in accordance with the requirements of applicable financial reporting framework;	(b) to enable himself to express an opinion on the true and fair view presented by the consolidated financial statements;	(c) to enquire into the matters as specified in section 143(1) of the Companies Act, 2013; and.	(d) to report on the matters given in the clauses (a) to (i) of section 143(3) of the Companies Act, 2013 for other matters under section 143(3)(j) read with rule 11 of the Companies (Audit and Auditors) Rules, 2014, to comment on the matters specified in sub-rule (a),(b) and (c) to the extent applicable;	(e) to validate the requirement of preparation of CFS for the company as per applicable financial reporting framework.
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While conducting the audit of CFS the auditors, are, *inter alia*, expected to:



ADVANCED AUDITING AND PROFESSIONAL ETHICS

Audit Considerations: The following features of consolidated financial statements have an impact on the related audit procedures:

CFS are prepared on the basis of separate financial statements of the parent and its components, using the consolidation procedures prescribed by Accounting Standards under applicable financial reporting framework; and

The auditor of the CFS may use the work of other auditors as per requirement of Standards on Auditing unless the auditor of consolidated financial statements is also the auditor of the other components of the group.

- ▶▶ When an auditor accepts the audit of consolidated financial statements, the auditor should assess whether based on his work alone he would be able to express an opinion on the true and fair view presented by the consolidated financial statements. If the auditor is of the view that his own participation may not be enough or sufficient, he should consider using the work of 'other auditors'.
- ▶▶ Such 'other auditors' might be the statutory auditors of the separate financial statements of one or more of the components or the auditors appointed specifically for assisting the auditor of the consolidated financial statements (the principal auditor).
- ▶▶ Where the statutory auditors of one or more of the components of the parent are also requested to assist the principal auditor, the work to be performed by such statutory auditors for use by the principal auditor would constitute an assignment separate from the assignment to conduct the statutory audit of the respective component.

Standard on Auditing (SA) 600, 'Using the Work of Another Auditor' In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of CFS, the auditor should consider the following:

The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.

The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable.

The principal auditor also computes materiality for each component and communicates to the component auditor, if he believes is required for true and fair view on CFS.

The principal auditor also obtains certain confirmations from component auditor like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.

However, while considering the observations (for instance modification and /or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the concept of materiality would not be considered. Thus, the component auditor's observations, if any, on the component's financial statements, irrespective of whether the auditors of the component are also the auditors of the CFS or not, are required to be included in the parent auditor's report on the CFS, regardless of materiality.

Before commencing an audit of consolidated financial statements, the auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner.

(a) Understanding of the group structure and group-wide controls including assessment of Information Technology (IT) system and related general and applications IT related controls (manual and automated) for consolidation process;

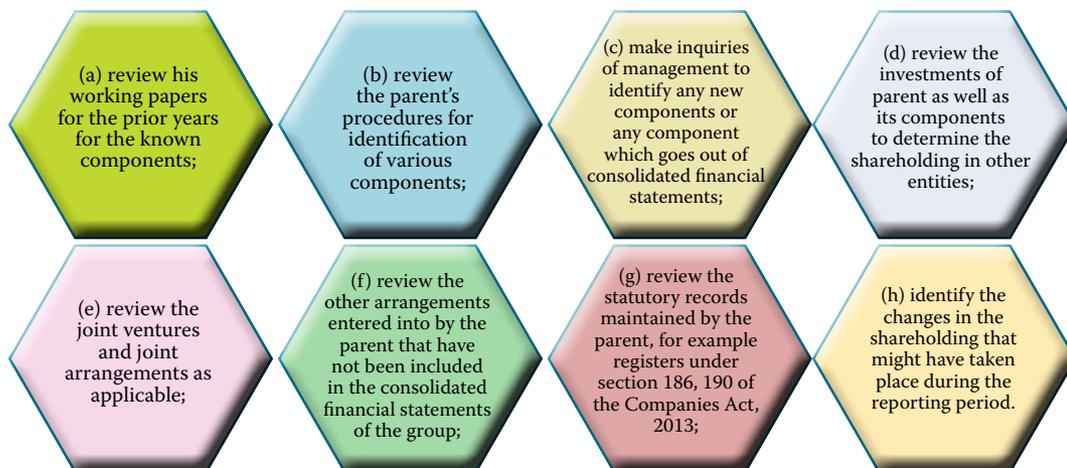
(b) understanding of accounting policies of the parent and its components as well as of the consolidation process including the process of translation of financial statements of foreign components;

(c) determining and programming the nature, timing, and extent of the audit procedures to be performed based on the assessment of the risk of material misstatement in consolidation process;

(d) determining the extent of use of other auditor's work in the audit; and

(e) coordinating the work to be performed.

In respect of completeness of this information, the auditor should perform the following procedures:



Special Consideration

Permanent Consolidation Adjustments

Adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated.

These are: Determination of Goodwill or capital reserve as per applicable accounting standard. Determination of amount of equity attributable to minority/ non- controlling interests.

Current Period Consolidation Adjustments

Adjustments that are made in the accounting period for which the consolidation of financial statements is done.

These relate to elimination of intra-group transactions and account balances.

Permanent Consolidation Adjustments : Audit Procedures

Verify that the calculations are made appropriately.

Verify the pre-acquisition reserves and its allocation between the parent and the minority interest of the subsidiary.

Verify the changes in such adjustments on account of subsequent acquisition or disposal in the subsequent years.

In case the parent company has net off the capital reserve and goodwill arising in case of different subsidiaries, the auditor should verify the gross amount of goodwill and capital reserve arising on acquisition of various subsidiaries has been disclosed in the notes to the consolidated financial statements.

Current period adjustments relates to elimination of intra- group transactions including:

- ▶▶ Intra- group interest paid and received, intra- group indebtedness;
- ▶▶ Unrealised intra- group profits on assets acquired/ transferred;
- ▶▶ Record deferred taxes on unrealised intercompany profits elimination in accordance with Ind AS 12;
- ▶▶ Adjustments relating to harmonising the accounting policies of group companies;
- ▶▶ Adjustments to the financial statements for recognised subsequent events or transactions that occur between balance sheet date and date of the auditor's report;

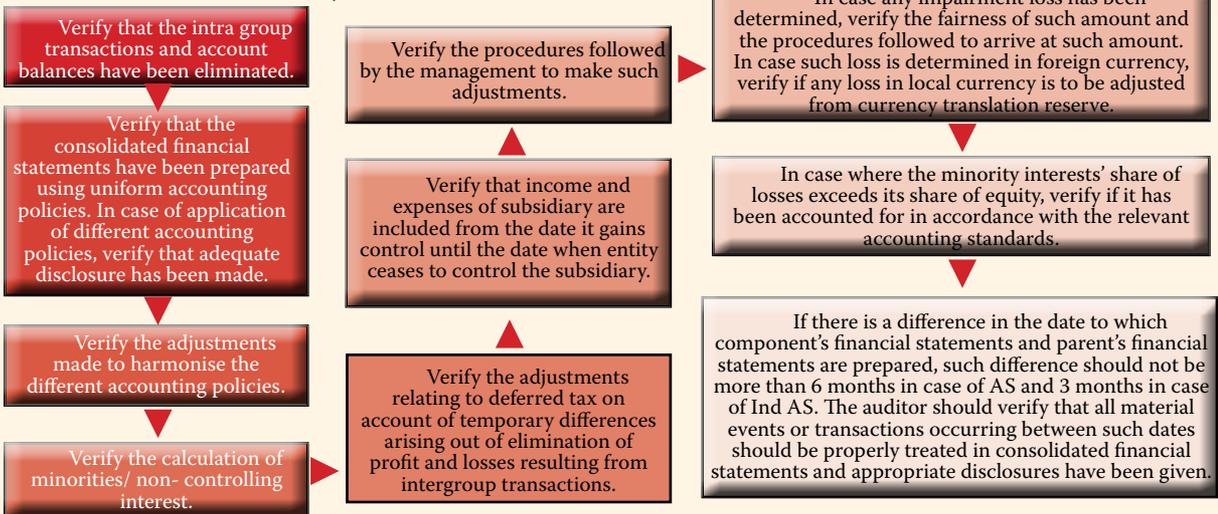
Subsequent events are of two types:

Events or transactions that provide additional evidence about conditions that existed at the date of the financial statements (Adjusting Event)

Events or transactions that did not exist at the date of the financial statements but arose subsequent to that date (Non-adjusting Event)

- ▶ Adjustments for the effects of significant transactions or other events that occur between the date of the components balance sheet and the date of auditor's report when the financial statements of the component are not drawn upto the same balance sheet date as that of the parent;
- ▶ In case of a foreign component, adjustments to convert component's audited financial statements from local GAAP to the GAAP under which the consolidated financial statements are prepared;
- ▶ Determination of movement in equity attributable to the minorities interest since the date of acquisition.

Current Period Consolidation Adjustments: Audit Procedures

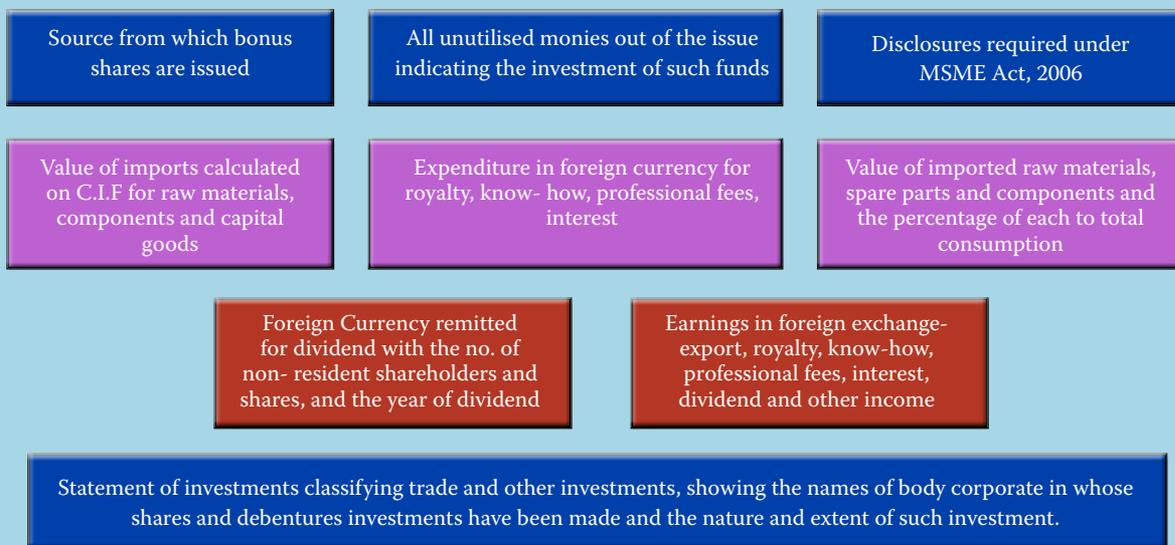


Disclosure Requirements:

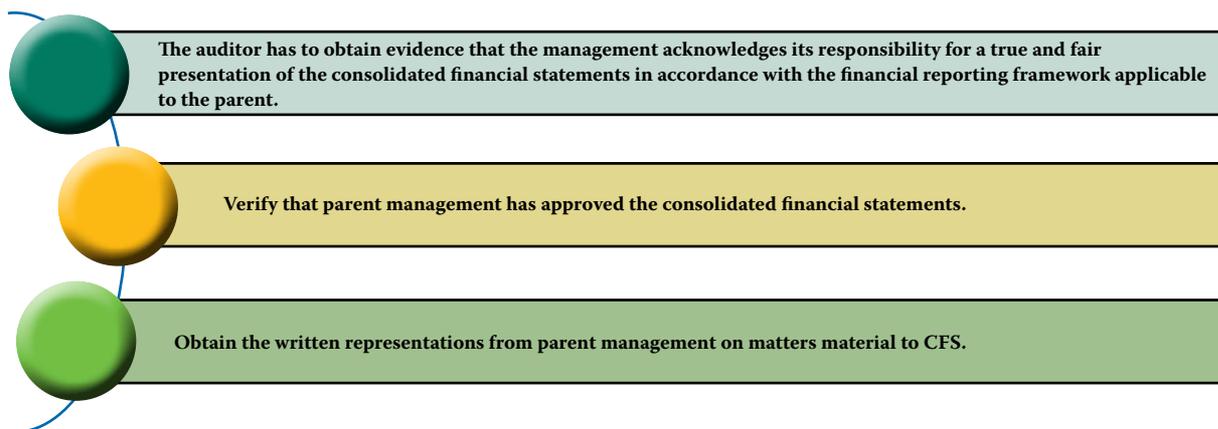
- ▶ Appropriate notes required by the applicable standards for presenting a true and fair view have been included in the consolidated financial statements.
- ▶ The additional statutory information having a bearing on the true and fair view of the consolidated financial statements have also been disclosed.
- ▶ In case of consolidation adjustments, these are either disclosed as a single line item separately or adjusted in the information disclosed for the parent and its each component.
- ▶ Following information is also required to be disclosed in the consolidated financial statements separately for the parent and each of its components:
 - ▶ Amount of net assets and net assets as a percentage of consolidated net assets;
 - ▶ Amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss;
 - ▶ Amount in other comprehensive income and the percentage of OCI as a percentage of consolidated OCI.



Consolidated Financial Statement- Disclosures not required

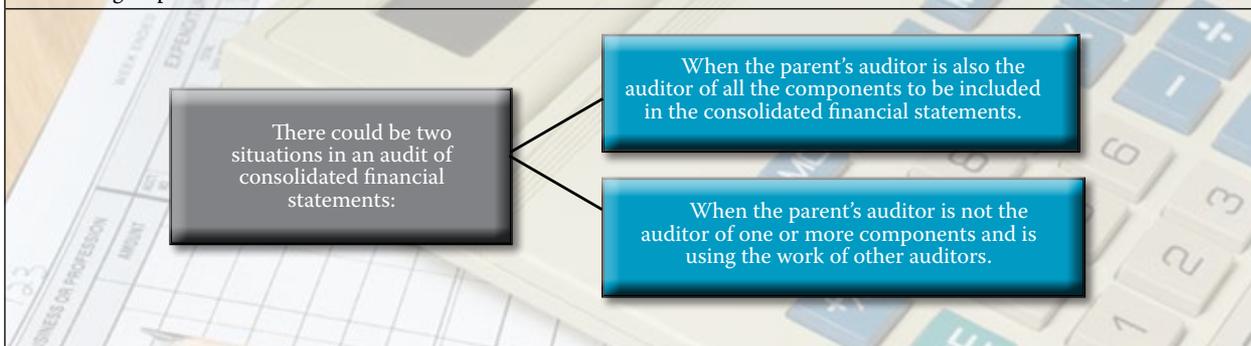


Management Representations : SA 580, "Written Representations" requires the auditor to obtain written representations from management and if required, those charged with governance.



Examples of such representations:

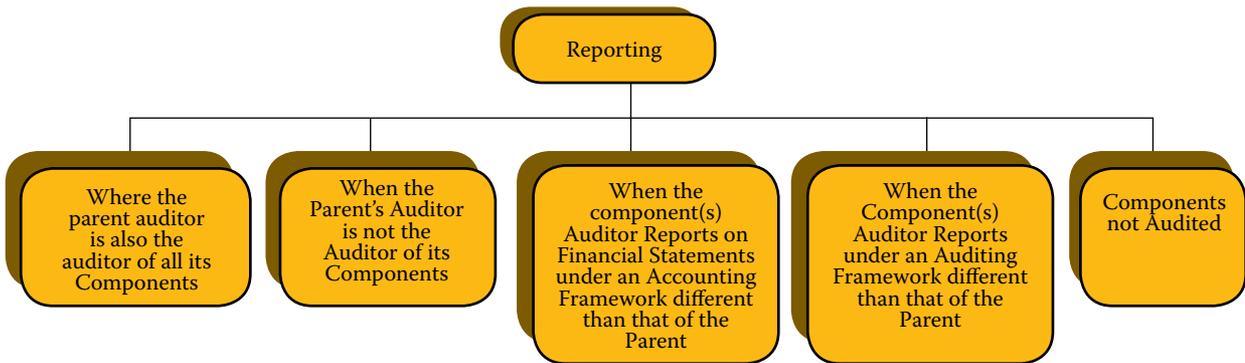
- ▶▶ Completeness of the components included in consolidated financial statements
- ▶▶ Identification of reportable segments for segmental reporting.
- ▶▶ Identification of related parties and related party transactions for reporting.
- ▶▶ Appropriateness and completeness of permanent and current period consolidation adjustments, including the elimination of intra- group transactions.



ADVANCED AUDITING AND PROFESSIONAL ETHICS

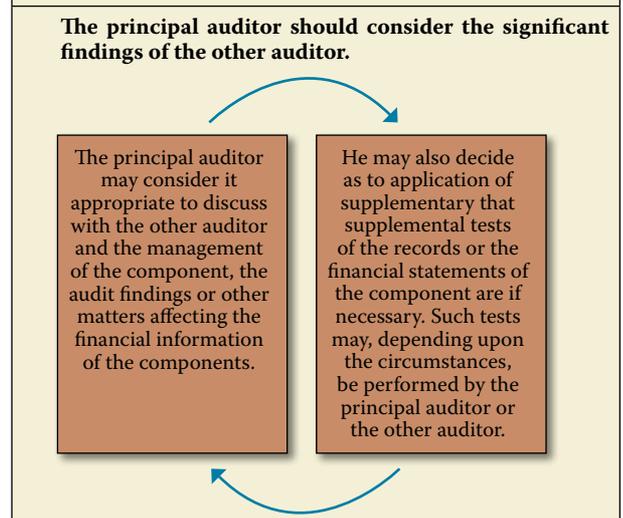
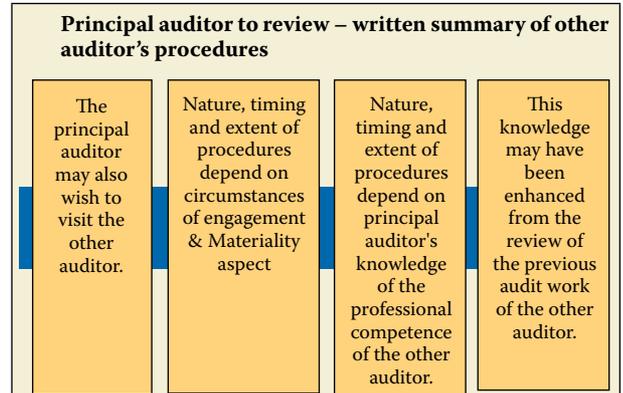
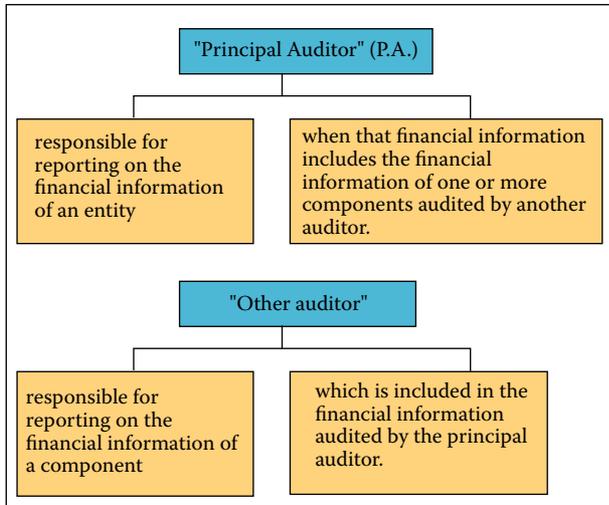
Reporting : The auditor while preparing the report should consider the requirements of following Standards of Auditing:

SA 700 "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".	SA 600 "Using the Work of Another Auditor".
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Audit Procedures		
Whether the Parent's Auditor is also the Auditor of all its Components:		
Whether principles and procedures for preparation and presentation of Consolidated Financial Statements as laid down in the relevant accounting standards have been followed. In case of any deviation, give appropriate disclosures.	Auditor should issue an audit report expressing opinion whether the Consolidated Financial Statements give a true and fair view of the state of affairs of the Group.	Where Cash flow statement also forms a part of Consolidated Financial Statements, auditor should also give his opinion on the true and fair view of the cash flows.
Whether the Parent's Auditor is not the Auditor of all its Components		
The Auditor's report should disclose clearly the magnitude of the portion of the financial statements audited by the other auditor(s). This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows.	Such reference should not be construed as a qualification of the opinion but rather as indication of the divided responsibility between the auditors of the parent and its subsidiaries.	
When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent:		
 The parent management perform a conversion of the components' audited financial statements to a framework under which the consolidated financial statements are prepared.	 The Conversion adjustments are audited by the principal auditor to ensure the financial information is suitable and appropriate for consolidation.	 In case the component has prepared financial statements on the basis of group accounting policy, the local component auditor can then audit and issue an audit report on the components financial statements.
 The parent company auditor can then decide whether or not to rely on such audit report issued by the components' auditor.		
When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent: In such a case, the components' financial statements should also be audited under a framework that corresponds to Indian GAAS.		
Components not Audited : When financial statements of one or more components continue to remain unaudited,		
the auditor should consider the unaudited components in evaluating a possible modification to his report.	In such cases, the auditor should evaluate both qualitative and quantitative factors on the possible effect of such amounts remaining unaudited when reporting on the consolidated financial statements.	This evaluation is necessary since the auditor has not been able to obtain sufficient appropriate audit evidence.

SA 600 - USING THE WORK OF ANOTHER AUDITOR



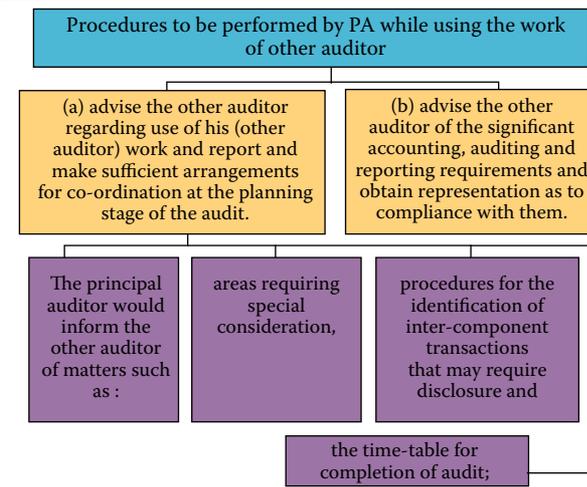
Where the other auditor's report is other than unmodified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report.



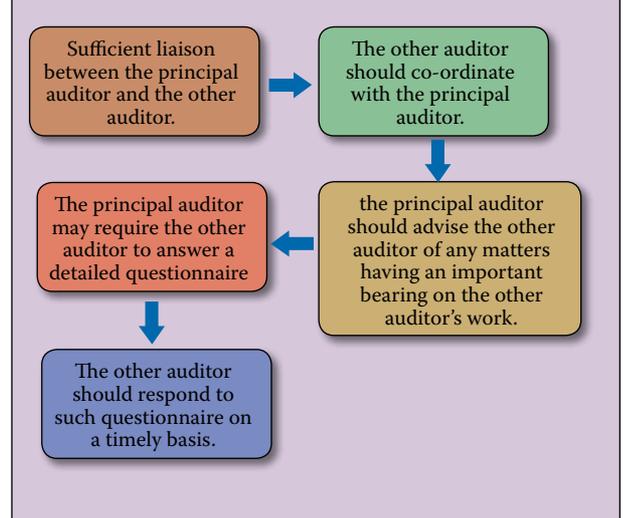
I. Consideration by an auditor before acceptance as Principal Auditor:

- (a) the materiality of the portion of the financial information
- (b) degree of knowledge regarding the business of the components;
- (c) the risk of material misstatements in the financial information of the components audited by the other auditor; and
- (d) the performance of additional procedures as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

II. Procedures to be followed by P.A.



III. Co-ordination Between Auditors



IV Reporting Considerations

1. Principal auditor to express a qualified opinion or disclaimer of opinion in case of a limitation on the scope of audit.

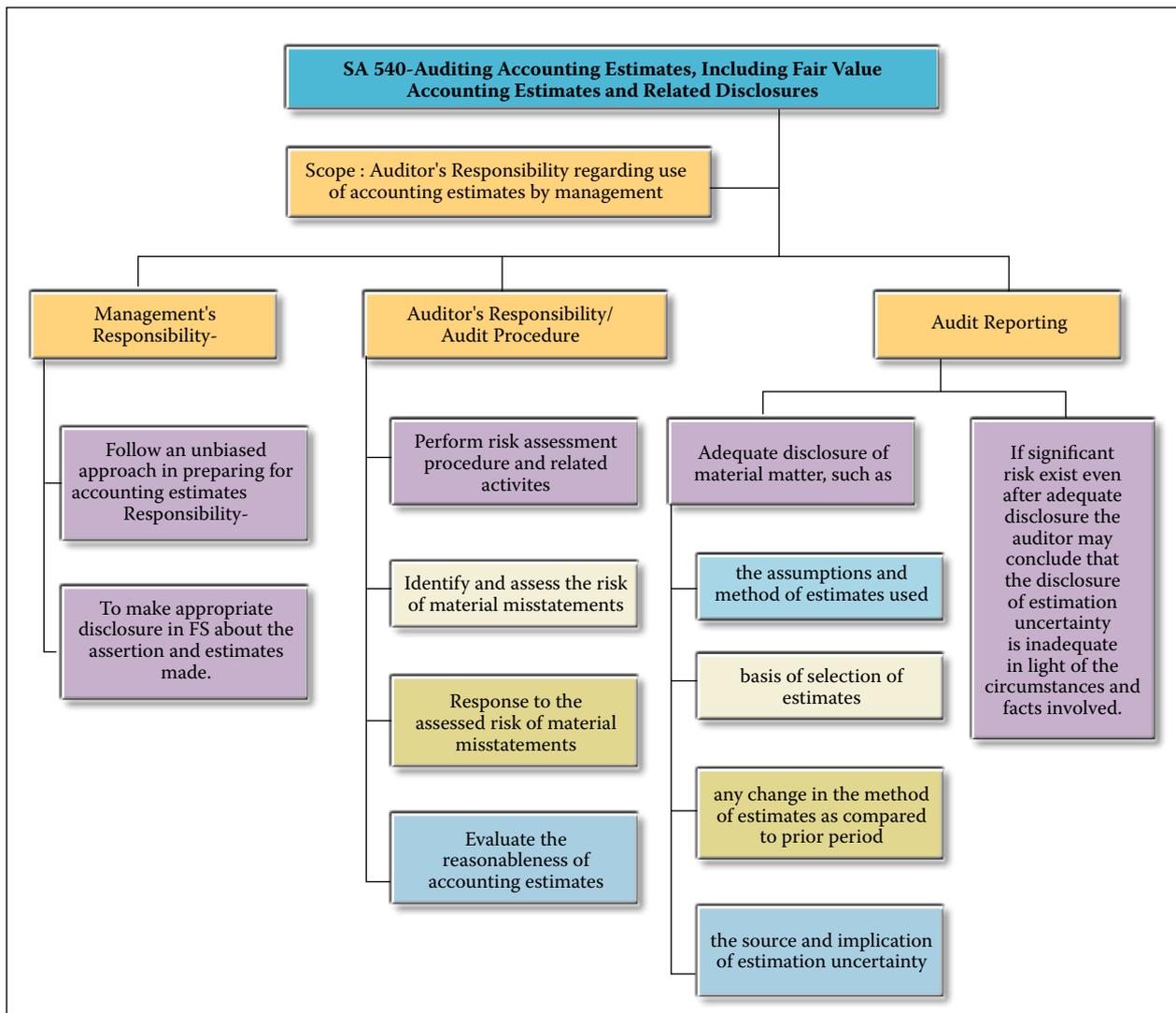
When the principal auditor concludes, based on his procedures, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit.

2. If the other auditor issues a Modified Report

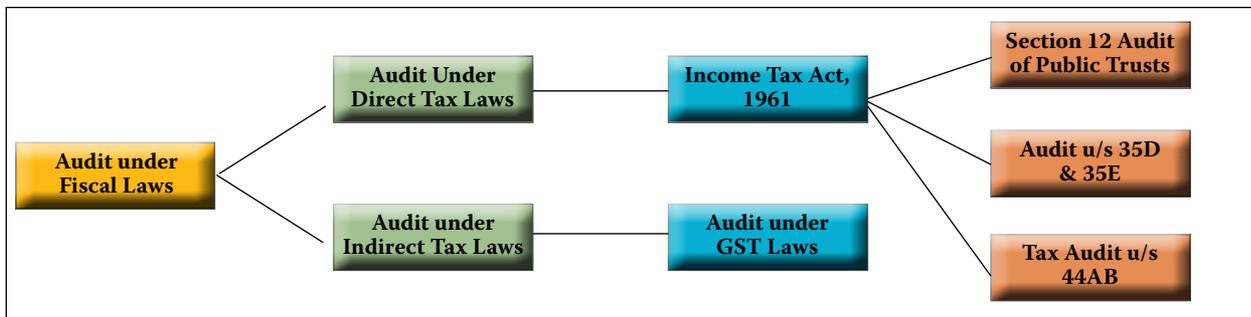
In all circumstances, if the other auditor issues, or intends to issue, a modified auditor's report, the principal auditor should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor is reporting that it requires a modification of the principal auditor's report.

V. Division of Responsibility

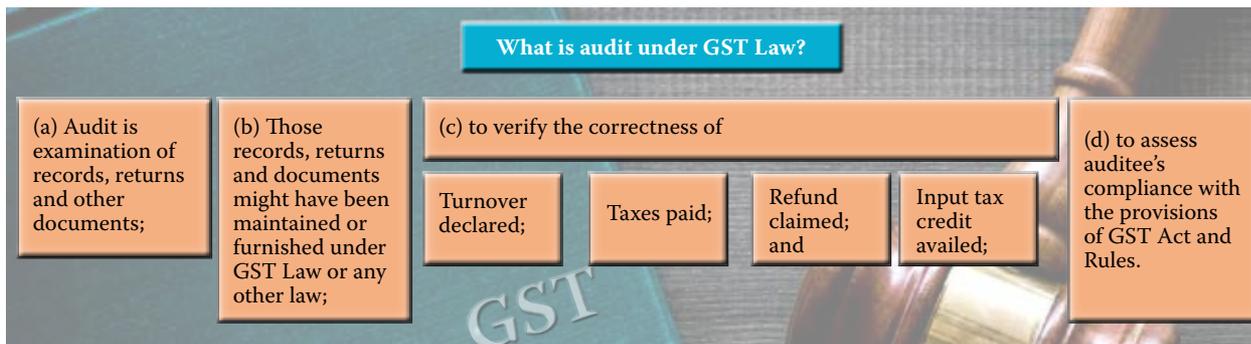
When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors. However, if the Principal Auditor notices any material discrepancies the same has to be brought to the knowledge of other Auditor. This should be incorporated in the Audit Report.



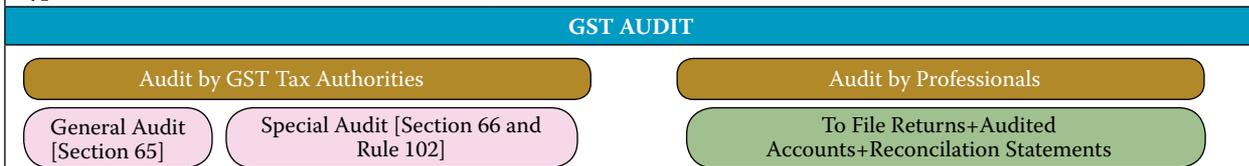
CHAPTER 13 - AUDIT UNDER FISCAL LAWS



AUDIT PROVISIONS UNDER INDIRECT TAX LAW



Types of Audit under GST Law



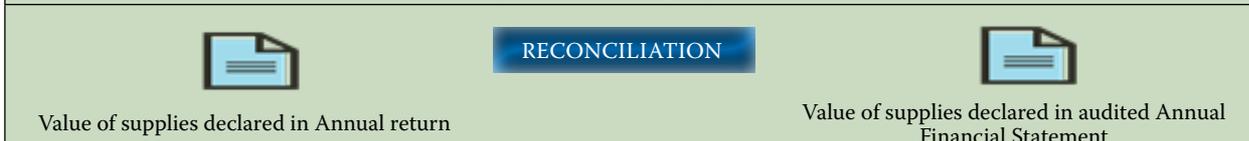
Audit of Accounts [sub-section 5 of Section 35(5) read alongwith section 44(2) and rule 80 of the CGST Rules, 2017]

- (i) 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.
- (ii) Such registered person is required to furnish electronically through the common portal alongwith Annual Return a copy of:
 - Audited annual accounts
 - A Reconciliation Statement, duly certified, in prescribed FORM GSTR-9C.

Threshold for Audit: Section 35(5) begins with the expression “every registered person whose turnover during a financial year exceeds the prescribed limit” whereas the relevant Rule 80(3) uses the expression “every registered person whose aggregate turnover during a financial year exceeds two crore rupees”. It must be noted that the word turnover has not been defined whereas the expression aggregate turnover has been defined. One may note that the expression turnover in State or turnover in the Union territory is defined. In this backdrop the following understanding is relevant:

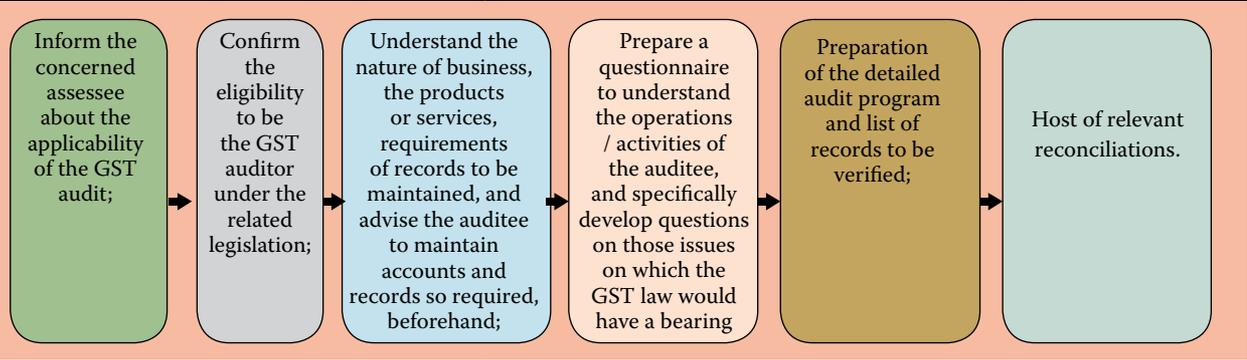
Aggregate turnover is PAN based while turnover in a State/ UT, though similarly worded, is limited to turnover in a State / UT, which is limited to a State;	It is therefore, reasonable to interpret that the word turnover used in Section 35(5) ought to be understood as aggregate turnover.	For the financial year 2017-18, the GST period consists of 9 months whereas the relevant Section 35(5) uses the expression financial year; Therefore, in the absence of clarification from the government, and to avoid any cases of default, it is reasonable to understand that to reckon the turnover limits prescribed for audit i.e., ₹ 2 crores one has to reckon the turnovers for the whole of the financial year which would also include the first quarter of the financial year 2017-18.
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Reconciliation Statement will reconcile the value of supplies declared in the return furnished for the financial year with the audited annual financial statement and such other particulars, as may be prescribed.



ADVANCED AUDITING AND PROFESSIONAL ETHICS

Preparation / Steps for the GST Audit:



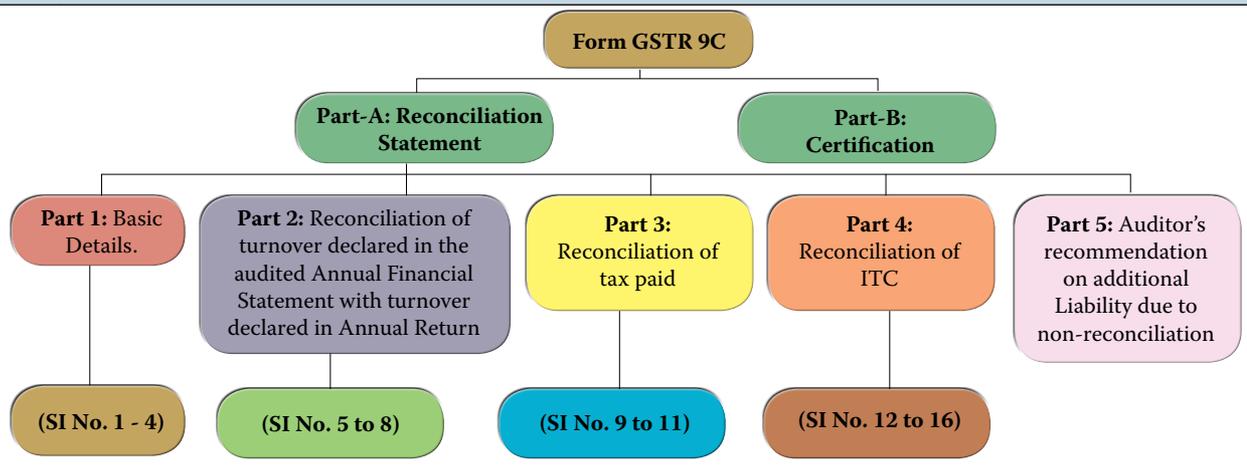
Various Forms/ Returns to be filed under GST Act:

GSTR 9	{ to be filed by the regular taxpayers filing GSTR 1, GSTR 2, GSTR 3
GSTR 9A	{ to be filed by the persons registered under composition scheme under GST.
GSTR 9B	{ To be filed by e-commerce operators
GSTR 9C	{ Should be by the taxpayers whose annual turnover exceeds ₹ 2 crores during the financial year alongwith audited annual accounts and reconciliation statement of tax already paid and tax payable as per audited accounts alongwith GSTR 9C.

Comparative view of Form GSTR-9 and GSTR 9C

Return in GSTR 9	Return in GSTR 9C
It is the report of a formal or official character giving information	Means the formal statement to be made under the provisions of the Act the veracity of which needs an enquiry as to its correctness
Prescribed under a Statute	Prescribed under a Statute
To be filed by all registered persons	To be filed only if the aggregate turnover in a financial year exceeds ₹ 2 crores.
Not required to be filed by a Casual Taxable Person, Non-Resident Taxable Person, Input Service Distributor, Unique Identification Number Holders, Online Information and Database Access Retrieval Service, Composition Dealers, persons required to deduct taxes under Section 51 and persons required to collect taxes under Section 52.	Not required to be filed by a Casual Taxable Person, Non-Resident Taxable Person, Input Service Distributor, Unique Identification Number Holders, Online Information and Database Access Retrieval Service, Composition Dealers, persons required to deduct taxes under Section 51 and persons required to collect taxes under Section 52.
No need to annex financials	Financials to be annexed
A plain reading of the relevant provisions indicates that the said Annual Return in GSTR 9 and the Reconciliation Statement in GSTR 9C must be filed together. However, if one were to peruse GSTR 9C there are certain tables which state that "turnover as declared in annual return" indicating thereby that GSTR 9C is dependent on GSTR 9. This anomaly can be addressed only on the basis of the finalised annual return initialled and presented to the GST auditor by the registered person.	

Analysis of Form GSTR 9C



ADVANCED AUDITING AND PROFESSIONAL ETHICS

PART 1: BASIC DETAILS HAS THE FOLLOWING FOUR SECTIONS

Sl. No. 1 : Financial Year : requires disclosure of the “financial year” to which the Reconciliation Statement in Part A relates to.

Sl. No. 2 : GSTIN: means “Goods and Services tax Identification Number” of the tax payer or the Registered Person

Sl. No. 3A and 3B: Legal Name and Trade Name: The word “trade” is not only limited to occupation or business. It could be a connotation. The word “trade” ought to be understood in its ordinary sense, without any reference to “business”.
Example : “Indigo” could be a trade name while the legal name is “InterGlobe Aviation Limited”.

Sl. No. 4 : Are you liable to audit under any Act?: It is possible that an entity could be subjected to audit under several statutes.
Example : a Proprietary Concern could be subject to audit under the Income tax Act, 1961 and a Private Limited Company could be subject to the statutory audit under the Companies Act, 2013 as well as under the Income tax Act.

PART 2: RECONCILIATION OF TURNOVER DECLARED IN THE AUDITED ANNUAL FINANCIAL STATEMENT WITH TURNOVER DECLARED IN ANNUAL RETURN

Sl. No. 5A: turnover (including exports) as per audited financial statements for the State / UT (For multi-GSTIN units under same PAN the turnover shall be derived from the audited Annual Financial Statement) : intended to report the turnover as per the audited Annual Financial Statement for a GSTIN. There may be cases where multiple GSTINs (State-wise) registrations exist for the same PAN. This is common for persons / entities with presence over multiple States or in respect of multiple registration in a single State/UT. The Government vide it is instructions has indicated that such persons / entities would have to internally derive their GSTIN wise turnover and provide to the Auditor to verify and declare in this Sl. No.

Sl. No. 5B. Unbilled revenue at the beginning of Financial Year : In simple terms, unbilled revenue is the revenue recognised in the books of accounts before the issue of an invoice at the end of a particular period. Accounting Standard- 9 / IND AS 115 provides for recognition of revenue on full completion / partial completion of the services though the due date for issuing invoice as per the contract would be on a later date. It is advisable to refer to AS-9 / IND AS 115 for a better understanding of the concept.

Sl. No. 5C Add: Unadjusted advances at the end of the Financial Year: The scope of Part II Sl No. 5C and 5I is to make adjustment of Unadjusted Advances to Audited Financials for arriving towards the GSTR 9 turnover. It is a business practice to collect advances from customers before effecting supplies. When an advance is received, since the goods and / or services would not have been delivered / rendered, the revenue is not yet earned, whereby this advance would be recorded as a liability (either as current liability or long-term liability) in the balance sheet as at the end of the financial year.

Sl. No. 5D. Deemed Supply under Schedule I : Clause 5D seeks to cover aggregate value of four classes of deemed supplies transactions specified under Schedule I of the CGST Act. Any deemed supply which is already reported as part of the turnover in the audited Annual Financial Statements is not required to be included in this Sl. No.

Sl. No.5E. Credit notes issued after the end of the financial year but reflected in the annual return.: This Sl. No. mandates reporting of the aggregate value of credit notes which were issued after Mar 31, 2018 in respect of any supply accounted in the current financial year (2018-19) but for credit notes were reflected in the annual return (GSTR -9 for the financial year 2017-18). But, it is uncommon, although not impossible, for credit notes dated beyond Apr 1, 2018 to be given effect in the financial accounts. This Sl. No. applies only in such rare cases. For the most part, this Sl. No. may well be ‘nil’.

Sl. No. 5F. Trade discounts accounted for in the audited Annual Financial Statement but are not permissible under GST: Clause 5F requires disclosure of trade discounts which have been given effect to, in the audited financial statements but which are not permissible as part of deductions from the value of supply under the GST Laws.

Sl. No. 5G: turnover from April 2017 to June 2017: In terms of this Sl. No. the turnovers included in the audited financial statement for the period April 2017 to June 2017 shall be declared and deducted from the annual turnover to arrive at the turnover as per the GST Laws.

Sl. No. 5H. Unbilled revenue at the end of Financial Year: Unbilled revenue which was recorded in the books of accounts on the basis of accrual system of accounting during the current financial year, but GST was not payable on such revenue in the same financial year shall be declared here.

Sl. No. 5I Less: Unadjusted Advances at the beginning of the Financial Year: Value of all advances for which GST has not been paid but the same has been recognised as revenue in the audited Annual Financial Statement shall be declared here.

Sl. No. - 5J. Credit notes accounted for in the audited Annual Financial Statement but are not permissible under GST: This Sl. No. has to be filled up with the information available in the audited Financial Statements whereas such amounts have not been adjusted against the supplies in the GST returns. All the adjustments made to the turnover where there is an effect of reduction due to a Credit Note issued have to be quantified for the purpose of reconciliation between the books of accounts and the GST returns to be filed. There could be an adjustment made to the receivable and payable in the books of accounts. Care should be exercised to extract the information of credit note that only calls for reduction of the turnover.

Auditor has to disclose the practice adopted for collating relevant information from the books of accounts and the basis for determining the adjustments eligible for reconciliation purposes.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

Sl. No. 5K. Adjustments on account of supply of goods by SEZ units to DTA Units: Such outward supplies are not required to be reported by SEZ units in their GST Returns and hence the data cannot be retrieved from the returns filed by such SEZ units. SEZ units are required to maintain records of the assets / goods admitted into the SEZ unit and also the details of disposal of such goods. Such records can assist an Auditor in identifying the outward supply made by the SEZ unit. Additionally, disposal of capital goods would be disclosed as deletion in the Fixed Asset Registers

Sl. No. 5L. Turnover for the period under composition scheme: There may be cases where Registered Persons might have opted out of the composition scheme during the year. Their turnover as per the audited Annual Financial Statement would include turnover both as composition taxpayer as well as normal taxpayer. Therefore, the turnover for which GST was paid under the composition scheme shall be declared under this Sl. No. 5L.

Sl. No. 5M. Adjustments in turnover under section 15 and rules thereunder: There may be cases where the taxable value and the invoice value differ due to valuation principles under section 15 of the CGST Act, 2017 and rules thereunder. Therefore, any difference between the turnover reported in the Annual Return (GSTR 9) and turnover reported in the audited Annual Financial Statement due to difference in valuation of supplies shall be declared here.

Sl. No. 5N. Adjustments in turnover due to foreign exchange fluctuations (+/-): Any difference between the turnover reported in the Annual Return (GSTR9) and turnover reported in the audited Annual Financial Statement due to foreign exchange fluctuations shall be declared here.

Sl. No. 5O. Adjustments in turnover due to reasons not listed above (+/-): Clause 5O is a residuary Sl.No. which requires disclosure of reconciliation details relating to adjustments for which specific column is not provided under any other Sl. No. under Item No. 5.

Sl. No. 5P: Annual turnover after adjustments as above: The reconciliation statement in Sl.No.5P is auto-populated and based on the values declared against Sl. Nos. 5B to 5O.

Sl. No.5Q: turnover as declared in Annual Return (GSTR 9): Clause 5Q requires a taxable person to disclose his turnover as per the Annual Return i.e., GSTR 9 filed for the relevant financial year.

Sl. No. 5R: non-reconciled turnover (Q-P): The un-reconciled turnover at Sl. No. 5R is the difference between the 'Annual turnover after adjustments as above' at Sl. No. 5P and 'turnover as declared in the Annual Returns (GSTR 9)' as declared at Sl. No. 5Q. The difference would be auto generated.

Sl. No. 6- Reasons for Un - Reconciled difference in Annual Gross turnover : This portion of GSTR 9C identifies the turnover differences to be placed on record for explaining the differences between the GST Returns and the Audited Financials.

Sl. No. 7B. Value of Exempted, Nil rated, Non-GST supplies, No-Supply turnover

RECONCILIATION OF TAXABLE TURNOVER		
7A	Annual Turnover after Adjustments (From 5P Above)	<Auto>
7B	Value of Exempted, Nil Rated, Non-GST supplies, No-Supply Turnover	

Clause 7B requires reduction of value of Exempted, Nil rated, Non-GST supplies, No-Supply turnover from the Annual turnover after adjustments to arrive at taxable turnover.

Sl. No. 7C. Zero rated supplies without payment of tax: Clause 7C of GSTR 9C requires disclosure of value of zero-rated supplies without the payment of tax which forms part of the 'Annual turnover after adjustments (from 5P above)' at Sl. No. 5P.



The source of information for zero-rated supplies shall be obtained from the outward supply statement in GSTR – 1 and revenue register forming part of books of accounts. The outward supply statement filed in GSTR -1 shall be correlated with the zero-rated supplies declared in the monthly returns in GSTR – 3B.

Sl No. 7D - Supplies on which tax is to be paid by recipient on reverse charge: Section 2(98) defines reverse charge to mean a case where liability to pay tax is on recipient of supply of goods or service instead of supplier u/s 9(3) and 9(4) of CGST/ SGST Act or S.5(3) or 5(4) of IGST Act.

The Auditor has to verify if the supplier has more than one vertical. One of them vertical must be on forward charge and one on reverse charge. The vertical on reverse charge should be taken under 'supplies on which tax is to be paid by recipient on reverse charge basis'.

Sl. No. 7E - taxable turnover as per adjustment above (A-B-C-D)

Sl. No. 7F - taxable turnover as per liability declared in Annual Return: Clause 7F of GSTR 9C requires that the taxable turnover as per the liability should be declared in the Annual Return (GSTR 9).

Instruction as per GSTR 9C - taxable turnover as declared in Table 4N of the Annual Return (GSTR 9) shall be declared here. The information must flow from GSTR 9 which contains supplies and advances on which tax is paid. The turnover arrived at Part II Sl. No. 8F of Form GSTR 9C should match the turnover as declared in the Annual Return.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

Sl. No.8 Reasons for Un - Reconciled difference in Taxable Turnover: This part of GSTR 9C identifies the taxable turnover differences to be placed on record for explaining the differences between the GST Returns and the Audited Financials

8	Reasons for Un - Reconciled difference in Taxable Turnover	
A	Reason 1	<<Text>>

PART III: RECONCILIATION OF TAX PAID : After reconciling the turnover declared and reported in the Audited Financial Statement with turnover declared in Annual Return along with reasons for reconciliation if any, the relevant Part III of Form 9C requires an Auditor to reconcile the rate-wise liability of tax, total amount payable thereon with tax actually paid as declared in the Annual Return and recommendation of additional tax payable due to non-reconciliation of the taxable value.

Pt. III		Reconciliation of Tax Paid				
Sl. No. 9	Reconciliation of rate wise liability and amount payable thereon					
Description	Taxable Value	Tax Payable				Cess, if applicable
		Central Tax	State Tax/ UT Tax	Integrated Tax		
1	2	3	4	5	6	
A	5%					
B	5% (RC)					
C	12%					
D	12% (RC)					
E	18%					
F	18% (RC)					
G	28%					
H	28% (RC)					
I	3%					
J	0.25%					
K	0.10%					
L	Interest					
M	Late Fee					
N	Penalty					
O	Others					
P	Total amount to be paid as per tables above	<Auto>	<Auto>	<Auto>	<Auto>	
Q	Total amount paid as declared in Annual Return (GSTR 9)					
R	Un-reconciled payment of amount			PT 1		

The relevant Table 9 requires the Auditor to provide details of taxable value along with the Gross tax Liability booked by the Registered Person whose Form 9C is being filed by him. The said tax liability needs to be reported rate wise in Table 9. Further, the taxable value and liability of tax on which the given Registered Person is required to pay tax under Reverse Charge Mechanism are also required to be reported rate-wise separately. After reporting of the same, the details of Total tax payable for the Financial Year 2017-18 as declared in GSTR 9 i.e. under the Annual Return is also required to be disclosed. The given table also requires the disclosure of Interest, Late Fees and Penalty Payable.

From the scheme of Table 9 it is clear that the Auditor is required to report the GST payable rate wise dissected total taxable turnover calculated in Table 7E under Part II of GSTR 9C. Once the taxable value is reported under various rates as specified in sub-parts A, C, E, G, I, J, and K, the relevant amount of tax shall be calculated by the system.

The values that are to be reported in Table 9 should be taxable value as reported under Table 7E of GSTR 9C, i.e. Adjusted Total turnover for the FY 2017-18 under the GST and the amount of tax (rate wise) should be derived mathematically.

7E	Taxable turnover as per adjustments above (A-B-C-D)	<Auto>
----	-----------------------------------------------------	--------

The details of adjusted Total turnover needs to be broken down in accordance with the GST rates based on the reports generated from the books of accounts and necessary adjustments made in Part II of GSTR 9C which have not impacted the books of accounts of the Registered Person should also be considered rate-wise for the purpose of finding the taxable value.

Once all the details are entered, and the difference in tax payable as per the books with actual tax payable is identified, the amounts of non-reconciliation shall be raised as per CGST, SGSTM IGST and Cess wise. On these amounts the Auditor shall be required to disclose the reasons in Table 10.

Pt. III		Reconciliation of Tax Paid	
Sl. No.10: Reasons for un-reconciled payment of amount			
10	Reasons for un-reconciled payment of amount		
A	Reason 1	<<Text>>	
B	Reason 2	<<Text>>	

The given table mandates the Auditor to identify and disclose the reasons for un- reconciled payment of amount of tax, Interest, Penalty, Cess and Others. Reasons, amounts along with description of reason needs to be disclosed.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

Sl. No. 11: Additional amount payable but not paid (due to reasons specified under Tables 6, 8 and 10 above)

11	Additional amount payable but not paid (due to reasons specified under Tables 6,8 and 10 above)					
	Description	Taxable Value	To be paid through Cash			
Central Tax			State Tax/ UT Tax	Integrated Tax	Cess, if applicable	
	1	2	3	4	5	6
	5%					
	12%					
	18%					
	28%					
	3%					
	0.25%					
	0.10%					
	Interest					
	Late Fee					
	Penalty					
	Others (please specify)					

In the Table 11 under Part III of the GSTR 9C, the amount of tax, interest, penalty, late fees and their dues which are payable in accordance with the non-reconciliation reported under Table 6, 8 and 10 but not actually paid as declared in Annual Return in GSTR 9 are to be reported with rate-wise bifurcation.

PART IV: RECONCILIATION OF INPUT TAX CREDIT

Sl. No. 12 – Reconciliation of Net ITC

12A. ITC availed as per audited Annual Financial Statement for the State/ UT (For multi-GSTIN units under same PAN this should be derived from books of accounts): It is the detail of ITC availed in the audited financial statements. The row aims to collect information on the ITC availed in the books of accounts by the Registered person. This shall be the total ITC including the one availed in the books of accounts on Inputs, Input Services and Capital Goods.

12B. ITC booked in earlier Financial Years claimed in current Financial Year: Any ITC which was booked in the audited Annual Financial Statement of the earlier financial year(s) but availed in the ITC ledger in the financial year for which the reconciliation statement is being filed shall be declared here. Since this is the first year of the GST, this column should ideally be zero. However, as per the instruction related to the form, transitional credit which was booked in earlier years but availed during Financial Year 2017-18, the same would not be required to be reported here. This would leave the Registered person with ITC which are carry forward balances of the earlier taxes.

12C. ITC booked in current Financial Year to be claimed in subsequent Financial Years: Input tax Credit which is booked in the current financial year but claimed in the returns of GSTR 3B filed during FY 2018-19. This includes all credits which were for any reason (inadvertent or conditions not being fulfilled) were not taken in returns as filed from July 2017- March 2018.

12 D: ITC availed as per Audited Financial Statements or Books of Accounts

12E. ITC Claimed in Annual Return (GSTR 9): Clause 12E of GSTR 9C Net ITC available for utilisation as declared in Table 7J of Annual Return (GSTR 9) shall be declared here.

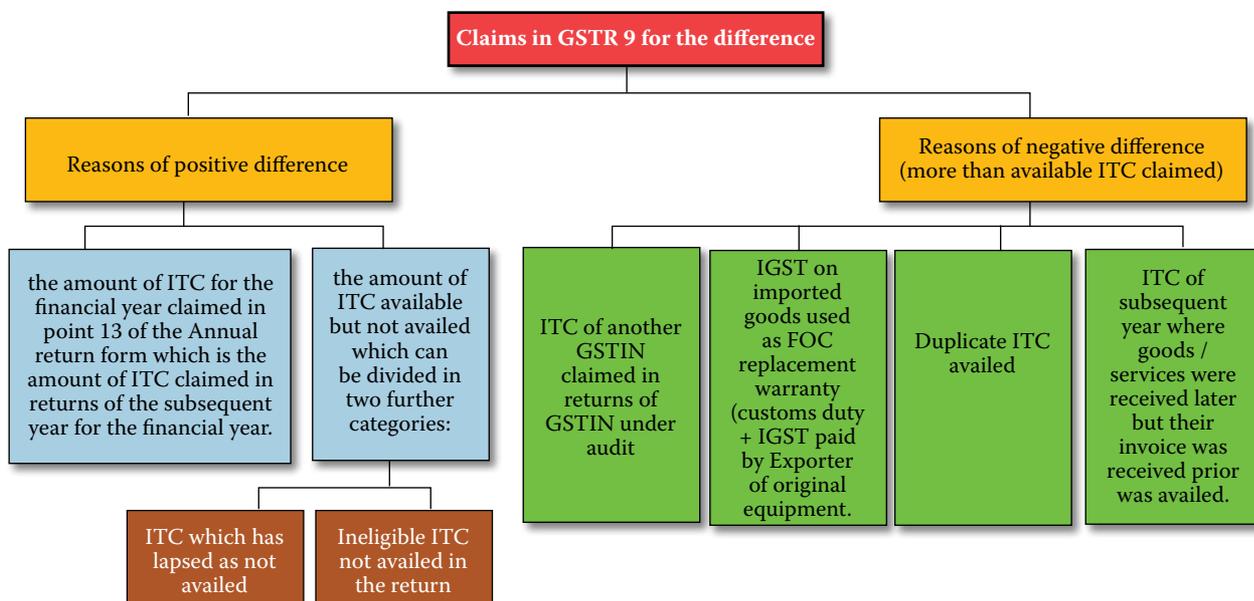
12F & 13 Unreconciled ITC Clause 12F of GSTR 9C provides for the difference between the ITC as computed from the books of account in Clause 12D and ITC as claimed for the financial year in Clause 7J of Annual return. Reasons for such difference shall be explained in point 13 of GSTR 9C.

13	Reasons for un-reconciled payment of amount	
A	Reason 1	<<Text>>
B	Reason 2	<<Text>>
C	Reason 3	<<Text>>

While 12F is the differential value and has no source.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

SI. No. 13 seeks reasons from the books of accounts and claims in GSTR 9 for the difference.



SI. No. 14. Reconciliation of ITC declared in Annual Return (GSTR 9) with ITC availed on expenses as per audited Annual Financial Statement or books of account

14	Reconciliation of ITC declared in Annual Return (GSTR9) with ITC availed on expenses as per audited Annual Financial Statement or books of account			
	Description	Value	Amount of Total ITC	Amount of eligible ITC availed
	1	2	3	4
A	Purchases			
B	Freight / Carriage			
C	Power and Fuel			
D	Imported goods (Including received from SEZs)			
E	Rent and Insurance			
F	Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples			
G	Royalties			
H	Employees' Cost (Salaries, wages, Bonus etc.)			
I	Conveyance charges			
J	Bank Charges			
K	Entertainment charges			
L	Stationery Expenses (including postage etc.)			
M	Repair and Maintenance			
N	Other Miscellaneous expenses			
O	Capital goods			
P	Any other expense 1			
Q	Any other expense 2			
R	Total amount of eligible ITC availed		<<Auto>>	
S	ITC claimed in Annual Return (GSTR9)			
T	Un-reconciled ITC			ITC 2

This table is for reconciliation of ITC declared in the Annual Return (GSTR 9) against the expenses booked in the audited Annual Financial Statement or books of account. This point calls for examination of ITC detailed by the Auditor to determine the available ITC as booked in ledgers of various expenses and in the books of accounts viz a viz the ITC availed by the Registered person. In case the Auditor finds any ineligible or unavailable ITC as per the books of accounts, suitable disclosures are to be made in this regard.

SI. No. 15. Reasons for un-reconciled difference in ITC: Reasons for non-reconciliation between ITC availed on the various expenses declared in Table 14R and ITC declared in Table 14S shall be specified here

15	Reasons for un - reconciled difference in ITC	
A B C	Reason 1	<<Text>>
	Reason 2	<<Text>>

ADVANCED AUDITING AND PROFESSIONAL ETHICS

SI. No. 16. Tax payable on un-reconciled difference in ITC (due to reasons specified in 13 and 15 above): Any amount which is payable due to reasons specified above shall be declared here.

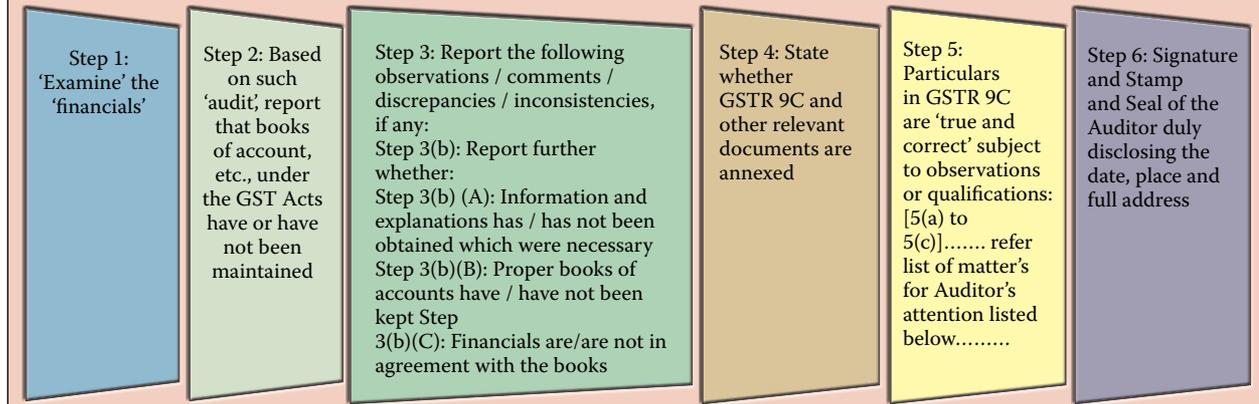
Part V to GSTR 9C: Auditor's Recommendation on additional liability due to non-reconciliation						
Pt. V	Auditor's recommendation on additional Liability due to non-reconciliation					
	Description	Value	To be paid through Cash			
Central Tax			State Tax/ UT Tax	Integrated Tax	Cess, if applicable	
	1	2	3	4	5	6
	5%					
	12%					
	18%					
	28%					
	3%					
	0.25%					
	0.10%					
	Input Tax Credit					
	Interest					
	Late Fee					
	Penalty					
	Any other amount paid for supplies not included in Annual Return					

Part V consists of the auditor's recommendation on the additional liability to be discharged by the taxpayer due to non-reconciliation of turnover or non-reconciliation of input tax credit.

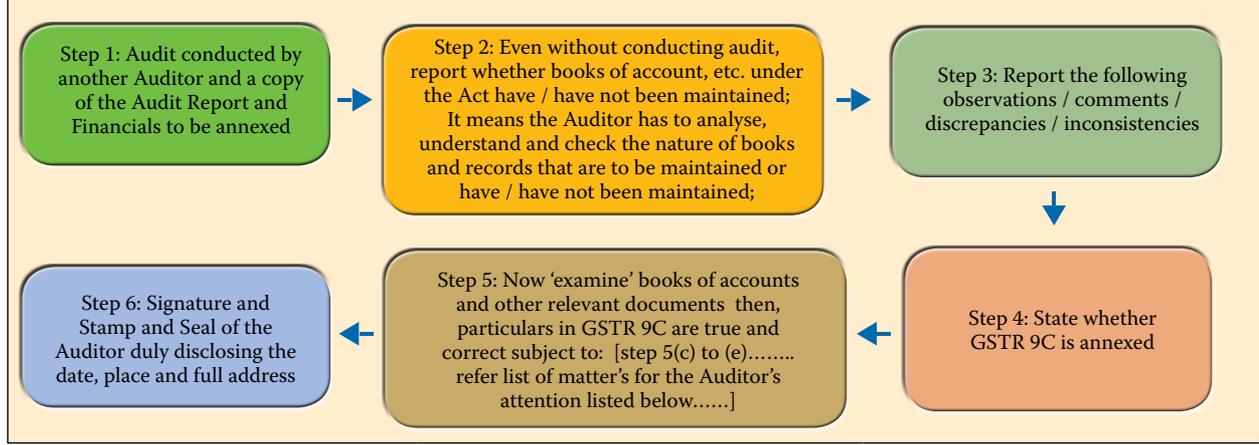
The auditor shall also recommend if there is any other amount to be paid for supplies not included in the Annual Return.	Any refund which has been erroneously taken and shall be paid back to the Government shall also be declared in this table.	Any other outstanding demands which is recommended to be settled by the auditor shall be declared in this Table.
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Part B - GSTR 9C – Certification

Module I – Certification in cases where the reconciliation statement (FORM GSTR 9C) is drawn up by the person who had conducted the audit and GST audit certification. Hierarchy of Clauses for Certification



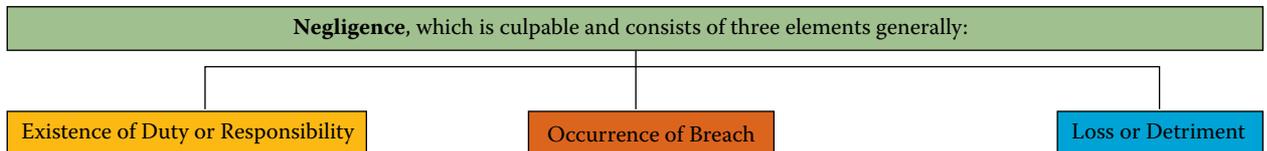
Module II – Certification in cases where the reconciliation statement in (GSTR 9C) is drawn up by a person other than the person who had conducted the audit of the accounts: Hierarchy of Clauses for Certification



CHAPTER 16 LIABILITIES OF AUDITOR



Lord Justice Topes once famously remarked that *“The Auditor is a watchdog and not bloodhound.”*



- (a) existence of duty or responsibility owed by one party to another to perform some act with certain degree of care and competence;
- (b) occurrence of a breach of such duty; and
- (c) loss or detriment, being suffered by the party to whom the duty was owed as a result of negligence.

Professional negligence would constitute failure to perform duties according to “accepted professional standards”, resulting in some loss or damage to a party to whom the duty is owed.

Civil Liabilities under the Companies Act: A civil action against the auditor may either take the form of claim for damages on account of negligence or that of misfeasance proceeding for breach of trust or duty:

Damages for negligence: Misstatement in prospectus under section 35 of the Companies Act, 2013, are where a person has subscribed for securities of a company acting on any statement included, or the inclusion or omission of any matter, in the prospectus which is misleading and has sustained any loss or damage as a consequence thereof, the company and every person who—

is a director of the company at the time of the issue of the prospectus;

has authorised himself to be named and is named in the prospectus as a director of the company or has agreed to become such director either immediately or after an interval of time;

is a promoter of the company;

has authorised the issue of the prospectus and

is an expert referred to in sub-section (5) of section 26,

shall, without prejudice to any punishment to which any person may be liable under section 36, be liable to pay compensation to every person who has sustained such loss or damage.

No person shall be liable under sub-section (1), if he proves—

that, having consented to become a director of the company, he withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or

that the prospectus was issued without his knowledge or consent, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent.

that, as regards every misleading statement purported to be made by an expert or contained in what purports to be a copy of or an extract from a report or valuation of an expert, it was a correct and fair representation of the statement, or a correct copy of, or a correct and fair extract from, the report or valuation; and he had reasonable ground to believe and did up to the time of the issue of the prospectus believe, that the person making the statement was competent to make it and that the said person had given the consent required by sub-section (5) of section 26 to the issue of the prospectus and had not withdrawn that consent before delivery of a copy of the prospectus for registration or, to the defendant's knowledge, before allotment thereunder.

Notwithstanding anything contained in this section, where it is proved that a prospectus has been issued with intent to defraud the applicants for the securities of a company or any other person or for any fraudulent purpose, every person referred to in sub-section (1) shall be personally responsible, without any limitation of liability, for all or any of the losses or damages that may have been incurred by any person who subscribed to the securities on the basis of such prospectus.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

Liability for misfeasance: The term “misfeasance” implies a breach of trust or duty, where the auditor of a company would be guilty of misfeasance if he has been guilty of any breach of trust or negligence in the performance of his duties which has resulted in some loss or damage to the company or its property.

- Apart from the liability for professional negligence, in the discharge of duties, an auditor also may be penalised under section 147 of the Companies Act, 2013 for failure to comply with any of the provisions contained in sections 143 and 145 of the Act.
- Further, as per Sec. 143 of Companies Act, 2013 if auditor does not report any matter of fraud involving such amounts as may be prescribed he will be liable for punishment.

Criminal Liability under the Companies Act 2013

For Misstatement in Prospectus -

(Section 34) where a prospectus issued, circulated or distributed includes any statement which is untrue or misleading in form or context in which it is included or where any inclusion or omission of any matter is likely to mislead, every person who authorises the issue of such prospectus shall be liable under section 447. This section shall not apply to a person if he proves that such statement or omission was immaterial or that he had reasonable grounds to believe, and did up to the time of issue of the prospectus believe, that the statement was true or the inclusion or omission was necessary.

Punishment for False Statement -

(Section 448) if in any return, report, certificate, financial statement, prospectus, etc., any person makes a statement

(a) which is false in any material particulars, knowing it to be false;

OR

(b) which omits any material fact, knowing it to be material,

He shall be liable under section 447.

Direction by Tribunal in case auditor acted in a fraudulent manner:

- ▶ As per sub-section (5) of the section 140, the Tribunal either *suo motu* or on an application made to it by the Central Government or by any person concerned, if it is satisfied that the auditor of a company has, whether directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its directors or officers, it may, by order, direct the company to change its auditors.
- ▶ In case, if the application is made by the Central Government and the Tribunal is satisfied that any change of the auditor is required, it shall within fifteen days of receipt of such application, make an order that he shall not function as an auditor and the Central Government may appoint another auditor in his place.
- ▶ An auditor, whether individual or firm, against whom final order has been passed by the Tribunal under this section shall not be eligible to be appointed as an auditor of any company for a period of five years from the date of passing of the order and the auditor shall also be liable for action under section 447.
- ▶ In case of a firm, the liability shall be of the firm and that of every partner or partners who acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its director or officers.

Punishment for Fraud

As per section 447 of the Companies Act, 2013, without prejudice to any liability including repayment of any debt under this Act or any other law for the time being in force, **any person who is found to be guilty of fraud [involving an amount of at least ten lakh rupees or one per cent of the turnover of the company, whichever is lower] shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud:**

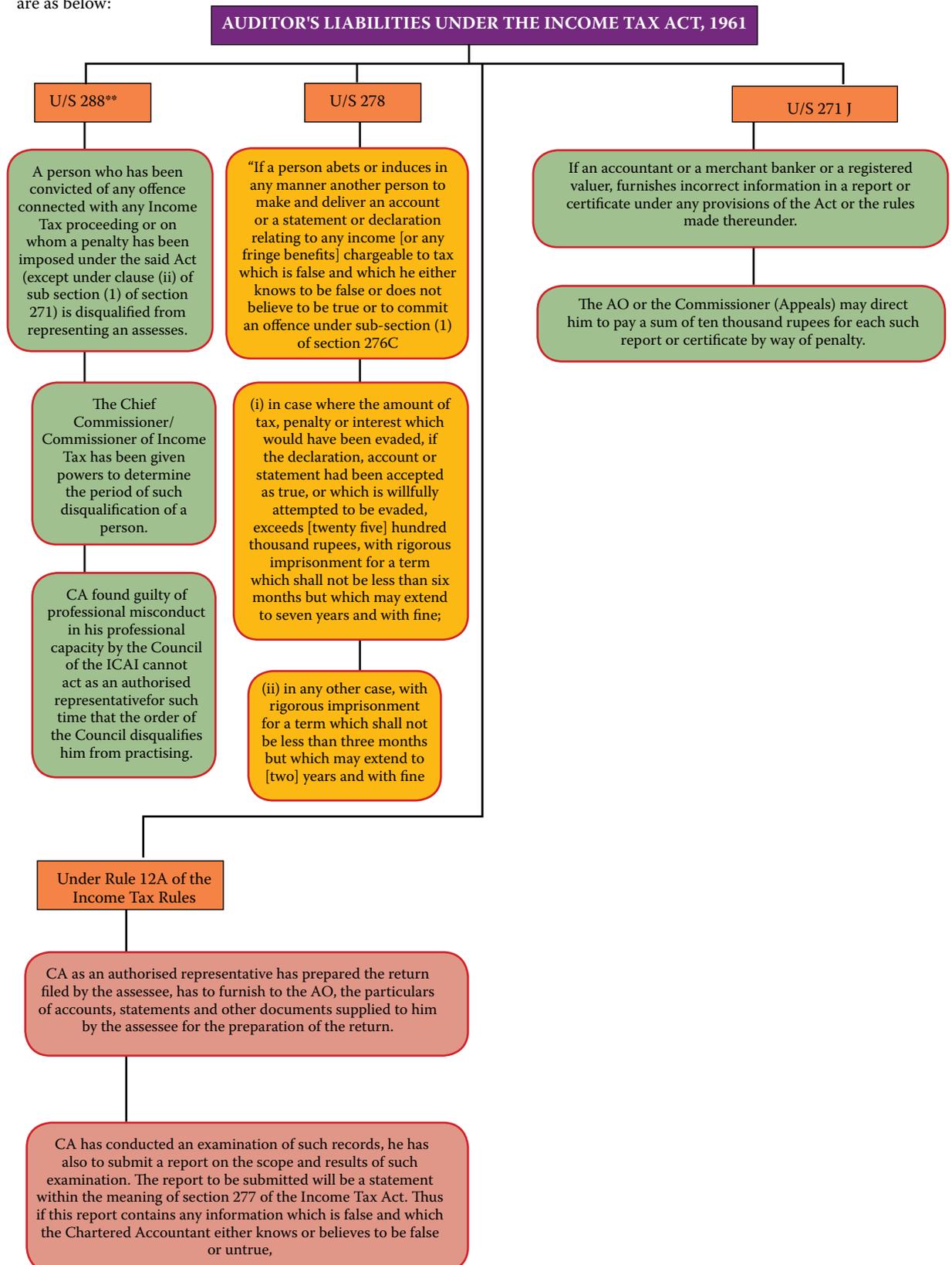
where the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

where the fraud involves an amount less than ten lakh rupees or one per cent of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to fifty lakh rupees or with both.



ADVANCED AUDITING AND PROFESSIONAL ETHICS

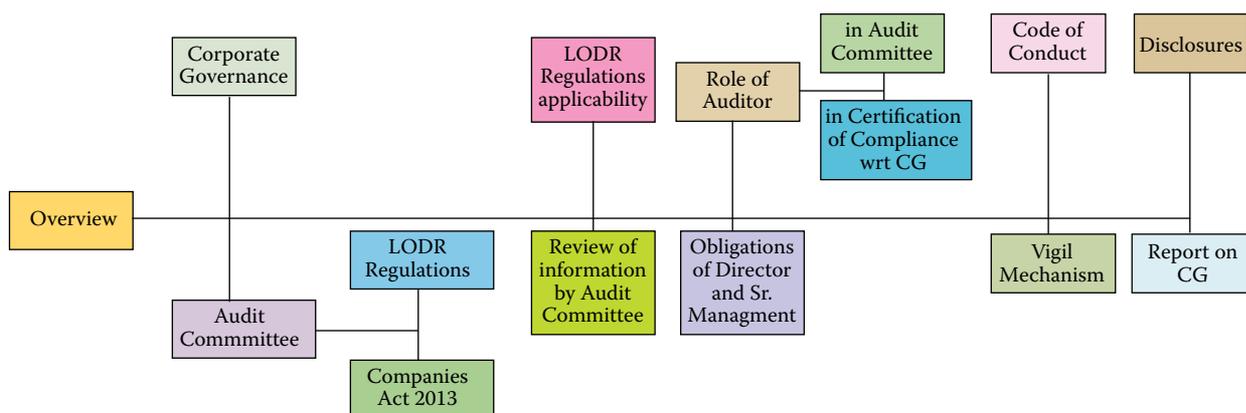
LIABILITIES UNDER INCOME TAX ACT 1961: a Chartered Accountant often acts as the authorised representative of his clients and attends before an Income Tax Authority or the appellate tribunal. His liabilities under the Income Tax Act of 1961 are as below:



ADVANCED AUDITING AND PROFESSIONAL ETHICS: A CAPSULE FOR QUICK RECAP

It has always been the endeavour of Board of Studies to provide quality academic inputs to the students of Chartered Accountancy Course. Keeping in mind this objective, BoS has decided to come out with a Crisp & Concise Capsule of each subject to facilitate students for quick revision before examination. In continuation to the series, this is fourth capsule on Paper 3: Advanced Auditing Professional Ethics of Final Course. It may be mentioned that this capsule is a tool for quick revision of some significant areas of Advanced Auditing and Professional Ethics this should not be taken as a substitute for the detailed study of the subject. Students are advised to refer to the relevant Study Material and Revisionary Test Paper for comprehensive study & revision.

CHAPTER 7: AUDIT COMMITTEE AND CORPORATE GOVERNANCE



'Corporate Governance' term encompasses rules, processes or laws by which the business entities are operated, regulated or controlled.

Legal Framework: Securities and Exchange Board of India (SEBI) on September 2, 2015 issued Listing Obligations and Disclosure Requirements Regulations, 2015 (herein after referred as **LODR Regulations**), with the objective of streamlining and consolidating the provisions of various listing agreements in operation for different segments of the capital markets, such as equity shares, preference shares, debt instruments, units of mutual funds, Indian depository receipts, securitised debt instruments and any other securities that the SEBI may specify.

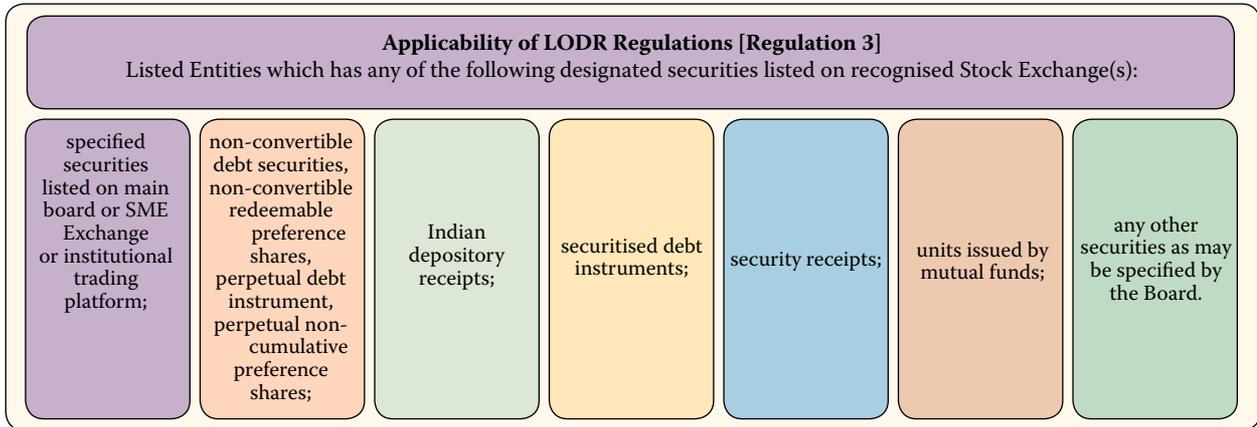
The LODR Regulations are divided into **two parts** -

- I. **Substantive provisions** -: incorporated in the main body;
- II. **Procedural requirements** -: incorporated in the form of schedules.

The LODR Regulations also cover the corporate governance principles found in Clause 49 of SEBI's Model Listing Agreement.

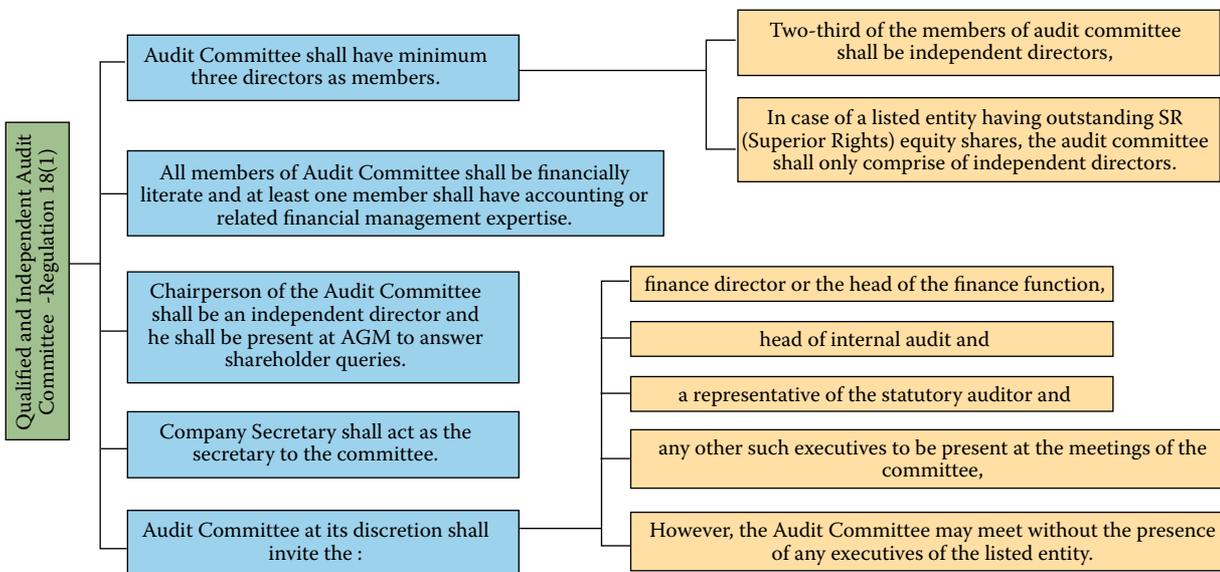
Issues addressed in the LODR Regulations regarding corporate governance are:

- Responsibilities and key functions of the Board, its composition, compensation and disclosures;
- Code of Conduct and vigil mechanism;
- Composition, meetings, powers, role and responsibilities of the Audit Committee which is an important pillar of corporate governance;
- Management of subsidiary companies;
- Procedures related to risk management;
- Disclosures on important issues regarding related party transactions, accounting treatment, etc.;
- Content of management discussion and analysis;
- Information to shareholders;
- Compliance Certificate by the CEO and CFO;
- Compliance Certificate from either the auditors or practising company secretaries regarding compliance of conditions on corporate governance.



A. - Audit Committee under LODR Regulation:

Qualified and Independent Audit Committee [Regulation 18(1)]



Meeting of Audit Committee [Regulation 18(2)]

- Audit Committee shall meet at least four times in a year;
- not more than one hundred and twenty days shall lapse between two meetings;
- quorum shall be either two members or one third of the members of the Audit Committee, whichever is greater;
- but there should be a minimum of two independent directors present.

Powers of Audit Committee [Regulation 18(2)]

The Audit Committee shall have powers, which includes the following:

- (1) To investigate any activity within its terms of reference.
- (2) To seek information from any employee.
- (3) To obtain outside legal or other professional advice.
- (4) To secure attendance of outsiders with relevant expertise, if it considers necessary.

Role of Audit Committee [Part C(A) of Schedule II]

Oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;

Recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity;

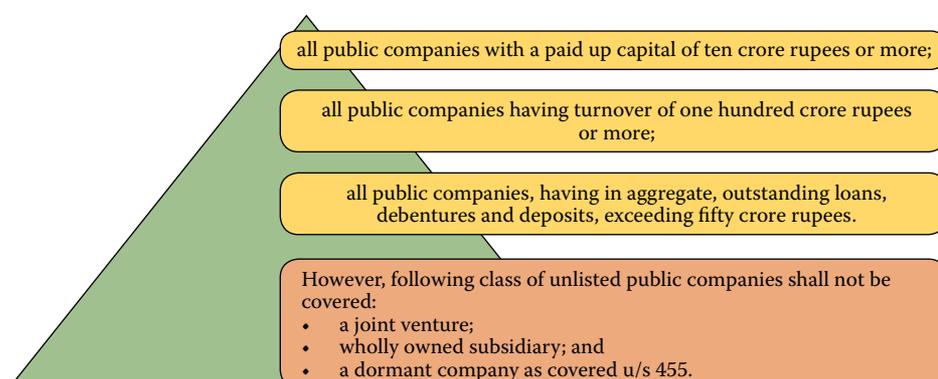
Approval of payment to statutory auditors for any other services rendered by the statutory auditors;

ADVANCED AUDITING AND PROFESSIONAL ETHICS ||

Reviewing, with the Management, the Annual Financial Statements and Auditor's Report thereon before submission to the Board for approval, with particular reference to:						
Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section 3 of section 134 of the Companies Act, 2013;	Changes, if any, in accounting policies and practices and reasons for the same;	Major accounting entries involving estimates based on the exercise of judgment by management;	Significant adjustments made in the financial statements arising out of audit findings;	Compliance with listing and other legal requirements relating to financial statements;	Disclosure of any related party transactions;	Modified opinion(s) in the draft audit report;
Reviewing, with the management, the quarterly financial statements before submission to the Board for approval;						
Reviewing, with the management, the statement of uses/application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/ prospectus/ notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;						
Reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;						
Approval or any subsequent modification of transactions of the listed entity with related parties;						
Scrutiny of inter-corporate loans and investments;						
Valuation of undertakings or assets of the listed entity, wherever it is necessary;						
Evaluation of internal financial controls and risk management systems;						
Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;						
Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;						
Discussion with internal auditors of any significant findings and follow up there on;						
Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;						
Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;						
To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;						
To review the functioning of the Whistle Blower mechanism;						
Approval of appointment of Chief Financial Officer after assessing the qualifications, experience and background, etc. of the candidate;						
Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.						
Reviewing the utilization of loans and/ or advances from /investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments.						
If the company has set up an Audit Committee as per section 177 of the Companies Act, 2013, the company must ensure that the said Audit Committee has such additional functions / features as are contained in the LODR Regulations.						

B.- Audit Committee under Section 177 of the Companies Act, 2013

As per section 177 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, every listed public company and the following classes of companies shall constitute an Audit Committee –



The paid up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as existing on the date of last audited Financial Statements shall be taken into account for the purposes of this rule.	Section 139(11) provides that where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.	The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. It may be noted that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.
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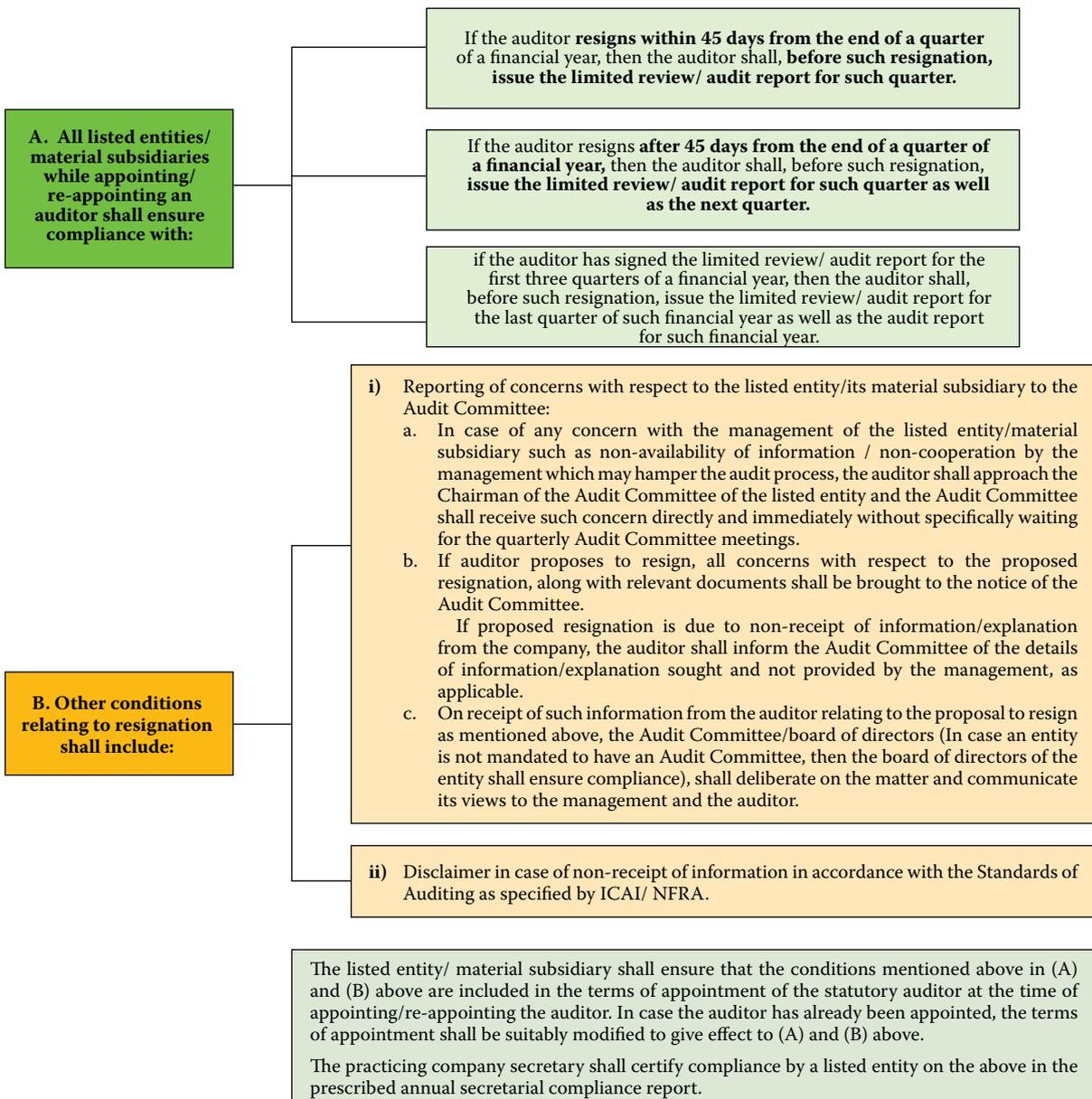
Resignation of Statutory Auditors from Listed Entities and their Material Subsidiaries

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:



C. Obligations of the listed entity and its material subsidiary:

Format of information to be obtained from the statutory auditor upon resignation

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.

Functions of the Audit Committee

Section 177 (4): "Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall inter alia, include,—

(i) the recommendation for appointment, remuneration and terms of appointment of auditors of the company (<i>However, in case of Government Company, it is limited to the recommendation for remuneration</i>);	(ii) review and monitor the auditor's independence and performance, and effectiveness of audit process;	(iii) examination of the financial statement and the auditors' report thereon;
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(iv) approval or any subsequent modification of transactions of the company with related parties; (However, the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed.

In case of transactions other than transactions referred to in section 188 of the Companies Act 2013, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board.

Also, in case any transaction involving an amount not exceeding Rupees 1 crore is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorized by any other director, the director concerned shall indemnify the company against any loss incurred by it.

These provisions shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.

(v) scrutiny of inter-corporate loans and investments;	(vi) valuation of undertakings or assets of the company, wherever it is necessary;	(vii) evaluation of internal financial controls and risk management systems;	(viii) monitoring the end use of funds raised through public offers and related matters."
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Section 177 (5): "The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company."

Section 177 (6): "The Audit Committee shall have authority to investigate into any matter in relation to the items specified in sub-section (4) or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company."

Section 177 (7): "The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote."

Section 177 (8): "The Board's report under sub-section (3) of section 134 shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor."

Section 177 (9): "Every listed company or such class or classes of companies, as may be prescribed, shall establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed."

Section 177 (10): "The vigil mechanism under sub-section (9) shall provide for adequate safeguards against victimisation of persons who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases: Provided that the details of establishment of such mechanism shall be disclosed by the company on its website, if any, and in the Board's report."

Mandatorily Review of Information by Audit Committee as per Part C(B) of Schedule II

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the Audit Committee), submitted by management;
3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses;
5. The appointment, removal and terms of remuneration of the Chief Internal Auditor shall be subject to review by the Audit Committee; and
6. Statement of deviations: (a) quarterly statement of deviations including report of monitoring agency if applicable and (b) annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/ notice.

Role of Auditor in Audit Committee and Certification of Compliance of Conditions of Corporate Governance

Regulation 18(1)(f) stipulates that a representative of the statutory auditor, when required, shall be invited to the meetings of the Audit Committee. Similarly, Section 177 of the Companies Act, 2013 provides the auditors of a company and the key managerial personnel, the right to be heard in the meetings of the Audit Committee when it considers the auditor's report but they shall not have the right to vote.

The auditor must ensure that he communicates frequently and openly with the Audit Committee on key accounting or auditing issues that, in the auditor's judgment, give rise to a greater risk of material misstatement of the financial statements, and also ensure that he addresses any questions or concerns voiced by the Audit Committee.

He can contribute significantly in assisting and advising the Audit Committee on improving corporate governance, oversight of financial reporting process, implementation of accounting policies and practices, compliance with accounting standards, strengthening of the internal control systems in regard to financial reporting and reporting processes.

The auditor must devote substantial professional time in assisting the management and the Audit Committee to enable them to discharge their functions effectively and in certification of the requirements of corporate governance.

The auditor has to keep in mind that his role is not to drive corporate governance directly. Rather, it is the management's responsibility to do so and, in the process, he should play a significant role in assisting management to ensure better standards of corporate governance.

Auditor's Responsibility:

in certifying compliance with the requirements of corporate governance relates to the verification and certification of factual implementation of requirements of corporate governance as stipulated in the LODR Regulations.

Such verification and certification is neither an audit nor an expression of opinion on the financial statements of the company

The certificate from the auditor as regards compliance with the requirements of corporate governance is neither an assurance as to the future viability of the company, nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

General Principles of Audit

Complying with SA in the performance of certification

in the case of other professional assignments, in certifying the compliance the auditor should comply with the "Code of Ethics"

conduct verification of compliance with the requirements of corporate governance as per LODR Regulations, in accordance with the Guidance Note on Certification of Corporate Governance issued by ICAI.

Documentation :

document matters, which are important in providing evidence to support the certificate of factual findings, in accordance with SA 230 on "Audit Documentation".

Written Representation:

consider obtaining management representations in accordance with SA 580, "Written Representations".

Verification regarding Composition of Board [Regulation 17 and 17A]

The auditor should ensure that:

- throughout the reporting period, the Board of Directors comprises an optimum combination of executive and non-executive directors, with at least one woman director and not less than 50% of the Board of Directors comprising non-executive directors.
 - whether, the Board of directors of the top 500 (1000 by April 1, 2020) listed entities shall have at least one independent woman director.
 - no listed entity shall appoint a person or continue the directorship of any person as a non-executive director who has attained the age of **seventy five years** (unless a special resolution is passed to that effect, in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such a person.)
- The top 500 / 1000 entities shall be determined on the basis of market capitalisation, as at the end of the immediate previous financial year**

The directors of listed entities shall comply with the following conditions with respect to the maximum number of directorships, including any alternate directorships that can be held by them at any point of time -

- A person shall not be a **director** in more than **eight listed entities** (and in not more than seven listed entities w.e.f. April 1, 2020).
- A person shall not serve as an **independent director** in more than **seven listed entities**.
- Notwithstanding the above, any person who is serving as a whole time director / managing director in any listed entity shall serve as an independent director in not more than three listed entities.

For the purpose of above-mentioned provision, the count for the number of listed entities on which a person is a director / independent director shall be only those whose equity shares are listed on a stock exchange.

The minutes of the Board of Directors' meetings should be verified to ascertain whether a director is an executive director or a non-executive director.

The auditor should also verify that where the Chairperson of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case the listed entity does not have a regular non-executive Chairperson, at least half of the Board of Directors should comprise independent directors.

In case the regular non-executive Chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the listed entity shall consist of independent directors.

The auditor should ensure that the board of directors of the top 1000 listed entities (and the top 2000 listed entities w.e.f. April 1, 2020) shall comprise of not less than six directors.

The Chairperson of the board of the top 500 listed entities (w.e.f. April 1, 2020) 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.

This provision shall not be applicable to the listed entities which do not have any identifiable promoters as per the shareholding pattern filed with stock exchanges.

ADVANCED AUDITING AND PROFESSIONAL ETHICS ||

In case of listed company having outstanding SR equity shares, the auditor shall check that at least half of the board of directors comprises of independent directors.

Annual disclosure submitted by the directors to the Board of Directors may be examined for this purpose. If the Board of Directors has followed any particular procedure(s) to ascertain the independence of directors, the auditor should examine the same. Effect of changes in the composition of the Board and/or its Chairman and its impact on compliance throughout the reporting period should also be examined.

An independent non-executive director, apart from receiving remuneration, should not have had/ should not have any material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year. Also, such independent director, either by himself or with any of his relatives should not be a material supplier, service provider or customer or a lessor or lessee of the listed entity, and should not also be a substantial shareholder of the listed entity. In determining 'not a substantial shareholder,' he (together with his relatives) should not own 2% or more of total voting power of the listed entity.

Limited Review of the audit of all the Entities whose accounts are to be consolidated with the Listed Entity: whose accounts are to be consolidated with the listed entity as per AS / Ind-AS in accordance with guidelines issued by SEBI on this matter". Consequently, following should *shall comply with the prescribed procedure.*

all listed entities whose equity shares and convertible securities are listed on a recognised stock exchange,

the statutory auditors of such entities,

all entities whose accounts are to be consolidated with the listed entity and

the statutory auditors of entities whose accounts are to be consolidated with the listed entity

Disclosure requirements regarding Directors' Remuneration as per [Part C of Schedule V]

All pecuniary relationship or transactions of the non-executive directors vis-à-vis the listed entity shall be disclosed in the Annual Report.

Criteria for making payments to non-executive directors.

In addition to the disclosures required under the Companies Act, 2013, the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:

All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc.

Details of fixed component and performance linked incentives, along with the performance criteria.

Service contracts, notice period, severance fees.

Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.

Approval of Remuneration of Directors [Regulation 17(6)]

All fees/compensation, if any, paid to non-executive directors, including independent directors, shall be:

- fixed by the Board of Directors and
- shall require previous approval of shareholders in general meeting.

The shareholders' resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, in any financial year and in aggregate.

In case the annual remuneration payable to a single non-executive director exceeds fifty percent of the total annual remuneration payable to all non-executive directors, approval of shareholders by special resolution shall be obtained every year

Exception to prior approval of shareholders in general meeting is payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 2013 for payment of sitting fees without approval of the Central Government.

Independent director shall not be entitled to any stock option.

The fees or compensation payable to executive directors who are promoters or members of the promoter group, shall be subject to the approval of the shareholders by special resolution in general meeting, in case-

(i) the annual remuneration payable to such executive director exceeds rupees 5 crore or 2.5 per cent of the net profits of the listed entity, whichever is higher; or

(ii) where there is more than one such director, the aggregate annual remuneration to such directors exceeds 5 per cent of the net profits of the listed entity

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)]

<p>(i) The Board shall</p> <ul style="list-style-type: none"> • meet at least four times a year, • with a maximum time gap of one hundred and twenty days between any two meetings. <p>The quorum for every meeting of the board of directors of the top 1,000 listed entities (top 2,000 listed entities w.e.f. April 1, 2020) shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director.</p> <p style="background-color: #a2c4c9; padding: 2px;">The participation of the directors by video conferencing or by other audio-visual means shall also be counted for the purposes of such quorum.</p> <p>The directors of listed entities shall comply with the conditions (discussed above in Regulation 17 and 17A) with respect to the maximum number of directorships, including any alternate directorships that can be held by them at any point of time.</p>
<p>(ii) A director shall not be a member in more than ten committees or act as Chairperson of more than five committees across all listed entities in which he is a director, shall inform the listed entity about the committee positions he occupies in other listed entities and notify changes as and when they take place.</p>
<p>(iii) The Board shall periodically review compliance reports of all laws applicable to the listed entity, prepared by the listed entity as well as steps taken by the listed entity to rectify instances of non-compliances.</p>
<p>(iv) Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed entity in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.</p>
<p>(v) An independent director shall be held liable, only in respect of such acts of omission or commission by the listed entity which had occurred with his knowledge, attributable through Board processes, and with his consent or connivance or where he had not acted diligently with respect of the provisions contained in the LODR Regulations.</p>
<p>(vi) Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large.</p>
<p>(vii) An independent director who resigns or is removed from the Board of Directors of the listed entity shall be replaced by a new independent director at the earliest but not later than the immediate next Board meeting or three months from the date of such vacancy, whichever is later.</p> <p>It may be noted that where the listed entity fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director shall not apply.</p>
<p>(viii) The Board of Directors of the listed entity shall satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management.</p>
<p>Meeting of Board of Directors as per LODR Regulations and Section 173 of the Companies Act, 2013: Board meetings shall be held at least four times a year and that the maximum time gap between any two meetings should not exceed one hundred and twenty days (except for certain specified companies).</p> <p>However, Central Government may, by notification, direct that the provisions of this section 173 (1), shall not apply in relation to any class or description of companies or shall apply subject to such exceptions, modifications or conditions as may be specified in the notification,</p> <ul style="list-style-type: none"> • in case of Section 8 company, section 173 (1) shall apply only to the extent that the Board of Directors, of such Companies shall hold at least one meeting within every six calendar months. • in case of specified IFSC public and private company, it shall hold the first meeting of the Board of Directors within sixty days of its incorporation and thereafter hold at least one meeting of the Board of Directors in each half of a calendar year.

Code of Conduct [Regulations 17(5), 26(3), 46(2) and Part D of Sch. V]

<p>The Board shall lay down a code of conduct for all Board members and senior management of the listed entity.</p>	<p>All Board members and senior management personnel shall affirm compliance with the code on an annual basis.</p>	<p>The Annual Report of the company shall contain a declaration to this effect signed by the CEO.</p>	<p>The code of conduct shall be posted on the website of the company.</p>	<p>The Code of Conduct shall suitably incorporate the duties of Independent Directors as laid down in the Companies Act, 2013.</p>
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Vigil Mechanism [Regulations 22, 46 and Part C of Schedule V]

<p>(i) The listed entity shall establish a vigil mechanism for directors and employees to report genuine concerns.</p>
<p>(ii) This mechanism should also provide for adequate safeguards against victimization of director(s) / employee(s) or any other person who avail the mechanism and also provide for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases.</p>
<p>(iii) The details of establishment of such mechanism shall be disclosed by the company on its website and in the Board's report.</p>

Subsidiary of Listed Entity [Regulations 16(c), 24 and 46 and Part C of Schedule V]

(i) As per **Regulation 16(c)**, “material subsidiary” shall mean a subsidiary, whose income or net worth exceeds 10% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.

Regulation 24(1) provides that at least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not. [For the purposes of Regulation 24(1), notwithstanding anything to the contrary contained in regulation 16, the term “material subsidiary” shall mean a subsidiary, whose income or net worth exceeds 20% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year]

(ii) The Audit Committee of the listed entity shall also review the financial statements, in particular, the investments made by the unlisted subsidiary.

(iii) The minutes of the Board meetings of the unlisted subsidiary shall be placed at the Board meeting of the listed entity. The management of the unlisted subsidiary shall periodically bring to the notice of the Board of Directors of the listed entity, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary.

(iv) The company shall formulate a policy for determining ‘material’ subsidiaries and such policy shall be disclosed on the company’s website and a web link thereto shall be provided in the Annual Report.

(v) **A listed entity shall not dispose off shares in its material subsidiary resulting in reduction of its shareholding** (either on its own or together with other subsidiaries) **to less than 50% or cease the exercise of control over the subsidiary** without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal, or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event has been disclosed to the recognized stock exchanges within one day of the resolution plan being approved.

(vi) **Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary** on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution, unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a Court/Tribunal, or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event has been disclosed to the recognized stock exchanges within one day of the resolution plan being approved.

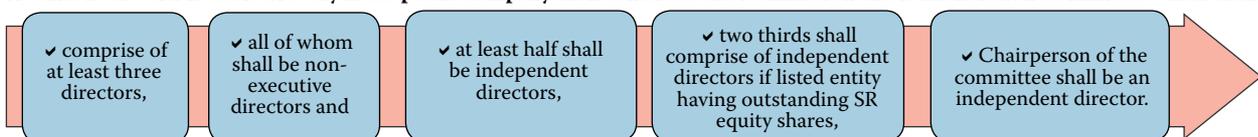
(vii) Where a listed entity has a listed subsidiary which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

Regulation 24 requires the Audit Committee of the listed entity to review the financial statements and in particular, the investments made by the unlisted subsidiary. This is required in regard to all unlisted subsidiaries, without reference to materiality or place of incorporation etc. Where however the subsidiary of a listed entity is itself a listed entity.

Secretarial Audit of Listed Entity and its Material Unlisted Subsidiaries incorporated in India shall undertake secretarial audit and shall annex with its annual report, a secretarial audit report, given by a company secretary in practice, in such form as may be specified as per **Regulation 24A**

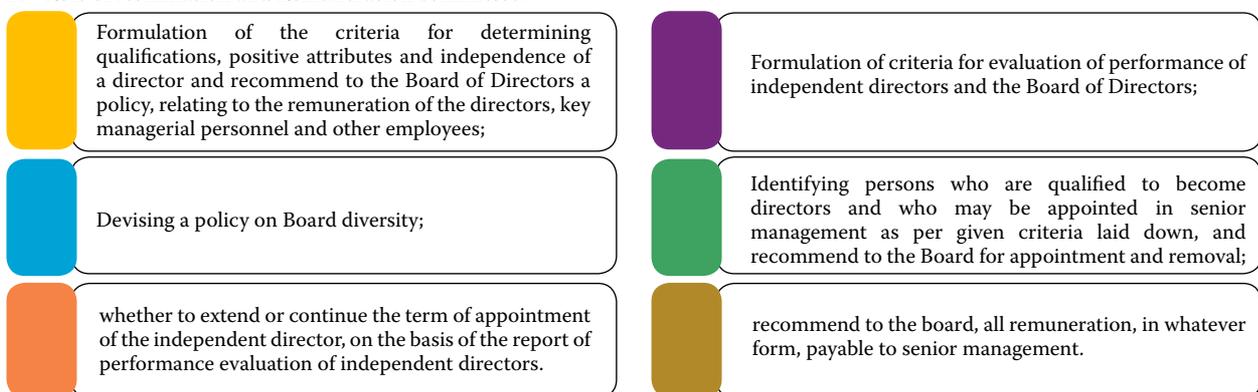
Nomination and Remuneration Committee [Regulation 19 and Part D of Schedule II]

A. The Board of Directors of every listed public company shall constitute the Nomination and Remuneration Committee which shall:



- ✓ **Chairperson** of the company (whether executive or non-executive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such committee.
- ✓ **Quorum** for a **meeting of the Nomination and Remuneration committee** shall be **either two members or one third of the members** of the committee, whichever is **greater**, including **at least one independent director** in attendance.
- ✓ Nomination and Remuneration committee shall **meet at least once in a year**.

B. Role of Nomination and Remuneration committee:



C. Chairperson of the Nomination and Remuneration Committee may be present at the AGM, to answer the shareholders' queries.

Stakeholders Relationship Committee [Regulation 20 and Part D of Schedule II]

(i)	The listed entity shall constitute a Stakeholders Relationship Committee to specifically look into various aspects of interest of shareholders, debenture holders and other security holders.	
(ii)	The chairperson of this Committee shall be a non-executive director.	
(iii)	At least three directors, with at least one being an independent director, shall be members of the Committee. However, in case of a listed entity having outstanding SR equity shares, at least two thirds of the Committee shall comprise of independent directors.	
(iv)	The Chairperson of the Stakeholders Relationship Committee shall be present at the annual general meetings to answer queries of the security holders.	
(v)	The Stakeholders Relationship Committee shall meet at least once in a year.	
(iv)	Role of Stakeholders Relationship Committee :	
	Resolving the grievances of the security holders of the listed entity including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.	Review of measures taken for effective exercise of voting rights by shareholders.
	Review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent.	Review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants/annual reports/statutory notices by the shareholders of the company.

Role of Auditor:

- ✓ The auditor should ascertain from the minutes book of the Board meetings whether a Board committee, namely a Stakeholders Relationship Committee has been set up under the chairmanship of a non-executive director to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of annual report, non-receipt of declared dividends, etc. Further, the auditor should also ascertain from the minutes book of the Committee meetings whether such committee is prima facie functioning.
- ✓ The auditor should also verify from the records of the Committee as well as from the certificate obtained by the listed entity from SEBI and stock exchange(s), if any, as regards the investors' grievances pending up to the date of certificate of compliance of conditions of corporate governance.

Risk Management Committee [Regulation 21]

The Board of Directors shall constitute a Risk Management Committee.
The majority of members of Risk Management Committee shall consist of members of the Board of Directors. In case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise of independent directors.
The Chairperson of the Risk Management Committee shall be a member of the Board of Directors and senior executives of the listed entity may be members of the committee.
The risk management committee shall meet at least once in a year.
The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit and such function shall specifically cover cyber security.
The provisions of this regulation shall be applicable to top 500 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year.
These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework. A majority of this Committee will be the members of the Board of Directors.

Statement of Deviation(s) or Variation(s) [Regulation 32 and Part C of Schedule II]

The listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc.:

Indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable;

Indicating category-wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilisation of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilisation of funds.

The statement(s) shall be continued to be given till such time the issue proceeds have been fully utilised or the purpose for which these proceeds were raised has been achieved.

Where an entity has raised funds through preferential allotment or qualified institutions placement, the listed entity shall disclose every year, the utilization of such funds during that year in its Annual Report until such funds are fully utilized.

The audit committee shall mandatorily review:

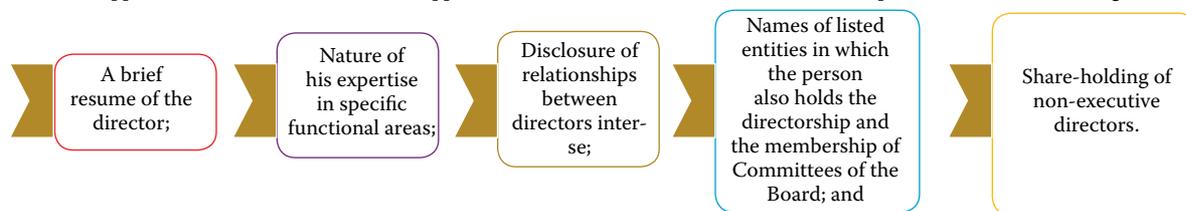
(a) Quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 32(1).

(b) Annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice.

ADVANCED AUDITING AND PROFESSIONAL ETHICS

Information to Shareholders [Regulation 36]

In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:



Role of Auditor : The auditor should ascertain from the communications sent, whether in the case of appointment of a new director or re-appointment of a director, the shareholders have been provided with the information stipulated above.

Transfer or Transmission or Transposition of Securities [Regulation 40]

Board of Directors of a listed entity shall :

- ✓ delegate the power of transfer of securities to a committee or to the compliance officer or to the registrar to an issue and/or share transfer agents.
- ✓ Board of directors and/or the delegated authority shall attend to the formalities pertaining to transfer of securities at least once in a fortnight.
- ✓ Delegated authority shall report on transfer of securities to the board of directors in each meeting.

Role of Auditor :

- ✓ ascertain from the minutes book of the Board meetings whether the listed entity has delegated the power of share transfer to an officer or a committee or to the registrar and share transfer agents.
- ✓ verify from the records maintained to ascertain whether the delegated authority has attended to share transfer formalities at least once in a fortnight.
- ✓ verify whether any transfer request are pending for more than a fortnight and are not attended to in terms of this Regulation.

Compliance Certificate [Part B of Schedule II]

The Chief Executive Officer and the Chief Financial Officer shall certify to the Board that:

(a) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:

(i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

(ii) These statements together present a true and fair view of the listed entity's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

(b) There are, to the best of their knowledge and belief, no transactions entered into by the listed entity during the year which are fraudulent, illegal or violative of the listed entity's code of conduct.

(c) They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of the internal control systems of the listed entity pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.



Part B of Schedule II clearly brings out that - The responsibility entrusted to the CEO and CFO is in relation to establishing and maintaining internal controls over financial reporting.

The Compliance Certificate has to assert that they have evaluated the effectiveness of internal control systems of the listed entity pertaining to financial reporting.

The Compliance Certificate will further state the manner in which deficiencies (if any) in the design or operation of such internal controls has been disclosed to the auditors and the Audit Committee.

The Compliance Certificate will also state the steps they have taken or propose to take to rectify these deficiencies in the design or operation of such internal controls pertaining to financial reporting.

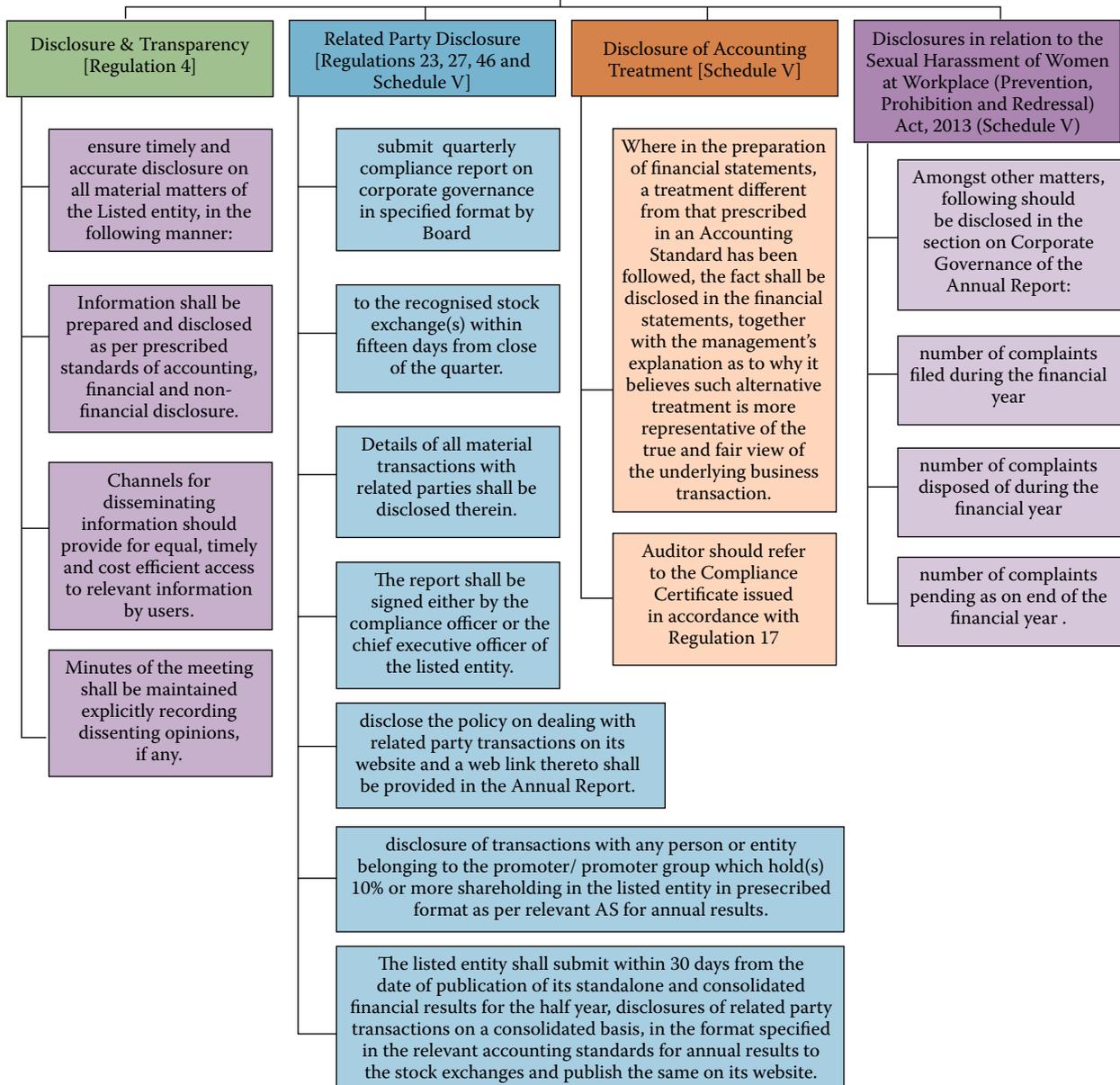
Disclosures - Management Discussion and Analysis [Schedule V]

As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:

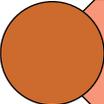
ADVANCED AUDITING AND PROFESSIONAL ETHICS

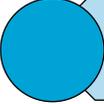
(a) Industry structure and developments.	(b) Opportunities and Threats.	(c) Segment-wise or product-wise performance.
(d) Outlook	(e) Risks and concerns.	(f) Internal control systems and their adequacy.
(g) Discussion on financial performance with respect to operational performance.	(h) Material developments in Human Resources / Industrial Relations front, including number of people employed.	
(i) details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefor, including: (i) Debtors Turnover (ii) Inventory Turnover (iii) Interest Coverage Ratio (iv) Current Ratio (v) Debt Equity Ratio (vi) Operating Profit Margin (%) (vii) Net Profit Margin (%) or sector-specific equivalent ratios, as applicable.	(j) details of any change in Return on Net Worth as compared to the immediately previous financial year along with a detailed explanation thereof.	

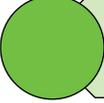
Other Disclosures



Report on Corporate Governance [Regulation 27 and Schedule II]

- 

The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within 15 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the listed entity.
- 

The auditor should ascertain whether the Board of Directors have included in the Annual Report of the listed entity, a separate section on corporate governance with a detailed compliance report on corporate governance.
- 

Any data in the report on corporate governance should not be inconsistent with that contained in the financial statements.

Auditors' Certificate (Schedule V)

A listed entity shall obtain a compliance certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance and shall annex it to the Directors' Report.

Situations may require an adverse or qualified statement or a disclosure without necessarily making it a subject matter of qualification in the Auditors' Certificate are:

- The number of non-executive directors is less than 50% of the strength of Board of directors.
- A qualified and independent audit committee is not set up.
- The Chairman of the audit committee is not an independent director.
- The Audit Committee does not meet four times a year.
- The necessary powers in terms of Part C of Schedule II have not been vested by the Board in the Audit Committee.
- The time gap between two Board meetings is more than one hundred and twenty days.
- A director is a member of more than ten committees or acts as Chairman of more than five committees across all companies in which he is a director.
- The information of quarterly results is neither put on the listed entity's website nor sent in a form so as to enable the stock exchange on which the entity's securities are listed to enable such stock exchange to put it on its own website.
- The power of share transfer is not delegated to an officer or a committee or to the registrar and share transfer agents.



CA FINAL - PAPER 3 - ADVANCED AUDITING AND PROFESSIONAL ETHICS

It has always been the endeavour of Board of Studies to provide quality academic inputs to the students of Chartered Accountancy Course. Keeping in mind this objective, BoS has decided to come out with a Crisp & Concise Capsule of each subject to facilitate students in quick revision before examination.

This series of capsules is on Paper 3: Advanced Auditing & Professional Ethics of Final Course. In this capsule we are covering Engagement and Quality Control Standards i.e. SQC 1, SA 200 and 700 Series (for remaining Standards on Auditing i.e. SA 300, 500 and 600 series refer January 2021 edition). It may be mentioned that this capsule is a tool for quick revision of some significant areas of Auditing subject, this should not be taken as a substitute for the detailed study of the subject. Students are advised to refer to the relevant Study Material, Auditing Pronouncements and RTP for comprehensive study & revision.

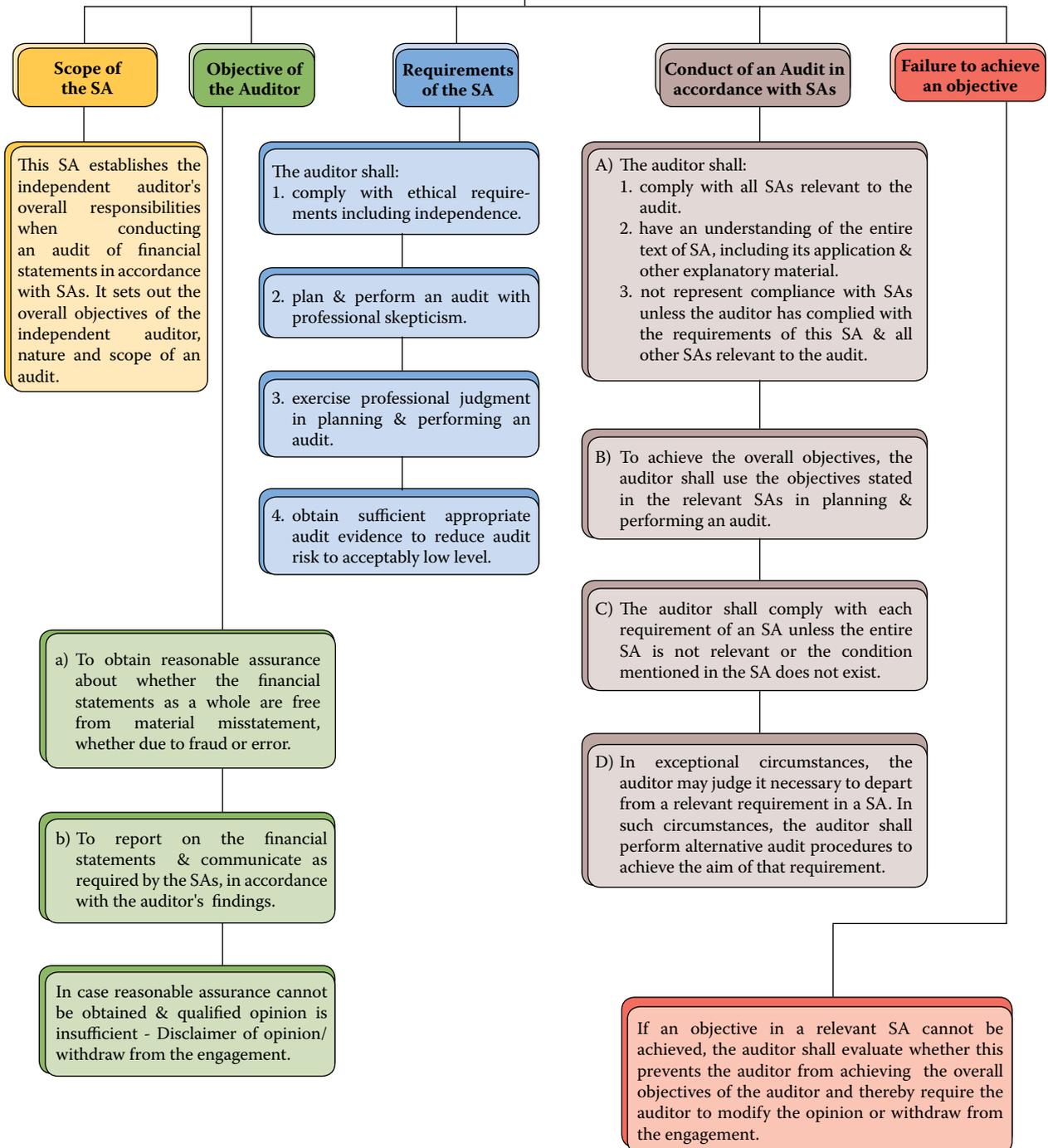
Engagement & Quality Control Standards

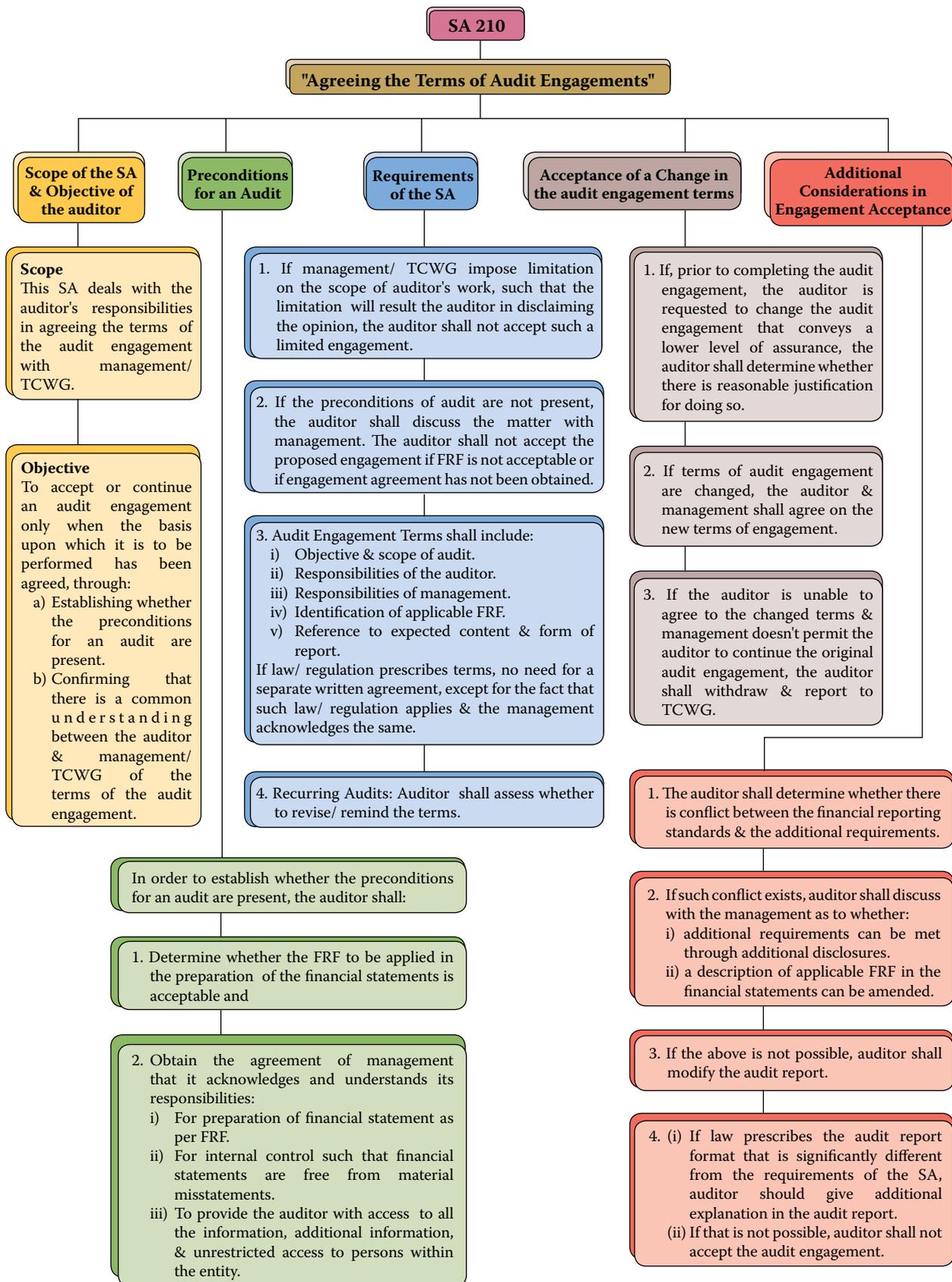


SA 200 - 299 General Principles and Responsibilities

SA 200

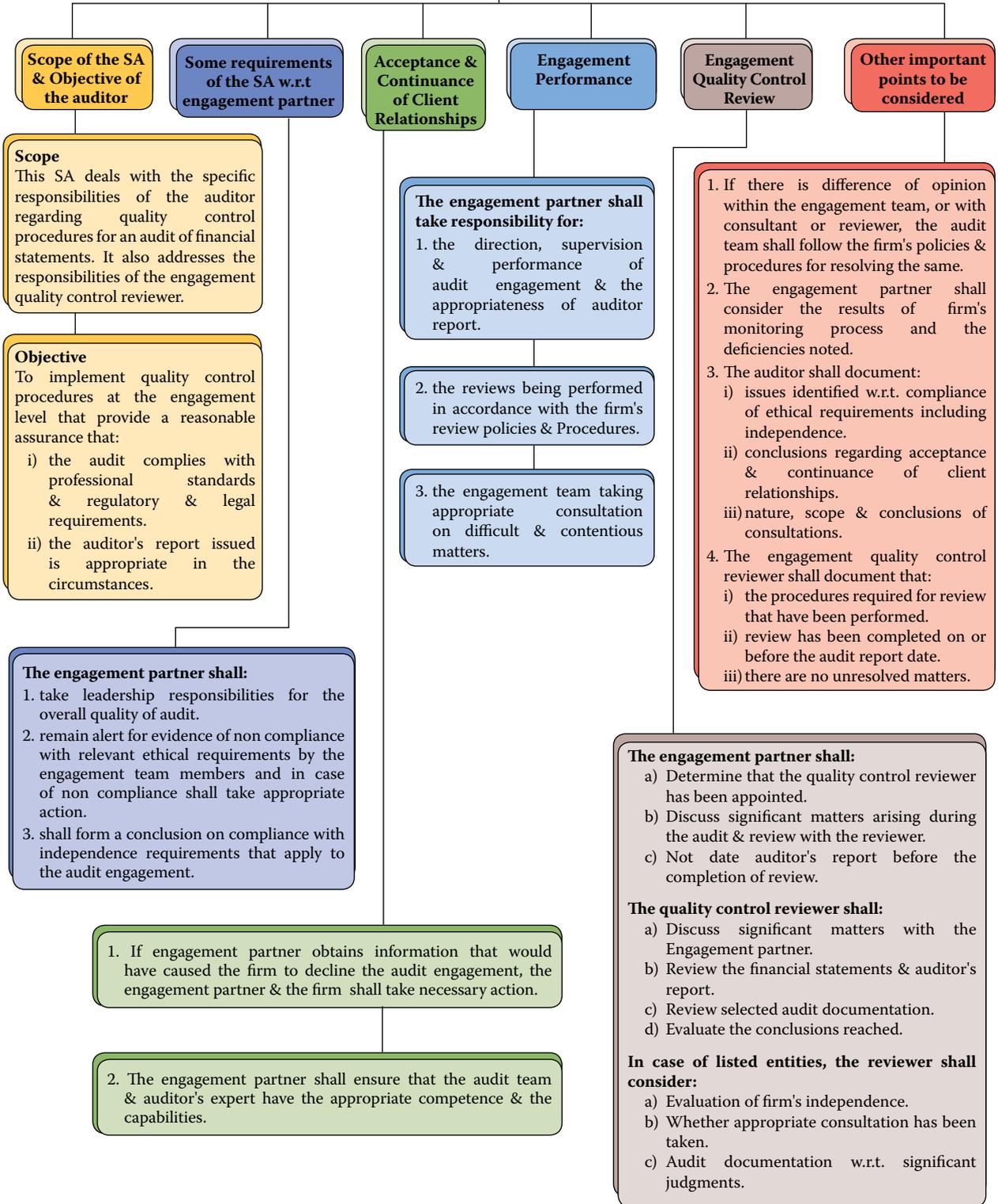
"Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards in Auditing"

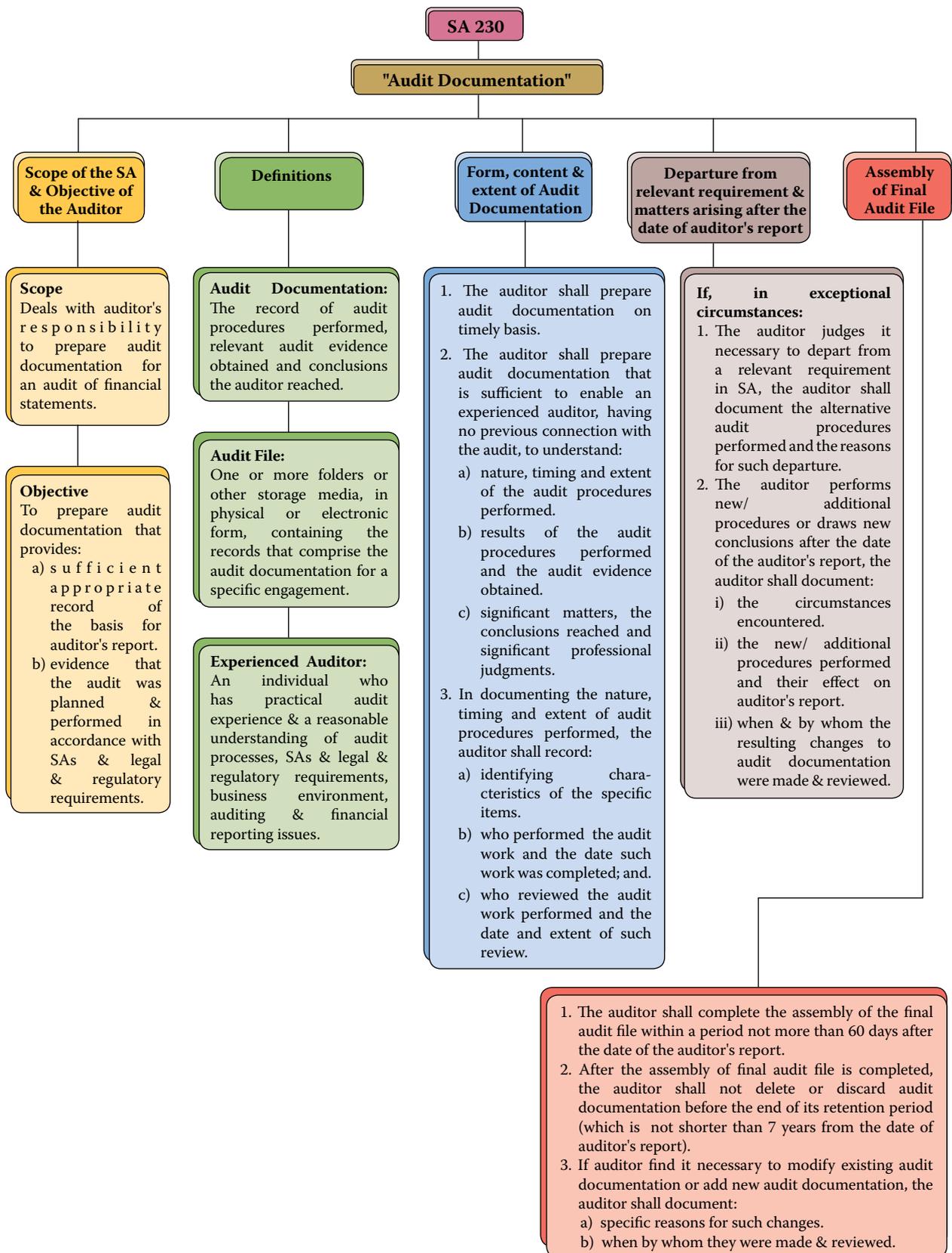




SA 220

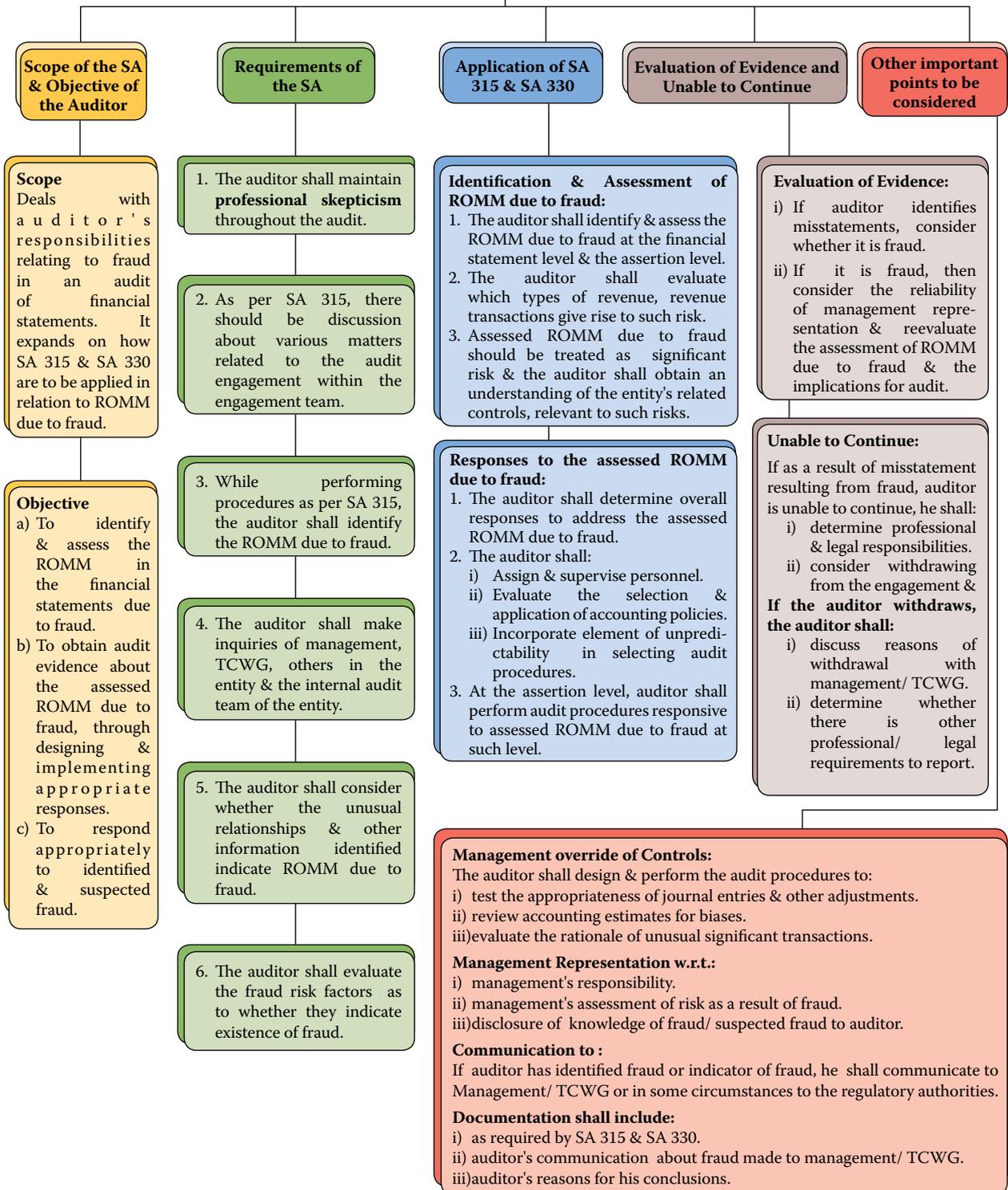
"Quality Control for an Audit of Financial Statements"

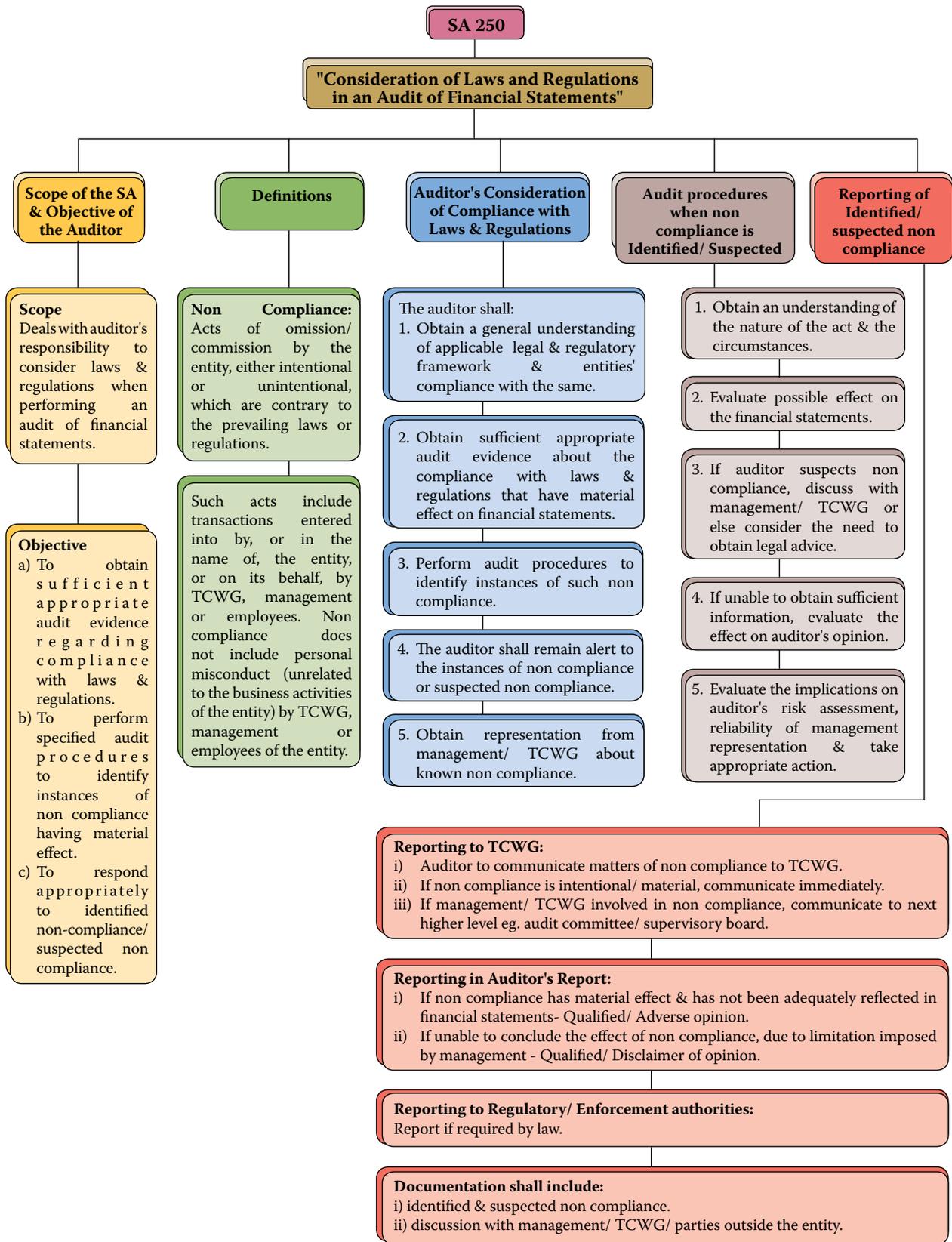




SA 240

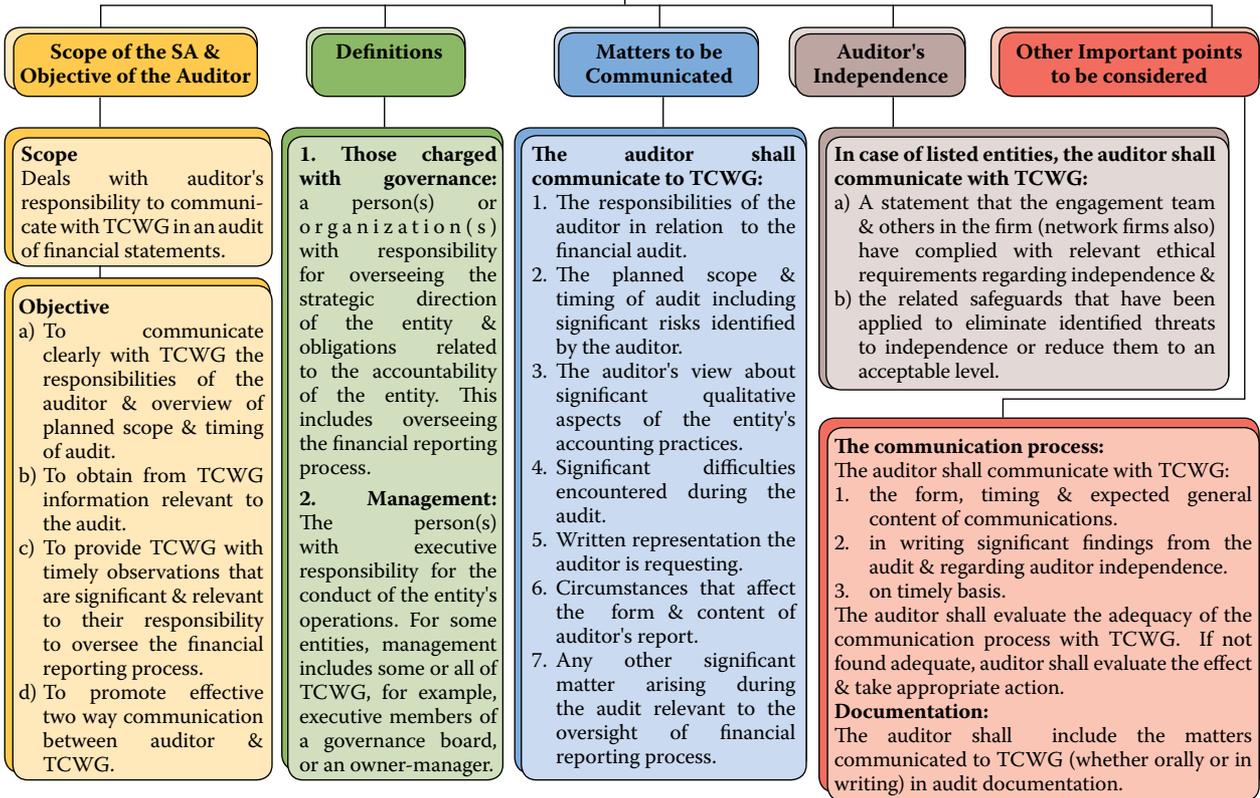
"The Auditor's Responsibilities Relating to Fraud In an Audit of Financial Statements"





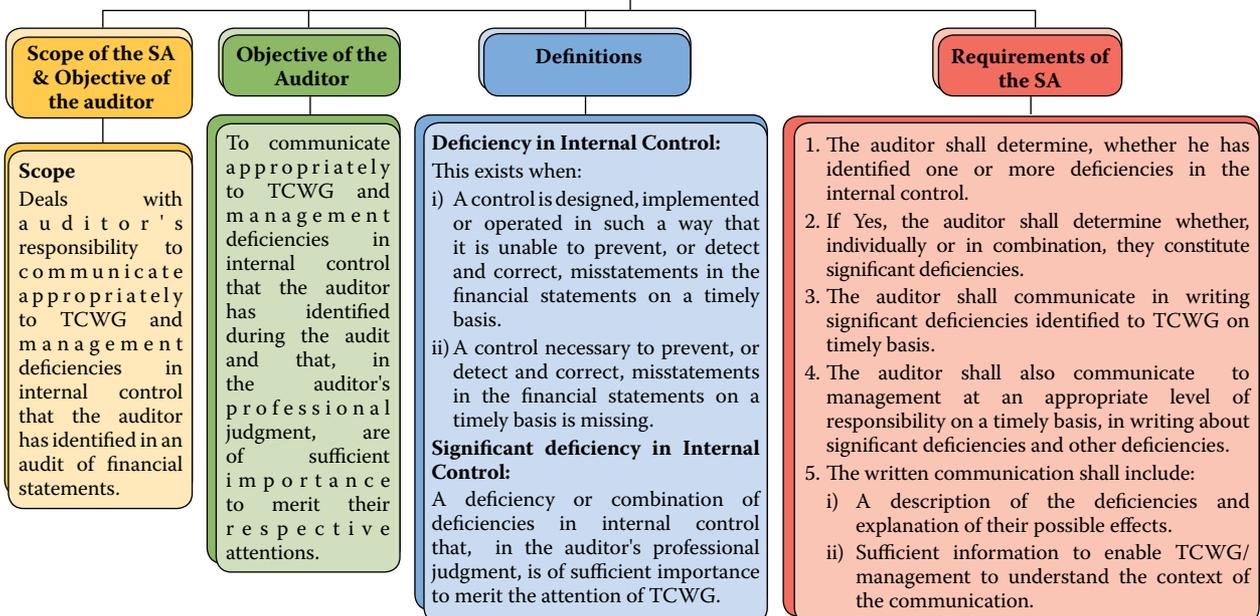
SA 260

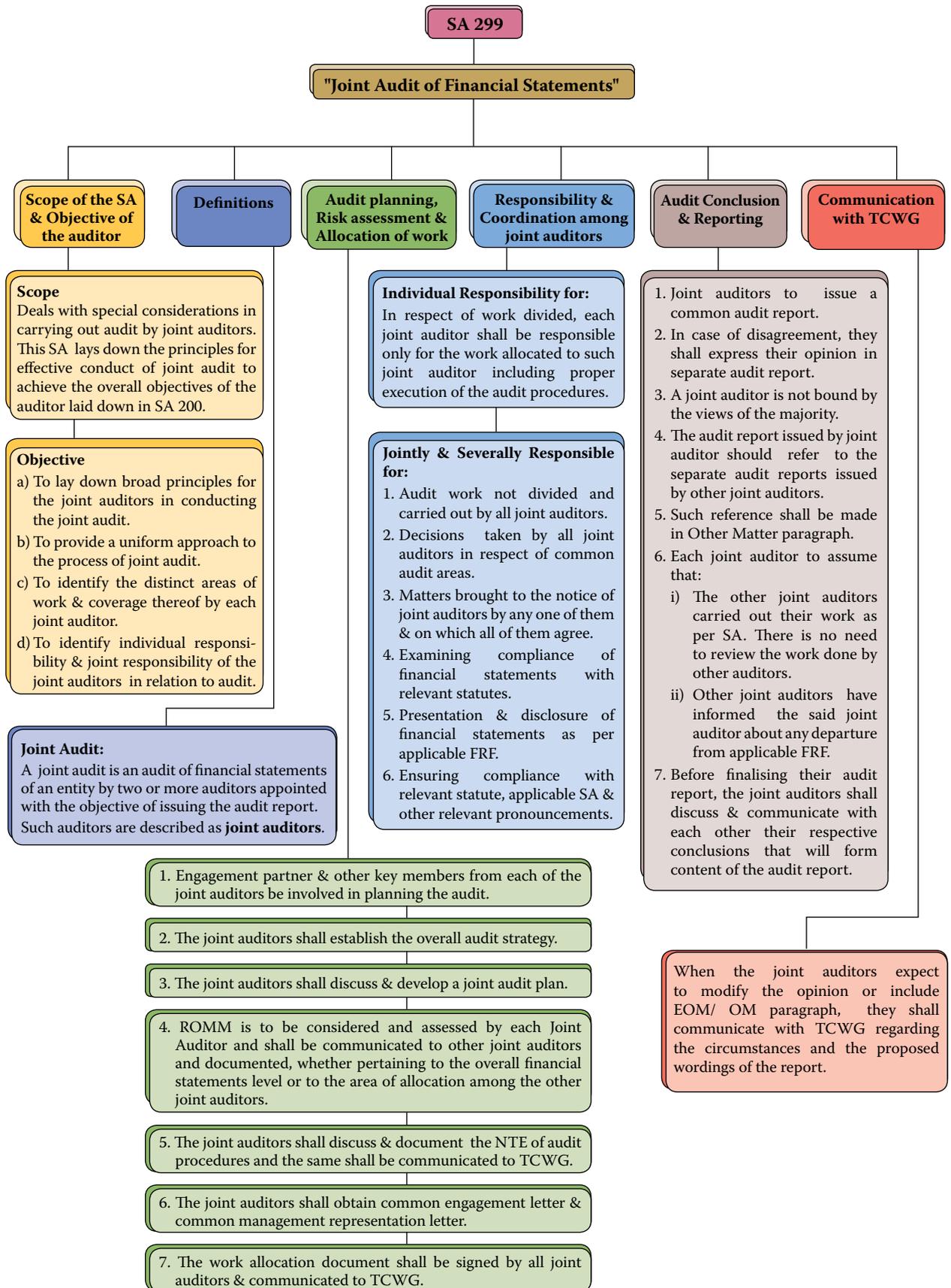
"Communication with Those Charged with Governance"



SA 265

"Communicating Deficiencies in Internal Control to Those Charged With Governance and Management"



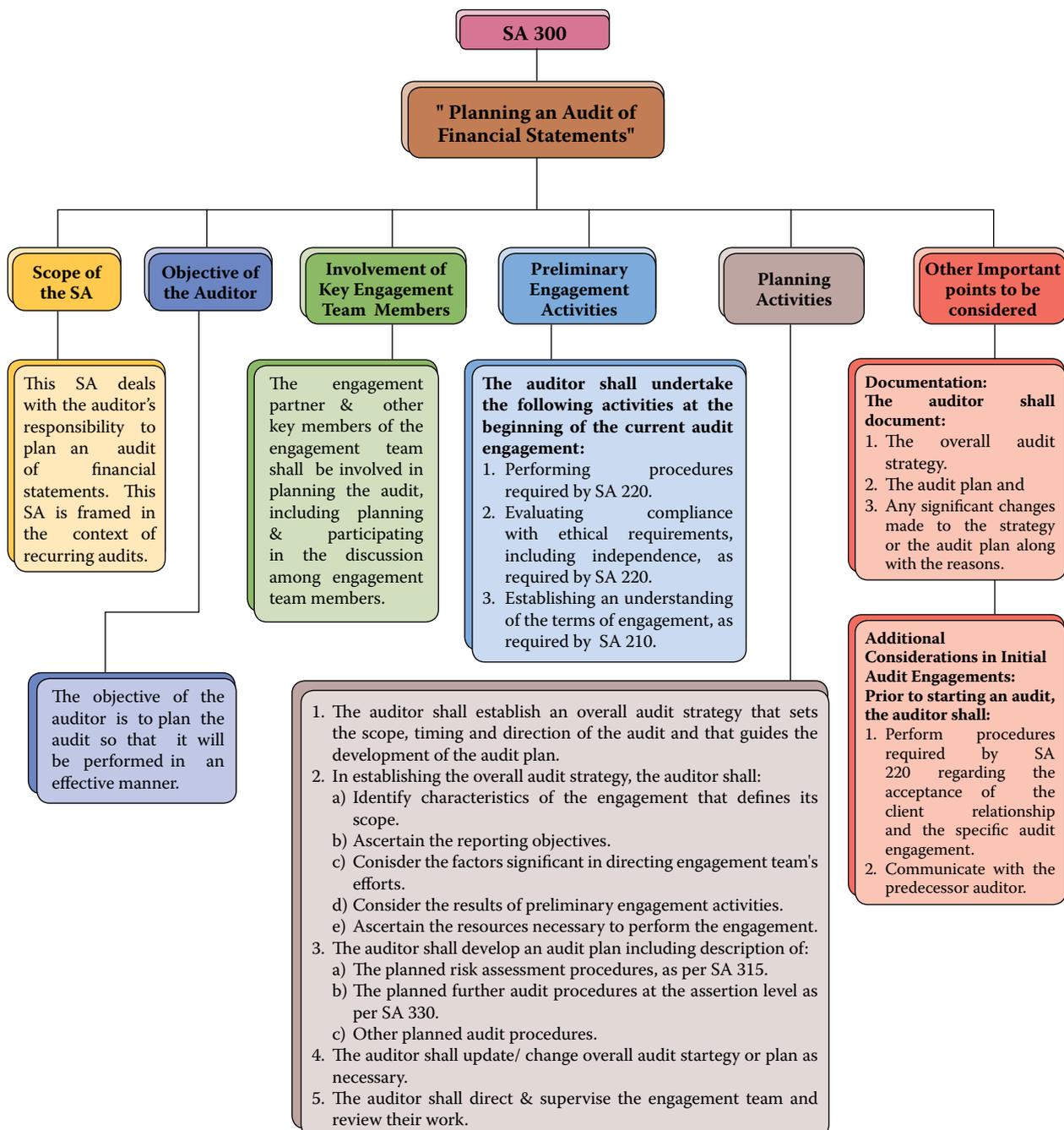


CA FINAL - PAPER 3 - ADVANCED AUDITING AND PROFESSIONAL ETHICS

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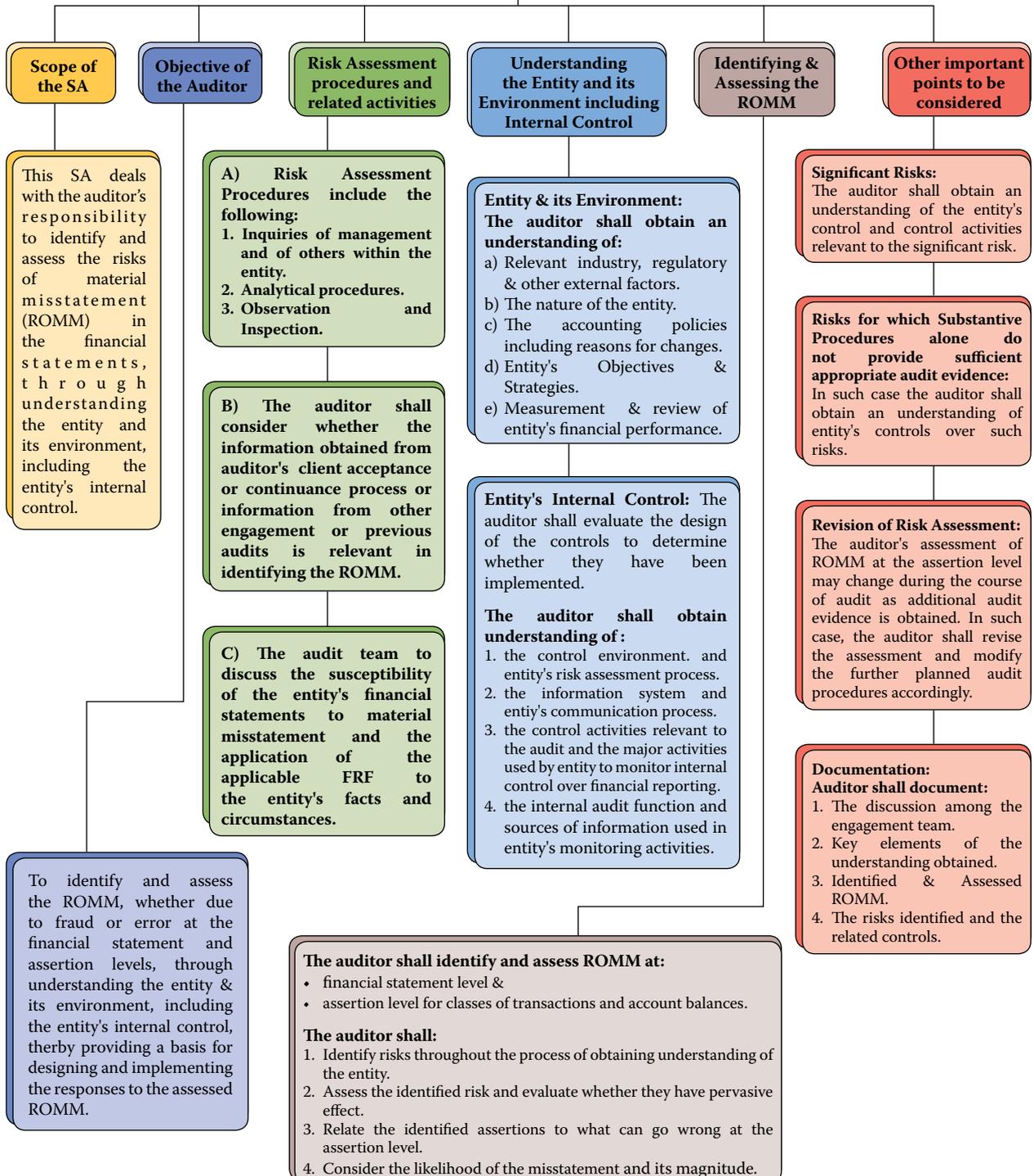
This series of capsules is on Paper 3: Advanced Auditing & Professional Ethics of Final Course. In this capsule we are covering Engagement and Quality Control Standards i.e. SA 300, 500 and 600 series (refer March 2019 edition for SA 540 and SA 600). It may be mentioned that this capsule is a tool for quick revision of some significant areas of Auditing subject, but this should not be taken as a substitute for the detailed study of the subject. Students are advised to refer to the relevant Study Material, Auditing Pronouncements and RTP for comprehensive study & revision.

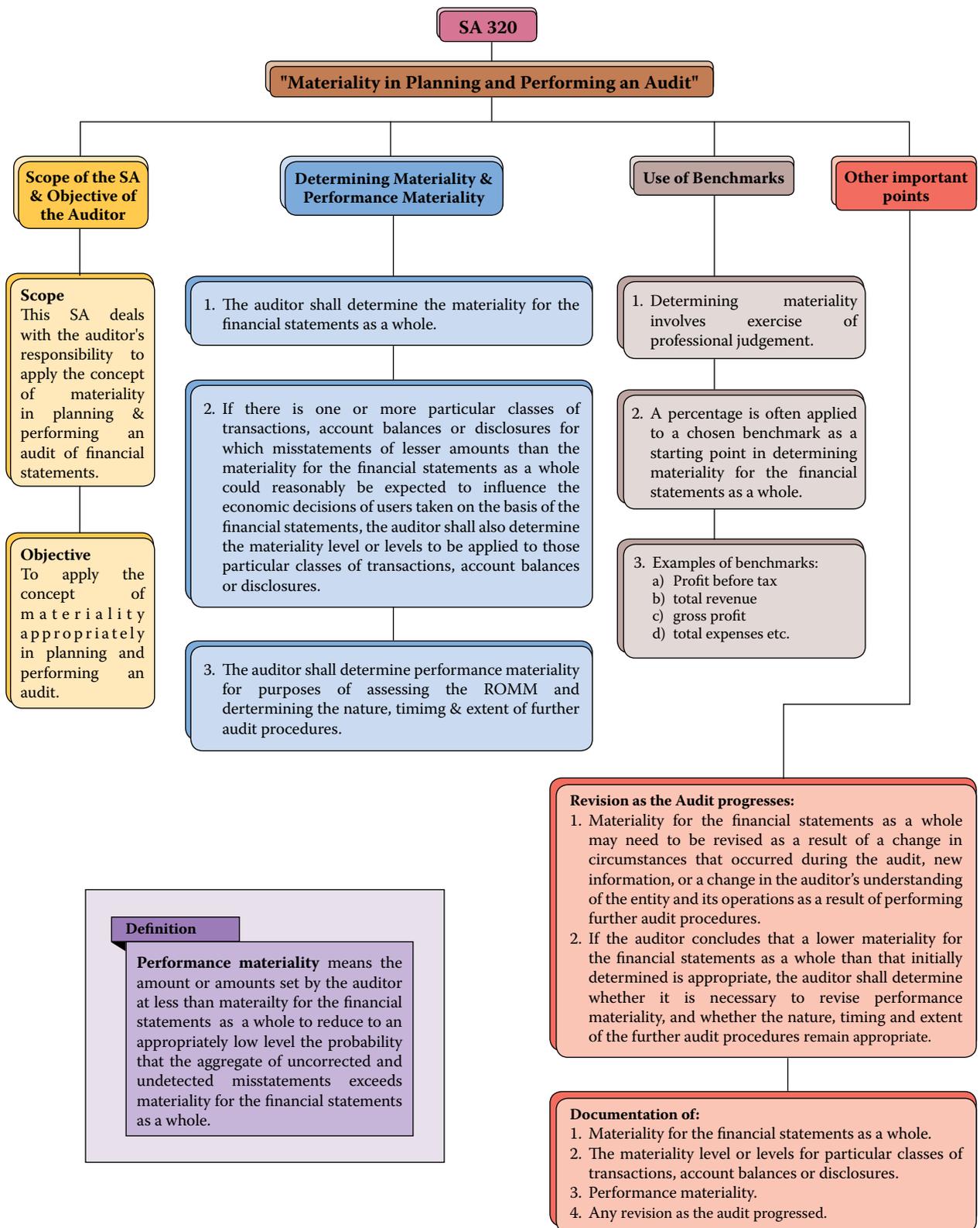
SA 300 - 499: Risk Assessment and Response to Assessed Risks



SA 315

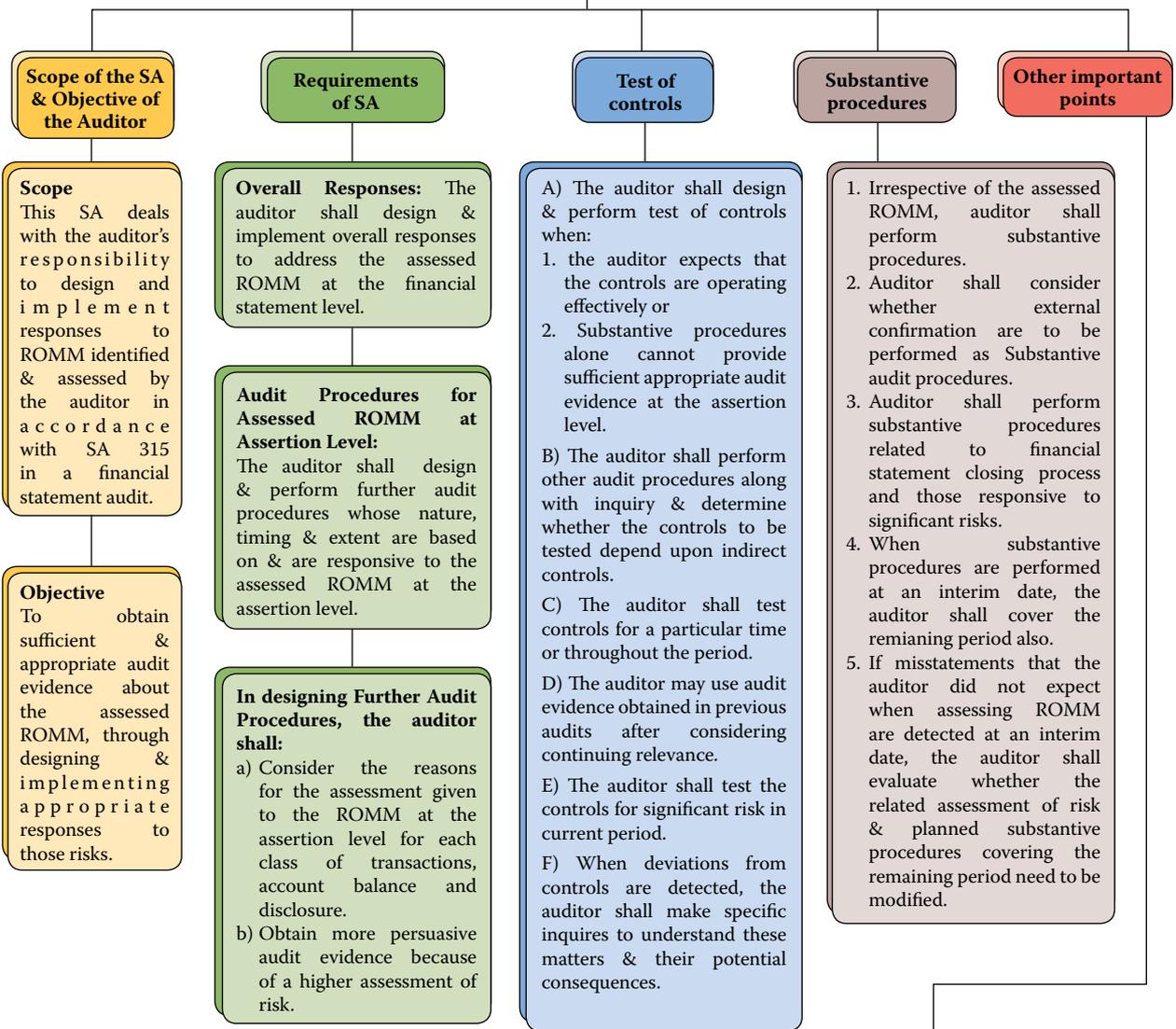
" Identifying and Assessing the Risk of Material Misstatement through understanding the Entity and its Environment"





SA 330

"The Auditor's Responses to Assessed Risks"



Scope of the SA & Objective of the Auditor

Scope
This SA deals with the auditor's responsibility to design and implement responses to ROMM identified & assessed by the auditor in accordance with SA 315 in a financial statement audit.

Objective
To obtain sufficient & appropriate audit evidence about the assessed ROMM, through designing & implementing appropriate responses to those risks.

Requirements of SA

Overall Responses: The auditor shall design & implement overall responses to address the assessed ROMM at the financial statement level.

Audit Procedures for Assessed ROMM at Assertion Level:
The auditor shall design & perform further audit procedures whose nature, timing & extent are based on & are responsive to the assessed ROMM at the assertion level.

In designing Further Audit Procedures, the auditor shall:

- a) Consider the reasons for the assessment given to the ROMM at the assertion level for each class of transactions, account balance and disclosure.
- b) Obtain more persuasive audit evidence because of a higher assessment of risk.

Test of controls

A) The auditor shall design & perform test of controls when:

1. the auditor expects that the controls are operating effectively or
2. Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

B) The auditor shall perform other audit procedures along with inquiry & determine whether the controls to be tested depend upon indirect controls.

C) The auditor shall test controls for a particular time or throughout the period.

D) The auditor may use audit evidence obtained in previous audits after considering continuing relevance.

E) The auditor shall test the controls for significant risk in current period.

F) When deviations from controls are detected, the auditor shall make specific inquiries to understand these matters & their potential consequences.

Substantive procedures

1. Irrespective of the assessed ROMM, auditor shall perform substantive procedures.
2. Auditor shall consider whether external confirmation are to be performed as Substantive audit procedures.
3. Auditor shall perform substantive procedures related to financial statement closing process and those responsive to significant risks.
4. When substantive procedures are performed at an interim date, the auditor shall cover the remaining period also.
5. If misstatements that the auditor did not expect when assessing ROMM are detected at an interim date, the auditor shall evaluate whether the related assessment of risk & planned substantive procedures covering the remaining period need to be modified.

Other important points

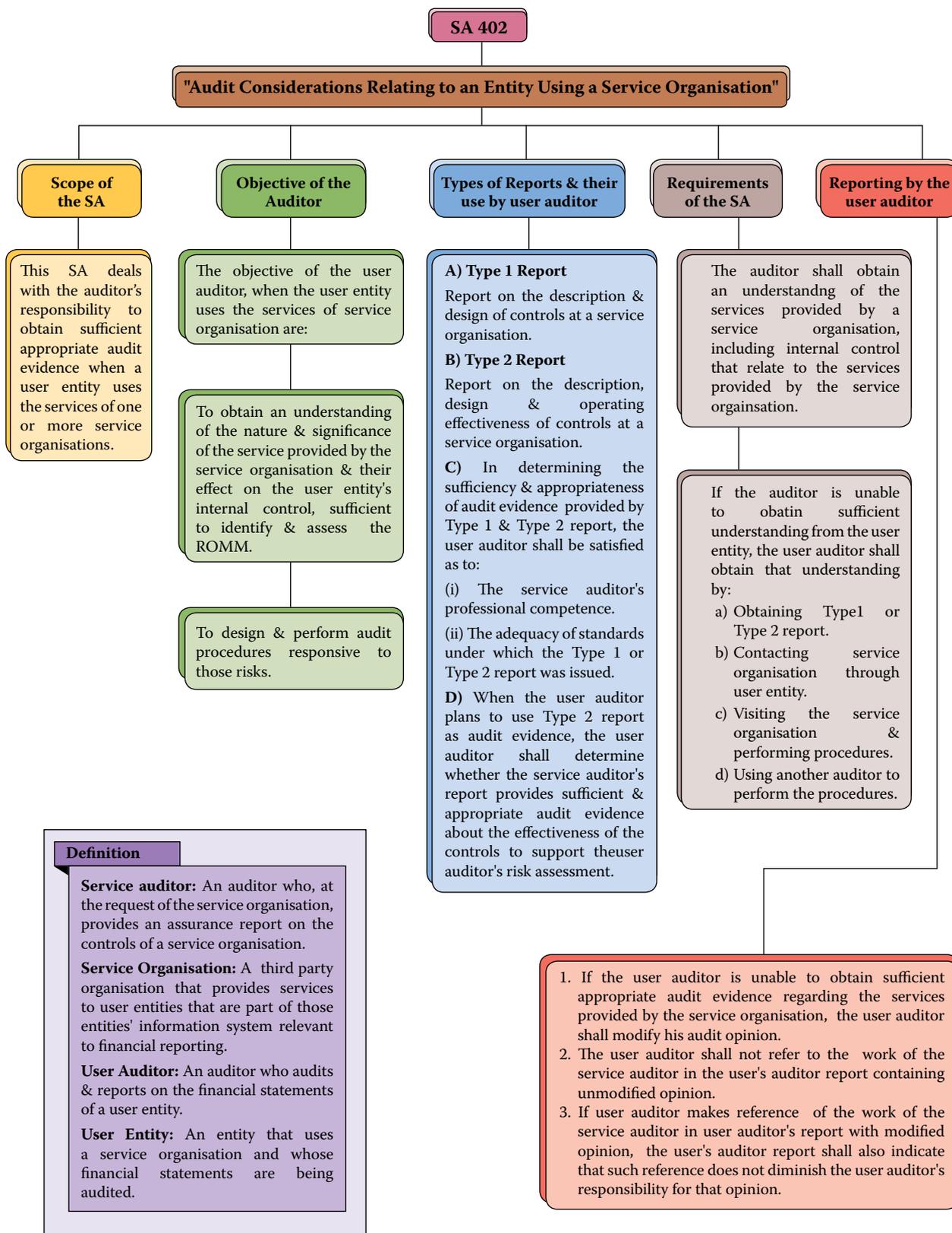
1. The auditor shall perform audit procedures to evaluate the adequacy of presentation & disclosures made in the financial statements.
2. The auditor shall evaluate the sufficiency & appropriateness of audit evidence.
3. The auditor shall document:
 - a) the overall responses and the nature, timing, extent of further audit procedures performed.
 - b) the linkage of those procedures with assessed risks at the assertion level.
 - c) the results of audit procedures.

Definition

Substantive Procedure:
An audit procedure designed to detect material misstatements at the assertion level. It comprises of:

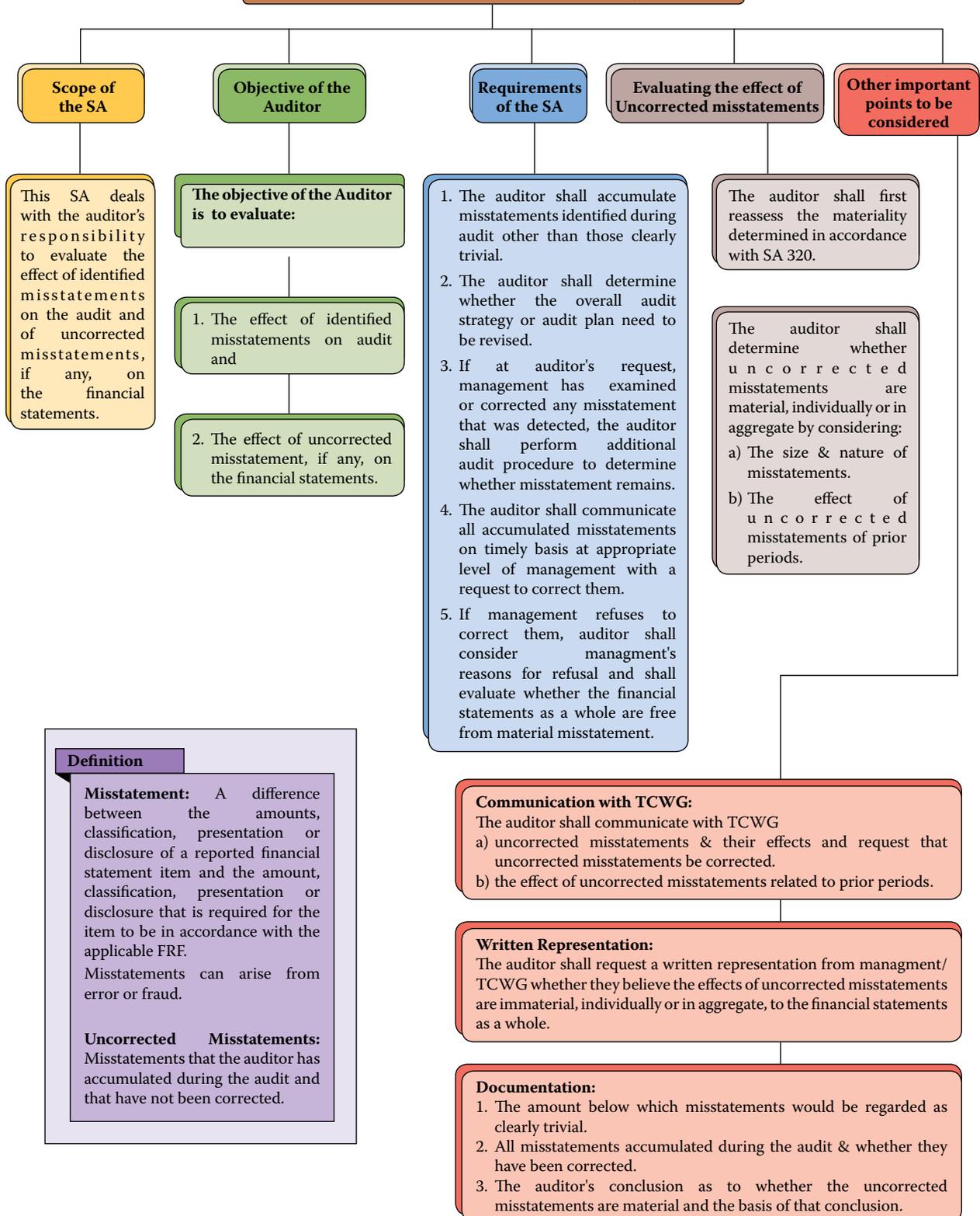
1. Test of details (of classes of transactions, account balances, & disclosures), &
2. Substantive analytical procedures.

Test of Controls:
An audit procedure designed to evaluate operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

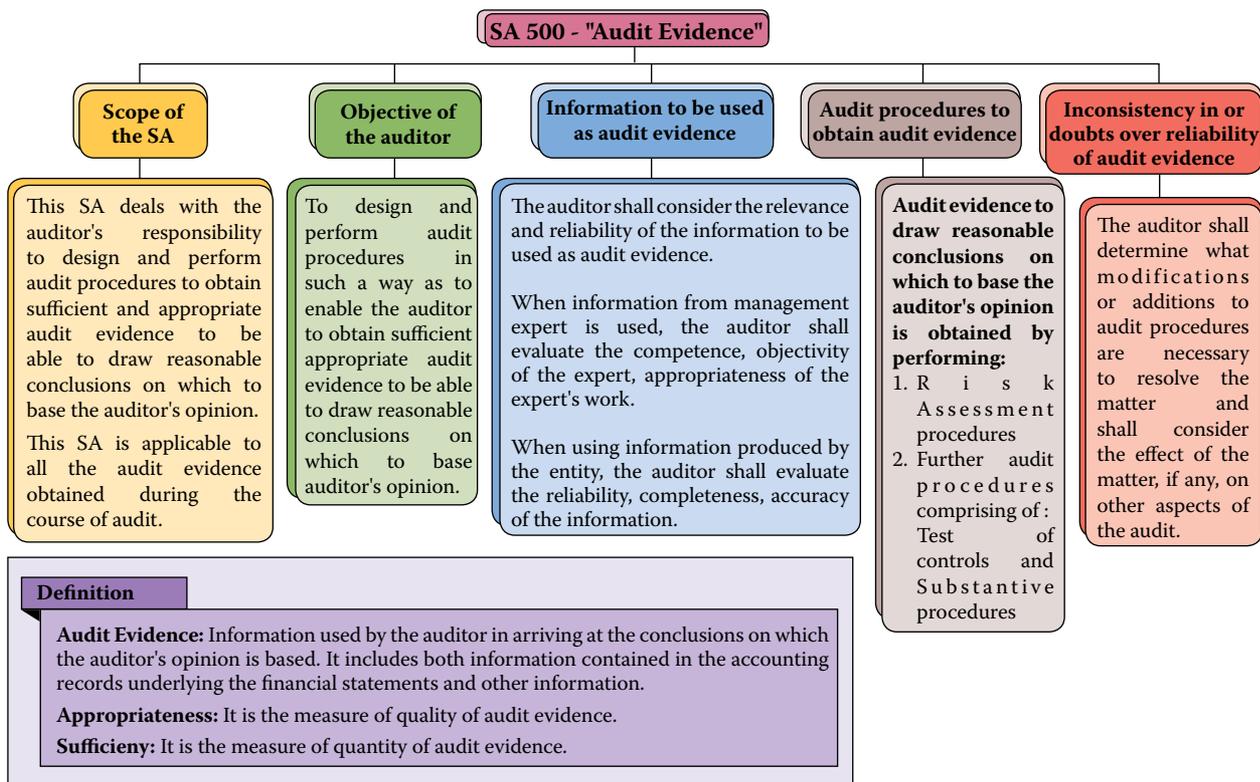


SA 450

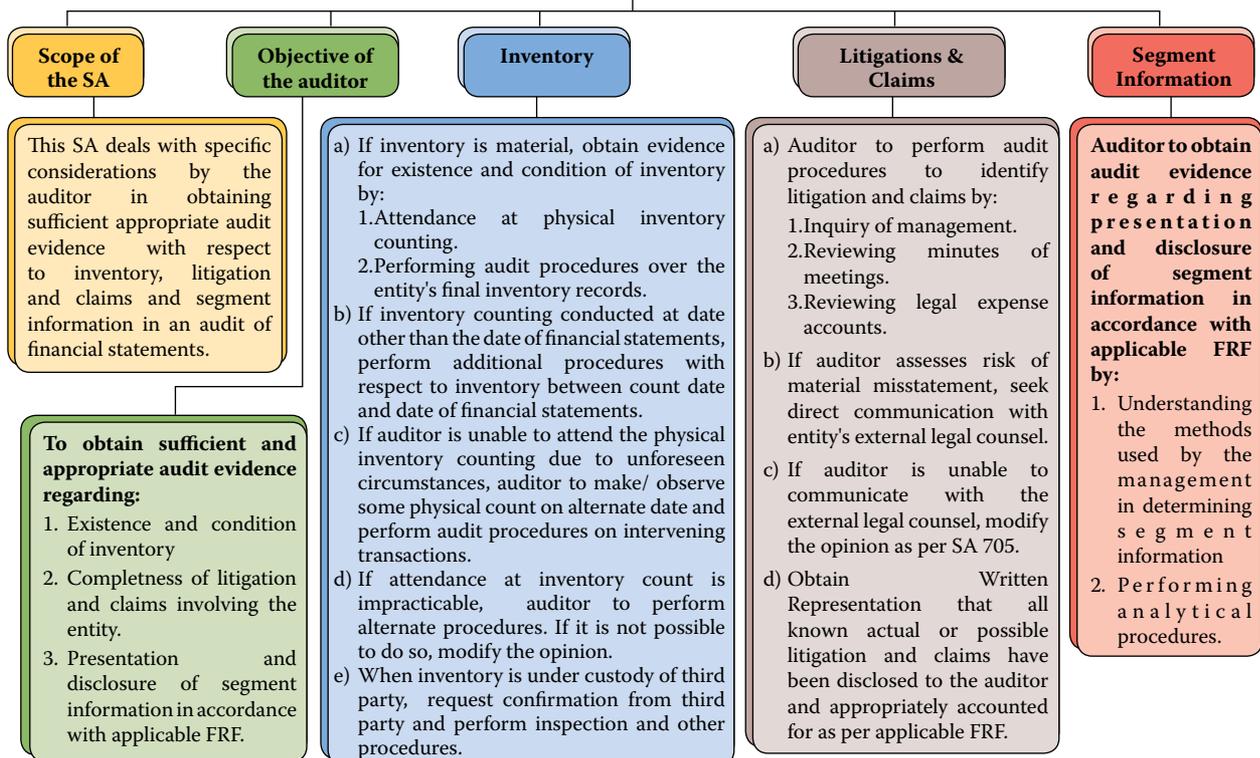
"Evaluation of Misstatements Identified during the Audit"



SA 500 - 599: Audit Evidence



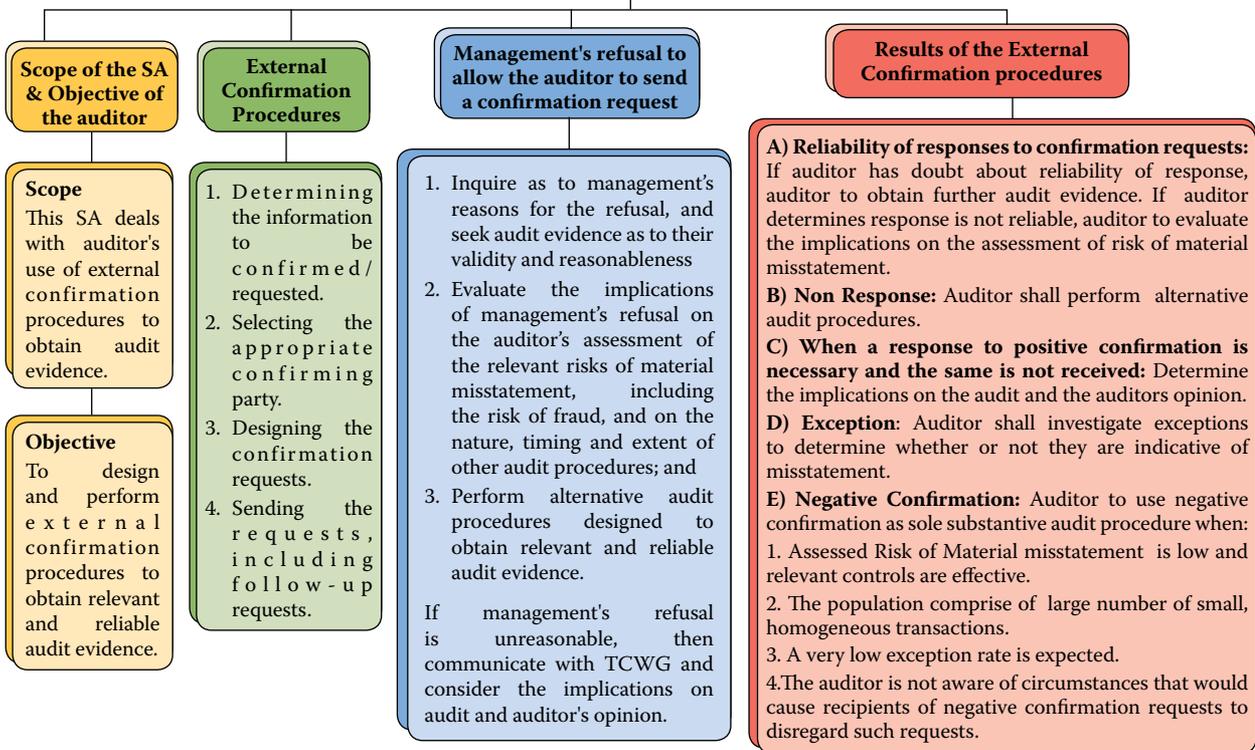
SA 501 - "Audit Evidence- Specific Considerations for Selected Items"



ADVANCED AUDITING AND PROFESSIONAL ETHICS

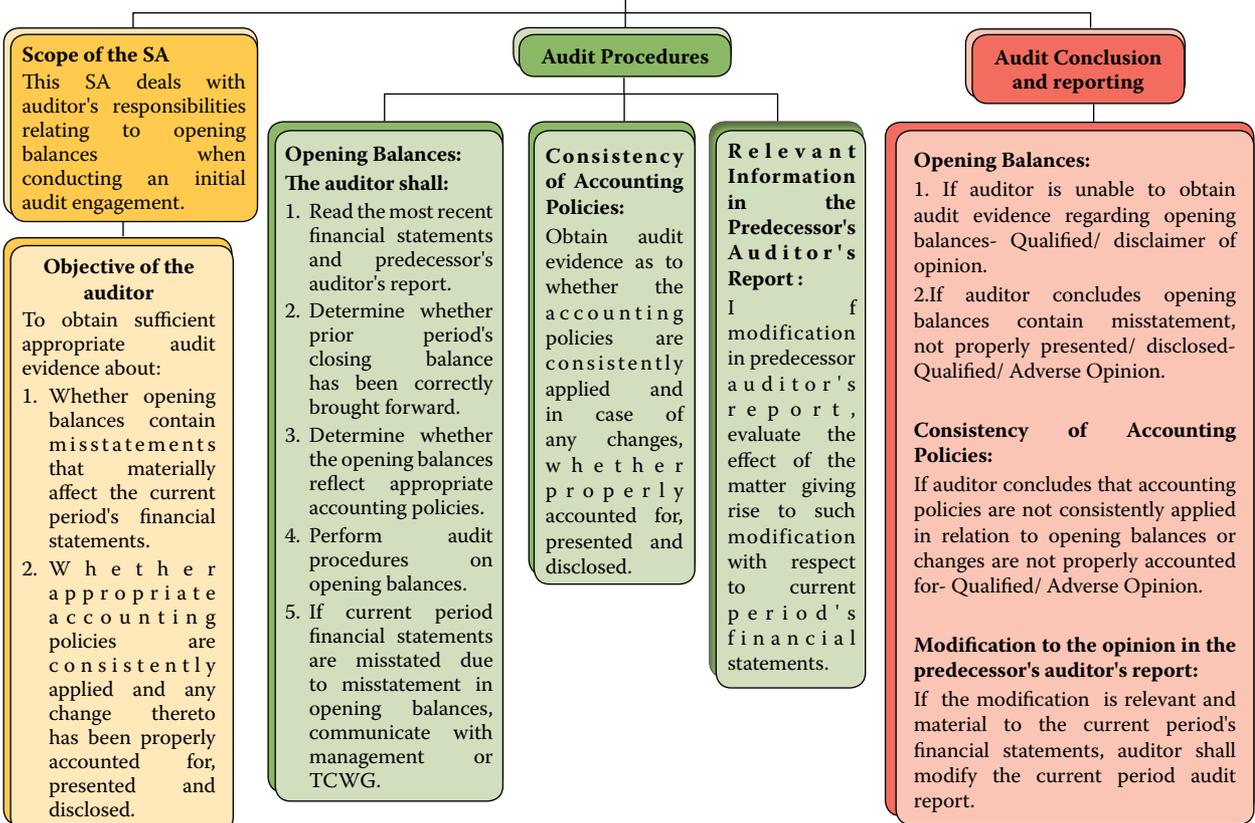
SA 505 - "External Confirmations"

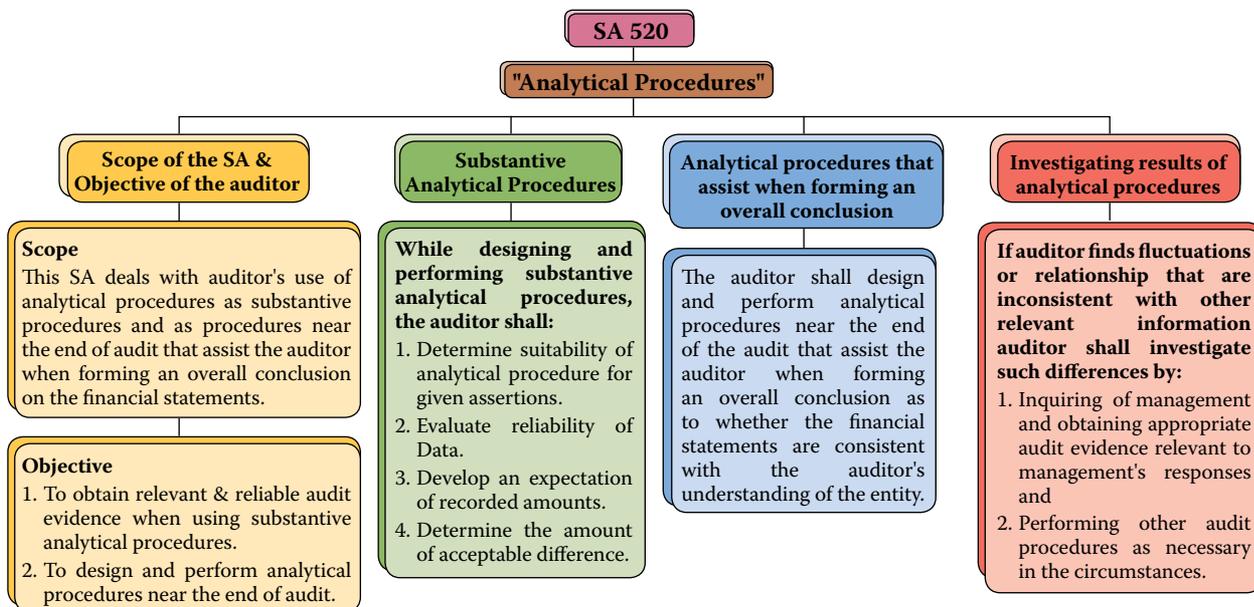
Refer page 17 for definition



SA 510 - "Initial Audit Engagements- Opening Balances"

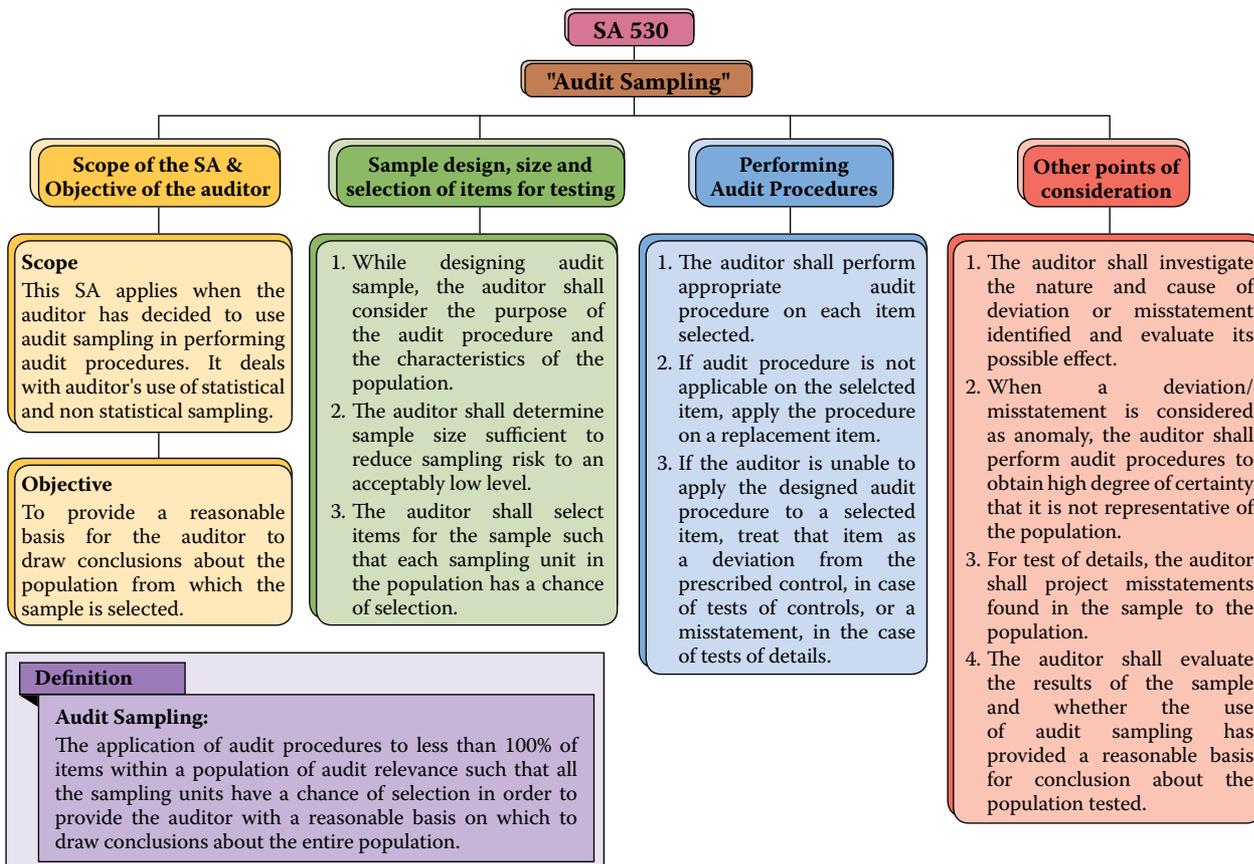
Refer page 18 for definition





Definition

Analytical Procedures means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.



SA 550

"Related Parties"

Scope of the SA

This SA deals with the auditor's responsibilities regarding related party relationships and transactions. It expands on how SA 315, SA 330, SA 240 are to be applied in relation to related party relationships and transactions.

Objectives of the auditor

A. To obtain an understanding of the related party transactions to:

1. recognize fraud risk factors arising from such transactions.
2. conclude whether financial statements, in so far as they are affected by such transactions
 - a) achieve a true and fair presentation.
 - b) are not misleading.

B. To obtain audit evidence as to whether the related party transactions are properly identified, accounted for, and disclosed in the financial statements.

Requirements of the SA

1. Risk Assessment procedures and related activities.
2. Understanding the Entity's related party relationships and transactions.
3. Maintaining alertness for related party information when reviewing records or documents.
4. Sharing related party information with the Engagement team.
5. Identification and assessment of the risk of material misstatement associated with related party transactions and relationships.
6. Responses to the Risks of Material Misstatement associated with related party relationships and transactions.

Identification of previously unidentified or undisclosed related part transactions.

1. Auditor shall determine whether the underlying circumstances confirm the existence of such transactions.
2. Communicate within the team.
3. Request management to identify all transactions with newly identified related parties.
4. Perform more substantive procedures.
5. Reconsider risks with respect to other related parties.
6. If non disclosure by the management appears intentional, evaluate the implications for the audit.

Identified significant related party transactions outside the entity's normal course of business

The auditor shall obtain Written Representation that:

- a) all the related parties and related party transactions have been disclosed to the auditor and
- b) all such transactions have been properly accounted for and disclosed.

Communication with TCWG

The auditor shall communicate with TCWG significant matters arising during the audit in connection with the entity's related parties.

Documentation:

The auditor shall include in audit documentation names of the related parties and the nature of the related party transactions.

Other important points

1. Inspect the underlying contracts and evaluate:

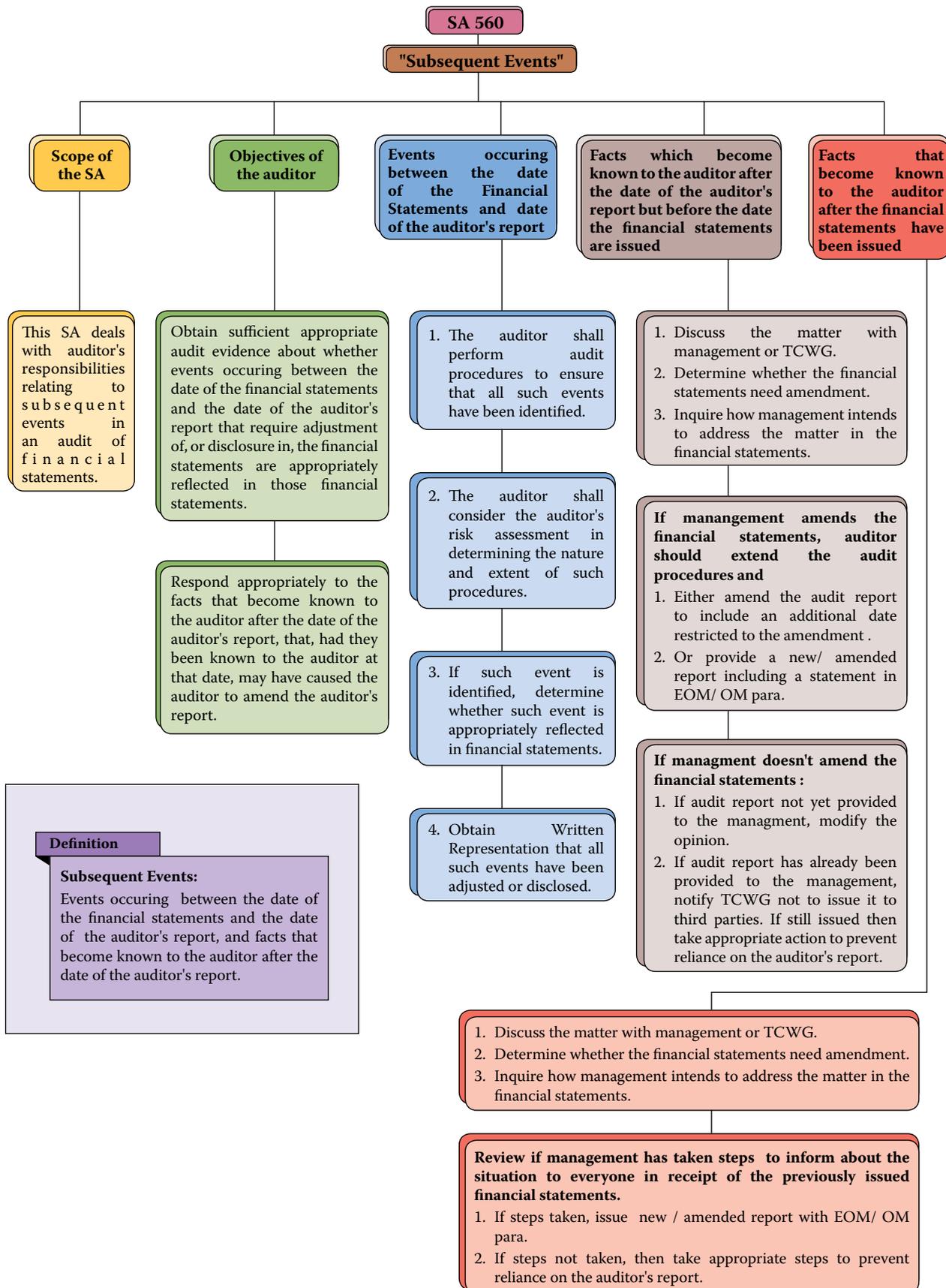
- a) the business rationale of the transactions.
- b) whether the terms of transactions are consistent with management's explanations.
- c) whether such transactions have been properly accounted for.

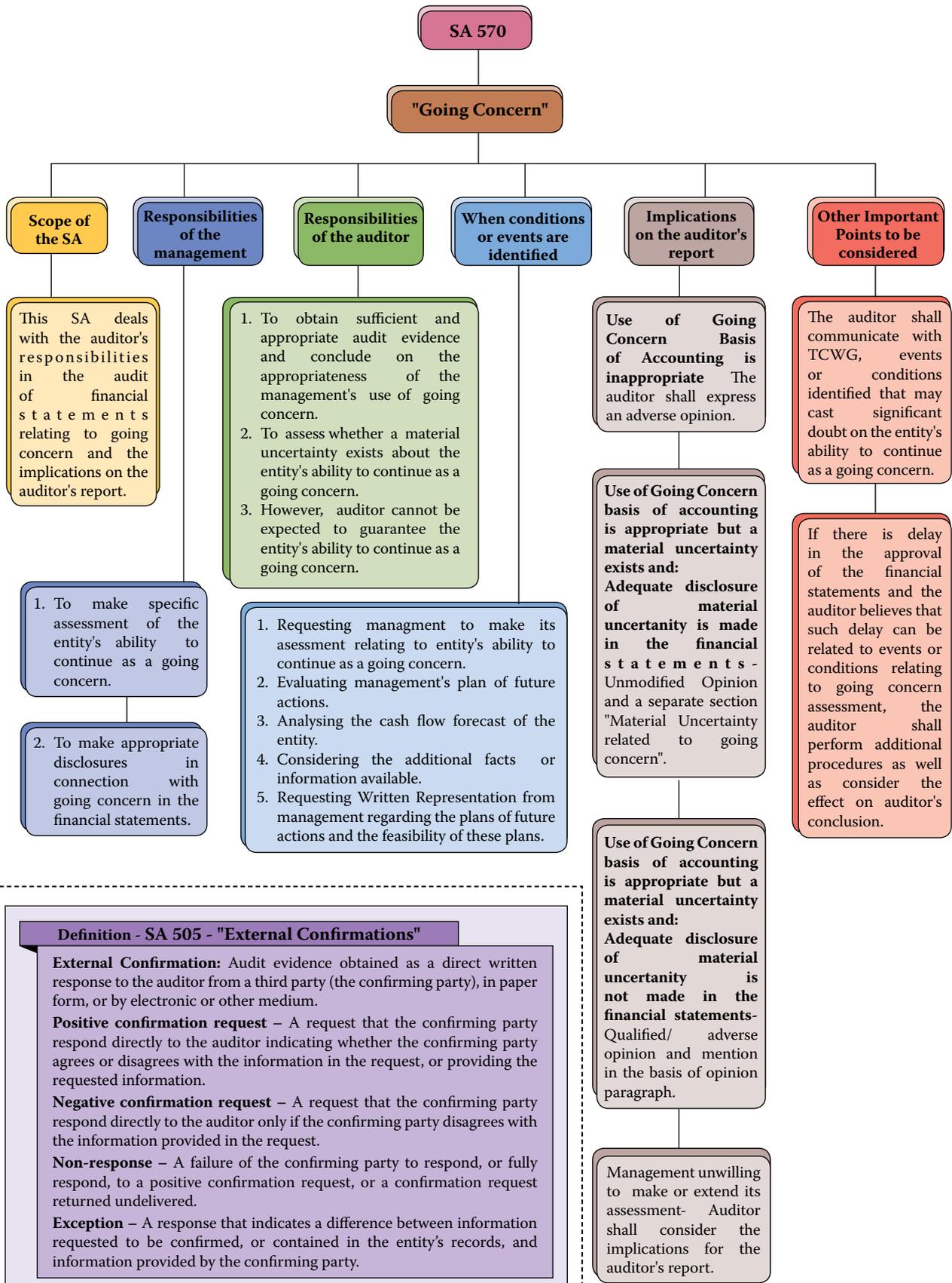
2. Obtain audit evidence that the transactions have been appropriately authorised and approved.

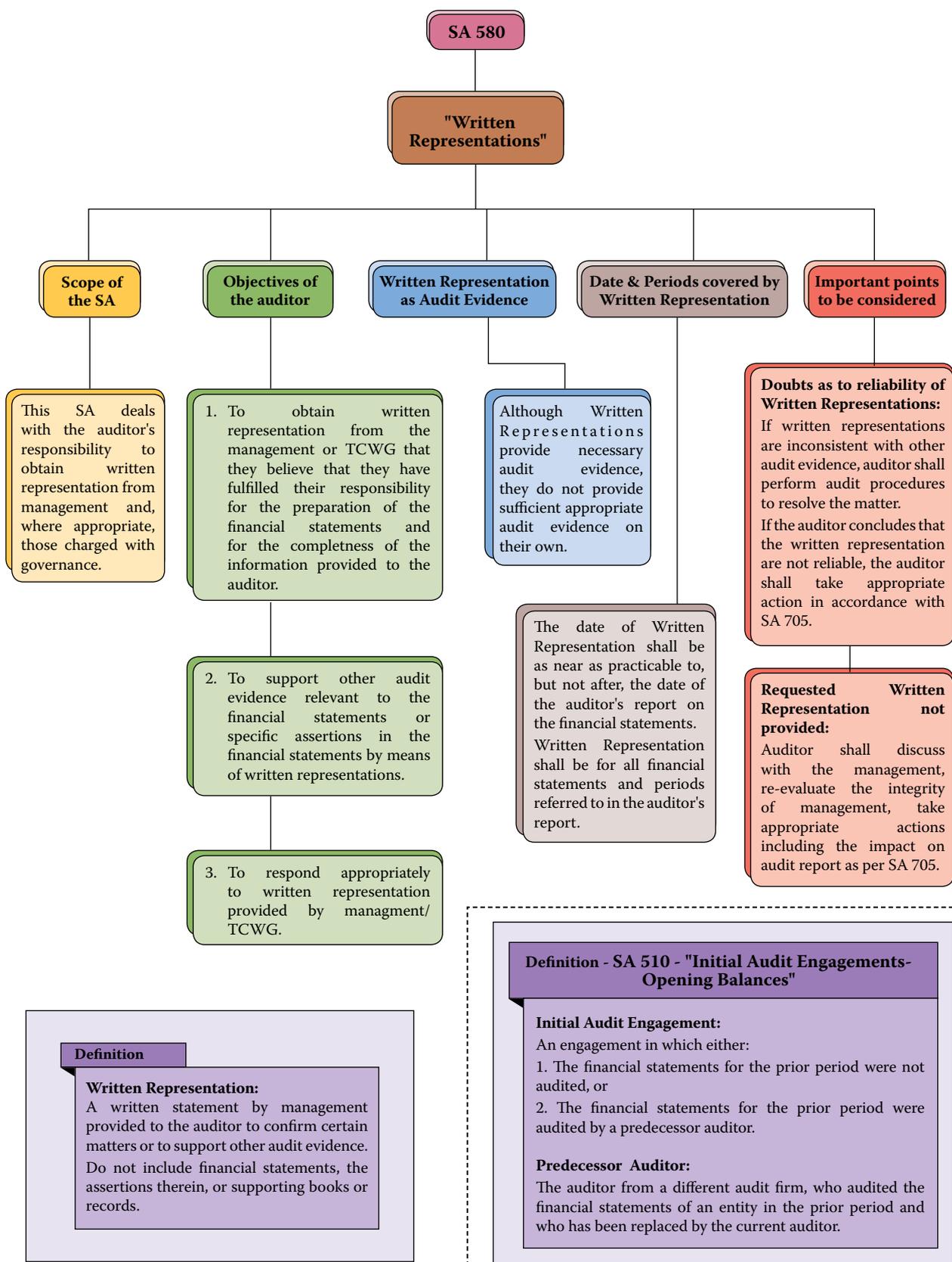
Definition

Related party- A party that is either:

- i) a related party as defined in applicable FRF.
- ii) where applicable FRF establishes minimal or no related party requirements:
 - a) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity,
 - b) Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
 - c) Another entity that is under common control with the reporting entity through having:
 - common controlling ownership,
 - owners who are close family members, or
 - common key management.

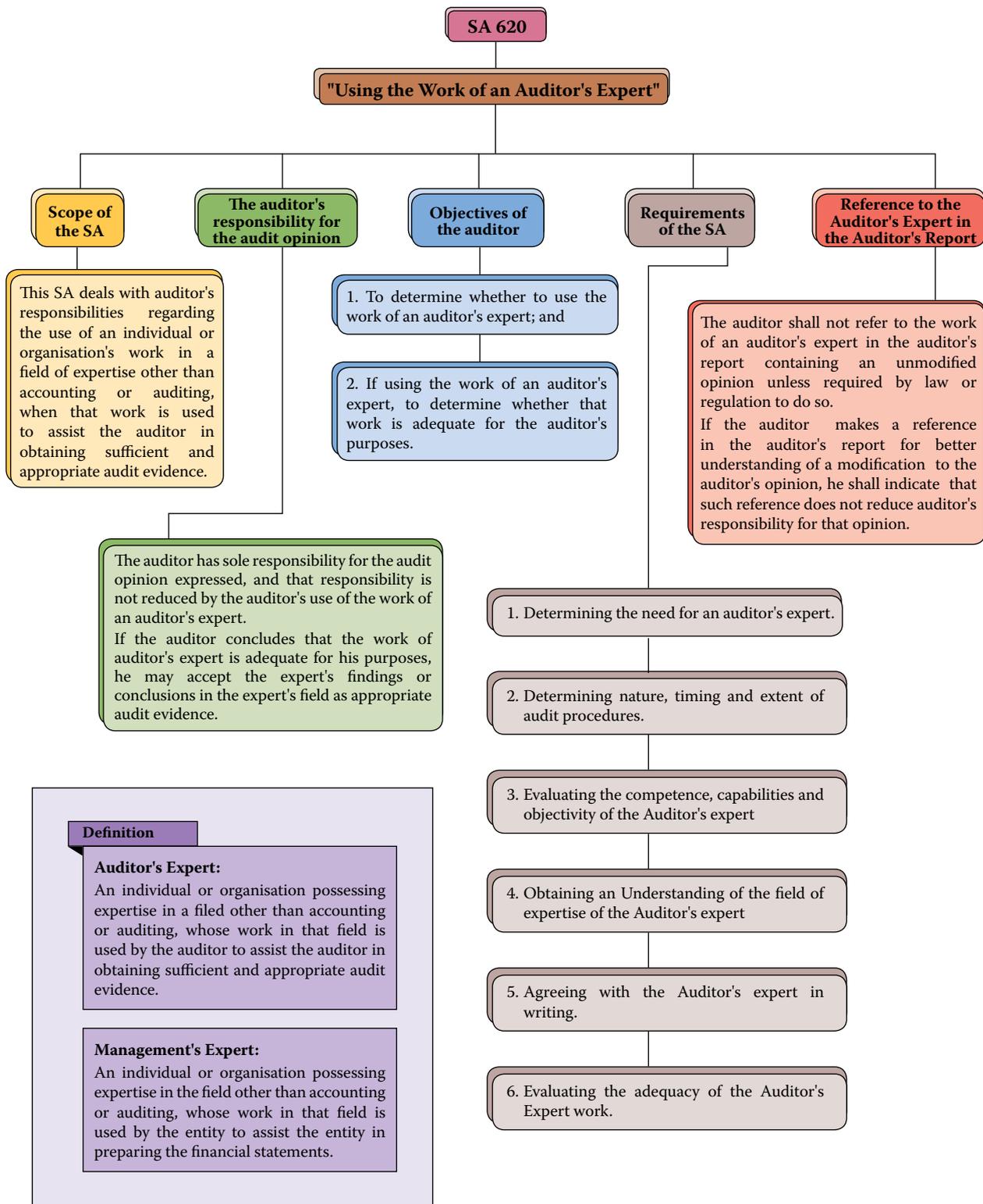






SA 600 - 699: Using Work of Others

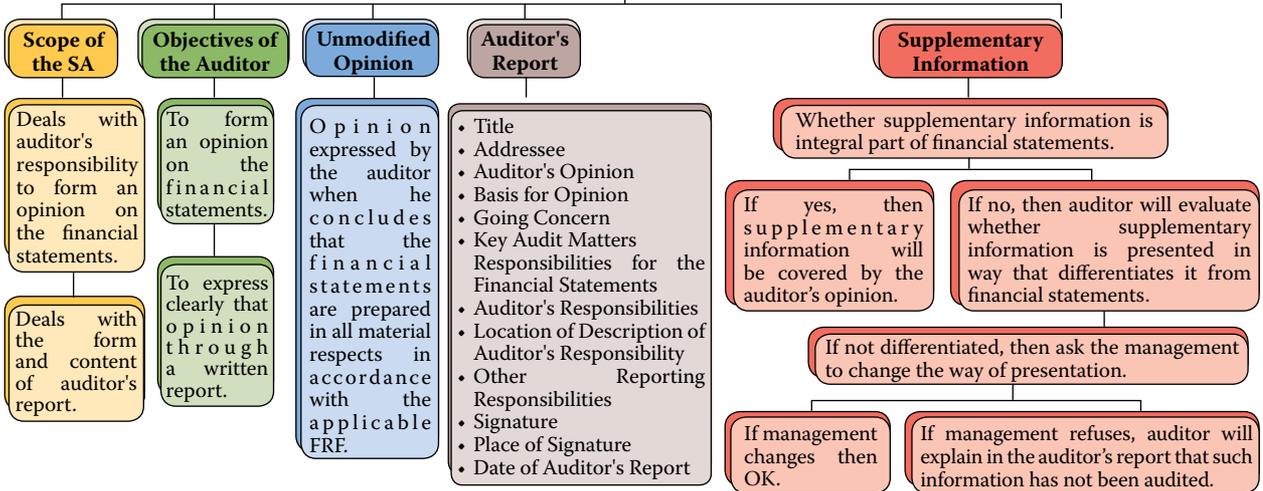




SA 700 - 799 Audit Conclusions and Reporting

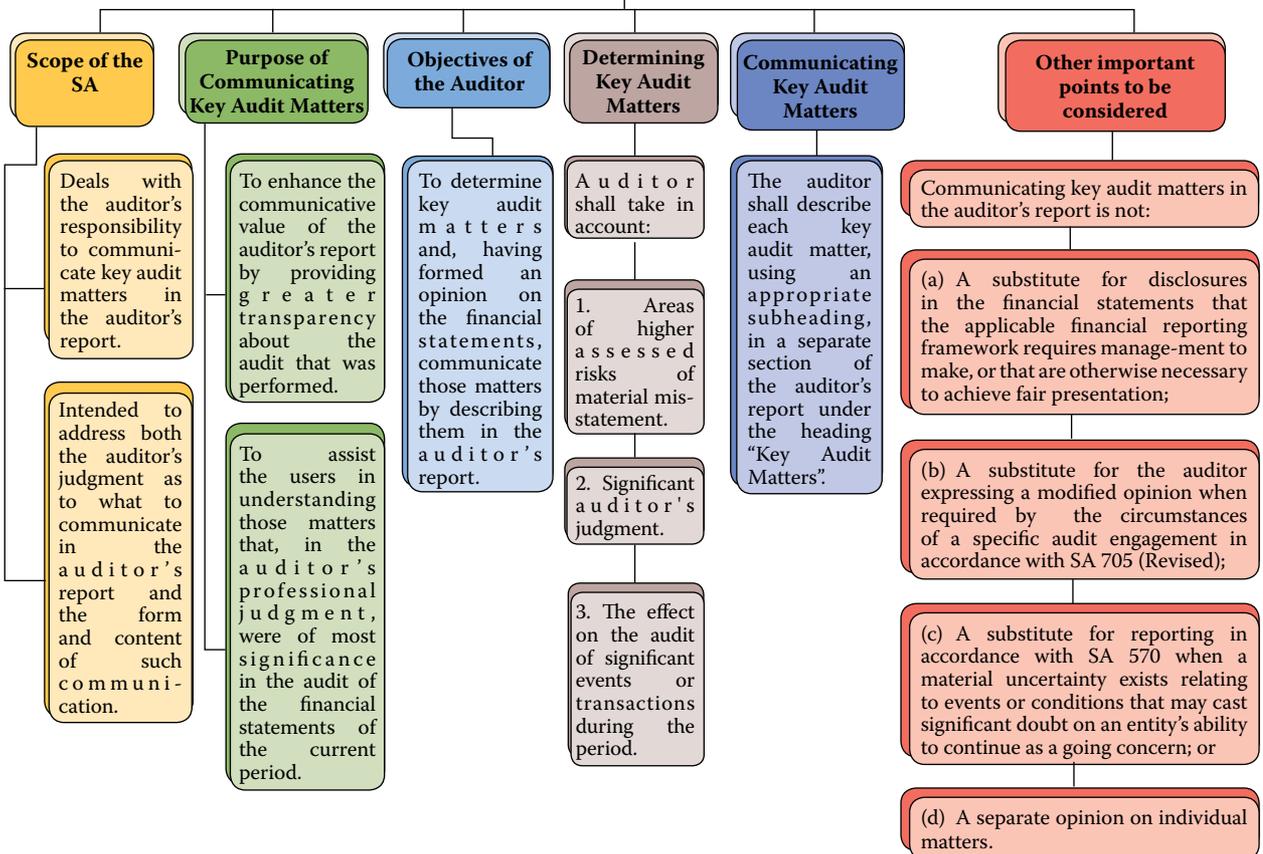
SA 700

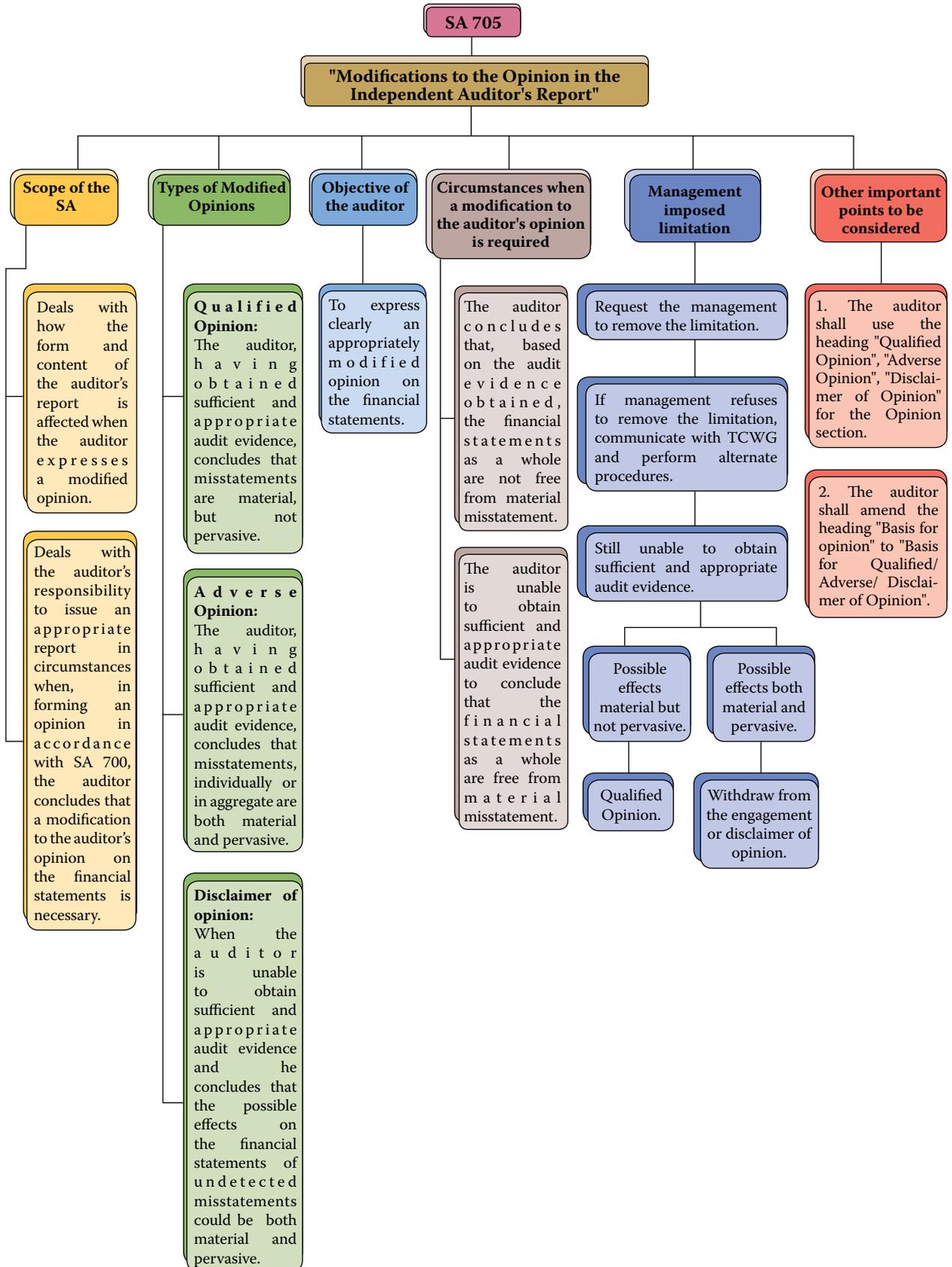
"Forming an Opinion and Reporting on Financial Statements"



SA 701

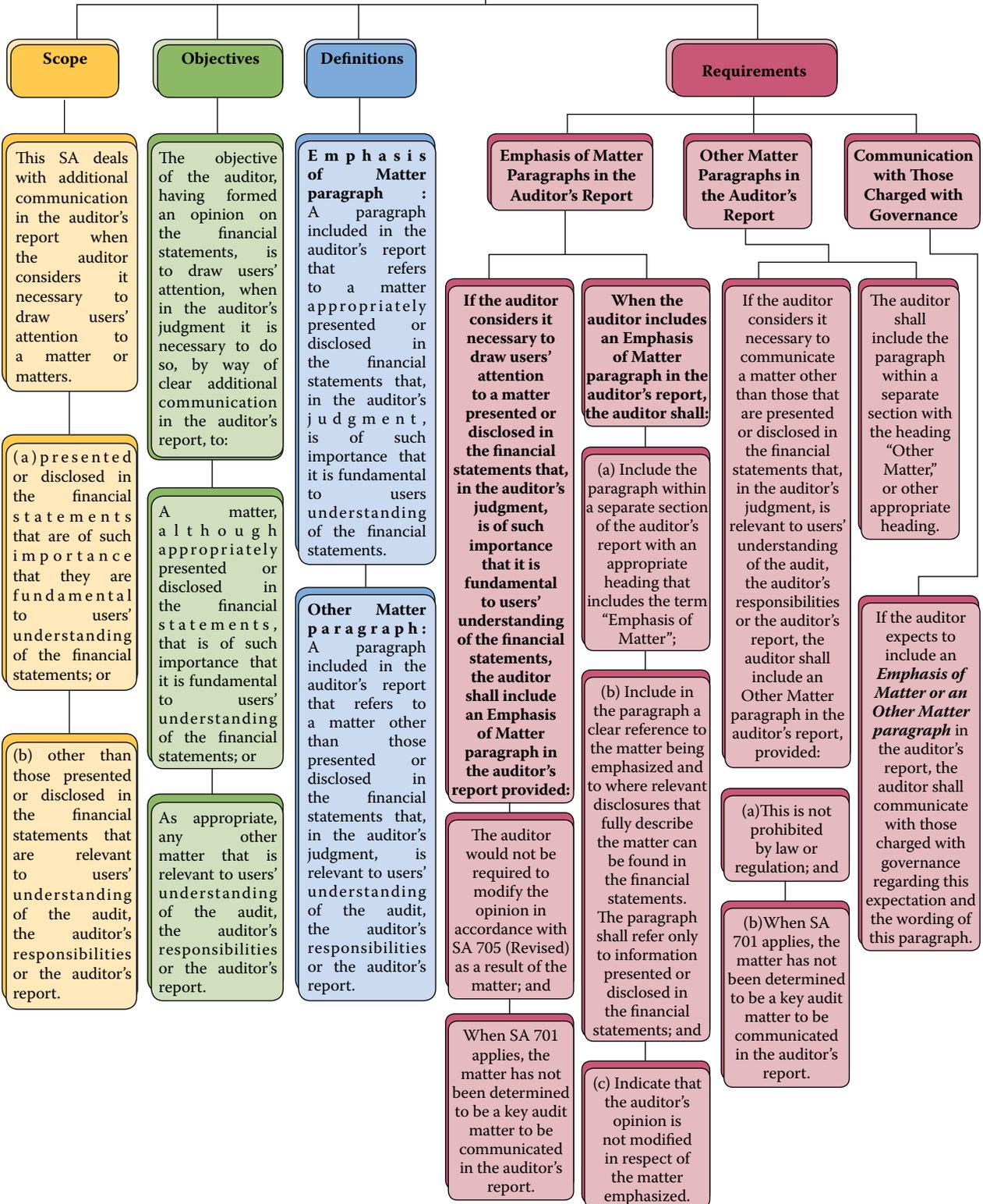
"Communicating Key Audit Matters in the Independent Auditor's Report"





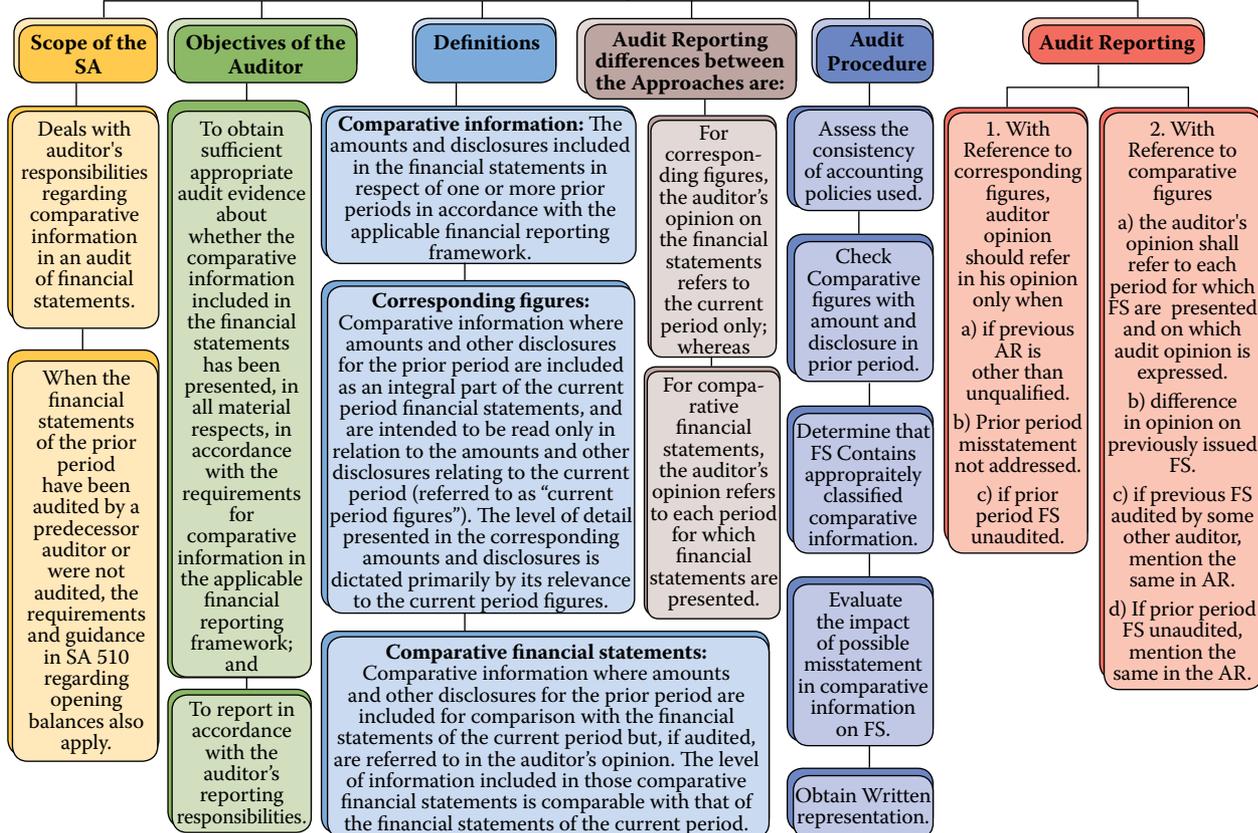
SA 706

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report



SA 710

"Comparative Information—Corresponding Figures & Comparative Financial Statements"



SA 720

"The Auditor's Responsibilities Relating to Other Information"

